

NUUK
Greenland

REYKJAVÍK
Iceland

TÓRSHAVN
Faroe Islands

AARHUS
Denmark

HELSINGBORG
Sweden

INTERIM REPORT

20**23**

ROYAL  **ARCTIC**



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

Financial highlights

Developments in the Group can be described over a three-year period with the following financial highlights for the first half of the year:
DKK million.

Income statement	2023	2022	2021
Net revenue	502	500	441
Total revenue	530	503	445
Operating profit (EBIT)	-36	-81	-46
Financing, net	-11	-11	-13
Profit for the period before tax	-47	-91	-59
Profit for the period	-35	-67	-44
Dividend	0	0	0
Balance sheet			
Balance sheet total	1.520	1.589	1.569
Investments in tangible fixed assets	33	52	87
Net working capital	-11	-23	-60
Long-term liabilities	637	639	644
Equity	600	643	643
Cash flow statement			
Cash flow from operating activities	-41	-30	-45
Cash flow from investing activities	26	-51	-85
Cash flow from financing activities	-3	29	7
Change in cash and cash equivalents	-19	-52	-124
Cash at period-end	128	124	134
Key ratios *			
Profit margin (%)	-7,1 %	-16,1 %	-10,4 %
Return on capital (%)	-2,4 %	-5,1 %	-2,9 %
Return on equity (ROE)	-5,7 %	-10,4 %	-6,8 %
Solvency ratio (%)	39,5 %	40,5 %	41,0 %
Return on invested capital (ROIC)	-2,9 %	-6,5 %	-3,7 %
Leverage of operating assets	2,1	1,9	1,9
Average number of full-time employees	736	839	775
Pre-tax profit/loss per employee (DKK 1,000)	-64	-109	-77
Net revenue per employee	0,68	0,60	0,57

* Financial ratios are calculated in accordance with the CFA Society Denmark's "Recommendations and Financial Ratios"
As from 2022, the average number of full-time employees includes trainees.

Definitions of ratios

Profit margin (%)	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Net revenue}}$
Return on capital	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Total assets}}$
Return on equity (ROE)	=	$\frac{\text{Profit for the period} \times 100}{\text{Average equity}}$
Solvency ratio (%)	=	$\frac{\text{Equity at year-end} \times 100}{\text{Total assets}}$
Return on invested capital (ROIC)	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Average capital invested incl. goodwill}}$
Leverage of operating assets	=	$\frac{\text{Average capital invested incl. goodwill}}{\text{Equity at year-end}}$

Net working capital is defined as inventories, receivables and other operating current assets less trade payables and other short-term operating liabilities. Corporation tax receivable and payable as well as cash and cash equivalents are not included in net working capital.

Management review

Interim Report for the first half of 2023

First half of 2023 in line with expectations

The first six months of the year have shown a stagnation in freight volumes to, from and within Greenland. This was expected in view of global inflation and greater economic uncertainty. Even though the figures for the first half of 2023 are at the expected level, they reflect a stronger Q1 and a significantly weaker Q2, with a decline of over 10 % in northbound volumes compared to 2022. We therefore maintain our expectations of a drop in freight volumes to Greenland in 2023, and there are indications that the volumes may prove to be lower than originally expected.

Exports started Q1 weakly, with poor conditions for fisheries due to technical challenges with parts of the trawler fleet and challenging weather and ice conditions. Fisheries made good progress in Q2, however, despite continued challenging ice conditions in the prawn catch areas, and we still believe that fisheries will deliver satisfactory freight volumes in 2023.

Despite a positive overall cost picture compared to the first half of 2022, there is considerable cost pressure from staff-related costs, as well as operational costs, compared to the original expectations. This requires focus on continuing to keep the development in costs under control.

After almost eight years of stable freight rates, with prices generally only changing in line with the dollar exchange rate and oil prices, export prices were raised in February 2023. Other freight rates remained unchanged, since Royal Arctic Line's prices have an influence on Greenland's economy and thereby also on the volume and revenue basis for the company.

After more than eight years of freezing our own prices for the high-revenue northbound traffic, Royal Arctic Line's operating profit was constrained in 2023. In this light, the interim result is in line with expectations.

Continued streamlining and focus on the core service

In a highly seasonal market, eliminating idle capacity costs due to seasonal variation is of utmost importance, particularly when capacity cannot be sold to other parties without significant risk.

It is also natural to assess from time to time whether an activity falls within the framework of what is natural for the company's operations, especially if this entails risks for our core activities.

In May 2023, the feeder ship Mary Arctica from 2005 was therefore sold to the Norwegian shipping company, Silver Liner. The ship could not be employed in our sailing schedule during the ice gain period. The normal practice would therefore be to charter the ship out. The ship is designed to operate in Arctic conditions and is therefore built more solidly and with greater engine power. As a consequence, the ship has an environmental profile that makes chartering more and more difficult.

The sale of the ship enables Royal Arctic Line to initiate a dialogue with shipyards to achieve more environmentally positive and future-oriented operation of the company, based on the green transition. As a consequence, the ship has an environmental profile that makes chartering more and more difficult. The time horizon is 5-6 years and a time charter agreement with the buyer will ensure security of supply throughout the period. The sale also results in direct savings that are not exposed to risk in relation to opportunities for chartering-out of the ship.

To focus fully on the core service, the Freight Forwarding business area was divested in May 2023.

The service provided by Freight Forwarding was the servicing of cruise liners and the pre- and post-transport of freight, and in this connection, large outlays were made for the customers. The business area was not part of the concession-based service. The divestment will help to simplify the administrative processes and concentrate them on the core service, thereby reducing operational risks in the company.

Alternative markets provide additional revenue from existing assets

Concerning the utilisation of surplus capacity outside Greenland and the availability of alternative markets, the company continues to focus on the sale of container freight between Iceland and Scandinavia. In the first half of 2023, we saw 70 % growth in this area. The revenue is strategic since it is generated by utilising existing assets, and thereby has a direct impact on the bottom line.

Similarly, Malik Arctica was on charter until May, when it operated between West Africa and around the Canary Islands, and in the Baltic States. The ship will also be employed at the end of 2023 and into 2024 on the Polar Code-related tasks for which the ship is designed.

In the first half of 2023, non-concession revenue increased from DKK 101 million in 2022 to DKK 112 million in 2023. The increase exceeds budget, as it was expected that revenue would be reduced by the divestment of the freight forwarding business and the discontinuation of stevedore and workshop services in Aalborg. Management considers this to be satisfactory.

Preparing for growth in tourism

The subsidiary Arctic Umiaq Line, which operates passenger traffic on the west coast of Greenland, has noted an increasing interest in coastal traffic. The company has developed a product mix that will give local travellers and tourists more opportunities in the future. To build on the foundation for increased tourism provided by the new airports in Greenland, Arctic Umiaq Line has entered into a partnership agreement with the Norwegian shipping company Hurtigruten, with a view to further developing and commercialising these products.



Financial status for the first six months

Concession-based revenue, excluding the oil and currency surcharge, increased by DKK 11 million from 2022, and is therefore at the lower end of the expected proceeds from the rate increase for exports. The company has therefore adjusted its expectations of the concession-based revenue for the whole of 2023 accordingly.

Non-concession-based revenue increased by DKK 10 million. Other operating income increased significantly by a total of DKK 24 million from 2022. The increase is primarily due to one-off income from the sale of Mary Arctica and the divestment of the Freight Forwarding business.

Arctic Umiaq Line's total revenue in the first half of 2023 was at the same high level as in 2022.

The Group's total revenue for the six-month period was DKK 27 million above the same period in 2022.

As expected, variable (freight-related) costs are increasing compared to 2022. The increase of DKK 45 million is due to the shift from fixed costs in the Port of Aalborg to variable costs in the Port of Aarhus. The increase is amplified by a significant price increase from external suppliers in 2023 as a consequence of high inflation outside Greenland in 2022. However, the costs are in line with expectations.

On an overall basis, costs for terminal operations, hourly pay and personnel decreased by DKK 38 million compared to 2022. The decrease is due to the discontinuation of own operations in the Port of Aalborg. Container operation costs increased by DKK 9 million compared to the first half of 2022. The increase is partly due to higher repair activity as a consequence of an ageing container fleet.

In addition to a general increase in costs related to using external suppliers, the greater visibility of costs after the transition from own workshops to the purchase of services from external suppliers also contributes to the increase in direct costs.

Finally, costs of ships, including bunkers, are higher in 2023. After deduction of bunkers, the total ship-related costs are at the same level as in 2022. However, this item reflects an increase in chartering-in costs as a result of the sale of Mary Arctica, as well as a decrease in the costs of operating and maintaining ships.

Total costs for the Group decreased by DKK 63 million from DKK 564 million in 2022 to DKK 501 million in 2023.

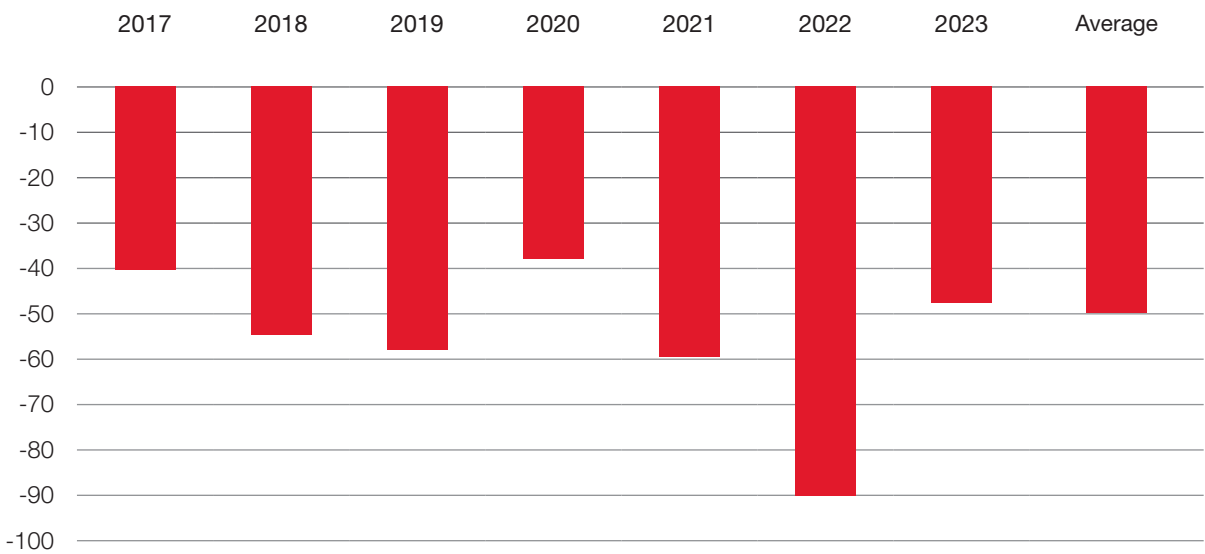
EBITDA for the first half of 2023 ended at DKK 18 million. This is DKK 44 million better than for the 2022 transition year.

The Group's depreciation in the first half of 2023 amounted to DKK 54 million, compared to DKK 55 million in 2022.

Financial expenses amounted to DKK 11.1 million, compared to DKK 10.9 million in 2022. This is assessed to be satisfactory, as the general level of interest rates increased significantly during the second half of 2022.

The Group's result before tax is DKK -47 million. This is DKK 45 million better than for the same period in 2022. The company has normally had a negative result in the first half of the year, due to low season as a consequence of the ice gain in large parts of Greenland. It can be noted that, excluding 2022 as a transition year, the result is at the same level as for previous years. The result was achieved without corresponding price increases for the revenue-dominating northbound traffic, despite general cost increases in Greenland, particularly in the last year.

Result before tax (Million DKK)



The Group's balance sheet has decreased by DKK 71 million since the end of the year. The sale of Mary Arctica and operating depreciation were the main contributors to the decline.

The company's long-term debt was reduced by DKK 4 million in the same period. Finally, the company's liquidity has decreased by DKK 19 million since the end of 2022. This is due to low season, investments and repayments and is an expected development.

The company's management is satisfied with the result, since it shows that the new cost structure, based on using external suppliers outside Greenland, is overall as expected in the first half of 2023. It can also be noted that the strategic focus of growing the top line has given a visible return in the first half of 2023.

Management continues to have an operational focus on strengthening the core service and has launched a number of measures, including review of the company's property portfolio for possible divestment, a focus on the use of robot technologies (RPA) and artificial intelligence (AI) for automation/digitalisation, and ongoing optimisation of the container area in order to reduce vacant positioning. The aim of these measures is to reduce costs and also to improve the customer experience. The cost reduction must help to ensure the financial strength for a sustainable transformation of the company.

Our vital role in ensuring supplies to Greenland is always our highest priority, but the strategic focus is on the ability to jointly create strong deliveries and connect Greenland to a sustainable future in which we can create value with global logistics to and from Greenland, which are the fundamental elements in making it "easy to do business with all of Greenland".



Risks

The company works continuously to reduce risks. Risks are divided into two main groups: systemic risks and non-systemic risks.

Systemic risks are risks over which the company has no control, such as interest rate trends, business cycles and currency fluctuations.

Non-systemic risks are the risk areas that the company can influence through its strategic and operational choices.

Strategic risks have been reduced as a consequence of the completion of the major transition, but new challenges, including environmental requirements and a discussion in Inatsisartut (Greenland's parliament) of the benefits and drawbacks of removing Royal Arctic Line's concession for freight to and from Greenland and introducing competition in this area, will begin in the second half of 2023. The company is in close dialogue with the owner and, together with its financial partner, Jyske Bank, has initiated a risk analysis that is expected to be completed during late summer 2023. The dialogue with external stakeholders ensures objective analysis.

The company monitors *financial risks* and has developed effective tools to simulate cyclical fluctuations and thereby changes in freight volumes, so that the company's risk of breaching the requirements from lenders (covenants) can be addressed at an early stage. The greater cooperation with foreign partners has increased the company's currency exposure and, during spring 2023, the company drew up policies and agreements with banks in order to reduce this exposure. The company is continuously developing the financial toolbox and can note that its financial partners have full confidence in the company. The company's overall interest rate risk is moderate, which is reflected in the unchanged total financial expenses from 2022 to 2023, despite rising interest rates.



Outlook for 2023

Even though the result for the first half of 2023 exceeds budget, a profit for 2023 in the range of DKK 1-15 million is still expected. Freight volumes in the first half of 2023 are lower than expected. The northbound volumes in Q2 2023 are below the 2022 level. Northbound revenue accounts for around 65 % of the total concession-based revenue, so that even small fluctuations will be of great significance. A decline of 1 % in concession-based revenue in the last six months is equivalent to DKK 3 million.

The company can note that inflation in Greenland in 2023 is significantly higher than in 2022, and even though inflation outside Greenland is lower than in 2022, it still remains high. Furthermore, the significantly higher level of interest rates is expected to dampen investments in, for example, housing and other construction. Both factors have a negative impact on economic activity in Greenland.

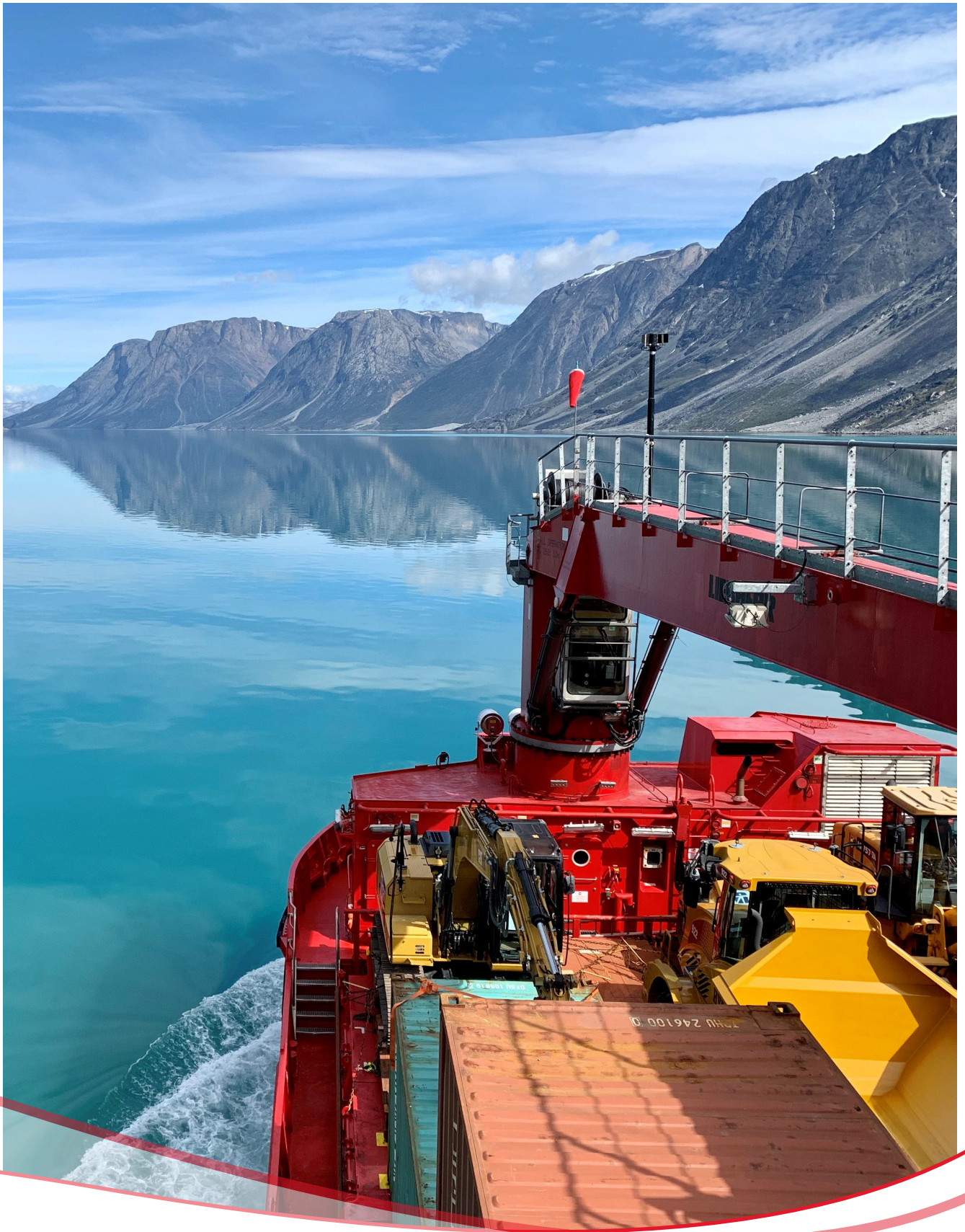
The concession-based revenue is solely determined by the economic activity in Greenland and is outside the company's control. The only control the company can exercise is to adjust northbound prices if the target result is under pressure.

Sustainable future

With the current technology, a container shipping company is an industry that has very high carbon emissions. Royal Arctic Line is therefore obliged to work to achieve a green transition as quickly as technologically and financially possible. There are high expectations that new technology – including alternative means of propulsion, possibly produced using Power2X – will be available in the foreseeable future.

The company is in the process of specifying its ESG objectives, for which the environmental profile plays a significant role. It is already clear that a green transition requires investments in ships and more environmentally friendly containers (reefers). It is our expectation that the green transition will result in technological advances that can significantly reduce emissions from the ships. The company will monitor developments closely and aims to have the necessary financial strength to utilise these new technologies, and therefore sees a need for a bigger liquidity surplus in the coming years. The management assesses that it is in the interest of Greenland's population that, as a state-owned company with significant carbon emissions, the company sets high ambitions in this area. The company is therefore in ongoing dialogue with other Greenlandic companies in the ESG area. During autumn 2023, ESG objectives will be set and presented to the Board of Directors and the owner.

Management
Nuuk, 28 July 2023



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 1 January – 30 June 2023 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, 28 July 2023

Executive Board



Verner Sonny
Daugård Hammeken
CEO



Aviäja Lyberth Lennert
Deputy CEO



Jørgen Aqe Møller
CFO



Anders Bay Larsen
Senior Director, Fleet
Management



Bebiane Boye Hansen
CHRO, Human Resources



Ivalu Kleist
COO, Operations



Niels Clemensen
CCO, Customer Service
& Sales

Board of Directors



Páviaraq Heilmann
Chairman



Erik Jørgen Østergaard
Vice-chairman

Páviaraq Heilmann *Erik Jørgen Østergaard*



Barbara Agersnap



Erik Sivertsen



Julia K. Olsen



Minannguaq Hilda
Zeeb

Barbara Agersnap

Erik Sivertsen

Julia K. Olsen

Minannguaq Hilda Zeeb



Eydun Simonsen



Laust Lindskov
Vestergaard



Tina Lange Olsen

Eydun Simonsen

Laust Lindskov Vestergaard

Tina Lange Olsen

Company Details

The Company	Royal Arctic Line A/S Aqqusinersuaq 52 P.O. Box 1580 3900 Nuuk Telephone: +299 34 91 00 E-mail: ral@ral.gl Website: www.ral.gl
Registration number	A/S 209.527
CVR number	16545538
Registered	Nuuk, Grønland
Share capital	DKK 120 million
Ownership	Wholly owned by the Government of Greenland, Nuuk, Greenland.
Board of Directors	Pâviâraq Heilmann, Chairman Erik Jørgen Østergaard, Vice Chairman Barbara Agersnap Erik Sivertsen Julia K. Olsen Miinannguaq Hilda Zeeb Eydun Simonsen* Laust Lindskov Vestergaard* Tina Lange Olsen* <i>* Elected by employees in 2022 for a four-year term.</i>
Executive Board	Verner Sonny Daugård Hammeken, CEO Aviâja Lyberth Lennert, Deputy CEO Anders Bay Larsen, Senior Director, Fleet Management Bebiane Boye Hansen, CHRO, Human Resources Ivalu Kleist, COO, Operations Jørgen Aqe Møller, CFO Niels Clemensen, CCO, Customer Service & Sales
Auditors	Grønlands Revision A/S and PricewaterhouseCoopers

Income Statement for the period 1 January – 30 June

DKK 1.000		Royal Arctic Line A/S		Royal Arctic Group	
		30 June 2023	30 June 2022	30 June 2023	30 June 2022
1	Net revenue	481.637	479.641	502.117	499.683
	Other operating income	38.983	11.584	27.988	3.664
	Cargo-related expenditure	-63.819	-18.872	-65.279	-20.385
	Gross profit	456.801	472.353	464.826	482.962
2	Other external expenditure	-246.445	-287.885	-255.978	-298.715
	Staff expenditure	-189.590	-208.932	-190.936	-210.027
	Amortisation, depreciation and impairment losses of fixed assets	-52.480	-53.175	-53.791	-54.915
	Operating profit	-31.714	-77.640	-35.879	-80.695
	Income from investments in Group companies	-3.426	-2.331	0	0
	Income from investments in associated companies	231	166	231	166
	Other financial income	6.989	310	7.127	319
	Other financial expenditure	-18.224	-11.136	-18.237	-11.235
	Profit before tax	-46.143	-90.630	-46.757	-91.445
	Tax on profit for the period	10.679	23.443	11.293	24.258
	Profit for the period	-35.464	-67.187	-35.464	-67.187

Assets as at 30 June

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	30 June 2023	31 Dec. 2022	30 June 2023	31 Dec. 2022
Fixed assets				
Intangible fixed assets				
Software	8.765	9.719	8.765	9.719
Development projects	184	647	184	647
Total intangible assets	8.949	10.366	8.949	10.366
Tangible fixed assets				
Ships	997.460	1.058.510	1.002.239	1.063.085
Buildings	48.030	51.208	48.030	51.208
Transport equipment, harbour boats, machinery, and fixtures and fittings	110.038	121.267	110.038	121.267
Assets under construction	30.289	9.976	30.831	9.976
Total tangible fixed assets	1.185.817	1.240.961	1.191.138	1.245.536
Financial fixed assets				
Investments in Group companies	22.991	26.417	0	0
Investments in associated companies	5.052	4.820	5.052	4.820
Other securities	1.016	1.016	1.016	1.016
Total financial fixed assets	29.059	32.253	6.068	5.836
Total fixed assets	1.223.825	1.283.580	1.206.155	1.261.738
Current assets				
Inventories and operating stock				
Operating stock	17.133	15.160	18.315	16.283
Total inventories and operating stock	17.133	15.160	18.315	16.283
Receivables				
Trade receivables	103.549	111.132	106.086	111.682
Receivables from Group companies	6.347	7.498	0	0
Other receivables	46.647	47.788	47.252	48.369
Prepayments and accrued income	12.897	4.278	13.407	4.687
Total receivables	169.440	170.696	166.745	164.738
Cash and cash equivalents				
Cash and cash equivalents	92.869	112.222	128.468	147.595
Total current assets	279.442	298.078	313.528	328.616
Total assets	1.503.266	1.581.658	1.519.683	1.590.354

Liabilities as at 30 June

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	30 June 2023	31 Dec. 2022	30 June 2023	31 Dec. 2022
Equity total				
Share capital	120.000	120.000	120.000	120.000
Reserve for net revaluation of investments:				
- Affiliated companies	17.991	21.417	0	0
- Associated companies	1.554	1.323	1.554	1.323
Reserve for development costs	138	476	0	0
Retained earnings	460.653	494.408	478.781	516.301
Total equity	600.335	637.624	600.335	637.624
Provisions				
Deferred tax	11.170	21.849	11.168	22.865
Other provisions	1.256	1.755	1.256	1.755
Total provisions	12.426	23.604	12.424	24.620
Liabilities				
Long-term liabilities				
Mortgage debt in ships	573.570	604.541	573.570	604.541
Mortgage debt	567	567	567	567
Leasing debt	32.988	35.713	32.988	35.713
Bank debt	29.941	0	29.941	0
4 Total non-term liabilities	637.066	640.821	637.066	640.821
Short-term liabilities				
Next year's instalments on non-current liabilities	71.479	71.972	71.479	71.972
Trade accounts payable	67.407	69.504	67.727	67.829
Corporation tax	452	462	2.734	2.341
Other payables	85.550	127.159	99.393	134.636
Prepayments and accrued income	28.551	10.512	28.525	10.512
Total short-term liabilities	253.439	279.609	269.858	287.290
Total liabilities	890.505	920.430	906.924	928.111
Total liabilities	1.503.266	1.581.658	1.519.683	1.590.354

Cash Flow Statement for the period 1 January - 30 June

DKK 1.000

Royal Arctic Line A/S

Royal Arctic Group

30 June 2023

30 June 2022

30 June 2023

30 June 2022

Cash flow from operating activities

Operating profit	-31.714	-77.640	-35.879	-80.695
Adjustment for leasing assets	-3.828	0	-3.828	0
Amortisation, depreciation and impairment losses	52.480	53.175	53.791	54.915
Gain/loss on sale of fixed assets	-23.643	-1.184	-23.643	-1.184
Change in working capital	-30.087	2.759	-25.075	6.597
Cash flow from operating activities	-36.792	-22.889	-34.634	-20.367

Net interest payments	-6.770	-9.970	-6.645	-10.060
Tax paid	-10	0	-10	0
Cash flow from operating activities	-43.572	-32.859	-41.289	-30.427

Cash flow from investing activities

Investments	-30.933	-47.500	-32.991	-52.332
Sale of fixed assets	58.612	1.184	58.612	1.184
Acquisition and sale of financial fixed assets	0	3	0	3
Cash flow from investing activities	27.679	-46.313	25.621	-51.144

Cash flow from financing activities

Loans raised for the period	29.941	62.722	29.941	62.722
Instalments for the period	-33.401	-30.906	-33.401	-30.906
Dividend paid	0	-2.550	0	-2.550
Cash flow from financing activities	-3.460	29.266	-3.460	29.266

Change in cash and cash equivalents	-19.353	-49.906	-19.127	-52.306
Cash and cash equivalents at the start of the period	112.222	145.851	147.595	176.239
Cash and cash equivalents at period-end	92.869	95.945	128.468	123.933

Distributed as follows:

Cash and cash equivalents	92.869	95.945	128.468	123.933
Total	92.869	95.945	128.468	123.933

Notes

DKK 1.000

Royal Arctic Line A/S
30 June 2023 30 June 2022

Royal Arctic Group
30 June 2023 30 June 2022

1 Net revenue

The company's revenue is derived from transport services between Greenland, Canada, Iceland and Denmark, between towns in Greenland, pre- and end-haulage, stevedore and other related services.
Revenue is divided into income from concession sea transport and other, non-concession income.

Net revenue can be specified as follows:

Concession cargo income	386.424	394.188	390.456	398.186
Non-concession income	95.213	85.453	111.661	101.497
Total net revenue	481.637	479.641	502.117	499.683

2 Other external expenditure

Ships	-145.420	-149.520	-153.948	-157.032
Terminals	-52.575	-71.366	-52.657	-71.369
Container operations	-26.629	-17.674	-26.629	-17.674
Sales and administration	-21.821	-22.348	-22.744	-25.663
Other operating costs	0	-26.977	0	-26.977
Total other external expenditure	-246.445	-287.885	-255.978	-298.715

Royal Arctic Line A/S
30 June 2023 31 Dec. 2022

Royal Arctic Group
30 June 2023 31 Dec. 2022

3 Tangible fixed assets

Of which financial leased assets	199.398	206.695	199.398	206.695
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4 Debt to credit institutions

Of which leasing obligations	139.142	147.362	139.142	147.362
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Editor in Chief: Jørgen Aqe Møller
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