TORM A/S
CVR no. 22 46 02 18
Tuborg Havnevej 18
2900 Hellerup

Annual Report 2017

The Annual Report was presented and adopted at the Annual General Meeting of the Company on

24 / May 2018

Chairman

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of TORM A/S for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company’s operations for 2017.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hellerup, 24. May 2018

Executive Board

Jacob Balslev Meldgaard

Board of Directors

Lars Christensen
Chairman

Jacob Balslev Meldgaard

Christian Søgaard-Christensen

Christian Gorrissen

Lars Bjørn Rasmussen

Rasmus Johannes Skaun Hoffmann

Independent auditor's report

To the shareholder of TORM A/S

Opinion

We have audited the financial statements of TORM A/S for the financial year 1 January 2017 - 31 December 2017, which comprise the income statement, balance sheet, statement of changes in equity, and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31 December 2017 and of the results of its operations for the financial year 1 January 2017 - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management review

Management is responsible for the management review.

Our opinion on the financial statements does not cover the management review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management review and, in doing so, consider whether the management review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management review.

Copenhagen, 24. May 2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Max Damborg	Kim Takata Mücke
State-Authorised Public Accountant	State-Authorised Public Accountant
mne33772	mne10944

Company Information

The Company	TORM A/S Tuborg Havnevej 18 2900 Hellerup Website: www.torm.com CVR No. 22 46 02 18 Financial period: 1 January – 31 December Municipality of reg. office: Gentofte, Denmark
Board of Directors	Lars Christensen (Chairman) Jacob Balslev Meldgaard Christian Søgaard-Christensen Christian Gorrissen Lars Bjørn Rasmussen Rasmus Johannes Skaun Hoffmann
Executive Board	Jacob Balslev Meldgaard
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6 2300 København S
Consolidated Financial Statements	The Company is included in the consolidated financial statements of TORM plc. The consolidated financial statements of TORM plc may be obtained at the following address: TORM plc 20 Birchin Court London EC3V 9DU United Kingdom VAT 239 53 53 87 Or www.torm.com

Financial Highlights

Key figures	2017	2016	2015	2014	2013
Income Statement (USDm)					
Revenue	657	667	626	624	993
Time charter equivalent earnings (TCE)	397	450	428	326	443
Operating profit/loss (EBIT)	-57	-134	90	-55	-88
Financial items	49	-660	657	-217	-47
Net profit/loss for the year	-8	-795	747	-273	-130
Balance Sheet (USDm)					
Total fixed assets	1,172	1,082	2,159	1,134	1,722
Total assets	1,354	1,231	2,346	1,278	1,888
Equity	201	303	1,384	-263	6
Investments in tangible fixed assets	39	52	187	1	2
Key Financial Figures					
Margins:					
TCE	60.4%	67.4%	68.3%	52.2%	44.6%
Gross profit	5.2%	-9.2%	20.0%	0.0%	0.0%
EBITDA	-1.4%	-15.3%	14.7%	-0.1%	-0.1%
Operating profit/loss	-0.9%	-20.1%	14.3%	-0.1%	-0.1%
Return on Equity (RoE)	-3.1%	-94.3%	133.3%	211.7%	-201.0%
Equity ratio	14.9%	24.6%	59.0%	-20.6%	0.0%

The ratios have been prepared in accordance with the “Recommendations & Financial Ratios” issued by the Danish Society of Financial Analysts.

Management's Review

Main activity
The TORM Group is a pure-play product tanker organization and one of the world's leading carriers of refined oil products such as gasoline, jet fuel, naphtha and diesel oil. With vessels varying in size from 35,000-110,000 dwt, TORM operates a large and modern fleet of product tankers.

Development in the year
In the financial year, several important events have transpired within the Company.

At the beginning of 2017, global clean petroleum product inventory levels were at all-time highs, which dampened transportation demand and kept product tanker freight rates under pressure throughout most of 2017.

Throughout 2017, TORM has maintained its strategic and financial flexibility. During the year, the Group undertook initiatives to grow and rejuvenate the fleet by acquiring a total of eight vessels (six MR resales and two LR1 newbuildings). Two of the MR vessels were delivered in 2017, the remaining four and the two LR1s are scheduled for delivery in 2019 through the first quarter of 2020.

In December 2017, TORM reached an important milestone by completing the dual-listing on NASDAQ1 in the US. The dual-listing was one of the factors supporting TORM's successful equity capital raise in January 2018, a capital raise that further strengthens TORM's strategic and financial flexibility by securing additional capacity to pursue growth opportunities. The dual-listing was one of the factors supporting TORM's successful equity capital raise in January 2018, a capital raise that further strengthens TORM's strategic and financial flexibility by securing additional capacity to pursue growth opportunities.

Please refer to the Annual Report for TORM plc for further explanations.

The past year and follow-up on development expectations from last year
The development since last year was slightly below expectations, as a minor but positive result was expected.

Expectations for the year ahead
For 2018, management expects a result before tax for the TORM A/S stand alone company roughly in line with 2017. The expectation to the result is mainly driven by the freight rates which have historically been very volatile.

Environment and climate performance
Within the shipping industry, marine pollution constitutes the largest environmental risk. It is therefore a key priority for TORM to avoid pollution of the seas and the atmosphere.

In 2017, TORM experienced zero oil spills larger than one barrel, but did experience one small oil spill overboard of less than one barrel. The incident was investigated and procedures revised where required.

Throughout 2017, TORM continued to have a strong and dedicated focus on reducing fuel consumption, and the efforts made within this area have generated a positive result.

As in previous years, TORM's Operational Performance team shares the performance of each vessel with the respective vessel managers and vessels on a monthly basis.

A new initiative was introduced during 2017 with the purpose of engaging the vessels on a daily basis to encourage best practice behavior with regard to power consumption and thereby fuel consumption. The initiative ensures that corrective action can be taken swiftly if needed.

Corporate social responsibility
The Company's policies for corporate social responsibility, as well as climate policies, are described in the Annual Report of the TORM plc Group for 2017 as well as on the homepage of Torm, please visit: http://www.torm.com/csr-at-torm

Gender diversity
TORM has an obligation to its customers, shareholders, employees and other stakeholders to develop the Company's talent pool irrespective of attributes such as gender, religion, sexuality, nationality, ethnicity or disabilities. As stated in TORM's Business Principles under "Respecting People", the Company does not accept discrimination with respect to any of the above. TORM works towards a diverse workplace, in which everyone is included and respected, and in which well-being at work is regarded as a shared responsibility.

For further information on TORM's Business Principles, please visit: http://www.torm.com/about-torm

The Company has a target for the diversity of the Company's shareholder-appointed members of the Board of Directors with respect to the under-represented gender.

The target is for females to constitute at least 20% of the shareholder-appointed members of the Board of Directors. As of 31. December 2017 the target has not been reached and is not expected to be reached within 2018.

It is the Company's ambition to reach the target within 2019.

Subsequent events
No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Accounting Policies

The Annual Report of TORM A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The financial statements for 2017 are presented in USD '000.

Consolidated financial statements
With reference to Section 112(3) (2) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements as these are included in the consolidated financial statements of TORM plc.

Cash flow statement
With reference to section 86(4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement.

Changes in accounting policies
There have been no changes in the accounting policies in 2017 compared to 2016.

Recognition and measurement
Revenues are recognized in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortized cost are recognized in the income statement. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortization, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement.

Assets are recognized in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortized cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortized cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortization of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

The used USD/DKK exchange rate at 31 December 2017 is 620.8 (2016: 705.3). US Dollar is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translation policies
Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognized in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognized in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Derivative financial instruments
Derivative financial instruments, primarily forward currency exchange contracts, forward freight agreements and forward contracts regarding bunker purchases, are entered to hedge future committed or anticipated transactions. TORM applies hedge accounting under the specific rules on cash flow hedges when appropriate.

Derivative financial instruments are initially recognized in the balance sheet at fair value at the date when the derivative contract is entered into and are subsequently measured at their fair value as other receivables or other liabilities, respect-ively.

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognized asset or a recognized liability are recognized in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognized in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognized in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognized in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognized. The amount is recognized in the same item as the hedged transaction.

Income Statement

Revenue
Income, including Revenue, is recognized in the income statement when:

- The income generating activities have been carried out on the basis of a binding agreement
- The income can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Company
- Costs relating to the transaction can be measured reliably

Revenue comprises freight, charter hire and demurrage revenues from the vessels and gains and losses on forward freight agreements designated as hedges. Revenue is recognized when it meets the general criteria mentioned above, and when the stage of completion can be measured reliably. Accordingly, freight, charter hire and demurrage revenue are recognized at selling price upon delivery of the service as per the charter parties concluded.

Port expenses, bunkers and commissions
Port expenses, bunker fuel consumption and commissions are recognized as incurred. Gains and losses on forward bunker contracts designated as hedges and write-down and provisions for losses on freight receivables are included in this line.

Charter hire
Charter hire comprises expenses related to the chartering in of vessels under operating leases which have been incurred in order to achieve the net revenue for the period.

Operating expenses
Operating expenses, which comprise crew expenses, repair and maintenance expenses and tonnage duty, are expensed as incurred.

Administrative expenses
Administrative expenses, which comprise administrative staff costs, management costs, office expenses and other expenses relating to administration, are expensed as incurred.

Other operating income
Other operating income comprises revenue from commissions and technical management fee.

Other operating expenses
Other operating expenses primarily comprise chartering commissions and management fees paid to commercial and technical managers for managing the fleet and to a lesser extent profits and losses deriving from the disposal of other plant and operating equipment.

Depreciation and impairment losses
Depreciation and impairment losses comprise depreciation of tangible fixed assets for the period as well as the write-down of the value of assets by the amount by which the carrying amount of the asset exceeds its recoverable amount. In the event of indication of impairment, the carrying amount is assessed, and the value of the asset is written down to its recoverable amount equal to the higher of value in use based on net present value of future earnings from the assets and its net selling price.

Financial income
Financial income comprises interest income, realized and unrealized exchange rate gains relating to transactions in currencies other than the functional currency, realized gains from other equity investments and securities, unrealized gains from securities, dividends received and other financial income including value adjustments of certain financial instruments not accounted for as hedges of future transactions.

Interest is recognized in accordance with the accrual basis of accounting taking into account the effective interest rate. Dividends from other investments are recognized when the right to receive payment has been decided, which is typically when the dividend has been declared and can be received without conditions.

Financial expenses
Financial expenses comprise interest expenses, financing costs of finance leases, realized and unrealized exchange rate losses relating to transactions in currencies other than the functional currency, realized losses from other equity investments and securities, unrealized losses from securities and other financial expenses including value adjustments of certain financial instruments not accounted for as hedges of future transactions.

Interest is recognized in accordance with the accrual basis of accounting taking into account the effective interest rate.

Tax
The Company is jointly taxed with wholly-owned Danish subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes. TORM A/S provides for and pays the aggregate Danish tax on the taxable income of these companies, but recovers the relevant portion of taxes paid from the subsidiaries based on each entity's portion of the aggregate taxable income.

Tax expenses comprise the expected tax including tonnage tax on the taxable income for the year, adjustments relating to previous years and the change in deferred tax for the year.

Balance Sheet

Vessels and capitalized dry-docking
Vessels are measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises acquisition cost and costs directly related to the acquisition up until the time when the asset is ready for use, including interest expenses incurred during the period of construction based on the loans obtained for the vessels. All major components of vessels except for dry-docking costs are depreciated on a straight-line basis to the estimated residual value over their estimated useful lives, which TORM estimates to be 25 years. The Company considers that a 25-year depreciable life is consistent with what is used by other shipowners with comparable tonnage. Depreciation is based on cost less the estimated residual value. Residual value is estimated as the lightweight tonnage of each vessel multiplied by scrap value per ton. The useful life and the residual value of the vessels are reviewed at least at each financial year-end based on market conditions, regulatory requirements and the Company's business plans.

The Company also evaluates the carrying amounts to determine if events have occurred that indicate impairment and would require a modification of the carrying amounts. Prepayment on vessels is measured at costs incurred.

Approximately every 30 and 60 months, depending on the nature of work and external requirements, the vessels are required to undergo planned dry-dockings for replacement of certain components, major repairs and major maintenance of other components, which cannot be carried out while the vessels are operating. These dry-docking costs are capitalized and depreciated on a straight-line basis over the estimated period until the next dry-docking. The residual value of such components is estimated at nil. The useful life of the dry-docking costs is reviewed at least at each financial year-end based on market conditions, regulatory requirements and TORM's business plans.

A portion of the cost of acquiring a new vessel is allocated to the components expected to be replaced or refurbished at the next dry-docking. Depreciation hereof is carried over the period until the next dry-docking. For newbuildings, the initial dry-docking asset is estimated based on the expected costs related to the first-coming dry-docking, which again is based on experience and past history of similar vessels. For second-hand vessels, a dry-docking asset is also segregated and capitalized separately, taking into account the normal docking intervals of the vessels.

For subsequent dry-dockings, the costs comprise the actual costs incurred at the dry-docking yard. Dry-docking costs may include the cost of hiring crews to carry out replacements and repairs, the cost of parts and materials used, cost of travel, lodging and supervision of Company personnel as well as the cost of hiring third-party personnel to oversee a dry-docking. Dry-docking activities include, but are not limited to, the inspection, service on turbocharger, replacement of shaft seals, service on boiler, replacement of hull anodes, applying of anti-fouling and hull paint, steel repairs as well as refurbishment and replacement of other parts of the vessel.

Other plant and operating equipment
Operating equipment is measured at cost less accumulated depreciation.

Computer equipment is depreciated on a straight-line basis over three years, and other operating equipment is depreciated on a straight-line basis over five years.

Leasehold improvements are measured at cost less accumulated amortization and impairment losses, and leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease and the estimated useful life. Cost comprises acquisition cost and costs directly related to the acquisition up until the time when the asset is ready for use.

Investment in subsidiaries
Investment in subsidiaries are recognized and measured at the lower of cost and estimated net realizable value and classified as "fixed assets". Dividends are recognized under “Financial income" and any impairment losses are classified under “Financial expenses”.

The carrying amount of investments in subsidiaries is increased to its estimated net realizable value which though cannot exceed cost, if there have been changes in the estimates used to determine the net realizable value since the last impairment loss was recognized.

Reversal of impairment losses on investments in subsidiaries is recognized in “Financial income”.

Investments in joint ventures
Investments in joint ventures comprise investments in companies which by agreement are managed jointly with one or more companies and therefore subject to joint control and in which the parties have rights to the net assets of the joint venture. Joint ventures are accounted for using the equity method. Under the equity method, the investment in joint ventures is initially recognized at cost and thereafter adjusted to recognize TORM’s share of the profit or loss in the joint venture. When TORM’s share of losses in a joint venture exceeds the investment in the joint venture, TORM discontinues recognizing its share of further losses, unless TORM has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Reversal of impairment losses on investments in joint ventures is recognized in “Financial income”.

Impairment of assets
Non-current assets are reviewed at least annually to determine any indication of impairment due to a significant decline in either the assets’ market value or in the cash flows generated by the assets. In case of such indication, the recoverable amount of the asset is estimated as the higher of the asset’s fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to derive from a cash generating unit, utilizing a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the unit for which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than the carrying amount of the cash generating unit, the carrying amount is reduced to the recoverable amount. The impairment loss is recognized immediately in the income statement. Where an impairment loss subsequently reverses, the carrying amount of the cash generating unit is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized in prior years.

For the purpose of assessing impairment, assets and time charter- and bareboat contracts are grouped at the lowest levels at which impairment is monitored for internal management purposes. In 2017 and 2016, there was only one cash generating unit – the Tanker segment.

Bunkers
Bunkers and luboil are stated at the lower of cost and net realizable value. Cost is determined using the FIFO method and includes expenditures incurred in acquiring the bunkers and luboil and delivery cost less discounts.

Receivables
Outstanding freight receivables and other receivables that are expected to be realized within 12 months from the balance sheet date are classified as loans and receivables and presented as current assets.

Receivables are measured at the lower of amortized cost and net realizable values, which corresponds to nominal value less provision for bad debts. Derivative financial instruments included in other receivables are measured at fair value.

Treasury shares
Treasury shares are recognized as a separate component of equity at cost. Upon subsequent disposal of treasury shares, any consideration is also recognized directly in equity.

Share-based payments
The Company makes equity settled share-based payments to certain employees, which are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The fair value of the share schemes is calculated using the Black Scholes method at grant date.

Dividend
Dividend is recognized as a liability at the time of declaration at the Annual General Meeting. Dividend proposed for the year is moved from "Retained profit/loss" and presented as a separate component of equity.

Mortgage debt and bank loans
At the time of borrowing, mortgage debt and bank loans are measured at fair value less transaction costs. Mortgage debt and bank loans are subsequently measured at amortized cost. This means that the difference between the net proceeds at the time of borrowing and the nominal amount of the loan is recognized in the income statement as a financial expense over the term of the loan applying the effective interest method.

When terms of existing financial liabilities are renegotiated, or other changes regarding the effective interest rate occur, TORM performs a test to evaluate whether the new terms are substantially different from the original terms. If the new terms are substantially different from the original terms, TORM accounts for the change as an extinguishment of the original financial liability and the recognition of a new financial liability. TORM considers the new terms to be substantially different from the original terms if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Leases
Agreements to charter in vessels, for which TORM A/S substantially has all the risks and rewards of ownership, are recongnized in the balance sheet as finance leases. Financially leased assets are measured at the lower of fair value and the present value of minimum lease payments determined in the leases.

For the purpose of calculating the present value, the interest rate implicit in the lease or and incremental borrowing rate is used as discount factor. The financially leased assets are depreciated and written down using the same accounting policy as the vessels owned by the Company.

The corresponding lease obligations are recognized as a liability in the balance sheet, and the interest element of the lease payment is charged to the income statement as incurred.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the deferred tax also constitutes the reserve in relation to the transition balance in connection with the Danish tonnage tax scheme.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the laws that have been enacted by the reporting day. The deferred tax is charged through the income statement except when it relates to other comprehensive income items.

Other liabilities

Liabilities are generally measured at amortized cost. Derivative financial instruments included in other liabilities are measured at fair value.

Income Statement 1 January – 31 December

	Note	2017 USD '000	2016 USD '000
Revenue		657,006	666,993
Port expenses, bunkers and commissions		-259,886	-217,193
Time charter equivalent earnings (TCE)		**397,120**	**449,800**
Charter hire		-178,677	-324,873
Operating expenses	**1**	-184,124	-186,572
Gross profit (Net earnings from shipping activities)		**34,319**	**-61,645**
Administrative expenses	**1**	-31,512	-41,335
Other operating income		253	1,157
Other operating expenses		-12,236	-207
EBITDA		**-9,176**	**-102,030**
Depreciation		-47,356	-32,291
Operating profit/(loss) (EBIT)		**-56,532**	**-134,321**
Income from investments in subsidiaries	**2**	66,845	49,594
Impairment of investments in subsidiaries	**6**	11,334	-673,686
Financial income	**3**	250	880
Financial expenses	**4**	-29,001	-36,946
Profit/(loss) before tax		**-7,104**	**-794,479**
Tax expenses		-638	-419
Net profit/(loss) for the year		**-7,742**	**-794,898**

Allocation of profit/(loss) for the year

The Board of Directors recommends that the net profit/(loss) for the year be allocated as follows:

	2017	2016
Extraordinary dividend	102,000	287,069
Retained profit/(loss)	-109,742	-1,081,967
	-7,742	**-794,898**

Balance Sheet as of 31 December

	Note	2017 USD '000	2016 USD '000
Vessels and capitalized dry-docking		66,079	83,895
Other plant and operating equipment		1,427	1,250
Total tangible fixed assets	**5**	**67,506**	**85,145**
Investments in subsidiaries	**6**	1,104,170	997,072
Investments in joint ventures	**6**	56	56
Other investments		5	3
Total financial assets		**1,104,231**	**997,131**
Total fixed assets		**1,171,737**	**1,082,276**
Bunkers		33,222	31,462
Freight receivables		68,762	60,029
Current tax receivables		0	304
Intercompany receivables		12,960	12,052
Other receivables		10,104	5,925
Prepayments		2,971	2,332
Cash and cash equivalents		54,459	36,268
Total current assets		**182,478**	**148,372**
Total assets		**1,354,215**	**1,230,648**

Balance Sheet as of 31 December

	Note	2017 USD '000	2016 USD '000
Common shares		141,946	141,946
Hedging reserves		6,706	388
Translation reserves		5,896	5,896
Retained profit/(loss)		46,691	154,567
Total equity	**7**	**201,239**	**302,797**
Deferred tax liabilities	**8**	45,176	45,176
Total provisions		**45,176**	**45,176**
Mortgage debt and bank loans	**9**	462,437	567,731
Total non-current liabilities		**462,437**	**567,731**
Mortgage debt and bank loans	**9**	74,895	73,087
Intercompany payables		515,720	172,263
Finance lease liabilities		0	12,556
Trade payables		27,271	25,915
Current tax liabilities		308	0
Other liabilities		27,169	30,927
Deferred income		0	196
Total current liabilities		**645,363**	**314,944**
Total liabilities		**1,152,976**	**927,851**
Total equity and liabilities		**1,354,215**	**1,230,648**
Guarantee and contingent liabilities	**10**		
Related parties	**11**		
Financial instruments	**12**		
Going concern	**13**		

Statement of changes in equity

USD '000	Common shares	Special reserves	Treasury shares	Hedging reserves	Translation Reserves	Retained profit/(loss)	**Total**
Equity as of 1 January 2016	**141,946**	**60,974**	**-19,224**	**1,398**	**5,896**	**1,192,755**	**1,383,745**
Changes in equity for 2016							
Net profit/(loss) for the year	-	-	-	-	-	-794,898	-794,898
Financial instruments, net	-	-	-	-1,010	-	-	-1,010
Redistribution of capital reserves	-	-60,974	19,224	-	-	41,750	0
Share-based compensation	-	-	-	-	-	2,029	2,029
Extraordinary dividend	-	-	-	-	-	-287,069	-287,069
Total changes in equity 2016	**0**	**-60,974**	**19,224**	**-1,010**	**0**	**-1,038,188**	**-1,080,948**
Equity as of 31 December 2016	**141,946**	**0**	**0**	**388**	**5,896**	**154,567**	**302,797**
Changes in equity for 2017							
Net profit/(loss) for the year	-	-	-	-	-	-7,742	-7,742
Financial instruments, net	-	-	-	6,318	-	-	6,318
Share-based compensation	-	-	-	-	-	1,866	1,866
Extraordinary dividend	-	-	-	-	-	-102,000	-102,000
Total changes in equity 2017	**0**	**0**	**0**	**6,318**	**0**	**-107,876**	**-101,558**
Equity as of 31 December 2017	**141,946**	**0**	**0**	**6,706**	**5,896**	**46,691**	**201,239**

Notes

	2017 USD '000	2016 USD '000

1. Staff costs

	2017 USD '000	2016 USD '000
Staff costs included in operating expenses	9,234	9,934
Staff costs included in administrative expenses	24,083	19,762
Total	**33,317**	**29,696**
Staff costs comprise the following:		
Wages and salaries	29,877	26,896
Pension costs	3,318	2,673
Other social security costs	122	127
Total	**33,317**	**29,696**
Of which salaries to the Executive Management and remuneration to the Board of Directors:		
Executive Management, salaries	923	873
Executive Management, bonus	580	559
Board of Directors	0	199
Total	**1,503**	**1,631**
Average number of full-time employees (FTE)	**280**	**271**

2. Income from investments in subsidiaries

	2017 USD '000	2016 USD '000
Dividends from subsidiaries	66,845	39,594
Gain on sale of subsidiary	0	10,000
Total	**66,845**	**49,594**

3. Financial income

	2017 USD '000	2016 USD '000
Unrealized gain from joint ventures	0	188
Interest from subsidiaries	0	586
Other financial income	250	106
Total	**250**	**880**

4. Financial expenses

	2017 USD '000	2016 USD '000
Interest to subsidiaries	3,666	3,221
Other financial expenses	25,335	33,725
Total	**29,001**	**36,946**

Notes

5. Tangible Assets	**Vessels and capitalized dry-docking**	**Other plant and operating equipment**
Cost		
Balance as of 1 January 2017	143,004	19,120
Additions	37,820	721
Disposals	-41,242	0
Balance as of 31 December 2017	**139,582**	**19,841**
Depreciation and impairment losses		
Balance as of 1 January 2017	59,109	17,870
Depreciation for the year	43,187	544
Disposals	-28,793	0
Balance as of 31 December 2017	**73,503**	**18,414**
Carrying amount as of 31 December 2017	**66,079**	**1,427**

Notes

6. Financial Assets

	Investments in subsidiaries	Investments in joint ventures
Cost		
Balance as of 1 January 2017	1,923,904	56
Additions	286,360	0
Disposals	-190,585	0
Balance as of 31 December 2017	**2,019,679**	**56**
Value adjustment		
Balance as of 1 January 2017	-926,833	0
Impairment losses	11,324	0
Disposals	0	0
Balance as of 31 December 2017	**-915,509**	**0**
Carrying amount as of 31 December 2017	**1,104,170**	**56**

Investments in subsidiaries

Entity	Ownership	Voting rights	Country	Profit/(loss) for the year	Equity
VesselCo A ApS	100%	100%	Denmark	0	15
VesselCo C ApS	100%	100%	Denmark	0	15
VesselCo E ApS	100%	100%	Denmark	0	8
DK Vessel HoldCo GP ApS	100%	100%	Denmark	0	15
DK Vessel HoldCo K/S	100%	100%	Denmark	81,841	219,018
OCM Njord Midco Ltd	100%	100%	Gibraltar	4,379	243,247
OMI Holding Ltd.	100%	100%	Mauritius	-49	545
TORM Crewing Service Ltd	100%	100%	Bermuda	28	-3,196
TORM Shipping (Phils.), Inc.	25%	100%	Philippines	-80	507
TORM Shipping India Private ltd.	100%	100%	India	568	3,813
TORM Singapore Pte. Ltd.	100%	100%	Singapore	1,661	14,485
TORM USA LLC	100%	100%	United States	7	-148
VesselCo 8 Pte. Ltd	100%	100%	Singapore	-55	255,327

Investments in joint ventures

Entity	Ownership	Voting rights	Country	Profit/(loss) for the year	Equity
Long Range 2 A/S	50%	50%	Denmark	1	68
LR2 Management K/S	50%	50%	Denmark	-4	1,367

Notes

7. Equity

Common shares consist of:	Number of shares	Nominal value (DKK'000)
A-shares	63,836,249	957,397
B-shares	1	0
C-shares	1	0
		957,397

Common shares has developed as follows:

	2017 DKK '000	2016 DKK '000	2015 DKK '000	2014 DKK '000	2013 DKK '000
Common shares at 1 January	957,397	957,397	7,280	7,280	7,280
Capital decrease	-	-	-147	-	-
Contribution in kind	-	-	593,544	-	-
Contribution in kind	-	-	363,853	-	-
Common shares at 31 December	**957,397**	**957,397**	**957,397**	**7,280**	**7,280**

8. Deferred tax liabilities

All deferred tax liabilities relate to vessels included in the transition account under the Danish tonnage tax scheme.

9. Non-current liabilities

Non-current liabilities are due:

	2017 USD '000	2016 USD '000
Mortgage debt and bank loans*		
After 5 years	0	16,938
Between 1 and 5 years	463,054	551,381
Within 1 year	75,133	73,285
Total	**538,187**	**641,604**
Finance lease liabilities		
After 5 years	0	0
Between 1 and 5 years	0	0
Within 1 year	0	12,556
Total	**0**	**12,556**

* The presented amounts to be repaid do not include directly related costs arising from the issuing of the loans of USD 855k (2016: USD 785k), which are amortized over the term of the loans.

Notes

10. Guarantee and contingent liabilities

	2017 USD '000
Collateral Security and Guarantees	
Carrying amount of investments in subsidiaries collateralized	873,729
Total	**873,729**

Contingent liabilities	
Other operating leases	4,906
Total	**4,906**

The guarantee commitments of the Company consists of all shares in subsidiaries and underlying vessels, are used as collateral for all mortgage debt within the TORM plc Group.

The Company is guarantor for external lease agreements for vessels in subsidiaries (TORM Singapore Pte. Ltd.), amounting USD 2.8m.

Furthermore the Company guarantees less than USD 0.1m, relating to guarantee commitments to the Danish Shipowners' Association.

The Company is involved in some legal proceedings and disputes. It is Management's opinion that the outcome of these proceedings and disputes will not have any material impact on the Company's financial position and results of operations.

Joint taxation

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report, as the Company is the management company of the joint taxation purposes. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

11. Related parties and ownership

Parent entities

The Company is controlled by the following entities:

Name	Type	Place of incorporation
TORM plc	Immediate parent entity	United Kingdom
Oaktree Capital Group. LLC	Ultimate parent entity	United States

Transactions with related parties

All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

Consolidated Financial Statements

The Company is included in the consolidated financial statements of the Parent Company TORM plc, United Kingdom.

Notes

12. Financial instruments

The table below shows the fair value of the derivative financial instruments:

	Fair value as of 31 December 2017 USD'000	Fair value as of 31 December 2016 USD'000
Fair value of derivatives		
Derivative financial instruments regarding freight and bunkers:		
Forward freight agreements	-206	-140
Bunker swaps	771	761
Derivative financial instruments regarding interest and currency exchange rate:		
Forward exchange contracts	2,114	-4,516
Interest rate swaps	4,480	2,357
Total	**7,159**	**1,538**
Of which included in:		
Current assets		
Other receivables	6,979	3,274
Current liabilities		
Other liabilities	180	-4,812
Total	**7,159**	**1,538**

In 2017, 65% (2016: 93%) of TORM's forward freight agreements (FFAs) and fuel swaps were cleared through NASDAQ, effectively reducing counterparty credit risk by daily clearing of balances. Over-the-counter fuel swaps have restrictively been entered into with major oil companies, banks or highly reputed partners with a satisfactory credit rating. TORM also trades FX and interest derivatives. All such derivatives were done with investment grade counterparties.

Methods and assumptions in determining fair value of financial instruments
The fair value of derivatives in other receivables and other payables is measured using accepted valuation methods with input variables such as yield curves, forward curves, spreads, etc. The valuation methods discount the future fixed and estimated cash flows and valuation of any option elements.

13. Going concern

As part of the business model in TORM, TORM A/S has bareboat agreements with group companies, which are nullified on a continuing basis through dividends, capital increases, etc. Consequently, the current intercompany liability is expected to be nullified during 2018.

Based on this and the future outlook for operations and earnings, Management deems that the Annual Report for 2017 is prepared on a going concern basis.