Business Review

for the period January–September 2021

VIKING LINE

GRADUAL RECOVERY

January– September 2021 (compared to January–September 2020)

- Sales amounted to EUR 169.0 M (EUR 154.2 M).
- Other operating revenue was EUR 44.6 M (EUR 16.7 M).
- Operating income totalled EUR 30.5 M (EUR -35.2 M).
- Net financial items were EUR -3.4 M (EUR -3.1 M).
- Income before taxes amounted to EUR 27.1 M (EUR -38.3 M).
- Income after taxes totalled EUR 22.7 M (EUR -30.8 M).
- The outlook for the financial year 2021 is unchanged compared to the Half-Year Report as of June 30, 2021, which means positive operating income for the full-year 2021.

Third quarter 2021 (compared to third quarter 2020)

- Sales amounted to EUR 97.5 M (EUR 56.6 M).
- Operating income totalled EUR 26.0 M (EUR -7.8 M).

The third quarter brought increased demand for our services in traffic between Åland, Finland and Sweden. The focus for traffic between Finland and Estonia has been to give customers as good a service as possible combined with cost control.

Since the end of the first quarter of 2020, the company's opportunities to carry out its regular operations have been limited by the still ongoing COVID-19 pandemic.

Comments from President and CEO Jan Hanses

"Results for the Group's third quarter exceeded expectations. Operations have continued to be dominated by passenger volumes that are well below pre-pandemic levels and so we have continued to focus on operating costs. Efficiency has improved both in terms of sales revenue and costs. Third quarter results can therefore be considered encouraging under the circumstances. Since the Group's operating income during the first three quarters is positive even excluding one-off items, I can note that we will soon be able to see the end of the effects of the pandemic.

"The Group's operations during the first three quarters of 2021 continued to be dominated by the effects of the COVID-19 pandemic. Since the start of the financial year, service has been maintained on the routes between Åland and Sweden as well as between Turku, Åland and Stockholm and on the Helsinki–Tallinn route. In June, cruise traffic started up with Gabriella and Viking Cinderella, and the number of vessels in service rose to six. In July, Gabriella returned to regular service on the Helsinki–Mariehamn–Stockholm route. Service was maintained to some extent thanks to the aid received for the company's public service obligations under its agreement with the Finnish Transport and Communications Agency (Traficom). At the end of the second quarter, the only restrictions still in place were on travel between Finland and Sweden and Estonia. During the third quarter, the increased demand that could be noted as early as June strengthened. Passenger volumes continued to be far lower than levels during the financial year 2019, but the volume trend was better than expected. In late September, restrictions were eased in both Finland and Sweden, which helped boost interest in travel in our markets.

“During the second quarter, Mariella was sold to Corsica Ferries. The sale had a EUR 13.1 M effect on income. During the third quarter, the City of Turku redeemed Viking Line’s passenger terminal there, thus kicking off planning for the updated terminal. Viking Line is taking part in this planning, and Turku will be a very important port for our most modern vessels. The redemption was in accordance with the agreement and had a EUR 10.7 M effect on income. During the second quarter, Alandia Holding Ab’s acquisition of 24.9% of the shares in Alandia Försäkring Abp was also completed. Viking Line Abp owns 18.3% of the shares in Alandia Holding Ab and recognises its holding as an associate company. In conjunction with the transaction, Viking Line Abp reclassified its previous holding in Alandia Försäkring Abp as an associate company.

“More stringent European Union and International Maritime Organization regulations will require maritime transport to reduce its emissions in the future. In July, the European Commission published its Fit for 55 climate package with a target to reduce CO2 emissions by at least 55% before 2030 compared to 1990. Maritime transport will be included in the EU Emissions Trading System, and this will entail changes for the industry. Significant investments have been made to increase energy efficiency, and an important focus in the sustainability work has been optimizing fuel use. As a result of various fuel optimization measures, in the period 2008–2020 Viking Line managed to achieve a fuel saving of 30% per nautical mile. Our new vessel, Viking Glory, which will be launched in service in early 2022, represents a brand-new generation of vessels and will be one of the world’s most climate-smart ships. We look forward to introducing Viking Glory to our passengers. We have now started to book tickets and can note with gratification that there is great interest.”

Sales and earnings

Consolidated sales increased 9.6 % till EUR 169.0 M during the period January 1– September 30, 2021 (EUR 154.2 M January 1–September 30, 2020). Operating income totalled EUR 30.5 M (EUR -35.2 M).

Passenger-related revenue increased 11.7 % to EUR 137.6 M (EUR 123.2 M), while cargo revenue was EUR 29.9 M (EUR 29.7 M). The sales contribution was EUR 128.6 M (EUR 114.9 M). Operating costs decreased 14.0 % to EUR 127.9 M (EUR 148.7 M).

Results for the third quarter were characterized by a steady increase in demand in the passenger segment and continued stable demand for cargo transport.

Sales increased 72.3 % to EUR 97.5 M during the period July 1-September 30, 2021 (EUR 56.6 M July 1–September 30, 2020). Operating income totalled EUR 26.0 M (EUR -7.8 M).

During the first three quarters, the Group received aid for its public service obligations from Traficom for the Group's vessels on the Turku–Mariehamn/Långnäs–Stockholm, Mariehamn-Kapellskär and Helsinki–Tallinn routes, with the bulk of the aid received during the first two quarters. We also received aid from the Development and Management Centre of Finland's Centres for Economic Development, Transport and the Environment (known as ELY centres) and from Finland's Local Employment and Economic Development Offices. The aid is recognized as State aid under other operating revenue.

Service and market

The Viking Line Group provides passenger and cargo carrier services using six vessels on the northern Baltic Sea and in the Gulf of Finland. During the second quarter, a bareboat hire/purchase agreement was entered into for M/S Mariella. The Group's remaining vessels served the same routes as in 2020, although the vessels that normally sail between Helsinki and Stockholm and between Stockholm and Mariehamn have been taken out of service to some extent due to the COVID-19 pandemic. On June 12, Gabriella resumed service on the Helsinki–Stockholm route and was also used for special cruises. During the third quarter, all of the vessels were in service.

The total number of passengers on Viking Line's vessels during the report period was 1,484,398 (1,642,179). The Group had a total market share in its service area of approximately 34.1% (26.4%).

Viking Line's cargo volume was 95,955 cargo units (93,040). Viking Line's share of the cargo market was approximately 16.4% (17.0%). The market share for passenger cars was approximately 33.8% (26.4%).

Due to the ongoing pandemic, travel has been limited. The implementation of the EU's Digital COVID certificate has worked well, and member countries have gradually adapted and also partly phased out national regulations established earlier during the pandemic. We can note that market demand for travel has increased, which is in line with our previous forecast described in the Half-Year Report.

Investments and financing

The Group's investments amounted to EUR 11.4 M (EUR 11.7 M), of which EUR 6.2 M (EUR 5.3 M) is investments in vessels under construction. The Group's total investments constitute 6.7% of revenue (7.6%).

Construction of Viking Glory is progressing in China. The vessel is expected to be delivered at the end of the year. Delivery will thus be later than the agreed delivery time.

On September 30, 2021, the Group's non-current interest-bearing liabilities totalled EUR 104.5 M (EUR 75.7 M). The equity/assets ratio was 49.1% compared to 48.9% a year earlier.

At the end of September, the Group's cash and cash equivalents amounted to EUR 65.1 M (EUR 28.6 M). Unutilized credit lines in the Group totalled EUR 15.1 M on September 30, 2021 (EUR 0.8 M). Net cash flow from investing activities was EUR 25.2 M (EUR -24.1 M). Net cash flow from investing activities was EUR 24.6 M (EUR -11.2 M) and net cash flow from financing activities amounted to EUR -14.4 M (EUR 1.1 M).

Most of the Group's loan agreements include loan covenants according to market terms. The covenant terms entail minimum requirements for liquidity and solvency and a maximum net financial debt-to-EBITDA ratio. The Group has been granted a time-limited exemption from the covenant terms that were breached during the first three quarters of 2021 for those loans already drawn. As of September 30, all covenant terms were met.

In accordance with the terms in State guarantees for liquidity loans taken out in the autumn of 2020 and with requirements in the waiver of covenant terms and loan payment deferrals granted by Finnvera, Viking Line Abp has further undertaken not to pay a dividend or pay out any funds until its obligations related to the guarantees and loans have been repaid in full.

In May, Viking Line Abp entered a bareboat hire/purchase agreement for Mariella. The total sale price was EUR 19.6 M. The vessel's book value was EUR 5.6 M. The sale had a EUR 13.1 M effect on income, and liquidity was strengthened by EUR 13.5 M. The remainder of the purchase price is to be paid on a monthly basis over four years beginning June 1, 2022. The present value is calculated by discounting future payments at a 3% interest rate.

During the period, the City of Turku redeemed the terminal buildings and related fixtures and fittings in Turku owned by Viking Line. The redemption entailed a book profit under IFRS of EUR 10.7 M. At the same time, the company signed a lease for the terminal and related facilities which runs until December 31, 2025, and the company will thus continue to use the current terminal and related facilities in Turku. After that, the plan is to place the new terminal building in Turku in service, with the company using the terminal and other related buildings. The company has also entered a 10-year traffic agreement with the Port of Turku on market terms.

Liquidity can also be strengthened by a shareholder contribution.

Organization and personnel

The average number of full-time employees in the Group was 1,452 (1,767), of whom 994 (1,228) worked for the parent company. Land-based personnel totalled 362 (418) and shipboard personnel totalled 1,090 (1,349).

In addition to the Group's own employees, Viking XPRS was crewed by an average of 149 (161) people employed by a staffing company.

The number of employees in 2021 is far lower than in 2020, since a large percentage of staff were furloughed during the period. Along with the furloughs, redundancies in the land-based organization and on Viking Cinderella affected the number of employees.

Risk factors

The COVID-19 pandemic has had a significant impact on Viking Line's earnings and liquidity and will continue to have a negative impact.

Uncertainty about regulatory requirements and related restrictions to passenger traffic as well as about market demand will affect Viking Line's operations, results and financial position.

The Group's loans are tied to loan covenants that include profitability, liquidity and solvency requirements. If the terms in these covenants are not met, financiers can demand early repayment or cancellation of the loans.

The recent surge in energy prices will have a negative effect on income.

Quarterly consolidated income statement

EUR M	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3
SALES	**97.5**	**46.9**	**24.6**	**34.6**	**56.6**
Other operating revenue	11.0	23.3	10.3	10.2	0.7
Expenses					
Goods and services	24.1	11.3	5.0	11.6	15.3
Salary and other employment benefit expenses	18.0	15.2	13.5	16.3	15.5
Depreciation, amortization and impairment losses	4.7	5.0	5.1	6.6	6.0
Other operating expenses	35.8	26.4	19.0	24.4	28.3
	82.5	58.0	42.5	58.9	65.1
OPERATING INCOME	**26.0**	**12.2**	**-7.7**	**-14.1**	**-7.8**
Financial income	0.0	0.0	0.0	0.4	0.0
Financial expenses	-1.5	-1.1	-1.3	-0.8	-1.0
Share of net profit of associates accounted for using the equity method	0.5	-	-	-	-
INCOME BEFORE TAXES	**24.9**	**11.1**	**-8.9**	**-14.5**	**-8.8**
Income taxes	-4.9	-1.2	1.8	2.9	1.7
INCOME FOR THE PERIOD	**20.0**	**9.8**	**-7.2**	**-11.6**	**-7.1**
Income attributable to:					
Parent company shareholders	20.0	9.8	-7.2	-11.6	-7.1
Earnings per share before and after dilution, EUR	1.86	0.91	-0.66	-1.07	-0.66

Quarterly consolidated statement of comprehensive income

EUR M	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3
INCOME FOR THE PERIOD	**20.0**	**9.8**	**-7.2**	**-11.6**	**-7.1**
Items that may be reclassified to the income statement					
Translation differences	-0.1	0.3	-0.5	1.1	-0.1
Items that will not be reclassified to the income statement					
Changes in the fair value of financial assets recognized at fair value through other comprehensive income	0.0	1.6	0.0	0.6	-
Other comprehensive income	**-0.1**	**1.9**	**-0.5**	**1.7**	**-0.1**
COMPREHENSIVE INCOME FOR THE PERIOD	**19.9**	**11.8**	**-7.6**	**-9.9**	**-7.2**
Comprehensive income attributable to:					
Parent company shareholders	19.9	11.8	-7.6	-9.9	-7.2

Financial ratios and statistics

	Jan 1, 2021-Sep 30, 2021	Jan 1, 2020-Sep 30, 2020	Jan 1, 2020-Dec 31, 2020
Equity per share, EUR	20.21	18.90	17.98
Equity/assets ratio	49.1 %	48.9 %	46.4 %
Investments, EUR M	11.4	11.7	15.0
– as % of sales	6.7 %	7.6 %	7.9 %
Passengers	1,484,398	1,642,179	1,927,302
Cargo units	95,955	93,040	125,693
Average number of employees, full-time equivalent	1,452	1,767	1,640

Equity/assets ratio, % = (Equity including minority interest) / (Total assets – advances received)

When rounding off items to the nearest EUR 1,000,000, rounding-off differences of EUR +/– 0.1 M may occur.

The above figures from the financial statements have not been audited.

Outlook for the full financial year 2021

The outlook for the financial year 2021 is unchanged compared to the Half-Year Report as of June 30, 2021, which means a positive operating profit for the full-year 2021.

The Group's Year-End Report 2021 will be published on February 18, 2022.

Mariehamn, October 28, 2021

VIKING LINE ABP

Jan Hanses

President and CEO

Consolidated income statement

EUR M	Note	Jul 1, 2021-Sep 30, 2021	Jul 1, 2020-Sep 30, 2020	Jan 1, 2021-Sep 30, 2021	Jan 1, 2020-Sep 30, 2020	Jan 1, 2020-Dec 31, 2020
SALES	4	**97.5**	**56.6**	**169.0**	**154.2**	**188.8**
Other operating revenue	5	11.0	0.7	44.6	16.7	26.9
Expenses						
Goods and services		24.1	15.3	40.4	39.3	50.8
Salary and other employment benefit expenses	6	18.0	15.5	46.7	56.6	72.9
Depreciation, amortization and impairment losses	7	4.7	6.0	14.8	18.1	24.8
Other operating expenses	8	35.8	28.3	81.2	92.1	116.5
		82.5	65.1	183.0	206.1	265.0
OPERATING INCOME		**26.0**	**-7.8**	**30.5**	**-35.2**	**-49.3**
Financial income		0.0	0.0	0.0	0.0	0.4
Financial expenses	9	-1.5	-1.0	-3.9	-3.1	-3.9
Share of net profit of associates accounted for using the equity method		0.5	-	0.5	-	-
INCOME BEFORE TAXES		**24.9**	**-8.8**	**27.1**	**-38.3**	**-52.9**
Income taxes		-4.9	1.7	-4.4	7.6	10.5
INCOME FOR THE PERIOD		**20.0**	**-7.1**	**22.7**	**-30.8**	**-42.3**
Income attributable to:						
Parent company shareholders		20.0	-7.1	22.7	-30.8	-42.3
Earnings per share before and after dilution, EUR		1.86	-0.66	2.11	-2.85	-3.92

Consolidated statement of comprehensive income

EUR M	Jul 1, 2021-Sep 30, 2021	Jul 1, 2020-Sep 30, 2020	Jan 1, 2021-Sep 30, 2021	Jan 1, 2020-Sep 30, 2020	Jan 1, 2020-Dec 31, 2020
INCOME FOR THE PERIOD	**20.0**	**-7.1**	**22.7**	**-30.8**	**-42.3**
Items that may be reclassified to the income statement					
Translation differences	-0.1	-0.1	-0.3	-0.2	0.8
Items that will not be reclassified to the income statement					
Changes in the fair value of financial assets at fair value through other comprehensive income	-	0.0	1.6	0.0	0.6
Other comprehensive income	**-0.1**	**-0.1**	**1.3**	**-0.2**	**1.4**
COMPREHENSIVE INCOME FOR THE PERIOD	**19.9**	**-7.2**	**24.1**	**-31.0**	**-40.9**
Comprehensive income attributable to:					
Parent company shareholders	19.9	-7.2	24.1	-31.0	-40.9

Consolidated balance sheet

EUR M	Note	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
ASSETS				
Non-current assets				
Intangible assets		3.0	3.1	3.3
Land		0.5	0.6	0.6
Buildings and structures		1.7	6.9	6.8
Renovation costs for rented properties		1.6	1.9	1.8
Vessels		238.9	256.5	254.1
Machinery and equipment		2.5	3.5	2.7
Right-of-use assets		5.0	5.1	4.7
Advance payments, vessels under construction		60.5	54.4	54.2
Financial assets at fair value through other comprehensive income		0.0	28.0	28.6
Investments accounted for using th equity method	12	32.7	-	-
Receivables		5.1	-	-
Total non-current assets		**351.4**	**359.9**	**356.8**
Current assets				
Inventories		9.2	15.7	10.9
Income tax assets		0.1	-	0.1
Trade and other receivables	13	30.6	21.9	28.2
Cash and cash equivalents		65.1	28.6	29.7
Total current assets		**105.0**	**66.1**	**68.8**
Non-current assets held for sale	14	**0.6**	**-**	**-**
TOTAL ASSETS		**457.0**	**426.0**	**425.6**
EQUITY AND LIABILITIES				
Equity				
Share capital		1.8	1.8	1.8
Reserves		0.0	1.9	2.5
Translation differences		-2.0	-2.6	-1.8
Retained earnings		218.5	203.1	191.8
Equity attributable to parent company shareholders		218.3	204.2	194.2
Total equity		**218.3**	**204.2**	**194.2**
Non-current liabilities				
Deferred tax liabilities	10	31.3	29.4	27.1
Interest-bearing liabilities		104.5	75.7	108.2
Lease liabilities		5.7	3.3	3.0
Total non-current liabilities		**141.4**	**108.4**	**138.3**
Current liabilities				
Interest-bearing liabilities		29.5	50.4	38.6
Lease liabilities		2.2	1.8	1.8
Income tax liabilities		0.0	0.0	0.0
Trade and other payables		65.5	61.2	52.7
Total current liabilities		**97.3**	**113.5**	**93.1**
Total liabilities		**238.7**	**221.8**	**231.4**
TOTAL EQUITY AND LIABILITIES		**457.0**	**426.0**	**425.6**

Consolidated cash flow statement

EUR M	Jan 1, 2021- Sep 30, 2021	Jan 1, 2020- Sep 30, 2020	Jan 1, 2020- Dec 31, 2020
OPERATING ACTIVITIES			
Income for the period	22.7	-30.8	-42.3
Adjustments			
Depreciation, amortization and impairment losses	14.8	18.1	24.8
Capital gains/losses from non-current assets	-23.8	0.0	0.0
Other items not included in cash flow	-0.3	0.1	-0.4
Interest expenses and other financial expenses	3.7	2.6	3.9
Interest income and other financial income	0.0	0.0	0.0
Dividend income	-4.9	-	0.0
Income taxes	4.4	-7.6	-10.5
Change in working capital			
Change in trade and other receivables	-2.1	6.1	-0.2
Change in inventories	1.7	1.3	6.0
Change in trade and other payables	13.2	-8.4	-17.5
Interest paid	-3.0	-3.1	-3.1
Financial expenses paid	-1.2	-0.4	-1.1
Financial income received	0.0	0.0	0.0
Taxes paid	-0.2	-2.3	-1.8
NET CASH FLOW FROM OPERATING ACTIVITIES	**25.2**	**-24.1**	**-42.3**
INVESTING ACTIVITIES			
Investments in vessels	-2.4	-5.9	-6.7
Investments in other intangible and tangible assets	-0.7	-0.5	-0.9
Advance payments, vessels under construction	-6.2	-5.3	-7.4
EU funding	-	0.4	2.6
Investments accounted for using th equity method	-2.0	-	-
Divestments of vessels	13.2	-	-
Divestments of other intangible and tangible assets	17.9	0.0	0.0
Divestments of financial assets recognized at fair value through other comprehensive income	-	0.0	0.0
Repayment of financial assets recognized at fair value through other comprehensive income	-	0.1	0.1
Dividends received	4.9	-	0.0
NET CASH FLOW FROM INVESTING ACTIVITIES	**24.6**	**-11.2**	**-12.3**
FINANCING ACTIVITIES			
Increase in loans	21.5	-	31.5
Principal payments	-26.3	-11.8	-16.0
Change in current interest-bearing liabilities	-8.0	14.4	8.0
Depreciation of lease liabilities	-1.6	-1.5	-2.0
Dividends paid	-	-	-
NET CASH FLOW FROM FINANCING ACTIVITIES	**-14.4**	**1.1**	**21.5**
CHANGE IN CASH AND CASH EQUIVALENTS	**35.4**	**-34.2**	**-33.1**
Cash and cash equivalents at the beginning of the period	29.7	62.8	62.8
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**65.1**	**28.6**	**29.7**

Statement of changes in consolidated equity

	Equity attributable to parent company shareholders				
EUR M	**Share capital**	**Reserves**	**Translation differences**	**Retained earnings**	**Total equity**
EQUITY, JAN 1, 2021	**1.8**	**2.5**	**-1.8**	**191.8**	**194.2**
Income for the period				22.7	22.7
Translation differences		0.0	-0.2	-0.1	-0.3
Remeasurement of financial assets recognized at fair value through other comprehensive income		-2.5		4.1	1.6
Comprehensive income for the period	**-**	**-2.5**	**-0.2**	**26.7**	**24.1**
Dividend to shareholders				-	-
Transactions with owners of the parent company	**-**	**-**	**-**	**-**	**-**
EQUITY, SEP 30, 2021	**1.8**	**0.0**	**-2.0**	**218.5**	**218.3**

	Equity attributable to parent company shareholders				
EUR M	**Share capital**	**Reserves**	**Translation differences**	**Retained earnings**	**Total equity**
EQUITY, JAN 1, 2020	**1.8**	**1.9**	**-2.5**	**233.9**	**235.1**
Income for the period				-30.8	-30.8
Translation differences		0.0	-0.2	-0.1	-0.2
Divestments of financial assets at fair value through other comprehensive income		-		0.0	0.0
Comprehensive income for the period	**-**	**0.0**	**-0.2**	**-30.8**	**-31.0**
Dividend to shareholders				-	-
Transactions with owners of the parent company	**-**	**-**	**-**	**-**	**-**
EQUITY, SEP 30, 2020	**1.8**	**1.9**	**-2.6**	**203.1**	**204.2**

Notes to the Business Review for the period January-September 2021

1. Accounting principles

This Business Review has been prepared in accordance with IFRS and consists of a summary of the financial statements for the period in accordance with IAS 34.

The Business Review has been prepared in accordance with the same accounting principles, estimates and valuations as in the most recent annual accounts, unless otherwise indicated below.

Depending on its nature, public aid received is recognized as other operating revenue, compensation to employees or as a decrease in advance payments for vessels under construction.

The redemption of the Turku terminal buildings and related fixtures and fittings is classified as a sale and leaseback transaction. The transfer of the asset is recognized as a sale under IFRS 15. The Group measures the right of use as the proportion of the asset's previous carrying amount that relates to the right of use retained by the company. The gain on the sale only relates to the rights transferred to the buyer. The lease liability and right of use related to the redemption are recognized under IFRS 16 in the balance sheet, which gives rise to a larger increase in lease liabilities as of September 30, 2021.

An associate company is a company over which the investor can exert a significant influence. An investment in an associate company shall be accounted for using the equity method in the balance sheet as an investment accounted for using the equity method. The equity method is an accounting method that entails accounting for the investment in a company initially at cost and subsequently adjusting it by the investor company's proportional share of the change in the investee's net assets. The investor company's income subsequently includes the investor company's proportional share of the investee's income, and the investor company's other comprehensive income includes its share of the investee's other comprehensive income. Viking Line owns 18.3% of the shares in Alandia Holding Ab, a company formed during the second quarter of 2021 for the acquisition of shares in Alandia Försäkring Abp. The Group accounts for the investment as an associate company. In conjunction with the transaction, the Group reclassified its previous holding of 19.5% in Alandia Försäkring Abp as an associate company. The reclassification had no effect on income. See Note 12.

The Group's non-current receivables consist of a receivable related to Mariella's sale to Corsica Ferries SAS. The receivable is to be paid on a monthly basis over four years beginning June 1, 2022. The present value is calculated by discounting future payments by an interest rate of 3%. For cash and cash equivalents with a short maturity, the carrying amount is considered equal to fair value. The carrying amount of trade receivables and other receivables as well as of trade payables and other liabilities is considered equal to fair value based on the short-term nature of the items. The carrying amount of interest-bearing liabilities is equal to fair value.

A non-current asset shall be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To meet this requirement, the asset must be available for immediate sale in its present condition and subject only to terms that are usual and customary for sales of such assets, and its sale must be highly probable. Depreciation of an asset ceases from the time it is classified as an asset held for sale. The asset is to be measured at the lower of carrying amount and fair value less costs to sell. See Note 14.

The Business Review has not been subject to an audit.

When rounding off items to the nearest EUR 1,000,000, rounding-off differences of EUR+/- 0.1 M may occur.

2. Estimates and judgements

In preparing the consolidated financial statements in compliance with IFRSs, the company's management must make judgements and estimates about the future that affect the reported amounts for assets and liabilities, revenue and expenses as well as other information. The judgements and estimates contained in the financial statements are based on the best assessment of management on the date the Business Review was published.

The COVID-19 pandemic has caused a deterioration in the Group's operating conditions and has affected both the income statement and balance sheet. An account of the biggest changes is given in the notes below. It is difficult at present to estimate how long the pandemic will last and what impact it will have on Viking Line's future earnings, financial position and cash flow. The actual outcome may deviate from the estimates and judgements made.

The most important area that entails judgements is the valuation of the Group's vessels. The vessels' residual values and estimated periods of use are examined yearly and adjusted if they deviate significantly from earlier values. The depreciation period for the vessels' hull, machinery and other long-term components has been extended from 25 years to 30 years as of January 1, 2021, since the period of use for the vessels is considered to be longer than 25 years. Residual values have remained unchanged; see Notes 7 and 11.

The Group's shareholdings were recognised under financial assets at fair value through other comprehensive income until June 30, 2021, when Alandia Försäkring Abp's ownership structure changed. After that, Viking Line's significant influence in the company increased, and the investment is accounted for as an associate company using the equity method.

In valuing the Group's leases, judgements are made as to how the Group will capitalize on any opportunity to extend the lease period or terminate the lease. Judgements are also made as to what discount rate is to be used in calculating the present value of the Group's lease liability. The size of the Group's lease liabilities and right-of-use assets, as well as payments on its lease liabilities and depreciation of right-of-use assets, is affected by those judgements.

The Group's management regularly makes judgements on sales inventory values due to slower turnover and reduced demand as a direct result of COVID-19. Based on the management's judgements in 2021, no significant impairment losses were recognized in the income statement during the first three quarters.

3. Going concern, risks and liquidity

The COVID-19 pandemic is an uncertainty factor that, should related risks be realized in full, could lead to uncertainty about the company's ability to continue operations.

This Business Review has been prepared in accordance with the going concern principle since in the view of Viking Line's Board of Directors the company can continue its operations and meet its obligations over the foreseeable future, at least 12 months from the date of approval of this report. This view is based on the business plan approved by the Board of Directors, which takes COVID-19 into account, and on additional financing.

In 2020, the Finnish Government approved the State's guarantees on Viking Line's liquidity loans up to EUR 38.7 M. Viking Line undertakes not to pay a dividend or pay out any funds until its obligations related to the guarantees and loans have been met in full.

The Group's cash and cash equivalents at the end of September totalled EUR 65.1 M (EUR 28.6 M). Unutilized credit lines in the Group totalled EUR 15.1 M as of September 30, 2021 (EUR 0.8 M). The net cash flow from operating activities was EUR 25.2 M (EUR -24.1 M). Net cash flow from investing activities was EUR 24.6 M (EUR -11.2 M) and net cash flow from financing activities amounted to EUR -14.4 M (EUR 1.1 M).

In May, Viking Line Abp entered a bareboat hire/purchase agreement for Mariella. The total sale price was EUR 19.6 M. The vessel's book value was EUR 5.6 M. The sale had a EUR 13.1 M effect on income, and liquidity was strengthened by EUR 13.5 M. The remainder of the purchase price is to be paid on a monthly basis over four years beginning June 1, 2022. The present value is calculated by discounting future payments at a 3% interest rate.

During the period, the City of Turku redeemed the terminal buildings and related fixtures and fittings owned by Viking Line. The redemption entailed a book profit under IFRS of EUR 10.7 M. At the same time, the company signed a lease for the terminal and related facilities which runs until December 31, 2025, and the company will thus continue to use the current terminal and related facilities in Turku. After that, the plan is to place the new terminal building in Turku in service, with the company using the terminal and other related buildings. The company has also entered a 10-year traffic agreement with the Port of Turku on market terms

Liquidity can also be strengthened by a shareholder contribution.

In 2020-21, Viking Line Abp signed an agreement with Finnvera Abp and Finlands Exportkredit Ab on a loan payment deferral for payments during the period July 1, 2020–January 31, 2022 totalling EUR 29.8 M. Three of the four loan payments fall due by January 10, 2025 at the latest – in other words, at the time final payment is due, while the fourth loan payment is divided up so that it falls due in conjunction with the other payments. This is shown in the table below for future cash flows related to financial liabilities on September 30, 2021. The deferred loan payments may be paid in advance, and the interest rate and maturity of the loan remain unchanged. The payment of dividends during the term of the loan is conditional upon payment of the loan payments for which a deferral has been granted.

Most of the Group's loan agreements include loan covenants according to market terms. The financial covenants in the loan agreement consist of a minimum liquidity requirement and a maximum total net debt-to-EBITDA ratio for the Group. The Group has been granted a time-limited exemption from the covenant terms that were breached during the third quarter of 2021 for those loans already drawn. In the Half-Year Financial Report, the company reported that there were loans of EUR 15.0 M for which certain covenant terms were waived until December 31, 2021. These loans can be reclassified as long-term loans since the covenant terms were met as of September 30. The covenant terms for the other loans were also met as of September 30, 2021.

In the event the pandemic continues for longer than the Board of Directors has anticipated and should the measures to strengthen the company's finances mentioned above not have a positive outcome, there is considerable uncertainty that could lead to significant doubt about the company's ability to continue operations.

Future cash flows related to financial liabilities on September 30, 2021:

EUR M

Future cash flows related to financial liabilities (incl. financial expenses)	**Lease liabilities**	**Trade payables**	**Interest-bearing liabilities**	**Total**
Oct 1, 2021 - Mar 31, 2021	1.2	17.5	7.6	26.4
Apr 1, 2022 - Sep 30, 2022	1.2		26.5	27.7
Oct 1, 2022 - Sep 30, 2023	2.1		23.7	25.7
Oct 1, 2023 - Sep 30, 2024	1.8		22.9	24.7
Oct 1, 2024 - Sep 30, 2025	1.7		56.1	57.8
Oct 1, 2025 - Sep 30, 2026	0.4		10.0	10.4
Oct 1, 2026 -			0.0	0.0
Total	8.5	17.5	146.7	172.7

Financing of vessel construction

Advance payments are related to vessels under construction and totalled EUR 60.4 M on September 30, 2021, after a deduction of EUR 4.9 M related to EU aid. These consist of advance payments in compliance with vessel construction (newbuilding) contracts, planning and monitoring expenses, and capitalized borrowing expenses. In the event the vessel construction contract should be terminated, the company has a bank guarantee as security for advance payments made of EUR 38.8 M plus interest. Other capitalized planning, monitoring and borrowing expenses of EUR 26.6 M would in that case be charged to income. Liquidity could be affected if some of the EU aid must be repaid.

A total of 78.4% of the contract price is financed by a consortium of commercial banks; 90.0% of the credit amount is guaranteed by China Export & Credit Insurance Corporation. The binding loan commitment of EUR 152.0 M shall be used when final payment is made upon delivery of the vessel. The loan commitment includes financial covenants according to market terms.

The covenant terms include (i) a minimum requirement for cash and cash holdings, whereby the company shall ensure that minimum liquidity is always greater than the higher of EUR 20 M or 5% of total net debt and (ii) a maximum net debt/EBITDA ratio for the Group. The net debt/EBITDA ratio covenant was breached during the first and second quarter of 2021. The Group was granted a time-limited exemption until June 30, 2021. The covenant terms were met as of September 30. Negotiations are under way to extend the exemption from the covenant terms agreed. These negotiations could result in amendments in covenant and loan terms.

4. Segment information

Consolidated revenue increased 9.6% and passenger-related revenue increased 11.7%.

EUR M	Jan 1, 2021- Sep 30, 2021	Jan 1, 2020- Sep 30, 2020	Jan 1, 2020- Dec 31, 2020
Sales			
Vessels	165.8	151.6	185.1
Unallocated	3.3	2.7	3.8
Total, operating segments	**169.1**	**154.3**	**188.9**
Eliminations	-0.1	-0.1	-0.1
Total sales of the Group	**169.0**	**154.2**	**188.8**
Operating income			
Vessels	33.3	-16.6	-23.2
Unallocated	-2.8	-18.7	-26.1
Total operating income of the Group	**30.5**	**-35.2**	**-49.3**
SALES			
Passenger-related revenue	137.6	123.2	148.2
Cargo revenue	29.9	29.7	38.8
Miscellaneous sales revenue	1.4	1.3	1.8
Total	**169.0**	**154.2**	**188.8**

5. Other operating revenue

During the financial year, the Group received aid for public service obligations from Traficom for the Group's vessels on the Turku–Långnäs–Stockholm, Mariehamn-Kapellskär and Helsinki–Tallinn routes. We also received aid from the Development and Management Centre of Finland's Centres for Economic Development, Transport and the Environment (known as ELY centres) and from Finland's Local Employment and Economic Development Offices as well as aid for costs from the State Treasury of Finland. The aid is recognized as public aid under other operating revenue.

In May, Viking Line Abp entered a bareboat hire/purchase agreement for Mariella. The total sale price was EUR 19.6 M. The vessel's book value was EUR 5.6 M. The sale had a EUR 13.1 M effect on income, and liquidity was strengthened by EUR 13.5 M. The remainder of the purchase price is to be paid on a monthly basis over four years beginning June 1, 2022. The present value is calculated by discounting future payments at a 3% interest rate

During the period, the City of Turku redeemed the terminal buildings and related fixtures and fittings owned by Viking Line. The redemption entailed a book profit under IFRS of EUR 10.7 M. At the same time, the company signed a lease for the terminal and related facilities which runs until December 31, 2025, and the company will thus continue to use the current terminal and facilities in Turku. After that, the plan is to place the new terminal building in Turku in service, with the company using the terminal and other related buildings. The company has also entered a 10-year traffic agreement with the Port of Turku on market terms

Viking Line Abp received a dividend from Alandia Försäkring Abp prior to its reclassification as an associate company. The dividend is recognized under other operating revenue.

EUR M	Jan 1, 2021–Sep 30, 2021	Jan 1, 2020–Sep 30, 2020
State aid	15.9	16.2
Rents received on properties	0.0	0.1
Capital gains	23.8	0.0
Dividend income	4.9	-
Miscellaneous other operating revenue	0.0	0.5
Total	44.6	16.7

6. Compensation to employees

A large percentage of staff in Finland has been furloughed. In Sweden and Estonia, State-subsidized short-term furlough programmes have been used. Furloughs have been carried out as part-time furloughs and on the vessels to a large extent as full-time furloughs. In addition to the furloughs, redundancies in the land-based organization and on Viking Cinderella contributed to the decrease in expenses.

The Group receives government restitution from Finland and Sweden related to taxes and social security contributions for shipboard employees in keeping with European Union guidelines. The Group has received short-term aid in Sweden and Estonia for short-term furloughs utilized. Restitution received and short-term aid for furloughs have been recognized in the income statement under salary and other employment benefit expenses for the period in which the basis for the restitution and aid arose.

EUR M	Jan 1, 2021–Sep 30, 2021	Jan 1, 2020–Sep 30, 2020
Salaries	53.2	62.0
Expenses of defined-contribution pensions	5.9	6.7
Other payroll overhead	5.6	7.6
	64.6	76.3
Government restitution	-14.1	-14.7
Aid for furloughs	-3.8	-4.9
Total	46.7	56.6

7. Depreciation and amortization

The depreciation period for the vessels' hull, machinery and other long-term components was extended from 25 years to 30 years as of January 1, 2021, since the period of use for the vessels is considered to be longer than 25 years. The residual values have remained unchanged. The change compared to last year is mostly due to a change in depreciation periods.

EUR M	Jan 1, 2021–Sep 30, 2021	Jan 1, 2020–Sep 30, 2020
Depreciation and amortization		
Intangible assets	0.2	0.3
Building and structures	0.3	0.3
Renovation costs for rented properties	0.3	0.3
Vessels	11.8	14.9
Machinery and equipment	0.6	0.9
Right-of-use assets	1.6	1.5
Total	14.8	18.1
Total depreciation, amortization and impairment losses	14.8	18.1

8. Other operating expenses

Other operating expenses decreased by 11.8% since the Group's operations and expenses were adjusted to the changed market situation as a result of the COVID-19 pandemic.

EUR M	Jan 1, 2021– Sep 30, 2021	Jan 1, 2020- Sep 30, 2020
Sales and marketing expenses	5.3	7.9
Washing and cleaning expenses	5.5	6.1
Repairs and maintenance	5.7	7.5
Public port expenses and vessel charges	17.0	20.3
Fuel expenses	27.8	25.1
Miscellaneous expenses	20.0	25.2
Total	81.2	92.1

9. Financial expenses

EUR M	Jan 1, 2021– Sep 30, 2021	Jan 1, 2020– Sep 30, 2020
Interest expenses on financial liabilities recognized at amortized cost	2.4	2.2
Interest expenses on lease liabilities	0.1	0.1
Exchange losses	0.2	0.5
Guarantee commissions and other financial expenses	1.2	0.4
Total financial expenses	3.9	3.1

10. Income taxes

On September 30, 2021, the Group recognized net deferred tax liabilities of EUR 31.3 M, of which EUR 37.5 M is related to deferred tax liabilities and EUR 6.2 M is related to deferred tax assets. A loss recognized in taxation for the financial year 2020 can be deducted from taxable income over 10 years. Based on the management's estimates and judgements, Viking Line expects that it will be possible to use the loss against future taxable income.

EUR M

	Differences between recognized value of fixed assets and their value for tax purposes	Losses recognized in taxation	Other temporary differences	Total
Jan 1, 2021	36.9	-10.2	0.5	27.1
Translation differences	0.0	-	-	0.0
Recognized in income statement	-	4.7	-0.6	4.2
Recognized directly in equity	-	-	-	-
Sep 30, 2021	36.9	-5.5	-0.1	31.3

11. Impairment testing

Recognized values for intangible and tangible assets are tested regularly in order to identify any external or internal indications of a need for impairment. If such indications are observed for any asset item, the recoverable amount of the asset is recognized. One of the most important areas that entail judgements is valuation of the Group's vessels.

The COVID-19 pandemic has had a serious impact on the Group's operating conditions and financial position. In the management's view, there is currently no need for impairment, since the fair value of vessels is substantially higher than the carrying amount.

The management has also made a judgement that there is no need for impairment for the Group's other non-current assets.

12. Investments accounted for using the equity method

Viking Line Abp is one of the founders of the company Alandia Holding Ab, which signed an agreement on April 1, 2021, to purchase Investeringsbolag Rettig's shares in Alandia Försäkring Abp. Alandia Holding Ab completed the purchase of all of Rettig Group's shares (24.9 per cent) in Alandia Försäkring on June 30. Viking Line Abp recognizes Alandia Holding Ab as an associate company since Viking Line Abp exercises significant influence in the company. The shareholding is accounted for using the equity method. Since the transaction, Viking Line Abp's influence in Alandia Försäkring Abp has increased, and Alandia Försäkring Abp has therefore been reclassified as an associate company as of June 30, 2021, and the holding is accounted for using the equity method. Until June 30, 2021, the holding in Alandia Försäkring Abp was recognized based on the present value of future cash flows under financial assets valued at fair value through other comprehensive income. The valuation of the holding in Alandia Försäkring Abp had a EUR 1.6 M effect on comprehensive income during the reporting period.

In addition to a capital injection, Alandia Holding Ab has taken out a loan to finance the purchase of shares in Alandia Försäkring Abp. The plan is to pay down the loan with future dividends received from Alandia Försäkring Abp. To the extent Alandia Holding is in need of cash and cash equivalents to make the loan payments, Viking Line Abp has undertaken to make a cash capital contribution to Alandia Holding Ab through a shareholder agreement.

13. Trade and other receivables

Trade receivables are recognized at amortized cost in accordance with IFRS 9. The carrying amount of trade receivables and other receivables is considered equal to fair value based on the short-term nature of the items.

The COVID-19 pandemic has not led to any change in expected credit losses in trade receivables.

14. Non-current assets held for sale

In the Business Review as of September 30, Viking Line Abp had its office property on Storagatan in Mariehamn up for sale. The property was sold on October 15.

15. Pledged assets and contingent liabilities

EUR M	Sep 30, 2021	Dec 31, 2020
Contingent liabilities 1)	149.2	154.1
Assets pledged for own debt 2)	358.0	376.9
Investment commitments regarding vessels under construction		
not included in the accounts 3)	159.2	158.7
– contractual amount	202.1	200.7
Other liabilities not shown in the balance sheet 4)	3.3	-

1) Concerning loans and credit lines for which vessel, property and chattel mortgages were provided as collateral and other contingent liabilities not included in the balance sheet covered by site leasehold and chattel mortgages.

2) Concerning vessel mortgages, vehicle mortgages, chattel mortgages and site leasehold mortgages.

3) Viking Line has a binding credit commitment of EUR 152.0 M for financing vessel orders; the time period under which the loan can be drawn has been extended. Negotiations are currently under way on the application of the agreed covenant terms. In the event the vessel construction contract should be terminated, the company has a bank guarantee of EUR 38.8 M plus interest as security for the advance payment made. Other capitalized planning, monitoring and borrowing expenses of EUR 26.6 M would in that case be charged to income.

4) In addition to a capital injection, Alandia Holding Ab has taken a loan to finance the purchase of shares in Alandia Försäkring Abp. The plan is to pay down the loan with future dividends received from Alandia Försäkring Abp. To the extent Alandia Holding Ab is in need of cash equivalents to make the payments, Viking Line Abp has undertaken to make a cash capital contribution to Alandia Holding Ab through a shareholder agreement.

16. Events after the balance sheet date

Viking Line Abp’s Board of Directors has decided to convene an extraordinary general meeting in order to prepare a share issue with pre-emption rights for shareholders. One requirement for the share issue to be implemented is that the company receives a waiver from covenant terms for financing the new vessel under construction. For further information about this, please see today’s stock exchange release concerning the extraordinary general meeting and the notice to convene the meeting.

Viking Line Abp sold the office property on Storagatan in Mariehamn for EUR 2.5 M after the balance sheet date. The sale took place on October 15, 2021.

Otherwise the management knows of no other significant events after the balance sheet date that could affect the financial statements.