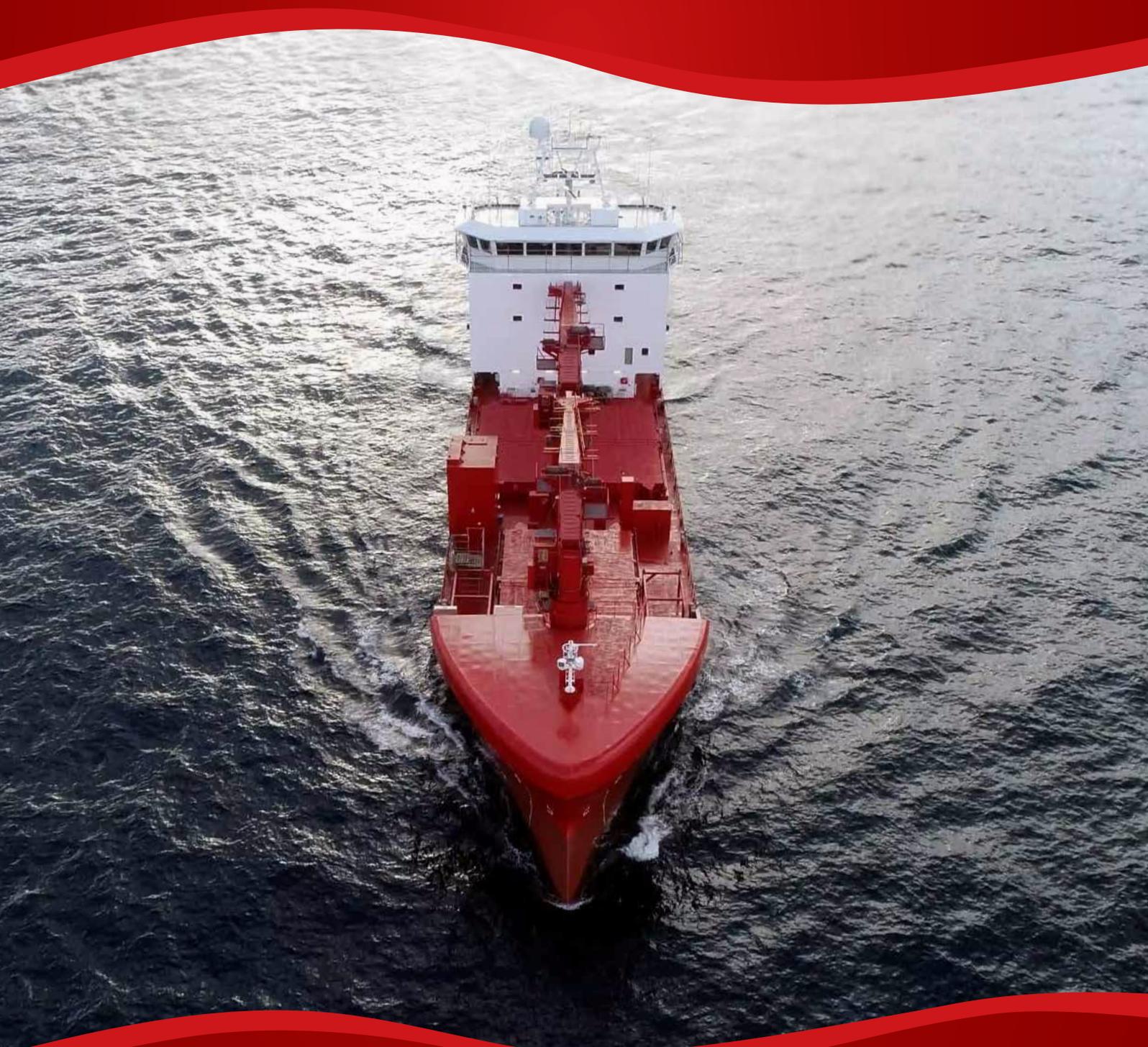


Annual Report 2020



ROYAL  ARCTIC

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



NANOQ ARCTICA

ROYAL A

MARINA ARCTICA

ROYAL ARCTIC

Annual Report 2020

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

Royal Arctic Line A/S
Qeqertanut 46
P.O. Box 1580
3900 Nuuk
Telephone: +299 34 91 00
E-mail: ral@ral.gl
Homepage: www.ral.gl

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
Miinannuaq Hilda Zeeb
Heiðrún Jónsdóttir
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
Aviája 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

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.

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|--------|--------|--------|---------|--------|
| Income Statement | | | | | |
| Net revenue | 916 | 904 | 876 | 796 | 802 |
| Total revenue | 982 | 970 | 942 | 861 | 871 |
| Operating profit | 14 | 35 | 32 | (2) | 141 |
| Net financials | (11) | (8) | (9) | (6) | (6) |
| Profit for the year before tax | 2 | 27 | 24 | (8) | 143 |
| Profit for the year | 2 | 25 | 14 | (7) | 98 |
| Dividend | 3 | 3 | 0 | 0 | 0 |
| Balance sheet | | | | | |
| Balance sheet total | 1,647 | 1,287 | 1,175 | 1,137 | 1,189 |
| Investments, fixed assets | 413 | 170 | 185 | 135 | (113) |
| Net working capital | 111 | 137 | 158 | (48) | 285 |
| Long-term debt | 663 | 353 | 292 | 2 | 243 |
| Equity | 682 | 688 | 663 | 642 | 649 |
| Cash flow statement | | | | | |
| Cash flow from operating activities | 108 | 145 | 79 | 159 | (36) |
| Cash flow from investment activities | (405) | (169) | (181) | (130) | 127 |
| Cash flow from financial activities | 337 | 63 | 40 | 16 | (130) |
| Increase/decrease in cash and cash equivalents | 40 | 39 | (62) | 45 | (39) |
| Cash at year-end | 258 | 218 | 179 | 240 | 196 |
| Ratios * | | | | | |
| Profit margin (%) | 1.5 % | 3.9 % | 3.8 % | (0.2) % | 18.5 % |
| Return on capital (%) | 0.8 % | 2.8 % | 2.8 % | (0.1) % | 12.5 % |
| Return on equity (ROE) | 0.2 % | 3.7 % | 2.2 % | (1.0) % | 16.3 % |
| Solvency ratio (%) | 41.4 % | 53.4 % | 56.4 % | 56.4 % | 54.6 % |
| Return on invested capital (ROIC) | 1.2 % | 3.9 % | 4.2 % | (0.2) % | 19.8 % |
| Gearing operating assets | 1.9 | 1.4 | 1.3 | 1.2 | 1.0 |
| Average number of full-time employees | 757 | 759 | 760 | 744 | 706 |
| Pre-tax profit per employee (DK'000) | 3 | 36 | 32 | (10) | 202 |
| Revenue per employee | 1.21 | 1.19 | 1.15 | 1.07 | 1.14 |

* 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

In this financial report, we describe how Royal Arctic Line took a great step forward in 2020 towards realizing the strategy to make it easy to do business with all of Greenland. An important milestone here was the implementation of vessel sharing with Eimskip in June 2020, a collaboration the company has worked purposefully on since 2015. The company achieved important goals in 2020 despite the serious effects the corona pandemic had on the entire country.

In the financial report, we have placed emphasis on describing how Royal Arctic Line works for all of Greenland with modernization of our shipping in East, North and South Greenland, so that the improved connections to the world around us can be used in the best way possible, for the benefit of the entire country.

Royal Arctic Line has great significance for Greenland's development opportunities, both as a supplier of infrastructure, but also as a development platform for employees. We are well on the way to modernization of the company's work routines so they can measure up to the opportunities created by global development.

The company has had to reinvest heavily in recent years to secure its ability to work in a more open and dynamic sailing structure looking forward. The company has been able to carry out this major investment and keep its freight rates unchanged. The last time the freight rates were raised was in 2015.

With a new sailing pattern, we are entering new markets and gaining opportunities to contribute to Greenland's foreign earnings on competitive markets. This will help to promote a positive development in the company's ability to improve the basis for decision making and in providing good service.

Another significant area of expertise that Royal Arctic Line is developing these years is collaboration with other companies within our industry. This collaboration does not only make for

better products, for the benefit of our customers, it is also hugely beneficial with regard to learning opportunities for our employees.

In 2020 we clarified the question of HFO (Heavy fuel oil) in the Arctic. There must be no doubt that we at Royal Arctic Line want to strengthen our environmental profile, but we want it to happen at a pace that does not threaten the company's main objective. With the present solution, we will be able to focus on this area looking forward.

We look at 2020 as a landmark and a good year. The implementation of vessel sharing is not the end of this process of change, but rather the beginning of a new epoch in the company's operations.

The corona pandemic was tangible, especially for our employees in Denmark and on board the ships. It required special efforts to maintain good communications at a time when travel activity was at an absolute minimum and where the need for encouragement was at a maximum. Despite this, it is gratifying that our employees' commitment to the company rose to the highest level it has ever been since we started recording. Many have made a special effort during the year and we appreciate this.

The pandemic also caused delays in the deliveries of ships, impacting the company's accounts and finances. Compared to expectations for the performance in 2020, Royal Arctic Line has done well, despite the effects of corona. Profits before tax for 2020 were DKK 2.4 million (2019 DKK 27.3 million). Compared to the interim expectations, this was very positive, especially when paired with the important strategic milestones that were achieved.

In 2020, Royal Arctic Line took a huge step towards making it easy to do business with all of Greenland.



Ulrik Blidorf
Chairman of the Board of Directors



Verner Sonny Daa'gaard 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 in Greenland. The company is therefore vital to Greenland. Royal Arctic Line operates 13 ports in Greenland, has its head quarters in Greenland and has a branch in Aalborg.

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

Royal Arctic Line A/S was formerly part of Den Kongelige Grønlandske Handel (The Royal Greenland Trading company) 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 2020, the strategy of vessel sharing was realized and with this, Royal Arctic Line took a huge step forward in its efforts to make it easy to do business with all of Greenland.

With the delivery of *Tukuma Arctica* in January 2020 and of the first sister ship to the Icelandic shipping company Eimskip, vessel sharing was implemented in June with calls at Aarhus and Helsingborg as well as Iceland, both north and south bound. Subsequently, Torshavn was included and after the delivery of the last ship in the vessel sharing agreement, the rotation became a weekly occurrence from October 2020.

Ships now sail to Greenland on a weekly basis all year round with Reykjavik and Torshavn north and south bound, as well as with Aalborg, Aarhus and Helsingborg. This is an historical reorganization of shipping to Greenland. We consider this reorganization to be the beginning of a new epoch with even greater opportunities to do business with Greenland.

The expected side effects of this are that Royal Arctic Line's services will be available for connections in a global context, since we are now calling at ports which are also used to a greater extent by other shipping companies. With regard to services, the company has entered into an agreement with DHL Global Forwarding in order to exploit the commercial possibilities that arise from activity in multiple transport corridors. This side effect will result in an opportunity for Royal Arctic Line to earn currency for Greenland on external routes.

An important aspect of this is Royal Arctic Line's ability to cooperate with other companies, thus creating value that would otherwise not be available. In a world that is connected ever more tightly, this is an important strategic ability which, to an increasing extent, will help to have a positive effect on Greenland's development.

For all of Greenland

Royal Arctic Line is for all of Greenland. It was therefore a special pleasure when godmother Debo Mikaelson named *Nanoq Arctica* in Tasilaq in July 2020. The ship will contribute to improving frequency in the entire Tasilaq area by exploiting the now weekly service that also calls at Reykjavik. Likewise, modernisation of our service to Northwest Greenland was brought one step closer to realisation when *Siuana Arctica* was delivered in November. The ship will be part of our shipping services to the Ummannaq and Upernavik regions together with its sister ship *Maleraq Arctica* which will be delivered at the end of the first quarter 2021.

Two more new ships will be delivered this year, thus completing Royal Arctic Line's modernisation of the fleet and phasing out the oldest vessels. This has great significance for financial stability and future value creation.

Environment

In 2020, we received clarification from the International Maritime Organisation (IMO) concerning use of Heavy Fuel Oil (HFO) in the Arctic, with a plan for a final ban from 2029. Our ships are built in accordance with special polar regulations (Polar Code) which involves special environmental protections with double hull and protected tank systems. Our ocean-going ships are also fitted with equipment that cleans waste products from the exhaust. These measures are expensive, requiring higher investments, and given that Royal Arctic Line is about to complete its reinvestment in the entire fleet, it is important that the company's journey towards a completely green profile is kept within the financial scope the company has available. Reinvestment in the fleet as well as the Vessel sharing Agreement (VSA) with Eimskip are in themselves significant steps in the right direction in the form of less CO₂ per teu, safer ships and improved fuel economy. With this critical phase now complete, Royal Arctic Line is well-equipped to set the next goal for the environment in cooperation with the company's owner and the board.

With the measures that were taken globally with regard to bunkers, it was important to us to ensure coordination between the various regulations of the polar code and the requirements of the HFO. We believe that we now have a reasonable period of time in which to find solutions for reducing costs by using other types of fuel for shipping services to Greenland, which was unilaterally affected by these demands compared to the rest of the world. The environment is an extremely critical item on the agenda for Royal Arctic Line's management and now we have the time to process this in a proper manner in strategic cooperation with other actors.

At the end of 2020, our concession to, from and within Greenland was updated in order to take into consideration the modernisation of the shipping structure. This gives us the best tool with which to develop Greenland's ability to do business with the whole world.

Punctuality

The old ocean-going ships *Naja Arctica* and *Nuka Arctica* were phased out during 2020 in connection with the initiation of vessel sharing. The number of port calls in 2020 rose by 25 %, when more ports were connected and more ports had to be re-opened in Greenland due to lack of capacity. The delivery of Eimskip's last ship, *Brúarfoss* was delayed from the shipyard in China due to a fire on board and subsequent damage just before the test voyage. This meant that we had to use *Mary Arctica* as ocean-going ship and *Irena Arctica* had to cover the west coast alone in the first period.

Therefore, the nominal punctuality was not satisfactory in 2020. The figures are however worse than reality, since many of the delayed calls were in the form of "re-calls", in addition to the first, more punctual calls. The weather was also an amplifying factor in the poorer punctuality, since we saw more negative effects from the weather in 2019 which was a record year for punctuality.

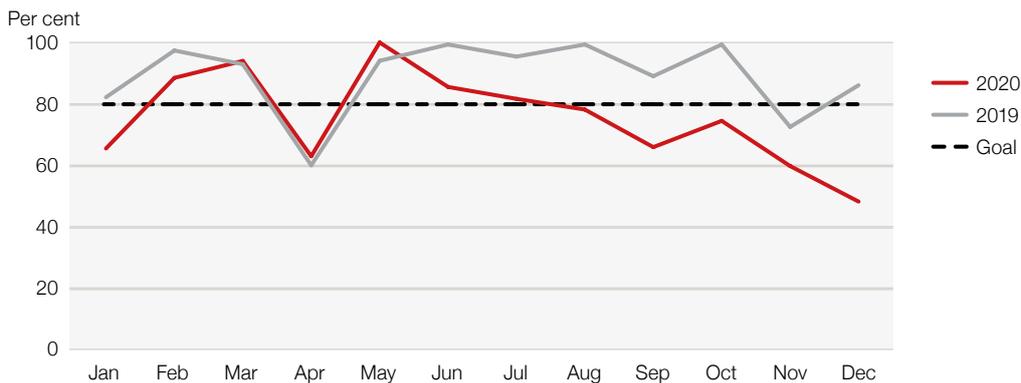


The new calls at ports in Iceland, the Faroe Islands, Sweden and Aarhus generally went well, although new work routines and partners presented some challenges. One particular challenge and scare occurred in November 2020 when *Tukuma Arctica* pulled free of its moorings during strong winds in Torshavn and drifted across the harbour. Fortunately, there was only minor damage and the ship was able to continue after some small repairs with a couple of days' delay.

The oldest settlement ships also presented some challenges to punctuality on settlement services in South Greenland and this served only to show the importance of Royal Arctic Line's investments in new ships.

Finally, the last of the two annual calls at Ittoqqortoormiit should be mentioned, since *Malik Arctica* made two attempts to reach the town in October 2020. At one point, the ship got stuck in the ice, but broke free and the decision was made to sail to Reykjavik for fuel and supplies before making the next, successful attempt. 2020 was a year with a lot of sea ice from the north along the east coast and we must go back to 2015 to find a similar amount of ice in the Ittoqqortoormiit region.

Punctuality, calls on time



Fleet changes and new ships

Siuana Arctica was delivered in November 2020. The ship sailed to Aalborg to be fitted out and was ready for service in the spring of 2021. The ship appears to be of good quality and it sailed to Aalborg from Spain without any particular challenges.

At the end of the year, Royal Arctic Line had three newly-built ships at two shipyards in Spain pending delivery: Maleraq Arctica, which is sister ship to Siuana Arctica, for delivery at the end of the first quarter in 2021 and two smaller, 37 metre units for delivery in the third or fourth quarter of 2021.

Pajuttaat and the three smaller settlement vessels Aqqaluk Ittuk, Angaju Ittuk and Anguteq Ittuk are planned to be phased out during 2021.

Employee satisfaction

Our employee satisfaction rose again to a record level in 2020 and is now nicely on a level with the benchmark. With more solid ground underfoot in the form of the strategic initiatives we have taken, we are convinced that development of our workplace as a preferred place will be strengthened.

The corona pandemic has been a challenge for many of our colleagues, particularly in Denmark and on board the ships and it has been difficult to achieve a presence with one's colleagues. On the other hand, heavy use of video meetings has in many ways meant that we have become closer to each other.

We will continue to focus daily on creating a work place that lives up to our employees' expectations and we hope this will be seen in future measurements of work satisfaction and loyalty.

Organization

We have simplified a part of management by making the strategic management of IT an interdisciplinary matter under an IT Board. This means that we get a better dialogue between the professional groups and a more holistic picture of development, operations and security. The management group has been reduced accordingly and Royal Arctic Line no longer has a CIO in upper management.

In the area of HR, we have until further notice elected to appoint a daily manager of HR functions at Royal Arctic Line who refers to the CEO. Thus we have not immediately hired a new person with responsibility for the group's HR, after the person who formerly held the post chose to seek new challenges at the end of the year. The area of HR at Royal Arctic Line has, in line with IT, a strategic aim and the closer interdisciplinary contact within the organization is expected also here to create a better basis for evaluating which resources to use on this important post in future.

The corona pandemic

Royal Arctic Line was affected by the corona pandemic on several fronts, but not with regard to the level of activity. Partly, we have seen changed plans for authorities'/owner's use of buildings at Royal Arctic Line which were earmarked for projects that were abandoned as a direct consequence of the corona pandemic. Partly, we experienced delays in building new ships, including also delays for Eimskip's ships, which affected the implementation of the vessel sharing. We experienced some operating costs related to quarantine of ship's personnel, but on the other hand, there were savings related to administrative travel.

Royal Arctic Line was rapidly able to prepare crisis plans, crisis communication and to implement working from home. Our preparedness was quickly in place and we exploited working from home and working in shifts in the different departments, as well as limited customer contact and partner contact, particularly in Denmark. The preparedness was always ready and with an evaluation of the level of preparedness with regard to the current restrictions and level of infection. The communication lines between the daily management and upper management were strengthened in order to meet the greater insecurity. But the greatest cost of the corona pandemic was without doubt the human cost born by our colleagues in Denmark and on board the ships. To work from home for longer periods and, for some of our maritime colleagues, to have family on the other side of the world, meant many months of deprivation.

With regard to activity, the effect on the market in Greenland was not significant, but there is no doubt it was harder for us to get into the market in Iceland because normal sales efforts could not be undertaken through personal contact.

The fishing industry in 2020 was affected by lower prices, but the effect of this did not impact consumption in the short term and, since oil prices have also been low, the real medium term effect has not been included as a significant factor in our forecasts. However, from the beginning of 2021 there are new restrictions on exports to China. This is something we are following closely, since it could create a bottleneck problem for freezer capacity and thereby impact upstream activities, which will again have an impact on imports to Greenland.

Trends for cargo volume

Cargo volume increased in 2020 with 3% compared to last year, from 916,482 cubic metres to 945,895 cubic metres. In all, containers to the equivalent of 45,849 TEU were transported.

Project cargo is not included and will be described in a separate section.

Distribution of freight volumes on freight routes is shown in the diagram below.

Northbound cargo

Northbound cargo volume increased with 8 % from 463,598 cubic metres to 501,661 cubic metres. Most of this consisted of consumer goods and foodstuffs as well as building materials. Containers transported on the northbound route were the equivalent of 23,942 TEU.

The northbound cargo volume represented the major part of the company's revenue. The positive trend was mainly due to construction work. In Nuuk in particular, there were a number of private housing projects and there was derived volume from on-going large-scale projects.

Southbound cargo

Southbound cargo volume fell with 1 % from 320,302 cubic metres to 316,533 cubic metres. On the southbound route, containers were transported corresponding to 14,134 TEU. Cargo from Greenland consisted mainly of export from Greenland's fishing industry, which accounted for 85% of the southbound cargo volume.

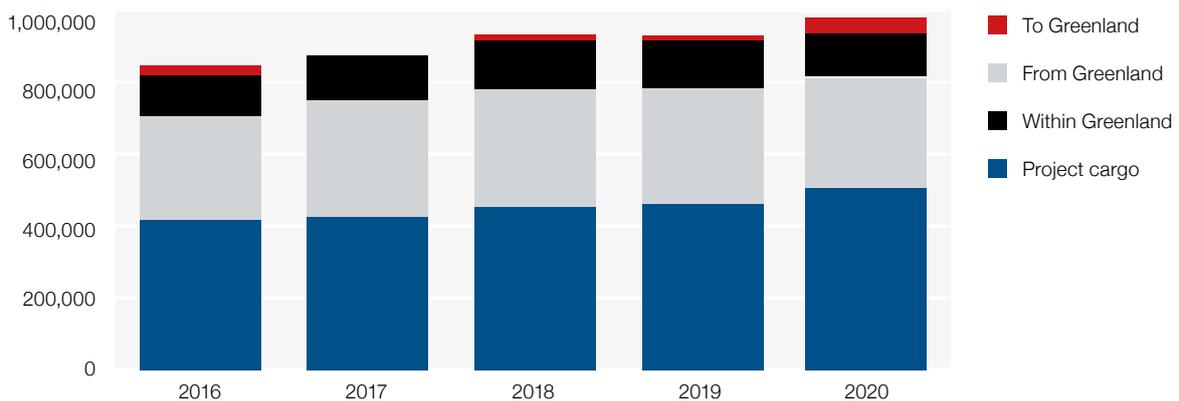
Domestic cargo

Domestic cargo volume fell by 4% from 132,583 cubic metres to 127,700 cubic metres. Cargo volume consisted mainly of raw materials from the fishing industry for processing, food for distribution along the coast and of beverages produced in the capital. Internally in Greenland, containers were transported corresponding to 7,773 TEU.

Project cargo

Project cargo volume rose from 15,873 cubic metres to 41,239 cubic metres. In addition, containers corresponding to 728 TEU were registered. The increase is due in the main to the on-going large-scale projects relating to airport construction and school/institution construction in Sermersooq municipality.

Cargo volumes



Profit for the year

Royal Arctic Line's consolidated financial result for 2020 shows a profit before tax of DKK 2.4 million and DKK 1.6 million after tax compared to a profit before tax in 2019 of DKK 27.3 million and a profit after tax of DKK 24.8 million. The 2020 profit is significantly better than indicated by management in the 2020 interim report.

Despite a lower profit in 2020 than in 2019, Royal Arctic Line's performance in 2020 has provided a satisfactory result, taking into consideration the effect the corona virus has had on the world economy. On a group level, Royal Arctic Line has not only maintained earnings at the same level as 2019, we have achieved an increase in revenue from DKK 904 million in 2019 to DKK 916 million in 2020, which means there was an improvement of net earnings of DKK 5 million from DKK 937 million in 2019 to DKK 942 million in 2020.

Total staff costs comprising administrative staff, hourly-paid staff and hired labour increased from DKK 371 million in 2019 to DKK 403 million in 2020, which was expected by management. This was to some extent due to collective bargaining on the part of our hourly-paid personnel. Furthermore, costs in connection with the maritime personnel were higher. Construction of the new ship Tukuma, which should have been delivered at the beginning of 2020, was delayed due to the outbreak of corona in China where the ship was being built, which resulted in changes in the sailing schedules.

The above resulted in a drop in operating profit of approx. DKK 21 million from DKK 35 million in 2019 to DKK 14 million in 2020, which is considered to be satisfactory, taking into consideration the global economic crisis caused by the corona pandemic and the costs related to start-up of the Vessel Sharing Agreement.

The target for the profit/loss before tax, adjusted for the cancelled allotment of buildings, was a loss of DKK 10 - 20 million, due to one-off costs in connection with the initiation of the VSA venture. Since the profit before tax of DKK 2.4 million includes corona-related costs of approx. DKK 15 million, the profit is considered to be extremely satisfactory.

The group's cash and cash equivalents at the end of the year amounted to DKK 258 million, which is an improvement of DKK 40 million compared to the end of 2019. Cash flows related to investments totalled DKK 405 million and again in 2020 these investments were primarily associated with programmes for building new ships. The group's cash flows from operating activities were approx. DKK 108 million, which is considered to be a satisfactory level.

At the coming AGM in 2021, the board will recommend that Royal Arctic Line pays DKK 2.5 million in dividends.

Changes in the Board of Directors and Executive Board

At the AGM in 2020 the board was expanded with another member and Heiðrún Jónsdóttir was elected to the board. The board consists of Ulrik Blidorf (Chair), Erik Jørgen Østergaard (Vice Chair), Minannguaq Hilda Zeep, Mai-Lill Ibsen, Heiðrún Jónsdóttir 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 fluctuated greatly in 2020 and from a low caused by the enormous uncertainty due to the corona crisis in the spring of 2020, the price righted itself and during the last half of the year more than doubled compared to the low. The great fall at the beginning of 2020 meant that the BAF/CAF was reduced with a total of 9 percentage points in June 2020. However, oil prices are expected to stabilize at the higher level in 2021, resulting in an increase in the BAF/CAF at the beginning of 2021.

New ships

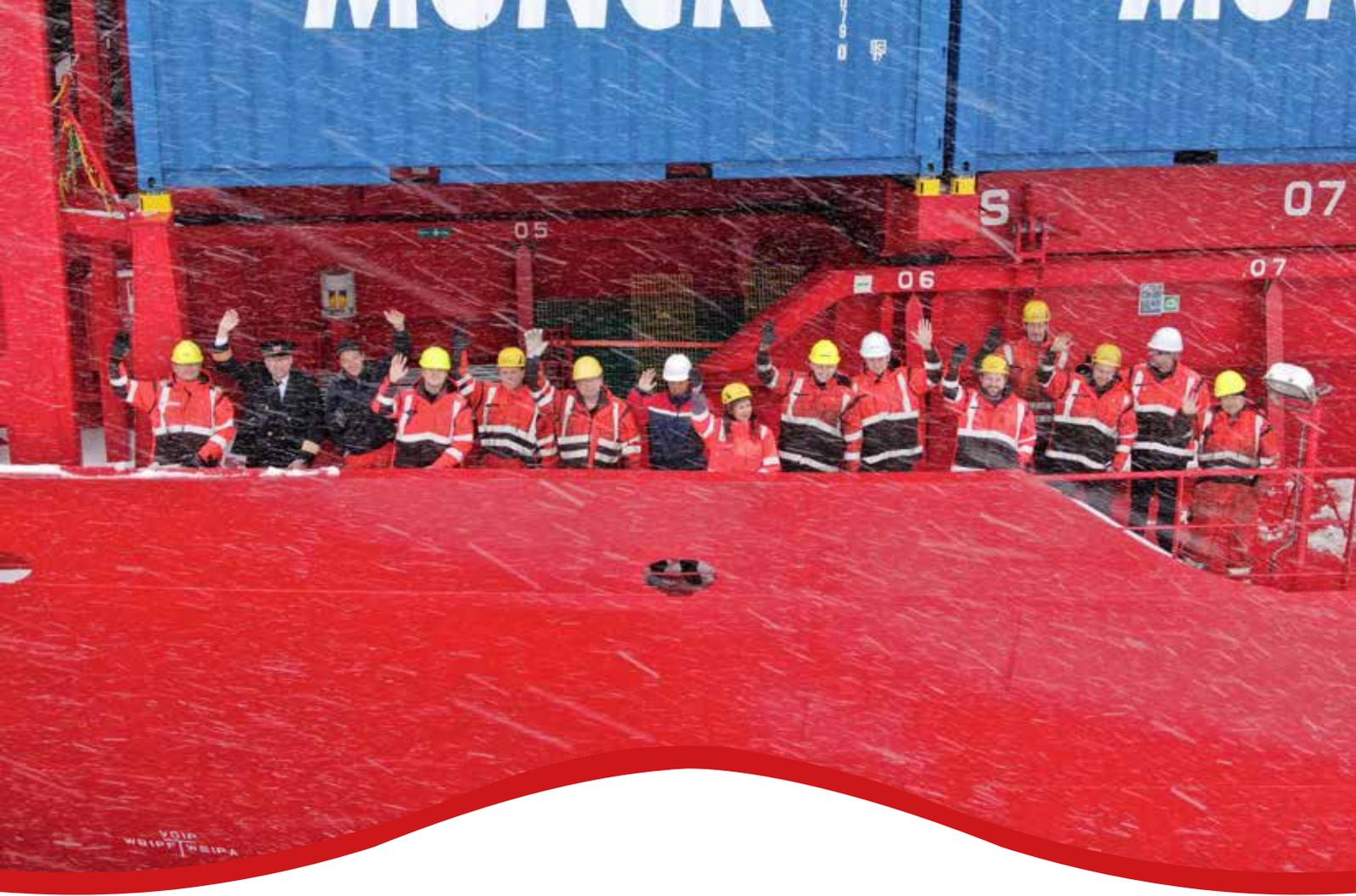
The comprehensive programme for new ships that was initiated in 2015 is expected to conclude at the end of 2021, with the delivery of the last new ship. This is later than was originally announced. The delay is due primarily to the corona pandemic in 2020, which also hit Spanish shipyards.

Corporate Social Responsibility

Royal Arctic Line plays an essential role in the infrastructure and is therefore the lifeblood of transportation in Greenland. This involves a social responsibility that is practiced all year round: We are an important partner when it comes to keeping things moving - for the public, for companies and for institutions.

As a company, we also have a responsibility for the manner in which we operate. This includes the conditions for our staff, our impact on the environment and the way in which we act in relation to our business partners and the authorities.

Like many other companies, we have elected to structure our work with social responsibility in accordance with the 17 global goals for sustainable development. In 2020 we worked at strengthening the organisation to support revitalisation of the company's CSR work. With this, we can create a precondition for clear objectives, which prepare a structured and formalized approach to production and collection of data to support our future sustainability profile. Especially our work in 2020 with Governance and Compliance alongside the establishment of a



CSR task force with interdisciplinary participation has ensured that we can create an enduring effort.

We have Climate and Environment, Working Environment and Safety, Competence Development and Training and Involvement in the Local Community as the operational and developmental focus areas and Governance as a fifth leg to endure a goal and follow-up in the ethical and diversity-based development areas.

Through our international operating partnerships, Royal Arctic Line has great opportunities to not only reduce our environmental impact, but also to develop ourselves and our employees by being able to benchmark and cooperate with companies to ensure ambitious, effective and realisable goals, far in excess of what we could do, as an individual company. 2021 will be about preparing a long-term perspective for sustainable development in an environmental and diverse global context and a local developmental context in Greenland and preparing reporting for these.

Corporate Social Responsibility is dealt with in a separate report which can be found on Royal Arctic Line's website www.ral.dk/regnskaber.

Outlook for 2021

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 marginally higher level of activity in Greenland in 2021 compared to 2020, primarily due to a continued high level of local investment and the subsequent effect this will have on cargo volume. After implementation of the VSA with Eimskip in 2020, Royal Arctic Line has a secondary activity associated with the competitive markets to which the new network gives access. This activity is expected to contribute DKK 10 - 16 million to our revenue in 2021.

The observed negative effects from the corona virus in 2020 are not expected to be repeated in 2021, since all the ships directly involved in the VSA collaboration were delivered in 2020 and are now fully operational. However, the corona crisis and the consequent restrictions will still give rise to uncertainty

in 2021. This is primarily related to the last three settlement ships from the Zamakona and Nodosa shipyards respectively, and the southbound reefer volume that may be affected by the present restrictions on exports of fish and shell fish to China.

This, combined with the systematic uncertainty in connection with the development of cargo volume as well as one-off expenses for adjustment of port activities related to the VSA network, mean a continued higher level of uncertainty with regard to expectations for 2021, similar to the level that was observed for 2020.

Cash flows from operating activities are also expected to be positive in 2021. It is estimated that the company has a satisfactory financial basis for operations in 2021.

Overall, the profit/loss for the Royal Arctic Line Group in 2021 is expected to be in the range of DKK 5 - 15 million before tax.



Financial risks

Royal Arctic Line's banking business is primarily based on fixed-interest DKK loans with the exception of the financing of *Tukuma Arctica*, which has been financed with EUR loans with variable interest rates, and *Nanoq Arctica*, which is leased on terms equivalent to an EUR loan with variable interest. To hedge risks related to rising interest rates and possible exchange rate fluctuations, these risks are hedged using derivatives in the form of so-called interest-rate and currency SWAPs. This hedging has previously complied with the accounting requirements for financial hedging, but with the present situation with negative interest, it was evaluated that this presented increased uncertainty with regard to the hedging effectiveness, since there is a so-called "floor" on the EUR loan that prevents the interest from being less than 0 % per year plus the interest margin. Since there is not a corresponding floor on the associated hedging instruments, it causes an asymmetry in the hedging for that period where the interest is below 0 % per year. This asymmetry was relatively limited in 2020 but since there is a high degree of uncertainty connected to interest in the future, Royal Arctic Line chose to have the floor removed for the loans for *Tukuma* and the lease for *Nanoq*, against an increase in the interest margin of around 20 basis points (0.20 %). This was done to defend the hedging's accounting status as financial hedging as well as effectively addressing that uncertainty brought about by the negative interest.

In addition to the financial risks connected with financing, Royal Arctic Line divides the company's risk profile into so-called systematic risks (micro economic risks) and unsystematic risks (risks unique to Royal Arctic Line). The unsystematic risks are primarily associated with the building programme for new ships, which is standard for all shipping companies. Since Royal Arctic Line at the turn of the year only had three incomplete ships outstanding, this risk has been reduced significantly compared to previous years. The last ship is projected to be delivered in the third quarter of 2021, so it is expected that this risk element will be completely eliminated in 2021.

Royal Arctic Line uses stochastic simulation to assess the liquidity needed each month compared to actual developments as well as known investment programmes. The absolute greatest risk parameters in this model are in regard to revenue, which until now was exclusively derived from import and export to and from Greenland. This has created a relatively high level of vulnerability to sudden fluctuations in the market in Greenland. It was not previously possible to address this risk, but the VSA and access to competitive markets has changed this. Insofar as Royal Arctic Line succeeds in penetrating the market in Iceland in particular, this risk will be more diversified and thus reduced. The corona restrictions have made it extremely difficult to get the necessary local agreements and operational facilities to fall into place, but Royal Arctic Line is optimistic with regard to this happening in 2021.

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, however 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 has to take other things into consideration than the shipping company's isolated needs.

Market risks are illustrated in monthly financial reports and risk models combined with a series of corporate governance tools, including the board of directors' duties and responsibilities, active ownership and overall communication policy.

Non-concession business

As described above, development of the cargo volume carried under the concession depends on the general development in Greenland and shipping companies are therefore vulnerable to even small fluctuations in the volume of cargo carried under the concession. As a consequence of this, Royal Arctic Line has started to develop business in non-concessioned areas of business.

Until now, these areas of business have primarily been aimed at developing business areas in Greenland and in voyages outside Greenland in the winter season. One of these areas concerns 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 the Belgian research stations. The agreement ensures use of capacity that would otherwise be unused due to the winters in Greenland, thus enhancing the company's earnings.

With the implementation of the Vessel Sharing Agreement (VSA) in the middle of 2020 and the new shipping system, Royal Arctic Line has access to service markets outside Greenland on a weekly basis all year round. These are markets between Iceland, the Faroe Islands and Scandinavia as well as within Scandinavia. This will also contribute to opportunities which can compensate for fluctuations in the market in Greenland.

In Greenland, Royal Arctic Line undertakes trawler solutions, container stuffing and other activities in connection with fishing exports. Activities in Denmark in competition with other providers of logistic services is undergoing change, where we are looking for rationalisation and increased flexibility by deliberately opting out of general cargo related (LCL) activities.

Data exchange and digitalisation are included as important parameters.

Prices and contribution rates

Each year, the Government of Greenland considers and approves prices charged by Royal Arctic Line. It has been decided politically that freight rates (excl. total handling costs) should be the same for the whole country and that freight rates for southbound cargo should be lower than for northbound cargo in order to support the export trade.

An investment contribution of 3.1 % is added to the freight rates. The investment contribution is intended to secure funding for e.g. new ships during the duration of the 20-year contract for settlement services with the Government of Greenland. This contribution is a natural part of the company's prices and cargo revenue.

The oil and exchange rate margins (BAF/CAF) are charged separately to adjust for fluctuations in oil prices and exchange rates of the US dollars used to pay for oil.

The concession - a right and an obligation

Royal Arctic Line has an exclusive right to ship cargo to, from and between towns in Greenland, as well as between Greenland and Reykjavik, Aalborg and a range of overseas destinations. With this exclusive right comes an obligation to provide services to Greenland.

The concession stipulates conditions regarding frequency of calls, capacity and security of supply for all towns in West Greenland and in East Greenland.

The concession applies to such cargo as:

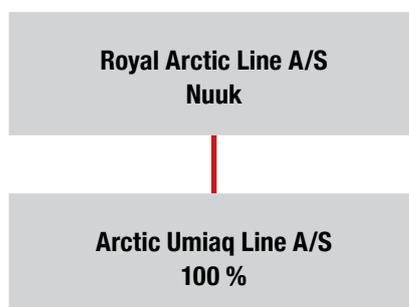
- Food
- Consumer goods, including furniture, household appliances, motor vehicles and boats
- Materials for the construction industry
- Other cargo, including transport equipment and tank containers

Service level

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



The Royal Arctic Line Group



Arctic Umiag Line

Arctic Umiag 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. Focus is primarily on transportation of local travellers, but services are also provided for the tourist industry.

Other associates

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



About Greenland

From north to south, Greenland measures 2,670 kilometres. 18 towns, 60 villages and a small number of settlements are located along the 40,000 kilometre long coast line. Most of the towns and villages are located on Greenland's west coast.

Transport between towns and villages is only possible by plane or boat. From Disko Bay to North Greenland and on Greenland's east coast the waters are usually filled with ice in

the winter and supplies must be delivered by air for three to six months of the year.

Approx. 56.300 people live in Greenland and almost 7,000 of these live in villages and settlements. Nuuk has approx. 18,000 inhabitants. It is the largest town in the country and the only town 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. In this respect, Royal Arctic Line has drawn up a detailed report that is available on the company's homepage www.ral.gl

The role of the shareholders and interaction with management

The board of directors and the executive board of Royal Arctic Line support an active ownership and there is therefore a close dialogue between the company and the shareholder's representatives, Naalakkersuisut and the Ministry for Municipalities, Settlements, Outlying Districts, Infrastructure and Housing. Shareholder meetings are held where the chairman informs the attendants of important developments or changes in financial results and of matters that may have a material effect on society or economics. Freight rates and the master sailing schedule are approved each year by the shareholder's representatives and the owner is informed of any major decisions.

The role of stakeholders and their significance for the company; Corporate Social Responsibility

Royal Arctic Line's strategy, which has been drawn up by the board of directors and the executive board, sets objectives regarding the customers, the employees and the shareholder. The board of directors follows up on the objectives through satisfaction surveys involving customers and employees and through shareholder meetings for the owner. These are also addressed in the annual report under corporate responsibility. The board of directors has adopted Royal Arctic Line's strategy 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 available on the Royal Arctic Line homepage. Any other information that the Danish Business Authority may receive will also be published on www.ral.gl

The board of directors' duties and responsibilities

The board of directors' duties and responsibilities are specified in the Board's Rules of Procedure which comply with the Guidelines on Corporate Governance for Public Limited Companies Owned by the Government of Greenland.

- Inform the shareholders of any significant expected and/or realised events
- Appoint a vice chair from its members at the first Director's meeting
- Review the financial statements and the preliminary announcement of the financial statements
- Approve the budget and forecasts for the following year as well as the prognosis presented in connection with the interim financial statement
- Ensure that the auditor's reports are presented and sign them
- Consider the organization of the company at least once a year, in particular the organization of the company's accounting systems and control procedures
- Undertake management of financial and business risks
- Set overall strategic goals together with the executive board
- Review annually the company's insurance policies including management's liability insurance
- Review the company's CSR and communication strategies and policies
- Evaluate the board of directors and the executive board

Composition and organisation of the board of directors

Royal Arctic Line is wholly owned by the Government of Greenland, which appoints the chairman of the board of directors and five directors. The election period is one year. In addition, employees at Royal Arctic Line elect three employee members to the board of directors. The election of employee members of the board of directors took place in the spring of 2018 for a four-year term.

Referring to the Rules of Procedure for Royal Arctic Line's board of directors, the board of directors convenes four times a year as a minimum. The Rules of Procedure also ensure that the board of directors acts independently of special interests.

The board of directors completes regular self-evaluations relating to its overall skills, possible training requirements, cooperation between the directors themselves and cooperation with the executive board. The results are examined with the shareholder.



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 vice 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 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.

Audit

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 present 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 2020 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, 16 March 2021

Executive Board



Verner Sonny
Daugård Hammeken
CEO



Aviåja Lyberth Lennert
Deputy CEO



Peter Christoffersen
CFO

Board of Directors



Ulrik Blidorf
Chairman



Erik Jørgen Østergaard
Deputy Chairman



Minannguaq Hilda
Zeeb



Mai-Lill
Ibsen



Heiðrún
Jónsdóttir



Stefan Dirk Buch



Jens Peter Rosing
Berthelsen



Eydun Simonsen



Laust Lindskov
Vestergaard



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 01.01.2020 to 31.12.2020, 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 31.12.2020 and of the profit/loss of the group's and company's activities and the group's cash flows for the financial year 01.01.2020 - 31.12.2020 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 achieve an understanding of the internal control relevant to the audit in order to be able to design audit procedures that are appropriate to the circumstances, but not to express a conclusion about the effectiveness of the group's or the company's internal control.
 - 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 the Greenland Financial Statements Act. We have not found any significant error or misinformation in the Management Report.

Nuuk, March 16th 2021

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 2020

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|--|-----------------------|----------------|--------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| 1 Net revenue | 870,637 | 855,160 | 916,221 | 903,770 |
| 2 Other operating income | 65,799 | 65,836 | 65,799 | 65,836 |
| 3 Cargo-related expenditure | (36,987) | (29,478) | (39,643) | (32,192) |
| Gross profit | 899,449 | 891,518 | 942,377 | 937,414 |
| 4 Other external expenditure | (428,770) | (437,283) | (448,458) | (458,776) |
| 5 Staff costs | (386,751) | (354,027) | (403,411) | (371,187) |
| 6 Amortisation, depreciation and impairment losses of fixed assets | (75,230) | (71,116) | (76,962) | (72,131) |
| Operating profit | 8,698 | 29,092 | 13,546 | 35,320 |
| 7 Income from investments in Group companies | 3,498 | 4,266 | 0 | 0 |
| 8 Income from investments in associated companies | 165 | 73 | 165 | 73 |
| 9 Other financial income | 1,677 | 141 | 1,677 | 142 |
| 10 Other financial expenses | (12,897) | (8,259) | (12,986) | (8,283) |
| Profit before tax | 1,141 | 25,313 | 2,402 | 27,252 |
| 11 Tax on profit for the year | 440 | (530) | (821) | (2,469) |
| 12 Profit for the year | 1,581 | 24,783 | 1,581 | 24,783 |

Assets

as of 31 December 2020

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | | |
|-----------------------|---|------------------|--------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | |
| Fixed assets | | | | | |
| | Software | 9,059 | 16,739 | 9,059 | 16,739 |
| 13 | Total intangible assets | 9,059 | 16,739 | 9,059 | 16,739 |
| | Ships | 712,239 | 441,973 | 716,452 | 443,203 |
| | Buildings | 53,723 | 59,400 | 53,723 | 59,400 |
| | Transport equipment, harbour boats, machinery and fixtures and fittings | 89,400 | 75,677 | 89,400 | 75,677 |
| | Assets under construction | 400,832 | 346,314 | 400,832 | 346,314 |
| 14 | Total property, plant and equipment | 1,256,194 | 923,364 | 1,260,407 | 924,594 |
| | Investments in Group companies | 18,322 | 14,824 | 0 | 0 |
| | Investments in associated companies | 4,542 | 4,377 | 4,542 | 4,377 |
| | Other securities | 1,030 | 1,041 | 1,030 | 1,041 |
| 15 | Total financial fixed assets | 23,894 | 20,242 | 5,572 | 5,418 |
| | Total fixed assets | 1,289,147 | 960,345 | 1,275,038 | 946,751 |
| Current assets | | | | | |
| | Operating stock | 17,409 | 20,267 | 18,150 | 20,996 |
| | Total inventories | 17,409 | 20,267 | 18,150 | 20,996 |
| 16 | Trade receivables | 75,421 | 87,901 | 76,077 | 88,320 |
| | Receivables from Group companies | 1,972 | 2,010 | 0 | 0 |
| | Other receivables | 3,486 | 4,531 | 3,486 | 4,531 |
| | Prepayments and accrued income | 15,864 | 8,026 | 16,673 | 8,220 |
| | Total receivables | 96,743 | 102,468 | 96,236 | 101,071 |
| 17 | Cash and cash equivalents | 235,778 | 195,204 | 257,682 | 217,835 |
| | Total current assets | 349,930 | 317,939 | 372,068 | 339,902 |
| | Total assets | 1,639,077 | 1,278,284 | 1,647,106 | 1,286,653 |

Liabilities

as of 31 December 2020

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | | |
|------------------------------|--|------------------|--------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | |
| Equity | | | | | |
| 18 | Share capital | 120,000 | 120,000 | 120,000 | 120,000 |
| | Reserve for net revaluation of investments: | | | | |
| | - Group companies | 13,322 | 9,824 | 0 | 0 |
| | - Associated companies | 1,045 | 880 | 1,045 | 880 |
| | Other statutory reserves: Retained earnings | | | | |
| | Retained earnings | 544,847 | 502,534 | 558,169 | 512,358 |
| | Proposed dividend | 2,500 | 54,300 | 2,500 | 54,300 |
| | Equity total | 681,714 | 687,538 | 681,714 | 687,538 |
| 11 | Deferred tax | 35,852 | 39,799 | 36,965 | 39,971 |
| | Other provisions | 4,074 | 3,331 | 4,074 | 3,331 |
| | Total provisions | 39,926 | 43,130 | 41,039 | 43,302 |
| Liability commitments | | | | | |
| | Mortgage debt in ships | 587,717 | 351,704 | 587,717 | 351,704 |
| | Mortgage debt | 1,134 | 1,134 | 1,134 | 1,134 |
| | Leasing debt | 74,112 | 0 | 74,112 | 0 |
| 19 | Total non-current liabilities | 662,963 | 352,838 | 662,963 | 352,838 |
| 19 | Next year's instalments on non-current liabilities | 50,701 | 22,816 | 50,701 | 22,816 |
| | Trade accounts payable | 51,883 | 45,997 | 53,366 | 46,133 |
| 11 | Corporation tax | 0 | 10,680 | 320 | 12,592 |
| 20 | Other payables | 138,676 | 98,406 | 143,789 | 104,555 |
| | Prepayments and accrued income | 13,214 | 16,879 | 13,214 | 16,879 |
| | Total current liabilities | 254,474 | 194,778 | 261,390 | 202,975 |
| | Total liabilities | 917,437 | 547,616 | 924,353 | 555,813 |
| | Total liabilities | 1,639,077 | 1,278,284 | 1,647,106 | 1,286,653 |
| 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 |
|---------------------------------------|----------------|--|-------------------|-------------------|----------------|
| ROYAL ARCTIC LINE A/S | | | | | |
| Equity, 1 January 2020 | 120,000 | 10,704 | 54,300 | 502,534 | 687,538 |
| Correction proposed dividend for 2019 | | | (51,500) | 51,500 | 0 |
| Profit/loss for the year | | 3,663 | 2,500 | (4,582) | 1,581 |
| Regulation of derivative instruments | | | | (4,605) | (4,605) |
| Dividend paid | | | (2,800) | | (2,800) |
| Equity, 31 December 2020 | 120,000 | 14,367 | 2,500 | 544,847 | 681,714 |
| Equity, 1 January 2019 | 120,000 | 6,365 | 0 | 536,147 | 662,512 |
| Profit/loss for the year | | 4,339 | 54,300 | (33,856) | 24,783 |
| Regulation of derivative instruments | | | | 243 | 243 |
| Equity, 31 December 2019 | 120,000 | 10,704 | 54,300 | 502,534 | 687,538 |
| ROYAL ARCTIC GROUP | | | | | |
| Equity, 1 January 2020 | 120,000 | 880 | 54,300 | 512,358 | 687,538 |
| Correction proposed dividend for 2019 | | | (51,500) | 51,500 | 0 |
| Other equity items | | 165 | | (165) | 0 |
| Profit/loss for the year | | | 2,500 | (919) | 1,581 |
| Regulation of derivative instruments | | | | (4,605) | (4,605) |
| Dividend paid | | | (2,800) | | (2,800) |
| Equity, 31 December 2020 | 120,000 | 1,045 | 2,500 | 558,169 | 681,714 |
| Equity, 1 January 2019 | 120,000 | 807 | 0 | 541,705 | 662,512 |
| Other equity items | | 73 | | (73) | 0 |
| Profit/loss for the year | | | 54,300 | (29,517) | 24,783 |
| Regulation of derivative instruments | | | | 243 | 243 |
| Equity, 31 December 2019 | 120,000 | 880 | 54,300 | 512,358 | 687,538 |

Cash Flow Statement

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | | |
|--|--|------------------|--------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | |
| Cash flow from operating activities | | | | | |
| | Operating profit | 8,698 | 29,092 | 13,546 | 35,320 |
| | Amortisation, depreciation and impairment losses | 75,230 | 71,116 | 76,962 | 72,131 |
| 21 | Change in working capital | 43,704 | 47,278 | 43,113 | 47,388 |
| | Cash flow from operating activities | 127,632 | 147,486 | 133,621 | 154,839 |
| | Net interest payments | (12,848) | (8,118) | (12,936) | (8,141) |
| 11 | Tax paid | (10,680) | 0 | (12,593) | (1,831) |
| | Cash flow from operating activities | 104,104 | 139,368 | 108,092 | 144,867 |
| Cash flow from investing activities | | | | | |
| 13,14,22 | Investments | (408,575) | (170,137) | (413,290) | (170,312) |
| | Divestment of fixed assets | 8,195 | 1,314 | 8,195 | 1,314 |
| | Acquisition and divestment of financial fixed assets | 11 | 22 | 11 | 22 |
| | Cash flow from investing activities | (400,369) | (168,801) | (405,084) | (168,976) |
| Cash flow from financing activities | | | | | |
| 23 | Loans raised during the year | 368,246 | 84,112 | 368,246 | 84,112 |
| 24 | Instalments during the year | (28,607) | (20,979) | (28,607) | (20,979) |
| 12 | Dividend paid | (2,800) | 0 | (2,800) | 0 |
| | Cash flow from financing activities | 336,839 | 63,133 | 336,839 | 63,133 |
| | Changes in cash and cash equivalents | 40,574 | 33,700 | 39,847 | 39,024 |
| | Cash and cash equivalents at beginning of year | 195,204 | 161,504 | 217,835 | 178,811 |
| | Cash and cash equivalents at year-end | 235,778 | 195,204 | 257,682 | 217,835 |
| Distributed as follows: | | | | | |
| 17 | Cash and cash equivalents | 235,778 | 195,204 | 257,682 | 217,835 |
| | Total | 235,778 | 195,204 | 257,682 | 217,835 |

Notes

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|---|-----------------------|----------------|--------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| 1 Total income | | | | |
| 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 | | | 45,704 | 48,732 |
| Net revenue can be specified as follows: | | | | |
| Concession cargo income | 719,909 | 717,334 | 719,858 | 717,296 |
| Non-concession income | 150,728 | 137,826 | 196,363 | 186,474 |
| Total net revenue | 870,637 | 855,160 | 916,221 | 903,770 |

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 | 204,374 | 200,513 | 217,770 | 215,755 |
| Terminals | 138,286 | 135,683 | 138,286 | 135,683 |
| Container operations | 35,752 | 41,144 | 35,752 | 41,144 |
| Sales and administration | 50,358 | 59,943 | 56,650 | 66,194 |
| Total other external expenses | 428,770 | 437,283 | 448,458 | 458,776 |

5 Staff costs

Staff costs can be specified as follows:

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Wages and salaries | 337,972 | 303,806 | 354,266 | 320,331 |
| Pension contributions and social security contributions | 43,263 | 41,160 | 43,619 | 39,825 |
| Other staff costs | 5,517 | 9,061 | 5,526 | 11,031 |
| Total staff costs | 386,752 | 354,027 | 403,411 | 371,187 |

Executive Board

| | | | | |
|---------------------------|--------------|--------------|--|--|
| Remuneration | 6,252 | 6,072 | | |
| Bonus | 963 | 978 | | |
| Board of Directors | 1,406 | 1,325 | | |
| Total remuneration | 8,621 | 8,375 | | |

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 '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|---------------------------------------|-----------------------|------|--------------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Average number of full-time employees | 755 | 756 | 757 | 759 |
| Number of employees at year-end | 763 | 748 | 765 | 750 |
| Average number of trainees | 57 | 37 | 57 | 37 |
| Number of trainees at year-end | 53 | 47 | 53 | 47 |

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

| | |
|----|----|
| 43 | 42 |
|----|----|

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

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Ships | 52,901 | 42,013 | 54,633 | 43,029 |
| Buildings | 6,240 | 5,783 | 6,240 | 5,783 |
| Transport equipment, harbour boats, machinery and fixtures and fittings | 16,066 | 15,092 | 16,066 | 15,092 |
| Software | 8,087 | 9,358 | 8,087 | 9,358 |
| Profit/loss on sale of fixed assets | (8,064) | (1,130) | (8,064) | (1,130) |
| Total amortisation, depreciation and impairment losses | 75,230 | 71,116 | 76,962 | 72,132 |

7 Income from investments in Group companies

| | | | | |
|---|--------------|--------------|--|--|
| Arctic Umiaq Line A/S | 3,498 | 4,266 | | |
| Total profit from investments in Group companies | 3,498 | 4,266 | | |

8 Income from investments in associated companies

| | | | | |
|---|------------|-----------|------------|-----------|
| Ejendomsselskabet Suliffik A/S | 165 | 73 | 165 | 73 |
| Total profit/loss from investments in associated companies | 165 | 73 | 165 | 73 |

9 Finansielle indtægter

| | | | | |
|--|--------------|------------|--------------|------------|
| Unrealized foreign exchange gains on long-term liabilities | 1,628 | 0 | 1,628 | 0 |
| Other financial income | 49 | 141 | 49 | 142 |
| Total financial income | 1,677 | 141 | 1,677 | 142 |

10 Other financial expenditure

| | | | | |
|------------------------------------|---------------|--------------|---------------|--------------|
| Other financial expenditure | 12,897 | 8,259 | 12,986 | 8,283 |
| Total financial expenditure | 12,897 | 8,259 | 12,986 | 8,283 |

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

| | | | |
|-------|-------|-------|-------|
| 3,209 | 2,896 | 3,209 | 2,896 |
|-------|-------|-------|-------|

11 Tax on profit for the year

Tax on the profit for the year consists of:

Royal Arctic Line A/S

| | | | | |
|--|-----|----------|-------|----------|
| Current tax, Greenland | 0 | (10,680) | 0 | (10,680) |
| Deferred tax, Greenland | 440 | 2,631 | (501) | 2,570 |
| Adjustment of corporation tax rate | 0 | 7,519 | 0 | 7,553 |
| Adjustment re. previous years, Greenland | 0 | 0 | 0 | 0 |

Group companies

| | | | | |
|--|---|---|-------|---------|
| Current tax, Greenland | 0 | 0 | (320) | (1,912) |
| Current tax, Denmark | 0 | 0 | 0 | 0 |
| Adjustment re. previous years, Denmark | 0 | 0 | 0 | 0 |

| | | | | |
|---------------------------------------|------------|--------------|--------------|----------------|
| Tax on the profit for the year | 440 | (530) | (821) | (2,469) |
|---------------------------------------|------------|--------------|--------------|----------------|

| | | | | |
|-----------------------|-----------------|----------|-----------------|----------------|
| Income tax | (10,680) | 0 | (12,593) | (1,831) |
| Total tax paid | (10,680) | 0 | (12,593) | (1,831) |

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|---|-----------------------|---------------|--------------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| The provision for deferred tax is mainly due to accelerated depreciation for tax purposes and is composed as follows: | | | | |
| Provisions at beginning of year | 39,799 | 50,482 | 39,971 | 50,625 |
| Adjustment of corporation tax rate | 0 | (7,519) | 0 | (7,553) |
| Adjustment re. previous years | 0 | 0 | 0 | 0 |
| Adjustment re. equity | (3,507) | (533) | (3,507) | (533) |
| Change during the year | (440) | (2,631) | 501 | (2,568) |
| Provisions at year-end | 35,852 | 39,799 | 36,965 | 39,971 |
| Property, plant and equipment | | | | |
| Financial fixed assets | 19,228 | 44,664 | 20,341 | 44,836 |
| Current assets | 3,811 | 2,840 | 3,811 | 2,840 |
| Long-term liabilities | 22,864 | (104) | 22,864 | (104) |
| Current liabilities | 0 | (39) | 0 | (39) |
| Other | (8,971) | (6,678) | (8,971) | (6,678) |
| Total | (1,080) | (884) | (1,080) | (884) |
| I alt | 35,852 | 39,799 | 36,965 | 39,971 |

12 Proposed distribution of profit

Proposed distribution of profit

| | | |
|---|--------------|---------------|
| Proposed dividend for the financial year | 2,500 | 54,300 |
| Transferred to reserve for net revaluation of investments | 3,663 | 4,339 |
| Carried forward to next year | (4,582) | (33,856) |
| Total | 1,581 | 24,783 |

13 Intangible assets

Software

Cost

| | | | | |
|-----------------------|---------------|---------------|---------------|---------------|
| Cost year beginning | 50,703 | 48,669 | 50,703 | 48,669 |
| Addition for the year | 407 | 2,034 | 407 | 2,034 |
| Disposal for the year | 0 | 0 | 0 | 0 |
| Cost year end | 51,110 | 50,703 | 51,110 | 50,703 |

Depreciation and impairment losses

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Depreciation and impairment losses year beginning | 33,964 | 24,606 | 33,964 | 24,606 |
| Depreciation for the year | 8,087 | 9,358 | 8,087 | 9,358 |
| Impairment losses for the year | 0 | 0 | 0 | 0 |
| Depreciation and impairment losses on disposals for the year | 0 | 0 | 0 | 0 |
| Depreciation and impairment losses year end | 42,051 | 33,964 | 42,051 | 33,964 |

| | | | | |
|-------------------------------|--------------|---------------|--------------|---------------|
| Book value at year-end | 9,059 | 16,739 | 9,059 | 16,739 |
|-------------------------------|--------------|---------------|--------------|---------------|

Notes

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|---|-----------------------|------------------|--------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| 14 Property, plant and equipment | | | | |
| Ships | | | | |
| Cost | | | | |
| Cost year beginning | 1,175,879 | 1,180,285 | 1,186,270 | 1,190,500 |
| Addition for the year | 323,167 | 4,554 | 327,882 | 4,730 |
| Disposal for the year | (347,420) | (8,960) | (347,420) | (8,960) |
| Cost year end | 1,151,626 | 1,175,879 | 1,166,732 | 1,186,270 |
| Depreciation and impairment losses | | | | |
| Depreciation and impairment losses year beginning | 733,906 | 700,878 | 743,067 | 709,023 |
| Depreciation for the year | 52,901 | 42,013 | 54,633 | 43,029 |
| Impairment losses for the year | 0 | 0 | 0 | 0 |
| Depreciation and impairment losses on disposals for the year, | (347,420) | (8,985) | (347,420) | (8,985) |
| Depreciation and impairment losses year end | 439,387 | 733,906 | 450,280 | 743,067 |
| Carrying amount year end | 712,239 | 441,973 | 716,452 | 443,203 |
| Of which financially leased assets | 76,669 | 0 | 76,669 | 0 |
| Buildings | | | | |
| Cost | | | | |
| Cost year beginning | 171,330 | 168,365 | 171,330 | 168,365 |
| Additions for the year | 563 | 2,965 | 563 | 2,965 |
| Disposals for the year | 0 | 0 | 0 | 0 |
| Cost year end | 171,893 | 171,330 | 171,893 | 171,330 |
| Depreciation and impairment losses | | | | |
| Depreciation and impairment losses year beginning | 111,930 | 106,147 | 111,930 | 106,147 |
| Addition at merger | 0 | 0 | 0 | 0 |
| Depreciation for the year | 6,240 | 5,783 | 6,240 | 5,783 |
| Impairment losses for the year | 0 | 0 | 0 | 0 |
| Depreciation and impairment losses on disposals for the year | 0 | 0 | 0 | 0 |
| Depreciation and impairment losses year end | 118,170 | 111,930 | 118,170 | 111,930 |
| Carrying amount year end | 53,723 | 59,400 | 53,723 | 59,400 |
| Transport equipment, harbour boats, machinery and fixtures | | | | |
| Cost | | | | |
| Cost year beginning | 380,569 | 390,469 | 380,569 | 390,469 |
| Additions for the year | 29,920 | 22,783 | 29,920 | 22,783 |
| Disposals for the year | (20,133) | (32,683) | (20,133) | (32,683) |
| Cost at year end | 390,356 | 380,569 | 390,356 | 380,569 |
| Depreciation and impairment losses | | | | |
| Depreciation and impairment losses year beginning | 304,892 | 322,275 | 304,892 | 322,275 |
| Depreciation for the year | 16,066 | 15,092 | 16,066 | 15,092 |
| Impairment losses for the year | 0 | 0 | 0 | 0 |
| Depreciation and impairment losses on disposals for the year | (20,002) | (32,475) | (20,002) | (32,475) |
| Depreciation and impairment losses year end | 300,956 | 304,892 | 300,956 | 304,892 |
| Carrying amount year end | 89,400 | 75,677 | 89,400 | 75,677 |
| Proportion of financial leased assets | 0 | 132 | 0 | 132 |

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|--|-----------------------|----------------|--------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Assets under construction – Ships | | | | |
| Cost | | | | |
| Cost year beginning | 345,738 | 207,462 | 345,738 | 207,462 |
| Additions for the year | 374,689 | 140,310 | 374,689 | 140,310 |
| Disposals for the year | (323,707) | (2,034) | (323,707) | (2,034) |
| Carrying amount year end | 396,720 | 345,738 | 396,720 | 345,738 |
| Including financial costs of | 4,712 | 6,159 | 4,712 | 6,159 |
| Assets under construction - buildings | | | | |
| Cost | | | | |
| Cost at beginning of year | 0 | 504 | 0 | 504 |
| Additions during the year | 563 | 2,461 | 563 | 2,461 |
| Disposals during the year | (563) | (2,965) | (563) | (2,965) |
| Cost at year-end | 0 | 0 | 0 | 0 |
| Assets under construction - transport equipment, harbour boats, machinery | | | | |
| Cost | | | | |
| Cost at beginning of year | 576 | 547 | 576 | 547 |
| Additions during the year | 33,863 | 22,812 | 33,863 | 22,812 |
| Disposals during the year | (30,327) | (22,783) | (30,327) | (22,783) |
| Cost at year-end | 4,112 | 576 | 4,112 | 576 |
| Total assets under construction | 400,832 | 346,314 | 400,832 | 346,314 |
| Total property, plant and equipment | 1,256,194 | 923,364 | 1,260,407 | 924,594 |

Assets charged, see Note 25

15 Financial fixed assets

Investments in Group companies

| | | |
|---|---------------|---------------|
| Cost | | |
| Cost at beginning of year | 5,000 | 5,000 |
| Additions during the year | 0 | 0 |
| Disposals during the year | 0 | 0 |
| Cost at year-end | 5,000 | 5,000 |
| Depreciation and impairment losses | | |
| Depreciation and impairment losses year beginning | 9,824 | 5,558 |
| Depreciation for the year | 0 | 0 |
| Share on profit for the year | 3,498 | 4,266 |
| Dividend paid | 0 | 0 |
| Revaluations and impairment losses at year-end | 13,322 | 9,824 |
| Book value at year-end | 18,322 | 14,824 |

Notes

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|---|-----------------------|---------------|--------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Participating interests in associated companies | | | | |
| Cost | | | | |
| 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 |
| Cost at year-end | 3,497 | 3,497 | 3,497 | 3,497 |
| Revaluations and impairment losses | | | | |
| Revaluations and impairment losses at beginning of year | 880 | 807 | 880 | 807 |
| Share on profit for the year | 165 | 73 | 165 | 73 |
| Dividend paid | 0 | 0 | 0 | 0 |
| Reversal of disposals | 0 | 0 | 0 | 0 |
| Revaluations and impairment losses at year-end | 1,045 | 880 | 1,045 | 880 |
| Book value at year-end | 4,542 | 4,377 | 4,542 | 4,377 |
| Ejendomsselskabet Suliffik A/S, Nuuk, share 30 % | 4,542 | 4,377 | 4,542 | 4,377 |
| Book value at year-end | 4,542 | 4,377 | 4,542 | 4,377 |
| Securities | | | | |
| Cost | | | | |
| Cost at beginning of year | 1,041 | 1,063 | 1,041 | 1,063 |
| Additions during the year | 0 | 0 | 0 | 0 |
| Disposals during the year | (11) | (22) | (11) | (22) |
| Cost at year-end | 1,030 | 1,041 | 1,030 | 1,041 |
| Book value at year-end | 1,030 | 1,041 | 1,030 | 1,041 |
| Total financial fixed assets | 23,894 | 20,242 | 5,572 | 5,418 |

16 Trade receivables

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.

17 Cash and cash equivalents

| | | | | |
|--|--------|-------|--------|-------|
| Amount in USD | 449 | 23 | 449 | 23 |
| Amount in EUR | 6,754 | 1,045 | 6,754 | 1,045 |
| Translated using closing rate, this produces DKK | 52,969 | 7,964 | 52,969 | 7,964 |

18 Share capital

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.

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|--|-----------------------|----------------|--------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| 19 Non-current liabilities | | | | |
| Non-current liabilities are payable as follows: | | | | |
| Current portion of collateral debt in ships | 46,602 | 22,667 | 46,602 | 22,667 |
| Current portion of mortgage debt | 0 | 0 | 0 | 0 |
| Current portion of leasing debt | 4,099 | 149 | 4,099 | 149 |
| Total current portion | 50,701 | 22,816 | 50,701 | 22,816 |
| Total non-current portion | 662,963 | 352,838 | 662,963 | 352,838 |
| Total book value | 713,664 | 375,654 | 713,664 | 375,654 |
| Payable after more than five years (amortised cost) | | | | |
| Collateral debt in ships | 436,749 | 224,177 | 436,749 | 224,177 |
| Leasing debt | 59,441 | 0 | 59,441 | 0 |
| Mortgage debt | 1,134 | 1,134 | 1,134 | 1,134 |
| Total amortised cost | 497,324 | 225,311 | 497,324 | 225,311 |
| 20 Other payables | | | | |
| Payables relating to wages and rent | 94,983 | 71,958 | 98,733 | 75,421 |
| Financial instruments | 21,554 | 8,321 | 21,554 | 8,321 |
| Payable costs | 22,139 | 18,127 | 23,502 | 20,813 |
| Total other payables | 138,676 | 98,406 | 143,789 | 104,555 |
| 21 Change in working capital | | | | |
| Increase/decrease in receivables | 5,725 | 22,274 | 4,835 | 22,256 |
| Increase/decrease in operating stocks | 2,858 | 2,029 | 2,846 | 2,075 |
| Increase/decrease in warranty commitments | 743 | 57 | 743 | 57 |
| Increase/decrease in trade payables | 5,886 | 8,945 | 7,233 | 8,956 |
| Value adjustments recognised under equity | (8,113) | (291) | (8,113) | (291) |
| Increase/decrease in other payables, etc. | 36,605 | 14,264 | 35,569 | 14,335 |
| Total change in working capital | 43,704 | 47,278 | 43,113 | 47,388 |
| 22 Investments | | | | |
| Investments in intangible assets | 407 | 2,034 | 407 | 2,034 |
| Investments in ships | 323,167 | 4,554 | 327,882 | 4,729 |
| Investments in buildings | 563 | 2,965 | 563 | 2,965 |
| Investments in other fixed assets | 29,920 | 22,783 | 29,920 | 22,783 |
| Change in assets under construction | 54,518 | 137,801 | 54,518 | 137,801 |
| Total investments | 408,575 | 170,137 | 413,290 | 170,312 |
| 23 Borrowing for the year | | | | |
| Loans raised, collateral in ships | 287,834 | 84,112 | 287,834 | 84,112 |
| Loans raised, leasing | 80,412 | 0 | 80,412 | 0 |
| Total borrowing for the year | 368,246 | 84,112 | 368,246 | 84,112 |

Notes

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|---|-----------------------|---------------|--------------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| 24 Instalments during the year | | | | |
| Instalments during the year, collateral debt in ships | 26,411 | 20,401 | 26,411 | 20,401 |
| Instalments during the year, mortgage debt | 0 | 0 | 0 | 0 |
| Instalments during the year, leasing | 2,196 | 578 | 2,196 | 578 |
| Total instalments during the year | 28,607 | 20,979 | 28,607 | 20,979 |
| 25 Assets charged | | | | |
| Nominal value, collateral debt in ships: | 1,120,481 | 648,000 | 1,120,481 | 648,000 |
| Carrying amount, collateral debt in ships: | 733,694 | 388,441 | 733,694 | 388,441 |
| 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: | 27,895 | 31,244 | 27,895 | 31,244 |
| 26 Leasing, rental and contingent liabilities | | | | |
| 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: | | | | |
| | 40,444 | 33,482 | 40,444 | 33,482 |
| of which USD 2.1 million falls due in 2020, equivalent to DKK 13,840 thousand | | | | |
| Obligations under rental agreements until expiry in 2021: | 0 | 25,251 | 0 | 25,251 |
| Obligations under rental agreements until expiry in 2022: | 25,812 | 15,812 | 25,812 | 15,812 |
| Obligations under rental agreements until expiry in 2023: | 13,740 | 13,709 | 13,740 | 13,709 |
| In addition, a lease agreement extending until 31.07.2042 has been entered into with Sikuki regarding the container terminal in Nuuk. The yearly rent is DKK 41.96 million for 2021 with an annual increase of 2 %. In the event of termination of the concession, the agreement can be terminated with 12 month's notice. | | | | |
| The company has two ships in the process of being built, where the remaining obligation under the contract amounts to approx. DKK 33 million. | | | | |
| Leasing obligations: | 308 | 520 | 308 | 520 |
| 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. | | | | |
| 27 Fees to auditors appointed by the Annual General Meeting | | | | |
| Fees to the auditors appointed at the AGM are recognised in the annual report as follows: | | | | |
| Statutory audit | 985 | 985 | 1,054 | 1,054 |
| Other services | 388 | 714 | 412 | 737 |
| Total | 1,373 | 1,699 | 1,466 | 1,791 |

| DKK '000 | Royal Arctic Line A/S | | Royal Arctic Group | |
|----------|-----------------------|------|--------------------|------|
| | 2020 | 2019 | 2020 | 2019 |

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
Chairman of the Health Commission

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, 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 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 Dyrberg Larsen ApS
Member of Advisory Board for Your Company ApS
Member of Advisory Board for Spaceinvader ApS
Member of Advisory Board for Elite Advertising ApS
Board member at Great Greenland A/S

Heiðrún Jónsdóttir

Solicitor, owner of Logmuli
Vice Chairman in Islandbanki hf. Leader of the "Remuneration Committee"
Member of the Board of Reginn hf., (real estate company registered on Nasdaq), member of the audit committee
Vice Chairman of Stjarnan

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 20. 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.

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.

For ships used in the vessel sharing agreement, each shipping company bears the costs of its own ships and there is no revenue or profit sharing between the shipping companies.

Other operating income

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

Expenses

Freight-related costs are recognised as expenses 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 consists 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 intergroup 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 26.5 %.

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.

Material assets

Material assets are measured at cost minus 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 | 0 - 20 years |
| – Ships – docking for class survey | 2.5 years |
| – Buildings | 5 - 30 years |
| – Transport equipment, harbour boats, machinery and fixtures and fittings | 3 - 10 years |

Material assets 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.

Financial leased assets are measured and recognized in accordance with the same principles as material assets.

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. The debt is subsequently measured at amortised cost equalling the capitalised value, applying the effective interest method.

Financial leasing obligations

Leasing obligations regarding financial leased assets are recognized on the balance sheet as debts and are measured at the time of entering into the contract at the present value of the future lease payments. After initial recognition, the leasing obligations are measured at amortized cost. The difference between the present value and the nominal value of the lease payments is recognized in the income statement over the duration of the leasing contract as a financial expense.

Other financial liabilities

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 financial 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.

