

# Annual Report 2019



**ROYAL**  **ARCTIC**

Royal Arctic Line A/S  
(CVR. no. 16545538)





# Annual Report 2019

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



# Company information

## The Company

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Telephone: +299 34 91 00  
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## Registration number

A/S 209.527

## CVR. number

16545538

## Registered

Nuuk, Greenland

## Share capital

DKK 120 million

## Ownership

Wholly owned by the Government of Greenland, Nuuk, Greenland.

## Board of Directors

Ulrik Blidorf, Chairman  
Erik Jørgen Østergaard, Vice Chairman  
Mai-Lill Ibsen  
Miinannguaq Hilda Zeeb  
Stefan Dirk Buch  
Eydun Simonsen\*  
Jens Peter Rosing Berthelsen\*  
Laust Lindskov Vestergaard\*  
*\* Elected by employees in 2018 for a four-year term.*

## Executive Board

Verner Sonny Daugård Hammeken, CEO  
Aviåja Lyberth Lennert, Deputy CEO  
Peter Christoffersen, CFO

## Management Group

Anders Bay Larsen, Department Manager, Fleet Management  
Ivalu Kleist, Assistant Director, Operations  
Lars Borris Pedersen, Department Manager, Commercial  
Tommy Ege Kristensen, Department Manager, HR

## Auditors

Deloitte Certified Public Accountants

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# Financial highlights

Developments in the Group can be described over a five-year period with the following financial highlights:

DKK mio.

	2019	2018	2017	2016	2015
<b>Income Statement</b>					
Net revenue	904	876	796	802	767
Total revenue	970	942	861	871	833
Operating profit	35	32	(2)	141	90
Net financials	(8)	(9)	(6)	(6)	1
Profit for the year before tax	27	24	(8)	143	91
Profit for the year	25	14	(7)	98	63
Dividend	54	0	0	0	0
<b>Balance sheet</b>					
Balance sheet total	1,287	1,175	1,137	1,189	1,173
Investments, fixed assets	170	185	135	(113)	255
Net working capital	137	158	(48)	285	158
Long-term debt	353	292	2	243	365
Equity	688	663	642	649	551
<b>Cash flow statement</b>					
Cash flow from operating activities	145	79	159	(36)	108
Cash flow from investment activities	(169)	(181)	(130)	127	(246)
Cash flow from financial activities	63	40	16	(130)	199
Increase/decrease in cash and cash equivalents	39	(62)	45	(39)	61
Cash at year-end	218	179	240	196	235
<b>Ratios *</b>					
Profit margin (%)	3.9 %	3.8 %	(0.2) %	18.5 %	11.7 %
Return on capital (%)	2.8 %	2.8 %	(0.1) %	12.5 %	7.7 %
Return on equity (ROE)	3.7 %	2.2 %	(1.0) %	16.3 %	12.2 %
Solvency ratio (%)	53.4 %	56.4 %	56.4 %	54.6 %	47.0 %
Return on invested capital (ROIC)	3.9 %	4.2 %	(0.2) %	19.8 %	12.3 %
Gearing operating assets	1.4	1.3	1.2	1.0	1.5
<b>Average number of full-time employees</b>	759	760	744	706	722
<b>Pre-tax profit per employee (DK'000)</b>	36	32	(10)	202	126
<b>Revenue per employee</b>	1.19	1.15	1.07	1.14	1.06

\* Financial ratios are calculated in accordance with the CFA Society Denmark's "Recommendations and Financial Ratios"

## Definitions of ratios

Net working capital	=	Current assets – short-term debt
Profit margin (%)	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Net revenue}}$
Return on capital employed	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Total assets}}$
Return on equity (ROE)	=	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$
Solvency ratio	=	$\frac{\text{Equity at year-end} \times 100}{\text{Total assets}}$
Return on invested capital (ROIC)	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Average capital invested incl. goodwill}}$
Operating asset	=	$\frac{\text{Capital invested incl. goodwill}}{\text{Equity at year-end}}$

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

# Foreword

Royal Arctic Line exists in order to facilitate trade with the whole of Greenland.

The focus over the last four years has been on preparing for vessel sharing with new ships from China, permits, the reorganisation of IT systems, work processes and employee development. These changes will be realised in 2020. We will therefore have to get used to a new, more dynamic reality, in which the opportunities for trade with the whole of Greenland can still be changed and improved. The focus on activities in 2019 was on the operation and preparations for the new shipping system.

The weather in 2019 enabled us to optimise our operations. We achieved punctuality of over 90 % in 2019, setting a new record. We took delivery of new freezer containers, marking the start of a gradual replacement of the ageing container fleet. Internal processes for follow-up and control were strengthened during the year, and this has had a very positive impact on the quality of our services.

We received approval from the competition authorities for our planned vessel sharing with the Icelandic shipping company Eimskip in the spring, and the appeal case against the decision was decided in autumn 2019 in favour of Royal Arctic Line. We experienced a delay in deliveries of ships in China because of a typhoon early in the process and challenges with the installation of equipment to protect the environment and also shaft generator systems.

The transition to the new shipping system is based on us continuing as before with sailings to Aalborg, when we also begin to sail to Aarhus, Frederiksstad and Helsingborg. This means there will not be a dramatic change in the service from the outset, which benefits customers. With this new service we can gradually offer new solutions on top of the old one in line with customers' needs.

Environmental policy for global shipping is facing some major decisions in 2020. As part of our involvement, in particular in the Arctic element of this issue, Royal Arctic Line succeeded, in collaboration with Danish Shipping and the Danish Maritime Authority, to organise a seminar in Ilulissat with Kitack Lim, Secretary-General of the International Maritime Organization, with the aim of highlighting the necessity of satisfying Greenlandic social interests in global maritime policy. The seminar was very positively received, and we had an invaluable opportunity to have our voice heard, so that important measures in the environmental field can take place with the greatest possible balance with other social considerations, including Greenland's competitiveness. Environmental protection is an important area for us all, so it is pleasing to note that in 2019, Royal Arctic Line reduced its total fuel consumption by almost 10 % compared with 2018.

We also had the pleasure of welcoming Danish Prime Minister Prime Minister Mette Frederiksen during her visit to Greenland.

It was a visit that generated plenty of questions and a positive atmosphere around our development plans. We were shown that Royal Arctic Line is an important strategic partner in the Danish Realm, and that we reflect this as a company, with many employees from all parts of it.

We were also visited by the Icelandic President Gudni Th. Johannesson, who displayed a great interest in our work in Greenland and naturally also in the major opportunities that our future shipping services represent for increased collaboration with Iceland.

We also had good meetings with the Chairmen of the Boards of the Ports of Aalborg and Aarhus, in the company of their directors, as well as our financial partner KfW. And it was very positive to observe the interest surrounding Royal Arctic Line at the Arctic Circle conference in Reykjavik.

We have thus witnessed a very high level of interest in and understanding of our development plans and the positive effect we are working to achieve for Greenland's opportunities for growth.

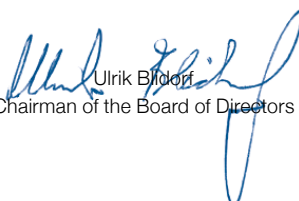
The settlement ships for North West Greenland are well under way in Spain. We will be taking delivery of two ships from Spain in 2020 for North Greenland, and two further ships for South and East Greenland in 2021.


East Greenland was given particular attention from Royal Arctic Line at the end of 2019, when the Board of Directors decided to secure the best conditions for ensuring that East Greenland can benefit from the future shipping services with northbound and southbound calls at Iceland every week. A 108 TEU ship was therefore acquired from Poland at the end of December for delivery in early 2020, with a view to a regular Reykjavik-Tasiilaq link.

The Board is delighted to see the delivery of the Tukuma Arctica in early 2020, and with this ship there is a Royal Arctic Line crew that can contribute to the further development of Greenland as a seafaring nation by using extra places onboard to train young people from Greenland in maritime skills.

Our employees were kept busy in 2019, and it is good to see our employee engagement reaching record levels in 2019. Many people have made excellent contributions, and we are grateful that Royal Arctic Line is a company that has so many talented employees who are thriving.

It was a really good year for Royal Arctic Line. There was effective delivery of operational services while at the same time the strategic plans were realised. We were also given extra scope for additional investments. The pre-tax result for 2019 was a profit of DKK 27.3 million (2018: DKK 24.1 million), which was significantly ahead our forecast of DKK 5-15 million for the whole year, and we therefore consider 2019 to be a very satisfactory year.

  
Ulrik Bjørn  
Chairman of the Board of Directors

  
Verner Sonny Daurud Hammeken  
CEO





### **Royal Arctic Line A/S**

*The Government of Greenland has granted Royal Arctic Line A/S an exclusive concession for all sea transport of goods to and from Greenland and between the towns and settlements of Greenland. The shipping company is therefore a lifeline for Greenland. Royal Arctic Line operates 13 ports in Greenland and has one branch in Aalborg.*

*All concession sea freight to and from Greenland is shipped via Aalborg, while goods from Iceland, USA and Canada are shipped via Reykjavik.*

*Royal Arctic Line A/S was formerly part of Den Kongelige Grønlandske Handel (KGH), which started sailing to Greenland in 1774. The company has had its present name since 1993. The company is wholly owned by the Government of Greenland.*



# Management Report

In 2019 Royal Arctic Line maintained focus on securing efficient operations while at the same time preparing new procedures in connection with the imminent vessel sharing with Eimskip.

Preparations were made for changes in the ability of systems to communicate with new port terminals. Work has taken place on sailing schedules that include Aalborg as well as Aarhus. This makes it possible for shipments to and from Greenland to continue as before without any changes until new opportunities can be utilised by customers as they become available. Workflows and supplier agreements have been reviewed.

Royal Arctic Line opened a small office in Aarhus to manage expected activities relating to the coordination of vessel sharing. The intention is to continue to operate the administrative functions in Denmark from Aalborg.

The operation at the container terminal in Nuuk entered its third year following the acquisition in autumn 2017. There have been small yet serious challenges with bearings on the port cranes in Nuuk, although they were repaired, albeit with significant downtime, but this did not have a significant impact on the operation.

On the coast, we can see that port installations will require additional maintenance. It was pleasing to confirm that work to upgrade the quay installations in Qasigiannguit got under way in 2019. There is a good dialogue with the Government of Greenland about the future development of port installations, in both towns and settlements.

The reliability of shipping services has been high throughout the whole year. Punctuality reached a record high in 2019 at just over 90 % for the year for arrivals on time among the Atlantic and coastal ships. The good weather that we experienced for most of the year played a major role in this, but fewer breakdowns and good planning of services without strong winds also contributed to this increase in punctuality. This also meant that the shipping company's environmental impact in the form of fuel consumption by its ships was reduced by almost 10 %, as can be seen in the shipping company's CSR report on the website.

It should also be noted that in 2019 we avoided any major breakdowns and damage. We did, however see a grounding of

a serious nature involving the Minik Arctica, which was followed up with the authorities, and a collision with quay installations involving the Naja Arctica, which caused major damage to the quay installations in Reykjavik.

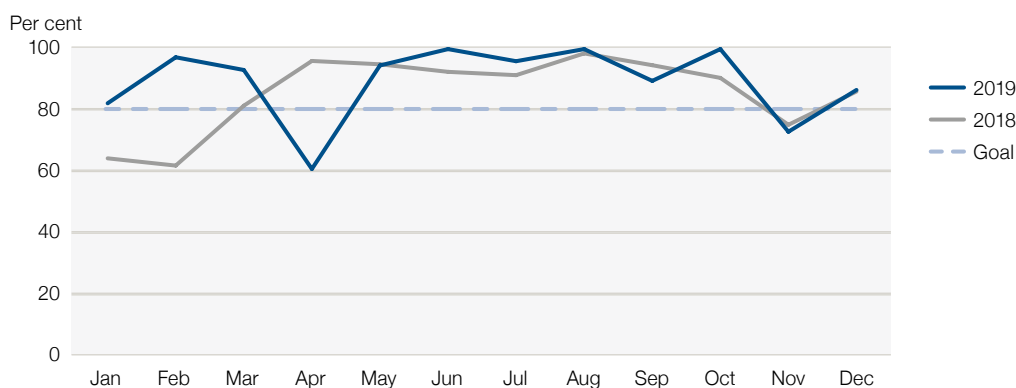
There was hardly any ice formation and west ice in the north-western towns and settlements affecting the planned sailing schedule this year, and winter inspections in 2019 were once more performed in good time in close collaboration with KNI, allowing time for extra calls.

The long-awaited, important approval from the Icelandic competition authority about the vessel sharing with Eimskip was received in April 2019. This approval was subsequently appealed by another Icelandic shipping company, and the case between the Icelandic competition authority and this company lasted until September, when the decision made in April was upheld.

As already reported, the construction of the three new 2,150 TEU ships at the Wenchong shipyard in China, where Royal Arctic Line is responsible for one ship, was delayed by damage caused to the shipyard by Typhoon Mangkhut on 15 September 2018. The consequence of this was that the shipyard announced a three-month delay of the project for all the ships. The construction process was also further delayed by technical challenges with the installation of the cleaning system for smoke particles (scrubber). The shaft generator unit, which is dimensioned to be particularly large for a high number of freezer containers, also created challenges. Furthermore, the challenges relating to the shaft generator meant that the first ship in the series for Eimskip saw its installation destroyed when sea trials started. The replacement of the installation in this ship will take up to seven months, which meant that Royal Arctic Line's ship, the Tukuma Arctica, was the first ship to be delivered. This also means that the partnership with Eimskip is expected to start with a ship chartered by Eimskip for this purpose.

In Spain we saw good progress in the ships that will be sailing to Upernavik and Uummannaq. The smaller units for South and East Greenland were delayed by four months because of design challenges, although these were resolved during the year. These ships have been optimised for operating conditions in Greenland and designed for the efficient handling of exports, as both containers and pallet goods. The ships will be delivered in 2020 and 2021.

## Punctuality, calls on time





Agreement was reached in December with the Remontowa Repair Yard on the purchase and completion of a 108 TEU ship originally ordered by Royal Arctic Line and subsequently cancelled by Royal Arctic Line because of delayed delivery. The ship is to be deployed on a new Tasilaq-Reykjavik route, which will open when the vessel sharing arrangement introduces a weekly service to Reykjavik, both northbound and southbound.

During the year we took delivery of 100 new refrigerated containers from China as well as new MC containers, initiating a renewal of the container fleet.

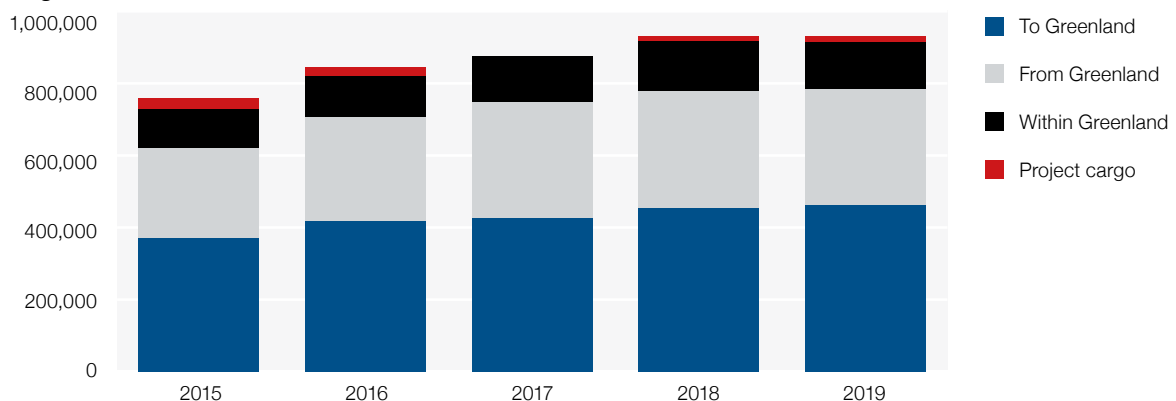
During the year there was major focus on improving business processes and the level of control, and also on IT security in a world where cyber security represents a growing challenge.

Arctic Umiaq Line A/S reported an increase in passengers of 4 % and a profit figure in line with expectations, despite one extraordinary docking of the ship. The year also saw large numbers signing up for the Sarfaq City Run, which links together the destination towns in an event organised in collaboration with local running clubs and the Bank of Greenland.

### Cargo volume trend

All in all, cargo volumes in 2019 are on a par with 2018, although there was a small shift in the distribution between northbound, southbound and internal cargo.

### Cargo volumes





### Northbound cargo volumes

Northbound cargo volumes increased by 2 %, from 453,676 cubic metres in 2018 to 461,820 cubic metres in 2019. Translated into TEU, this represents 22,081 TEU. Northbound cargo volumes comprise mainly consumer goods and food items for the community, as well as construction materials for the construction sector. As in previous years, northbound cargo accounts for most of the company's revenue. The trend in northbound volumes can also be viewed in the light of the fact that there has once more been a positive trend in the population's purchasing power, resulting from the economic success of the fishing industry.

### Southbound cargo volumes

Southbound cargo volumes fell by 1 %, from 324,813 cubic metres in 2018 to 320,407 cubic metres in 2019. In TEU, this represents 14,304 TEU. Cargo from Greenland consists primarily of exports from the fishing industry, which accounted for approximately 85 % of total southbound cargo volumes.

### Domestic cargo volumes

Domestic cargo volumes fell by 4 % from 137,948 cubic metres to 132,404 cubic metres. These volumes consisted primarily of raw materials from the fishing industry for further processing, food for onward distribution and beverages produced in the capital city. In TEU, domestic volumes represent 7,528 TEU.

### Project cargo

Project cargo increased by 11 % from 14,351 cubic metres in 2018 to 15,873 cubic metres in 2019, while 346 TEU were registered. Project cargo often comprises shipments that cannot be packed in containers, which is why the number of TEU is low in relation to cubic metres. Project cargo primarily comprised cargo for North East Greenland, two mining projects and equipment and materials for the airport construction works in Nuuk.

### Profit for the year

Royal Arctic Line's consolidated financial result for 2019 shows a pre-tax profit of DKK 27.3 million and DKK 24.8 million after tax, compared with a pre-tax profit in 2018 of DKK 24.1 million and a profit of DKK 14.1 million after tax. The 2019 profit is significantly better than management's expectations in both the annual report for 2018 and the half-year report for 2019 (DKK 5-15 million).

This improvement in the profit is primarily because Royal Arctic Line was able to increase the operating profit in 2019, when a downturn had been expected due to extra costs associated with new construction programmes and vessel sharing. Gross earnings rose by DKK 24 million from DKK 913 million in 2018 to DKK 937 million in 2019, and fixed costs rose in the same period from DKK 808 million to DKK 830 million, which resulted in an improved operating profit of DKK 3 million in 2019. There is a marginal effect associated with the rise in net revenue from the oil and currency price surcharge, but this effect does not affect the bottom line and reflects a corresponding increase in bunker costs.

Total staff costs (administrative staff, hourly-paid and hired labour) increased from DKK 359 million to DKK 371 million, and other administrative costs rose from DKK 449 million in 2018 to DKK 459 million in 2019. Most of these increases are associated with preparations for vessel sharing in 2020.

The Group's cash and cash equivalents at the year-end totalled DKK 218 million, an improvement compared with DKK 179 million at the end of 2018. Cash flows relating to investments totalled DKK 169 million, and in 2019 these investments once more related primarily to new construction programmes. Cash flows from investments were partly offset by cash flows associated with operating activities of DKK 145 million, which is a significant improvement compared with DKK 79 million in 2018. This improvement is largely associated with improvements in operating capital because of significantly improved invoicing processes.

It is expected that the forthcoming AGM in 2020 will give its approval to Royal Arctic Line's two buildings, B-73 and B-307, being distributed to the owner. The buildings' value constitutes DKK 51.5 million of the total dividend of DKK 54.3 million.

Corporation tax in Greenland was reduced in 2019 from 31.8 % to 26.5 %. In the light of this, the deferred contingent tax as of 1 January 2019 has been recalculated at the new, lower corporation tax rate, resulting in an adjustment of DKK 7.5 million, which has been recognised as revenue for the financial year 2019. This year's tax has been paid at the old tax rate.

### Changes in the Board of Directors and Executive Board

At the AGM in 2019, Minannguaq Hilda Zeep and Stefan Dirk Buch were elected and at the same time Amma Knudsen and Tanja Nielsen stood down. The Board of Directors thus consists of Ulrik Blidorf (Chairman), Erik Jørgen Østergaard (Deputy Chairman), Minannguaq Hilda Zeep, Mai-Lill Ibsen and Stefan Dirk Buch, as well as employee-elected members Jens Peter Rosing Berthelsen, Eydun Simonsen and Laust Lindskov Vestergaard.

### Events after the end of the financial year

No events have occurred after the balance sheet date to this date to change the assessment of this annual report.

### Bunkers Adjustment Factor/ Currency Adjustment Factor (BAF/CAF)

Oil prices changed during the course of 2019, recording a downward trend in the second half of 2019, which may form the basis of a reduction in the BAF/CAF percentage. However, the new environmental requirements relating to the use of fuel with a high sulphur content put pressure on prices at the end of the year, and it is not yet certain how the prices of fuel with a low sulphur content will develop. Taken alongside the fact that there is still major uncertainty about the future requirements of what kind of bunkers will be permitted in Greenland's waters from an environmental perspective, a decision was made to maintain the percentage until further notice.



## New ships

New ships consists of a 2,150 TEU ship that is expected to become part of the network at the end of the first quarter in 2020. In connection with this, the Naja Arctica was taken out of service as planned at the end of 2019. Two new ships are also expected to be delivered in 2020 for use in settlement services. Finally, at the beginning of 2019, two more small ships were bought as planned from a Spanish shipyard for use in settlement services. These are expected to be delivered in 2021. Furthermore, a 108 TEU ship was ordered at the end of the year, dedicated to servicing East Greenland.

Financing has been secured for new ships in 2019 on similar terms as the new ships that were ordered in 2018.

## Corporate Social Responsibility

Royal Arctic Line is an essential part of the infrastructure and is the lifeblood of transportation in Greenland. This involves a social responsibility that is exercised throughout the year.

Royal Arctic Line is the part of the infrastructure that keeps people, businesses and institutions working. As a company, we also have a responsibility for the way in which our work is conducted. This includes our employees' conditions, our impact on the environment and the way in which we conduct ourselves in relation to our business partners and authorities. Royal Arctic Line is proud to assume this social responsibility. But the shipping company also has a responsibility to be efficient and cost-conscious. This is how Royal Arctic Line makes the best possible contribution to society's ability to create growth.

Royal Arctic Line wants to focus its efforts where they have the best possible effect. We believe that social responsibility is closely connected to the society in which we operate. Greenland has its own challenges, and it is to these that we will constantly relate and adjust our social responsibility accordingly. There will thus be a stronger focus on where the company can make the best possible contribution, with a focus on relevance in relation to the situation we experience in Greenland.

Royal Arctic Line structures its work with social responsibility in accordance with the UN's Sustainable Development Goals, with a focus on the sections we perceive as having most relevance for Greenland combined with what we, as a company, have the best chance of having an influence upon.

Corporate Social Responsibility is dealt with in a separate report, which may be viewed on Royal Arctic Line's website [www.ral.dk/regnskaber](http://www.ral.dk/regnskaber).

# Outlook for 2020

Royal Arctic Line's main activities are based on the transportation of cargo to, from and within Greenland. The level of activity is therefore determined by the volume of cargo carried, and earnings in Royal Arctic Line reflect the economic development and trends in society. Royal Arctic Line expects a higher level of activity in Greenland in 2020 compared with 2019, primarily due to the decision to build new airports and the impact that this will have on cargo volumes.

Cash flows from operating activities are also expected to be positive in 2020. It is assessed that the company has adequate financial resources for operations in 2020.

2020 is expected to see a relatively high number of divestments of existing ships and the addition of new ships. There are also expected to be higher levels of depreciation associated with ships, as delivery is taken of the new ships.

This, combined with uncertainty associated with the development of cargo volumes combined with one-off costs in connection with vessel sharing with Eimskip, means that there is a much higher level of uncertainty associated with the outlook compared with previous years.

In general, profit for 2020 is expected to be in the region of DKK 25-35 million before tax for the Royal Arctic Line Group.





# Financial risks

Royal Arctic Line's business is based primarily on Danish kroner. In those cases where trade is based on a different currency, this is usually purchased on the spot market.

There is, however, occasional hedging of purchases, and loans settled in foreign currency other than Danish kroner are hedged in full.

BAF/CAF is used to compensate for fluctuations in US dollar rates and bunker oil prices.

Royal Arctic Line's credit risks include receivables and cash and cash equivalents that invested in Danish and Greenlandic financial institutions with a high credit rating.

Royal Arctic Line's counterparty risk consists primarily of loans in Greenlandic, Danish and German financial institutions. Agreements are concluded through major financial institutions with a high credit rating.

Royal Arctic Line's new ships programme is financed through fixed interest loans. The only exception is the 2,150 TEU ship, which was financed through loans with a variable interest rate. The variable interest associated with the 2,150 TEU ship has an underlying interest rate swap instrument that meets the requirements for hedge accounting and it is therefore considered that the company will not be significantly affected by any future interest rate fluctuations.

In 2018, Royal Arctic Line implemented a new capital management model that provides monthly forecasts for the short term (1-2 years), medium term (3-5 years) and long term (6-25 years). The model has a stochastic element which, on the basis of historic data, is able to quantify the risk of future non-compliance occurrences with the covenant (Value at Risk principle). Since implementation, this model has predicted the risk environment with good accuracy and allowed Royal Arctic Line to adapt its CAPEX budget accordingly.

Royal Arctic Line also exercises the option for delays associated with drawing rights on loans in order to defend the company against negative rates. This means that the company can, at a few days' notice, draw on pre-approved loans and, combined with the capital management model that provides a relatively long warning before there is a risk of a breach of covenant, it is felt that the company is well equipped in 2020, despite the many and relatively large planned extraordinary events.

In connection with the contract for the new ship and the order for the four settlement ships, an agreement concerning refund guarantees has been entered into, covering Royal Arctic Line's regular instalments during the building of the ship. In accordance with Royal Arctic Line's articles of association, all refund banks are evaluated before orders are placed, and Royal Arctic Line only accepts banks that are investment grade or better (BBB).

The government of Greenland has granted Royal Arctic Line an exclusive concession to operate shipping to, from and in Greenland. As a consequence, Royal Arctic Line has a 100 % market share for ordinary containerised marine cargo transport in Greenland.

## Market risks

Royal Arctic Line works under a concession. The concession is both a right and an obligation to provide security of supply. Having the necessary capacity to fulfil its obligations makes the shipping company vulnerable to even small fluctuations in cargo volumes.

Direct financial risks as a consequence of these obligations are covered by the concession, but since changes in prices and levels of service have a major influence on the public in Greenland, any changes must be approved by the Government of Greenland. This involves a political process that can both be time-consuming and also has to take other things into consideration than the shipping company's isolated needs.

Market risks are highlighted through monthly financial reports combined with various corporate governance tools, including the Board of Directors' duties and responsibilities, active ownership and overall communication policy.

### **Non-concession business**

Developments in concession cargo volumes are dependent upon general developments in Greenland, and the shipping company is therefore vulnerable to even modest fluctuations in concession cargo volumes. As a consequence, Royal Arctic Line has started to develop non-concession business areas, aimed primarily at developing business areas in Greenland and not, as was the case before, in Denmark.

One of these areas is delivering supplies to research stations in the Antarctic. Royal Arctic Line has an agreement with the Norwegian Polar Institute regarding an annual supply voyage in December/January, to carry supplies to both the Norwegian and Belgian research stations. The agreement ensures use of capacity that would otherwise be idle due to the Greenland winter, thereby enhancing the company's earnings.

In Greenland, Royal Arctic Line undertakes trawler landings, container stuffing and other activities in connection with fishing exports.

Activities in Denmark, in competition with other providers of logistical services, are undergoing a change in which attempts are being made to streamline and increase flexibility by deliberately moving away from general cargo-related (LCL) activities. Data exchange and digitalisation are important parameters.

### **Prices and contributions**

The Government of Greenland approves freight rates charged by Royal Arctic Line. It has been determined politically that freight rates (excl. Total Handling Cost) should be the same for the entire country, and that freight rates for southbound cargo should be lower than for northbound cargo in order to support export trade.

An investment contribution of 3.1 % is added to the freight rates. One of the intentions behind the contribution is to fund

new tonnage during the term of the 20-year contract for settlement services with the Government of Greenland. This contribution forms a natural part of the shipping company's cargo price.

BAF/CAF is charged separately to adjust for fluctuations in oil prices and exchange rates of the US dollars used to pay for oil for the ships.

### **The Concession – a right and an obligation**

Royal Arctic Line has an exclusive right to ship cargo to, from and between the towns in Greenland and between Greenland and Reykjavik, Aalborg and a number of overseas destinations. This exclusive right entails an obligation to provide services to communities in Greenland. Conditions concerning frequency of calls, capacity and security of supply for all towns in both West Greenland and East Greenland are defined in the concession.

The concession applies to cargo such as:

- Food products
- Consumer goods, including furniture, household appliances, motor vehicles and boats
- Materials for the construction and civil engineering industry
- Other cargo, including transport equipment and tank containers

The Greenlandic Act regarding large-scale projects also states that if a customer wishes to employ the services of another shipping company, the customer must be able to demonstrate that Royal Arctic Line is not competitive.

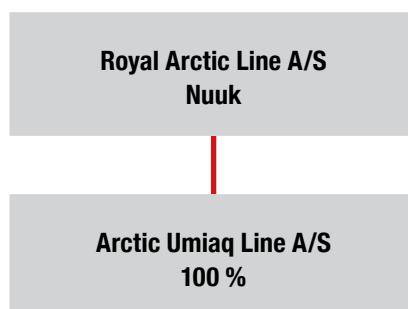
### **Service level**

Royal Arctic Line's obligation to provide services in Greenland requires regular calls at ports and a high degree of punctuality and precision in relation to the master sailing schedule.





# The Royal Arctic Line Group



## Arctic Umiaq Line

Arctic Umiaq Line A/S is wholly owned by Royal Arctic Line A/S.

The company was founded in the autumn of 2006 to acquire and operate the coastal ferry Sarfaq Ittuk. Sarfaq Ittuk operates ferry services on the West Coast between Narsaq and Ilulissat. The focus is primarily on transporting local travellers, but services are also provided for the tourist industry.

## Other associated companies

The Royal Arctic Group also has a share in an associated company related to housing administration in Nuuk. This company is not considered to have significance with regard to reporting of the Group's operations.



## About Greenland

From north to south, Greenland measures 2,670 kilometres. There are 18 towns, and around 60 villages and settlements located along the 40,000 kilometre long coastline. Most of the towns, villages and settlements are located on the west coast.

Transport between towns, villages and settlements is only possible by air or sea. From Disko Bay to the north and on

Greenland's east coast, the sea is usually covered by ice in the winter, and supplies must be transported by air for three to six months of the year.

Around 57,000 people live in Greenland, just under 7,100 of them live in villages and settlements. Nuuk, with its 18,000 inhabitants, is the largest town in the country and the only one with more than 10,000 inhabitants.

# Corporate Governance in Royal Arctic Line

In 2012, Naalakkersuisut (the Government of Greenland) published its *Guidelines on Corporate Governance for Public Limited Companies Owned by the Government of Greenland* ("Retningslinjer for god selskabsledelse i de selvstyrejede aktieselskaber"). Accordingly, Royal Arctic Line has drawn up a detailed report that is available on the company's website [www.ral.gl](http://www.ral.gl)

## **The role of the shareholder and interaction with company management**

The Board of Directors and the Executive Board of Royal Arctic Line support an active ownership and there is therefore a close dialogue with the owner's representatives: Naalakkersuisut and the Ministry of Housing and Infrastructure. Shareholder meetings are held where the Chairman of the Board of Directors informs attendees of important developments or changes in financial results, and of matters that may have a material societal or socioeconomic effect. Freight rates and the master sailing schedule are approved each year by the owner's representatives, and major decisions are submitted to the owner's representatives for comments before implementation. Finally, the owner receives quarterly reports and key financial figures from Royal Arctic Line.

## **The role of stakeholders and their importance to the company and Corporate Social Responsibility**

Royal Arctic Line's strategy, which has been drawn up by the Board of Directors and the Executive Board, defines goals for customers, employees and the owner. The Board of Directors follows up on the goals through satisfaction surveys involving customers and employees, and through shareholder meetings for the owner. These are also addressed in the shipping company's annual report on corporate social responsibility. The Board of Directors has adopted Royal Arctic Line's policy for Corporate Social Responsibility.

## **Openness and transparency**

Annual and interim financial statements, rules of procedure for the Board of Directors, the Nomination Committee's and the Remuneration Committee's respective mandates, the remuneration policy and the stakeholder policy are all available on the Royal Arctic Line website. Any other information that has to be submitted to the Danish Business Authority will also be published at [www.ral.gl](http://www.ral.gl)

## **Duties and responsibilities of the Board of Directors**

The duties and responsibilities of the Board of Directors are specified in the Board's rules of procedure, and are in accordance with the *Guidelines on Corporate Governance for Public Limited Companies Owned by the Government of Greenland*.

- Inform the owner of any significant expected and realised events
- Appoint a Deputy Chairman from its members at the inaugural Board of Directors meeting
- Approve the annual accounts and the statement on the annual accounts
- Approve the budget for the following year as well as the forecast presented in connection with the half-yearly accounts
- Make sure that the auditors' reports are presented and sign them
- Consider the organisation of the company at least once a year; in particular the organisation of the company's finance functions and their control procedures
- Perform management of financial and commercial risks
- Set overall strategic goals in collaboration with the Executive Board
- Review the company's insurance policies once a year; this includes liability insurance for the management team
- Review the company's strategies and policies for CSR and communication
- Perform an evaluation of the Board of Directors and the Executive Board

## **The composition and organisation of the Board of Directors**

Royal Arctic Line is wholly owned by the Government of Greenland, which appoints the Chairman and four members of the Board of Directors. The employees of Royal Arctic Line elect a further three employee members to the Board of Directors. In spring 2018, employees were elected to the Board for a four-year term.

In accordance with the Rules of Procedure for the Board of Directors of Royal Arctic Line, the Board convenes at least four times a year. The Rules of Procedure also ensure that the Board acts independently of any special interests.

The Board of Directors completes an annual self-evaluation relating to its overall skills, possible training requirements, cooperation between the Board members themselves and cooperation with the Executive Board. The results are reviewed with the owner.





#### **Executive Board remuneration**

The Board of Directors of Royal Arctic Line has adopted a remuneration policy.

Remuneration of the Executive Board takes place in accordance with the remuneration policy. Remuneration including pension contributions is set out in the annual report and is considered to be consistent with market terms. The contracts of the members of the Executive Board do not include agreements on severance pay.

The remuneration of the Board of Directors follows the remuneration policy defined by the Government of Greenland. The Chairman of the company's Board of Directors is paid DKK 350,000 a year, the Deputy Chairman and the Chairman of the audit workgroup are paid DKK 175,000 and the other Board members are paid DKK 125,000.

#### **Financial reporting**

In accordance with the Rules of Procedure of the Board of Directors, the Board holds an annual meeting to discuss the accounts, at which the annual report with the auditor's draft report are submitted to the Board for approval. The Board of Directors is also presented with monthly reports, half-yearly accounts and forecasts, and it adopts the budget. The budget and budgetary follow-up on major investments are also presented to the Board of Directors.

#### **Risk management and internal control**

Management evaluates the operational risks on an ongoing basis, and a monthly financial statement is presented to the members of the Board of Directors. Strategic risks are identified based on an annual review, and market risks in the core business are minimised as a result of the concession.

#### **Auditors**

The Board of Directors evaluates the independence and competence of the auditors as a basis for the Annual General Meeting's considerations for the election of auditors. The terms of the audit assignments and remuneration are addressed at least once a year at a Board meeting. Remuneration and engagements are negotiated by the Executive Board but are submitted to the Board of Directors for approval or rejection.

Having completed a tendering process for Royal Arctic Line's audit assignments, the provider of audit services was appointed at Royal Arctic Line's Annual General Meeting held on 6th of May 2014.

# Management statement

The Board of Directors and the Executive Board have on this date considered and approved the annual report for the financial year 1 January - 31 December 2019 for Royal Arctic Line A/S.

The annual report is presented in accordance with the Greenlandic Financial Statements Act.

We consider the accounting policies applied to be appropriate for the annual report to provide a true and fair view of the Group's and Parent Company's assets, liabilities, financial position, profit and cash flows.

We recommend that the annual report be adopted at the Annual General Meeting.

Copenhagen, 26 February 2020

## Executive Board



Verner Sonny  
Daugård Hammeken  
CEO



Aviâja Lyberth Lennert  
Deputy CEO



Peter Christoffersen  
CFO

## Board of Directors



Ulrik Blidorf  
Chairman



Erik Jørgen Østergaard  
Deputy Chairman



Minannguaq Hilda Zeeb



Mai-Lill Ibsen



Stefan Dirk Buch



Jens Peter Rosing  
Berthelsen



Eydun Simonsen



Laust Lindskov  
Vestergaard

**SIUANA ARCTICA**

**S/L**  
↓

**E/S**  
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85

197TK

197TK

19WB

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# Independent Auditor's Report

## To the shareholders of Royal Arctic Line A/S

### Opinion

We have audited the consolidated accounts and financial statement for Royal Arctic Line A/S for the financial year 1st January 2019 to 31st December 2019 which comprises the Statement of Income, the Balance Sheet, the Statement of Changes in Equity and Notes, including accounting policies, of the Group as well as the Parent, and a Cash Flow Statement for the Group. The consolidated accounts and the annual report have been prepared in accordance with the Greenlandic Financial Statements Act.

In our opinion, the consolidated accounts and the financial statement give a true and fair view of the Group's and the Company's assets, liabilities and financial situation as per 31st December 2019 and of the profit/loss of the Group's and Company's activities and the Group's cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with the Greenlandic Financial Statements Act.

### Basis for opinion

We have conducted our audit in accordance with international standards for audits and the further requirements that are applicable in Greenland. Our responsibility under these standards is further described in the Auditor's Report, under the section: "Auditor's responsibility for auditing the consolidated accounts and financial statement". We are independent of the Group in accordance with international ethical rules for auditors (IESBA's Ethics Standards) and the further requirements that are applicable in Greenland, just as we have fulfilled our other ethical obligations in compliance with these standards and requirements. It is our opinion that the audit evidence obtained is sufficient and suitable as a basis for our conclusion.

### Management's responsibility for the consolidated accounts and the financial statement

Management is responsible for the preparation of a financial statement that provides a true and fair view in accordance with the Greenlandic Financial Statements Act. Furthermore, Management is responsible for those internal controls that Management considers necessary, to prepare consolidated accounts and a financial statement that are free from material misstatement, whether due to fraud or error.

With the preparation of the consolidated accounts and the financial statement, Management is responsible for evaluating the Group's and the Parent Company's ability to continue operating, to provide information concerning continued operations, where relevant, and to prepare consolidated accounts and financial statements on the basis of the accounting principle of continued operation, unless Management either intends to liquidate the Company, cease operations or does not have any realistic alternative other than to do this.

### Auditor's responsibility for auditing the consolidated accounts and the financial statement

Our aim is to achieve a high degree of certainty about whether the consolidated accounts and the financial statement as a whole are free from material misstatement, whether due to fraud or error and to submit an audit report with a conclusion. A high degree of certainty is a high level of certainty, but it is not a guarantee that an audit that is conducted in accordance with international standards for audits and the additional requirements that apply to Greenland will always reveal material misstatements when such are present. Material misstatements can occur due to fraud or error and may be considered to be significant if they can reasonably be expected to individually or collectively have an influence on the financial decisions that are



made by the users of the financial report based on the consolidated accounts and the financial statement.

As part of an audit conducted in accordance with international standards for audits and the additional requirements that apply to Greenland, we undertake professional evaluations and maintain professional scepticism during the audit. In addition:

- We identify and evaluate the risk for material misstatements in the consolidated accounts and financial report, regardless of whether this is due to fraud or error, plan and conduct audit procedures as a consequence of these risks and obtain evidence that is sufficient and suitable upon which to base our conclusion. The risk of not discovering material misstatement resulting from fraud is higher than with material misstatement resulting from error, since fraud may involve conspiracy, falsification, deliberate omissions, deception or breach of internal controls.
- We consider whether the accounting principles adopted by Management are suitable and whether the accounting estimates and related information prepared by Management are reasonable.
- We evaluate whether Management's preparation of the consolidated accounts and financial statements based on accounting principles for continued operations is appropriate and whether, on the basis of the audit evidence acquired, there is significant uncertainty associated with events or circumstances that could cause considerable doubt concerning the Company's ability to continue operations.
- If we conclude there is significant uncertainty, we will provide information about this in the auditor's report for the consolidated accounts and the financial statement or, if this information is not sufficient, we will modify our conclusion. Our conclusions are based on the audit evidence that is obtained up to the date of our auditor's report. Future events or circumstances may however, entail that the Group or the Parent Company are unable to continue operations.
- We evaluate the total presentation, structure and content of the consolidated accounts and financial statement, including information in the notes and whether the consolidated accounts and the financial statement reflect the underlying transactions and events in such a way, that they present a true and fair view.
- We achieve appropriate audit evidence regarding the financial information for the companies or business activities in the Group in order to express an opinion regarding the consolidated accounts. It is our responsibility to lead, supervise and conduct an audit of the Group. We are solely responsible for our audit opinion.

We communicate with upper management regarding, among other things, the planned extent and the date for the audit as well as significant audit observations, including any significant deficiencies in internal controls which we identify during our audit.

#### **Statement on the Management Report**

Management is responsible for the Management Report.

Our opinion regarding the consolidated accounts and financial statement does not include the Management Report and we express no form of certain opinion on the Management Report.

In connection with our audit of the consolidated accounts and the financial statement it is our responsibility to read the Management Report and in that regard consider whether the Management Report is substantially inconsistent with the consolidated accounts or the financial statements or in any other way seems to contain significant misinformation.

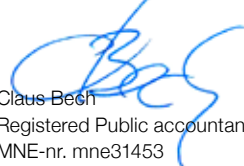
In addition, it is our responsibility to consider whether the Management Report contains the required information in accordance with the Greenlandic Financial Statements Act.

Based on our audit work, it is our opinion that the Management Report is consistent with the consolidated accounts and financial statement and has been prepared in accordance with the Greenland Financial Statements Act. We have not found any significant error or misinformation in the Management Report.

Nuuk, February 26th, 2020

#### **Deloitte**

Chartered Accountants  
CVR-nr. 33 96 35 56



Claus Bech  
Registered Public accountant  
MNE-nr. mne31453



Kim Takata Mücke  
Registered Public accountant  
MNE-nr. mne10944

# Income Statement 2019

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
1 Net revenue	855,160	829,597	903,770	876,199
2 Other operating income	65,836	65,746	65,836	65,746
3 Cargo-related expenditure	(29,478)	(26,720)	(32,192)	(29,262)
<b>Gross profit</b>	<b>891,518</b>	<b>868,623</b>	<b>937,414</b>	<b>912,683</b>
4 Other external expenditure	(437,283)	(430,952)	(458,776)	(448,667)
5 Staff costs	(354,027)	(342,201)	(371,187)	(358,810)
6 Amortisation, depreciation and impairment losses of fixed assets	(71,116)	(71,482)	(72,131)	(72,850)
<b>Operating profit</b>	<b>29,092</b>	<b>23,988</b>	<b>35,320</b>	<b>32,356</b>
7 Income from investments in Group companies	4,266	5,693	0	0
8 Income from investments in associated companies	73	(98)	73	(98)
Income from investments in securities that are fixed assets	0	1,044	0	1,044
9 Other financial income	141	704	142	705
10 Other financial expenses	(8,259)	(9,871)	(8,283)	(9,892)
<b>Profit before tax</b>	<b>25,313</b>	<b>21,460</b>	<b>27,252</b>	<b>24,115</b>
11 Tax on profit for the year	(530)	(7,327)	(2,469)	(9,982)
<b>Profit for the year</b>	<b>24,783</b>	<b>14,133</b>	<b>24,783</b>	<b>14,133</b>



# Assets

as of 31 December 2019

DKK '000		Royal Arctic Line A/S		Royal Arctic Group	
		2019	2018	2019	2018
Fixed assets					
	Software	16,739	24,063	16,739	24,063
13	<b>Total intangible assets</b>	<b>16,739</b>	<b>24,063</b>	<b>16,739</b>	<b>24,063</b>
	Ships	441,973	479,407	443,203	481,477
	Buildings	59,400	62,218	59,400	62,218
	Transport equipment, harbour boats, machinery and fixtures and fittings	75,677	68,194	75,677	68,194
	Assets under construction	346,314	208,513	346,314	208,513
14	<b>Total property, plant and equipment</b>	<b>923,364</b>	<b>818,332</b>	<b>924,594</b>	<b>820,402</b>
	Investments in Group companies	14,824	10,558	0	0
	Investments in associated companies	4,377	4,304	4,377	4,304
	Other securities	1,041	1,063	1,041	1,063
15	<b>Total financial fixed assets</b>	<b>20,242</b>	<b>15,925</b>	<b>5,418</b>	<b>5,367</b>
	<b>Total fixed assets</b>	<b>960,345</b>	<b>858,320</b>	<b>946,751</b>	<b>849,832</b>
Current assets					
	Operating stock	20,267	22,296	20,996	23,071
	<b>Total inventories</b>	<b>20,267</b>	<b>22,296</b>	<b>20,996</b>	<b>23,071</b>
16	Trade receivables	87,901	105,194	88,320	105,610
	Receivables from Group companies	2,010	1,945	0	0
	Other receivables	4,531	8,975	4,531	8,975
	Prepayments and accrued income	8,026	8,628	8,220	8,742
	<b>Total receivables</b>	<b>102,468</b>	<b>124,742</b>	<b>101,071</b>	<b>123,327</b>
17	<b>Cash and cash equivalents</b>	<b>195,204</b>	<b>161,504</b>	<b>217,835</b>	<b>178,811</b>
	<b>Total current assets</b>	<b>317,939</b>	<b>308,542</b>	<b>339,902</b>	<b>325,209</b>
	<b>Total assets</b>	<b>1,278,284</b>	<b>1,166,862</b>	<b>1,286,653</b>	<b>1,175,041</b>

# Liabilities

as of 31 December 2019

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
<b>Equity</b>				
18 Share capital	120,000	120,000	120,000	120,000
Reserve for net revaluation of investments:				
- Group companies	9,824	5,558	0	0
- Associated companies	880	807	880	807
Other statutory reserves: Retained earnings				
Retained earnings	502,534	536,147	512,358	541,705
Proposed dividend	54,300	0	54,300	0
<b>Equity total</b>	<b>687,538</b>	<b>662,512</b>	<b>687,538</b>	<b>662,512</b>
11 Deferred tax	39,799	50,482	39,971	50,625
Other provisions	3,331	3,274	3,331	3,274
<b>Total provisions</b>	<b>43,130</b>	<b>53,756</b>	<b>43,302</b>	<b>53,899</b>
<b>Liability commitments</b>				
Mortgage debt in ships	351,704	290,258	351,704	290,258
Mortgage debt	1,134	1,134	1,134	1,134
Leasing debt	0	149	0	149
19 <b>Total non-current liabilities</b>	<b>352,838</b>	<b>291,541</b>	<b>352,838</b>	<b>291,541</b>
19 Next year's instalments on non-current liabilities	22,816	20,979	22,816	20,979
Trade accounts payable	45,997	37,052	46,133	37,177
11 Corporation tax	10,680	0	12,592	1,833
20 Other payables	98,406	90,386	104,555	96,464
Prepayments and accrued income	16,879	10,636	16,879	10,636
<b>Total current liabilities</b>	<b>194,778</b>	<b>159,053</b>	<b>202,975</b>	<b>167,089</b>
Total liabilities	547,616	450,594	555,813	458,630
<b>Total liabilities</b>	<b>1,278,284</b>	<b>1,166,862</b>	<b>1,286,653</b>	<b>1,175,041</b>
25 Pledges				
26 Leasing and rental commitments				

# Equity Statement

DKK '000	Share capital	Reserve for net revaluation according to the equity method	Proposed dividend	Retained earnings	Total equity
<b>ROYAL ARCTIC LINE A/S</b>					
<b>Equity, 1 January 2019</b>	<b>120,000</b>	<b>6,365</b>	<b>0</b>	<b>536,147</b>	<b>662,512</b>
Profit/loss for the year		4,339	54,300	(33,856)	24,783
Regulation of derivative instruments				243	243
<b>Equity, 31 December 2019</b>	<b>120,000</b>	<b>10,704</b>	<b>54,300</b>	<b>502,534</b>	<b>687,538</b>
<b>Equity, 1 January 2018</b>	<b>120,000</b>	<b>905</b>	<b>0</b>	<b>521,129</b>	<b>642,034</b>
Profit/loss for the year		5,460	0	8,673	14,133
Regulation of derivative instruments				6,345	6,345
<b>Equity, 31 December 2018</b>	<b>120,000</b>	<b>6,365</b>	<b>0</b>	<b>536,147</b>	<b>662,512</b>
<b>ROYAL ARCTIC GROUP</b>					
<b>Equity, 1 January 2019</b>	<b>120,000</b>	<b>807</b>	<b>0</b>	<b>541,705</b>	<b>662,512</b>
Other equity items		73		(73)	0
Profit/loss for the year			54,300	(29,517)	24,783
Regulation of derivative instruments				243	243
<b>Equity, 31 December 2019</b>	<b>120,000</b>	<b>880</b>	<b>54,300</b>	<b>512,358</b>	<b>687,538</b>
<b>Equity, 1 January 2018</b>	<b>120,000</b>	<b>905</b>	<b>0</b>	<b>521,129</b>	<b>642,034</b>
Other equity items		(98)		98	0
Profit/loss for the year				14,133	14,133
Regulation of derivative instruments				6,345	6,345
<b>Equity, 31 December 2018</b>	<b>120,000</b>	<b>807</b>	<b>0</b>	<b>541,705</b>	<b>662,512</b>



# Cash Flow Statement

DKK '000		Royal Arctic Line A/S		Royal Arctic Group	
		2019	2018	2019	2018
	Operating profit	29,092	23,988	35,320	32,356
	Amortisation, depreciation and impairment losses	71,116	71,482	72,131	72,850
21	Change in working capital	47,278	(9,986)	47,388	(10,851)
	<b>Cash flow from operating activities</b>	<b>147,486</b>	<b>85,484</b>	<b>154,839</b>	<b>94,355</b>
	Net interest payments	(8,118)	(9,167)	(8,141)	(9,187)
11	Tax paid	0	(3,884)	(1,831)	(5,903)
	<b>Cash flow from operating activities</b>	<b>139,368</b>	<b>72,433</b>	<b>144,867</b>	<b>79,265</b>
13,14,22	Investments	(170,137)	(184,726)	(170,312)	(184,997)
	Divestment of fixed assets	1,314	2,436	1,314	2,436
	Acquisition and divestment of financial fixed assets	22	1,403	22	1,403
	<b>Cash flow from investing activities</b>	<b>(168,801)</b>	<b>(180,887)</b>	<b>(168,976)</b>	<b>(181,158)</b>
23	Loans raised during the year	84,112	61,154	84,112	61,154
24	Instalments during the year	(20,979)	(20,949)	(20,979)	(20,949)
	Dividend paid	0	0	0	0
	<b>Cash flow from financing activities</b>	<b>63,133</b>	<b>40,205</b>	<b>63,133</b>	<b>40,205</b>
	Changes in cash and cash equivalents	33,700	(68,249)	39,024	(61,688)
	Cash and cash equivalents at beginning of year	161,504	229,753	178,811	240,499
	<b>Cash and cash equivalents at year-end</b>	<b>195,204</b>	<b>161,504</b>	<b>217,835</b>	<b>178,811</b>
	<b>Distributed as follows:</b>				
17	Cash and cash equivalents	195,204	161,504	217,835	178,811
	<b>Total</b>	<b>195,204</b>	<b>161,504</b>	<b>217,835</b>	<b>178,811</b>

# Notes

DKK '000 unless otherwise stated	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018

## 1 Nettoomsætning

The Company's income is derived from transport services between Greenland, Canada, Iceland and Denmark, between towns in Greenland, transport to and from port, and from stevedoring services and other related services.

Revenue is divided into income from concession sea transport and other, non-concession income.

Other operating income is made up of the Government of Greenland's payment for the service contract which was entered into with Royal Arctic Line A/S for administration of port authorities.

Income from ferry services is posted under non-concession cargo income			48,732	47,177
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Net revenue can be specified as follows:

Concession cargo income	717,334	703,289	717,296	703,235
Non-concession income	137,826	126,308	186,474	172,964
<b>Total net revenue</b>	<b>855,160</b>	<b>829,597</b>	<b>903,770</b>	<b>876,199</b>

## 2 Other operating income

Other operating income is made up of the Government of Greenland's payment for the service contract which was entered into with Royal Arctic Line A/S for administration of port authorities.

## 3 Cargo-related expenditure

This relates to costs that are directly incurred in order to generate income and primarily relate to costs for transport to and from ports.

## 4 Other external expenditure

Ships	200,513	203,903	215,755	215,799
Terminals	135,683	132,638	135,683	132,592
Container operations	41,144	30,052	41,144	30,052
Sales and administration	59,943	64,359	66,194	70,224
<b>Total other external expenses</b>	<b>437,283</b>	<b>430,952</b>	<b>458,776</b>	<b>448,667</b>

## 5 Staff costs

Staff costs can be specified as follows:

Wages and salaries	303,806	295,661	320,331	310,205
Pension contributions and social security contributions	41,160	37,535	39,825	39,453
Other staff costs	9,061	9,005	11,031	9,152
<b>Total staff costs</b>	<b>354,027</b>	<b>342,201</b>	<b>371,187</b>	<b>358,810</b>

Executive Board

Remuneration	6,072	2,886		
Bonus	978	100		
Board of Directors	1,325	1,326		
<b>Total remuneration</b>	<b>8,375</b>	<b>4,312</b>		

The Executive Board was expanded this year from one person to three persons.

Two members of the Executive Board live in their own accommodation and one member lives in staff accommodation. The CEO is bound by a competition clause for 12 months upon termination of employment, with no compensation for this. The Executive Board has a company car at its disposal. The CEO and the CFO have the right to 12 months' notice from the company with no prearranged severance pay, and the Deputy CEO has six months' notice. The notice required from the CEO and the Deputy CEO is three months, and the CFO must give six months' notice. The CFO's term of employment is time-limited until March 2022.

# Notes

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
Average number of full-time employees	756	757	759	760
Number of employees at year-end	748	724	750	726
Average number of trainees	37	38	37	38
Number of trainees at year-end	47	58	47	58

A change was made in the calculation of trainees, as junior officers and inexperienced ship assistants are no longer included.

Furthermore, at the end of the year, Royal Arctic Line A/S had the following employees loaned out to Arctic Umiaq Line A/S

42	37
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## 6 Amortisation, depreciation and impairment losses of property, plant and equipment and intangible assets

Ships	42,013	41,549	43,029	42,917
Buildings	5,783	5,774	5,783	5,774
Transport equipment, harbour boats, machinery and fixtures and fittings	15,092	17,190	15,092	17,190
Software	9,358	9,129	9,358	9,129
Profit/loss on sale of fixed assets	(1,130)	(2,160)	(1,130)	(2,160)
<b>Total amortisation, depreciation and impairment losses</b>	<b>71,116</b>	<b>71,482</b>	<b>72,132</b>	<b>72,850</b>

## 7 Income from investments in Group companies

Arctic Umiaq Line A/S	4,266	5,693		
<b>Total profit from investments in Group companies</b>	<b>4,266</b>	<b>5,693</b>		

## 8 Income from investments in associated companies

Ejendomsselskabet Suliffik A/S	73	(98)	73	(98)
<b>Total profit/loss from investments in associated companies</b>	<b>73</b>	<b>(98)</b>	<b>73</b>	<b>(98)</b>

## 9 Financial income

Other financial income	141	704	142	705
<b>Total financial income</b>	<b>141</b>	<b>704</b>	<b>142</b>	<b>705</b>

## 10 Other financial expenditure

Other financial expenditure	8,259	9,871	8,283	9,892
<b>Total financial expenditure</b>	<b>8,259</b>	<b>9,871</b>	<b>8,283</b>	<b>9,892</b>

In addition, financial expenditure for building new ships is recognised in the balance sheet

2,896	2,666	2,896	2,666
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## 11 Tax on profit for the year

Tax on the profit for the year consists of:

### Royal Arctic Line A/S

Current tax, Greenland	(10,680)	0	(10,680)	0
Deferred tax, Greenland	2,631	(5,021)	2,570	(5,843)
Adjustment of corporation tax rate	7,519	0	7,553	0
Adjustment re. previous years, Greenland	0	(442)	0	(442)

### Group companies

Current tax, Greenland	0	0	(1,912)	(1,833)
Current tax, Denmark	0	0	0	0
Adjustment re. previous years, Denmark	0	(1,864)	0	(1,864)

<b>Tax on the profit for the year</b>	<b>(530)</b>	<b>(7,327)</b>	<b>(2,469)</b>	<b>(9,982)</b>
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Income tax	0	(3,884)	(1,831)	(5,903)
<b>Total tax paid</b>	<b>0</b>	<b>(3,884)</b>	<b>(1,831)</b>	<b>(5,903)</b>



DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
The provision for deferred tax is mainly due to accelerated depreciation for tax purposes and is composed as follows:				
Provisions at beginning of year	50,482	42,503	50,625	41,824
Adjustment of corporation tax rate	(7,519)	0	(7,553)	0
Adjustment re. previous years	0	(1,803)	0	(1,803)
Adjustment re. equity	(533)	2,958	(533)	2,958
Change during the year	(2,631)	6,824	(2,568)	7,646
Tax value of dividend	0	0	0	0
<b>Provisions at year-end</b>	<b>39,799</b>	<b>50,482</b>	<b>39,971</b>	<b>50,625</b>

Deferred tax is based on the following items:

Property, plant and equipment	44,664	47,940	44,836	48,085
Financial fixed assets	2,840	2,028	2,840	2,028
Current assets	(104)	5,049	(104)	5,049
Long-term liabilities	(39)	(231)	(39)	(231)
Current liabilities	(6,678)	(3,263)	(6,678)	(3,263)
Other	(884)	(1,041)	(884)	(1,043)
<b>Total</b>	<b>39,799</b>	<b>50,482</b>	<b>39,971</b>	<b>50,625</b>

## 12 Proposed distribution of profit

### Proposed distribution of profit

Proposed dividend for the financial year	54,300	0
Transferred to reserve for net revaluation of investments	4,339	5,460
Carried forward to next year	(33,856)	8,673
<b>Total</b>	<b>24,783</b>	<b>14,133</b>

## 13 Intangible assets

### Software

#### Cost

Cost year beginning	48,669	48,669	48,669	48,669
Addition for the year	2,034	0	2,034	0
Disposal for the year	0	0	0	0
<b>Cost year end</b>	<b>50,703</b>	<b>48,669</b>	<b>50,703</b>	<b>48,669</b>

#### Depreciation and impairment losses

Depreciation and impairment losses year beginning	24,606	15,477	24,606	15,477
Depreciation for the year	9,358	9,129	9,358	9,129
Impairment losses for the year	0	0	0	0
Depreciation and impairment losses on disposals for the year	0	0	0	0
<b>Depreciation and impairment losses year end</b>	<b>33,964</b>	<b>24,606</b>	<b>33,964</b>	<b>24,606</b>

<b>Book value at year-end</b>	<b>16,739</b>	<b>24,063</b>	<b>16,739</b>	<b>24,063</b>
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# Notes

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
<b>14 Materielle anlægsaktiver</b>				
<b>Ships</b>				
<b>Cost</b>				
Cost year beginning	1,180,285	1,173,055	1,190,500	1,182,999
Addition for the year	4,554	8,692	4,730	8,963
Disposal for the year	(8,960)	(1,462)	(8,960)	(1,462)
<b>Cost year end</b>	<b>1,175,879</b>	<b>1,180,285</b>	<b>1,186,270</b>	<b>1,190,500</b>
<b>Depreciation and impairment losses</b>				
Depreciation and impairment losses year beginning	700,878	660,791	709,023	667,568
Depreciation for the year	42,013	41,549	43,029	42,917
Impairment losses for the year	0	0	0	0
Depreciation and impairment losses on disposals for the year,	(8,985)	(1,462)	(8,985)	(1,462)
<b>Depreciation and impairment losses year end</b>	<b>733,906</b>	<b>700,878</b>	<b>743,067</b>	<b>709,023</b>
<b>Carrying amount year end</b>	<b>441,973</b>	<b>479,407</b>	<b>443,203</b>	<b>481,477</b>
<b>Buildings</b>				
<b>Cost</b>				
Cost year beginning	168,365	167,368	168,365	167,368
Additions for the year	2,965	997	2,965	997
Disposals for the year	0	0	0	0
<b>Cost year end</b>	<b>171,330</b>	<b>168,365</b>	<b>171,330</b>	<b>168,365</b>
<b>Depreciation and impairment losses</b>				
Depreciation and impairment losses year beginning	106,147	100,373	106,147	100,373
Addition at merger	0	0	0	0
Depreciation for the year	5,783	5,774	5,783	5,774
Impairment losses for the year	0	0	0	0
Depreciation and impairment losses on disposals for the year	0	0	0	0
<b>Depreciation and impairment losses year end</b>	<b>111,930</b>	<b>106,147</b>	<b>111,930</b>	<b>106,147</b>
<b>Carrying amount year end</b>	<b>59,400</b>	<b>62,218</b>	<b>59,400</b>	<b>62,218</b>
<b>Transport equipment, harbour boats, machinery and fixtures</b>				
<b>Cost</b>				
Cost year beginning	390,469	387,614	390,469	387,614
Additions for the year	22,783	13,369	22,783	13,369
Disposals for the year	(32,683)	(10,514)	(32,683)	(10,514)
<b>Cost at year end</b>	<b>380,569</b>	<b>390,469</b>	<b>380,569</b>	<b>390,469</b>
<b>Depreciation and impairment losses</b>				
Depreciation and impairment losses year beginning	322,275	315,358	322,275	315,358
Depreciation for the year	15,092	17,190	15,092	17,190
Impairment losses for the year	0	0	0	0
Depreciation and impairment losses on disposals for the year	(32,475)	(10,273)	(32,475)	(10,273)
<b>Depreciation and impairment losses year end</b>	<b>304,892</b>	<b>322,275</b>	<b>304,892</b>	<b>322,275</b>
<b>Carrying amount year end</b>	<b>75,677</b>	<b>68,194</b>	<b>75,677</b>	<b>68,194</b>
Proportion of financial leased assets	132	660	132	660

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
<b>Assets under construction – Ships</b>				
<b>Cost</b>				
Cost year beginning	207,462	45,394	207,462	45,394
Additions for the year	140,310	170,760	140,310	170,760
Disposals for the year	(2,034)	(8,692)	(2,034)	(8,692)
<b>Carrying amount year end</b>	<b>345,738</b>	<b>207,462</b>	<b>345,738</b>	<b>207,462</b>
Including financial costs of	6,159	3,263	6,159	3,263
<b>Assets under construction - buildings</b>				
<b>Cost</b>				
Cost at beginning of year	504	0	504	0
Additions during the year	2,461	504	2,461	504
Disposals during the year	(2,965)	0	(2,965)	0
<b>Cost at year-end</b>	<b>0</b>	<b>504</b>	<b>0</b>	<b>504</b>
<b>Assets under construction - transport equipment, harbour boats, machinery</b>				
<b>Cost</b>				
Cost at beginning of year	547	1,451	547	1,451
Additions during the year	22,812	12,465	22,812	12,465
Disposals during the year	(22,783)	(13,369)	(22,783)	(13,369)
<b>Cost at year-end</b>	<b>576</b>	<b>547</b>	<b>576</b>	<b>547</b>
<b>Total assets under construction</b>	<b>346,314</b>	<b>208,513</b>	<b>346,314</b>	<b>208,513</b>
<b>Total property, plant and equipment</b>	<b>923,364</b>	<b>818,332</b>	<b>924,594</b>	<b>820,402</b>

Assets charged, see Note 25

## 15 Financial fixed assets

### Investments in Group companies

<b>Cost</b>		
Cost at beginning of year	5,000	5,000
Additions during the year	0	0
Disposals during the year	0	0
<b>Cost at year-end</b>	<b>5,000</b>	<b>5,000</b>
<b>Depreciation and impairment losses</b>		
Depreciation and impairment losses year beginning	5,558	(135)
Depreciation for the year	0	0
Extra impairment loss on asset	0	0
Share on profit for the year	4,266	5,693
Dividend paid	0	0
<b>Revaluations and impairment losses at year-end</b>	<b>9,824</b>	<b>5,558</b>
<b>Book value at year-end</b>	<b>14,824</b>	<b>10,558</b>

# Notes

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
<b>Participating interests in associated companies</b>				
<b>Cost</b>				
Cost at beginning of year	3,497	3,497	3,497	3,497
Additions during the year	0	0	0	0
Disposals during the year	0	0	0	0
<b>Cost at year-end</b>	<b>3,497</b>	<b>3,497</b>	<b>3,497</b>	<b>3,497</b>
<b>Revaluations and impairment losses</b>				
Revaluations and impairment losses at beginning of year	807	905	807	905
Share on profit for the year	73	(98)	73	(98)
Dividend paid	0	0	0	0
Reversal of disposals	0	0	0	0
<b>Revaluations and impairment losses at year-end</b>	<b>880</b>	<b>807</b>	<b>880</b>	<b>807</b>
<b>Book value at year-end</b>	<b>4,377</b>	<b>4,304</b>	<b>4,377</b>	<b>4,304</b>
Ejendomsselskabet Suliffik A/S, Nuuk, share 30 %	4,377	4,304	4,377	4,304
<b>Book value at year-end</b>	<b>4,377</b>	<b>4,304</b>	<b>4,377</b>	<b>4,304</b>
<b>Cost</b>				
Cost at beginning of year	1,063	1,457	1,063	1,457
Additions during the year	0	0	0	0
Disposals during the year	(22)	(394)	(22)	(394)
<b>Cost at year-end</b>	<b>1,041</b>	<b>1,063</b>	<b>1,041</b>	<b>1,063</b>
<b>Book value at year-end</b>	<b>1,041</b>	<b>1,063</b>	<b>1,041</b>	<b>1,063</b>
<b>Total financial fixed assets</b>	<b>20,242</b>	<b>15,925</b>	<b>5,418</b>	<b>5,367</b>
<b>16 Trade receivables</b>				
In addition to freight income, trade receivables include duties collected on behalf of the Government of Greenland. These duties are collected together with freight charges.				
<b>17 Cash and cash equivalents</b>				
Amount in USD	23	32	23	32
Amount in EUR	1,045	935	1,045	935
Translated using closing rate, this produces DKK	7,964	7,191	7,964	7,191



DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
<b>18 Share capital</b>				
The share capital is not divided into share classes.				
Share capital consists of one DKK 80 million share and one DKK 40 million share.				
The share capital has not changed in the last five years.				
<b>19 Non-current liabilities</b>				
Non-current liabilities are payable as follows:				
Current portion of collateral debt in ships	22,667	20,401	22,667	20,401
Current portion of mortgage debt	0	0	0	0
Current portion of leasing debt	149	578	149	578
<b>Total current portion</b>	<b>22,816</b>	<b>20,979</b>	<b>22,816</b>	<b>20,979</b>
<b>Total non-current portion</b>	<b>352,838</b>	<b>291,541</b>	<b>352,838</b>	<b>291,541</b>
<b>Total book value</b>	<b>375,654</b>	<b>312,520</b>	<b>375,654</b>	<b>312,520</b>
<b>Total nominal value</b>	<b>375,654</b>	<b>312,520</b>	<b>375,654</b>	<b>312,520</b>
<b>Payable after more than five years (amortised cost)</b>				
Collateral debt in ships	224,177	191,949	224,177	191,949
Mortgage debt	1,134	1,134	1,134	1,134
<b>Total amortised cost</b>	<b>225,311</b>	<b>193,083</b>	<b>225,311</b>	<b>193,083</b>
<b>20 Other payables</b>				
Payables relating to wages and rent	71,958	73,128	75,421	76,310
Financial instruments	8,321	8,030	8,321	8,030
Payable costs	18,127	9,228	20,813	12,124
<b>Total other payables</b>	<b>98,406</b>	<b>90,386</b>	<b>104,555</b>	<b>96,464</b>
<b>21 Change in working capital</b>				
Increase/decrease in receivables	22,274	12,362	22,256	11,351
Increase/decrease in operating stocks	2,029	(1,261)	2,075	(1,385)
Increase/decrease in warranty commitments	57	(4,024)	57	(4,024)
Increase/decrease in trade payables	8,945	(1,315)	8,956	(1,838)
Value adjustments recognised under equity	(291)	9,303	(291)	9,303
Increase/decrease in other payables, etc.	14,264	(25,051)	14,335	(24,258)
<b>Total change in working capital</b>	<b>47,278</b>	<b>(9,986)</b>	<b>47,388</b>	<b>(10,851)</b>
<b>22 Investments</b>				
Investments in intangible assets	2,034	0	2,034	0
Investments in ships	4,554	8,692	4,729	8,963
Investments in buildings	2,965	997	2,965	997
Investments in other fixed assets	22,783	13,369	22,783	13,369
Change in assets under construction	137,801	161,668	137,801	161,668
<b>Total investments</b>	<b>170,137</b>	<b>184,726</b>	<b>170,312</b>	<b>184,997</b>

# Notes

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
<b>23 Borrowing for the year</b>				
Loans raised, collateral in ships	84,112	61,154	84,112	61,154
Loans raised, leasing	0	0	0	0
<b>Total borrowing for the year</b>	<b>84,112</b>	<b>61,154</b>	<b>84,112</b>	<b>61,154</b>
<b>24 Instalments during the year</b>				
Instalments during the year, collateral debt in ships	20,401	20,401	20,401	20,401
Instalments during the year, mortgage debt	0	0	0	0
Instalments during the year, leasing	578	548	578	548
<b>Total instalments during the year</b>	<b>20,979</b>	<b>20,949</b>	<b>20,979</b>	<b>20,949</b>
<b>25 Assets charged</b>				
Nominal value, collateral debt in ships:	648,000	648,000	648,000	648,000
Carrying amount, collateral debt in ships:	388,441	409,677	388,441	409,677
Mortgage debt is secured by properties.				
Nominal value of the mortgages:	31,134	31,134	31,134	31,134
Carrying amount of the mortgaged properties:	31,244	33,632	31,244	33,632
<b>26 Leasing, rental and contingent liabilities</b>				
In addition to liabilities recognised in the balance sheet, the company has the following significant liabilities:				
Rental of containers expiring in 2023 and a total payment of USD 5.02 million, corresponding to DKK thousand:	33,482	24,863	33,482	24,863
of which USD 2.1 million falls due in 2020, equivalent to DKK 13,840 thousand				
Obligations under rental agreements until expiry in 2020:	9,439	9,510	9,439	9,510
Obligations under rental agreements until expiry in 2021:	86,470	85,886	86,470	85,886
Obligations under rental agreements until expiry in 2022:	39,037	51,928	39,037	51,928
Leasing obligations:	520	1,176	520	1,176
Royal Arctic Line A/S has provided a rent payment guarantee of:	6,200	6,200	6,200	6,200
In connection with Royal Arctic Line's order for four new ships at shipyards in Spain, a financing structure has been agreed upon in connection with delivery of the ships, under which Royal Arctic Line has taken on a contingent liability, which in the worst case could total up to EUR 5,340 thousand per ship from Zamakona and EUR 2,841 thousand per ship from Nodosa.				
<b>27 Fees to auditors appointed by the Annual General Meeting</b>				
Fees to the auditors appointed at the AGM are recognised in the annual report as follows:				
Statutory audit	985	985	1,054	1,052
Other services	714	1,403	737	1,433
<b>Total</b>	<b>1,699</b>	<b>2,388</b>	<b>1,791</b>	<b>2,485</b>

DKK 1.000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018

## 28 Related parties

Related parties are members of the Company's Board of Directors and Executive Board, the Company's sole shareholder, the Government of Greenland and its Group company Arctic Umiaq Line A/S and the associated company Suliffik A/S.

Significant transactions with the owner, the Government of Greenland, are based on the concession agreement between the Company and the Government of Greenland. The Government of Greenland has granted Royal Arctic Line A/S an exclusive concession for all sea transport of goods to and from Greenland and between the towns and settlements of Greenland. This exclusive concession carries a series of obligations regarding frequency, capacity and security of supply for all towns on the West Coast and the East Coast.

Royal Arctic line A/S performs the following services under an agreement with the Government of Greenland:

- Operation of the Government's port facilities and providing the function of local port authority (service agreement fee of DKK 3,250 thousand)
  - Cargo transport for Qaanaaq (service agreement fee of DKK 895 thousand)
  - Cargo service to settlements in Greenland (service agreement fee of DKK 61,650 thousand).
- Transactions carried out with the Executive Board and the Board of Directors consist of fees, cf. Note 5.

There have been no other significant transactions apart from intra-Group transactions, which are eliminated when the annual accounts are prepared. All transactions with related parties have been conducted on competitive market terms.

## 29 Events after the end of the financial year

No events have occurred after the balance sheet date to this date to change the assessment of this annual report.

## 30 Executive functions

The executive functions of the Board of Directors and the Executive Board:

### Ulrik Blidorf

Solicitor, proprietor of InuitLaw  
Board member at Tele Greenland A/S

### Erik Jørgen Østergaard

CEO, DTL Danske Vognmænd  
Chairman of the Board, Caledonian Maritime Assets Ltd.  
Chairman of the Board, Associated Danish Ports (ADP) A/S  
Chairman of the Board, M/S Museet for Søfart  
Chairman of the Board, Nordic Logistics Association  
Board member at Mols-Linien A/S  
Board member at IRU

### Mai-Lill Ibsen

Ibsen Råd, nonexecutive director, Advisor  
Leader of the election committee, Europris ASA  
Chairman of the Board, GIEK Kredittforsikring AS  
Chairman of the Board, Sbanken Boligkreditt AS  
Board member at Sbanken, leader of the risk committee  
Board member at Fjellinjen AS, leader of the audit committee  
Board member at Fjellinjen Utstedet AS  
Board member at Carnegie AS  
Leader of the election committee at Aberdeen Eiendomsfond Norge I IS/AS and Norway Balanced Property

### Stefan Dirk Buch

Board member at Ulykkesforbundet for Dansk Søfart g.s., leader of the audit committee  
Member of Advisory Board for Dyberg Larsen Aps  
Member of Advisory Board for Your Company Aps

### Aviâja Lyberth Lennert

Board member at Kalaallit Airports A/S

# Accounting policies

## Basis of accounting

The Annual Report for Royal Arctic Line A/S has been presented in accordance with the Greenlandic Financial Statements Act governing reporting class D enterprises.

Accounting policies are unchanged in relation to last year.

However, minor reclassifications have been undertaken that do not have any effect on either the Income Statement or equity.

Unless otherwise stated, the figures in the annual report are expressed in DKK thousand.

## Recognition and measurement

Assets are included in the balance sheet when it is probable that future economic benefits will flow to the Group, and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a prior event and it is probable that future economic benefits will flow out of the Group and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that have appeared prior to the annual report have been considered and presented at recognition and measurement. They confirm or invalidate conditions that existed on the balance sheet date.

Income is recognised in the income statement when earned, whereas expenses are recognised by the amounts attributable to this financial year. Value adjustments of financial assets and liabilities are recognised in the income statement as financial income or financial expenses.

## Consolidated financial statements

The consolidated financial statements include Royal Arctic Line A/S (Parent Company) as well as domestic and foreign companies (Group companies) with commercial activities in progress, which are controlled by the Parent Company, see chart on page 18. Control is achieved by the Parent Company holding, directly or indirectly, more than 50 % of the voting rights.

Companies in which the Group directly or indirectly holds between 20 % and 50 % of the voting rights and exercises significant, but not controlling influence are regarded associated companies.

## Consolidation principles

The consolidated financial statements are prepared on the basis of the financial statements of Royal Arctic Line A/S and its Group companies. The consolidated financial statements are prepared combining uniform financial statement items. On consolidation, intra-Group income and expenses, intra-Group accounts and dividends, profits and losses on transactions among the consolidated enterprises as well as unrealised intra-Group profits are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

The Group companies' financial statement items are recognised in full in the consolidated financial statements.

Investments in Group companies are offset at the proportionate share of such Group companies' net assets at the acquisition date, with net assets having been calculated at fair value.

## Business combinations

Newly acquired or newly established companies are recognised in the consolidated financial statements from the time of acquiring/establishing such companies. Newly established companies are recognised in the consolidated financial statements from the time such companies commence commercial activities. Divested or wound-up companies are recognised in the consolidated income statement up to the time of their divestment or winding-up.

The purchase method is applied in the acquisition of new companies, under which identifiable assets and liabilities of these newly acquired companies are measured at fair value at the acquisition date. Provisions are made for costs relating to decided and published restructuring of the acquired company in connection with its acquisition. Allowance is made for the tax effect of restatements made.

Positive differences in amount (goodwill) between cost of the acquired investment and fair value of the assets and liabilities acquired are recognised under intangible assets and they are amortised systematically in the income statement based on an individual assessment of their useful lives. Negative differences in amount (negative goodwill), corresponding to an estimated adverse development in the relevant enterprises, are recognised in the balance sheet separately as deferred income and in the income statement as such adverse development is realised. Both positive and negative differences are amortised over five years.

## Profit or loss from divestment of investments

Profit or loss from divestment or winding-up of Group companies is calculated as the difference between the selling price or the settlement price and the carrying amount of the net assets at the time of divestment or winding-up, including unamortised goodwill and estimated divestment or winding-up expenses. Profits and losses are recognised in the income statement under other income and other expenditure respectively.





### Translation of foreign currency

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date or the rate at which the amounts have been hedged. Exchange rate differences that arise between the rate at the transaction date and the rate in effect at the payment date or the rate at the balance sheet date are recognised in the income statement as financial items. Fixed assets purchased in foreign currencies are translated using historical rates.

### Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost, subsequently at fair value. Derivative financial instruments are recognised in other receivables or other payables.

Changes in the fair value of derivative financial instruments that qualify as hedging instruments to ensure the fair value of a recognised asset or a recognised liability are recognised in the income statement together with changes in the value of the hedged asset or liability.

For derivative financial instruments that do not qualify as hedging instruments, changes in fair market value are recognised currently in the income statement as financial items.

## Income statement

### Net revenue

Basic freight income is recognised, provided its expected arrival at the destination port (ETA) is by the end of the financial year at the latest. Other income includes services invoiced during the year. Expenses are recognised in the income statement in the period in which they are incurred. The Bunkers Adjustment Factor/Currency Adjustment Factor is recognised with the portion that is attributable to the period. The company collects an investment contribution of 3.1 % of the basic freight rates. The purpose of this investment contribution is to cover increased costs of supplying settlements as a consequence of building new settlement ships. This investment contribution is included in the normal freight rates.

### Other operating income

This item consists primarily of income from service contracts with the Government of Greenland.

### Expenses

Freight-related costs are recognised as expensed at the time of recognition of freight income.

### Freight-related costs

This item consists primarily of primary and secondary transport, as well as packing and unpacking costs in connection with removal services.

### Ships

This item consist primarily of costs for the ships' fuel consumption and costs of ship maintenance.

### Terminals

The item consists mainly of property costs and costs in connection with ships calling into port.

### Container operations

The item consists mainly of container rent and the maintenance and insurance of containers.

### Sales and administration

This item consists of sales, marketing and administrative costs. It also includes impairment losses on receivables recognised in current assets.

### Staff costs

Staff costs include salaries and wages as well as social security contributions, pension contributions and other staff related costs for the company's employees.

### Income from investments in Group companies and associated companies

The proportionate share of the individual Group companies' profits or losses after tax after elimination of unrealised intra-Group profits and losses and plus or minus amortisation of positive, or negative, goodwill on consolidation is recognised in the Parent Company's income statement. The proportionate share of associated companies' profit after tax is recognised in the consolidated income statement.

### Financial items

Financial items comprise income interest and expenses, realised and unrealised capital gains and losses on securities, payables and transactions in foreign currencies, as well as mortgage amortisation premiums relating to collateral debt and mortgage debt.

Financial items subject to a period of payment other than the financial year are accrued accordingly.

### Tax

Tax for the year comprising current tax and changes in deferred tax is recognised in the income statement together with any adjustments concerning previous years.

Current tax liabilities are recognised in the balance sheet stated as tax computed on the taxable income for the year. Changes in deferred tax resulting from changed tax rates are recognised in the income statement.

The rate of taxation is 31.8 %.

## Balance sheet

### Intangible fixed assets

Intangible fixed assets include completed development projects as well as acquired intangible rights in the form of software licences, etc.

Development projects relating to systems, process, etc. that are clearly defined and recognisable, where the technical degree of utilisation, adequacy of resources and future financial benefits can be proven and where it is the intention to complete the project and utilise the intangible asset, are recognised as intangible assets, which are depreciated over the expected useful life.

The cost of development projects includes costs that are directly attributable to the development projects. Depreciation of the completed development projects starts when the asset is taken into use.

Intangible fixed assets are measured at cost minus amortisation, depreciation and impairment losses. Depreciation/amortisation is applied on a straight-line basis over 3-5 years.

### Property, plant and equipment

Property, plant and equipment is measured at cost minus accumulated amortisation, depreciation and impairment losses.

Cost comprises acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation and, with regard to ships, costs in connection with class surveys in dock. Costs for a ship's conversion are also included in the cost price when such conversion refers to safety, life-extending or revenue-improving measures.

Interest on capital that is used during the construction period for prepayments is included in the cost price of the asset in question.

Leasehold improvements are included under buildings.

Depreciation is calculated on the basis of cost price minus expected scrap value at the end of its useful life. Straight-line depreciation is applied, based on the following evaluations of the expected useful lives of the assets:


– Ships	10 - 20 years
– Ships – docking class	2.5 years
– Buildings	5 - 30 years
– Transport equipment, harbour boats, machinery and fixtures and fittings	3 - 10 years

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount when this is lower than the carrying amount, where the recoverable value represents the higher value of the asset's capital value at continued use of the assets or the fair value of the assets at the balance sheet date.

Profits and losses from the sale of intangible fixed assets and property, plant and equipment are calculated as the difference between selling price minus selling costs and the carrying amount at the time of sale.

### Investments in Group companies and associated companies

Investments in Group companies and associated companies are recognised and measured according to the equity method.



This means that investments are measured in the balance sheet at the proportionate share of the companies' intrinsic book value plus or minus unamortised positive, or negative goodwill on consolidation and plus or minus unrealised intra-Group profits or losses.

Group companies and associated companies with negative equity value are measured at nil and any receivables from these companies are written down by the Parent Company's share of such negative equity value if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent Company has a legal or constructive obligation to cover the liabilities of the company in question.

Net revaluation of investments in Group companies and associated companies is taken to reserve for net revaluation according to the equity method if the carrying amount exceeds cost.

The purchase method is applied in the acquisition of Group companies; see above description under consolidated financial statements.

#### **Other securities**

Securities recognised under fixed asset investments comprise listed bonds and investments measured at fair value (quoted price) at the balance sheet date. Unrealised gains and losses are recognised in the income statement.

#### **Inventories**

Inventories are measured at cost using the FIFO method or net realisable value, whichever is lower.

#### **Receivables**

Receivables are measured at amortised cost, usually equalling nominal value minus write-down for bad debts.

#### **Prepayments**

Prepayments recognised under assets comprise incurred costs relating to subsequent financial years. Prepayments are measured at amortised cost, which usually equals the nominal amount.

#### **Dividend**

Dividend is recognised as a liability at the time of adoption at the Annual General Meeting. Any dividend proposed for the financial year is disclosed as a separate item in equity.

#### **Provisions**

Deferred tax is recognised and measured in accordance with the balance sheet liability method of all temporary differences between the carrying amount and tax-based value of assets and liabilities. The tax-based value of the assets is calculated on the basis of the planned use of each asset.

Deferred tax is measured based on the tax regulations and tax rates of the relevant countries that will be in effect according to

law at the balance sheet date when the deferred tax is expected to translate into current tax.

Deferred tax is calculated at 26.5 %.

Warranty commitments include commitments under maritime law.

#### **Long-term debt**

At the time of borrowing, debt is measured at cost, which is equivalent to the proceeds received less transaction costs incurred which is calculated after payment of the final instalment. The debt is subsequently measured at amortised cost equalling the capitalised value, applying the effective interest method.

#### **Other financial liabilities**

Other financial liabilities are recognised at amortised cost, which usually equals nominal value.

#### **Prepayments**

Prepayments comprise income received for recognition in subsequent financial years. Prepayments are measured at amortised cost, which usually equals the nominal amount.

Furthermore, amounts charged to cover the costs of establishing and operating border inspection posts have been included.

### **Cash Flow Statement**

Cash flow statement for the Group is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the financial year.

Cash flows from the acquisition and divestment of companies are shown separately under cash flows from investing activities. Cash flows from acquired companies are recognised in the cash flow statement from the time of their acquisition, and cash flows from companies divested are recognised up to the time of sale.

Cash flows from operating activities are calculated as the operating profit or loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities consist of payments in connection with acquisition and divestment of companies and activities as well as acquisition and sale of intangible assets, fixed asset investments and financial fixed assets.

Cash flows from financing activities consist of changes in the amount or composition of the Group's share capital and related costs as well as the raising of loans, instalment payments on interest-bearing debt and payment of dividend.

Cash and cash equivalents comprise cash at bank and in hand.

