Annual Report 2018

ROYAL ARCTIC

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


MALIK ARCTICA

Annual Report 2018

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

Company Details

The Company

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E-mail: ral@ral.gl
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Registration number

A/S 209.527

CVR. number

16545538

Registered

Nuuk, Greenland

Share capital

DKK 120 million

Ownership

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

Board of Directors

Ulrik Blidorf, Chairman
Erik Østergaard, Vice Chairman
Amma Knudsen
Mai-Lill Ibsen
Tanja Nielsen
Eydun Simonsen*
Jens Peter Berthelsen*
Laust Lindskov Vestergaard*
** Elected by employees in 2018 for a four-year term.*

Executive Board

Verner Hammeken, CEO
Aviâja Lyberth Lennert, Deputy CEO
Peter Christoffersen, CFO

Management Group

Anders Bay Larsen, Department Manager, Fleet Management
Anne Ohlin Ladegaard, Chief Information Officer
Ivalu Kleist, Department Manager, Sales
Lars Borris Pedersen, Department Manager Customer Services
Taitsiannguaq Olsen, Deputy Chief Executive Operations
Tommy Ege Kristensen, Department Manager, HR

Auditors

Deloitte Certified Public Accountants

Content

Financial Highlights

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

DKK mio.	2018	2017	2016	2015	2014
Income Statement					
Net revenue	876	796	802	767	746
Total revenue	942	861	871	833	812
Operating profit	32	(2)	141	90	37
Net financials	(9)	(6)	(6)	1	(4)
Profit for the year before tax	24	(8)	143	91	33
Profit for the year	14	(7)	98	63	22
Dividend	0	0	0	0	0
Balance sheet					
Balance sheet total	1,175	1,137	1,189	1,173	904
Investments. fixed assets	185	135	(113)	255	225
Net working capital	158	(48)	285	158	114
Long-term debt	292	2	243	365	172
Equity	663	642	649	551	487
Cash flow statement					
Cash flow from operating activities	79	159	(36)	108	75
Cash flow from investment activities	(181)	(130)	127	(246)	(219)
Cash flow from financial activities	40	16	(130)	199	128
Increase/decrease in cash and cash equivalents	(62)	45	(39)	61	(16)
Cash at year-end	179	240	196	235	174
Ratios *					
Profit margin (%)	3.8 %	(0.2) %	18.5 %	11.7 %	4.9 %
Return on capital (%)	2.8 %	(0.1) %	12.5 %	7.7 %	4.1 %
Return on equity (ROE)	2.2 %	(1.0) %	16.3 %	12.2 %	4.4 %
Solvency ratio (%)	56.4 %	56.4 %	54.6 %	47.0 %	53.9 %
Return on invested capital (ROIC)	4.2 %	(0.2) %	19.8 %	12.3 %	6.8 %
Gearing operating assets	1.3	1.2	1.0	1.5	1.3
Average number of full-time employees	760	744	706	722	748
Pre-tax profit per employee (DK'000)	32	(10)	202	126	44
Revenue per employee	1.15	1.07	1.14	1.06	1.00

** Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' "Recommendations and Financial Ratios"*

Definitions of ratios

Net working capital	=	Current assets – short-term debt
Profit margin	=	$\frac{\text{Profit/loss before financial income and expenses x 100}}{\text{Revenue}}$
Return on capital employed	=	$\frac{\text{Profit/loss before financial income and expenses x 100}}{\text{Total assets}}$
Return on equity (ROE)	=	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$
Solvency ratio	=	$\frac{\text{Equity at year-end x 100}}{\text{Total assets}}$
Return on invested capital (ROIC)	=	$\frac{\text{Profit/loss before financial income and expenses x 100}}{\text{Average invested capital including goodwill}}$
Operating asset gearing	=	$\frac{\text{Invested capital including goodwill}}{\text{Equity at year-end}}$

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

Foreword

Royal Arctic Line was significantly strengthened in 2018. The foundation for the strategy to make the transport system open to the rest of the world is considerably stronger.

In 2018, we focused on operations, on the customers and on the employees. The punctuality of the sailing schedule was the highest ever. Stabilization of the Company's booking system at the end of 2017 already resulted in service improvements at the beginning of the year. Further improvements of work practices and systems have helped to increase confidence in Royal Arctic Line. Employee satisfaction returned to above the level of 2016.

Royal Arctic Line is thus well on the way to "making it easy to to do business with Greenland". We focus our work every day on improving Greenland's connections to the rest of the world, on constantly improving our customer services, on streamlining and modernizing our work procedures to reduce costs and to ensure a foundation for stable freight prices and in this manner on making the best possible contribution to Greenland's development and growth.

Royal Arctic Line has the role of being the lifeline in Greenland. The changes we constantly pursue must be implemented without compromising security of supply. This entails constant renewal of the fleet, the containers and the equipment. But it also means that we must preserve the expertise we have in operating in Greenland. "No Port, No Quay, No Problem" will always be a part of our trademark.

Our goal is to be as cost-effective as possible for Greenland, with stable cost development as a foundation. Our assets are expected to last at least 15 years. We have therefore a long-term perspective for our decisions. This is supported by a financial strategy that enables Royal Arctic Line to evaluate its ability to reinvest 20 years ahead in order to maintain constantly optimized and streamlined services. The long-term perspective is also ensured through an HR strategy that ensures the future of Royal Arctic Line by constantly making our company better at always adapting faster, powered by increased internationalization and, not least, digitalization.

The long-term view provides results in the present. The new long-term financial models that resulted from our financial strategy helped us to achieve extremely good terms for the financing of our four new settlement ships for which orders were placed in 2018. With a clear financial strategy and model as the base, our general financing was at the same time adjusted to the reality in which Royal Arctic Line operates and our covenant structure was adjusted to Greenland's advantage. With regard to HR, there has been strong focus on middle-management training and on strengthening our ability to use the right criteria when hiring, on developing our employees and on stimulating a desire to develop, for the benefit of our customers and Greenland as a whole.

2018 was therefore a big step in the process of modernisation that the Company is undergoing these years.

The profit/loss for 2018 before tax was a profit of DKK 24.1 million. (2017: DKK -7.5 million) which was in the upper region of the expectations we had maintained throughout the year of between DKK 2 million and DKK 15 million. With a record profit in Arctic Umiaq Line after tax of DKK 5.7 million (2017: DKK 4.5 million) Royal Arctic Line's Group performance is considered to be very satisfactory, seen in the light of the expectations and the transformation process in which Royal Arctic Line finds itself.

Ulrik Blidorf
Chairman of the Board of Directors

Verner 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 to and from Greenland and between the towns and settlements of Greenland. The shipping company is therefore vital to Greenland. Royal Arctic Line also operates 13 ports in Greenland and has a branch in Aalborg.

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

Royal Arctic Line A/S was formerly a part of the Den Kongelige Grønlandske Handel (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

2018 was about safeguarding operations, winning back customer confidence and ensuring that employees familiarized themselves with the new systems, management principles and changes in general. In practice, it meant focusing throughout the organization on ship punctuality, correct invoicing and delivering goods on time and undamaged.

The Company's booking system was in place at the beginning of the year and a lot of effort was put into ensuring the data was handled correctly. Extra resources were set in to ensure data was checked in order to avoid time-consuming operating errors.

Operation of the new container terminal in Nuuk was significantly improved as familiarization with the new area progressed. This resulted in faster handling of ships. The warehouse in Nuuk was transferred in the organization to customer services in order to ensure optimal distribution of the managerial tasks and to ensure that regard for customer services could be better incorporated in the more customer-friendly dispatch and delivery services.

Further adjustments to the booking system during the year helped to free even more time to follow up on the quality of the operations.

The punctuality of shipping services has been high throughout the year, affected only by ice, wind and weather, despite an isolated incident in March 2018: Malik Arctica suffered engine failure and lay still for a week in Paamiut due to repairs before it could sail to Denmark. Thus we ended the year with a punctuality weighted for number of port calls of 88 % against 36 % in 2017. Calculated as a simple average per month as in previous years, we ended up at 86 % against the earlier record of 85 %.

It should be noted that 2017 figures were negatively influenced by the many extra port calls, which makes a direct comparison impossible.

In addition, it should be mentioned that we avoided major breakdowns and damage to our settlement ships, which has also been favourably remarked upon by our insurance partners in 2018.

Mary Arctica was certified in accordance with the global guidelines for protection of safety, environment and shipping in the Polar Region, known as the Polar Code.

Ice formation and West ice in the North-western towns and settlements occurred early in November 2018. Winter shipments for the northern towns and settlements in the Upernavik and Uummannaq areas for 2018 were planned well in advance in close cooperation with KNI and all winter shipments came out on the scheduled ships with time for a few extra calls.

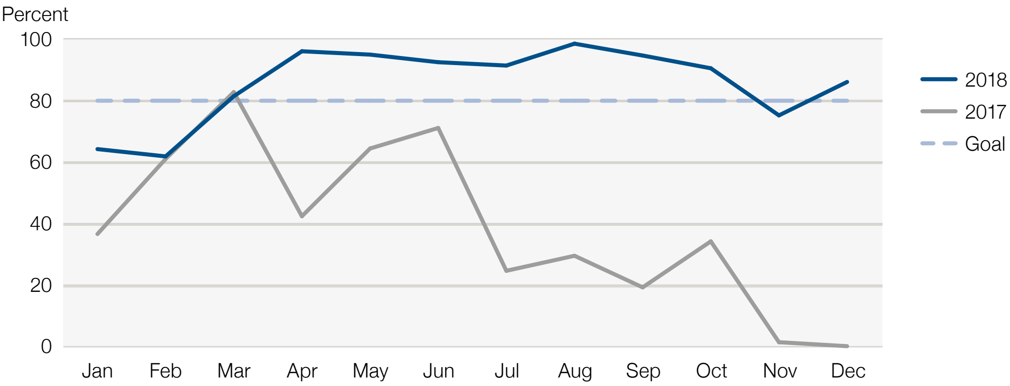
The planned vessel sharing with Eimskip is subject to an approval process by the Icelandic competition authorities. After an introductory exchange in 2017, the dialogue finally took off in June 2018 with constructive dialogue with the authorities concerning the principles in the planned Vessel Sharing Agreement (VSA). Unfortunately, the process has been characterized by a constant requirement for further clarification from the Icelandic side. At time of writing, the competition authorities have not made any decision, although it was announced that a final decision will be made early in the first half of 2019.

Building of the new, 2,150 TEU ship at the Wenchong shipyard in China was delayed by the damage to the shipyard caused by typhoon Mangkhut on September 15, 2018. Royal Arctic Line's ship was not directly affected but critical installations at the shipyard needed repair and other projects - including Eimskip's first ship of the same type - needed to be checked over and repaired before work continued. The consequence of this was that the shipyard announced a three-month delay of the project. This pushes the start date of the planned vessel sharing to the end of 2019.

The process of ordering four new settlement ships was initiated in 2018. A contract for two ships of the same size as Pajuttaat with was signed in 2018 Zamakona in Spain and negotiations were concluded early in 2019 for two small settlement ships with Nodosa, also in Spain. The ships are optimized for operations under conditions in Greenland and designed for efficient handling of exports, both regarding containers and pallet goods. The ships will be delivered in 2020 and 2021.

There was considerable interest from banks in connection with the financial offers. In connection with the final choice of bank, the Company's existing and new covenants were brought into line with the long-term financial strategy by focusing on the balance sheet items and allowing for operational fluctuations, which are often seen in the shipping industry.

Punctuality, calls on time



In the spring and over the summer of 2018, all work practices in connection with registration of bookings, invoicing and payments were reviewed in a comprehensive project aimed at ensuring business controls for revenue following implementation of the new system. Stronger business controls were established and new routines were incorporated. The ratio of credit notes ended at 5.1 % which is considerably lower than historic figures which were between 8 and 15 %. Although the present credit note ratio benchmarks well against figures from the shipping industry, further efforts will be made to ensure improvements, also for the invoicing process.

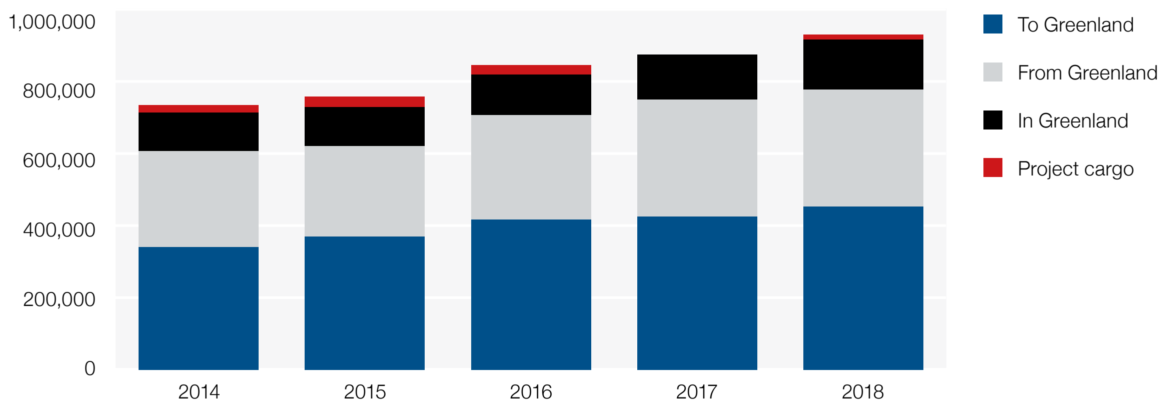
With the start of a new CIO in July 2018, focus on IT security, stable operation of the existing systems as well as the opportunity to increase digitalizing our customers' access to Royal Arctic Line has now been ensured. In addition, there is the important task of forming the IT structure so that it can support the necessary future modernization of the Company's accounting systems and administration systems which we aim to implement in late 2020.

With more efficient planning regarding the ship, Arctic Umiaq Line A/S has experienced a fine increase in numbers of passengers in 2018, despite losing an entire week's revenue because a voyage was cancelled when the ship became ice-bound in South Greenland in March.

Trend in cargo volume

The trend in cargo volume for 2018 showed an increase of approx. 5 % from 873,701 cubic metres in 2017 to 915,589 cubic metres in 2018. This does not include project cargo,

Cargo volume, trend



which is mentioned separately. The total number of cubic metres in 2018 was the equivalent of 44,603 TEU. The distribution of TEU on freight routes in 2018 is shown in the diagram.

Northbound cargo

The northbound cargo volume increased overall from 425,257 cubic metres in 2017 to 451,968 cubic metres in 2018 which is the equivalent of an increase of 6 %. If the total amount of northbound cargo was expressed in TEU, it would equal 21,750 TEU. The increase in cargo volume to Greenland is due mainly to food, consumer goods and other ordinary cargo. As in previous years, the northbound cargo accounts for the major part of the Company's revenue. The increased revenue and the higher cargo volume are reflected in the positive general economic situation, which is primarily born by positive economic progress within the fishing industry and the spin-off effect this has on purchasing power in society.

Southbound cargo

Cargo from Greenland consists mainly of fish products, i.e. 85 % of all southbound cargo. The southbound volume increased in total with approx. 1 % compared to 2017, increasing from 323,472 cubic metres in 2017 to 325,423 cubic metres in 2018. Expressed in TEU, the total amount of southbound cargo is the equivalent of 15,225 TEU. Furthermore, the proportion of temperature regulated cargo, including fish exports, increased by 5 % in 2018.

Domestic cargo

Domestic cargo in Greenland in 2018 was mainly related to the fishing industry and to transportation of beer, mineral water and environmental goods. The total domestic cargo volume compared to 2017 rose from 125,000 cubic metres to 138,000 cubic metres, or an increase of 11 %. The total amount of domestic cargo expressed in TEU was 7,628 TEU.

Project cargo

The volume of project cargo has increased significantly from approx. 1,000 cubic metres in 2017 to 14,225 cubic metres in 2018. This is primarily due to two new mining projects starting up. 331 TEU were registered as project cargo. The reason for the low TEU figure is that project cargo can sometimes consist of large, non-containerised shipments.

Performance for the year

In 2018, the Royal Arctic Line Group showed a profit before tax of DKK 24.1 million and DKK 14.1 million after tax, compared to a loss before tax in 2017 of DKK 7.5 million and a loss of DKK 6.6 million after tax. The year's performance is in line with Management's expectations for the year, as indicated both in the 2017 annual report and the 2018 interim report.

The improved profit was primarily due to higher revenue, which increased from DKK 861 million in 2017 to DKK 942 million in 2018. In 2017, there were temporary problems with the implementation of the LIMA operating system, which meant that for a while, the Company was unable to generate invoices for container and storage rent. It is Management's opinion that this problem was dealt with satisfactorily in 2018, which resulted in increased revenue due to correct invoicing of just under DKK 30 million.

In addition to these improvements, revenue was influenced by the higher price of bunkers through the Company's oil and exchange rate (BAF/CAF) structure. This gave an increase in revenue of a further DKK 22 million, but had no effect on the profit/loss since it was off-set by a corresponding increase in bunker costs.

Total costs (excluding bunkers) were similar to 2017, with the following material fluctuations:
Expenditure in connection with ships fell by DKK 8 million from DKK 110 million in 2017 to DKK 102 million in 2018. The reduction was mainly due to the fact that Royal Arctic Line avoided material breakdowns in 2018 and thereby had reduced expenditure relating to time charter.

Costs in connection with sales and administration fell by DKK 10 million from DKK 80 million in 2017 to DKK 70 million in 2018. This was due to a series of one-off costs in 2017 related to moving to the new port and offices in Nuuk which did not apply in 2018.

Expenditure in connection with personnel increased by DKK 19 million compared to 2017. This was due to costs for extra administrative personnel in the second half of 2017 who remained for the whole of 2018 as well as increased use of hourly-paid labour.

Depreciation and impairments rose with approx. DKK 13 million, a reflection of Management's strategy to re-invest the Company's assets.

The Group's liquid funds at the end of the year were DKK 179 million compared to DKK 240 million in 2017. The development was the result of repayments on existing loans and self-financing of the new settlement ships and 2,150 TEU ships. This was partially balanced by a positive cash flow from operations of DKK 79 million.

Equity at the end of 2018 was DKK 663 million (DKK 642 million in 2017).

Royal Arctic Line's equity ratio remained unchanged at the end of 2018 at 56.4 %.

Changes in the Board of Directors and Executive Board

At the Annual General Meeting in 2018 all members of the board standing for re-election were elected and at an extraordinary general meeting in October, Ulrik Blidorf was elected as new Chairman. Thus the board consists of Ulrik Blidorf (chairman), Erik Østergaard (vice chairman), Amma Knudsen, Mai-Lill Ibsen and Tanja Nielsen.

After election of employee members, Jens Peter Berthelsen was re-elected and Eydun Simonsen and Laust Lindskov Vestergaard were elected to replace Aningo Broberg and Finn Lindberg.

As of 1st January 2019, Aviaja Lyberth Lennert and Peter Christoffersen joined the Executive Board as Deputy Director and CFO respectively.

Anne Ohlin Ladegaard joined the Management Group on July 1st as new CIO. Anne replaced Dragan Kesic who left the Company in 2016.

Events after balance sheet date

No events have occurred after the balance sheet date to this date, which leaves the evaluation of this annual report unchanged.

BAF&CAF

Oil prices have been on the rise for most of the year, but at the same time the rate of exchange for the USD has pulled in the opposite direction. At a time with a new IT system, Royal Arctic Line chose to ensure stability with regard to calculation of rates and therefore maintained the same percentage for a large part of the year. This will be re-evaluated in the New Year.

New ships

The programme for building new ships consists of a 2,150 TEU ship to be built at the Wenchong shipyard in Guangzhou in China. In addition, two more ships for use in settlement services have been ordered and orders for a further two new ships are planned to be placed at the beginning of 2019.

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

Corporate Social Responsibility

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

Royal Arctic Line is the part of the infrastructure that keeps people, business enterprises and institutions working. As a company, we also have a responsibility for the way in which our work is conducted. This includes our employee conditions, our impact on the environment and the way in which we conduct ourselves with relation to our business partners and the authorities. Royal Arctic Line is proud to take on this responsibility for society. But the Company also has a responsibility to be efficient and cost-effective. This is the way in which Royal Arctic Line can make the best possible contribution to the community's growth potential.

Royal Arctic Line focuses its efforts where they will benefit most. We believe that social responsibility is closely connected to the society in which we operate. Greenland has its own issues and it is these to which we will constantly relate and adjust our social responsibility accordingly. Thus there will be a stronger focus on where the Company can make the best contribution, with a focus on relevance with relation to what we experience in Greenland.

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

Corporate Social Responsibility is dealt with in a separate report that will be published in the first half of 2019.

Outlook for 2019

Royal Arctic Line's main activities are based on transport of cargo to, from and within Greenland. The level of activity is therefore determined by the volume of cargo carried and earnings in Royal Arctic Line reflect the economic development and trends in society. Royal Arctic Line expects a higher level of activity in Greenland in 2019 compared to 2018, primarily due to the decision to build new airports and the consequences this will have for cargo volume. Royal Arctic Line also expects to start vessel sharing with the Icelandic shipping company Eimskip in the second half of 2019 and although in the long term this is expected to contribute with significant value, there are expected to be a number of extraordinary costs in connection with the start of vessel sharing.

In all, Royal Arctic Line A/S's performance for 2019 is estimated to be in the range of DKK 5 million to DKK 15 million before tax. The greatest uncertainty regarding performance in 2019 is associated with the actual development in freight volume and accruals of the costs in connection with vessel sharing with Eimskip.

Cash flows from operating activities are also expected to be positive in 2019. It is estimated that the Company has adequate financial resources for operations in 2019.

Financial risks

Royal Arctic Line's business is primarily based on transactions in Danish kroner. When transactions are based on another currency, it is mainly bought on the spot market.

Current hedging of purchases settled in foreign currencies is undertaken periodically.

The oil and exchange rate margins (BAF/CAF) are used to compensate for fluctuations in US dollar rates and bunker oil prices.

Royal Arctic Line's credit risks include receivables and liquid funds which are deposited in Danish, German and Greenlandic banks with a high credit rating.

Royal Arctic Line's counterparty risks consist of deposits in Greenlandic and Danish banks and, to a certain extent, other financial instruments. Agreements are made with major banks with a high credit rating.

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

In 2018, Royal Arctic Line implemented a new capital management model that provides monthly forecasts for the short-term (1-2 years) medium-term (3-5 years) and long-term (6-25 years). The model has a stochastic element which, on the basis of historic data, is able to quantify the risk of future non-compliance occurrences with the covenant (Value at Risk principle). The Company has worked together with KfW (the lending bank) to change the existing covenants, so that the so-called interest-covenant that was breached in 2017 has been completely removed from the contracts. It is Management's evaluation that these two initiatives have addressed the breaches that occurred in 2017.

In connection with the contract for the new ship and the order for the two big settlement ships, an agreement concerning refund guarantees has been entered into, covering Royal Arctic Line's regular instalments during the building of the ship. Similar guarantees will be established to cover present and future building of ships.

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

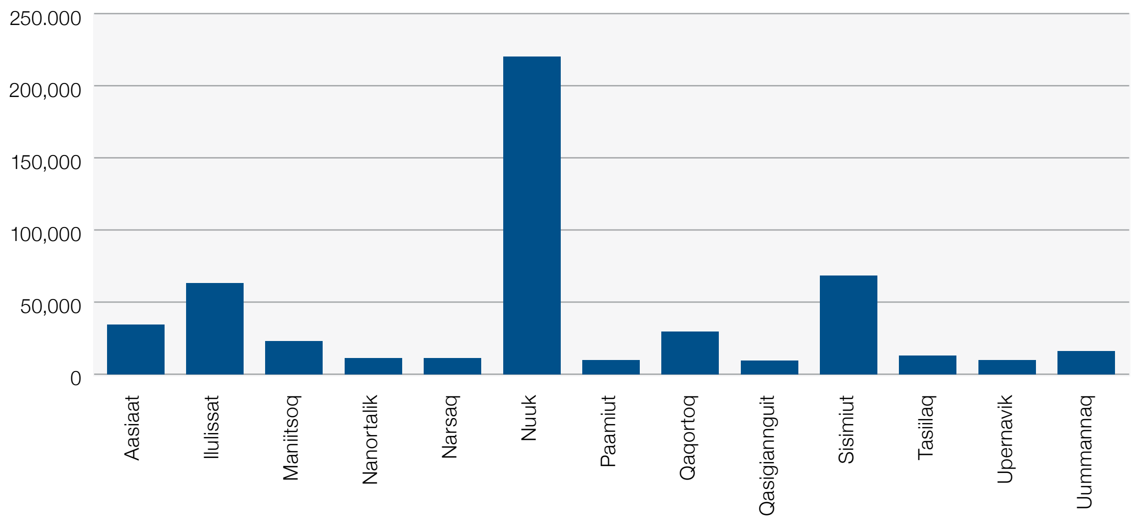
Market risks

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

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

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

Cargo volume in m³ to towns in Greenland



Non-concession business

Developments in concession cargo are dependent upon general developments in Greenland and the Company is vulnerable to even modest fluctuations in the volume of the cargo. As a consequence, Royal Arctic Line has started to develop non-concession areas of businesses, primarily aimed at business development in Greenland and not, as it was before, in Denmark.

One of these areas is delivering supplies to research stations in the Antarctic. Royal Arctic Line has an agreement with Norsk Polarinstitut 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 otherwise would be idle due to winters in Greenland and therefore it fortifies the Company's earnings. 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 are undergoing changes with an aim to streamline and increase flexibility by deliberately de-selecting general cargo (LCL) related activity. Data exchange and digitalization are included as important parameters.

The concession – a right and an obligation

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

The concession applies to cargo such as:

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

According to the Greenlandic Act regarding large-scale projects, a customer must demonstrate that Royal Arctic Line is not competitive if the customer desires to employ the services of another shipping company.

Prices and contribution rates

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

An investment contribution of 3.1 % is added to the freight rates. The investment contribution is intended to secure funding of e.g. new tonnage 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 cargo price.

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.

Service level

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

Royal Arctic Line Group

Royal Arctic Line A/S
Nuuk

Arctic Umiaq Line A/S
100 %

Arctic Umiaq Line

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

The Company was founded in the autumn of 2006 to acquire and operate the coastal ferry Sarfaq Ittuk. Sarfaq Ittuk operates ferry services on the West Coast between Qaqortoq 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.

Facts 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 the west coast.

Transport between towns and villages is only possible by plane or boat. From Disko Bay to North Greenland and on the 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. 56,000 people live in Greenland and almost 7,100 of these live in villages and settlements. The smallest settlement served by Royal Arctic Line has 80 inhabitants, while Nuuk, with its 18,000 inhabitants, is the largest town in the country with over 10.000 inhabitants.

Corporate Governance in Royal Arctic Line

In 2012, Naalakkersuisut (the Government of Greenland) published its Guidelines on Corporate Governance for Public Limited Companies Owned by the Government of Greenland ("Retningslinjer for god selskabsledelse i de selvstyreejede aktieselskaber"). 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. Finally, the owner receives quarterly reports and key financial figures from Royal Arctic Line.

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, updated in September 2013 with a view to align them with the *Guidelines on Corporate Governance for Public Limited Companies Owned by the Government of Greenland*:

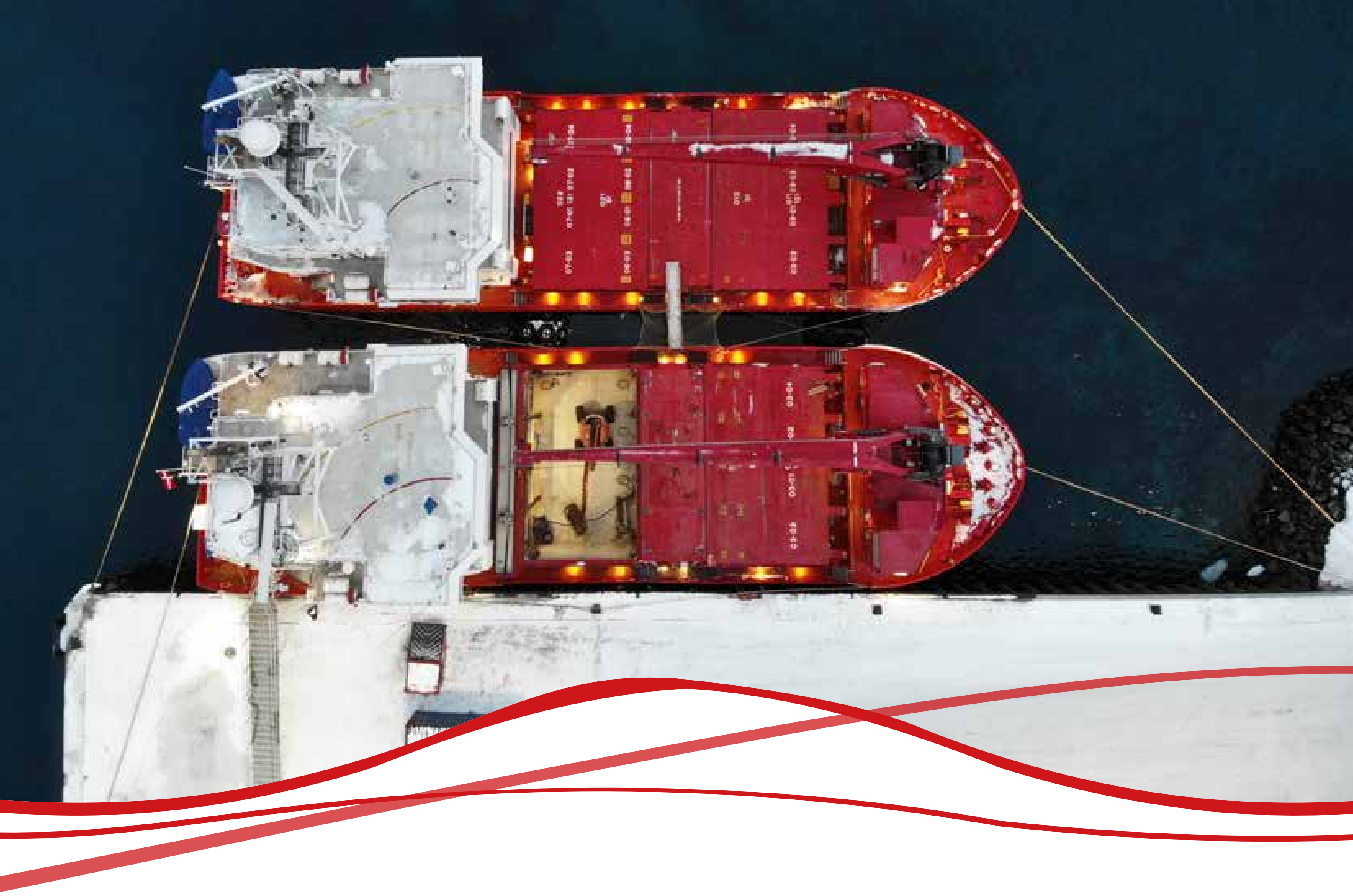
- Inform the shareholder of any significantly expected and realised events
- Appoint a Vice Chairman from its members at the first Directors' meeting
- Review the financial statements and the preliminary announcement of financial statements
- Approve the budget and forecasts for the following year as well as prognosis presented in connection with the financial statement
- Ensure that the auditor's reports are presented and to 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 four directors. The employees of Royal Arctic Line elect three employee members to the Board of Directors. In spring of 2018, employees were elected as Board members 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 an annual self-evaluation 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.



Management remuneration

The Board of Directors at Royal Arctic Line has adopted a remuneration policy that follows guidelines on the remuneration of the Board of Directors, the Executive Board, highly influential staff members and employees performing control functions.

The Executive Board is remunerated in accordance with the remuneration policy. The remuneration, including pension contributions, is evident from the annual report and is considered consistent with market terms. The contracts of the members of the Executive Board contain no termination benefits or bonus plans.

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 per year, the Vice Chairman and the Chairman of the audit work group are each paid DKK 175,000 and the remaining Board members each receive DKK 125,000 per year.

Financial report

Pursuant to the Board of Directors' Rules of Procedure, the Board of Directors holds an annual meeting to discuss the financial reports. At this meeting, the annual report, including a draft of the auditor's report, is presented to the Board of Directors for approval. The Board of Directors is also presented with monthly reports, interim financial statements and forecasts and adopts the budget. The budget and budget control procedures for major investments are also presented to the Board of Directors.

Risk management and internal control

Management evaluates the operating risks regularly and a monthly statement is presented to the members of the Board of Directors. Strategic risks are identified based on a yearly review, and market risks in the core business are minimized as a result of the concession.

Auditors

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

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

Management statement

The Board of Directors and the Executive Board have today considered and approved the annual report for the financial year 1st January - 31st December 2018 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, operating result and cash flows.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, March 12th 2019

Executive Board

Verner Hammeken
CEO

Aviâja Lyberth Lennert
Deputy CEO

Peter Christoffersen
CFO

Board of Directors

Ulrik Blidorf
Chairman

Erik Østergaard
Vice Chairman

Tanja Nielsen

Mai-Lill Ibsen

Amma Knudsen

Jens Peter Berthelsen

Eydun Simonsen

Laust Lindskov
Vestergaard

The independent auditor's report

To the shareholders of Royal Arctic Line A/S

Opinion

We have audited the consolidated accounts and financial statement for Royal Arctic Line A/S for the financial year 1st January 2018 to 31st December 2018 which comprises the Statement of Income, the Balance Sheet, the Statement of Changes in Equity and Notes, including accounting policies, of the Group as well as the Parent, and a Cash Flow Statement for the Group. The consolidated accounts and the annual report have been prepared in accordance with the Greenlandic Financial Statements Act.

In our opinion, the consolidated accounts and the financial statement give a true and fair view of the Group's and the Company's assets, liabilities and financial situation as per 31st December 2018 and of the profit/loss of the Group's and Company's activities and the Group's cash flows for the financial year 01.01.2018 - 31.12.2018 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 that with material misstatement resulting from error, since fraud may involve conspiracy, falsification, deliberate omissions, deception or breach of internal controls.
- We consider whether the accounting principles adopted by Management are suitable and whether the accounting estimates and related information prepared by Management are reasonable.
- We evaluate whether Management's preparation of the consolidated accounts and financial statements based on accounting principles for continued operations is appropriate and whether, on the basis of the audit evidence acquired, there is significant uncertainty associated with events or circumstances that could cause considerable doubt concerning the Company's ability to continue operations.
- If we conclude there is significant uncertainty, we will provide information about this in the auditor's report for the consolidated accounts and the financial statement or, if this information is not sufficient, we will modify our conclusion. Our conclusions are based on the audit evidence that is obtained up to the date of our auditor's report. Future events or circumstances may however, entail that the Group or the Parent Company are unable to continue operations.
- We evaluate the total presentation, structure and content of the consolidated accounts and financial statement, including information in the notes and whether the consolidated accounts and the financial statement reflect the underlying transactions and events in such a way, that they present a true and fair view.
- We achieve appropriate audit evidence regarding the financial information for the companies or business activities in the Group in order to express an opinion regarding the consolidated accounts. It is our responsibility to lead, supervise and conduct an audit of the Group. We are solely responsible for our audit opinion.

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

Statement on the Management Report

Management is responsible for the Management Report.

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

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

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

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

Nuuk, March 12th, 2019

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 2018

DKK '000		Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Revenue					
	Income from concession cargo	703,289	642,079	703,235	642,059
	Income from non-concession cargo	126,308	109,711	172,964	153,550
	Net revenue	829,597	751,790	876,199	795,609
	Other operating income	65,746	64,896	65,746	64,896
1	Total income	895,343	816,686	941,945	860,505
Expenditures					
2	Cargo-related expenditure	(26,720)	(21,667)	(29,262)	(24,094)
	Gross profit	868,623	795,019	912,683	836,411
	Ships	(203,903)	(188,251)	(215,799)	(200,840)
	Terminals	(132,638)	(131,917)	(132,592)	(131,867)
	Container operations	(30,052)	(26,020)	(30,052)	(26,020)
	Sales and administration	(64,359)	(75,182)	(70,224)	(80,166)
3	Staff costs	(342,201)	(323,487)	(358,810)	(339,645)
4	Amortisation, depreciation and impairment losses on fixed assets	(71,482)	(58,808)	(72,850)	(59,914)
	Total expenditures	(844,635)	(803,665)	(880,327)	(838,452)
	Operating profit	23,988	(8,646)	32,356	(2,041)
5	Income from investments in Group enterprises	5,693	4,489	0	0
5	Income from investments in Associates	(98)	530	(98)	530
6	Income from investments in securities that are fixed assets	1,044	0	1,044	0
	Profit before financial items	30,627	(3,627)	33,302	(1,511)
Financial income and expenditure					
6	Financial income	704	1,544	705	1,544
7	Financial expenditure	(9,871)	(7,541)	(9,892)	(7,565)
	Profit before tax	21,460	(9,624)	24,115	(7,532)
Tax					
8	Tax on profit for the year	(7,327)	3,051	(9,982)	959
	Profit for the year	**14,133**	**(6,573)**	**14,133**	**(6,573)**

Proposed distribution of profit	2018	2017
Proposed dividend for the financial year	0	0
Transferred to reserve for net revaluation	5,460	530
Retained earnings	8,673	(7,103)
Total	**14,133**	**(6,573)**

Assets at 31st December

DKK '000		Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Fixed assets					
Intangible fixed assets					
	Software	24,063	33,192	24,063	33,192
9	Total Intangible fixed assets	24,063	33,192	24,063	33,192
Tangible fixed assets					
	Ships	479,407	512,264	481,477	515,431
	Buildings	62,218	66,995	62,218	66,995
	Transport equipment, harbour boats, machinery and fixtures	68,194	72,256	68,194	72,256
	Assets under construction	208,513	46,845	208,513	46,845
10	Total property, plant and equipment	818,332	698,360	820,402	701,527
Financial fixed assets					
	Investments in Group Enterprises	10,558	4,865	0	0
	Investments in Associates	4,304	4,402	4,304	4,402
	Securities	1,063	1,457	1,063	1,457
11	Total financial fixed assets	15,925	10,724	5,367	5,859
	Total fixed assets	858,320	742,276	849,832	740,578
Current assets					
Inventories and operating stock					
	Operating stock	22,296	21,035	23,071	21,686
	Total inventories and operating stock	22,296	21,035	23,071	21,686
Receivables					
12	Trade receivables	105,194	102,403	105,610	103,256
	Receivables from Group Enterprises	1,945	3,334	0	0
	Other receivables	8,975	23,178	8,975	23,217
	Prepayments	8,628	8,189	8,742	8,205
	Total receivables	124,742	137,104	123,327	134,678
Cash					
13	Cash and cash equivalents	161,504	229,753	178,811	240,499
	Total current assets	308,542	387,892	325,209	396,863
	Total assets	**1,166,862**	**1,130,168**	**1,175,041**	**1,137,441**

Liabilities at 31st December

DKK '000		Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Equity					
14	Share capital	120,000	120,000	120,000	120,000
	Reserve for net revaluation of investments:				
	- Group Enterprises	5,558	0	0	0
	- Associates	807	905	807	905
	Other statutory reserves:				
	Retained earnings	536,147	521,129	541,705	521,129
	Equity total	662,512	642,034	662,512	642,034
Provisions					
8	Deferred tax	50,482	42,503	50,625	41,824
	Other deferred commitments	3,274	7,298	3,274	7,298
	Total provisions	53,756	49,801	53,899	49,122
Liabilities					
Non-current liabilities					
	Collateral debt in ships	290,258	0	290,258	0
	Mortgage debt	1,134	1,134	1,134	1,134
	Leasing debt	149	727	149	727
15	Total non-current liabilities	291,541	1,861	291,541	1,861
Current liabilities					
15	Next year's instalments on non-current liabilities	20,979	548	20,979	548
	Mortgage in ships	0	269,906	0	269,906
	Trade accounts payable	37,052	38,367	37,177	39,015
8	Income tax	0	1,578	1,833	3,597
16	Other payables	90,386	103,699	96,464	108,984
	Prepayments	10,636	22,374	10,636	22,374
	Current liabilities	159,053	436,472	167,089	444,424
	Total liabilities	450,594	438,333	458,630	446,285
	Total liabilities and Equity	**1,166,862**	**1,130,168**	**1,175,041**	**1,137,441**

21 Pledges and collateral
22 Leasing and rental commitments

Equity statement

DKK '000	Share capital	Reserve for net revaluation according to the equity method	Retained earnings	Total equity
ROYAL ARCTIC LINE A/S				
Equity 1st January 2018	**120,000**	**905**	**521,129**	**642,034**
Profit/loss for the year		5,460	8,673	14,133
Regulation of derivative instruments			6,345	6,345
Equity 31st December 2018	**120,000**	**6,365**	**536,147**	**662,512**
Equity 1st January 2017	**120,000**	**31,678**	**497,326**	**649,004**
Transferred to distributable reserves		(31,303)	31,303	0
Regulation at merger			11,425	11,425
Profit/loss for the year		530	(7,103)	(6,573)
Regulation of derivative instruments			(11,822)	(11,822)
Equity 31st December 2017	**120,000**	**905**	**521,129**	**642,034**
ROYAL ARCTIC GROUP				
Equity 1st January 2018	**120,000**	**905**	**521,129**	**642,034**
Other entries on shareholder's equity		(98)	98	0
Profit/loss for the year			14,133	14,133
Regulation of derivative instruments			6,345	6,345
Equity 31st December 2018	**120,000**	**807**	**541,705**	**662,512**
Equity 1st January 2017	**120,000**	**375**	**528,629**	**649,004**
Other entries on shareholder's equity		530	(530)	0
Regulation at merger			11,425	11,425
Profit/loss for the year			(6,573)	(6,573)
Profit/loss for the year			(11,822)	(11,822)
Equity 31st December 2017	**120,000**	**905**	**521,129**	**642,034**

Cash flow statement

DKK '000		Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Cash flow from operating activities					
	Operating profit	23,988	(8,646)	32,356	(2,041)
	Amortisation, depreciation and impairment losses	71,482	58,808	72,850	59,914
	Net interest	(9,167)	(5,997)	(9,187)	(6,021)
8	Income tax paid	(3,884)	(52,629)	(5,903)	(52,629)
17	Changes in working capital	(9,986)	168,244	(10,851)	159,377
	Cash flow from operating activities	**72,433**	**159,780**	**79,265**	**158,600**
Cash flow from investment activities					
9, 10, 18	Investments	(184,726)	(131,978)	(184,997)	(135,228)
	Fixed asset divestments	2,436	5,078	2,436	5,078
	Acquisition and Divestment of financial fixed assets	1,403	0	1,403	0
	Cash flow from investment activities	**(180,887)**	**(126,900)**	**(181,158)**	**(130,150)**
Cash flow from financing activities					
19	Loans raised in the year	61,154	33,406	61,154	33,406
20	Instalments in the year	(20,949)	(17,209)	(20,949)	(17,209)
	Cash flow from financing activities	**40,205**	**16,197**	**40,205**	**16,197**
	Changes in cash and cash equivalents	(68,249)	49,077	(61,688)	44,647
	Cash and cash equivalents at year start	229,753	156,231	240,499	195,852
	Addition at merger	0	24,445	0	0
	Cash and cash equivalents, year end	**161,504**	**229,753**	**178,811**	**240,499**
	Consisting of the following:				
13	Cash and cash equivalents	161,504	229,753	178,811	240,499
	Total	**161,504**	**229,753**	**178,811**	**240,499**

Notes

DKK '000 unless otherwise stated	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017

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, stevedore services and other services logically related thereto. 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			47,177	43,746

2 Cargo-related expenditures

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

3 Staff costs

	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Specification of staff costs:				
Wages and salaries	295,661	280,714	310,205	294,974
Pension contributions and social security contribution	37,535	36,470	39,453	38,191
Other staff costs	9,005	6,303	9,152	6,480
Total staff costs	**342,201**	**323,487**	**358,810**	**339,645**

	2018	2017
Chief Executive Remuneration		
Fixed salary	2,655	2,644
Pension	230	229
Bonus	100	189
Total	2,986	3,062
Board of Directors	1,326	1,325
Total remuneration	**4,312**	**4,387**

The Chief Executive does not make use of company provided accommodation. The Chief executive has opted out from receiving any fees for board representation in Royal Arctic Line owned and other companies and is bound by a competition clause for 12 months upon termination of employment, without any special compensation related to this. The Chief Executive has the right to 12 months notice from the company without prearranged severance pay. The notice from the Chief Executive is required to be at least 3 months. In addition, the company is to pay for all household removals out of Greenland upon termination and grants one free travel for one person to Denmark per year. Other benefits include company car, telephone, internet access, computer as well as an IPad.

	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Average number of full-time employees	757	739	760	744
Number of employees at year-end	724	749	726	753
Average number of trainees	63	71	63	71
Number of trainees at year-end	58	63	58	63
At the end of the year, Royal Arctic Line A/S had the following employees loaned out to:				
Arctic Umiaq Line A/S	37	42		

4 Amortisation, depreciation and impairment losses on fixed assets

	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Ships	41,549	31,326	42,917	32,432
Buildings	5,774	5,883	5,774	5,883
Transport equipment, harbour boats, machinery and fixtures	17,190	20,103	17,190	20,103
Software	9,129	6,105	9,129	6,105
Profit/loss on sale of fixed assets	(2,160)	(4,609)	(2,160)	(4,609)
Total Amortisation, depreciation and impairment losses	**71,482**	**58,808**	**72,850**	**59,914**

Notes

DKK '000	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
5 Income from investments in group enterprises and associates after tax				
Income from investments in group enterprises after tax				
Arctic Umiaq Line A/S	5,693	4,489		
Total income from investments in group enterprises	**5,693**	**4,489**		
Income from investments in associates after tax				
Ejendomsselskabet Suliffik A/S	(98)	530	(98)	530
Total, income from investments in associates	**(98)**	**530**	**(98)**	**530**
6 Financial income				
Income from financial instruments	0	0	0	0
Other financial income	704	1,544	705	1,544
Total financial income	**704**	**1,544**	**705**	**1,544**
7 Financial expenditures				
Other financial expenditures	9,871	7,541	9,892	7,565
Total financial expenditures	**9,871**	**7,541**	**9,892**	**7,565**
In addition, the year's share of financial expenditures for building new ships is recognised in the balance sheet.	3,263	617	3,263	617
8 Income tax				
Tax on profit for the year consists of:				
Royal Arctic Line A/S				
Current tax, Greenland	0	0	0	0
Deferred tax, Greenland	(5,021)	4,639	(5,843)	4,713
Adjustment, previous years	(442)	(10)	(442)	(157)
Group Enterprises				
Current tax, Greenland	0	0	(1,833)	(2,019)
Current tax, Denmark	0	(1,578)	0	(1,578)
Adjustment, previous years	(1,864)	0	(1,864)	0
Tax on profit for the year	**(7,327)**	**3,051**	**(9,982)**	**959**
Income tax	(3,884)	(52,629)	(5,903)	(52,629)
Total tax paid	**(3,884)**	**(52,629)**	**(5,903)**	**(52,629)**
Provision for deferred tax is mainly due to accelerated depreciation for tax purposes and is composed as follows:				
Provisions at beginning of year	42,503	62,500	41,824	63,340
Addition on merger	0	1,578	0	0
Adjustment deffered tax – equity at merger	0	(11,425)	0	(11,425)
Adjustment for the previous year	(1,803)	0	(1,803)	133
Regulation regarding adjustments	2,958	(5,511)	2,958	(5,511)
Changes in the year	6,824	(4,639)	7,646	(4,713)
Tax value of dividends	0	0	0	0
Provisions at year-end	**50,482**	**42,503**	**50,625**	**41,824**

DKK ’000	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017
Deferred tax is incumbent upon the following items:				
Property, plant and equipment	47,940	65,820	48,085	65,141
Fixed asset investments	2,028	245	2,028	245
Current assets	5,049	(300)	5,049	(300)
Long term debts	(231)	(405)	(231)	(405)
Current debts	(3,263)	(12,627)	(3,263)	(12,627)
Deficit carried forward	0	(7,909)	0	(7,909)
Other	(1,041)	(2,321)	(1,043)	(2,321)
Total	**50,482**	**42,503**	**50,625**	**41,824**

9 Property, plant and equipment

Software				
Cost				
Cost year beginning	48,669	15,658	48,669	15,658
Additions for the year	0	33,011	0	33,011
Disposals for the year	0	0	0	0
Cost year end	**48,669**	**48,669**	**48,669**	**48,669**
Depreciation and impairment losses				
Depreciation and impairment losses year beginning	15,477	9,372	15,477	9,372
Depreciation for the year	9,129	6,105	9,129	6,105
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	**24,606**	**15,477**	**24,606**	**15,477**
Carrying amount year end	**24,063**	**33,192**	**24,063**	**33,192**

10 Property, plant and equipment

Ships				
Cost				
Cost year beginning	1,173,055	969,502	1,182,999	993,642
Addition for the year	8,692	290,635	8,963	293,885
Disposal for the year	(1,462)	(87,082)	(1,462)	(104,528)
Cost year end	**1,180,285**	**1,173,055**	**1,190,500**	**1,182,999**
Depreciation and impairment losses				
Depreciation and impairment losses year beginning	660,791	716,547	667,568	739,686
Depreciation for the year	41,549	31,326	42,917	32,432
Impairment losses for the year	0	0	0	(22)
Depreciation and impairment losses on disposals for the year,	(1,462)	(87,082)	(1,462)	(104,528)
Depreciation and impairment losses year end	**700,878**	**660,791**	**709,023**	**667,568**
Carrying amount year end	**479,407**	**512,264**	**481,477**	**515,431**

Notes

DKK '000	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
Buildings				
Cost				
Cost year beginning	167,368	156,967	167,368	167,368
Addition at merger	0	10,401	0	0
Additions for the year	997	0	997	0
Disposals for the year	0	0	0	0
Cost year end	**168,365**	**167,368**	**168,365**	**167,368**
Depreciation and impairment losses				
Depreciation and impairment losses year beginning	100,373	87,910	100,373	94,490
Addition at merger	0	6,580	0	0
Depreciation for the year	5,774	5,883	5,774	5,883
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	106,147	100,373	106,147	100,373
Carrying amount year end	**62,218**	**66,995**	**62,218**	**66,995**
Transport equipment, harbour boats, machinery and fixtures				
Cost				
Cost year beginning	387,614	338,602	387,614	411,024
Addition for the year at merger	0	71,194	0	0
Additions for the year	13,369	16,029	13,369	16,029
Disposals for the year	(10,514)	(38,211)	(10,514)	(39,439)
Cost at year end	**390,469**	**387,614**	**390,469**	**387,614**
Depreciation and impairment losses				
Depreciation and impairment losses year beginning	315,358	284,579	315,358	334,143
Addition for the year at merger	0	48,418	0	0
Depreciation for the year	17,190	20,103	17,190	20,103
Impairment losses for the year	0	0	0	0
Depreciation and impairment losses on disposals for the year	(10,273)	(37,742)	(10,273)	(38,888)
Depreciation and impairment losses year end	**322,275**	**315,358**	**322,275**	**315,358**
Carrying amount year end	**68,194**	**72,256**	**68,194**	**72,256**
Proportion of financial leased assets	660	1,188	660	1,188
Assets under construction – Ships				
Cost				
Cost at beginning of year	45,394	233,941	45,394	233,941
Additions for the year	170,760	102,088	170,760	102,088
Disposals for the year	(8,692)	(290,635)	(8,692)	(290,635)
Carrying amount year end	**207,462**	**45,394**	**207,462**	**45,394**
Including financial costs of:	3,263	617	3,263	617

DKK ’000	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017
Assets under construction – Buildings				
Cost				
Cost year beginning	0	2,013	0	2,013
Additions for the year	504	0	504	0
Disposals for the year	0	(2,013)	0	(2,013)
Carrying amount year end	**504**	**0**	**504**	**0**
Assets under construction - transport equipment, harbour boats, machines and fixtures				
Cost				
Cost year beginning	1,451	18,588	1,451	18,588
Additions for the year	12,465	31,903	12,465	31,903
Disposals for the year	(13,369)	(49,040)	(13,369)	(49,040)
Carrying amount year end	**547**	**1,451**	**547**	**1,451**
Total assets under construction	**208,513**	**46,845**	**208,513**	**46,845**
Total tangible fixed assets	**818,332**	**698,360**	**820,402**	**701,527**

Assets charged, see note 21

11 Financial fixed assets

Investments in Group Enterprises		
Cost		
Cost year beginning	5,000	15,109
Additions for the year	0	0
Disposals for the year	0	(10,109)
Cost at year end	**5,000**	**5,000**
Revaluation and impairment losses		
Revaluation and impairment losses year beginning	(135)	31,303
Disposals for the year	0	(35,927)
Share of profit for the year	5,693	4,489
Dividend paid	0	0
Revaluation and impairment losses year end	**5,558**	**(135)**
Carrying amount year end	**10,558**	**4,865**

Notes

DKK '000	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
In DKKT at exchange rate at balance sheet date				
Cost				
Cost year beginning	3,497	3,497	3,497	3,497
Addition for the year	0	0	0	0
Disposals for the year	0	0	0	0
Cost year end	**3,497**	**3,497**	**3,497**	**3,497**
Revaluation and impairment losses				
Revaluation and impairment losses year beginning	905	375	905	375
Share of profit for the year	(98)	530	(98)	530
Paid dividend	0	0	0	0
Reversal of disposals	0	0	0	0
Revaluation and impairment losses year end	**807**	**905**	**807**	**905**
Carrying amount year end	**4,304**	**4,402**	**4,304**	**4,402**
Ejendomsselskabet Suliffik A/S, Nuuk, share 30 %	4,304	4,402	4,304	4,402
Carrying amount year end	**4,304**	**4,402**	**4,304**	**4,402**
Securities				
Cost				
Cost year beginning	1,457	1,493	1,457	1,493
Additions for the year	0	0	0	0
Disposals for the year	(394)	(36)	(394)	(36)
Cost year end	**1,063**	**1,457**	**1,063**	**1,457**
Carrying amount year end	**1,063**	**1,457**	**1,063**	**1,457**
Total fixed asset investments	**15,925**	**10,724**	**5,367**	**5,859**

DKK '000	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017

12 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

13 Cash and cash equivalents/bank debt

	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017
Amount in USD	32	56	32	56
Amount in EUR	935	28	935	28
In DKKT at exchange rate at balance sheet date	7,191	556	7,191	556

14 Share capital

Share capital is not divided into classes.

Share capital consists of one DKK 80 million share and one DKK 40 million share.

Share capital has not changed in the last five years.

15 Non-current liabilities other than provisions

	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017
Non-current liabilities are payable as follows:				
Current portion of collateral debt in ships:	20,401	0	20,401	0
Current portion of mortgage debt	0	0	0	0
Current portion of leasing debt	578	548	578	548
Total current portion,	**20,979**	**548**	**20,979**	**548**
Total non-current portion	**291,541**	**1,861**	**291,541**	**1,861**
Total amount carried	**312,520**	**2,409**	**312,520**	**2,409**
Total nominal value	**312,520**	**2,409**	**312,520**	**2,409**
Payable after five years (amortised cost)				
Mortgage debt	191,949	0	191,949	0
Total amortised costs	1,134	1,134	1,134	1,134
Total amortised Cost	**193,083**	**1,134**	**193,083**	**1,134**

16 Other payables

	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017
Payables relating to salaries and wages	73,128	70,904	76,310	76,139
Financial instruments	8,030	17,333	8,030	17,333
Payable costs	9,228	15,462	12,124	15,512
Total other payables	**90,386**	**103,699**	**96,464**	**108,984**

17 Changes in working capital

	Royal Arctic Line A/S 2018	2017	Royal Arctic Group 2018	2017
Increase/decrease receivables	12,362	174,683	11,351	170,875
Increase/decrease operating stocks	(1,261)	(4,143)	(1,385)	(4,279)
Increase/decrease warranty commitments	(4,024)	6,988	(4,024)	6,988
Increase/decrease trade payables	(1,315)	410	(1,838)	(597)
Value adjustments recognized under equity	9,303	(17,333)	9,303	(17,333)
Increase/decrease other payables etc	(25,051)	7,639	(24,258)	3,723
Total changes in working capital	**(9,986)**	**168,244**	**(10,851)**	**159,377**

Notes

DKK '000	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
18 Investments				
Investments in intangible fixed assets	0	33,011	0	33,011
Investments in ships	8,692	290,635	8,963	293,885
Investments in buildings	997	0	997	0
Investments in other fixed assets	13,369	16,029	13,369	16,029
Change in assets under construction	161,668	(207,697)	161,668	(207,697)
Total investments	**184,726**	**131,978**	**184,997**	**135,228**
19 Borrowing for the year				
Loans raised, collateral debt in ships	61,154	33,406	61,154	33,406
Loans raised, Leasing	0	0	0	0
Total borrowing for the year	**61,154**	**33,406**	**61,154**	**33,406**
20 Instalments for the year				
Instalments, collateral in ships	20,401	16,690	20,401	16,690
Instalments, mortgage debt	0	0	0	0
Instalments, leasing	548	519	548	519
Total instalments for the year	**20,949**	**17,209**	**20,949**	**17,209**
21 Assets charged				
Nominal value, collateral debt in ships:	648,000	648,000	648,000	648,000
Carrying amount, collateral debt in ships:	409,677	433,256	409,677	433,256
Mortgage debt is secured by properties				
Nominal value of mortgages is:	31,134	31,134	31,134	31,134
Carrying amount of the mortgaged properties:	33,632	35,758	33,632	35,758
22 Leasing and rent liabilities				
In addition to liabilities recognized in the balance sheet, the Company has the following significant liabilities:				
Rent of containers expiring in 2022 and a total payment of USD 3.8 mill, equivalent to DKK thousands:	24,863	27,206	24,863	27,206
Of which USD 2.2 mill, falls due in 2019 equivalent to DKK thousands 14,488				
Obligations under rental agreements until expiration in 2019:	9,510	8,928	9,510	8,928
Obligations under rental agreements until expiration in 2020:	85,886	125,942	85,886	125,942
Obligations under rental agreements until expiration in 2022:	51,928	64,520	51,928	64,520
Leasing obligations:	1,176	1,594	1,176	1,594
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 two new ships at the shipyard in Spain, a financing structure has been agreed upon, whereby Royal Arctic Line has taken on a contingent liability upon delivery of the ships which in worst case could amount up to 5,340 thousand EUR per ship

DKK '000	Royal Arctic Line A/S 2018	Royal Arctic Line A/S 2017	Royal Arctic Group 2018	Royal Arctic Group 2017
23 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	1,095	1,052	1,165
Other assistance	1,403	485	1,433	515
Total	**2,388**	**1,580**	**2,485**	**1,680**

24 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 enterprise Arctic Umiaq Line A/S and its associate 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.

Transactions carried out with the Executive Board and the Board of Directors consist of remuneration cf. note 3.

All transactions with related parties have been conducted on an arm's length basis.

25 Executive functions

Board of Directors and Executive Management's executive functions:

Ulrik Blidorf
Solicitor, proprietor of InuitLaw
Member of the Board of Directors in Tele Greenland A/S

Erik Østergaard
CEO, DTL Danske Vognmænd
Chairman of the Board of Directors, Caledonian Maritime Assets Ltd,
Chairman of the Board of Directors, Associated Danish Ports (ADP) A/S
Chairman of the Board of Directors in Museet for Søfart
Chairman of the Board of Directors in Nordic Logistics Association
Chairman of the Board of Directors in Mols-Linien A/S

Mai-Lill Ibsen
Ibsen Råd, Non-executive director, Advisor
Board Member in Boligbygg Oslo KF
Leader of the election committee Europris ASA
Chairman of the Board, GIEK Kredittforsikring AS
Board member, Skandiabanken ASA, Leader of the risk committee, Member of the audit committee
Board Member, Skandiabanken Boligkreditt AS
Board Member in Troms Kraft AS, leader of the audit committee
Board Member in Fjellinjen AS, leader of the audit committee
Leader of the election committee in Aberdeen Eiendomsfond Asia ASA and Norge I IS/AS and Norway Balanced Property AS
Board Member in Carnegie AS

Amma Knudsen
Owner, KammaK, consultants
Board member, Polarskolen
Management consultant at Lejerbo

Tanja Nielsen
Consultant for Danva

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.

The accounting policies are consistent with those applied last year.

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

The annual report is presented in DKK thousands unless otherwise stated.

Recognition and measurement

Assets are recognised 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 loses 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 costs 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 Enterprises) with commercial activities in progress, which are controlled by the Parent, see chart on page 18. Control is achieved by the Parent, directly or indirectly, holding more than 50 % of the voting rights.

Enterprises, 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 as Associates.

Consolidation principles

The consolidated financial statements are prepared on the basis of the financial statements of Royal Arctic Line A/S and its Group Enterprises. 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 Enterprises' financial statement items are recognised in full in the consolidated financial statements.

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

Business combinations

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

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

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

Profit or loss from divestment of fixed assets

Profit or loss from divestment or winding-up of Group Enterprises 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.

Foreign currency translation

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 income or financial expense. 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 income or financial expenses.

Income statement

Revenue

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

Other operating income

Other operating income consists mainly of income from service contracts with the Government of Greenland.

Costs

At the time of recognition of freight income etc. freight-related costs are expensed.

Freight-related costs

These costs are mainly comprised of primary and secondary transport as well as packing and unpacking costs in connection with removal services.

Ships

This item is mainly comprised of costs for the ships' consumption of fuel and costs for the ships' maintenance and docking.

Terminals
The item consists mainly of costs for properties and costs in connection with ships calling into port.

Container operations
The item consists mainly of container rent and maintenance, and insurance of containers.

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

Staff costs
Staff costs include salaries and wages as well as social security contributions, pension contributions and other staff related costs.

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

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

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

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

The rate of taxation is 31.8 %.

Balance sheet

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

Development projects regarding systems, processes etc. that are clearly defined and recognisable, where the technical degree of utilization, sufficiency of resources and future financial benefits can be proven and where it is the intention to complete the project and utilize the intangible asset, are recognized 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 less accumulated depreciation and impairment costs. Depreciation is linear over three to five years.

Tangible fixed assets
Tangible fixed assets are measured at cost less accumulated amortisation 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 rebuilding are also included in the cost price when such rebuilding refers to safety, life-extending or revenue-improving measures.

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

Leasehold improvements are included under land and buildings.

Depreciation is calculated on the basis of cost price less expected scrap value at the end of its useful life. Depreciation is based on the following evaluation of the useful lives of the assets.

– Ships	10 - 20 years
– Ships - class surveys	2,5 years
– Buildings	5 - 30 years
– Transport equipment, harbour boats, machinery and fixtures	3 - 10 years

Tangible fixed 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 tangible fixed assets are calculated as the difference between selling price minus selling costs and the carrying amount at the time of sale.

Investments in Group Enterprises and Associates
Investments in Group Enterprises and Associates are recognised and measured according to the equity method. This

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

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

Net revaluation of investments in Group Enterprises and Associates 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 Enterprises; see above description under consolidated financial statements.

Other investments

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 less write-down for bad debts.

Prepayments

Prepayments posted 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 recognized 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 recognized 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 base 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 estimated to translate into current tax.

Deferred tax is calculated at 31.8 %.

Warranty commitments include commitments under maritime law.

Long term debt

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

Other financial liabilities

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

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at amortised cost, which usually equals the nominal value.

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, investment and financial activities as well as cash and cash equivalents at the beginning and end of the financial year.

Cash flows from acquisition and divestment of enterprises are shown separately under cash flows from investment activities. Cash flows from enterprises acquired are recognized in the cash flow statement from the time of their acquisition and cash flows from enterprises divested are recognized 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, working capital changes and corporate income taxes paid.

Cash flow from investment activities consists of payments in connection with acquisition and divestment of enterprises and activities as well as acquisition and sale of intangible assets, fixed asset investments and financial fixed assets.

Cash flows from financial 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.

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