HX Finance II AS

Third quarter report 2024

Published 29 November 2024

Key figures[1)]

(EUR 1 000)	**3rd quarter 2024**	3rd quarter 2023	% Change	**01.01-30.09. 2024**	01.01-30.09. 2023	% Change	**Full year 2023**
Operating revenue	**12,603**	12,603	0.0 %	**37,534**	37,397	0%	**50,000**
Total revenue	**12,603**	12,603	0.0 %	**37,534**	37,397	0%	**50,000**
EBITDA	**12,624**	12,577	0.4 %	**37,516**	37,405	0%	**50,022**

[1)] The figures presented in this report are unaudited

Operational review

HX Finance II AS is a shipping company located in Oslo within the Hurtigruten Group (Hurtigruten). Its purpose is to invest in, and lease out, under bareboat charter agreements, specialised cruise vessels for the operation in other Hurtigruten Group companies. As of 30 September 2024, HX Finance II AS owned the two hybrid-powered expedition ships, MS Roald Amundsen and MS Fridtjof Nansen. MS Roald Amundsen was delivered from Green Yard Kleven yard in June 2019. Its sister ship MS Fridtjof Nansen was delivered 6 months later.

MS Roald Amundsen and MS Fridtjof Nansen have an ice-reinforced hull, a total length of 140 metres and can carry 530 guests. The hybrid technology engines reduce fuel consumption substantially and permit periods of emission-free sailing. The investment in new technology has been partly funded by Enova, a Norwegian government enterprise responsible for the promotion of environmentally friendly production and consumption of energy, and as such lives up to Hurtigruten's vision of becoming the world's leading expedition travel company by offering authentic and accessible experiences to travellers who wish to explore and travel in a sustainable way. Both vessels are operated by Hurtigruten Expedition Cruises AS, a sister company within the Hurtigruten Group.

MS Roald Amundsen and MS Fridtjof Nansen are state of the art battery-hybrid powered expedition vessels. They have received excellent guest feedback on the overall onboard experience among others in the Hurtigruten fleet.

Financial review

Profit and loss

Operating revenue in the third quarter of 2024 amounted to EUR 12.6 million compared to EUR 12.6 million for the same period last year. Revenues for the quarter include bareboat charter for both MS Roald Amundsen and MS Fridtjof Nansen.

Net financial expenses in the third quarter of 2024 were EUR 2.2 million compared to EUR 1.6 million for the third quarter of 2023.

Net loss in the third quarter of 2024 was EUR 85.2 million, compared to net income of EUR 8.4 million in the same period last year.

Financial position and liquidity

Balance sheet
Non-current assets consist of the ships MS Fridtjof Nansen and MS Roald Amundsen. Carrying value as of 30 September 2024, was EUR 246.8 million (EUR 347.6 million as of 30 September 2023).

In the second quarter of 2019, the company drew on the ECA credit facility it entered in 2017 for financing the purchase of the two vessels, for the amount of EUR 260 million. At year-end 2019, the facility was fully drawn. In February 2020 the company replaced its existing ECA credit facility of EUR 260 million with a bond of EUR 300 million. The bond has a 5-year tenure with semi-annual interest payments of 3.375% p.a. and was listed at Oslo Stock Exchange on 10 July 2020. The value of the bond was EUR 235.8 million as of 30 September 2024.

The equity ratio was 34.8% as of 30 September 2024 compared to 40.8% as of 30 September 2023.

Cash flow

Net cash inflow from operating activities in the third quarter of 2024 was EUR 13.9 million (inflow of EUR 20.1 million in the same quarter last year). The change is mainly explained by working capital movements.

Net cash flow from investment activities was EUR zero in third quarter of 2024 which is in line with the third quarter of 2023.

Net cash outflow from financing activities was EUR 17.7 million (outflow EUR 20.1 million in the same quarter last year).

Cash and cash equivalents was EUR 0.05 million as of 30 September 2024. At the same time last year cash and cash equivalents were EUR 2.8 million.

Going concern

These financial statements have been prepared on a going concern basis.

On 28 November 2024, by way of a lock-up agreement, the Hurtigruten group agreed to a comprehensive recapitalisation transaction with a significant majority of the group's stakeholders.

The recapitalisation transaction involves:

(i) the full legal separation of Hurtigruten Norwegian cruise business (the "**HRN Group**") and its expeditions business (the "**HX Group**", of which the Company will form part) (the "**Legal Separation**") which is a key step to unlocking the two businesses' growth potential;

(ii) a new money injection across the HRN Group and HX Group of approximately EUR 110 million and approximately EUR 140 million;

(iii) an approximately EUR 470 million net reduction in third party debt of the Group, after accounting for approximately EUR 150 million incremental debt to be recognised as part of the intended recapitalisation transaction, and EUR 620 million reduction of debt, including:

a. conversion of the existing senior facility of EUR 365 million (lenders of which as the "**Opco B Lenders**") into certain equity interest in the HRN Group); and

b. an amendment and restatement of the EUR 300 million senior secured bonds issued by HX Finance II AS (the "**Existing SSNs**") into bonds issued by the HX Group, with certain other changes of terms including extension of maturity; and

(iv) a refinancing of existing super senior secured opco facility, which extend all third party maturities to 2030 and provides enhanced liquidity flexibility for the Group through certain PIK toggle flexibility.

The recapitalisation transaction will also (i) address the upcoming maturity in February 2025 of the Existing SSNs, and (i) result in the majority of share capital in the HRN Group and the HX Group being owned by the new investors.

The implementation of the recapitalisation transaction on a consensual basis requires further creditor consents (in addition to those who are already party to the lock-up agreement as at the date of this report). If such consents are not received, alternative implementation methods will be considered. The recapitalisation transaction is expected to be implemented in early 2025.

The board of directors, based on a careful analysis on the Hurtigruten group's outlook and plans for the next 12 months (in particular given the agreement to the recapitalisation transaction outlined above), believe that the Company has (i) adequate liquidity for the 12-month period from the date of this report, (ii) a viable path to address the upcoming maturities of the Existing SSNs, and (ii) given the benefits of the recapitalisation transaction and the support of the new investors, resources to continue operations for the foreseeable future.

However, if the Company and/or Hurtigruten group is not able to implement the recapitalization transaction consensually or by an alternative implementation method, then the Company on current projections will not be able to repay the Existing SSNs at their maturity in February 2025, which event will affect the ability of the Company to continue as a going concern.

As the Existing SSNs have security over the Company's two modern expedition vessels, the Company and the Hurtigruten group faces a risk that the holders of the Existing SSNs may seek to enforce the security over such vessels which event would materially and adversely impact the Company and the Hurtigruten group and affect the ability of the Company to continue as a going concern. The Company further faces the risk that it may experience difficulties in meeting its obligations associated with other financial liabilities as a result of any enforcement action taken by the holders of the Existing SSNs, and this may affect its ability to continue as a going concern.

Outlook

At the date of this report, the company and the broader cruise industry are facing fairly normal operating conditions following years of turmoil. Operationally, the pandemic is largely behind us, and the industry have taken the necessary precautions related to Russia's war of aggression on Ukraine.

The probability of a “soft landing” in the global economy has greatly improved, and global inflation has come down significantly over the past 18 months. This in turn have led to improved consumer confidence and a more positive outlook for the global economy.

Nevertheless, there are factors that may provide headwinds in 2024 and beyond. Although energy costs have come down since 2023, the current situation in the Middle East may lead to further geopolitical unrest and may trigger a jump in oil prices. Across the world, there are also other geo-political risks in both the western and the eastern hemisphere that my affect global travel patterns and consumer spending in the future. Climate change will also continue to be a significant source of risk for any travel company, both for regulations, taxations and fees, and the status of the ecosystems where we operate. Hurtigruten Group has taken several steps to mitigate such risks, steps that has been recognized by rating agencies. Still, climate change will continue to be on top of the global agenda for many years and will continue to affect all global businesses going forward.

As of 24 November 2024, Hurtigruten Group had EUR 585 million in pre-booked ticket revenue for 2024 departures compared to EUR 576 million for 2023 departures as of 24 November 2023 which is a 1.6% increase. For 2025, we see increased momentum in recent booking trends. As of 24 November 2024 Hurtigruten Group had booked EUR 346 million for 2025 departures compared to EUR 313 million for 2024 departures as at 24 November 2023, which is a 10.4% increase.

The Board of Directors expects the financial performance of the Company to continue to improve, supported by the strong booking development reflecting the resurgence of desire and demand for travel.

The Company emphasizes that the information included in this report contains certain forward-looking statements that address activities or developments that the Company anticipates will or may occur in the future. The statements are based on assumptions and estimates, and some of them are beyond the Company’s control and therefore subject to risks and uncertainties.

Risks and uncertainties

HX Finance II and Hurtigruten Group are subject to a range of risks and uncertainties which may affect its business operations, results and financial condition. An evaluation of Hurtigruten Group's main risks has been performed as part of the overall enterprise risk assessment.

The risk description in the Annual Report 2023 gives a fair description of principal risks and uncertainties that may affect Hurtigruten Group. An elaboration of our ESG Risk programme with the top identified risks for each of the Group's ESG pillars, including a high-level mitigation plan is included in the Annual Report, too. The company is not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties, except for those described below.

The Russian invasion of Ukraine in late February 2022 brought increased geopolitical risks to global markets and business operations. The conflict has adversely affected global and regional economic conditions and triggered volatility in energy prices. As of end of Q3, the Company has not entered into any derivative contracts to hedge fuel consumption for 2024.

The Group is exposed to liquidity risk through fluctuations in booking revenue and operational- and financial expenses. At 28 November 2024, the Company announced that by way of a lock-up agreement, the Company agreed to a comprehensive recapitalization transaction with an ad hoc group of its senior lenders and its majority shareholder, and secured a committed interim funding of EUR 48.5 million. Please refer to the section headed "Going Concern" for more details.

The Board of Directors believes that the liquidity resources currently available and the plans that have been put in place are sufficient to ensure the long-term funding of Hurtigruten Group. However, interest rate movements and the overall condition of the credit market may adversely affect the ability to execute on plans for further development and growth.

Interim financial statements

Condensed statement of income

Unaudited

(EUR 1 000)	Note	**3rd quarter 2024**	3rd quarter 2023	**01.01-30.09. 2024**	01.01-30.09. 2023	Full Year 2023
Operating revenue		**12 603**	12 603	**37 534**	37 397	50 000
Total revenues		**12 603**	12 603	**37 534**	37 397	50 000
Depreciation and impairment	6	**(95 584)**	(2 610)	**(99 825)**	(7 830)	(8 840)
Operating costs		**(7)**	(7)	**(44)**	(28)	(41)
Other gains/(losses)		**29**	(19)	**26**	36	63
Operating profit/(loss)		**(82 959)**	9 967	**(62 308)**	29 576	41 182
Financial income		**-**	-	**-**	-	-
Financial expenses		**(2 163)**	(1 648)	**(6 530)**	(5 660)	(7 225)
Net foreign exchange gains/(losses)		**(54)**	95	**(78)**	(177)	(201)
Net financial items	**4**	**(2 216)**	(1 553)	**(6 608)**	(5 838)	(7 426)
Profit/(loss) before income tax		**(85 176)**	8 414	**(68 916)**	23 739	33 756
Income taxes		**-**	-	**-**	-	-
Net income		**(85 176)**	8 414	**(68 916)**	23 739	33 756

Condensed statement of comprehensive income

Unaudited

(EUR 1 000)	**3rd quarter 2024**	3rd quarter 2023	**01.01-30.06. 2024**	01.01-30.06. 2023	**Full year 2023**
Net income	**(85 176)**	8 414	**(68 916)**	23 739	**33 756**
Total comprehensive income for the period	**(85 176)**	8 414	**(68 916)**	23 739	**33 756**

Condensed statement of financial position

Unaudited

(EUR 1 000)	*Note*	**30.09. 2024**	30.09. 2023	31.12. 2023
Ships	*6*	**246 784**	347 619	346 609
Total non-current assets		**246 784**	347 619	346 609
Intragroup trade receivables	*5*	152 682	134 620	147 581
Other current receivables	*5*	**9**	10	15
Cash and cash equivalents	*5*	**47**	2 769	3 726
Total current assets		**152 739**	137 399	151 322
Total assets		**399 523**	485 018	497 931
Paid -in capital		**105 003**	105 003	105 003
Retained earnings		**33 933**	92 832	102 849
Total equity		**138 936**	197 835	207 852
Interest-bearing liabilities	*3,5*	**-**	253 571	253 839
Interest-bearing liabilities to group companies	*3,5*	**-**	-	-
Total non-current liabilities		**-**	253 571	253 839
Current interest-bearing liabilities	*3,5*	**254 643**	30 000	33 393
Accounts payables	*5*	**358**	7	(1)
Income tax payable		**1**	(0)	-
Intragroup trade payables	*5*	**4 702**	2 625	2 840
Other current liabilities		**884**	980	8
Total current liabilities		**260 587**	33 612	36 240
Total equity and liabilities		**399 523**	485 018	497 931

Condensed statement of changes in equity

Unaudited

Q3 2024:

(EUR 1 000)	Share capital	Share premium	Retained earnings	Total
	01.01-30.09.2024			
	Attributable to shareholders of Explorer II AS			
Equity at beginning of the period	**3**	**105 000**	**102 849**	**207 852**
Net income	-	-	(68 916)	(68 916)
Equity at the close of the period	**3**	**105 000**	**33 933**	**138 936**

2023:

(EUR 1 000)	Share capital	Share premium	Retained earnings	Total
	01.01-31.12.2023			
	Attributable to shareholders of Explorer II AS			
Equity at beginning of the period	**3**	**105,000**	**69,093**	**174,096**
Net income	**-**	**-**	**33,756**	33,756
Equity at the close of the period	**3**	**105,000**	**102,849**	**207,852**

Condensed statement of cash flows

Unaudited

(EUR 1 000)	Note	**3rd quarter 2024**	3rd quarter 2023	**01.01-30.09. 2024**	01.01-30.09. 2023	Full year 2023
Cash flow from operating activities						
Profit/(loss) before income tax		**(85 176)**	8 414	**24 557**	23 739	33 756
Adjustments for:						
Depreciation, amortisation and impairment losses		**95 584**	2 610	**6 351**	7 830	8 840
Interest expenses	*4*	**2 163**	1 648	**6 530**	5 660	7 225
Change in working capital		**1 350**	7 492	**(3 632)**	(12 185)	(23 826)
Other adjustments		**-**	(77) -	**7**	140	145
Net cash flow from (used in) operating activities		**13 921**	20 087	**33 800**	25 184	26 140
Cash flow from investing activities						
Purchase of property, plant, equipment (PPE)		**-**	-	**-**	-	-
Change in restricted cash		**-**	-	**-**	-	-
Net cash flows from (used in) investing activities		**-**	-	**-**	-	-
Cash flow from financing activities						
Proceeds from borrowings		**-**	-	**-**	-	-
Repayment of borrowings to financial institutions		**(15 000)**	-	**(30 000)**	-	-
Net change of borrowings to group companies		(2 669)	(15 000)	**(7 478)**	(15 000)	(15 000)
Paid interest and fees	*4*	**-**	(5 063)	**-**	(10 124)	(10 124)
Net cash flow from (used in) financing activities		**(17 669)**	(20 063)	**(37 478)**	(25 124)	(25 124)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(3 748)**	24	**(3 679)**	59	1 016
Cash and cash equivalents at the beginning of period		**3 796**	2 745	**3 726**	2 711	2 711
Cash and cash equivalents at end of period		**47**	2 769	**47**	2 769	3 726

Notes to the condensed financial statements

Note 1 Accounting policies

The interim financial report for HX Finance II AS is prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial report does not include all information which will appear in the annual financial report, which is prepared in accordance with all effective IFRS-standards. This interim report should therefore be read in connection with the annual report for HX Finance II AS for 2023.

The annual report for 2023 for the company can be obtained through a request to the company's main office. The accounting policies applied in the interim financial reporting are described in the note of accounting policies in the annual report for 2023.

In the preparation of the interim financial report, estimates and assumptions have been applied, which has affected assets, liabilities, revenues and costs. Actual figures can deviate from estimates applied.

Note 2 Financial risk management

There are potential risks and uncertainties that can affect the operations of the company. The company main source of income is from Hurtigruten Expeditions Cruise AS, a sister company within the Silk Topco Group. The funding position within Silk Topco Group is sound. The company's financing through the issued bond is at a fixed rate. Any market fluctuations will not affect the financing charge. Information concerning the most important risks and uncertainties is disclosed in the financial review.

Note 3 Interest-bearing liabilities

(EUR 1 000)	**30.09. 2024**	30.09. 2023	31.12. 2023
Non-current interest-bearing liabilities			
Bond	-	253,571	253,839
Interest-bearing liabilities to group companies	-	-	-
Total	-	253,571	253,839
Current interest bearing debt			
Bond, repayment due within 12 months	**254,643**	30,000	33,393
Total	**254,643**	30,000	33,393
Total interest-bearing liabilities	**254,643**	283,571	287,233

The interest-bearing liabilities in the company are classified as financial liabilities measured at amortised cost.

During Q1 of 2023 a EUR 11 million revolving credit facility was made available to HX Finance II AS from Hurtigruten Group AS. The Facility is available for utilisation by HX Finance II AS on a revolving basis. As of Q3 of 2024 the facility was undrawn. The facility is included in the definition of available liquidity under the Minimum Liquidity covenant.

Maturity profile in nominal value

The below maturity schedule reflects the borrowings at nominal values.

(EUR 1 000)	**30.09. 2024**	30.09. 2023	31.12. 2023
Less than one year	**255,000**	**30,000**	**33,393**
Year 2 and 3	-	255,000	255,000
Year 4 and 5	**-**	-	-
More than 5 years	**-**	-	-
Total	**255,000**	285,000	288,393
Unamortised trasaction cost	**(357)**	(1,429)	(1,161)
Total carrying value in balance sheet	**254,643**	283,571	287,233

Note 4 Net financial items

(EUR 1 000)	**3rd quarter 2024**	3rd quarter 2023	**01.01-30.09. 2024**	01.01-30.09. 2023	**Full Year 2023**
Net interest expense and amortized borrowing fees	**(2,163)**	(1,648)	**(6,530)**	(5,660)	**(7,225)**
Net financial expenses	**(2,163)**	(1,648)	**(6,530)**	(5,660)	**(7,225)**
Net foreign exchange gains/(losses)	**(54)**	95	**(78)**	(177)	**(201)**
Net financial items	**(2,216)**	(1,553)	**(6,608)**	(5,838)	**(7,426)**

Note 5 Financial assets and liabilities at fair value

	30.09. 2024	**30.09. 2023**	**31.12. 2023**
(EUR 1 000)	Amortised Cost (AC)	Amortised Cost (AC)	Amortised Cost (AC)
Assets as per balance sheet			
Current intragroup receivables and other receivables	**152,691**	134,630	147,596
Cash and cash equivalents	**47**	2,769	3,726
Total	**152,738**	137,399	151,322
Liabilities as per balance sheet			
Non-current interest-bearing liabilities	**-**	253,571	253,839
Non-current interest-bearing liabilities to Group companies	**-**	-	-
Current interest-bearing liabilities	**254,643**	30,000	33,393
Trade payables and other short term payables	**5,060**	2,632	2,839
Total	**259,703**	286,203	290,071

The following principles have been applied for the subsequent measurement of financial assets and liabilities:

The carrying values for the financial assets and liabilities have been assessed and do not differ materially from fair value, except for the non-current interest-bearing liabilities (bond). Fair value of the bond as of 30 September 2024 was EUR 235.87 million (EUR 250.17 million as of 30 September 2023).

Note 6 Impairment

In conjunction with the ongoing split project and budget process, the Company reviewed and updated its forecasts and projections for the near- and long-term. Management has further updated the estimated cost of capital in conjunction with the ongoing refinancing process. As a result, management identified triggers for impairment and conducted an impairment test as of 30 September 2024.

Management has applied valuations from ship brokers and adjusted these for estimated costs such as broker and other costs which would be directly linked to a sale of the vessels when estimating the fair value less cost of disposal. This is a level 3 valuation in the fair value hierarchy in IFRS.

The company's vessels are considered as one cash-generating unit and therefore tested in combination. The recoverable amount for was estimated to EUR 246 million. The estimated fair value less cost of disposal was applied to assess recoverable amount and as a result of the analysis, management has recognized an impairment loss for the current period of EUR 93.5 million.

After the recognition of the above-mentioned impairment, the estimated recoverable amount is equal to its carrying value. Consequently, any adverse change in a key assumption could result in a further impairment loss. The estimates for recoverable amounts are sensitive estimated selling price of vessels. A change in the estimated selling price of 5% would result in additional impairment of EUR 6 million.

Note 7 Events after the reporting period

As of the date of this report, the Hurtigruten group announced that by way of a lock-up agreement, the Hurtigruten group agreed to a comprehensive recapitalisation transaction with an ad hoc group of its senior lenders. Please refer to the section headed "Going Concern" for more details.