VIKING LINE

Half-year Financial Report

January–June 2020

Sharp deterioration in Viking Line's results due to the impact of COVID-19

January–June 2020 (compared to January–June 2019)

- Sales amounted to EUR 97.5 M (227.0).
- Other operating revenue was EUR 16.1 M (0.2).
- Operating income totalled EUR -27.4 M (-8.8).
- Net financial items were EUR -2.1 M (-2.2).
- Income before taxes amounted to EUR -29.5 M (-11.0).
- Income after taxes totalled EUR -23.7 M (-8.7).
- Change in prospects: The impact of COVID-19 pandemic has continued to cause a deterioration in the Group's consolidated results and financial position during the peak season as well. Results for the third quarter, when the most of the Group's income for the year is generated, will be significantly worse than in previous years due to the COVID-19 pandemic. The earnings outlook for the financial year 2020 has therefore been revised. Income for the full financial year will be negative. In the earnings outlook published earlier, Viking Line considered it unlikely that we would achieve positive income for the financial year 2020.

Second quarter 2020 (compared to second quarter 2019)

- Sales amounted to EUR 22.6 M (131.1).
- Operating income totalled EUR 5.9 M (5.4).

The ongoing COVID-19 pandemic has caused a serious deterioration in the Group's operating conditions. Viking Line reacted quickly to the crisis and adjusted operations to the changed market. Salary and other employment benefit expenses decreased during the second quarter. A large percentage of the staff in Finland was furloughed. In Sweden and Estonia, government-funded furloughs were also made use of. Expenses for goods and services as well as other operating expenses also decreased.

During the period March 19-June 18, the group received aid from Finland's National Emergency Supply Agency for cargo traffic to ensure the security of supply for four of the Group's vessels serving the Turku – Långnäs – Stockholm, Mariehamn - Kapellskär and Helsinki – Tallinn routes. The Group's three other vessels were not in service at times during the period March – June. Although cargo traffic generated revenue to cover variable costs and a small percentage of fixed costs for each vessel during the second quarter, it did not generate positive operating income for the vessels in service that received aid.

Comments from President and CEO Jan Hanses

"Interim results were affected by unforeseen external factors in the form of a global pandemic. The COVID-19 pandemic's impact on society was increasingly apparent during the second quarter, and the virus has continued to affect individuals, companies and markets. The second quarter of the year was completely dominated by the travel restrictions introduced in March and gradually eased starting in mid-May. At the end of the quarter, in the middle of Viking Line's peak season, the restrictions on travel between Finland and Sweden were still in place. As restrictions were gradually eased, with travel restrictions applying only to Sweden at the end of June, all of the company's vessels resumes service, although the vessels that usually sail between Helsinki and Stockholm operated on partly new routes. Despite restrictions on operations, we have maintained uninterrupted passenger and cargo service between our countries and thus ensured a traffic pattern that has been in effect for more than 50 years and will continue.

During the second quarter, our measures were focused on securing the company's liquidity by adjusting costs and on making different financial arrangements with our lenders. Employees have shouldered a heavy burden with the furloughs carried out in all the countries we operate in. Some furloughs were part-time but most were full-time. Our employees' engagement as these jobs were being organized has been admirable. I really appreciate their considerable efforts during these tough times.

During the period March 19 – June 18, 2020, the company received aid from Finland's National Emergency Supply Agency to maintain cargo service between Finland and Sweden, Åland and Sweden, and Finland and Estonia. The payments covered variable traffic costs and some fixed costs but were reduced by revenue from cargo traffic and the contribution from passenger traffic. The payments were thus effective and self-regulating. We also received aid from the Åland provincial government. Our liquidity at the end of the second quarter was satisfactory and was subsequently further strengthened to some extent. Negotiations with our financiers are ongoing and are expected to be completed during the third quarter.

To ensure safe procedures in these exceptional times and to bolster our passengers' faith in our service during the COVID-19 pandemic as well, Viking Line was the first shipping company in the world to be verified by the accredited classification society Det Norske Veritas Germanischer Lloyd. DNV GL's verification, which covers all seven of Viking Line's vessels and operations in six terminals, validates our ability to manage and mitigate infection risks, including for COVID-19.

These steps to prevent infection have worked effectively, and our measurements show that customers view them positively. However, it will still take time before demand in our markets gradually builds. Viking Line and our employees are prepared to shoulder the responsibility required in order to re-establish our customers' faith. In this respect too, our employees' engagement has built an enormous amount of trust.

I am pleased that we have quickly reacted to the crisis and adjusted operations to a changed market situation. Despite some signs of optimism, it is still difficult to determine the market trend going forward. We intend to continue focusing on what we can affect in these challenging times: selling travel experiences and cargo services, serving our customers, safeguarding our employees' health, running our operations as efficiently as possible, ensuring our financial sustainability and moving forward with our newbuild."

Sales and earnings

Consolidated sales of the Viking Line Group decreased by 57.0 per cent for the period January 1 – June 30, 2020 to 97.5 million euros (EUR 227.0 M for the period January 1 – June 30, 2019). Operating income totalled EUR -27.4 M (-8.8).

Passenger-related revenue decreased by 62.3 per cent to EUR 76.0 M (201.7), while cargo revenue amounted to EUR 20.7 M (24.0). Net sales revenue was EUR 73.5 M (165.8). Consolidated operating expenses decreased by 35.4 per cent to EUR 104.9 M (162.3).

During the second quarter, April 1–June 30, consolidated sales of the Viking Line Group were EUR 22.6 M (EUR 131.1 M for the period January 1 – June 30, 2019). Operating income totalled EUR -5.9 M (-5.4).

Passenger-related revenue decreased by 89.2 per cent during the second quarter to EUR 12.8 M (118.8), while cargo revenue amounted to EUR 9.4 M (11.7). Net sales revenue was EUR 18.6 M (95.6). Consolidated operating expenses decreased by 60.4 per cent to EUR 33.4 M (84.2).

Service and market

The Viking Line Group provides passenger and cargo carrier services using seven vessels on the northern Baltic Sea. The vessels served the same routes as in 2019, although the vessels that normally sail between Helsinki and Stockholm operated on partly new routes with limited sailings. During the second quarter, a number of the company's vessels were taken out of service in full or in part due to the COVID-19 pandemic. Because of decisions made by authorities, in general only cargo traffic operated during the period March 19 – June 18. Passenger traffic has had limited capacity since it resumed.

The number of passengers on Viking Line's vessels during the report period amounted to 998,483 (2,772,427). The Group had a total market share in its service area of 27.0 per cent (31.4).

Viking Line's cargo volume was 62,409 cargo units (69,030). The Group achieved a cargo market share of 17.1 per cent (19.0). The market share for passenger cars was 24.1 per cent (30.6).

Investments and financing

The Group's investments amounted to EUR 9.3 M (27.0), of which EUR 3.9 M (22.2) primarily pertains to an advance payment for vessels under construction. The Group's total investments represent 9.5 per cent of sales (11.9).

Construction on our new vessel, Viking Glory, is progressing in China. The vessel is expected to be delivered during the second half of 2021.

On June 30, 2020, the Group's non-current interest-bearing liabilities totalled EUR 88.3 M (111.8). The equity/assets ratio was 49.3 per cent, compared to 46.3 per cent a year earlier.

At the end of June 2020, the Group's cash and cash equivalents amounted to EUR 30.7 M (51.3). Unutilized credit lines in the Group totalled EUR 10.4 M on June 30, 2020 (15.1), with EUR 5.0 M in a new credit line obtained during the second quarter. Net cash flow from operating activities amounted to EUR -20.2 M (9.4).

Net cash flow from investing activities was EUR -8.8 M (-25.0) and net cash flow from financing activities amounted to EUR -3.0 M (5.1).

Viking Line has a strong balance sheet and low leverage, but the Group's liquidity must be strengthened given present circumstances. To bolster liquidity and safeguard the future of the company if the coronavirus pandemic lasts for a while, Viking Line has continued to negotiate for additional funding. The intention is to make use of State guarantees laid out in the supplementary budget approved by the Finnish parliament and placed at the disposal of the shipping industry in the Finnish government's second supplementary budget for 2020. Liquidity could also be strengthened by a capital contribution from shareholders or through a sale of assets.

Viking Line Abp has reached an agreement with Finnvera Abp and Finlands Exportkredit Ab on a loan payment deferral for the period July 1, 2020 – February 1, 2021 totalling EUR 14.9 M. Payments fall due by January 10, 2025 at the latest – in other words, at the time final payment is due. 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 maturity of the loan is conditional upon payment of the loan payments for which a deferral has been granted.

Some of the Group's loan agreements include loan covenants according to market terms. The terms and conditions in these agreements were met during the report period. The company has negotiated over the application of terms and agreements in the covenants with its current financiers. The Group has been granted a time-limited exemption from the terms and conditions that will most likely be violated during the third quarter for those loans already drawn.

Viking Line has a binding loan commitment of EUR 152.0 M to fund its vessel order, for which the time when the loan will be drawn has been postponed. Negotiations are under way concerning the application of the covenant terms and conditions that will most likely be violated during the third quarter. 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.

Organization and personnel

The average number of Group employees was 1,802 (2,572), of whom 1,249 (1,943) worked for the parent company. Land-based personnel totalled 444 (592) and shipboard personnel totalled 1,358 (1,980).

In addition to the Group's own employees, Viking XPRS was crewed by an average of 158 (238) people employed by a staffing company.

The number of employees for 2020 is considerably lower than in 2019 since a large number of staff were furloughed during the second quarter.

Risk factors

The COVID-19 pandemic affected Viking Line's results and liquidity significantly during the first half of the year, and its negative impact will continue for a considerable time.

Uncertainty about authority requirements and restrictions in passenger traffic and market demand will affect Viking Line's operations, results and financial position.

One essential requirement for operations is that Viking Line succeeds in strengthening the company's liquidity through, for example, bank loans, a new share issue or the sale of fixed assets.

The Group's loans are tied to loan terms and conditions that include profitability, liquidity and leverage requirements. If these terms and conditions are not met, financiers can demand early repayment or cancellation of the loans. All terms and conditions were met on the balance sheet date.

The Group has signed fixed price agreements for parts of the Group's bunker (vessel fuel) consumption for 2020, which means that Viking Line is obliged to buy a given quantity even if vessels were to be taken out of service.

Outlook for the full financial year 2020

The impact of COVID-19 pandemic has continued to cause a deterioration in the Group's results and financial position during the peak season as well. Results for the third quarter, during which most of the income for the year is generated, will be significantly worse than in previous years due to the COVID-19 pandemic. The earnings outlook for the financial year 2020 has thus been adjusted. Income for the full financial year will be negative. In the earnings outlook published earlier, Viking Line considered it unlikely that we would achieve positive income for the financial year 2020.

The Business Review for January – September 2020 will be published on October 21, 2020.

Mariehamn, Åland, August 19, 2020

VIKING LINE ABP
The Board of Directors

Consolidated income statement

EUR M	Note	Apr 1, 2020–Jun 30, 2020	Apr 1, 2019–Jun 30, 2019	Jan 1, 2020–Jun 30, 2020	Jan 1, 2019–Jun 30, 2019	Jan 1, 2019–Dec 31, 2019
SALES	4	**22.6**	**131.1**	**97.5**	**227.0**	**496.4**
Other operating revenue	5	14.9	0.1	16.1	0.2	0.4
Expenses						
Goods and services		4.0	35.5	24.0	61.2	133.1
Salary and other employment benefit expenses	6	13.8	30.7	41.0	58.9	117.1
Depreciation, amortization and impairment losses		6.0	6.1	12.2	12.4	24.6
Other operating expenses	7	19.6	53.5	63.8	103.4	204.6
		43.4	125.7	141.1	235.9	479.4
OPERATING INCOME		**-5.9**	**5.4**	**-27.4**	**-8.8**	**17.4**
Financial income		0.0	0.4	0.0	0.4	0.5
Financial expenses		-0.2	-1.4	-2.1	-2.7	-4.3
INCOME BEFORE TAXES		**-6.1**	**4.4**	**-29.5**	**-11.0**	**13.6**
Income taxes	8	1.2	-0.8	5.9	2.3	-2.7
INCOME FOR THE PERIOD		**-4.9**	**3.6**	**-23.7**	**-8.7**	**10.8**
Income attributable to:						
Parent company shareholders		-4.9	3.6	-23.7	-8.7	10.8
Earnings per share before and after dilution, EUR		-0.46	0.33	-2.19	-0.81	1.00

Consolidated statement of comprehensive income

EUR M	Apr 1, 2020–Jun 30, 2020	Apr 1, 2019–Jun 30, 2019	Jan 1, 2020–Jun 30, 2020	Jan 1, 2019–Jun 30, 2019	Jan 1, 2019–Dec 31, 2019
INCOME FOR THE PERIOD	**-4.9**	**3.6**	**-23.7**	**-8.7**	**10.8**
Items that may be reclassified to the income statement					
Translation differences	0.9	-0.3	-0.2	-0.6	-0.3
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	-	-	-	-	-3.9
Other comprehensive income	0.9	-0.3	-0.2	-0.6	-4.2
COMPREHENSIVE INCOME FOR THE PERIOD	**-4.0**	**3.3**	**-23.8**	**-9.3**	**6.6**
Comprehensive income attributable to:					
Parent company shareholders	-4.0	3.3	-23.8	-9.3	6.6

Consolidated balance sheet

EUR M	Note	Jun 30, 2020	Jun 30, 2019	Dec 31, 2018
ASSETS				
Non-current assets				
Intangible assets		3.2	3.3	3.3
Land		0.6	0.6	0.6
Buildings and structures		7.0	7.5	7.3
Renovation costs for rented properties		2.0	2.3	2.2
Vessels		260.7	274.2	266.0
Machinery and equipment		3.7	4.4	3.9
Right-of-use assets		5.4	6.2	5.2
Advance payments, vessels under construction		52.9	46.6	49.5
Financial assets at fair value through other comprehensive income		28.0	32.0	28.1
Total non-current assets		**363.6**	**377.1**	**366.0**
Current assets				
Inventories		17.8	18.0	16.9
Income tax assets		0.0	2.6	0.4
Trade and other receivables	10	25.7	43.8	28.0
Cash and cash equivalents		30.7	51.3	62.8
Total current assets		**74.2**	**115.7**	**108.1**
TOTAL ASSETS		**437.8**	**492.8**	**474.0**
EQUITY AND LIABILITIES				
Equity				
Share capital		1.8	1.8	1.8
Reserves		1.9	5.8	1.9
Translation differences		-2.6	-2.6	-2.5
Retained earnings		210.2	214.3	233.9
Equity attributable to parent company shareholders		211.3	219.2	235.1
Total equity		**211.3**	**219.2**	**235.1**
Non-current liabilities				
Deferred tax liabilities	8	31.7	37.4	37.7
Interest-bearing liabilities		88.3	111.8	100.0
Lease liabilities		3.6	4.4	3.6
Total non-current liabilities		**123.6**	**153.6**	**141.3**
Current liabilities				
Interest-bearing liabilities		33.2	23.5	23.5
Lease liabilities		1.9	1.8	1.7
Income tax liabilities		0.0	0.0	2.1
Trade and other payables		67.7	94.6	70.3
Total current liabilities		**102.8**	**120.0**	**97.6**
Total liabilities		**226.5**	**273.5**	**238.9**
TOTAL EQUITY AND LIABILITIES		**437.8**	**492.8**	**474.0**

Consolidated cash flow statement

EUR M	Jan 1, 2020–Jun 30, 2020	Jan 1, 2019–Jun 30, 2019	Jan 1, 2019–Dec 31, 2019
OPERATING ACTIVITIES			
Income for the period	-23.7	-8.7	10.8
Adjustments			
Depreciation, amortization and impairment losses	12.2	12.4	24.6
Capital gains/losses from non-current assets	0.0	0.0	0.0
Other items not included in cash flow	0.0	0.5	0.4
Interest expenses and other financial expenses	1.8	1.9	3.8
Interest income and other financial income	0.0	0.0	-0.1
Dividend income	-	-0.4	-0.4
Income taxes	-5.9	-2.3	2.7
Change in working capital			
Change in trade and other receivables	2.3	-13.1	2.7
Change in inventories	-0.9	-1.7	-0.6
Change in trade and other payables	-2.5	23.0	-1.2
Interest paid	-1.6	-1.7	-3.4
Financial expenses paid	-0.3	-0.3	-0.5
Interest received	-	-	0.0
Financial income received	0.0	0.0	0.1
Taxes paid	-1.7	-0.2	-0.8
NET CASH FLOW FROM OPERATING ACTIVITIES	**-20.2**	**9.4**	**38.0**
INVESTING ACTIVITIES			
Investments in vessels	-4.9	-4.2	-5.4
Investments in other intangible and tangible assets	-0.5	-0.6	-1.0
Advance payments	-3.9	-20.7	-23.6
EU funding	0.4	-	-
Investments in financial assets recognized at fair value through other comprehensive income	-	-	0.0
Divestments of other intangible and tangible assets	0.0	0.0	0.1
Repayment of financial assets recognized at fair value through other comprehensive income	0.1	-	-
Dividends received	-	0.4	0.4
NET CASH FLOW FROM INVESTING ACTIVITIES	**-8.8**	**-25.0**	**-29.5**
FINANCING ACTIVITIES			
Increase in non-current liabilities	-	20.0	20.0
Principal payments, non-current liabilities	-11.7	-11.7	-23.5
Change in current interest-bearing liabilities	9.7	-	-
Depreciation of lease liabilities	-1.0	-1.0	-1.9
Dividends paid	-	-2.2	-2.2
NET CASH FLOW FROM FINANCING ACTIVITIES	**-3.0**	**5.1**	**-7.6**
CHANGE IN CASH AND CASH EQUIVALENTS	**-32.0**	**-10.5**	**0.9**
Cash and cash equivalents at the beginning of the period	62.8	61.8	61.8
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**30.7**	**51.3**	**62.8**

Statement of changes in consolidated equity

EUR M	Share capital	Reserves	Translation differences	Retained earnings	Total equity
	Equity attributable to parent company shareholders				
EQUITY, JAN 1, 2020	**1.8**	**1.9**	**-2.5**	**233.9**	**235.1**
Income for the period				-23.7	-23.7
Translation differences		0.0	-0.1	0.0	-0.2
Comprehensive income for the period	**-**	**0.0**	**-0.1**	**-23.7**	**-23.8**
Dividend to shareholders				-	-
Transactions with owners of the parent company	**-**	**-**	**-**	**-**	**-**
EQUITY, JUN 30, 2020	**1.8**	**1.9**	**-2.6**	**210.2**	**211.3**

EUR M	Share capital	Reserves	Translation differences	Retained earnings	Total equity
	Equity attributable to parent company shareholders				
EQUITY, JAN 1, 2019	**1.8**	**5.8**	**-2.3**	**225.3**	**230.7**
Income for the period				-8.7	-8.7
Translation differences		0.0	-0.4	-0.2	-0.6
Comprehensive income for the period	**-**	**0.0**	**-0.4**	**-8.9**	**-9.3**
Dividend to shareholders				-2.2	-2.2
Transactions with owners of the parent company	**-**	**-**	**-**	**-2.2**	**-2.2**
EQUITY, JUN 30, 2019	**1.8**	**5.8**	**-2.6**	**214.3**	**219.2**

Quarterly consolidated income statement

EUR M	2020 Q2	2020 Q1	2019 Q4	2019 Q3
SALES	**22.6**	**75.0**	**115.6**	**153.8**
Other operating revenue	14.9	1.2	0.2	0.0
Expenses				
Goods and services	4.0	20.0	31.9	40.0
Salary and other employment benefit expenses	13.8	27.3	28.7	29.5
Depreciation, amortization and impairment losses	6.0	6.1	6.1	6.0
Other operating expenses	19.6	44.2	49.2	52.1
	43.4	97.7	115.9	127.6
OPERATING INCOME	**-5.9**	**-21.5**	**-0.1**	**26.2**
Financial income	0.0	0.0	0.1	0.0
Financial expenses	-0.2	-1.9	-0.3	-1.3
INCOME BEFORE TAXES	**-6.1**	**-23.4**	**-0.3**	**24.9**
Income taxes	1.2	4.7	0.0	-5.0
INCOME FOR THE PERIOD	**-4.9**	**-18.7**	**-0.3**	**19.9**
Income attributable to:				
Parent company shareholders	-4.9	-18.7	-0.3	19.9
Earnings per share before and after dilution, EUR	-0.46	-1.74	-0.03	1.84

Quarterly consolidated statement of comprehensive income

EUR M	2020 Q2	2020 Q1	2019 Q4	2019 Q3
INCOME FOR THE PERIOD	**-4.9**	**-18.7**	**-0.3**	**19.9**
Items that may be reclassified to the income statement				
Translation differences	0.9	-1.1	0.5	-0.3
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	-	-	-3.9	-
Other comprehensive income	**0.9**	**-1.1**	**-3.4**	**-0.3**
COMPREHENSIVE INCOME FOR THE PERIOD	**-4.0**	**-19.8**	**-3.7**	**19.6**
Comprehensive income attributable to:				
Parent company shareholders	-4.0	-19.8	-3.7	19.6

Results for the third quarter, when the most of the Group's income for the year is generated, will be significantly worse in 2020 than in previous years due to COVID-19.

Pledged assets and contingent liabilities

EUR M	Jun 30, 2020	Jun 30, 2019	Dec 31, 2018
Contingent liabilities	132.1	135.3	138.7
Assets pledged for own debt	255.5	225.5	255.5
Investment commitments not included in the accounts	158.0	155.3	158.1
– contractual amount	198.8	195.4	198.2

Viking Line has a binding loan commitment of EUR 152.0 M to fund its vessel order, for which the time when the loan will be drawn has been postponed. Negotiations are under way concerning the application of the covenant terms and conditions that will most likely be violated during the third quarter. 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.

Financial ratios and statistics

	Jan 1, 2020– Jun 30, 2020	Jan 1, 2019– Jun 30, 2019	Jan 1, 2019– Dec 31, 2019
Equity per share, EUR	19.57	20.30	21.77
Equity/assets ratio	49.3 %	46.3 %	50.7 %
Investments, EUR M	9.3	25.4	29.9
– as % of sales	9.5 %	11.2 %	6.0 %
Passengers	998,483	2,772,427	6,300,480
Cargo units	62,409	69,030	133,940
Average number of employees, full-time equivalent	1,802	2,572	2,632

Earnings per share = (Income before taxes – income taxes +/– non-controlling interests) / Average number of shares
Equity per share = Equity attributable to parent company shareholders / Number of shares on balance sheet date
Equity/assets ratio, % = (Equity including non-controlling interests) / (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.

Notes to the Half-year Financial Report for the period January-June 2020

1. Financial reporting and changes in accounting principles

This Half-year Financial Report was prepared in compliance with International Financial Reporting Standards (IFRSs) and was drawn up as a summary of the financial statements for the period in compliance with IAS 34.

For cash and cash equivalents with a short maturity, the carrying amount is regarded as being equivalent to fair value. The carrying amount of trade and other receivables as well as trade and other payables is considered equal to fair value based on the short-term nature of the items. The carrying amount of interest-bearing liabilities is equivalent to fair value.

This Half-year Financial Report is otherwise prepared in accordance with the same accounting principles, estimates and judgements as in the latest annual financial statements, unless otherwise indicated below. The Half-year Financial Report is unaudited.

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 management of the company 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 Half-year Financial Report is published.

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

3. Going concern, risks and liquidity

The COVID-19 pandemic is a major uncertainty factor. If risks associated with the virus were to materialize in full, this could lead to uncertainty about the company's ability to continue operations.

This Half-year Financial Report has been prepared using the going concern basis of accounting. Viking Line's Board of Directors is of the opinion that the company can continue its operations and meet its obligations for at least 12 months after the preparation of this report. This assessment is based on the business plan that the Board has approved and which takes into account COVID-19 as well as regular and ongoing negotiations with financiers as well as the company's other options to secure the necessary liquidity.

Viking Line has a strong balance sheet and low leverage, but the Group's liquidity must be strengthened given present circumstances. To bolster liquidity and safeguard the future of the company if the coronavirus pandemic lasts for a while, Viking Line has continued to negotiate for additional funding. The intention is to make use of State guarantees laid out in the supplementary budget approved by the Finnish parliament and placed at the disposal of the shipping industry in the Finnish government's second supplementary budget for 2020. Liquidity could also be strengthened by a capital contribution from shareholders or through a sale of assets.

During the second quarter, Viking Line signed an agreement for an additional credit line of EUR 5.0 M.

On July 14, 2020 Viking Line Abp reached an agreement with Finnvera Abp and Finlands Exportkredit Ab on a loan payment deferral for the period July 1, 2020 – February 1, 2021 totalling EUR 14.9 M. Payments fall due by January 10, 2025 at the latest – in other words, at the time final payment is due. 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 maturity of the loan is conditional upon payment of the loan payments for which a deferral has been granted.

Some of the Group's loan agreements include loan covenants according to market terms. If the terms and conditions are not met, the financiers can demand early repayment or cancellation of the loans. The terms and conditions in these agreements were met during the report period. The company has negotiated over the application of terms and agreements in the covenants with its current financiers. The Group has been granted a time-limited exemption from the terms and conditions that will most likely be violated during the third quarter for those loans already drawn.

Viking Line has a binding loan commitment of EUR 152.0 M to fund its vessel order, for which the time when the loan will be drawn has been postponed. Negotiations are under way concerning the application of the covenant terms and conditions that will most likely be violated during the third quarter. 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.

4. Segment information

Consolidated revenue decreased by 57.0% and passenger-related revenue decreased by 62.3 % due to travel restrictions imposed by authorities in conjunction with COVID-19. Results for the third quarter, when the most of the Group's income for the year is usually generated, will be significantly worse in 2020 than in previous years due to the COVID-19 pandemic.

OPERATING SEGMENTS, EUR M	Jan 1, 2020-Jun 30, 2020	Jan 1, 2019-Jun 30, 2019	Jan 1, 2019-Dec 31, 2019
Sales			
Vessels	95.7	222.9	487.9
Unallocated	1.9	4.1	8.6
Total, operating segments	**97.6**	**227.0**	**496.5**
Eliminations	0.0	0.0	-0.1
Total sales of the Group	**97.5**	**227.0**	**496.4**
Operating income			
Vessels	-28.2	14.2	60.8
Unallocated	0.7	-22.9	-43.4
Total operating income of the Group	**-27.4**	**-8.8**	**17.4**
SALES			
Passenger-related revenue	76.0	201.7	448.4
Cargo revenue	20.7	24.0	45.6
Miscellaneous sales revenue	0.9	1.3	2.4
Total	**97.5**	**227.0**	**496.4**

5. Other operating revenue

During the period March 19-June 18, the Group received aid from Finland's National Emergency Supply Agency for cargo traffic to ensure the security of supply for four of the Group's vessels serving the Turku – Långnäs – Stockholm, Mariehamn - Kapellskär and Helsinki – Tallinn routes. The payments covered variable costs and some fixed costs for traffic, and were reduced by income from cargo traffic and the contribution from passenger traffic. During the period, the Group also received liquidity aid from the Åland provincial government. This aid is recognized as state aid under other operating revenue.

EUR M	Jan 1, 2020–Jun 30, 2020	Jan 1, 2019–Jun 30, 2019
State aid	16.0	-
Rents received on properties	0.1	0.1
Capital gains	0.0	0.0
Miscellaneous other operating revenue	0.0	0.0
Total	16.1	0.2

6. Salary and other employment benefit expenses

A large percentage of the staff in Finland was furloughed. In Sweden and Estonia, government-funded furloughs were also made use of. The furloughs have been carried as part-time furloughs and on the vessels mostly as full-time furloughs.

The Group receives government restitution from Finland and Sweden related to the 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 furloughs. Restitution received and short-term aid for furloughs have been recognized in the income statement under salary and employment benefit expenses for the period in which the basis for the restitution and aid arose.

EUR M	Jan 1, 2020–Jun 30, 2020	Jan 1, 2019–Jun 30, 2019
Salaries	43.0	61.0
Expenses of defined-contribution pensions	4.7	7.8
Other payroll overhead	5.2	6.6
	52.9	75.3
Government restitution	-9.2	-16.5
Aid for furloughs	-2.7	-
Total	41.0	58.9

7. Other operating expenses

Other operating expenses decreased 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, 2020–Jun 30, 2020	Jan 1, 2019–Jun 30, 2019
Sales and marketing expenses	6.3	14.9
Washing and cleaning expenses	4.6	9.9
Repairs and maintenance	5.2	8.4
Public port expenses and vessel charges	12.4	19.4
Fuel expenses	16.9	23.5
Miscellaneous expenses	18.4	27.3
Total	63.8	103.4

8. Income taxes

As of June 30, 2020, the Group recognized net deferred tax liabilities of EUR 31.7 M, of which EUR 37.8 M is deferred tax liabilities and EUR 6.1 M is deferred tax assets. The deferred tax assets and most of the deferred tax liabilities pertain to taxes for the parent company debited by the tax authority in Finland. The Group had no recognized losses in its taxation at year-end 2019. 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.

9. Impairment testing

Recognized values for intangible and tangible assets are tested regularly in order to identify any external or internal indications of an impairment loss. 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. As a result, external valuations of the Group's vessels have been carried out. The management believes, based on these external valuations, that there is no need for impairment, since the fair value of the vessels is significantly higher than the book value. The management monitors developments and will carry out a new impairment test during the second half of 2020.

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

10. Trade and other receivables

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

11. Events after the balance sheet day

On July 14, 2020 Viking Line Abp reached an agreement with Finnvera Abp and Finlands Exportkredit Ab on a loan payment deferral for the period July 1, 2020 – February 1, 2021 totalling EUR 14.9 M. Payments fall due by January 10, 2025 at the latest – in other words, at the time final payment is due. 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 maturity of the loan is conditional upon payment of the loan payments for which a deferral has been granted.

Some of the Group's loan agreements include loan covenants according to market terms. The terms and conditions in these agreements were met during the report period. Since the end of the report period, the company has negotiated over the application of the terms and agreements in the covenants with its current financiers. The Group has been granted a time-limited exemption from the terms and conditions that will most likely be violated during the third quarter for those loans already drawn.