

Interim Report 2018



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 can be described with the following high-lights and key figures for the first six months:

DKK million

	2018	2017	2016
Income statement			
Net revenue	347	314	327
Total revenue	390	346	360
Operating profit	(48)	(41)	21
Net financials	(5)	(1)	(3)
Profit for H1 before tax	(54)	(41)	17
Profit for H1	(37)	(28)	11
Dividend	0	0	0
Balance sheet			
Balance sheet total	1,063	1,138	1,222
Investments, fixed assets	75	126	16
Net working capital	(5)	113	254
Long-term debt	241	262	236
Equity	611	621	562
Cash flow statement			
Cash flow from operating activities	(21)	(73)	71
Cash flow from investment activities	(74)	85	(17)
Cash flow from financial activities	(10)	27	4
Increase/decrease in cash and cash equivalents	(106)	40	59
Cash at period end	135	235	294
Ratios *			
Profit margin (%)	(13.9 %)	(13.1 %)	6.3 %
Return on capital (%)	(4.5 %)	(3.6 %)	1.7 %
Return on equity (ROE)	(6.0 %)	(4.7 %)	2.2 %
Solvency ratio (%)	56.7 %	54.0 %	46.0 %
Return on invested capital (ROIC)	(6.2 %)	(6.2 %)	3.1 %
Gearing operating assets	1.3	1.1	1.2
Average number of full-time employees	725	714	619
Pre-tax profit per employee (DK'000)	(74)	(58)	27
Revenue per employee	0.48	0.44	0.53

* Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' "Recommendations and Financial Ratios 2015"

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.

Interim report for the first half year of 2018

We are making progress. Since the autumn of 2015, Royal Arctic Line has been in the midst of a process of transition that will last four to five years. We are progressing from a closed circuit with a defined sailing system to becoming a more efficient and open system where we have new ships and where we take advantage of the new port structure in Nuuk. Furthermore, the basis for the company's ability to continue to rationalize its operations is undergoing a major modernization process. This is making a profound impression on the organization, HR, financial control and especially customer services. The aim is to make trading with Greenland easy, both with regard to the trade we see today and for the trade we would like to see develop as opportunities for growth improve.

In 2018, Royal Arctic Line has had special focus on stabilising its internal business routines in order to minimise the unavoidable effects such a major re-organization has on our customers. 2017 was a particularly challenging year for our customers and employees.

It is therefore with pleasure we can note that for the first half of 2018 we have reached all the material milestones necessary for a healthy business. The company will continue to follow the same plan in the second half of the year, without any fundamental changes to its strategy and without changing its expectations for the year.

During the first six months of 2018, Royal Arctic Line initiated a process of complete replacement and upgrading of the company's fleet of settlement ships by ordering four new settlement ships. We have attracted a lot of interest from possible financial partners who have all expressed serious interest in collaborating with the new Royal Arctic Line. All the formalities are expected to fall into place during the second half of 2018. We will send out information when the time comes.

Interim Financial Report

For the first half of 2018 Royal Arctic Line has presented a profit/loss (EBITDA) of a group level of DKK -11 million which is an improvement of DKK 3.2 million compared to the same period in 2017 (2017: -14.6 million). Net turnover increased by 11 % to DKK 347 million (2017: 314 million), spread evenly between concession and non-concession income. The increase in net turnover is diluted in part by corresponding increases in shipping operations, Sikuki Nuuk Harbour, oil prices and increases in personnel costs.

Personnel costs are higher than 2017, but are constant compared to the level at the close of 2017. It is expected that the increased burden of administration will continue until the end of 2019, where the company's strategic reorganization is expected go into the next phase.

Amortisation, depreciation and impairments increased with 11 million to DKK 37 million compared to 2017, primarily due to the investments in new ships, new IT and other assets. This has had a corresponding effect on the financial expenditure which increased from DKK 0.5 in 1H 2017 to DKK 5.5 million for the same period in 2018. The increase is due to the loan that was taken to finance the shipping company's new, ocean-going vessel which is expected to be delivered in the middle of 2019.

The company had a negative cash flow from operating activities of DKK 21 million, which is an improvement of DKK 52 million compared to the same period last year. The improvement is primarily due to more efficient management of the company's operating capital, where amounts owing from the company's biggest customer were reduced from 49 % at year end 2017, to 27 % of the

total debt balance. The company's capital adequacy ratio is considered to be solid with a solvency ratio of 56.7 (2017: 54.0).

In 2018, the company reclassified DKK 240 million from short-term to long-term debts compared to the end of 2017. This is in accordance with what was previously communicated in the Management Review for 2017. In connection with reorganization of the company's strategy, the company has worked together with the banks and has achieved a waiver from the covenant requirements up to and including the financial year of 2018. Royal Arctic Line has started negotiations with KfW bank aimed at achieving a permanent change to the company's covenant structure. The new covenant structure has already been approved in connection with financing of the new settlement ships and it is also expected that it will be changed for the loan associated with the ocean-going vessel during the second half of 2018. On this basis, it is considered that the company has an adequate financial preparedness for 2018, without solid risk of further breach of covenant.

There are no further significant developments on the company's balance sheet compared to end of year 2017.

In all, the company presented a loss of DKK 54 million which was slightly better than the expected level for the period. Royal Arctic Line is a company with major seasonal variations, where revenue in the second half of the year is typically 30 % higher than the first six months. Royal Arctic Line maintains its previously announced expectations for 2018. The company expects to earn a profit before tax of between DKK 2-15 million.

Reykjavik, 7th September, 2018

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 2018 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.

Reykjavik, 7th September, 2018

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



Eydun Simonsen



Laust L. Vestergaard

Company Details

The Company

Royal Arctic Line A/S
Aqquinersuaq 52
Post Box 1580
3900 Nuuk
Telephone: +299 34 91 00
Fax: +299 32 24 50
E-mail: ral@ral.gl
Website: 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

Board of Directors

Kuno Fencker, Chairman
Erik Østergaard, Vice/chairman
Amma Knudsen
Mai-Lill Ibsen
Tanja Nielsen
Eydun Simonsen*
Laust L. Vestergaard*
Jens Peter Berthelsen*
** Elected by employees in 2018 for a 4 year term.*

Executive Board

Verner Hammeken, Chief Executive Officer (CEO)

Management Group

Anders Bay Larsen, Head of Department, Ship Operations
Aviaaja Lyberth Lennert, Secretariat of the Executive Board/CEO, Arctic Umiaq Line
Anne Ohlin Ladegaard, Head of Department, IT
Ivalu Kleist, Head of Department, Customer Services
Lars Borris Pedersen, Head of Department, Sales
Peter Christoffersen, Assistant Director, Finance
Taitsianguaq Olsen, Assistant Director, Operations
Tommy Ege Kristensen, Head of Department, HR

Auditors

Deloitte, Chartered Accountants

Income Statement for the period 1st January - 30th June 2018

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2018	2017	2018	2017
Revenue				
Income from concession cargo	274,428	248,433	274,428	248,432
Income from non-concession cargo	55,735	36,187	72,389	65,280
Net revenue	330,163	284,620	346,817	313,712
Other operating income	42,724	32,685	42,724	32,681
Total income	372,887	317,305	389,541	346,393
Expenditures				
Cargo-related expenditure	(10,182)	(8,460)	(11,220)	(10,199)
Gross profit	362,705	308,845	378,321	336,194
Ships	(94,645)	(82,589)	(100,051)	(90,846)
Terminals	(64,988)	(64,339)	(64,988)	(57,684)
Container operations	(14,412)	(19,000)	(14,412)	(10,943)
Sales and administration	(33,928)	(30,797)	(36,834)	(32,693)
Human resources	(165,753)	(119,951)	(173,409)	(158,622)
Amortisation, depreciation and impairment losses on fixed assets	(36,229)	(23,239)	(36,902)	(26,347)
Total expenditure	(409,955)	(339,915)	(426,596)	(377,135)
Operating profit	(47,250)	(31,070)	(48,275)	(40,941)
Income from investments in associated companies	(1,033)	(8,244)	0	0
Profit before financial items	(48,283)	(39,314)	(48,275)	(40,941)
Financial items				
Other financial income	45	597	46	597
Impairment of financial fixed assets		0		0
Other financial expenditure	(5,523)	(1,071)	(5,532)	(1,129)
Profit before tax	(53,761)	(39,788)	(53,761)	(41,473)
Tax				
Tax on profit for the period	17,095	11,770	17,095	13,455
Profit for the period	(36,666)	(28,018)	(36,666)	(28,018)

Assets as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2018	2017	2018	2017
Fixed assets				
Material assets				
Ships	500,762	531,790	503,527	535,607
Buildings	64,062	66,521	64,062	69,927
Transport equipment, harbour boats, machinery and fixtures	103,170	87,880	103,170	108,417
Assets under construction	101,105	48,964	101,105	48,964
Total material assets	769,099	735,155	771,864	762,915
Financial assets				
Income from investments in affiliated companies	3,832	38,168	0	0
Income from investments in associated companies	4,402	3,872	4,402	3,872
Receivables from associated companies	0	0	0	0
Other securities	1,446	1,471	1,446	1,471
Total financial assets	9,680	43,511	5,848	5,343
Total fixed assets	778,779	778,666	777,712	768,258
Current assets				
Inventories and operating stock				
Operating stock	28,119	22,563	29,083	23,457
Total inventories and operating stock	28,119	22,563	29,083	23,457
Receivables				
Trade receivables	89,553	75,138	91,756	83,241
Receivables from affiliated companies	1,901	1,595	0	0
Receivables from associated companies	0	0	0	0
Deferred tax asset	17,095	0	17,095	
Other receivables	15,945	22,391	15,945	26,453
Accruals and prepayments	10,626	12,469	11,216	12,873
Total receivables	135,120	111,593	136,012	122,567
Cash				
Cash and cash equivalents	121,468	225,286	134,888	235,387
Total current assets	284,707	359,442	299,983	381,411
Total assets	1,063,486	1,138,108	1,077,695	1,149,669

Equity and Liabilities as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2018	2017	2018	2017
Equity				
Share capital	120,000	120,000	120,000	120,000
Reserve for net revaluation, equity method:				
- Affiliated companies	0	23,059	0	0
- Associated companies	905	375	905	375
Retained earnings	490,139	477,552	490,139	500,611
Total equity	611,044	620,986	611,044	620,986
Provisions for liabilities				
Deferred tax	42,503	50,729	41,824	49,885
Mortgage debt	6,239	2,850	6,239	2,850
Total provision for liabilities	48,742	53,579	48,063	52,735
Liabilities				
Non-current liabilities				
Collateral debt in ships	239,304	259,706	239,304	259,706
Mortgage debt	1,134	1,134	1,134	1,134
Financial leasing	442	1,538	442	1,538
Total non-current liabilities	240,880	262,378	240,880	262,378
Current liabilities				
Next year's instalment on non-current liabilities	20,964	20,401	20,964	20,401
Trade payables	32,073	34,503	33,256	39,350
Payables to affiliated companies	0	24,228	0	0
Payables to associated companies	0	0	0	0
Income tax	1,578	52,865	3,597	52,624
Other payables	87,895	57,976	91,135	89,643
Prepayments	20,310	11,192	28,756	11,552
Current liabilities	162,820	201,165	177,708	213,570
Total liabilities	403,700	463,543	418,588	475,948
Total equity and liabilities	1,063,486	1,138,108	1,077,695	1,149,669

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

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2018	2017	2018	2017
Cash flow from operating activities				
Operating profit	(47,250)	(31,070)	(48,275)	(40,941)
Amortization, depreciation and impairment losses	36,229	23,239	36,902	26,347
Net interest	(5,478)	(475)	(5,486)	(532)
Income tax paid	0	0	0	0
Changes in working capital	(7,550)	(37,918)	(4,245)	(57,430)
Cash flow from operating activities	(24,049)	(46,224)	(21,104)	(72,556)
Cash-flow from investment activities				
Investments	(74,669)	(123,233)	(74,940)	(126,481)
Fixed asset divestment	893	1,724	893	1,784
Cancellation of order for ships	0	210,155	0	210,155
Financial assets	11	0	11	0
Cash from investment activities	(73,765)	88,646	(74,036)	85,458
Cash flow from financial activities				
Borrowing during the year	0	33,379	0	33,379
Instalments for the year	(10,471)	(6,746)	(10,471)	(6,746)
Dividend paid	0	0	0	0
Cash flow from financial activities	(10,471)	26,633	(10,471)	26,633
Increase/decrease in cash and cash equivalents	(108,285)	69,055	(105,611)	39,535
Cash at beginning of year	229,753	156,231	240,499	195,852
Cash and cash equivalents at end of period	121,468	225,286	134,888	235,387
Composed as follows:				
Cash and cash equivalents	121,468	225,286	134,888	235,387
Total	121,468	225,286	134,888	235,387



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Editor: Head of Communication, Ann-Britta A. Olsvig
Editor in Chief: Peter Christoffersen
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