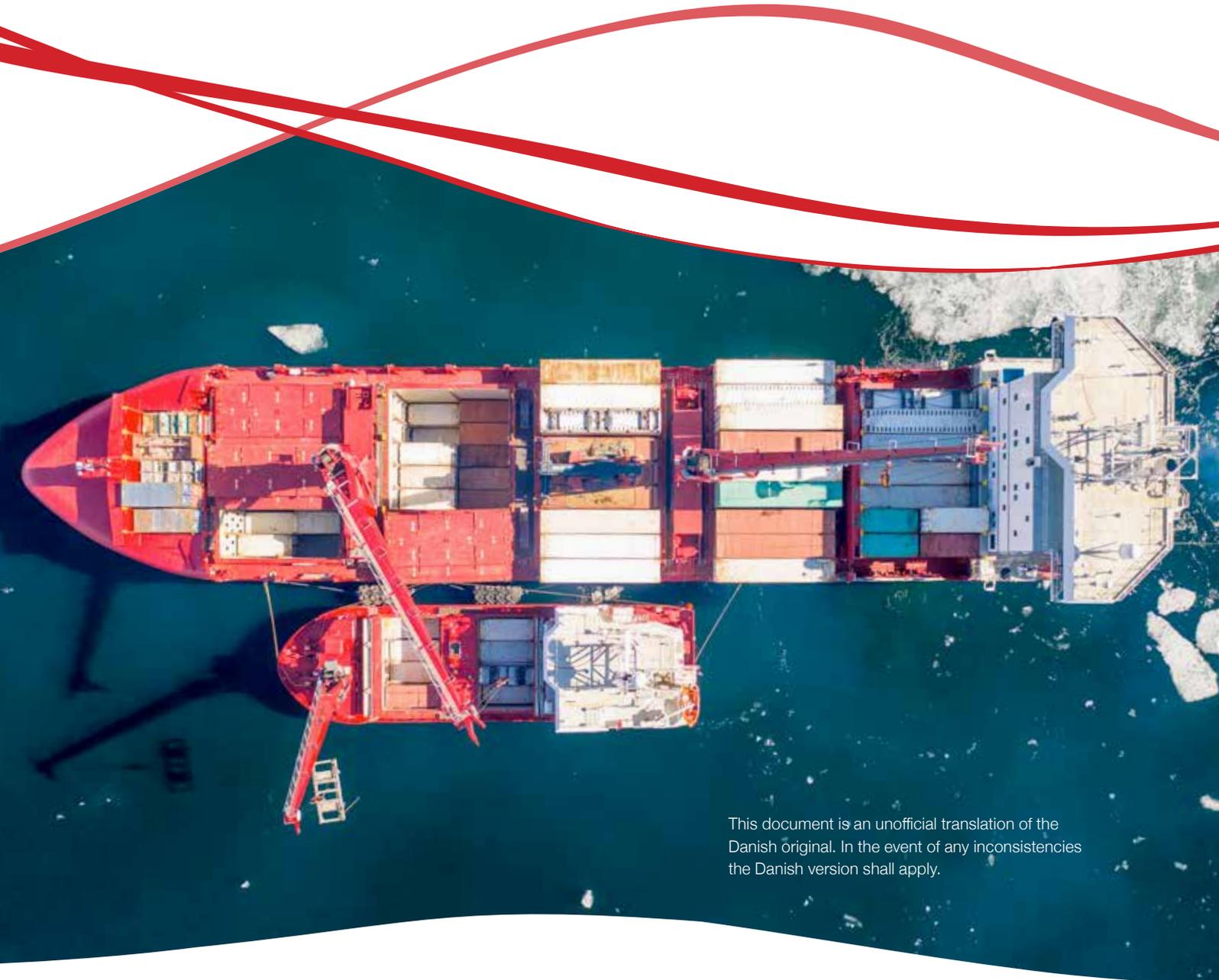


Interim Report 2021



ROYAL  **ARCTIC**

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 shown in highlights for the first six months:

DKK million

	2021	2020	2019
Income statement			
Net revenue	400	372	364
Total revenue	443	415	407
Operating profit	(46)	(33)	(54)
Net financials	(13)	(4)	(4)
Profit for H1 before tax	(59)	(37)	(58)
Profit for H1	(44)	(27)	(40)
Dividend	0	0	0
Balance sheet			
Balance sheet total	1,569	1,557	1,148
Investments, fixed assets	87	290	60
Net working capital	(60)	(68)	(16)
Long-term debt	644	624	308
Equity	643	644	622
Cash flow statement			
Cash flow from operating activities	(45)	9	(7)
Cash flow from investment activities	(85)	(289)	(60)
Cash flow from financial activities	7	291	17
Increase/decrease in cash and cash equivalents	(124)	11	(50)
Cash at period end	134	229	129
Ratios *			
Profit margin (%)	(11.5 %)	(8.9 %)	(14.8 %)
Return on capital (%)	(2.9 %)	(2.1 %)	(4.7 %)
Return on equity (ROE)	(6.8 %)	(4.3 %)	(6.4 %)
Solvency ratio (%)	41.0 %	41.4 %	54.2 %
Return on invested capital (ROIC)	(3.7 %)	(3.2 %)	(6.5 %)
Gearing operating assets	1.9	1.6	1.3
Average number of full-time employees	803	755	714
Pre-tax profit per employee (DK'000)	(74)	(49)	(81)
Revenue per employee	0.50	0.49	0.51

* 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 2021

Stable capacity and freight rates

The global logistic chains were under great pressure in the first half of 2021, in part due to the steady increase in demand. However, corona-related delays in global transport have resulted in historically high pressure on capacity. As a consequence, there was a huge increase in global freight rates. Looking at the leading China Container Freight Index between March 2015, when Royal Arctic Line last increased its freight rates, and March 2021, the global freight rates have gone up by 100 %, disregarding fuel and USD developments during the period. The raw index has gone up by 174 %.

In Greenland, the level of activity also increased in the first half of 2021. However, due to the increased capacity resulting from the VSA with weekly departures all year round, Royal Arctic Line did not experience any significant lack of capacity, despite the greatest investments in infrastructure in the history of Greenland. This made it possible for us to maintain freight rates and therefore shield Greenland from global developments.

Being part of society's goals for growth, our focus is on protecting our ability to minimise freight rates. Since our domestic market to and from Greenland is relatively constant, this ability will be fortified through better exploitation of our capacity. Developments towards exploiting capacity in connection with access to the Iceland/Scandinavian markets were slower than expected. This was in part because of a natural inertia in the market in Iceland due to a many-year near duopoly and in part because uncertainties surrounding Covid 19 strengthened the retention of existing customer relations. However, the markets have started to react and we see a rising trend in Royal Arctic Line's container traffic between Iceland and Scandinavia. As a consequence of the now weekly service between Iceland and Greenland, we experienced significant growth of more than 60 % compared to last year. This is noticeable in the selection of Icelandic goods in larger towns and in the price level of certain products.

Stability and nationwide focus through investments

In the first half of 2021, Royal Arctic Line took delivery of the settlement ship *Maleraq Arctica* which means there are only two smaller units to be delivered in the fourth quarter of 2021. This will conclude the re-investment programme for vessels and will help to stabilize our services, including those to remote districts.

The consequences of the re-investments are seen clearly in the balance sheet. In the first half year of 2015 the book value of the ships was almost DKK 100 million. The corresponding figure for 2021 is just under DKK 1 billion. The re-investments have reduced the average age of the fleet from above 30 years at the end of 2015 to the present 14 years. At the end of 2021, the average age for the fleet will be six years with a book value of DKK 1.1 billion. Despite this, Royal Arctic Line has carried out the re-investment programme until now without increases in rates, assisted by a higher growth rate to and from Greenland than was predicted in 2015.

Our ability to scale our capacity and to exploit the capacity we have to Greenland and other markets, together with the investment program with new ships and equipment contributes significantly to the stability on which the whole of Greenland depends, in order to develop.

Stability in our extended social responsibility

Royal Arctic Line is also developing with regard to the tasks that our extended social responsibility entails. Thus we have a declared goal to focus more sharply upon employee development and environmental responsibility as part of our sustainability strategy that is being updated this year.

Performance for the first half year

Profits for the first half year were somewhat lower than we would have wished, but still satisfactory. With regard to the rest of the year, there is a significant corona effect of approx. DKK 17 million. Most important of all, we have taken corrective actions, both technically and organizationally in order to be to exploit our assets in the best possible way and to create momentum in new markets.

Our performance target clearly shows that we want to maintain price stability for our services despite rising inflation. We will do this to the extent possible, taking into account financing of the necessary investments and the necessary development so our services can adapt to the additional opportunities resulting from the reorganisation of our shipping network. Royal Arctic Line has a dual importance. It is part of the growth wheel as well as being part of the supporting network that makes our work something very special - for all of Greenland.

Interim Financial Report and Expectations for the Year

Royal Arctic Line's revenue for the first half of 2021 was DKK 443 million compared to DKK 415 million in the first half of the previous year and the company's cargo volume was in line with expectations for the period. The driving force for the development of revenue is still the level of investment associated with the airport projects and similar infrastructure improvements. Revenue from new markets has not lived up to the company's goal. Corona restrictions in particular have made it more difficult to start up in Iceland, where travel has not been possible since the company signed an agreement with DHL to be its sales agent at the location. Royal Arctic Line expects that vaccine distribution and similar initiatives will lessen this hindrance in the second half year and that cargo volume will increase.

The earnings before interest, taxes, depreciation, and amortization (EBITDA) were DKK 0 compared to DKK 6 million the year before and this lower figure is primarily due to increases in personnel-related costs, which rose with DKK 19 million. DKK 8 million can be attributed to the hourly-paid employees and this is a natural development related to the wage increases that were given to this personnel group in 2020. Also relevant is the fact that in 2021, Royal Arctic Line improved the level of its services and operated with weekly transatlantic services all through the first six months of 2021. The rest of the increase is primarily related to hiring costs, because corona restrictions made it significantly more expensive to undertake crew changes on the ships due to quarantine restrictions and the like.

The company's depreciations have gone up by DKK 6 million during the period, which was to be expected due to phasing in two more ships from the Zamakona Shipyard in Spain. This significantly increased the asset base and thus the depreciation base. This was fully as expected and was described in detail in the interim report for 2020. For the same reasons, the financial costs increased with DKK 9 million, which again was entirely as budgeted.

All in all, this resulted in a loss before taxes of DKK 59 million compared to a loss of DKK 37 million the year before. This is below the company's expectations for the year and primarily the result of increased costs related to corona restrictions as well as the derived effect of these because they have further delayed income from the Icelandic market. After adjustment for the development in depreciation and the financial costs and the extra hiring costs as a consequence of restrictions, Royal Arctic Line ends up with same result as 2020, but with a much improved transatlantic service in the form of weekly services and the performance is therefore deemed to be satisfactory.

Expectations for 2021

At the end of 2020, Royal Arctic Line communicated predicted profits for the year before tax of DKK 5 - 15 million and estimated at that time, it would be able to cover the additional depreciation and financial costs through optimizing operations. Here, at the end of the first half of the year, expectations have been reduced by DKK 17 million to a loss before tax in the region of DKK 12 million to a profit of DKK 1 million. The continuation of the corona restrictions is the main reason for the reduction with an expected effect on the performance for the year of DKK 17 million. Of this, DKK 10 million is directly related to the extra costs involved in crew changes and the remaining DKK 7 million is attributable to start-up difficulties on the market in Iceland.

In 2021, Royal Arctic Line sees a corresponding level of significant uncertainty associated with estimating expectations as for 2020. The global situation had a significant impact on the seasonal spread of cargo volume and this adversely affected the effectiveness of the company's model for financial risk management.

Management

Copenhagen, 9th September 2020

Risk management

Royal Arctic Line tests its financial preparedness meticulously against the risk of breaking the loan covenant with its investment bank KfW. This is considered to be the correct parameter, since such a scenario would occur before the company runs out of cash. This scenario would contain the most significant financial risk for Royal Arctic Line because the company's long-term debts would have to be re-classified as current liabilities, which would have an effect on the key figures on which refinancing is based and thereby significantly increase the cost of any refinancing.

In 2020, the company reported it had safeguarded the company against the so-called "interest rate floor" that was built into the loan financing associated with *Tukuma Arctica*. As described in the annual report for 2020, the company then restructured the financing of *Nanoq Arctica*, which had been financed as a so-called bareboat time charter, and the financing was converted into a traditional, fixed interest bank loan in DKK at Jyske Bank. Royal Arctic Line's overall savings over the lifetime of the loan will be approx. DKK 7 million after conversion costs.

All in all, Royal Arctic Line is considered to have a satisfactory financial preparedness and the company's risk profile lies within the company's internal objective.



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 2021 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.

Copenhagen, 9th September 2021

Executive Board



Verner Sonny
Daugård Hammeken
CEO



Aviåja Lyberth Lennert
Deputy CEO



Peter Christoffersen
CFO

Board of Directors



Ulrik Blidorf
Chairman



Erik Jørgen Østergaard
Vice-chairman



Minannguaq Hilda
Zeeb



Julia K.
Olsen



Heiðrún
Jónsdóttir



Erik
Sivertsen



Jens Peter Rosing
Berthelsen



Eydun
Simonsen



Laust Lindskov
Vestergaard

Company Details

The Company

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E-mail: ral@ral.gl
Homepage: www.ral.gl

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, Nuuk, Greenland.

Board of Directors

Ulrik Blidorf, Chairman
Erik Jørgen Østergaard, Vice Chairman
Julia K. Olsen
Miinannguaq Hilda Zeeb
Heiðrún Jónsdóttir
Erik Sivertsen
Eydun Simonsen*
Jens Peter Rosing Berthelsen*
Laust Lindskov Vestergaard*
** Elected by employees in 2018 for a four-year term.*

Executive Board

Verner Sonny Daugård Hammeken, CEO
Aviája Lyberth Lennert, Deputy CEO
Peter Christoffersen, CFO

Management Group

Anders Bay Larsen, Department Manager, Fleet Management
Ivalu Kleist, Assistant Director, Operations
Lars Borris Pedersen, Department Manager, Commercial

Auditors

PricewaterhouseCoopers and Grønlands Revisionskontor

Income Statement for the period 1st January - 30th June 2021

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2021	2020	2021	2020
1 Net revenue	382,376	357,756	400,188	372,143
Other income	42,725	42,729	42,725	42,729
Cargo related expenditure	(11,372)	(11,423)	(12,467)	(12,248)
Gross profit	413,729	389,062	430,446	402,624
2 Other external expenditure	(216,410)	(202,297)	(226,163)	(211,314)
Human resources	(195,972)	(178,120)	(204,642)	(185,399)
Amortisation, depreciation and impairment losses on fixed assets	(44,613)	(38,377)	(45,686)	(39,086)
Operating profit	(43,266)	(29,732)	(46,045)	(33,175)
Income from investments in affiliated companies	(2,089)	(2,538)	0	0
Income from investments in associated companies	112	165	112	165
Other financial income	87	15	87	15
Other financial expenditure	(13,458)	(4,204)	(13,521)	(4,214)
Profit before tax	(58,614)	(36,294)	(59,367)	(37,209)
Tax on profit for the period	15,008	8,989	15,761	9,904
Profit for the period	(43,606)	(27,305)	(43,606)	(27,305)

Assets

as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2021	2020	2021	2020
Fixed assets				
Intangible fixed assets				
Software	5,947	9,059	5,947	9,059
Total intangible fixed assets	5,947	9,059	5,947	9,059
Material assets				
Ships	975,338	712,239	979,131	716,452
Buildings	50,719	53,723	50,719	53,723
Transport equipment, harbour boats, machinery and fixtures	95,292	89,400	95,292	89,400
Assets under construction	159,696	400,832	159,696	400,832
3 Total material assets	1,281,045	1,256,194	1,284,838	1,260,407
Financial assets				
Income from investments in affiliated companies	16,233	18,322	0	0
Income from investments in associated companies	4,654	4,542	4,654	4,542
Other securities	1,026	1,030	1,026	1,030
Total financial assets	21,913	23,894	5,680	5,572
Total fixed assets	1,308,905	1,289,147	1,296,465	1,275,038
Current assets				
Inventories and operating stock				
Inventories and operating stock	27,023	17,409	27,646	18,150
Total inventories and operating stock	27,023	17,409	27,646	18,150
Receivables				
Trade receivables	95,744	75,421	97,905	76,077
Receivables from affiliated companies	1,683	1,972	0	0
Other receivables	3,702	3,486	3,702	3,486
Accruals and prepayments	8,394	15,864	9,278	16,673
Total receivables	109,523	96,743	110,885	96,236
Cash				
Cash and cash equivalents	110,599	235,778	133,971	257,682
Total current assets	247,145	349,930	272,502	372,068
Total assets	1,556,050	1,639,077	1,568,967	1,647,106

Equity and Liabilities as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2021	2020	2021	2020
Equity				
Share capital	120,000	120,000	120,000	120,000
Reserve for net revaluation, equity method:				
- Affiliated companies	11,233	13,322	0	0
- Associated companies	1,045	1,045	1,045	1,045
Retained earnings	510,414	544,847	521,647	558,169
Proposed dividend	0	2,500	0	2,500
Total equity	642,692	681,714	642,692	681,714
Provisions for liabilities				
Deferred tax	20,844	35,852	21,204	36,965
Mortgage debt	2,076	4,074	2,076	4,074
Total provision for liabilities	22,920	39,926	23,280	41,039
Liabilities				
Non-current liabilities				
4 Amounts owing to credit institutions	642,832	661,829	642,832	661,829
Other debt	1,134	1,134	1,134	1,134
Total non-current liabilities	643,966	662,963	643,966	662,963
Current liabilities				
Next year's instalment on non-current liabilities	60,440	50,701	60,440	50,701
Trade payables	49,407	51,883	50,614	53,366
Income tax	0	0	320	320
Other payables	113,126	138,676	116,715	143,789
Prepayments	23,499	13,214	30,940	13,214
Total current liabilities	246,472	254,474	259,029	261,390
Total liabilities	890,438	917,437	902,995	924,353
Total equity and liabilities	1,556,050	1,639,077	1,568,967	1,647,106

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

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2021	2020	2021	2020
Cash flow from operating activities				
Operating profit	(43,266)	(29,732)	(46,045)	(33,175)
Amortization, depreciation and impairment losses	44,613	38,377	45,686	39,086
Changes in working capital	(35,050)	6,047	(31,095)	7,396
Cash flow from operating activities	(33,703)	14,692	(31,454)	13,307
Net interest	(13,307)	(4,189)	(13,434)	(4,199)
Paid dividend	0	0	0	0
Cash flow from operations	(47,009)	10,503	(44,888)	9,108
Cash-flow from investment activities				
Investments	(86,727)	(285,348)	(87,380)	(290,063)
Fixed asset divestment	2,017	957	2,017	957
Financial assets	4	7	4	7
Cash from investment activities	(84,706)	(284,384)	(85,359)	(289,099)
Cash flow from financial activities				
Borrowing during the year	111,970	304,247	111,970	304,247
Instalments for the year	(102,934)	(10,350)	(102,934)	(10,350)
Dividend paid	(2,500)	(2,800)	(2,500)	(2,800)
Cash flow from financial activities	6,536	291,097	6,536	291,097
Increase/decrease in cash and cash equivalents	(125,179)	17,216	(123,711)	11,106
Cash at beginning of year	235,778	195,204	257,682	217,835
Cash and cash equivalents at end of period	110,599	212,420	133,971	228,941
Composed as follows:				
Cash and cash equivalents	110,599	212,420	133,971	228,941
Total	110,599	212,420	133,971	228,941

Notes

Unless otherwise stated, all amounts are in DKK 1,000	Royal Arctic Line A/S		Royal Arctic Group	
	2021	2020	2021	2020
1 Total income				
The Company's income is derived from transport services between Greenland, Canada, Iceland and Denmark, between towns in Greenland, transport to and from port, stevedore services and other services logically related thereto.				
Revenue is divided into income from concession sea transport and other, non-concession income.				
Specification of net revenue:				
Concession cargo	305,459	288,347	305,441	288,305
Non-concession cargo	76,917	69,409	94,747	83,838
Total net revenue	382,376	357,756	400,188	372,143
2 Other external expenditure				
Ships	(111,844)	(90,111)	(118,514)	(96,279)
Terminals	(69,355)	(65,174)	(69,355)	(65,174)
Container operations	(13,965)	(18,868)	(13,965)	(18,868)
Sales and administration	(21,246)	(28,144)	(24,329)	(30,993)
Other operating costs	0	0	0	0
Total other external expenditure	(216,410)	(202,297)	(226,163)	(211,314)
3 Tangible fixed assets				
Proportion of financial leased assets	294,953	76,669	294,953	76,669
4 Debt to credit institutions				
Proportion involving liabilities under leasing	220,966	74,112	220,966	74,112





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