Ultrabulk A/S 2019 Annual Report

Ultrabulk A/S | Smakkedalen 6 |2820 Gentofte, Denmark | CVR.no. 38 28 37 15

Approved on the annual general meeting 2 April 2020.

Bent Jensen

Chairman of the meeting

CONTENT

ABOUT ULTRABULK

Ultrabulk is a leading global dry bulk operator, servicing customers within the Panamax, Supramax, Handy and MPP segments. The business model's core element remains a strong focus on customer relations through a range of long-term partnerships, on cargoes as well as on tonnage. Over the years this has enabled the establishment of a considerable long-term book serving as the platform for future growth.

Ultrabulk also operates in several niche trades with substantial synergies to our core elements. It is a strategic focus to continue developing additional niche trades as they are very important elements in future growth of the fleet of around 130-165 vessels.

Another important base in Ultrabulk's business platform is a well-proven risk management system covering various business risks. With improved technologies these risk management systems are being continuously improved. The new technologies likewise have increased the company's focus on improving the internal processes and data accuracy. The goal of this drive is to improve efficiency as well as ensure the best data to support business decisions going forward.

Continued investments in improving market surveillance and planning systems will support the business development process going forward, especially in relation to efforts to optimise the balance between cargo contracts and tonnage commitments.

The Company had 96 employees by the end 2019, strategically located in offices in Copenhagen (Head office), Santiago, Stamford, Rio de Janeiro, Singapore, Cape Town and Sydney. The geographical spread of offices enables Ultrabulk to serve its partners in their own time zone in relation to both chartering and operations.

Throughout the entire organisation Ultrabulk is committed to perform as a "Partner you can trust".

Ultrabulk is confident that its ability to live up to this commitment has developed into an increasingly strong attribute, which its customers and partners acknowledges. With its comparatively balanced book, solid balance sheet and being part of a strong Group, Ultrabulk is confident that it will be able to consolidate its position further as a preferred counterpart, and to actively pursue the opportunities which will arise under prevailing market conditions.

Mission statement

A partner you can trust.

Vision statement

We strive to be your preferred partner in global dry bulk shipping.

Core values

Excellence

We constantly measure, analyze and adjust in order to enhance quality.

Integrity

We are committed to being reliable, trustworthy, and dependable.

Passion

We address challenges with passion and positive commitment.

Safety

We are committed to developing and stimulating a safe working culture onboard ships and ashore.

PART OF A LARGE AND DIVERSIFIED GROUP

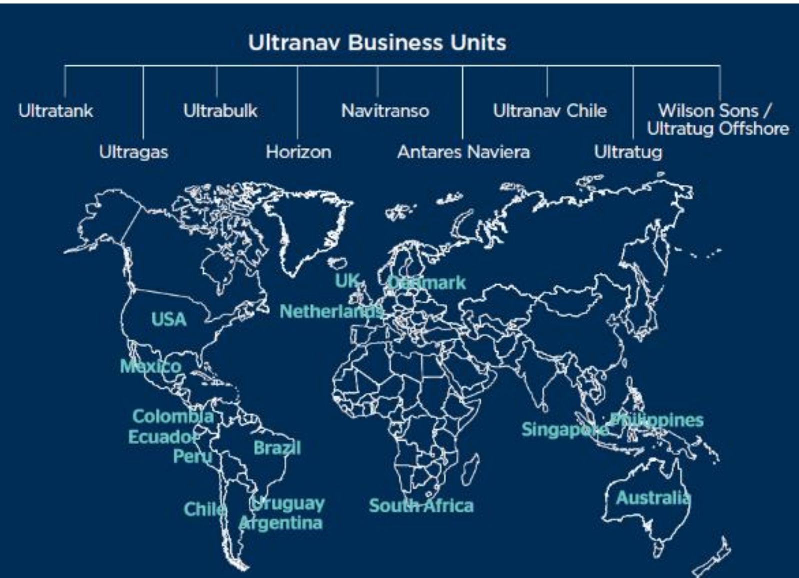
Ultrabulk is part of the Ultranav Group ("Ultranav"). Ultranav is a privately owned shipowning and operating company headquartered in Santiago, Chile.

Through nine business units, Ultranav operates in five market segments: Oil, gas, dry bulk, coastal trades, and towage & offshore. Ultranav operates a fleet of gas and chemical carriers, tankers for crude oil and clean petroleum products, bulk carriers, feeder container ships, multipurpose vessels, harbour tugs, PSVs, AHTS, pusher tugs, barges and pilot boats.

Ultranav is focused on providing efficient, safe and environmentally friendly maritime transportation, harbour towage and maritime support services to the mutual benefit of its customers, employees and all relevant stakeholders. Ultranav aspires to be **"A Partner You Can Trust".**

Ultranav aims to support customers and partners in those segments and niches where it can develop long-term sustainable competitive advantages by adding value to its customers.

Ultranav focuses on customers who value mutually beneficial long-term relationships. Ultranav has a flexible organization managed by qualified professionals committed to providing the best services to the satisfaction of its customers.



Figures and facts as per 2019

Number of vessels and tugs in our fleet

117 Tankers

15 MPP & Containers

20 Gas Carriers

176 Dry Cargo

Grand Total: 437

71 Harbor Tugs

23 PSV

3 AHTS

2 Pusher Tugs

5 Barges

5 Pilot/Crew Boats

2019 HIGHLIGHTS

The market during the first quarter of 2019 was lower than the average of 2019 as expected due to seasonality. The Baltic Supramax Index (BSI) which was average USD 11,486 per day in 2018 (up 22% from 2017) decreased to USD 9,094 per day by end of March 2019, ending the first quarter at average USD 7,931 per day. Second quarter improved to USD 8,485 per day and third quarter to USD 12,511 per day before a decrease in Q4 which resulted in average USD 10,763 per day. This resulted in an average for 2019 at USD 9,948 per day representing a 13% decrease compared to 2018.

The Ultrabulk Handysize commercial team in Europe was restructured during Q2 2019 with the sale of the Hamburg subsidiary, the responsibilities for Handysize Europe were transferred to Copenhagen. The new team in Copenhagen had a good start with their clients and realized synergies with the other segments.

Ultrabulk African Services, Ultrabulk Parcel Service and the specialized MPP Service which focuses on the Europe/Africa/Europe trades continued with a good development over 2019. These additional services provide clients with an even more diversified product range and have resulted in cross segment synergies and opportunities.

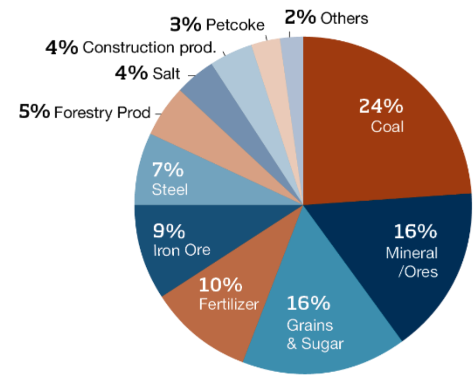
Ultrabulk operated an average of 142 vessels during 2019, which was in line with the number of vessels operated in 2018.

The long-term vessel portfolio slightly exceeds the company's long-term contractual cargo commitments. The long-term core fleet decreased by 1 unit in 2019 to reach 48. A further 5 vessels will be delivered by 2020. The fleet expansion includes units within Supramax and Panamax.

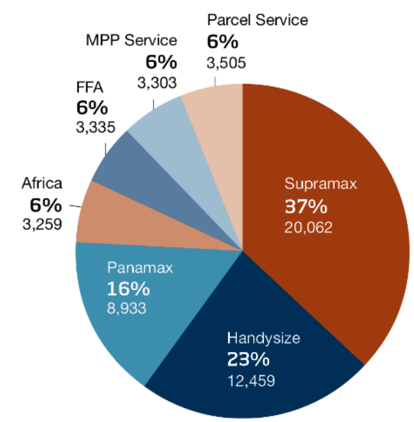
The total of physical ship days in 2019 was 51,521 days, in 2018 the total was 52,619 days. Cargo lifted was slightly down 2 % from 54.51 million tons in 2018 to 53 million tons in 2019.

The Board of Directors has proposed to pay a dividend of MUSD 10 for 2019.

2019 Lifting's 53.12 M/tons



2019 Trading days (54,856) by segment & area



2020 OUTLOOK

Ultrabulk is confident that it will be able to maintain and develop its market position and it is well positioned to address the opportunities that will arise under present market conditions. Our more general market outlook for 2020 is described on page 8. Based on the Company's current coverage, and while acknowledging the very volatile market conditions, a positive EBIT and a positive Net Profit is expected for 2020.

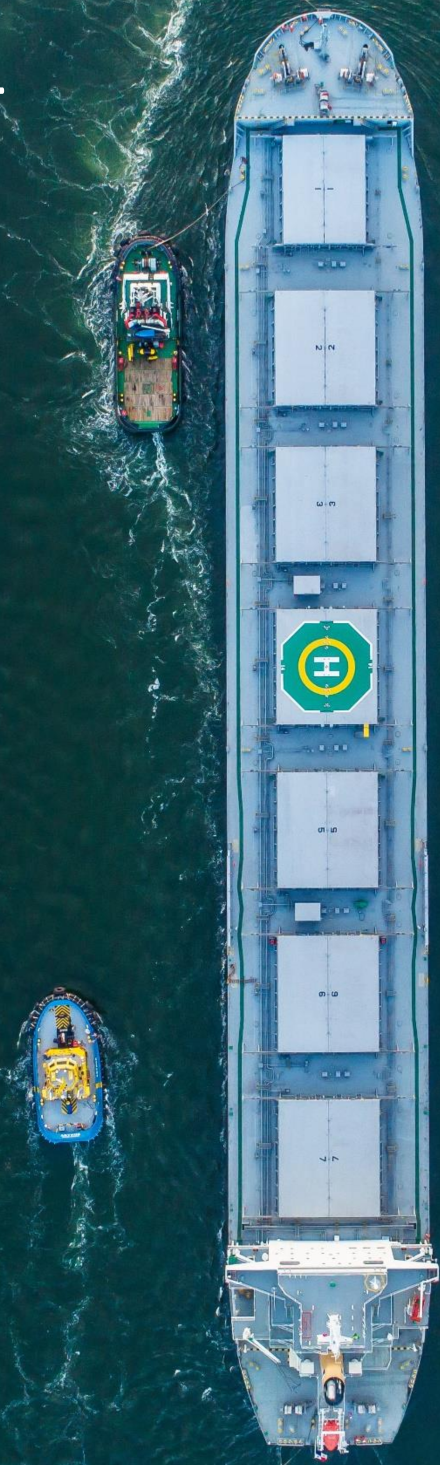
GROUP KEY FIGURES & RATIOS

KEY FIGURES (USD '000)	2019	Restated 2018	Restated 2017*	Restated 2016*	Restated 2015*
INCOME STATEMENT					
Revenue	1.005.634	1.047.614	891.716	585.318	641.648
Gross profit (Net earnings from shipping activities)	160.669	161.660	131.604	128.360	127.523
Operating profit before depreciation, amortization and impairment loss (EBITDA)	136.738	137.473	109.300	106.540	105.385
Operating profit (EBIT)	33.305	35.070	13.864	16.414	18.470
Net financials	-16.921	-18.647	-15.898	-14.994	-15.600
Profit before tax	14.795	16.148	-2.035	-1.016	3.139
Net profit	13.159	14.638	-3.470	403	1.803
Profit for the year for the Ultrabulk Shareholders	13.159	14.638	-3.470	403	1.803
STATEMENT OF FINANCIAL POSITION					
Non-current assets	447.914	500.856	474.717	509.423	453.382
Current assets	213.439	190.017	182.810	167.767	168.528
Total assets	661.353	690.873	657.527	677.190	621.910
Equity, excl. non-controlling interests	158.101	143.525	133.880	135.012	130.917
Non-controlling interests	64	64	64	64	64
Non-current liabilities	289.054	351.336	331.053	382.012	322.183
Current liabilities	214.134	195.948	192.736	160.103	168.746
Net interest-bearing (liabilities)/assets including leases	-280.761	-332.507	-312.623	-314.332	-239.042
Cash and securities	91.932	74.395	69.355	93.179	88.337
CASH FLOW					
From operating activities	148.730	143.622	99.440	124.755	118.144
From investing activities	15.344	-19.808	-19.264	-4.899	-16.316
- of which relates to investment in tangible assets	-26.056	-43.516	20.098	5.024	48.362
From financing activities	-146.537	-118.774	-104.998	-114.016	-93.139
Total net cash flow	17.537	5.040	-24.822	5.840	8.689
FINANCIAL RATIOS AND PER SHARE DATA					
Gross profit margin (Net earnings from shipping activities margin)	16,0%	15,4%	14,8%	21,9%	19,9%
EBITDA margin	13,6%	13,1%	12,3%	18,2%	16,4%
Return on equity (ROE)	8,7%	10,6%	-2,6%	0,3%	1,4%
Payout ratio	76,0	34,2	0,0	0,0	0,0
Equity ratio	23,9	20,8	20,4	19,9	21,1
USD/DKK rate year-end	667,59	651,94	620,77	705,28	683,00
Average USD/DKK rate	667,03	631,74	659,53	673,27	672,69
Total number of physical ship days	51.521	52.619	52.263	41.143	37.788
Average number of employees	96	97	94	94	94
Proposed dividend (DPS)	0,3690	0,1845	0	0	0
Dividend	10.000	5.000	0	0	0

The Group has implemented IFRS 16 with full retrospective effect. Comparatives are adjusted. Adjusted figures for 2015-2017 are unaudited.

* Comparative figures have not been restated to reflect the implementation of IFRS 9 and IFRS 15.

THE FLEET



Total fleet: 130 to 165 vessels

MPP
Up to 25,000 dwt – Up to 10 vessels

Handysize
25,000-45,000 dwt – Up to 55 vessels

Supramax
45,000-65,000 dwt – Up to 60 vessels

Panamax
65,000-85,000 dwt – Up to 40 vessels

MARKET REVIEW & 2020 OUTLOOK

2019 was a turbulent year. Q1 saw the typical seasonal weakness compounded by weak industrial activity in China. On top of this trade was being hindered by the bursting of an iron ore tailings dam in Brazil and weather related disruptions in both Brazil and Australia. To make matters worse the trade conflict between China and the US intensified creating uncertainty and lower investments and consumption globally. By Q3 the recovering Brazilian iron ore trade together with record Chinese imports of most main commodities pushed the market to record hights. In Q4 the markets fell back as iron ore stocks in China were rebuild, Asian coal stocks were at elevated levels and the traditionally slow part of the grain season set in. Also, the continuing trade war continued laying as a suffocating blanket over the global economy.

Usd/day (´000)	2016	2017	2018	2019	2020 FFA (Jan 1.)
C5TC	7.4	15.3	16.4	18.0	13.8
P4TC	5.6	9.8	11.6	11.1	11.5
S10TC	6.2	9.4	11.5	9.9	9.2
BHSI6TC	5.2	7.7	8.7	7.2	7.2

We expect the current weakness to continue throughout Q1 2020 due to:

- The usual slow grain season.
- The high levels of stock piles of coal in Asia,
- Weak Brazilian ore export,
- Seasonal Australian disruptions,
- Low European coal imports,
- The effects of the Corona-virus,

However, we expect the charter rates to rise in Q2 and Q3 as the Corona-virus is contained and the resilient global economy bounces back aided by Chinese infrastructure stimuli and strong Brazilian ore exports.

Especially the Emerging and Developing economies are expected to grow strongly. For dry bulk shipping this is great news as this is the region that drives dry bulk shipping demand.

Growth pct.	2016	2017	2018	2019 f	2020f
World GDP	3.2	3.7	3.6	3.0	3.4
Adv.Econ	1.7	2.4	2.3	1.7	1.7
Emg.Econ	4.3	4.7	4.5	3.9	4.7
Fleet	2.2	2.9	2.9	3.9	3.7
Demand	1.5	9	3.7	1.2	3.9

(IMF, Ultrabulk)

Effective fleet growth in 2020 is more uncertain than usual due to unclear effects of the new IMO regulation commencing January 1st. Following the regulation the sulphur level accepted in bunker fuel will drop from 3.5% to 0.5% for vessels not fitted with a scrubber to clean the exhaust gasses. The new 0.5% bunker fuel will be more expensive causing the vessels to lower the optimal speed. The net result will be a less effective fleet but the impact is highly uncertain.

In 2020 Ultrabulk sees the iron ore trade growing by 1.9% based mainly on steel demand growth for infrastructure and housing in Asia. The coal trade is forecasted to grow by 1.8% as the forecasted strong demand from Asia is higher than the shrinking demand forecasted mainly from Europe. The grain and the minor bulk trades are the top performers and are forecasted to grow by close to 4% each.

The major structural change unfolding in 2020 will be contracting at levels below historical averages. This trend has already been seen throughout 2019. The reason behind the lower contracting is:

- In 2020 it has been 10 years since a shipowner would have been able to make a decent return when investing in a newbuilding. Since we do not believe that average charter rates would reach levels in 2020 that would sustain the cost of a newbuilding, we do not believe that owners or institutional investors would feel comfortable contracting.
- CO_2 considerations will also put a dent in the appetite for contracting. First, the shipping industry is by many institutional investors branded as a “polluting industry” which they shy away from. Second, with the “green” agenda catching traction there could be CO_2-related legislation impeding the operational lifetime of a vessel contracted today
- The current trade war between China and the United States is a part of a larger break-up of the liberal free trade consensus. The uncertainty of future trading capabilities could also dampen the appetite for contracting new vessels.

SUSTAINABILITY

Ultrabulk runs its business operations in accordance with internationally recognized climate and environmental management standards as a minimum.

In general Ultrabulk is involved in quite a few projects surrounding sustainability, because we believe it is the right thing to do and that it will be good business in the future.

Environmental challenges

One of the main challenges leading up to 2020 was the global Sulphur Cap, requiring that the maximum content of Sulphur in the fuel used in the global trade fleet must be below 0.5% unless there is a so-called scrubber installed.

During these past years, Ultrabulk has completed a long-term investment program to install Sulphur scrubber on some existing vessels as well as contracting a series of four new vessels on long term charter to be built with scrubbers onboard together with key partners in Japan. The remainder of the fleet is running on compliant fuels.

As we look to the future we have new regulations coming into force in 2030 and 2050, which will only enhance the need for more environmentally clean vessels and we are following that development closely.

CLIMATE

The worldwide focus on climate issues is greatly affecting the shipping industry, and via IMO we are committed to reduce our emissions with 40% per cargo tons-mile by 2030 compared to 2008 levels. Globally, the focus on emissions reductions is increasing day-by-day and we must continue to innovate, collect and analyze data, invest in equipment and systems as well as raise general awareness both on-shore and at-sea to meet the increasing demand from our customers and society at large.

We believe we have the opportunity to play a positive role in this future to the benefit of the climate as well as our long-term success as a company.

One of the ways we can influence the emission of our vessels is to ensure the bottom and propellers are cleaned at the right time. We are enhancing our focus on this the coming year using a state of the art system to monitor even minor deterioration in performance of our long term fleet.

Online monitoring

Ultrabulk continues to invest in online monitoring and optimization software, ensuring cargo is being transported in a fuel-efficient way, thereby minimizing our emissions.

The fleet is installed with modern technology transmitting real-time data originating from dozens of different sensors onboard vessels measuring voyage and vessel performance.

The information is processed by various online monitoring software systems, and the output is used by our shore-based teams to support the crew on the optimal parameters for navigation, in order to minimize the total bunker consumption at sea.
One of the projects Ultrabulk is involved in, is combining the commercial data and decisions that has to be made together with the technical information and expected performance of the vessel. We believe the successful future online monitoring tool is a tool that can combine the commercial and technical aspects of the decision that has to be made at which speed and consumption the vessel should sail.

We hope we can use the system in the future to show our customers what effect their orders to us has on the environment and thereby make it easier to take a joint decision which is the best for the climate and the voyage at the same time.

New technology

Ultrabulk has partnered with one of its clients to endeavor to reduce carbon emissions from ocean transportation through the design of a concept cargo ship equipped with innovative sail technology. The next level of this project is pending on building a sustainable business case that can attract investors. Ultrabulk expects to continue to contribute alongside our customer as far as the projects finds support from investors.

Reporting

As of 2018 Ultrabulk reports on all CSR relevant activities according to the requirements in the Danish Financial Statements Act §99a. The report is a joint report between the Danish Ultranav companies; Ultrabulk A/S, Ultragas ApS, UltraShip ApS and Ultranav Business Support ApS. The report is published online and is to be found on the following URL: www.ultrabulk.com/content/csr

FINANCIAL REVIEW

Ultrabulk has adopted IFRS 16 full retrospectively and has restated comparative figures by determining the lease liability and measure the right-of-use assets. The adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2018. For more detail see note 1 and 31.

The majority of Ultrabulk's lease contracts are time charter contracts on vessels. For these contracts, the estimated non-lease component (daily running costs) will be excluded from the lease liability. Lease liabilities have been measured at the present value of the lease payments, discounted using the incremental borrowing rate.

The adoptions of IFRS 16 has a positive impact on the net profit of USD 0.3 million in 2019 (USD -0.9 million in 2018) and a negative impact on the equity of USD 15.9 million in 2019 (USD 16.3 million in 2018).

Results

EBITDA was USD 136.7 million (USD 137.5 million in 2018), corresponding to an EBITDA margin of 13.6% (13.1% in 2018). Net Profit amounted to USD 13.2 million (USD 14.6 million in 2018), which is almost in line with expected.

Revenues in 2019 were USD 1,006 million, similar to the level in 2018 (USD 1,048 million) and this is a result of a similar fleet size during both years and ability to keep similar margins even with a lower market in 2019 compared to 2018.

Gross profit was USD 160.7 million in 2019 corresponding to a gross margin of 16.0%, against 15.4% in 2018.

Profit on sales of vessel of USD 0.5 million is related to the exercising of a purchase option on a vessel with the subsequent sale of the vessel and the sale of the owned vessel Ultra Villarrica.

Depreciation totalled USD 103.6 million (USD 106.3 million in 2018), mainly related to depreciation on right-of-use assets.

Share of results from joint ventures and associated companies totalled USD -1.9 million, against USD 0.5 million in 2018.

Net financial items amounting to USD -16.9 million (USD -18.6 million in 2018). The main part of the financial expenses is related to interest on lease liabilities.

Income tax at USD -1.6 million is mainly tonnage tax.

Balance sheet

Total assets amounted to USD 661.4 million, against USD 690.9 million in 2018.

Non-current assets totalled USD 447.9 million against USD 500.9 million in 2018. Of this USD 328.3 million is related to Right-of-use assets in 2019 (USD 345.3 million in 2018).

Current assets totalled USD 213.4 million against USD 190.0 million in 2018, due to increase in inventories, but a decrease in trade and other receivables. The cash and short-term deposits are USD 91.9 million as of 31st December 2019 (USD 74.4 million as of 31st December 2018).

A newbuilding has been sold with delivery to the new owners in January 2020 and is therefore reclassified to assets held for sale.

Total liabilities amounted to USD 503.2 million compared to USD 547.3 million in 2018. The main part of the liabilities are related to lease liabilities of USD 381.4 million in 2019 (USD 407.2 million in 2018). Total equity USD 158.2 million (USD 143.6 million in 2018), the development driven by a net result of USD 13.1 million and other comprehensive income of USD 6.8 million. A dividend of USD 5.0 million was paid to the shareholders.

Return on equity was 8.7%, and equity ratio was 24.3% at the end of 2019 compared to 20.8% at end of 2018.

At the Annual General Meeting, the Board of Directors will propose to pay out dividends for 2019 of USD 10.0 million.

Cash flow

Cash and cash equivalents at year end were USD 91.9 million, up by USD 17.5 million from 2018.

Cash flow from operating activities was positive by USD 148.7 million (USD 143.6 million in 2018), mainly related to cash generated from the shipping activities and changes in the net working capital.

Cash flow from investing activities netted USD 15.3 million (USD -19.8 million in 2018) reflecting sales of vessels. Cash flow from financing activities totalled USD -146.5 million (USD -118.8 million in 2018) is mainly related to instalment and interest payment on lease liabilities.

CORPORATE GOVERNANCE

The Board of Directors and Executive Management of Ultrabulk are convinced that efficient and clear division of responsibilities as well as transparent decision-making processes are prerequisites of a Company's long-term value creation. Ultrabulk therefore reviews at least annually the Company's corporate governance practices and principles in accordance with legislation, customs and recommendations. As part of this process, the Board and Executive Management review the Company's strategy, organisation, business processes, risks, control mechanisms and relations with its shareholders, customers, employees and other stakeholders.

Remuneration of Board of Directors and Executive Management

The Danish Public Companies Act provides that shareholders adopt, at the general meeting, guidelines for incentive pay to members of the Company's Board and its Executive Management. Such guidelines have been adopted. The main elements of the current guidelines are set out in the following:

Board of Directors

The Board of Directors has refrained from receiving any compensation for their work in 2019, unchanged from 2018. In 2020, the members of the Board of Directors will also refrain from receiving any compensation for their work. If the Company activities require a temporary, but extraordinary workload by the Board, a fee may be authorised. The members of the Board receive no incentive pay for their work on the Board.

Executive Committee

Members of the Executive committee are employed under executive service contracts, and all terms are fixed by the Board of Directors based on the guidelines approved by the general meeting. The Executive Committee of Ultrabulk consisted during 2019 of the CEO, CFO and three Executive Vice Presidents.

Members of Executive Committee receive a competitive remuneration package consisting of the following elements: A fixed salary, benefits such as company car and phone, and an incentive payment in terms of cash bonus. Performance criteria for the cash bonus is tied to earnings and business targets.

Risk management

Main risk exposures and risk management processes are described in note 24.

Gender composition

According to the requirements in Danish Financial Statement Act § 99b Ultrabulk must report on gender composition in the management. Ultrabulk applies a policy stating that gender composition of management shall reflect the gender balance of society as a whole – with due regard to the specific conditions in the shipping business.

Objective for the gender composition of the Board of Directors, unchanged from last year, is for shareholder-elected women on the Board to reach at least 20% by 2020 (1 out of 5). Today all 4 members of the BOD are men. It is assessed that the current members possess the relevant competences.

In management both genders are represented since early 2015 (1 woman), however not with equal representation. The representation of women in the management team has not increased in 2019 and the aim is to increase the female representation in the coming years.

Ultrabulk policy states and ensures equal career opportunities for men and women and is actively used as a tool for recruiting and working with both genders, and equality in general. In the recruiting processes, it is the target to have both genders presented in the final stage of selection.

STATEMENT OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and Executive management have prepared the 2019 Annual Report. The Annual Report was considered and adopted today.

The Annual consolidated financial statements for the Group has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further disclosure requirements according to the Danish Financial Statements Act. The financial statements of the Parent Company are prepared in accordance with the Danish Financial Statements Act.

We consider the accounting policies used appropriate and the accounting estimates made reasonable, and in our opinion the consolidated financial statements and the financial statements of the Parent Company provide the relevant information for assessing the financial position of the Group and the Parent Company. In our opinion the consolidated financial statements and the financial statements of the Parent Company give a true and fair view of the assets, liabilities and financial position of the Group and the Parent Company, the results of the Group's and the Parent Company's operations and the Group's cash flows for the period 1 January - 31 December 2019.

In our opinion the Management's review in the preceding pages gives a true and fair presentation of the development in the activities and the financial position of the Group and the Parent Company, the results for the year and of the Group's and the Parent Company's financial position in general. Further, in our opinion the Management's review describes the most significant risks and uncertainties that may affect the Group and the Parent Company.

We recommend that the Annual Report is adopted at the annual general meeting.

Copenhagen, 4 March 2020

EXECUTIVE MANAGEMENT

Per Lange	Francisco Larrain	Hans-Christian Olesen
CEO	CFO	EVP

BOARD OF DIRECTORS

Dag von Appen	Enrique Ide	Jan Vermeij	Peter Stokes
Chairman	Vice chairman		

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Ultrabulk A/S

Opinion

We have audited the consolidated financial statements and the Parent Company financial statements of Ultrabulk A/S for the financial year 1 January – 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies for the Group and the Parent Company, and a consolidated statement of comprehensive income and a consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent Company's financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Further, in our opinion, the Parent Company financial statements give a true and fair view of the financial position of the Parent Company at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January – 31 December 2019 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 consolidated financial statements and the Parent Company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the international Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the Parent Company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the Parent Company financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements and the Parent Company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on our procedures, we concluded that the Management's review is in accordance with the consolidated financial statements and the Parent Company 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's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for the preparation of Parent Company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act.

Moreover, Management is responsible for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and the Parent Company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the Parent Company financial statements, Management is responsible for assessing the Group's and the Parent 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 Group or the Parent 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 as to whether the consolidated financial statements and the Parent Company financial statements 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 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 the financial statements.

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

► Identify and assess the risk of material misstatement of the consolidated financial statements and the Parent Company 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 Group's and the Parent Company'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 consolidated financial statements and the Parent Company 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 Group's and the Parent 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 consolidated financial statements and the Parent Company 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 Group and the Parent Company to cease to continue as a going concern.

► Evaluate the overall presentation, structure and contents of the consolidated financial statements and the Parent Company financial statements, including the note disclosures, and whether the consolidated financial statements and the Parent Company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

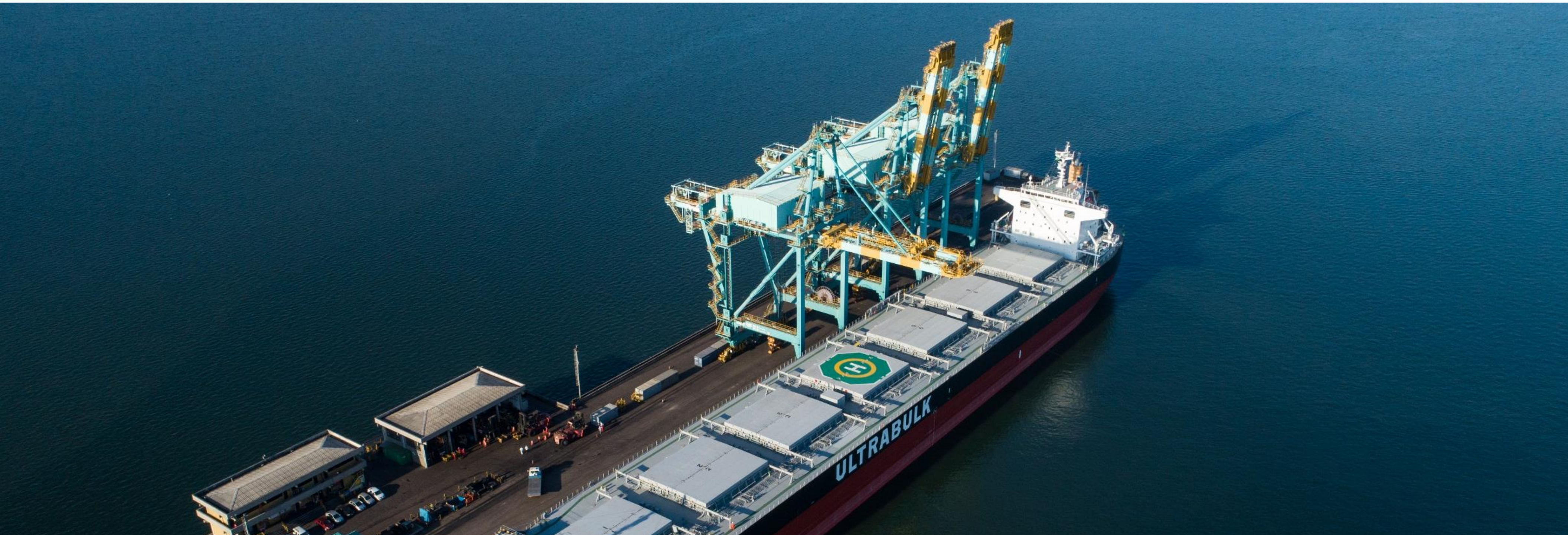
► Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Copenhagen, 4 March 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Thomas Bruun Kofoed
State Authorised Public Accountant
MNE no. 28677

Tommy Borggaard Nielsen
State Authorised Public Accountant
MNE no. 34340



CONSOLIDATED INCOME STATEMENT AND COMPREHENSIVE INCOME

Income Statement

Figures in USD '000	Note	2019	2018 Restated
Revenue	3	1.005.634	1.047.614
Voyage related expenses		-394.544	-415.266
Time-charter hire and opex expenses	4	-450.421	-470.688
Gross profit (Net earnings from shipping activities)		**160.669**	**161.660**
Other external expenses	5	-9.215	-9.578
Staff costs	6	-14.716	-14.609
Operating profit before depreciation, and impairment loss (EBITDA)		**136.738**	**137.473**
Net profit on sale of vessels		457	3.110
Depreciation	7	-103.587	-106.328
Share of joint ventures' profit after tax	15	-303	815
Operating profit (EBIT)		**33.305**	**35.070**
Share of associates' profit after tax	14	-1.589	-275
Other financial items, net	8	-16.921	-18.647
Profit before tax		**14.795**	**16.148**
Tax	9	-1.636	-1.510
Net profit		**13.159**	**14.638**
Attributable to:			
Profit attributable to the equity holders of the parent		13.159	14.638
Profit attributable to non controlling interests		0	0
		13.159	**14.638**

Statement of Comprehensive Income

Figures in USD '000	Note	2019	2018 Restated
Profit/loss (-) for the year		**13.159**	**14.638**
Other comprehensive income			
Items that will be reclassified subsequently to the consolidated income statement, when specific conditions are met:			
Value adjustments of hedging instruments		5.926	-4.016
Tax effect		0	0
Value adjustments of hedging instruments after tax		**5.926**	**-4.016**
Exchange adjustments of foreign entities		218	-567
Reclassified to share of associates profit after tax		645	0
Other comprehensive income for the year, net of tax		**6.789**	**-4.583**
Total comprehensive income for the year, after tax		**19.948**	**10.055**
Attributable to:			
Equity holders of the parent		19.948	10.055
Non-controlling interests		0	0
		19.948	**10.055**

CONSOLIDATED BALANCE SHEET

ASSETS			**2018**	**As at 1/1**
Figures in USD '000	**Note**	**2019**	**Restated**	**2018**
Vessels	10	62.831	84.697	64.565
New building contracts	11	0	1.508	5.506
Right-of-use assets	13	328.307	345.361	329.589
Fixtures, fittings and equipment	12	813	873	187
Total tangible assets		**391.951**	**432.439**	**399.847**
Investment in associates	14	750	1.476	2.318
Investment in joint ventures	15	25.279	25.582	24.766
Intercompany loan receivable		2.690	2.500	0
Derivative financial instruments	27	1.408	1.553	1.735
Receivables from subleases		25.836	37.167	45.587
Deferred tax assets	16	0	139	463
Financial assets, non-current		**55.963**	**68.417**	**74.869**
Total non-current assets		**447.914**	**500.856**	**474.716**
Inventories	17	27.283	23.371	20.185
Trade and other receivables	18	55.737	69.767	60.869
Receivables from related companies		9.747	26	2.496
Receivables from subleases		11.331	8.420	7.863
Prepayments		10.467	13.162	16.957
Derivative financial instruments	27	1.312	876	5.085
Cash and short-term deposits	19	91.932	74.395	69.355
		207.809	190.017	182.810
Assets classified as held for sale	11	5.630	0	0
Current assets		**213.439**	**190.017**	**182.810**
TOTAL ASSETS		**661.353**	**690.873**	**657.526**

EQUITY AND LIABILITIES			**2018**	**As at 1/1**
Figures in USD '000	**Note**	**2019**	**Restated**	**2018**
Share capital	20	5.134	5.134	5.134
Retained earnings		148.581	145.794	136.358
Other reserves		-5.614	-12.403	-7.820
Proposed dividend		10.000	5.000	0
Total equity of majority interest		**158.101**	**143.525**	**133.672**
Non-controlling interests		64	64	64
Total equity		**158.165**	**143.589**	**133.736**
Interest bearing loans and borrowings	21	28.486	41.563	33.140
Lease liabilities	22	258.805	299.663	287.175
Derivative financial instruments	27	1.763	10.110	7.356
Total non-current liabilities		**289.054**	**351.336**	**327.671**
Trade and other payables	23	79.862	75.326	72.968
Interest-bearing loans and borrowings	21	3.699	5.256	4.082
Lease liabilities	22	122.569	107.571	111.033
Intercompany payables		0	3.692	2.292
Derivative financial instruments	27	5.427	2.490	4.704
Income tax payable		2.577	1.613	1.040
Total current liabilities		**214.134**	**195.948**	**196.119**
Total liabilities		**503.188**	**547.284**	**523.790**
TOTAL EQUITY AND LIABILITIES		**661.353**	**690.873**	**657.526**

CONSOLIDATED CASH FLOW STATEMENT

Figures in USD '000	Note	2019	2018 Restated
Profit before tax		14.795	16.148
Adjustment for non-cash items etc.			
Gain on sale of vessel, plant and equipment		-457	-3.110
Depreciation and impairment loss	7	103.587	106.328
Tax paid		-674	-498
Share of gain/loss in associated companies	14	1.589	275
Share of gain/loss in joint venture	15	303	-815
Interest expenses	8	18.525	19.560
Interest income	8	-1.604	-913
Net foreign exchange differences		278	354
Net forward contract activity		225	915
Other changes		-193	-424
Instalments on sub-lease receivables		8.420	7.863
Working capital adjustments:	28		
Change in current assets		3.092	-5.818
Change in current liabilities		844	3.758
Net cash flows from operating activities		**148.730**	**143.622**

Figures in USD '000	Note	2019	2018 Restated
Investments in tangible assets	10, 11,12	-26.056	-43.516
Sale of tangible assets	10, 11,12	39.986	25.295
Intercompany loan		-190	-2.500
Interest received		1.604	913
Net cash flows from investing activities		**15.344**	**-19.808**
Dividends paid to equity holders		-5.000	0
Dividend received		0	0
Bank loan		0	14.055
Repayment loan		-15.376	-4.670
Instalments on lease liabilities		-107.637	-108.599
Interest paid		-18.525	-19.560
Net cash flows from financing activities		**-146.537**	**-118.774**
Net change in cash and cash equivalents		17.537	5.040
Cash and cash equivalents at 1 January	19	74.395	69.355
Cash and cash equivalents at 31 December	**19**	**91.932**	**74.395**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Figures in USD '000	Share capital (Note 20)	Retained earnings	Other Reserves: Hedging reserves	Other Reserves: Translation reserve	Total other reserves	Proposed dividend	Total Majority interest	Non-controlling interests	Total Equity
At 1 January 2019	**5.134**	**145.794**	**-10.521**	**-1.882**	**-12.403**	**5.000**	**143.525**	**64**	**143.589**
Comprehensive income	0	13.159	5.926	863	6.789	0	19.948	0	19.948
Total comprehensive income	**0**	**13.159**	**5.926**	**863**	**6.789**	**0**	**19.948**	**0**	**19.948**
Other changes	0	-372	0	0	0	0	-372	0	-372
Distributed dividend	0	0	0	0	0	-5.000	-5.000	0	-5.000
Proposed dividend	0	-10.000	0	0	0	10.000	0	0	0
Changes during the year	**0**	**-10.372**	**0**	**0**	**0**	**5.000**	**-5.372**	**0**	**-5.372**
At 31 December 2019	**5.134**	**148.581**	**-4.595**	**-1.019**	**-5.614**	**10.000**	**158.101**	**64**	**158.165**

Figures in USD '000	Share capital (Note 20)	Retained earnings	Other Reserves: Hedging reserves	Other Reserves: Translation reserve	Total other reserves	Proposed dividend	Total Majority interest	Non-controlling interests	Total Equity
At 1 January 2018	**5.134**	**151.527**	**-6.505**	**-1.315**	**-7.820**	**0**	**148.841**	**64**	**148.905**
Change in accounting practice IFRS 16	0	**-15.169**	**0**	**0**	**0**	**0**	**-15.169**	**0**	**-15.169**
At 1 January 2018 restated	5.134	136.358	-6.505	-1.315	-7.820	0	133.672	64	133.736
Comprehensive income	0	14.638	-4.016	-567	-4.583	0	10.055	0	10.055
Total comprehensive income	**0**	**14.638**	**-4.016**	**-567**	**-4.583**	**0**	**10.055**	**0**	**10.055**
Other changes	0	-202	0	0	**0**	0	-202	0	-202
Proposed dividend	0	-5.000	0	0	**0**	5.000	0	0	0
Changes during the year	**0**	**-5.202**	**0**	**0**	**0**	**5.000**	**-202**	**0**	**-202**
At 31 December 2018	**5.134**	**145.794**	**-10.521**	**-1.882**	**-12.403**	**5.000**	**143.525**	**64**	**143.589**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Note 1 – Group accounting policies

Ultrabulk A/S is a company domiciled in Denmark.

The consolidated financial statements of Ultrabulk A/S for 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except all financial assets and liabilities. These financial assets and liabilities have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges and otherwise carried at cost are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The accounting policies set out below have been used consistently in respect of the financial year and the comparative figures.

The consolidated financial statements have been presented in USD thousands (USD ´000), except when otherwise indicated.

Accounting standards effective in 2019

Ultrabulk A/S has adopted all new or amended and revised accounting standards and interpretations (IFRSs´) endorsed by the EU effective for the accounting period beginning on 1 January 2019.

IFRS 16, Leases:

The transition to IFRS 16 is in accordance with the full retrospective approach and previous periods comparative figures have been adjusted in the financial statements. For a description of the impact please refer to note 31.

Leases are recognised as right-of-use assets with corresponding lease liabilities at the date on which the leased asset is available for use.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. The lease payments is allocated between a reduction of the lease liabilities and an interest expenses. The interest expenses is charged to the income statement over the lease period to produce a constant period rate of interest on the remaining balance of the liability for each period.

The Group elected not to reassess whether a contract is, or contains, a lease at 1 January 2019.

The standard includes low recognition exemptions for lessees which is leases of low-value and short term leases (i.e. leases with a lease term of 12 months or less).

If a leased vessel is sub-leased under terms transferring substantially all remaining risks and rewards under the head lease to a lessee in the sub-lease, the right-of-use asset is derecognised and a lease receivable is recognised. Gain/loss on the derecognised right-of-use is recognised in the income statement as other operating income/expenses.

Other:

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Basis of consolidation

The consolidated financial statements comprise the Parent Company Ultrabulk A/S and subsidiaries in which Ultrabulk A/S has control (the Group), i.e. the power to govern the financial and operating policies so as to obtain benefits from its activities. Control is obtained when the Company directly or indirectly holds more than 50% of the voting rights in the subsidiary or which it, in some other way, controls.

Enterprises over which the Group exercises significant influence, but which it does not control, are considered associates. Significant influence is generally obtained by direct or indirect ownership or control of more than 20% of the voting rights but less than 50%.

When assessing whether Ultrabulk A/S exercises control or significant influence, potential voting rights which are exercisable at the balance sheet date are taken into account.

Common control transactions are accounted for using the pooling-of-interest method. The receiving company of the net assets initially recognizes the assets and liabilities transferred at their carrying amount. The result of operations for the period in which the transfer occurs is presented as though the transfer had occurred at the beginning of the period. Financial statements and financial information for prior years are restated to provide appropriate comparative information.

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements prepared according to the Group accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's ownership share of the enterprise. Unrealised losses are eliminated in the same way as unrealised gains to the extent that impairment has not taken place.

The accounting items of subsidiaries are included in full in the consolidated financial statements. Non-controlling interests' share of the profit/loss for the year and of the equity of subsidiaries which are not wholly owned are included in the Group's profit/loss and equity, respectively, but are disclosed separately.

Foreign currency translation

For each of the reporting entities in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting entity operates. Transactions denominated in other currencies than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement as financial income or financial expenses.

In the consolidated financial statements, the income statements of entities with another functional currency than USD are translated at the exchange rates at the transaction date and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for each month is used as the transaction date exchange rate to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such foreign operations at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognised in other comprehensive income and presented in equity under a separate translation reserve.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts, bunker hedge and FFA’s to hedge part of risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivate contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of bunker hedge and the fair value of FFA’s are determined by reference to market values for similar instruments.

For the purpose of accounting, hedges are classified as:

- fair value hedges when hedging the exposure to change in fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedge when hedging exposure to variability in cash flow that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At time of entering into a hedge relationship, the Group designates and documents the hedge relationship to which the Group wishes to apply for hedge accounting and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness requirements.

The criteria for classifying a derivative as a hedging instrument for accounting purposes are as follows:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from the economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged items that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Fair value hedges

Derivatives designated as hedging instruments are measured at fair value and changes in fair value are recognised in the income statement. Correspondingly, a change in the fair value of the hedged item attributable to the hedged risk is recognised in the income statement. The fair value hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting stated above.

Cash flow hedges

Changes in the fair value of a hedging instrument that meet the criteria for cash flow hedge accounting are recognized in other comprehensive income. The ineffective part of the hedging instrument is recognised directly in the income statement. Gains and losses that are recognised in other comprehensive income are taken to the income statement in the same period or periods as the cash flow which comprises the hedged item is recognised in the income statement. The principle also applies if the hedged forecasted transaction results in an asset or liability being recognised in the balance sheet. If the cash flow hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative gain or loss of the hedging instrument recognised in comprehensive income remains separately recognised in comprehensive income until the forecast transaction occurs. If the cash flow hedged transaction is no longer expected to occur, any previously accumulated gain or loss of the hedging instrument that has been recognised in other comprehensive income will be carried to profit or loss. Derivatives not accounted for as hedging instruments are classified as financial assets at fair value through profit or loss and measured at fair value. Changes in the fair value of such derivatives are recognised in the income statement.

Determination of fair value

The fair value of financial assets and liabilities is measured on the basis of quoted market prices of financial instruments traded in an active market. If an active market exists, fair value is based on the most recent observed market price at the end of the reporting period.

If an active market does not exist, the fair value is measured according to generally accepted valuation techniques. Market-based parameters are used to measure fair value.

For bunker contracts the price is based on the prices from Platts Bunkerwire. The value of FFAs is assessed on basis of daily recorded prices from the Baltic Exchange.

Leases

Right-of-use assets

Ultrabulk recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made before the commencement date. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to testing for impairment if there is an indicator of impairment, as for owned assets.

Lease liabilities

At the commencement date of the lease, Ultrabulk recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The service fee included in the payments are not included as part of the lease liabilities. The lease term comprises the non-cancellable period with addition of periods covered by options to extend the lease if Ultrabulk is reasonably certain to exercise the extension option. This assessment is made on inception of the lease. The lease payments include fixed payments and variable payments depending on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by Ultrabulk.

In calculating the present value of lease payments, Ultrabulk uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Subleasing

The Group enters into arrangements to sublease an underlying asset to a third party, while Ultrabulk retains the primary obligation under the original lease. In these arrangements, Ultrabulk acts as both the lessee and lessor of the same underlying asset.

If a leased vessel is sub-leased under terms transferring substantially all remaining risks and rewards under the head lease to the lessee in the sub-lease, the right-of-use asset is derecognised, and a lease receivable is recognised. Gain/loss on the derecognised right-of-use asset, if any, is recognised in the income statement as other operating income/expenses.

During the term of the sublease, Ultrabulk recognises both finance income on the sublease as revenue and interest expense on the head lease as financial expense.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to the short-term leases and leases for which the underlying asset is of low value such as office equipment and company cars. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Business activities

As the Company is unlisted it has been decided not to follow IFRS 8 Operating Segments.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not held by Ultrabulk A/S and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Initially the non-controlling interest is recognised based on their share of the fair value of the assets and liabilities acquired.

INCOME STATEMENT

Revenue and expenses

All voyage revenues and voyage expenses are recognised as the services are rendered bases the percentage of completion method. According to the method all spot voyages and voyages servicing contract of affreightment (CoA) and the related expenses are recognised from the vessel's load date to the delivery of the cargo (discharge). Expenses directly attributable to position the vessel to the loading port is capitalised and amortised over the course of the transportation period.

Demurrage is included if a claim is considered probable.

Losses arising from time or voyage charter are provided for in full when they become probable.

Profit and loss from the sale of vessels etc.

Profits and losses from the sale of vessels are stated as the difference between the sales price of the vessel less the selling costs and the carrying amount of the vessel at the time of delivery.

Profit from investments in associates

The proportionate share of the result after tax of associates is recognized in the consolidated income statement after elimination of the proportionate share of intra-group profits/losses.

Profit from investments in joint ventures

The proportionate share of the result after tax of the joint ventures is recognized in the consolidated income statement after elimination of the proportionate share of intra-group profit/losses.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities.

Taxes

Ultrabulk A/S is jointly taxed with the Parent Company Ultranav Denmark ApS and the Parent Company is the administration company for the jointly taxed companies. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. In relation to the shipping activities Ultrabulk A/S participates in the Danish Tonnage Tax Scheme. Companies that use tax losses in other companies pay the joint tax contribution to the Parent Company at an amount corresponding to the tax value of the tax losses used. Companies whose tax losses are used by other companies receive joint tax contributions from the Parent Company corresponding to the tax value of the losses used (full absorption). The jointly taxed companies are taxed under the tax prepayment scheme.

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement. Tax attributable to entries directly under comprehensive income is recognised directly in other comprehensive income.

BALANCE SHEET

Tangible assets

Tangible assets are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Instalments and costs incurred during the construction period on new building contracts are capitalised as they are paid. Borrowing costs (interest) that are attributable to the construction of the vessels are capitalised and included as part of the cost. The capitalised value is reclassified from new buildings to vessels upon delivery from the yard.

Where individual components of an item of tangible assets have different useful lives, they are depreciated separately. Depreciation is provided on a straight-line basis over the expected useful lives of the assets/components. The expected useful lives are as follows:

- Vessels: 20 years
- Fixtures, fittings and equipment: 3 - 10 years

Depreciation is calculated on the basis of the residual value and impairment losses, if any. The useful life and residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. The residual value of the vessels is estimated as the lightweight tonnage of each vessel multiplied by scrap value per ton.

When changing the depreciation period or the residual value, the effect on the depreciation is recognised prospectively as a change in accounting estimates.

The carrying values of vessels and new buildings are reviewed for impairments when events or changes in circumstances indicate that the carrying value may not be recoverable. Valuations are performed frequently to ensure that the fair value of the asset does not differ materially from its carrying amount.

Investments in associates

Investments in associates are recognised in the consolidated financial statements according to the equity method. Investments in associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus the proportionate share of unrealised intra-group profits and losses and plus additional value on acquisition, including goodwill. Investments in associates are tested for impairment when impairment indicators are identified.

Investments in associates with negative net asset values are measured at USD 0 (nil). If the Group has a legal or constructive obligation to cover a deficit in the associate, the remaining amount is recognised under provisions.

Amounts owed by associates are measured at amortised cost. Write-down is made for bad debt losses.

Investments in joint ventures

Undertakings which are contractually operated jointly with one and more undertakings (joint ventures) and thus are jointly controlled are recognised in the consolidated financial statements according to the equity method.

Investments in joint ventures are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus the proportionate share of unrealised intra-group profits and losses and plus additional value on acquisition, including goodwill. Investments in joint ventures are tested for impairment when impairment indicators are identified.

Investments in joint ventures with negative net asset values are measured at USD 0 (nil). If the Group has a legal or constructive obligation to cover a deficit in the joint ventures, the remaining amount is recognised under provisions.

Amounts owed by joint ventures are measured at amortised cost. Write-down is made for bad debt losses.

Impairment of non-current assets

The carrying amount of other non-current assets is tested annually for indicators of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit, respectively, exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognised in the income statement in a separate line item. Impairment is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

Receivables

Receivables are measured at amortised cost less provisions for impairment losses. Impairment loss for trade receivables are determined as the expected loss over the life of the receivables (simplified approach).

Contract assets

Contract assets includes accrued revenue in progress at 31 December. Contract assets are recognised when a sales transaction fulfils the criteria for revenue recognition but no final invoice has yet been issued to the customer for the services delivered.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Costs of bunkers include the transfer from equity to profit and loss on qualifying cash flow hedges.

Prepayments

Prepayments comprise costs incurred in relation to subsequent financial years.

Contract liabilities

Contract liabilities includes accrued revenue in progress at 31 December. Contract liabilities are recognised when a sales transaction does not fulfils the criteria for revenue recognition but the customer has prepaid for the service delivery. If contract liabilities are beyond one year the contract assets are included in non current liabilities.

Assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment assets are not depreciated or amortised once classified as held for sale.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Statement of changes in equity

Dividends

Dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The proposed dividend payment for the year is disclosed as a separate item under equity. Interim dividends are recognised as a liability at the date when the decision to pay interim dividends is made.

Translation reserve

The translation reserve comprises foreign exchange differences arising on translation of financial statements of entities that have a functional currency different from USD. On full or partial realisation of the net investment, the foreign exchange adjustments are recognised in the income statement.

Hedging reserve

The hedging reserve comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised.

Provisions

Provisions are recognised when Ultrabulk A/S has a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation has to be settled and that a reliable estimate of the obligation can be made.

Financial liabilities

Loans are recognised at the time the loans are obtained in the amount of the proceeds after deduction of transaction costs. In subsequent periods, the loans are recognised at amortised costs.

Other liabilities, including trade payables, payables to related parties as well as other payables, are measured at amortised cost.

Deferred tax

All significant Danish entities within the Group entered into the Danish tonnage taxation scheme for a binding 10 year period with effect from 2007 and Ultrabulk will not leave the system. Under the Danish tonnage taxation scheme, taxable income is not calculated on the basis of income and expenses as under the normal corporate taxation. Instead, taxable income is calculated with reference to the tonnage used during the year. The taxable income for a company for a given period is calculated as the sum of the taxable income from the activities under the tonnage taxation scheme and the taxable income from the activities that are not covered by the tonnage taxation scheme made up in accordance with the ordinary Danish corporate tax system.

If the participation in the Danish tonnage taxation scheme is abandoned, or if the entities' level of investment and activity is significant reduced, a deferred tax liability will become payable.

For the taxable income which is made up in accordance to the ordinary corporate tax system, a deferred tax is recognized at each period end and is accounted for using the balance sheet liability method. Deferred tax assets, including the tax value of tax loss carry forwards, are recognised under other non-current assets at the expected value of their utilisation - either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Cash flow statement

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated according to the indirect method as the profit/loss before tax adjusted for non-cash operating items, changes in working capital, interest, payments, dividends and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of businesses and of intangible assets, property, plant and equipment and other non-current assets as well as acquisition and disposal of securities not classified as cash and cash equivalents.

Cash flows from financing activities comprise changes in the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt and leases, interest payments, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less at the acquisition date which are subject to an insignificant risk of changes in value.

Cash flows in other currencies than the functional currency are translated using average exchange rates unless these deviate significantly from the rate at the transaction date.

Note 2 - Significant accounting judgment, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustments to the carrying amounts of asset and liability affected in future periods.

Judgments

In the process of applying Ultrabulk A/S accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the financial statements.

Hedge accounting

In connection with forward freight agreements (FFA's), purchase of bunkers and currencies Ultrabulk A/S uses hedge accounting. Several qualifications have to be met before a hedge is qualified as hedge accounting. One of the qualifications is that the hedge is expected to be highly effective. If a hedge is subsequently measured as ineffective, and therefore deviates from the original judgment, the result must be carried to profit and loss immediately. This could result in a reallocation of the result from one accounting year to another.

Please refer to note 27 for further details.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

Managements assessment of indication of impairment on vessels, right-of use assets and prepayments on newbuilding's is based on the cash-generating units in which assets are included. Management has concluded that the entire fleet of dry bulk vessels (owned and leased) constitutes a cash generating unit, as the vessels are managed on a portfolio basis and considered to be interchangeable.

At the end of 2019 the market value (broker valuations) were below the carrying amount of the Group's three owned vessels. This is considered an impairment indicator and therefore Management has prepared an impairment test for the dry bulk fleet, consisting of owned vessels (carrying amount of USD 62.8 million), right-of-use-assets (carrying amount of USD 328.3 million) and related net working capital etc.

The impairment test was carried out based on value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

The Group bases its impairment calculation on most recent budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. No terminal value has been included in the impairment tests.

At 31 December 2019, a pre-tax discount rate of 8.0% has been applied. The discount rate has been determined by Management based on market input and taking into consideration the business model applied by the Group, including having a coverage through long term cargo contracts with customers.

Management's expected rates (income) for open vessel days (uncovered capacity) for the next 2 years are based on the Baltic market rates (short term), average of

Baltic market rate and internal rate for year 3 and hereafter the rates are based on the Company's own (internal) rate model. In establishing those, consideration is given to external economic analysis, and the internal rate assumptions include amongst other things scrapping of old tonnage as well as increased demand. The internal rates are to the extent available tested against information from external parties (brokers) and the historical long-term rate development.

The corona virus outbreak in certain parts of the world poses a downside risk to demand for vessels. Due to the uncertainty, it is not possible to predict the outcome, but over the budget period of five years, no significant effect to the world economy and thereby (indirectly) demand for our vessels, is expected.

As time-charters expire over the budget period, it is generally assumed that expired vessels are replaced with new time charters.

The impairment test calculation shows no impairment loss at 31 December 2019 and no reversal of previous taken impairment loss. The impairment test is highly sensitive to the discount rate applied, and adverse changes to freight rates and EBITDA. As an indicator of the sensitivity, a downward fluctuation in EBITDA of 5%, all other things being equal, will change the value in use with approx. USD 30 million. Furthermore, the application of a WACC of 9.0% instead of 8.0% will change the value in use with approx. USD 10 million, all other things being equal.

Owned vessels

As noted above the owned vessels are managed together with leased vessels and therefore included within the dry bulk fleet. Impairment tests are prepared for the entire bulk fleet. Broker market values show a lower value than the carrying amount which indicates impairment. Value-in-use tests show no impairment at 31 December 2019.

The impairment test is highly sensitive to the discount rate applied, and adverse changes to freight rates.

Provision for litigation and claims:

The Group is a party to various litigation proceedings and claims have been made against the Group. Provision for estimated losses is made in the income statement if both of the following criteria are met:

- The information that was available prior to the publication of the financial statements indicates that it is more likely than not that an obligation has arisen at the balance sheet date.
- The amount of the loss can be reliably measured

Please refer to note 26 for further details.

Lease liabilities

The Group has elected to separate lease and non-lease components for leases of time charter contracts on vessels. For these contracts, the estimated non-lease component (daily running costs) is excluded from the right-of-use assets. Assessing the measurement of the non-lease component includes a significant accounting judgement. The measurement of the non-lease component takes several factors into consideration such as operating costs, aging of the vessels, vessel types, etc.

Note 3 – Revenue

Revenue per business activities:

Figures in USD '000	2019	2018 Restated
Panamax	199.504	276.829
Supramax	394.872	388.880
Handysize	212.472	243.046
MPP, Parcel Services and African Services	195.365	134.581
Revenue - sublease financial income	3.420	4.277
Total	**1.005.634**	**1.047.614**

Revenue per categories:

Figures in USD '000	2019	2018 Restated
Income from freight	800.899	829.079
Income from time charter	197.034	206.014
Other	7.701	12.521
Total	**1.005.634**	**1.047.614**

Revenue recognized at a point in time constitutes below 1% of the revenue.

Note 4 – Time-charter and opex expenses

Figures in USD '000	2019	2018 Restated
Time-charter	375.125	392.389
Opex element, IFRS 16	69.813	73.201
Opex own vessels	5.482	5.098
Total	**450.421**	**470.688**

Note 5 – Remuneration to the auditor appointed at the general meeting

Figures in USD '000	2019	2018 Restated
Audit	150	150
Other assurance service	0	0
Tax consultancy	32	52
Other services	21	0
Total	**203**	**202**

Note 6 – Staff costs

Figures in USD '000	2019	2018 Restated
Fixed salaries	11.549	11.559
Pensions - defined contribution plan	662	651
Other expenses for social security etc.	687	661
Incentive payment (cash based)	1.818	1.738
Staff costs included in administration expenses	**14.716**	14.609
Average number of employees	96	97

Remuneration for certain employees in 2019 and 2018 are expensed as management fee, and consequently recognized as “Other external expenses”.

Remuneration for the Management	**2019**		**2018 Restated**	
Figures in USD '000	Board of Directors	Executive Management	Board of Directors	Executive Management
Fixed salaries	0	885	0	899
Pensions - defined contribution plan	0	28	0	28
Incentive payment (cash based)	0	358	0	182
Total remuneration for the Board of directors and executive management	0	1.271	0	1.109

The members of the Executive Management are subject to a notice of up to 18 months and can resign from management with a notice up to 9 months. No severance payment applies.

Senior management and a number of the employees are covered by an incentive scheme (cash based).

Note 7 – Depreciation

Figures in USD '000	**2019**	**2018 Restated**
Depreciation vessels	4.250	4.252
Right-of-use assets	98.764	101.813
Depreciation fixtures, fittings and equipment	573	263
Total depreciation	**103.587**	**106.328**

Note 8 – Financial items

Figures in USD '000	**2019**	**2018 Restated**
Interest income	1.604	913
Interest expense on loan	-2.280	-1.963
Other financial items, net	-278	-354
Interest expenses lease liabilities	-15.966	-17.243
Total	**-16.921**	**-18.647**

Note 9 – Tax

Figures in USD '000	**2019**	**2018 Restated**
Current tax on profit for the year	-1.623	-1.243
Deferred tax on profit for the year	-137	-301
Tax on profit for the year	**-1.760**	**-1.544**
Adjustments related to previous years - current tax	124	49
Adjustments related to previous years - deferred tax	0	-15
Tax in the income statement	**-1.636**	**-1.510**
Computation of effective tax rate (%):		
Statutory corporate income tax rate in Denmark	22,0	22,0
Effects from Tonnage Tax Scheme	3,5	-4,6
Effects of adjustments related to prior years	-2,1	-0,1
Deviation in foreign subsidiaries' tax rates compared to the Danish tax rate (net)	-12,2	-8,4
Non-tax income less non-tax deductible expenses (net)	0,0	0,0
Effective tax rate	**11,2**	**8,9**
Tax on fair value adjustments on financial instruments	0	0
Tax relating to other comprehensive income	**0**	**0**

Note 10 – Vessels

Figures in USD '000	2019	2018 Restated
Cost at 1 January	**97.281**	**72.897**
Transferred from newbuilding's	0	24.177
Additions for the year	21.954	22.391
Disposals for the year	-46.206	-22.184
Cost at 31 December	**73.029**	**97.281**
Depreciation and impairment at 1 January	**-12.584**	**-8.332**
Depreciation for the year	-4.250	-4.252
Disposals for the year	6.635	0
Depreciation and impairment at 31 December	**-10.199**	**-12.584**
Carrying amount at 31 December	62.831	84.697
Expected useful life of vessels:	20 years	20 years

Regarding impairment test of the vessels see note 2.

Note 11 – New building contracts

Figures in USD '000	2019	Restated
Cost at 1 January	1.508	5.506
Additions for the year	4.122	20.179
Disposal and transferred during the year to vessels	0	-24.177
Transferred to assets held for sale	-5.630	0
Cost at 31 December	**0**	**1.508**
Carrying amount at 31 December	0	1.508

The newbuilding has been sold after delivery from the shipyard in January 2020. The carrying amount has been transferred to assets held for sale.

Note 12 – Fixtures, fittings and equipment

Figures in USD '000	2019	2018 Restated
Cost:		
Cost at 1 January	5.510	4.564
Additions for the year	513	946
Cost at 31 December	**6.023**	**5.510**
Depreciation and impairment at 1 January	-4.637	-4.377
Depreciation for the year	-573	-260
Depreciation and impairment at 31 December	**-5.210**	**-4.637**
Carrying amount at 31 December	813	873
Expected useful life:	3-10 years	3-10 years

Note 13 – Right-of-use assets

Figures in USD '000	2019	2018 Restated
Cost at 1 January	642.073	611.021
Additions for the year	65.185	105.752
Remeasurements	16.526	11.833
Disposals for the year	-40.141	-86.533
Cost at 31 December	**683.643**	**642.073**
Depreciation at 1 January	-296.713	-281.432
Depreciation for the year	-98.764	-101.813
Disposals for the year	40.141	86.533
Depreciation at 31 December	**-355.336**	**-296.712**
Carrying amount 31 December	**328.307**	**345.361**

Regarding impairment test see note 2.

Note 14 – Investments in associates

Figures in USD '000	2019	2018 Restated
Cost:		
Cost at 1 January	1.408	1.408
Cost at 31 December	**1.408**	**1.408**
Value adjustment at 1 January	67	910
Exchange rate adjustment	218	-567
Impairment	-262	-516
Share of the result for the year	-682	241
Value adjustment at 31 December	**-659**	**67**
Carrying amount at 31 December	750	1.476
The carrying amount can be specified as follows:		
Pérola S.A., Brasil, interest 20%	750	1.476
	750	1.476
Key figures for investment in associates:		
Assets	7.278	12.145
Liabilities	-2.219	-4.763
Net assets	5.058	7.382
Revenue	14.437	22.569
Profit/loss before tax	-5.089	1.856
Income tax	1.679	-651
Profit/loss for the year	-3.410	1.205
Total comprehensive income for the year	-3.410	1.205

Note 15 – Investments in joint ventures

Figures in USD '000	2019	2018 Restated
Cost:		
Cost at 1 January	23.825	23.825
Cost at 31 December	**23.825**	**23.825**
Value adjustment at 1 January	1.757	942
Share of the result for the year	-303	815
Value adjustment at 31 December	**1.454**	**1.757**
Carrying amount at 31 December	25.279	25.582
The carrying amount can be specified as follows:		
Ultra Summit (Singapore) Pte. Ltd., 50%	25.279	25.582
	25.279	25.582
Key figures for investment in joint ventures (100 % basis):		
Assets	115.974	116.880
Liabilities	-65.415	-65.716
Net assets	50.558	51.164
Revenues	16.413	14.666
Profit/loss before tax	-606	1.630
Income tax	0	0
Profit/loss for the year	-606	1.630
Total comprehensive income for the year	-606	1.630

Ultra Summit owns 4 vessels. The vessels are chartered out to Ultrabulk. The management has prepared an impairment test of the vessels, under the same assumption as described in note 2, although a WACC of 7.75% is used. The impairment test calculation shows no impairment loss. As an indicator of the sensitivity, a downward fluctuation of the freight rates for uncovered capacity with 5% would, all other things being equal, give rise to a reduced value in use of USD 2 million. Furthermore, the application of a WACC of 8.0% instead of 7.75% would, all other things being equal, result in a reduced value in use of USD 1 million.

Note 16 – Deferred tax assets

Figures in USD'000	2019	2018 Restated
Deferred tax at 1 January	139	462
Deferred tax on profit for the year	-137	-301
Adjustments related to previous years	0	-15
Exchange rate adjustments	-2	-7
Total deferred tax assets/-liabilities, net at 31 December	**0**	**139**
Deferred tax gross:		
Deferred tax assets	0	139
Deferred tax liabilities	0	0
Total deferred tax assets/-liabilities, net at 31 December	**0**	**139**
Deferred tax are allocable to the various items in the balance sheet:		
Tax-loss carried forward	0	139
Deferred tax, net	0	139

In 2017 the Danish based companies entered the Danish tonnage taxation system of which adoption is binding until at least 2026. Ultrabulk A/S will not leave the system and therefore no deferred tax provision is made on assets and liabilities. If the companies leave the tonnage tax system, no significant tax provision will be released.

Note 17 – Inventories

Figures in USD '000	2019	2018 Restated
Bunker (at cost)	27.283	23.371
Total inventories at lower of cost and net realizable value	**27.283**	**23.371**
Bunker expenses recognized in profit and loss	221.597	216.776

Part of the bunker consumption has been hedged in accordance with the Groups risk management policy. This is described in Note 23.

Note 18 – Trade and other receivables

Figures in USD '000	2019	2018 Restated
Customers (trade receivables)	28.582	30.918
Other receivables	10.125	17.058
Contract assets	17.030	21.791
Total	**55.737**	**69.767**
Trade receivables are non-interest bearing and are generally of 5 - 30 day terms.		
Maturity analysis for trade receivables		
- receivables not due	12.463	6.865
- less than 90 days	15.053	22.990
- between 91 days and 180 days	982	558
- between 181 days and 360 days	0	119
- more than 360 days	84	386
Carrying amount of trade receivables	**28.582**	**30.918**
Trade receivables at initial value impaired and fully provided for	1.020	1.623
Change in provision for trade receivables:		
Provision 1 January	1.623	2.998
Net change in provision	-603	-1.375
Provision 31 December	**1.020**	**1.623**

For a description of Ultrabulk's payment terms as well as management of credit risk, reference is made to note 24.

Ultrabulk applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses trade receivables have been grouped based on credit risks and the day past due. In accordance with IFRS 9, non-due trade receivables have also been impaired.

Note 19 – Cash and short-term deposits

Figures in USD '000	2019	2018 Restated
Cash at bank and in hand	91.932	74.395
Total	**91.932**	**74.395**

As of 31 December 2019, included in total cash at bank is USD 1.0 million (2018: USD 0.8 million) which is restricted deposits in favour of clearing houses.

Note 20 – Share capital

The share capital has in May 2016 been increased from DKK 500,000 to DKK 2,000,000 and due to an intragroup merger in 2016 the share capital has been increased from DKK 2,000,000 to DKK 27,100,000. The share capital had not been subject to other changes in the last 5 years. The shares are denominated in 1 DKK per shares. No shares confer any special rights. No restrictions have been imposed on negotiability of the shares or on voting rights. All issued shares are fully paid.

Note 21 – Interest bearing loans and borrowings

Figures in USD '000			2019	2018 Restated
	Fixed/ Variable	Interest rate	Book value	Book value
Mortgage on vessel	Fixed	3,10%	18.593	32.757
Mortgage on vessel	Variable	4,23%	13.593	14.062
Total			**32.185**	**46.819**
Long term part			28.486	41.563
Current part			3.699	5.256
Total			**32.185**	**46.819**

The principal of the fixed debt, excluding debt swapped from variable to fixed, amount to USD 16.1 million. The fair value of the fixed loans is not materially different from the carrying amount. The loans are subject to financial and operational covenants. Management considers that Ultrabulk A/S and the guarantor Ultranav International S.A. meet these covenants at 31 December 2019.

Loans are secured on vessels. The carrying amount of the vessels provided as security is USD 62.8 million at 31 December 2019 (2018: 84.7 million).

Note 22 – Lease liabilities

Lease agreements for vessels have been entered into with a mutually interminable lease period up to 10 years. As a general rule, leases include an option to renew for one additional year at a time for up to three years. Some of the lease agreements include a purchase option, exercisable as from the end of the fifth year to the expiry of the period of renewal. Exercise of the purchase option on the individual vessel is based on an individual assessment.

The Group has purchase options on 37 leases. However the majority of such purchase options are partly shared.

The lease liabilities are specified as follows:

Figures in USD'000	2019	2018 Restated
Lease liabilities 1 January	407.234	398.207
Additions for the period	65.185	105.750
Remeasurements	16.592	11.875
Instalments made	-107.637	-108.599
Lease liabilities 31 December	381.374	407.234
Long term part	258.805	299.663
Current part	122.569	107.571
Total	381.374	407.234

Of the total liabilities USD 31.0 million (2018: USD 22.9 million) is related to liabilities under flexible lease hire contracts. The flexible hire is basis the Baltic Exchange index and a change in the index of 10% will result in a 10% increase in the hire payment for flexible lease hire contracts.

Some of the lease contracts include customary extension option for extension of the lease period. The liabilities for the extension period is only included as liabilities if it is reasonably certain the extension period will be exercised.

Leases to which the Group is committed, but for which lease terms has not yet commenced have an undiscounted value of USD 195 million.

The total cash outflow from leases in 2019 are USD 460 million. (2018: USD 468 million) which includes short term leases.

Other information relating to leases is included in note 3 (sublease income), note 4 (short term leases), note 7 and 8 (interest and depreciation), note 13 (right-of-use assets), note 25 (short term lease commitments), note 27 (liquidity risk).

Note 23 – Trade and other payables

Figures in USD '000	**2019**	**2018 Restated**
Trade payables	33.719	23.776
Accrued expenses	26.939	19.186
Contract liabilities	19.205	32.364
Total	**79.863**	**75.326**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30 days terms.
- Other payables are non-interest bearing and have an average term of six months.

There was no significant change in contract liabilities in deferred revenue during 2019.

Outstanding performance obligations will be performed within one year.

Note 24 – Financial risk management, objectives and polices

Risk management overview

Generally, the market conditions for shipping activities are volatile and, as a consequence, the Company's results may vary from year to year. In addition, the Company is exposed to a number of different financial market risks arising from the Company's normal business activities.

Market risks

Freight rates:

The business model for an operator is to build a portfolio of vessels on one hand and a portfolio of cargoes on the other. Depending on the market expectations the Company can decide on being long on cargoes (typically when expecting a decreasing market) or long on vessels (typically when expecting an increasing market).

Unexpected fluctuation in freight rates is the key factor affecting cash flow and the value of committed assets. The level of risk depends firstly on the level of such unexpected fluctuations and secondly on the size of the imbalance between the commitment on cargoes and commitment on vessels taken by the Company.

Ultrabulk's business model is to maintain a relatively balanced book building and to constantly keep a strict control of the level of exposure by utilising state of the art back office exposure systems, which allows the Company to timely adjust its book building.

Fuel Prices:

Contracts of Affreightment (cargo contract containing multiple cargoes) are based on fixed freight rates, which expose the Company to fluctuations on fuel prices.

The Company seeks to reduce the exposure to fluctuating bunker fuel prices through compensation clauses in contracts with clients. On contracts (CoA's) where this is not possible the Company uses commodity based derivatives to reduce bunker exposure.

Counterparty risk:

The Company's main credit risks are related to its counterparty risk. The risk profile is determined by the counterparty's solvency and the type of legal contract upon which the deal is based. Counterparty vetting has increased in importance as well as in efforts in Ultrabulk.

Single cargoes:

It is industry standard that freight payment is made within very few days of departing from the loading port. It is also an industry standard that the vessel owner has a lien in the cargo, should the freight payment not have been paid prior to the arrival at the discharge port. The counterparty risk on these types of deals is therefore limited.

Contract of Affreightment (multiple cargoes):

It is important for Ultrabulk to carefully evaluate counterparty risk on CoA contracts, as the Company is highly dependent on the counterparty's solvency and its ability and willingness to fulfil their obligations. Typically, the counterparties would operate within the commodities industry.

Approval of CoA counterparties is done on senior management level only, and involves the following elements:

- Positive credit rating report from a London based maritime credit rating bureau.
- Positive industry references.
- Satisfactory performance on existing commitments, if any, between Ultrabulk and the counterpart.
- Positive reference from the fuel purchase market.

Approval of counterparties may vary from one cargo to multiple year contracts.

Time charter out:

Ultrabulk does only on a limited basis use 'time charter out', however occasionally Ultrabulk vessels are on shorter or longer time charter to other ship operators. The approval process is very similar to that outlined above, with extra emphasis on positive industry references.

Time charter in:

Although Ultrabulk is paying hire to the owners of the vessel, there is a risk that the owners may default and the contract terminate early. The loss of such charter may represent a significant risk, therefore Ultrabulk evaluates these types of contracts in line with those of the CoAs and time charter out.

Derivative financial instruments are only entered with highly rated financial institutions, which imply that the credit exposures for these transactions are expected to be at an acceptable level.

Forward Freight Agreements (FFA):

Several contract types are being offered in the derivatives market, Ultrabulk A/S however only utilizes swaps.

FFAs are utilised both as an instrument for hedge and speculation, for cargo as well as vessel commitments. The Company utilises extensive risk management systems in order to control the market value of all open positions. Based on the risk systems, the Company is able to monitor the market position on a daily basis.

Interest rate risk exposure

Interest rate and currency risks are moderate financial risks for Ultrabulk A/S. Management periodically reviews and assesses the primary financial market risks. Ultrabulk will use financial derivatives to manage such risks. These may include interest rate swaps, forwards contracts and options. A 1% change in interest rate will affect the result with USD 0.1 million.

Currency risk

The Company's reporting currency is USD. Most of the Company's revenues and expenses are denominated in USD. The Company has owned vessels. The Company's strategy is to finance the vessels in the same currency as the vessels receive income. As a consequence, the vessels will be financed in USD. The Company may use financial derivatives to reduce the net operational currency exposure.

Currency risks on administrative expenses can be hedged for a period up to 12 months.

Liquidity exposure

It is the Company's objective to maintain a balance between continuity of funding and flexibility through the usage of available bank facilities, either in the form of overdraft facilities, or through revolving credit facilities. The Company's surplus liquidity is placed in bank accounts with interest on deposits, or through term deposits.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains an adequate capital ratio in order to support its business and maximise shareholder value. Ultrabulk A/S manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company can make dividend payment to shareholders, or issue new shares.

Other risks

Environment:

The majority of the vessels controlled by Ultrabulk A/S are chartered and therefore the majority of risk in connection with environmental issues rests with the owner of the vessel. There are however situations, whereby Ultrabulk A/S may become liable for spills or other environmental impacts. Ultrabulk A/S has an insurance against these types of accidents limited to USD 400 million for charter vessels and to USD 1,000 million for owned vessels for each single incident.

Piracy:

The risks encountered when transiting the Indian Ocean High Risk Area as well as certain countries in West Africa are substantial. The Company is constantly following the recommendations made by the UN subsidiary International Maritime Organisation (IMO), and the recommendations made by the underwriters as well as "Best Management Practices (BMP4)" – this includes having a contingency plan for all vessels calling the area.

Note 25 – Short term lease liabilities and revenue commitments

From 1 January 2018 the Group has recognized right-of-use assets, except for short term and low value leases.

Figures in USD '000	2019	2018 Restated
Short term lease and low value		
Within one year	67.364	114.403
Total	**67.364**	**114.403**

At 31 December, the Group had entered into COAs and time charters with customers amounting to:

COAs and Time Charter commitments as service provider	2019	2018 Restated
Within one year	121.706	134.614
Between 1 - 5 years	356.007	394.845
More than 5 years	46.324	68.410
Total	**524.037**	**597.869**

Note 26 – Contingent assets and liabilities

Contingent assets
Ultrabulk A/S has no significant contingent assets.

Contingent liabilities
Ultrabulk A/S is engaged in certain litigation proceedings. In the opinion of management, settlement or continuation of these proceedings are not expected to have a material effect on Ultrabulk A/S financial position, operating profit or cash flow.

Agreements for future delivery of new buildings and other guarantees

Figures in USD '000	2019	2018 Restated
Agreements for future delivery of new buildings		
Remaining contract amount until delivery in USD translated at the exchange rate at year end *)	17.500	21.600
The remaining contract amounts in USD is payable as follows:		
Within one year	17.500	21.600
Between one and five years	0	0
Total	**17.500**	**21.600**
Other guarantees		
Ultrabulk A/S has issued guarantees for loans to joint venture and associated companies	28.828	32.411

*) The newbuilding has been sold in January 2020 at a price higher than the newbuild price.

Note 27 – Financial instruments

Carrying amount and fair value of financial items by class of financial assets and liabilities

Set out below is a breakdown of the financial assets into categories as defined in IFRS 9. Furthermore, the table below includes a comparison of the carrying amount and fair value of financial assets and liabilities by class of assets and liabilities. The fair value is estimated using appropriate market information and valuation methodologies. The carrying amount of cash and cash equivalents and loan payables to bank are a reasonable estimate of their fair value. Fair value for derivatives and borrowings has been calculated by discounting the expected future cash flows at relevant interest rates.

Judgement is required to develop estimates of fair value. Hence, the estimates provided herein are only indicative of the amounts that could be realised in the market.

Categories of financial instruments

The fair value of financial assets and financial liabilities measured at amortized cost is approximately equal to the carrying amount apart from interest bearing loans and borrowings, note 21.

Figures in USD '000	**2019**		**2018 Restated**	
	Current	Non-current	Current	Non-current
Receivables measured at amortized cost including cash and cash equivalents	157.758	2.690	157.350	2.500
Financial assets measured at fair value (Derivative financial instruments)	1.312	1.408	876	1.553
Financial liabilities measured at amortized costs	76.013	28.486	85.887	41.563
Financial liabilities measured at fair value (Derivative financial instruments)	5.427	1.763	2.490	10.110
Lease liabilities	122.569	258.805	107.571	299.663

Fair value hierarchy of financial instruments

Fair value hierarchy:
Financial instruments measured at fair value are divided in accordance with the following accounting hierarchy:
- Level 1: observable market prices of identical instruments.
- Level 2: valuation models primarily based on observable prices or trading prices of comparable instruments.
- Level 3: valuation models primarily based on non-observable prices.

The fair value of all derivative financial instruments, forward exchange contracts and other derivative financial instruments (commodity instruments), is considered fair value measurement at level 2 as the fair value can be calculated based on the published price at the reporting date. All other financial instruments are considered fair value measurement at level 1.

Liquidity risk

Figures in USD '000	Contractual cashflow	Within one year	Between 1 - 5 years	More than 5 years
2019				
Non-derivative financial liabilities:				
Interest bearing loans and borrowings	48.130	10.799	20.092	17.240
Trade and other payables	79.863	79.863	0	0
Lease liabilities	470.294	136.747	307.202	26.345
Derivative financial liabilities:				
Derivative financial instruments	7.190	5.427	1.763	0
2018, restated				
Non-derivative financial liabilities:				
Interest bearing loans and borrowings	81.273	14.159	37.492	29.623
Trade and other payables	75.326	75.326	0	0
Lease liabilities	522.392	123.471	353.642	45.279
Derivative financial liabilities:				
Derivative financial instruments	12.600	2.490	9.542	568

Bunker hedge

Ultrabulk has entered into contracts in order to hedge future bunker expenses. The contracts are accounted for as cash flow hedges, when the criteria is in compliance with the criteria for cash flow hedge accounting.

The bunker hedges are entered simultaneously with the Contracts of Affreightment (CoA), as part of the Group's risk management. The bunker hedges cover the bunker expenses in connection with the CoA and the duration of the bunker hedge is therefore similar to the duration of the CoA. The trade dates are between 01.01.2020 and 31.12.2026.

FFA hedge

Ultrabulk has entered into contracts in order to hedge future cargo and vessel commitments. The contracts are accounted for either as fair value hedge or as cash flow hedges, when the criteria's are in compliance with the criteria for hedge accounting.

The FFA hedges are entered simultaneously with the cargo and vessel commitments as part of the Group's risk management. The trade dates are between 01.01.2020 and 31.12.2021.

Interest rate risks

Interest rate risks concern the interest-bearing financial assets and liabilities of Ultrabulk. The interest-bearing financial assets consist primarily of cash in financial institutions and the interest-bearing liabilities mainly consist of mortgage debt. Interest rate risks occur when interest rate levels change and/or if the pricing, which the Ultrabulk has agreed with the financial institutions changes. At 31 December 2019, 40% of the Ultrabulk's interest-bearing long term debt (31 December 2018: 30%) carried a floating rate, defined as duration of more than one year.

Hedge accounting reserve in equity

The hedge accounting reserve in equity is related to cash flow hedging financial derivatives and amount to USD -4.6 million (31 December 2018: USD 10.5 million).

Derivative financial instruments

Ultrabulk's policy is to use financial instruments to hedge financial risk. At year-end Ultrabulk held the following derivatives:

2019, USD million	*Nominal*	*Duration month*	*Recognized on equity*	*Fair value*
Hedge accounting applied as cash-flow hedge:				
Interest swaps	2,5	1-88	-0,2	-0,2
Currency: USD/DKK	5,3	1-12	0,1	0,1
FFA's	N/A	1-24	2,4	2,4
Bunker hedge	N/A	1-84	-6,9	-6,9
Hedge accounting not applied:				
FFA's	N/A	1-12		0,1
Total derivative instruments				-4,5

Presented in the financial statement as:

2019, USD million	*Nominal*	*Duration month*	*Recognized on equity*	*Fair value*
Derivative financial instruments, non current assets				1,4
Derivative financial instruments, current assets				1,3
Derivative financial instruments, non current liabilities				-5,4
Derivative financial instruments, current liabilities				-1,8

2018, USD million	*Nominal*	*Duration month*	*Recognized on equity*	*Fair value*
Hedge accounting applied as cash-flow hedge:				
Interest swaps	8,6	1-100	0,1	0,1
Currency: USD/DKK	5,6	1-12	0,0	0,0
FFA's	N/A	1-36	1,9	1,9
Bunker hedge	N/A	1-96	-12,6	-12,6
Hedge accounting not applied:				
FFA's	N/A	1-12		0,3
Total derivative instruments				-10,3
Presented in the financial statement as:				
Derivative financial instruments, non current assets				1,5
Derivative financial instruments, current assets				0,8
Derivative financial instruments, non current liabilities				-10,1
Derivative financial instruments, current liabilities				-2,5

Changes in liabilities arising from finance activities

Figures in USD '000	1 Jan. 19	Cash flow	Other	31 Dec. 19
Current interest-bearing loans and borrowings	5.256	-1.557	0	3.699
Lease liabilities	407.234	-107.637	81.777	381.374
Non-current interest-bearing loans and borrowings	41.563	-13.819	742	28.486
Total liabilities from financing activities	454.053	-123.013	82.519	413.559

Figures in USD '000	1 Jan. 18	Cash flow	Other	31 Dec. 18
Current interest-bearing loans and borrowings	4.082	1.174	0	5.256
Lease liabilities	398.207	-108.599	117.625	407.234
Non-current interest-bearing loans and borrowings	33.140	8.211	212	41.563
Total liabilities from financing activities	435.429	-99.214	117.837	454.053

Other is related to additions and remeasurements of lease liabilities, see note 22.

Note 28 – Changes in net working capital

Figures in USD '000	**2019**	**2018 Restated**
Change in inventories	-3.912	-3.185
Change in trade and other receivables	14.030	-8.898
Change in receivables from related companies	-9.721	2.470
Change in prepayments	2.695	3.795
Change in trade and other payables	4.536	2.358
Change in intercompany	-3.692	1.400
Total	**3.936**	**-2.060**

Note 29 – Mortgages and security

The Group has issued a pro rata guarantee for the mortgages in the joint venture Ultra Summit (Singapore) Pte. Ltd.

Vessels with a carrying amount of USD 62.8 million (USD 84.7 million) are provided as security for loans.

Note 30 – Related party disclosures

Ultrabulk A/S is controlled by Ultranav Denmark ApS, Denmark. The ultimate parent of the Group is Naviera Ultranav Limitada, El Bosque Norte 500 19-20th floor, 7550092 Las Condes, Santiago, Chile.

Other related parties are considered to be companies within Ultranav Group, associated companies, the directors and officers of the entities and management of Ultrabulk A/S.

Figures in USD '000 Related party / Type of transaction	Sale/ (Purchases) to/from related parties	Sale/ (Purchases) to/from related parties	Amounts owed by/(to) related parties	Amounts owed by/(to) related parties
	2019	**2018**	**2019**	**2018**
Parent company:		**Restated**		**Restated**
Management fee expense	-2.092	-2.190	0	0
Loan	12	0	9.400	2.500
Joint Venture:				
Charter hire	-16.413	-14.666	0	0
Guarantees	0	0	28.828	32.411
Loan			2.662	
Service	0	30		-4
Associated companies:				
Charter hire	10.803	18.224	-1.073	-3.104
Service	0	-133	-337	-561
Management fee expense	-2.627	-2.742	0	0

There have not been any transactions with any member of the Board of Directors, Executive Management of Ultrabulk A/S, Naviera Ultranav Limitada or associated companies. For information on remuneration to the Board of Directors and Executive Management of Ultrabulk A/S, please refer to note 6. Outstanding balances at year-end apart from loans are short-term, unsecured, interest free and settlement occurs in cash. There have been no guarantees (refer to note 23 and 26) provided or received for any related party receivables or payables. The Group has not made any provision for doubtful debts relating to amounts owed by related parties. The assessment hereof is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Joint taxation
The Danish companies in the Group are in joint taxation with the other Danish companies in the Naviera Ultranav Group.

Note 31 – Transition to IFRS 16

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

Ultrabulk has adopted IFRS 16 full retrospectively and has restated comparative figures by determining the lease liability and measure the right-of-use assets. The adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2018.

The majority of Ultrabulk's lease contracts are time charter contracts on vessels. For these contracts, the estimated non-lease component (daily running costs) will be excluded from the lease liability. Lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. The incremental borrowing rate has been applied retrospectively. At 1 January 2019, the incremental borrowing rate is in the range of 4.8-5.3%, depending on the maturity of the lease contracts and the time the leasing contract is started.

Ultrabulk has elected to use the exemptions not to recognize contracts with a lease term of 12 months or less and lease contracts for which the underlying asset is of low value. Ultrabulk has leases of certain office equipment (e.g. personal computers, printing and photocopying machines), company cars that are considered of low value.

Ultrabulk has applied the following practical expedients on adoption of IFRS 16 Leases permitted by the standard:
• Leased contracts with a term of 12 months or less will not be recognized as lease assets
• The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
• Not to reassess whether a contract is, or contains, a lease at 1 January 2019.

The lease liabilities can be reconciled to the operating lease commitments disclosed in the annual report 2018 note 22 as follows:

Figures in USD '000	2018	2017
Total operating lease commitments	894.652	1.039.154
Leased assets with a term of 12 months or less	-114.403	-190.524
Lease obligation regarding assets not delivered	-40.288	-75.286
Daily running cost of vessel leases (non-lease component)	-286.448	-319.478
Interest element	-46.278	-55.658
Lease liability as of 1 January	407.234	398.208

The effect of adopting IFRS 16 is, as follows:

Impact on the consolidated statement of financial positions:

Figures in USD '000	31 December 2019	31 December 2018	1 January 2018
Assets			
Right-of-use assets	328.307	345.361	329.589
Receivables from subleases	37.167	45.587	53.450
Total assets	365.474	390.948	383.039
Equity			
Retained earnings	-15.900	-16.286	-15.169
Liabilities			
Lease liabilities	381.374	407.234	398.208

Impact on the consolidated income statement:

Figures in USD '000	2019	2018
Revenue	-13.271	-12.476
Time-charter hire and opex element	127.768	130.231
Gross profit (Net earnings from shipping activities)	114.496	117.755
Other external expenses	552	417
Depreciation	-98.764	-101.816
Operating profit (EBIT)	16.284	16.356
Other financial items, net	-15.966	-17.243
Net profit	318	-887

The impact on the cash flow statement is an increase in operating cash flow of USD 123 million (2018: 125 million), and a reduction in financing cash flow of USD 123 million (2018: 125 million).

Note 32 – Subsequent events

No other significant events than the sale of the vessel delivered in January 2020 have occurred between the reporting period and the publication of the annual report.

Note 33 – New financial reporting regulation

Following new accounting standard and amendments have been issued but are not yet effective.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

The standards are note expected to have impact on the consolidated financial statement.

ULTRABULK A/S - PARENT COMPANY

Income Statement

Figures in USD '000	Note	2019	2018
Revenue	2	630.320	674.638
Voyage related expenses		-218.409	-235.646
Time-charter hire		-392.163	-414.294
Gross profit (Net earnings from shipping activities)		**19.748**	**24.698**
Other external expenses	3	-12.726	-13.740
Staff costs	4	-7.470	-6.698
Operating profit before depreciation and impairment loss (EBITDA)		**-448**	**4.260**
Profit from sale of vessel		2.972	3.110
Depreciation	6	-500	-216
Operating profit (EBIT)		**2.024**	**7.154**
Share of subsidiaries' profit after tax	7	12.854	9.331
Share of associates' profit after tax	8	-1.589	-275
Other financial items, net		1.050	729
Profit before tax		**14.339**	**16.939**
Tax	5	-1.498	-1.414
Net profit		**12.841**	**15.525**
Proposal for the distribution of net profit:			
Reserve for net revaluation according to equity method		11.265	9.056
Retained earnings		-8.424	1.469
Proposed dividend		10.000	5.000
		12.841	**15.525**

Balance sheet

Figures in USD '000			
ASSETS	**Note**	**2019**	**2018**
Fixtures, fittings and equipment	6	673	692
Total tangible assets		**673**	**692**
Investment in subsidiaries	7	86.809	73.473
Investment in associates	8	750	1.476
Derivative financial instruments	15	1.408	1.394
Loans receivable from related parties		0	2.500
Deferred tax assets		0	135
Financial assets, non-current		**88.967**	**78.978**
Total non-current assets		**89.640**	**79.670**
Inventories		17.791	14.773
Trade and other receivables	9	35.241	40.776
Intercompany receivables		17.686	14.891
Prepayments		16.375	12.869
Derivative financial instruments	15	1.312	493
Cash and short-term deposits		59.421	52.168
Current assets		**147.826**	**135.970**
TOTAL ASSETS		**237.466**	**215.640**

Figures in USD '000			
EQUITY AND LIABILITIES	**Note**	**2019**	**2018**
Share capital		5.134	5.134
Reserve for net revaluation according to the equity method		24.260	13.510
Hedging reserve		-4.405	-11.064
Retained earnings		139.166	147.293
Proposed dividend		10.000	5.000
Total equity	10	**174.155**	**159.873**
Derivative financial instruments	15	1.763	10.110
Total non-current liabilities		**1.763**	**10.110**
Trade and other payables	11	48.798	40.005
Intercompany payables		5.456	2.025
Derivative financial instruments	15	5.237	2.490
Income tax payable		2.057	1.137
Total current liabilities		**61.548**	**45.657**
Total liabilities		**63.311**	**55.767**
TOTAL EQUITY AND LIABILITIES		**237.466**	**215.640**

Statement of change in Equity

Figures in USD '000	Share capital (Note 20)	Retained earnings	Hedging reserves	Reserve net revaluation equity method	Proposed dividend	Total equity
At 1 January 2019	**5.134**	**147.293**	**-11.064**	**13.510**	**5.000**	**159.873**
Distribution of net profit	0	-8.424	0	11.265	10.000	12.841
Dividend paid out					-5.000	-5.000
Hedge reserve	0	0	6.659	-733	0	5.926
Other changes	0	297	0	218	0	515
Changes during the year	**0**	**-8.127**	**6.659**	**10.750**	**5.000**	**14.282**
At 31 December 2019	**5.134**	**139.166**	**-4.405**	**24.260**	**10.000**	**174.155**

Figures in USD '000	Share capital (Note 20)	Retained earnings	Hedging reserves	Reserve net revaluation equity method	Propoded dividend	Total equity
At 1 January 2018	**5.134**	**145.664**	**-9.485**	**7.592**	**0**	**148.905**
Distribution of net profit	0	1.469	0	9.056	**5.000**	15.525
Hedge reserve	0	0	-1.579	-2.571	0	-4.150
Other changes	0	160	0	-567	0	-407
Changes during the year	**0**	**1.629**	**-1.579**	**5.918**	**5.000**	**10.968**
At 31 December 2018	**5.134**	**147.293**	**-11.064**	**13.510**	**5.000**	**159.873**

Note 1 – Accounting policies

The Parent Company financial statements for Ultrabulk A/S has been prepared pursuant to the provisions for large class C enterprises of the Danish Financial Statements Act.

The accounting policies of the Parent Company financial statements are unchanged compared to last year.

The Company's business is primarily based on the US Dollar. All income in the form of freight income is in US Dollar, and most costs are in US Dollars as well. Based on this, the Company has designated the US Dollar as its functional and reporting currency. Consequently, all amounts are recognized in US Dollar. For 2019 the average USD/DKK rate of exchange was 6.66758 and the closing rate on 31 December 2019 was 6.6759.

Income statement and balance sheet

Earnings from investments in subsidiaries and associates

In the Parent Company's income statement, the proportional share of earnings is recognised under the items "Share of subsidiaries' profit after tax" and "Share of associates' profit after tax".

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured according to the equity method. In the balance sheet under the items "Investments in subsidiaries" and "Investments in associates", the proportional ownership share of the companies' net asset value is recognised.

The total net revaluation of investments in subsidiaries and associates is transferred through the distribution of profits to "Reserve for net revaluation according to equity method" under equity. The reserve is reduced by dividend payments to the Parent Company and is adjusted with other changes in equity in subsidiaries and associates.

Subsidiaries and associates with negative net asset value are recognised at USD 0 million, and a provision to cover the negative balance is recognised if such a present obligation for this purpose exists.

Leases

All leases are classified as operational lease. The payments (time-charter hire) are recognised as an expense and charged to profit or loss on a straight line basis over the term for the lease.

Other accounting policies

With reference to the provisions of the Danish Financial Statements Act, the Company has refrained from preparing a cash flow statement in the Parent Company financial statements. For this information, see the consolidated financial statements for Ultrabulk A/S.

The Company's accounting policies are otherwise consistent with the consolidated financial statements except for IFRS 16.

Note 2 – Revenue

Figures in USD '000	**2019**	**2018**
Panamax	191.109	205.479
Supramax	367.071	383.991
Handysize	2.413	0
MPP, Parcel Services and African Services	69.727	85.168
Total	**630.320**	**674.638**

Figures in USD '000	**2019**	**2018**
Income from freight	446.868	506.289
Income from time charter	183.452	168.350
Total	**630.320**	**674.638**

Note 3 – Remuneration to the auditor appointed at the general meeting

Figures in USD '000	**2019**	**2018**
Audit	108	105
Other assurance service	0	0
Tax consultancy	13	13
Other services	0	0
Total	**121**	**118**

Note 4 – Staff costs

Figures in USD '000	**2019**	**2018**
Fixed salaries	6.036	5.716
Pensions - defined contribution plan	421	392
Other expenses for social security etc.	70	68
Incentive payment (cash based)	943	522
Staff costs included in administration expenses	7.470	6.698
Average number of employees	55	46

Please refer to the consolidated financial statements, note 5, for management remuneration.

Note 5 – Tax

Figures in USD '000	**2019**	**2018**
Current tax on profit for the year	-1.504	1.137
Deferred tax on profit for the year	-132	300
Tax on profit for the year	**-1.636**	**1.437**
Adjustments related to previous years - current tax	140	-48
Adjustments related to previous years - deferred tax	-2	25
Tax in the income statement	**-1.498**	**1.414**

Note 6 – Fixtures, fittings and equipment

Figures in USD '000	2019	2018
Cost:		
Cost at 1 January	4.650	3.777
Additions for the year	480	873
Cost at 31 December	**5.130**	**4.650**
Depreciation and impairment at 1 January	-3.957	-3.742
Depreciation for the year	-500	-215
Depreciation and impairment at 31 December	**-4.457**	**-3.957**
Carrying amount at 31 December	673	692
Expected useful life:	3-10 years	3-10 years

Note 7 – Investments in subsidiaries

Figures in USD '000	2019	2018
Cost:		
Cost at 1 January	17.751	18.066
Disposal for the year	-793	-315
Cost at 31 December	**16.958**	**17.751**
Value adjustment at 1 January	54.797	48.647
Dividends received	0	-925
Share of the result for the year	12.854	9.331
Change on equity (hedge reserve etc.)	887	-2.256
Value adjustment at 31 December	**68.538**	**54.797**
Carrying amount at 31 December	85.496	72.548
The carrying amount can be specified as follows:		
Investment in subsidiaries	86.809	74.742
Negative equity in subsidiaries, deducted intercompany receivables	-1.313	-2.194
	85.496	72.548
	Ownership	Ownership
Ultrabulk Shipholding Singapore Pte. Ltd	100%	100%
Ultrabulk (Singapore) Pte. Ltd	100%	100%
Ultrabulk (USA) Ltd.	100%	100%
Ultrabulk (Hong Kong) Ltd	100%	100%
Ultrabulk do Brazil Ltda	100%	100%
Cedrella Transport Ltd.	100%	100%
Ultrabulk South Africa (Pty) Ltd.	100%	100%
Ultrabulk Cargo Services GmbH	100%	100%

Note 8 – Investments in associates

Figures in USD '000	2019	2018
Cost:		
Cost at 1 January	1.408	1.408
Cost at 31 December	**1.408**	**1.408**
Value adjustment at 1 January	67	910
Exchange rate adjustment	218	-567
Impairment	-262	-516
Share of the result for the year	-682	241
Value adjustment at 31 December	**-659**	**67**
Carrying amount at 31 December	750	1.476
The carrying amount can be specified as follows:		
Pérola S.A., Brasil, interest 20%	750	1.476
	750	1.476
Key figures for investment in associates:		
Assets	7.278	12.145
Liabilities	-2.219	-4.763
Net assets	5.058	7.382
Revenue	14.437	22.569
Profit/loss before tax	-5.089	1.856
Income tax	1.679	-651
Profit/loss for the year	-3.410	1.205
Total comprehensive income for the year	-3.410	1.205

Note 9 – Trade and other receivables

Figures in USD '000	2019	2018
Customers (trade receivables)	19.251	14.876
Other receivables	15.990	25.900
	35.241	**40.776**

Note 10 – Equity and allocation of result

The share capital is commented upon in note 20 to the consolidated financial statements.

The targets for the capital structure of Ultrabulk A/S is determined and assessed for the Group as a whole, for which reason no operational goals or policies are set for the Parent Company.

Figures in USD '000	2019	2018
Transfer to retained earnings	-8.424	1.470
Reserve for net revaluation according to equity method	11.265	9.056
Proposed dividend	10.000	5.000
	12.841	**15.526**

Note 11 – Trade and other payables

Figures in USD '000	2019	2018
Trade payables	19.744	10.923
Accrued expenses and deferred income	29.053	29.082
	48.797	**40.005**

Note 12 – Mortgages and security

Figures in USD '000	2019	2018
Other guarantees		
Ultrabulk A/S has issued guarantees for loans to joint venture and associated company	28.228	32.411
Ultrabulk A/S has issued guarantees for time charter hires to subsidiaries	390.548	423.083
Ultrabulk A/S has issued guarantees for remaining payments under new building contracts	17.500	21.600
Total	**436.276**	**477.094**

Joint taxation

The Company is in joint taxation with other Danish Companies in the Naviera Ultranav Group. The joint taxation also covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation. The tax for the individual companies is allocated in full on the basis of the expected taxable income.

Note 13 – Mortgages and security

For information regarding contingent assets and liabilities, please refer to the consolidated financial statements, note 26.

Note 14 – Operating lease liabilities and COAs commitments

Lease agreements have been entered into with a mutually interminable lease period up to 7 years. As a general rule, leases include an option to renew for one additional year at a time for up to three years. Some of the lease agreements include a purchase option, exercisable as from the end of the fifth year to the expiry of the period of renewal. Exercise of the purchase option on the individual vessel is based on an individual assessment. The lease liabilities are assessed at nominal amount.

The Company has purchase options on operational leases. However, the majority of such purchase options are partly shared.

Figures in USD '000	2019	2018
Operating lease		
Within one year	306.067	325.543
Between 1 - 5 years	385.456	557.859
More than 5 years	2.465	11.240
Total	**693.988**	**894.642**

At 31 December, the Company had entered into COAs and time charters with customers amounting to:

COAs and Time Charter commitments as service provider	2019	2018
Within one year	105.072	113.832
Between 1 - 5 years	351.443	390.979
More than 5 years	46.324	68.410
Total	**502.839**	**573.221**

Note 15 – Financial instruments

Reference to note 27 in the Group.

Bunker hedge

Ultrabulk has entered into contracts in order to hedge future bunker expenses. The contracts are accounted for as cash flow hedges, when the criteria is in compliance with the criteria for cash flow hedge accounting.

The bunker hedges are entered simultaneously with the Contracts of Affreightment (CoA), as part of the Group's risk management. The bunker hedges cover the bunker expenses in connection with the CoA and the duration of the bunker hedge is therefore similar to the duration of the CoA. The trade dates are between 01.01.2020 and 31.12.2026.

FFA hedge

Ultrabulk has entered into contracts in order to hedge future cargo and vessel commitments. The contracts are accounted for either as fair value hedge or as cash flow hedges, when the criteria are in compliance with the criteria for hedge accounting.

The FFA hedges are entered simultaneously with the cargo and vessel commitments as part of the Group's risk management. The trade dates are between 01.01.2020 and 31.12.2021.

Hedge accounting reserve in equity

The hedge accounting reserve in equity is related to cash flow hedging financial derivatives and amount to USD -4.4 million (31 December 2018: USD -11.1 million).

Note 16 – Related party transaction

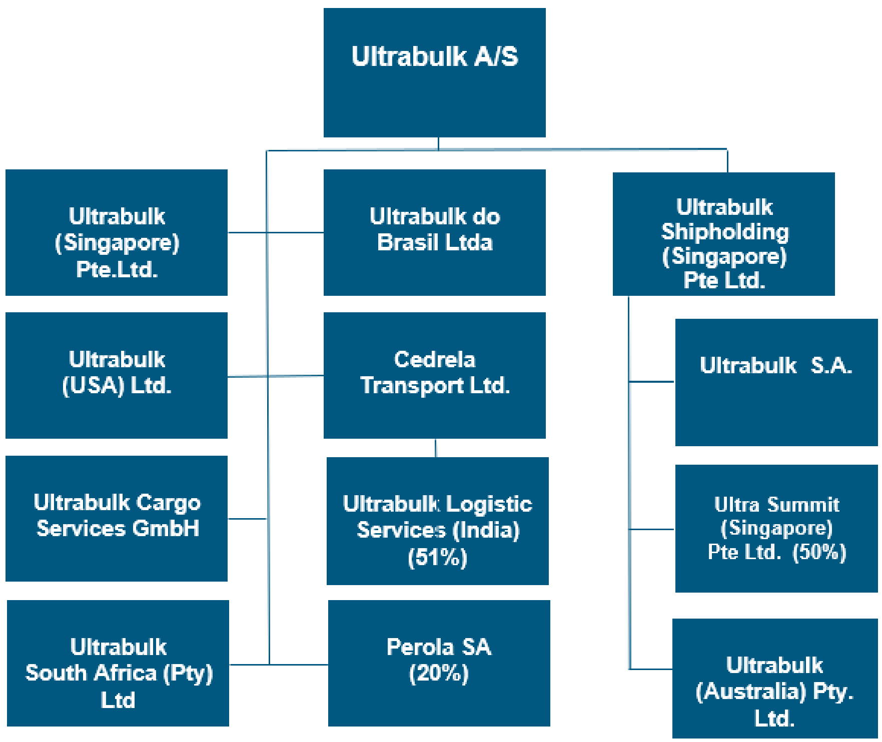
Ultrabulk A/S is included in the consolidated financial statement for Ultranav Denmark ApS, Denmark and Naviera Ultranav Limitada, Chile.

Figures in USD '000		Sale/ (Purchases)	Sale/ (Purchases)	Amounts owed by/(to)	Amounts owed by/(to)
Related party	Type of transaction	**2019**	**2018**	**2019**	**2018**
Parent	Loan	12	0	9.400	2.500
Joint Ventures	Charter hire	-12.398	-10.133	270	-18
	Guarantees	0	0	28.228	32.411
Subsidiaries	Charter hire	-176.802	-174.741		0
	Service	0	0	5.528	14.312
	Management fee	-6.788	-6.620		0
Affiliated companies	Charter hire	-4.616	-14.249	121	-51
	Service	388	506	-1.690	-1.426
	Management fee	-2.626	-2.791	-87	50

Note 17 – Subsequent events

For subsequent events, please refer to the consolidated financial statements, note 32.

Group Structure



Definitions of Key Figures and financial rations

Gross profit margin	$= \frac{\text{Gross profit x 100}}{\text{Revenue}}$
EBITDA margin	$= \frac{\text{EBITDA x 100}}{\text{Revenue}}$
Return of equity in % (ROA)	$= \frac{\text{Profit or loss for the year x 100}}{\text{Average equity excluding minority interests}}$
Payout ration	$= \frac{\text{Dividend x 100}}{\text{Profit or loss for the year, excluding minority interests}}$
Equity ration	$= \frac{\text{Equity at year-end, excluding minority interest x 100}}{\text{Total assets}}$
USD exchange rate at year-end	= The USD exchange rate quoted at the NASDAQ OMX Copenhagen at the balance sheet date
Average USD exchange rate	= The average USD exchange rate quoted on the NASDAQ OMX Copenhagen for the year
Net interest-bearing debt	= Interest-bearing debt less of cash equivalents at year-end
Proposed dividend (DPS)	$= \frac{\text{Dividend}}{\text{Total shares}}$

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