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# ***Kronborg Shipping K/S***

Rungsted Strandvej 113, DK-2960 Rungsted Kyst

## **Annual Report for 1 January - 31 December 2018**

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CVR No 29 77 17 66

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
31/5 2019

Lars Nyberg  
Chairman of the General  
Meeting



**pwc**

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# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Kronborg Shipping K/S for the financial year 1 January - 31 December 2018.

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 2018 of the Company and of the results of the Company operations for 2018.

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.

Rungsted Kyst, 5 April 2019

## Executive Board

Oluf Myhrmann

## Board of Directors

Lars Nyberg  
Chairman

Rasmus Lund-Jacobsen

Frans Bredmose Langkjær

# Independent Auditor's Report

To the general and limited partners of Kronborg Shipping K/S

## Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Kronborg Shipping K/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies ("the Financial Statements").

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 our report. We are independent of the Company in accordance with the International Ethics Standards Board for 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.

## Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's 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 Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's 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 in Management's Review.

# Independent Auditor's Report

## 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

## Independent Auditor's Report

- 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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, 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.

Hellerup, 5 April 2019

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Flemming Eghoff  
State Authorised Public Accountant  
mne30221

Mark Philip Beer  
State Authorised Public Accountant  
mne29472

## **Company Information**

### **The Company**

Kronborg Shipping K/S  
Rungsted Strandvej 113  
DK-2960 Rungsted Kyst

CVR No: 29 77 17 66

Financial period: 1 January - 31 December

Municipality of reg. office: Hørsholm

### **Board of Directors**

Lars Nyberg, Chairman  
Rasmus Lund-Jacobsen  
Frans Bredmose Langkjær

### **Executive Board**

Oluf Myhrmann

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
DK-2900 Hellerup

# Management's Review

## Business Review

Kronborg Shipping K/S owns and operate the vessel M/T Kronborg, IMO number 9316593, which is a double hull IMO III classified oil- and chemical tanker of 40,208 tonne deadweight. M/T Kronborg is delivered from the Korean shipyard SLS Shipbuilding Co. Ltd. in July 2007, and having conducted its first special survey during 2012 on the repair shipyard Fayard, Denmark, while second special survey and class renewal was carried out in China in 2017. M/T Kronborg has been in the company's ownership since delivery.

The company have entered agreements for commercial and operational management of its vessel with Dannebrog Rederi A/S, Denmark, being part of Weco Shipping A/S, Denmark, while for crewing and technical shipmanagement the company have retained Océangold Tankers Inc., Marshall Islands having operation out of Greece.

The technical quality and operation of the vessel is satisfactorily. During 2018, M/T Kronborg had no planned technical off-hire days, while a 0.56 day of unplanned technical off-hire occurred during 2018, which both are within the management expectations.

During 2018, the freight market for oil products tankers in the segments of Handysize and Medium Range size, continued at an unfavourable level due to an imbalance between supply and demand drivers. Especially the continued draw on oil products inventories caused prolonged subdued transportation demand. Meanwhile, the supply of available tonnage continued expanding during the year, however, at a continued decelerating pace compared to previous years.

Especially the second and third quarter of the year proved very depressed, while fourth quarter and the run into 2019 have improved significantly. Throughout the year, the vessel was employed in the Stena Handysize Pool obtaining operational results during 2018 below the financial budget. M/T Kronborg was, however, the best performing vessel amongst peers in the pool.

M/T Kronborg maintains a sufficient and satisfactorily number of commercially important Oil Major's Approvals, and is not being excluded by any cargo owners and traders.

A refinancing of the company took place in 2017, and a new 5-year senior secured term loan have been committed and obtained on satisfactorily commercial terms, securing stable funding throughout 2018



# Management's Review

## Financial Review

Earnings before interest, tax, depreciations and other non-cash items (EBITDA) is delivering a profit of USD 849k, which is well below the forecast at the beginning of the year. The result is composed of a net freight income significantly below budget, meanwhile, vessel-operating expenses (OPEX) accounted for slightly less compared to expectations.

Kronborg Shipping K/S and its commercial and technical managers maintain a rigid cost expenditure control, while ensuring good operational planning and maintenance of the vessel.

Depreciation of the book value of the vessel is based on an in total 20 year economical useful lifetime of the asset, and a residual value recover when sold at the age of twenty. Dry docking investments are depreciated in full over 5 years between dry docking cycles. Depreciations and amortisations amount to USD 1,442k during 2018. An impairment test show no need for additional value impairments.

The financing items of the accounts show a net USD -479k of interest payable, which is in accordance with expectations. The steady increase in the interbank cost of funding continued throughout the year.

Annual net result marks a loss of USD -1,072k, which is below budget, and an unsatisfactorily development in net result compared financial budget 2018, which is due to decline in the freight revenue.

The management is not satisfied with the generated revenue and profit, however, acknowledge the impact from the development in the given business environment within the product tanker segment, declining through 2017 and going into 2018, continuing through October 2018.

On the 31 December 2018 the called in and retained equity amounted to USD 5,668k, equivalent to a solvency ratio of 40% (up from 35% previous year), and 58% (up from 57%) inclusive of subscribed uncalled equity. The liquidity position and cash equivalent holdings are deemed strong, and is composed of cash equivalents of USD 687k and the mentioned subscribed uncalled equity capital of DKK 17.5 million (approx. USD 2.6 million).

## Own Equity Shares

At 31 December 2018, the company owns 67 of its own ordinary shares, corresponding to 0.84% of the share capital.

# Management's Review

## Subsequent Events & Outlook

In December 2018, a call for DKK 4,900k from the uncalled equity capital was made to the limited partners of the company, for general corporate purposes use, which call is fully paid in cash in January 2019 by limited partners, taking the current subscribed uncalled equity capital down to DKK 12.6 million (approx. USD 1.9 million).

From 31 December 2018 until today no otherwise material events has occurred, which would lead the management to a different opinion and view expressed in the review.

The management is somewhat encouraged by its view on the freight market and revenue potential in the coming years, due to a very limited entrance of new tonnage in the segment size, while demolition and scrapping in the tanker segment have picked up pace, combined with an increase in transportation demand and anticipated favourably development in the geographically trading patterns.

On average, the management expects improvement in obtainable freight rates during 2019, compared with the result of 2018, due to the effects of a declining inventory of oil products, now close to historical average. However, the demand for cargo transportation is expected to improve especially from the fall of 2019 and into 2020, also driven regulatory implementation of the IMO2020 low-sulphur emission directive. Meanwhile, very little new tonnage is forecasted entering the market within the smaller tonnage segment sizes of oil products, and the total order book relative to fleet size is now below 10 year average.

The management believe that there is a value creation for shareholders in pursuing continuation of operation, compared to a scenario of discontinuation of operation and sale of assets in the current prevailing market. Based on a discounted cash flow model taking in the freight market outlook, and other assumptions related to operating expenses, useful economical lifetime, residual value and weighted average cost of capital, the management is of the opinion that the value exceeds book value.

In 2019, it is the expectations of the management that a net result from operation will provide a minor net positive earning, and it is assumed that current capital structure and cash reserves are adequate to support the business operation and going concern for the coming year.

## Income Statement 1 January - 31 December

	Note	2018 USD	2017 USD
<b>Revenue</b>		<b>3.383.778</b>	<b>4.001.634</b>
Other operating income		104.629	0
Expenses for tankers		-2.630.420	-2.425.203
Other external expenses		-1.296	-92.893
<b>Gross profit/loss</b>		<b>856.691</b>	<b>1.483.538</b>
Staff expenses	1	-8.000	-6.444
Depreciation and impairment of property, plant and equipment		-1.441.700	-1.467.840
<b>Profit/loss before financial income and expenses</b>		<b>-593.009</b>	<b>9.254</b>
Financial income		2.935	1.089
Financial expenses		-481.973	-803.507
<b>Profit/loss before tax</b>		<b>-1.072.047</b>	<b>-793.164</b>
Tax on profit/loss for the year		0	0
<b>Net profit/loss for the year</b>		<b>-1.072.047</b>	<b>-793.164</b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings		-1.072.047	-793.164
		<b>-1.072.047</b>	<b>-793.164</b>

## Balance Sheet 31 December

### Assets

	Note	2018 USD	2017 USD
Vessels		13.300.000	14.650.000
Docking		305.665	397.365
<b>Property, plant and equipment</b>	2	<b>13.605.665</b>	<b>15.047.365</b>
<b>Fixed assets</b>		<b>13.605.665</b>	<b>15.047.365</b>
<b>Inventories</b>		<b>102.288</b>	<b>117.800</b>
Other receivables		123.758	122.484
Prepayments		5.432	6.709
<b>Receivables</b>		<b>129.190</b>	<b>129.193</b>
<b>Cash at bank and in hand</b>		<b>455.569</b>	<b>1.587.405</b>
<b>Currents assets</b>		<b>687.047</b>	<b>1.834.398</b>
<b>Assets</b>		<b>14.292.712</b>	<b>16.881.763</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2018 USD	2017 USD
Share capital		3.555.362	2.722.423
Retained earnings		2.112.774	3.147.751
<b>Equity</b>	<b>3</b>	<b><u>5.668.136</u></b>	<b><u>5.870.174</u></b>
Credit institutions		6.300.000	8.400.000
Other payables		19.174	20.136
<b>Long-term debt</b>	<b>4</b>	<b><u>6.319.174</u></b>	<b><u>8.420.136</u></b>
Credit institutions	4	2.100.000	2.100.000
Other payables	4	205.402	491.453
<b>Short-term debt</b>		<b><u>2.305.402</u></b>	<b><u>2.591.453</u></b>
<b>Debt</b>		<b><u>8.624.576</u></b>	<b><u>11.011.589</u></b>
<b>Liabilities and equity</b>		<b><u>14.292.712</u></b>	<b><u>16.881.763</u></b>
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## Notes to the Financial Statements

	2018 USD	2017 USD	
<b>1 Staff expenses</b>			
Wages and salaries	8.000	6.444	
	<b>8.000</b>	<b>6.444</b>	
Including remuneration to the Executive Board of: Board of Directors	8.000	6.444	
	<b>8.000</b>	<b>6.444</b>	
<b>Average number of employees</b>	<b>0</b>	<b>0</b>	
<b>2 Property, plant and equipment</b>			
	Vessels USD	Docking USD	Total USD
Cost at 1 January	46.904.965	458.498	47.363.463
Cost at 31 December	46.904.965	458.498	47.363.463
Impairment losses and depreciation at 1 January	32.254.965	61.133	32.316.098
Depreciation for the year	1.350.000	91.700	1.441.700
Impairment losses and depreciation at 31 December	33.604.965	152.833	33.757.798
<b>Carrying amount at 31 December</b>	<b>13.300.000</b>	<b>305.665</b>	<b>13.605.665</b>

In order to assess the need for any impairment, management have calculated the vessels capital value. The calculation is based on specific estimates and management's expectations for the forward-looking market. If the capital value is below the book value, an impairment loss is made. The main uncertainty regarding the calculation, relates to the vessels future earnings, and to illustrate the sensitivity, it can be stated, that a deviation of USD 1,000 per day, will affect the capital value with USD 2.5 mio.

## Notes to the Financial Statements

### 3 Equity

	Share capital	Retained earnings	Total
	USD	USD	USD
Equity at 1 January	2.722.423	3.147.751	5.870.174
Exchange adjustments	-37.070	37.070	0
Cash capital increase	870.009	0	870.009
Net profit/loss for the year	0	-1.072.047	-1.072.047
<b>Equity at 31 December</b>	<b>3.555.362</b>	<b>2.112.774</b>	<b>5.668.136</b>

Shareholders total subscribed equity capital totals DKK 40,000k of which DKK 17,500k (approx. USD 2,600k) is not paid as 31 December 2018. In December 2018, a further call for DKK 4,900k was made to be paid in cash in January 2019, taking the current subscribed uncalled equity capital down to DKK 12,600k (approx. USD 1,900k) as per 5 April 2019.

At 31 December 2018 the company owns 67 of its own shares, corresponding to 0,84% of the share capital.

The share capital is broken down as follow:

	Number	Nominal value USD
Ordinary shares	1.000	5.000.000
Preference shares	7.000	35.000.000
		<b>40.000.000</b>

# Notes to the Financial Statements

## 4 Long-term debt

	2018	2017
	USD	USD
<b>Credit institutions</b>		
Between 1 and 5 years	6.300.000	8.400.000
Long-term part	6.300.000	8.400.000
Within 1 year	2.100.000	2.100.000
	<b>8.400.000</b>	<b>10.500.000</b>
<b>Other payables</b>		
Between 1 and 5 years	19.174	20.136
Long-term part	19.174	20.136
Other short-term payables	205.402	491.453
	<b>224.576</b>	<b>511.589</b>

Other long-term payables consist of loan for Kronborg Management ApS. The loan carry's an interest of 7% per year and non-terminable by Kronborg Management.

## 5 Contingent assets, liabilities and other financial obligations

### Charges and security

The following assets have been placed as security with mortgage credit institutes:

First priority on vessel according to mortgage deed on current loan	13.605.665	15.047.365
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# Notes to the Financial Statements

## 6 Accounting Policies

The Annual Report of Kronborg Shipping K/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2018 are presented in USD. Applied USD exchange rate on the 31 December 2018 : 651,94 (2017 : 620,77)

### Recognition and measurement

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

Assets are recognised in the balance sheet when the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when 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.

### Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

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

# Notes to the Financial Statements

## 6 Accounting Policies (continued)

### Income Statement

#### Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

#### Expenses for tankers

Expenses for tankers comprise the raw materials and consumables consumed to achieve revenue for the year.

#### Other external expenses

Other external expenses comprise expenses for administration etc.

#### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

#### Depreciation and impairment losses

Depreciation and impairment losses comprise depreciation and impairment of property, plant and equipment.

#### Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company.

#### Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

### Balance Sheet

#### Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time

# Notes to the Financial Statements

## 6 Accounting Policies (continued)

when the asset is ready for use.

# Notes to the Financial Statements

## 6 Accounting Policies (continued)

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Vessels	20 years
Docking	5 years

Depreciation period and residual value are reassessed annually.

### Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation.

If so, the asset is written down to its lower recoverable amount.

### Bunkers

Bunkers are measured at the lower of cost under the FIFO method and net realisable value.

### Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

### Prepayments

Prepayments comprise prepaid expenses concerning future financial years.

### Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.