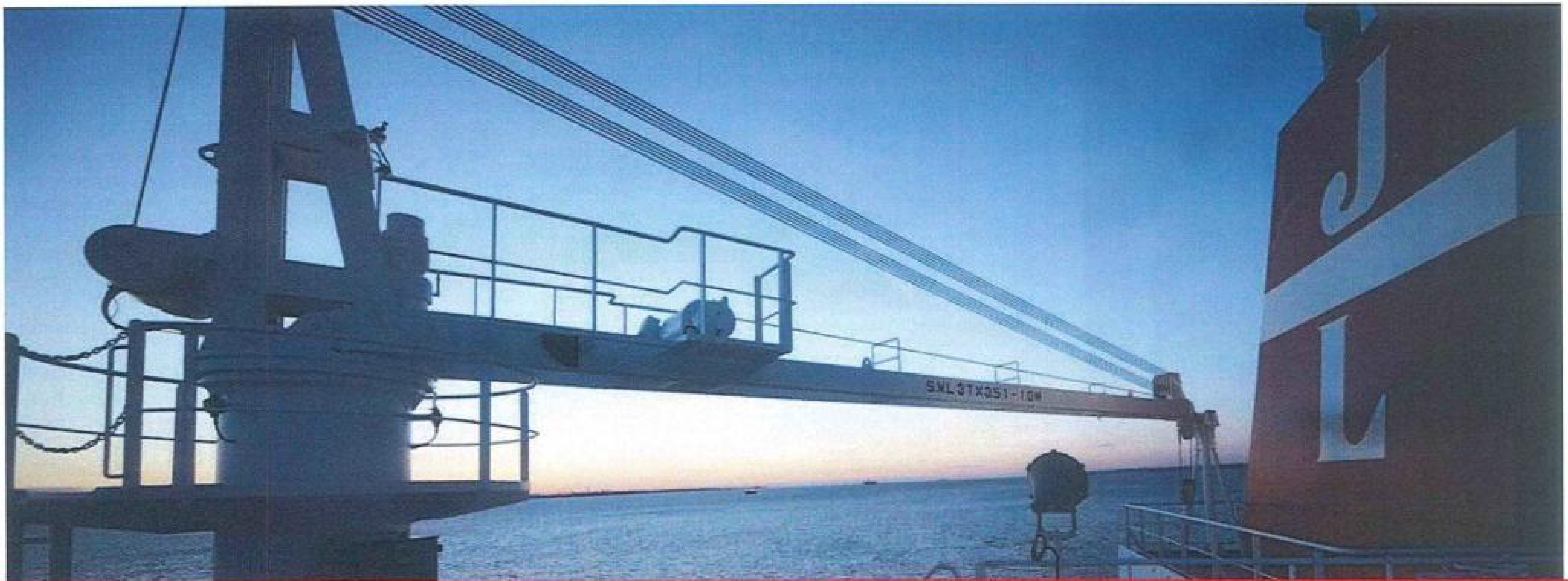
J. LAURITZEN



Approved at the General Assembly, 20 May 2019

Dorte Rolff, Chairman

Annual *Report* 2018

1 January 2018 - 31 December 2018

J. Lauritzen A/S, Tuborg Havnevej 15, 2900 Hellerup, Denmark

CVR 55 70 0117

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About J. Lauritzen

J. Lauritzen has served the maritime trade worldwide for more than 130 years and has been engaged in a wide range of segments of the shipping industry. Today, we provide marine transportation of dry bulk cargoes as well as petrochemical and liquefied petroleum gases on a global scale.

Lauritzen Bulkers is an owner and operator of bulk carriers engaged in ocean transportation of dry bulk cargoes worldwide. Our main presence is in the handysize segment, where we maintain a leading position.

Lauritzen Kosan is a global provider of safe and reliable ocean transport solutions for liquefied gases comprising petrochemical and energy gases. Our main presence is in the 3-12,000 cbm gas carrier segment where we continue to be one of the leaading market players.

J. Lauritzen's purpose is to enable global trade through intelligent seaborne solutions - creating growth for local communities around the world. We are committed to our clients and live by our four J. Lauritzen values: resoluteness, accountability, empathy and adaptability.

Together, we use our in-depth experience with the latest technology to provide efficient, reliable and safe seaborne transport solutions.

J. Lauritzen *overview*

Offices worldwide
Headquarters in Copenhagen, Denmark and overseas offices in Singapore, the Philippines and the United States.

J. Lauritzen office location

J. LAURITZEN FACTS 2018

Owned by the Lauritzen Foundation **100%**

167 employees ashore
year-end

34% 66%

538 seafarers onboard owned and bareboat chartered vessels
year-end

Average controlled fleet of **109** vessels

Invested capital
year-end
USD **404m**

Revenue USD **565m**

Highlights *2018*

2018 was a year of continued improvements driven by efficient implementation of our new strategy and overall market improvements. Despite volatility, dry cargo markets continued their upward movement during 2018, whereas the market for small gas carriers was relatively flat until it recovered during the last months of the year. For J. Lauritzen, the outcome was EBITDA of USDm (6), up USDm 25 on 2017.

The result for 2018 was USDm (24) compared to USDm (45) in 2017. The result included special items totalling USDm 25 mainly related to the use of provisions for onerous contracts and the reversal of impairments on vessels.

Main events in 2018

Ten handysize bulk carriers were taken on time charter of up to 24 months with options to extend as well as to purchase. Additionally, 12 handysize bulk carriers were taken on time charter of 6 to 12 months, some with options to extend.

Options to extend time-charter periods were declared for six handysize bulk carriers.

One handysize bulk carrier was sold and three long-term time-chartered supramax and two handysize bulk carriers were redelivered to their owners as commitments expired.

Four 6,000 cbm gas carriers were sold with bareboat charter back and one gas carrier was taken on a medium-term time charter with options to extend.

Bareboat charter periods were extended for four 3,200 cbm gas carriers.

Five gas carriers were reflagged to the Danish International Register of Shipping (DIS) and became the first J. Lauritzen-owned gas carriers under Danish flag since 2003.

Barbara Plucnar Jensen and Kristian Mørch were elected as members of the Board of Directors at the general meeting in March 2018.

Jesper Lok was succeeded by Tommy Thomsen as Chairman of the Board of Directors in October 2018. At the same time, Niels Heering resigned as Vice Chairman, while Kristian Mørch was elected Vice Chairman and Barbara Plucnar Jensen took over as Chairman of the Audit Committee.

In order to ensure the continued development of our dry bulk activities, Niels Josefsen took up the position of CEO of Lauritzen Bulkers succeeding Thomas Wøidemann who in the future will concentrate his efforts on growing our gas carrier activities as CEO of Lauritzen Kosan.

During 2018, Lauritzen Bulkers and Lauritzen Kosan controlled a combined average fleet of 109 vessels compared to 118 vessels in 2017.

At year-end 2018, nine bulk carriers and 14 gas carriers were wholly owned versus 10 bulk carriers and 18 gas carriers at year-end 2017.

Business environment

2018 was yet another mixed year for the global shipping industry with the ClarkSea Index (weighted average earnings index for the main vessel types) up by 13% y-o-y after a 14% increase in 2017. All subsegments apart from tankers saw a rise in earnings, although the increase was only very modest for gas carriers because this market was still weighed down by surplus capacity.

In early January 2019, preliminary estimates suggest a decline in the growth of the international goods trade of 4 percentage points in 2018, according to Centraal Planbureau, the Netherlands. This is a considerable decline compared to the 5% growth recorded in 2017. In a recently issued report, Clarksons Research estimates the "trade war" impact on shipping of minus 0.1% measured in tons and 0.4% in ton-miles. Dry bulk shipping was hit the hardest by all shipping segments.

Growing tensions in international trade emanating from significant changes to US trade policies constituted a key reason for the decline in international trade growth, as overall, economic growth was conducive to trade. Overall, seaborne trade is assessed to have been negatively affected.

A tightening of US monetary policies led to appreciation of the US dollar, which contributed to putting pressure on some emerging market economies and hence fixed investments, which is detrimental to dry bulk and small gas carrier shipping. On the other hand, fiscal policies were more conducive to fixed investments, benefitting the markets for dry bulk carriers and small gas carriers.

Global seaborne trade is projected to have grown by 3% in 2018, compared to 4% in 2017, according to Clarksons Research. The contribution from mileage is assessed to have added 0.4% in 2018 versus 1% in 2017.

According to Clarksons Research, the world orderbook continued its decline as deliveries yet again outpaced contracting. Overall, deliveries were down by 8% compared with 2017.

Newbuilding prices across all shipping segments were on average stable in 2018 after rising by 4% in 2017. Newbuilding prices were up by 8-14% for bulk carriers and flat for LPG carriers.

For dry bulk carriers, overall net fleet growth was 3% compared with 3% in 2017. Net fleet growth in the handysize segment was 3% compared with 2% in the preceding year, whereas growth in the supramax segment stood at 2% compared to 4% in 2017, according to Clarksons Research.

In 2018, demand growth for dry bulk carriers is on a ton-mile basis estimated at 3%, down from 5% the previous year.

Utilisation rates for the handysize and supramax segments are estimated by MSI to have increased to 84%, up 1 percentage point from 2017.

After a very difficult 2017 for small gas carriers with some market participants coming under severe financial stress due to rising tonnage surplus, their ordeals continued into 2018 with one significant player declared bankrupt and a commercial pool operator being dissolved.

In the small gas carrier segment, supply growth is estimated at 1 percentage point in 2018 compared with 4% in 2017.

After falling almost 7% in 2017, demand for small gas carriers is estimated to have increased by 3% in 2018, according to ViaMar, driven mainly by a strong rise in transportation of petrochemical gases. Some recovery in transportation of LPG is also assessed to have taken place, whereas transportation of ammonia contributed negatively to small gas carrier demand.

Overall, the market balance for small gas carriers is estimated by ViaMar to have increased in 2018 to 72%, up 2 percentage points from 2017.

Strategy update

Our strategy in terms of where to play and how to win was redefined in mid-2017 and remained unchanged during 2018.

Where to play?

In our dry bulk business, we focus on the handysize segment, building on our proven track record and strong customer relations. In our gas business, we build on our existing segments and long-lasting customer relations.

How to win?

In dry bulk, we pursue an operator play with our own assets and we have strengthened our value proposition as well as our commercial positioning and risk management. In the gas carrier business, growth is based on owned and commercially managed tonnage, technically managed in-house and focused on developing new and existing customer relations.

Our capabilities

We strive to become an industry leader in the use and application of analytics to support the decision-making and thus build and utilise superior market information.

Strategic initiatives

During 2018, we completed the implementation of a number of strategic initiatives, ranging from redefining our purpose and values, to reigniting our brand, reducing operational vessel costs through analytics and strengthening our risk management.

Assets and solvency

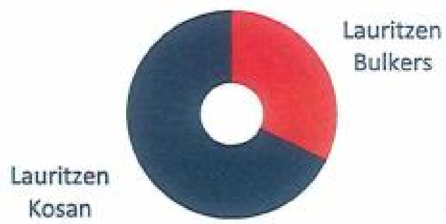
Total invested capital amounted to USDm 404, up from USDm 396 in 2017.

The carrying amount of the vessels totalled USDm 354 compared to USDm 372 in 2017. Brokers' valuations totalled USDm 356.

At year-end 2018, the solvency ratio amounted to 51% (2017: 52%) and cash and cash equivalents were USDm 33 (2017: USDm 59).

Net interest bearing debt amounted to USDm 171 equal to 48% of broker values (in 2017: USDm 140 and 37%, respectively).

Share of invested capital at year-end 2018



AFTER YEAR-END EVENTS

One 5,900 cbm gas carrier was sold with delivery to the new owner in January 2019.

An agreement was reached with Teekay LNG Partners L.P. (Teekay LNG), which implies that seven modern ethylene gas carriers, owned by Teekay LNG, will enter Lauritzen Kosan's pool of ethylene carriers with effect from 1 March 2019.

Group *key figures*

Main Figures for the Group USDm	2018	2017	2016	2015	2014
Income statement					
Revenue	565	555	420	349	443
Time-charter equivalent income (TCE)	381	345	279	268	351
Operating income before depreciation (EBITDA) and special items	(6)	(31)	(54)	(41)	15
EBITDA accounted for as discontinued operations	*0*	*0*	*0*	*0*	*16*
Operating income (EBIT) before special items	(34)	(60)	(83)	(79)	(28)
Special items, net	25	30	34	(207)	(119)
Financial items, net	(13)	(13)	1	(27)	(40)
Profit/(loss) from continuing operations before tax	(23)	(43)	(49)	(313)	(187)
Profit/(loss) from discontinued operations	0	0	0	1	19
J. Lauritzen Group's share of profit/(loss)	(24)	(45)	(46)	(313)	(166)
Balance sheet					
Non current assets	391	409	416	614	952
Total assets	462	504	617	859	1,208
Total equity	236	261	223	270	573
Invested capital	404	396	379	531	836
Net interest bearing debt (NIBD)	171	140	160	284	268

Comparative figures for 2014-2017 have not been adjusted for change in accounting policies based on IFRS 9 and IFRS 15.

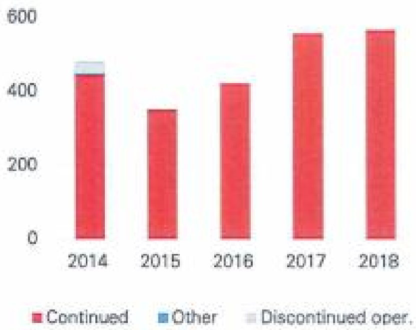
Main Figures for the Group USDm	2018	2017	2016	2015	2014
Cash flows and financial ressources					
Cash flow from operating activities	(25)	(48)	(41)	(61)	60
Cash flow from investment activities	(2)	(5)	129	75	553
- hereof investments in tangible fixed assets	(11)	(9)	(50)	(14)	(43)
Cash flow from financing activities	3	(30)	(63)	(80)	(572)
Changes for the year in cash and cash equivalents	(25)	(82)	25	(67)	41
Financial ressources at the end of the year	33	59	141	116	284
Key figures and financial ratios					
Average number of employees	725	698	782	956	1,064
Total number of ship days	30,007	43,213	46,940	49,080	53,515
DKK exchange rate year-end	652	621	705	683	612
Average DKK exchange rate	632	660	673	673	562
Profit margin	(6.0)%	(10.5)%	(19.9)%	(23.7)%	(6.1)%
NIBD/EBITDA	(27.2)	(4.5)	(2.9)	(6.9)	17.5
Solvency ratio	51%	52%	36%	31%	47%
Return on equity (ROE)	(9.8)%	(18.8)%	(18.5)%	(74.3)%	(25.2)%
Return on invested capital (ROIC)	(2.5)%	(7.7)%	(10.9)%	(41.8)%	(14.3)%

In 2013, JL decided to discontinue its operations in Lauritzen Offshore - Shuttle tankers and Lauritzen Tankers and thus these activities have been accounted for as discontinued operations for the periods 2014-2016.

Selected key figures USDm

Capital structure USDm

Revenue USDm



Cash flow from operations and financial resources USDm

Outlook *2019*

There is a general consensus among international monetary organisations that economic activity and world trade growth will decline slightly in 2019 compared to 2018. Although the decline is expected to be moderate, the broader sentiment is that the global economy is more vulnerable than in early 2018.

It is anticipated that financial policies will be less supportive of economic growth than in 2018, although measures to support economic growth may develop further. Interest rates look set to rise slightly in 2019.

There are, however, a number of risks to the outlook that may negatively affect international shipping. The most important of these include:

- Rising interest rates
- Financial uncertainty in China due to growing debt levels
- Stock market corrections
- US trade policy developments
- Middle East developments
- Oil and commodity price volatility

Dry bulk rates rose by almost 80% from 2016 to 2017 with a further rise of 11% in 2018. Despite the disappointing start of 2019 with sharp freight rate declines, our expectation for 2019 is that rates overall will strengthen further although not as much as during the past two years as utilisation rate improvements will flatten. Both newbuilding and second-hand prices are forecast to increase, but by a lower rate than in 2016 and 2017.

Overall the market for gas carriers improved in 2018 and is set for further improvement in 2019. Midsize gas carriers are expected to exert less downward pressure on handysize gas carriers which is anticipated to support the current improvement of the 8-12,000 cbm subsegment. The 3-8,000 cbm segment is forecast to benefit from a decline in tonnage supply.

Expectations for 2019

Our result for 2019 is expected to be lower than in 2018. A positive impact on the result from the expected moderate improvements of the dry bulk and gas carrier markets will be offset by special items of USDm 25 in 2018, which are not expected to be repeated in 2019.

Furthermore, the adoption of the IFRS 16 accounting standard on leases as of 1 January 2019 will have a negative impact on our result.

Currency and interest rate fluctuations as well as effects from the sale of assets, if any, may impact the result.

Our result for 2019 is subject to uncertainty related to both our dry bulk and gas carrier activity, not least due to the ongoing trade disagreements. However, some easing of the tensions in international trade may emerge during 2019.

Beyond 2019

Restoration of the dry bulk market is entering its final stages with order books relative to the global fleet being reduced to a small single-digit figure in both the handysize and the supramax bulk carrier segments.

Provided that limited ordering is maintained in the next couple of years, the foundation for a more sustainable recovery in dry bulk markets is on the cards.

The market for small gas carriers is currently recovering from a decline in demand in 2017 and a strong supply growth in recent years.

An improvement of the market balance is anticipated to continue in the coming years, as supply growth dwindles and demand growth stays strong due to the increasing availability of cheap shale gas in North America.

Lauritzen *Bulkers*

ACTIVITY IN 2018

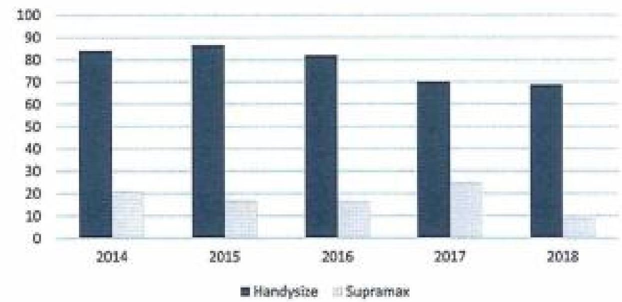
The total number of ship days performed reached 28,619 corresponding to 80 vessels on average, compared to 32,089 ship-days with 88 vessels on average in 2017. The reduction reflected a rise in period rates over the summer to levels deemed fairly high.

We continued to lift a variety of cargoes, the majority of which were agricultural products, energy and construction materials. Many of these commodities are operationally demanding to handle due to their nature and/or location, requiring dedicated efforts by our professional staff at sea and ashore.

During 2018, the commercial risk profile of Lauritzen Bulkers was rebalanced by reducing the amount of long-term commitments and increasing flexibility, mainly by reducing cargo commitments and chartering-in tonnage on periods of a maximum of two years.

Ten handysize bulk carriers were taken on time charter of up to 24 months with options to extend as well as to purchase. Additionally, 12 handysize bulk carriers were taken on time charter of 6 to 12 months with options to extend.

Average number of vessels operated



Options to extend time-charter periods were declared for six handysize bulk carriers.

A handysize bulk carrier was sold and three long-term time-chartered supramax and two handysize bulk carriers were redelivered to the owners as commitments expired.

In order to ensure the continued development of our dry bulk activities, Niels Josefsen took up the position of CEO of Lauritzen Bulkers, succeeding Thomas Wøidemann who in the future will concentrate his efforts on growing our gas carrier activities.

GLOBAL MARKET DEVELOPMENTS

The recovery of dry bulk spot markets continued into 2018, although at a slower rate than in 2017. In 2018, the Baltic Indices increased on average for handysize by 14% to USD 8,700 per day and for supramax by 22% to USD 11,200 per day.

Growth in demand was up by almost 3% in dwt terms. The contribution from longer hauls is estimated to have been in

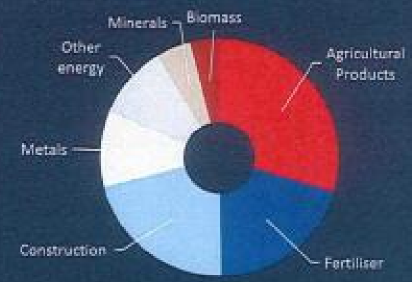
Spot market rates in T/C equivalent USD/day

ACTIVITY & PERFORMANCE

28,619

Number of performed ship-days 2018

CARGO MIX, 2018



16% cut in CO_2 emissions since 2012 the order of 0.5%. Minor bulks enjoyed above-average rate of growth.

Deliveries were down by about 10 million dwt to 28 million dwt and so was demolition, amounting to about 4 million dwt in 2018. Thus, net deliveries of 24 million dwt led to an increase in net supply slightly below demand growth. Handysize as well as supramax bulk carriers saw a combined decline in deliveries of 4 million dwt.

For dry bulk carriers, overall net fleet growth was 3%, which was the same as in 2017. Net fleet growth in the handysize segment was 3% compared to 2% in the preceding year, whereas growth in the supramax segment stood at 2% compared to 4% in 2017, according to Clarksons Research.

Ordering amounted to 31 million dwt, a reduction of 10 million dwt from 2017, 2 million dwt of which was in the handysize and supramax segments.

At year-end 2018, the overall dry bulk orderbook amounted to 11% of the existing fleet, whereas the orderbook in the handysize and supramax segments amounted to 4% and 7%, respectively.

In 2018, newbuilding prices for handysize and supramax bulk carriers increased by 9% and 8%, respectively, whereas second-hand values were up by 8 and 3%.

Utilisation rates for handysize and supramax are estimated by MSI to have increased to 84%, up 1 percentage point from 2017.

STRATEGIC POSITIONING

Lauritzen Bulkers is positioned in the handysize and supramax segments of dry bulk shipping and serves clients worldwide.

Our key market is the handysize segment, where we maintain a leading position, with a specific focus on the transportation of logs, grains, fertilisers, salt, biofuels and other bulk commodities.

In addition to employing our owned and time-chartered tonnage in spot, COA and period markets, we rely on short-term chartered tonnage to perform our cargo commitments.

Building on our long-term commitment to the market for handysize and supramax bulk carriers, and based on our core values of accountability, adaptability, empathy and resoluteness, we succeeded in applying our services still more efficiently during 2018.

In 2018, we served more than 250 customers and the top ten accounted for approximately 27% of Lauritzen Bulkers' revenues.

FLEET

At year-end 2018, our core fleet averaged 58 vessels, compared to 46 in 2017, of which 53 were handysize and 5 supramax vessels.

Core fleet at year-end 2018

	Handysize	Supramax	Total	New-buildings
Owned	9	0	9	0
Part-Owned	2	0	2	0
Long-Term T/C in	26	5	31	4
Medium-Term TC in	16	0	16	0
Total	53	5	58	4

Two scheduled dry dockings were completed in 2018 (five in 2017). Unscheduled off-hire for our owned fleet came to 0.03% of available ship-days (0.33% in 2017).

At year-end 2018, the average age of the owned fleet was 7.3 years (6.6 years at year-end 2017).

FLEET PERFORMANCE

We continuously work with our internal processes and organisation to strengthen our performance culture and ensure competitiveness in a cost-focused market, where reliability, responsibility and global presence are core elements of delivering a quality service to our clients.

Part of our performance focus remains on energy and fuel efficiency to minimise our environmental impacts and optimise on costs.

The collection of Automatic Identification System (AIS) data to ascertain where vessels are at any time, was initiated in 2017 and continued in 2018. This enables us to react faster if vessels are off-track or not following given instructions, and it also provides more accurate weather information to improve the reliability of vessel performance monitoring.

In order to better monitor fleet performance, we created a new function: specialist performance analysis. This function will serve as a link between the technical, performance and commercial departments. The aim is to further enhance our internal processes and to develop and use new tools available to improve our competitiveness.

Lauritzen *Kosan*

ACTIVITY IN 2018

The total number of ship-days performed in 2018 reached 11,287 corresponding to 31 vessels on average, compared to 11,125 ship-days or 30 vessels on average in 2017.

We continued to lift a broad variety of cargoes with liquefied petroleum gases (LPG), butadiene, propylene and ethylene constituting the majority of gases carried.

The main activity for our semi-refrigerated and ethylene gas carriers continued to be serving long-term customers, primarily on contracts of affreightment. The sublet market was used quite extensively for the fully-pressurised fleet.

Due to continued customer loyalty and appreciation of our service level, we succeeded in renewing existing contracts as well as gaining new ones.

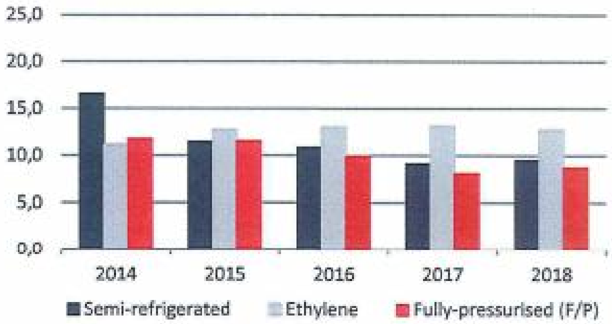
Four 6,000 cbm gas carriers were sold with bareboat charter back and one gas carrier was taken on medium-term time charter with options to extend.

Bareboat charter periods were extended for four 3,200 cbm gas carriers.

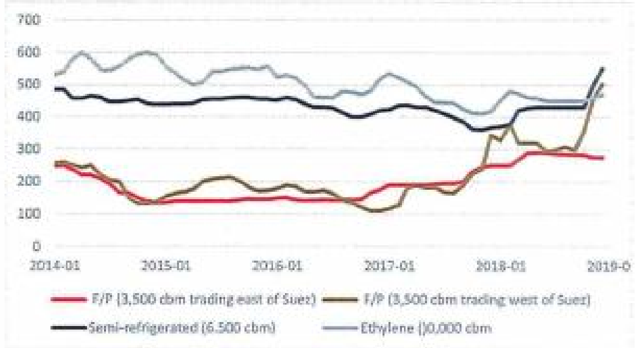
Five gas carriers were reflagged to the Danish International Register of Shipping (DIS) and became the first J. Lauritzen-owned gas carriers under Danish flag since 2003.

In order to ensure our growth ambitions in the gas carrier industry, Thomas Wøidemann has since December 2018 concentrated his efforts as CEO of Lauritzen Kosan.

Average number of vessels operated



Spot market rates in T/C equivalent 1,000 USD/month



Note: Unadjusted for waiting time, if any.
Source: Fearngas, Gas Market Report

ACTIVITY IN 2018

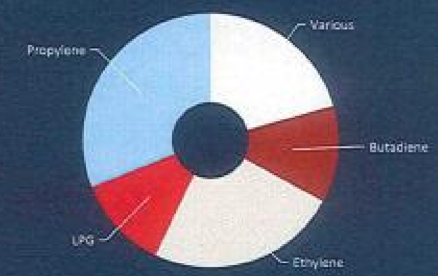
11,287
The number of performed ship-days corresponds to **31** vessels on average

The combined average carrying capacity

198,020 cbm

2018

CARGO MIX, 2018



GLOBAL MARKET DEVELOPMENTS

Strong supply growth in 2017 together with a decline in demand was rebalanced in 2018 by rising seaborne demand, mainly in petrochemical gases, together with a steep decline in fleet growth.

This paved the way for a market recovery, albeit slow, for most segments in 2018, which also saw the demise of a significant market player as well as a pool operator.

Leaving aside the seasonal developments, gas carriers below 5,000 cbm enjoyed the strongest rise in 2018, particularly west of the Suez Canal.

Ethylene gas carriers had the slowest pace of recovery due to yet another bout of newbuildings entering the market.

Supply growth is estimated at 1% in 2018, down by approximately 3 percentage points on 2017 reflecting a decline in deliveries and increasing demolition.

Ordering amounted to 2% of the existing fleet. At year-end 2018, the orderbook amounted to 5% of the current fleet, which is the lowest level since 2004.

STRATEGIC POSITIONING

Transportation of liquefied gases is a specialised segment of the shipping industry characterised by complex operational demands due to frequent grade changes and often relatively short and intensive trade patterns as well as strict requirements from regulators and customers. Based on a fleet of primarily owned but also commercially managed and chartered tonnage, we have earned an enduring and solid brand position and enjoy high customer retention rates.

Our position is due to the consistent running of our controlled fleet to the highest standards. This, in turn, is due to the professionalism of our crews and the technical management team. This provides a performance to the highest industry standards, especially in terms of reliability and flexibility. This enables the chartering and operational teams to serve customers with solutions that cover their transportation requirements always with a view to offering flexible solutions.

Lauritzen Kosan has a 60-70% target cover for available ship days for the coming year. The major part of this cover is provided by long-term customers, representing some of the world's largest petrochemical and oil companies as well as energy traders. At year-end 2018, the actual cover for 2019 was in the upper end of our target range.

During 2018, Lauritzen Kosan served some 60 customers. Top ten accounted for approximately 70% of net revenues.

FLEET

Our operated fleet comprises owned, part-owned and chartered tonnage as well as vessels in commercial management (pool). In total, the combined average carrying capacity was 198,020 cbm in 2018. At year-end 2018, the average age of the owned fleet was 10 years and in line with 2017.

Fleet at year-end 2018

	Semi-refrigerated	Ethylene	Fully-pressurised	Total
Owned	1	6	7	14
Part-owned	0	3	0	3
Finance leased	4	0	0	4
B/B in	4	2	0	6
T/C in	0	2	2	4
Pool, etc.	1	2	0	3
Total	**10**	**15**	**9**	**34**

VESSEL INSPECTIONS

On our in-house technically managed gas carriers

115 inspections

Average vetting observations (SIRE)

4.1	3.9	< 4.0
2018	2017	Target

The number of Port State Control inspections: 51

Average deficiencies

1.0	< 0.9
2018	Target

At year-end 2018, we operated a total fleet of 34 vessels, including 10 semi-refrigerated vessels, 15 ethylene vessels and 9 fully-pressurised vessels.

In 2018, we conducted eight scheduled dry-dockings (five in 2017).

Both the EU MRV (Monitoring, Reporting and Verification) system and the IMO DCS (Data Collection System) on fuel consumption are fully implemented, and reporting processes are in place and approved by our classification society.

In order to comply with the IMO's global 0.5% fuel sulphur content cap regulation enforced from 1 January 2020, risk management and management of change procedures are thoroughly conducted to ensure smooth transition and full compliance.

In preparation for the upcoming IMO ballast water management convention, which will come into force as of September 2019, ballast water treatment systems have so far been installed on two of our gas carriers. Operational and project experience, alongside continuous monitoring of technological developments, will secure fleet compliance with the IMO convention and national regulation.

FLEET PERFORMANCE

The principal goal of our fleet management is operational excellence, and we continuously monitor our progress by means of performance KPIs specifically related to Safety, Customers and Costs.

For our in-house technical management, the health and safety of our seafarers, protection of the environment, and the safe transportation of our customers' cargoes are top priorities.

The safety of our seafarers is of paramount importance to us. We always work to strengthen our safety culture in a demanding environment.

We work systematically with performance management to minimise operational costs and increase energy efficiency to mitigate the environmental impact of our operations.

During 2018, we implemented a revised crewing strategy for our gas carrier fleet to ensure the most up-to-date, professionalised crew management to meet ever-growing regulatory and customer demands. As part of this process, OSM Maritime Group was made responsible for our crewing activities.

In 2018, average SIRE (Ship Inspection Report Programme) observations amounted to 4.10, which was slightly above our target of 4.0. Lost time injuries (LTI) of the fleet came to 0.9 (in 2017 LTI was 1.5). Our ambition remains for there to be zero harm to people.

PEOPLE IN NUMBERS

354 Crew members on board on average

Lost Time Injury Frequency (LTIF)

2018	2017
0.9	1.5

The seafarer retention rate was 98% for officers and 100% for ratings

People

Following organisational adjustments in recent years, our shore-based workforce increased for the first time since 2010. Despite low unemployment rates, we had no difficulty in filling vacancies with qualified and experienced candidates. Furthermore, we continued to attract new, talented people from various universities and business schools to fill the entry-level positions in commercial and corporate functions. For our shore-based staff, the retention rate was 90% in 2018.

At year-end, we employed 705 persons, of whom 167 were ashore and 538 at sea.

Engagement

Our ongoing engagement survey gave significant feedback on the core drivers that make J. Lauritzen an attractive and challenging place to work in the eyes of our staff. We are proud that our employees ranked us well above our benchmark. In particular they rate highly their perception of peer relationships at J. Lauritzen and our friendly, collaborative atmosphere. The dialogue with staff on identifying areas for improvement and creating a feedback loop will be continued.

Diversity

In 2018, we saw a greater proportion of additional nationalities among our new recruits compared to last year. We expect diversity to further increase in the coming years to the benefit of our clients, innovation and our overall profile as an attractive international company to work for.

We are also committed to working towards a balanced gender composition at all management levels. Our target is that the overall gender distribution of our shore-based workforce should be matched at management levels.

At year-end 2018, the gender distribution of the shore-based organisation was 34% female and 66% male compared to 33% female and 67% male at year-end 2017.

The distribution of females and males in managerial positions in our shore-based organisation was 15% and 85% (17% and 83% respectively in 2017), which was below our goal of 25% and 75%. In accordance with our ambition for increased diversity, we carefully examined the employee development interviews and incoming applications during 2018. Despite having at least one candidate from the underrepresented gender in interviews, this did not produce a more equal gender distribution in managerial positions. We therefore decided to revise our target for females in managerial positions to 20% by year-end 2020 to reach 25% in 2023.

Purpose and values

Our revised purpose and related values were discussed thoroughly in workshops across all offices. The workshops gave managers and employees a good forum to discuss value-based behaviour and its implementation in the day-to-day work. Improvements have been achieved and this effort will be continued over the coming years.

Developing talent

In 2018, we welcomed students from the third intake of the bachelor's degree in shipping at Copenhagen Business School (CBS) to our Copenhagen office to embark on a nine-month internship. We have successfully made the internship an integrated way of sourcing talent for junior commercial positions within the company.

At our Singapore office, we continued our good cooperation with the Maritime Port Authority and offered internships again this year.

On a more ad hoc basis, we also welcomed several students from the Technical University of Denmark, Aalborg University and Copenhagen Business School, who used our company as a research field for their bachelor's or master's thesis.

PEOPLE IN NUMBERS

Shore-based personnel

At year-end the total headcount was 167

We employ **24** different nationalities across our offices

Average age

2018	2017
43.5 years	43.4 years

Financing

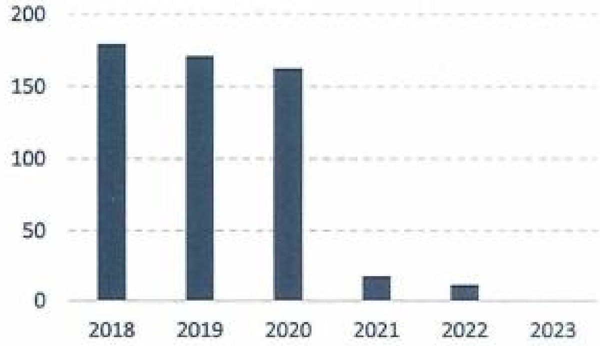
J. Lauritzen's fleet is financed with a mix of debt (secured bank loans and financial leases) and equity.

Outstanding bank debt (non-USD debt included at hedged value, net) amounted to USDm 180 at year-end 2018 (USDm 204 at year-end 2017). For a discussion of our hedging policies, please see the chapter on risk management under financial risk. Financial lease obligations stood at USDm 29 (nil at year-end 2017).

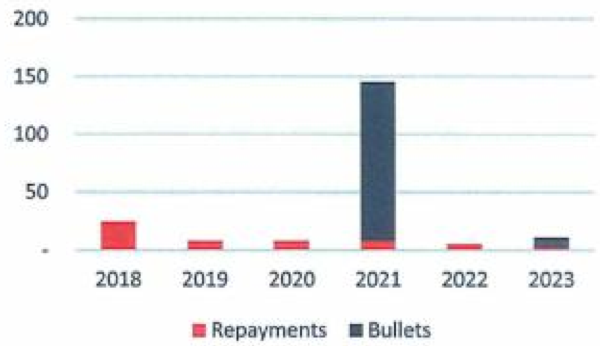
Net interest-bearing debt amounted to 48% of the market value of the fleet by year-end 2018. This was an increase of 11% compared to year-end 2017.

The average loan-to-value ratio (secured bank debt as a ratio of the market value of the owned fleet) was 56% at year-end 2018 (55% at year-end 2017).

Outstanding debt, year-end, in USDm



Bank debt repayment profile, in USDm



Notes to charts: JPY debt at hedged value. Numbers may change subsequently.

Corporate *governance*

Our corporate governance efforts are conducted in accordance with the "Recommendations for Corporate Governance" issued by the Danish Committee on Corporate Governance.

MANAGEMENT STRUCTURE

In accordance with the Danish Companies Act, we have a two-tier management structure consisting of two separate bodies: The Board of Directors and the Executive Management. The Board of Directors is the central, supreme governing body. Day-to-day management is conducted by the Executive Management in line with the rules and procedures laid down by the Board of Directors.

Board of Directors

The core task of the Board of Directors is to ensure that J. Lauritzen has a business strategy and an appropriate capital structure, just as the Board must ensure the sound organisation of the activities of the company. In addition, they focus on risk management and internal control as well as ensuring that budgets and estimates are drawn up and approved and that monthly and quarterly reports are submitted. Procedures and core policies are annually reviewed in accordance with the annual wheel of the Board of Directors.

Board members elected at the general meeting serve for one year and may stand for re-election. At year-end 2018, the Board of Directors consisted of seven members, four elected by the general meeting and three by the employees.

The Board, the individual members' contribution and results and cooperation with the Executive Management are evaluated annually. Every third year, the evaluation will be supported by external assistance.

The diversity profile of the members of the Board of Directors elected by the General Meeting is 25% female and 25% residing outside Denmark.

According to the definitions of the Danish Committee on Corporate Governance, 50% of the members of the Board of Directors elected by the general meeting are independent. At year-end 2018, the average length of board members' service was four years.

In 2018, the Board met six times, including an annual strategy meeting, and held three online conference meetings. Between meetings, recommendations were submitted to the Board for written resolution.

Board committees

In order to improve efficiency and the overall quality of the work performed by the Board of Directors, two permanent Board Committees were established in 2010, i.e. the Audit Committee and the Nomination and Remuneration Committee. In 2018, the Audit Committee, which in addition to financial reporting assists the Board in terms of IT security and risk management, held five meetings and the Nomination and Remuneration Committee held two meetings.

Executive Management

The Executive Management is appointed by the Board of Directors and consists of Mads Peter Zacho as CEO, responsible for the day-to-day management of the organisation.

An Executive Group functions as the coordinating forum for the day-to-day management and includes the Executive Management, the business unit CEOs and the heads of Corporate Control, Corporate Human Resources and Fleet Management.

LAURITZEN FONDEN

J. Lauritzen A/S was founded in 1884 and has been engaged in ocean transport ever since. Lauritzen Fonden (the Lauritzen Foundation) was established in 1945, and since then it has been the sole owner of J. Lauritzen.

Lauritzen Fonden is a commercial foundation and is as such a self-governing institution under Danish law. It is regulated by the Danish Act on Commercial Foundations and is subject to supervision by the Danish Business Authority.

Through its charter, the Foundation is committed to promoting and developing the Danish shipping industry in general and supporting education, culture, and social work.

It is the policy of the Foundation to ensure flexible capital structures of the companies it owns. Lauritzen Fonden supports our goal of having a well-balanced financial structure, taking into consideration J. Lauritzen's continued existence and development.

In addition to its ownership of J. Lauritzen, two gas carriers on bareboat charter to Lauritzen Kosan and its controlling interest in DFDS A/S (43% holding). Lauritzen Fonden has holdings via the wholly owned LF Investment ApS in Prosafe (owner and operator of accommodation vessels) and within NMR-technology, biotechnology and real estate.

Risk *management*

We apply an enterprise risk management approach to identify, assess and prepare for risk, but also to seize business opportunities. Ownership of specific risk categories is assigned to members of senior management, and the effectiveness of monitoring and mitigation efforts is regularly reviewed and reported, as are actual risk levels.

Risk tolerance is considered on a scale, with the lowest level being "in principle zero". This level includes risk related to safety, corporate governance and corporate responsibility. The next category, "low", covers risk types where the likelihood of occurrence is low, but occurrence is potentially accompanied by severe consequences if unmitigated, and consequently mitigation efforts, e.g. IT security and insurances, reduce any impact substantially. "Limited" risk tolerance applies to financial risk, where mitigation typically includes fixing financial cost and/or exposure. Finally, "moderate" risk tolerance is applied to commercial and strategic risk, i.e. categories of risk that we accept in anticipation of receiving an economic reward. Financial, commercial and strategic risk are continuously monitored and managed with a view to the current capital structure and projected financial strength of the company.

Since 2016, we have strived to stabilise our capital structure and financial strength. This has been accomplished by a reduction of our financial leverage through debt repayments, finalisation of our newbuilding programme, run-off of expensive long-term charter commitments and liquidity sourced from asset sales as well as capital injection from our owner Laurtizen Fonden. These efforts have strengthened our solvency. During the same period, our cash balance has decreased due to maintenance investments, the repayment of debt and negative cash flow generation from operations.

Commercial risk

Vessel investments and medium/long-term chartering are commitments or financial liabilities expected to be covered by future earnings which in turn are dependent on future market levels. Likewise, profits from long-term cargo contracts are dependent on future charter rate levels for tonnage to perform the contracts. Commitments, either tonnage or cargo, entail market exposure and thereby commercial risk until employment or tonnage is secured specifically against the commitment. Commitments also entail counterparty risk when such commitments develop favourably for JL. Where the business activity has its focus on booking employment (cargo) to be performed by short-term chartered vessels or vice versa, the expected profit relies particularly on the margin that can be obtained.

Irrespective of whether the trading activity is focused on medium/long-term commitments or short-term trading, the actual profit can deviate from the expected profit due to risk factors related to the actual performance of the agreed business, counterparty credit risk and/or operational complexity causing higher costs and/or delays.

Our business activities are exposed to risk factors common for cyclical, global industries like ocean shipping: on the one side, demand for raw materials, energy and seaborne transportation of these commodities typically fluacting in tandem with global economic growth; and, on the other side, a supply of tonnage where capacity can only adapt at a slow pace. These factors have a direct impact on profit and financial strength through volatility in market rates, margins and vessel values. Historically the volatility has been substantially higher for our dry cargo activities than for our gas carrier operations.

Accepting exposure (commitments) either to employ tonnage or to carry cargo is the central element of commercial risk-taking related to the business models for both our business units.

Risk management in respect of commercial risk has its focus on ensuring, firstly, that we only accept commercial risk that we get paid for and where the gross risk can be hedged, offset or minimised by way of contract, transfer, insurance, etc., in such a manner that the residual, net risk is commercially acceptable to us; secondly, that accepted commitments are aligned to the expected development in the particular market; and, thirdly, that due diligence and constant care is taken in the actual performance of the agreed business to ensure the commercial value is realised as expected.

During 2018, the commercial risk profile of Lauritzen Bulkers was re-balanced by reducing the amount of long-term commitments and by increasing flexibility, mainly by reducing cargo commitments and chartering-in tonnage on periods not exceeding two years.

Lauritzen Kosan procures cover for its tonnage by annual renewal of Contracts of Affreightment and to some extent by chartering-out tonnage. In anticipation of further market improvements in 2019, the amount of forward cover is relatively low for our dry cargo activities, whereas Lauritzen Kosan traditionally has a higher level of forward cover.

Strategic risk

Factors that impact the external economic environment for our businesses and can substantially change the market place and/or competitive landscape where we are operating are strategic risk factors.

The imposition of tariffs seen during 2018 and the risk of sanctions are generally creating frictions to global trade and can have a negative impact on the demand for seaborne transportation. Substitution, shifting of trade patterns, etc., can however offset the effect or even increase the tonnes-miles or cubic-metre-miles demanded for transportation of specific commodities. The assessment of impact on our business activities is therefore uncertain. Sanctions have in the past had a notable impact on Lauritzen Kosan, as sanctions on Iranian exports of petrochemical gases from 2011 to 2016 (and again from 2018) reduced demand for ethylene carriers. At present, however, we do not see other countries or commodities where the same exposure and political risk exist.

Financial risk

Financial risk arises from payment obligations, from maturing debt raised to finance assets, from cash flows in currencies other than USD and from credit risk related to financial counterparties either through holding our deposits or in their role as counterparty to hedging.

Liquidity is managed to ensure availability of funds to cover daily flows. The liquidity management is supplemented with forecasts on changes in Group liquidity.

The bank facilities financing JL's own fleet have maturity in 2021 into 2023. During 2018, four vessels were refinanced by way of a sale-and-lease-back transaction. The bank financing and its terms otherwise remained unchanged during 2018.

On the basis of the expected non-USD costs for the next 12 months, JL hedges 50-70% of its currency exposure and more than 90% of the currency exposure on non-USD debt (principal) is hedged into USD. Risk related to floating interest rates is 40-60% hedged into fixed rate. The management of currency and interest rate risks remained unchanged in 2018.

Bunker risk

Bunker risk (price risk) arises from the committed business unless the cost of bunker consumption is carried fully by the client and the client defaults on his obligations to pay to J. Lauritzen for bunkers. For vessels employed in the spot market, re-let, on time charter or under a Contract of Affreightment (CoA) with BAF clause, the bunker risk is generally considered negligible, as it's carried by the client. For contracts where JL carries the bunker risk, this is mitigated by hedging with commodity derivatives.

From 1 January 2020, very-low-sulphur fuel oil (VLSFO) and low-sulphur marine gas oil (LSMGO) will be the only allowed bunker fuels for the global fleet unless scrubbers are installed. J. Lauritzen currently has no plans to install scrubbers on its own vessels.

The transition to VLSFO is a new risk in shipping, as the transition creates a range of commercial and technical issues, uncertainties and challenges. These are not unique to J. Lauritzen, and industry-wide initiatives to create standards to mitigate particular issues are ongoing, but so far fuel-quality and fuel-compatibility issues remain uncertain, and the same is true for transition issues.

Safety at sea (operational risk)

A strong safety culture is a top priority for us, primarily because of the human consequences of injuries or casualties. Of course we also consider the financial and reputational risk such incidents may pose to our business.

The risk tolerance related to operational issues such as fleet management and safety is consequently in principle zero. Safety procedures are implemented not only to ensure compliance with the highest industry standards and client requirements but also to secure a safety performance among the leading industry peers.

Risk related to the safety of our crews and our clients' cargo due to piracy or violent crime-related activity in certain parts of the world necessitates engagement of armed security teams on vessels operating in high-risk regions. We adhere to recommendations and best management practices from relevant national and international bodies.

Risk related to corporate governance and corporate responsibility

Tolerance related to non-compliance with regulatory requirements, anti-corruption and sanctions is in principle zero.

We are exposed to different cultures and practices and are subject to various national regulations. Non-compliance is a significant risk factor in the shipping industry.

Compliance policies for regulatory risk, including anti-corruption and sanctions are adopted and supplemented by face-to-face compliance training of both sea and shore personnel.

Concerns from in-house and third parties can be reported on an anonymous whistle-blower portal.

Compliance screening of counterparts is performed as a part of the daily chartering activity.

Insurance (operational risk)
Insurances covering our assets, chartered and operated fleet, liabilities and non-marine risks are taken out with first-class international insurance companies and always include a certain financial safety margin in order to avoid any serious consequential financial impact from an incident or casualty. Coverage is reviewed and renewed at least annually.

IT (operational risk)
Tolerance related to IT security threats and IT-systems' downtime is in principle low; IT is critical for our business and systems need to be available round-the-clock and accessible worldwide. As a global shipping company, we are exposed to risks related to IT security and cybercrime and our efforts to ensure IT security and procedures cover IT ashore and at sea. Frequent reviews are performed to ensure that mitigation efforts are satisfactory.

Corporate *responsibility*

Our corporate responsibility efforts build on our core values and are aligned with our commitment to the ten principles of the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

We continuously work for increased integration of our corporate responsibility efforts into our business strategy and day-to-day business operations.

HIGHLIGHTS 2018

In 2018, we continued our energy-efficiency efforts and our efforts to eliminate corrupt practices as a founding member of the Maritime Anti-Corruption Network (MANC). Furthermore, we continued our work with the UN Sustainable Development Goals.

Environmental policy

During 2018, we reviewed our environmental policy, confirming our commitment and responsibility towards contributing to a greener environment, while creating value for our owners, customers and other stakeholders.

Energy-efficiency initiatives

The Blue INNOship development project, in which JL has been an active participant, was successfully finalised in 2018 with significant achievements. Several improvements have been implemented in our decision support and processes around efficient ship operation with respect to energy efficiency and environmental performance.

J. Lauritzen is now also involved with ECOPRODIGI, founded by the Interreg Baltic Sea Region Programme, which continues where Blue INNOship ended. The project contains initiatives to further improve eco-efficiency by developing and integrating various digital solutions.

J. Lauritzen also participates in the final scoping of two work packages under the ShippingLab initiative, scheduled to start in 2019. Again, the target is to improve efficiency through the utilisation of digital solutions.

We have been an active partner in the Green Ship of the Future programme for several years and we continue to support and participate in its work on promoting the use of existing energy-efficient technology and exploring the use of new technologies. In 2018, JL finalised a pilot project investigating the possibilities for 3D printing of spare parts on board our vessels.

Sulphur cap

In order to comply with the IMO's global 0.5% sulphur content cap regulation on fuel, which will be enforced from 1 January 2020, risk management and management of change procedures are thoroughly conducted to ensure smooth transition and full compliance.

As a founding member of the Trident Alliance, we continued the efforts for robust enforcement of sulphur regulations.

Responsible ship recycling

Our policy on responsible ship recycling, latest reviewed by the Board of Directors in November 2018, acknowledges the severe impact of some recycling practices and commits J. Lauritzen to ensuring the recycling of our owned vessels is in compliance with the requirements of both the 2009 Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships and the EU regulation on ship recycling as well as being carried out with respect for human rights.

Recognising a responsibility that often goes beyond owned vessels, the policy further commits us to take action to prevent and mitigate severe impacts when selling vessels for further trade.

We did not recycle any ships in 2018.

Security policy

Due to the instability in many countries and regions and the risk of piracy-related activities against ships, our security policy for owned and operated vessels in high-risk areas is paramount for us. The policy was reviewed in 2018.

Global Compact Network Denmark

In early 2018, we became a signatory to the Global Compact Network Denmark, which was founded in late 2017.

OUTLOOK 2019

In 2019, we will continue our corporate responsibility efforts and commitments with a constant focus on integration with our business strategy and thus our overall value creation.

Corporate Responsibility Report 2018

Please see our Corporate Responsibility Report 2018 for a comprehensive description of our corporate responsibility work, in accordance with the Danish Financial Statements Act (Sec. 99a). The report serves as our Communication on Progress to the UN Global Compact and is available on our website. Click here* to read the report.

*http://www.j-lauritzen.com/about/responsibility-reporting

Board of *directors*

Chairman
Tommy Thomsen
Member since 2018 // Remuneration: DKK 212,500

CEO, Lauritzen Fonden

Other management duties, etc.:

Chairman of the Board:
Danish Maritime Fund
C.W. Obel

Board member:
PSA International Pte Ltd, Singapore, Panama Canal Advisory Board, Chemical Transportation Group, The Propellers Club

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Vice Chairman
Kristian V. Mørch
Member since 2018 // Remuneration: DKK 325,000

CEO, Odfjell SE, Norway

Other management duties, etc.:

Board member:
Maersk Broker

Board of *directors - continued*

Peter Poul Lauritzen Bay
Member since 2003 // Remuneration: DKK 312,500

Managing Director, J. Krebs & Co. A/S

Other management duties, etc.:
Alm. Brand, Representatives Executive Committee

Barbara Plucnar Jensen
Member since 2018 // Remuneration: DKK 262,500

CFO, ISS UK & Ireland

Other management duties, etc.:

Søren Berg*
Member since 2005 // Remuneration: DKK 250,000

Project Manager, J. Lauritzen

Other management duties, etc.:

Board member:
De Forenede Sejlskibe I/S
LKT Gas Carriers Pte Ltd.

Karsten Gauger**
Member since March 2017 // Remuneration: DKK 250,000

Head of People and Quality, Fleet Management, Lauritzen Kosan

Other management duties, etc.:

Rolf Andersen**
Member since March 2017 // Remuneration: DKK 250,000

Fleet Manager, Fleet Management, Lauritzen Kosan

Other management duties, etc.:

AUDIT COMMITTEE
Barbara Plucnar Jensen (Chairman), Kristian V. Mørch and Peter Poul Lauritzen Bay

NOMINATION & REMUNERATION COMMITTEE
Tommy Thomsen (Chairman) and Kristian V. Mørch

* Re-elected in March 2017 by the employees
** Elected in March 2017 by the employees

Management

EXECUTIVE MANAGEMENT

Chief Executive Officer (CEO)
Mads Peter Zacho
Joined J. Lauritzen in 2016 // CEO since 2016

EXECUTIVE COMMITTEE

Chief Executive Officer (CEO)
Mads Peter Zacho
Joined J. Lauritzen in 2016 // CEO since 2016

Chief Executive Officer (CEO)
Lauritzen Kosan
Thomas Wøidemann
Joined J. Lauritzen in 2002 // In current position since December 2018

Chief Executive Officer (CEO)
Lauritzen Bulkers
Niels Josefsen
Joined J. Lauritzen in 2018 // In current position since December 2016

Senior Vice President
Corporate Control & IT
Erik Bierre
Joined J. Lauritzen in 2000 // In current position since 2000

Senior Vice President
Head of Fleet Management
Claus W. Graugaard
Joined J. Lauritzen in 2013 // In current position since 2017

Vice President
Corporate Human Resources
Jan Ulrik Nielsen
Joined J. Lauritzen in 2011 // In current position since 2015

Financial *review*

OPERATING ACTIVITIES

Results

In 2018, the result was USDm (24) compared to USDm (45) in 2017.

The result included special items totalling USDm 25 (2017: USDm 30), mainly related to use of provisions for onerous contracts and reversal of impairments on vessels.

Revenue and time-charter equivalent income

Revenue increased slightly from USDm 555 in 2017 to USDm 565 in 2018. The increase was mainly related to Lauritzen Kosan, while an increase in revenue due to the strengthening of the dry cargo markets was offset by a decrease of the operated bulk carrier fleet.

Voyage-related costs decreased from USDm (210) in 2017 to USDm (185) in 2018, mainly reflecting the decrease of the operated bulk carrier fleet.

The time-charter equivalent income amounted to USDm 381 based on 39,907 ship days, compared to USDm 345 in 2017 based on 43,213 ship days.

Hire of chartered vessels increased from USDm (279) in 2017 to USDm (287) in 2018, reflecting two gas carriers employed on pool terms in 2017 that were taken on bareboat charter in 2018.

Operating costs for owned and bareboat-chartered vessels totalled USDm (68), up from USDm (62) in 2017, mainly related to our gas carriers.

EBITDA before special items

Operating income before depreciation and special items (EBITDA) amounted to USDm (6), up USDm 25 on 2017. The improvement was primarily related to our core fleet of bulk carriers due to the strengthening of the dry cargo markets and redelivery of loss-making long-term time-chartered bulk carriers. Moderately improved earnings for our gas carriers also contributed.

Depreciation amounting to USDm (28) was in line with 2017.

Operating income and special items

Operating income before special items amounted to USDm (34) compared to USDm (60) in 2017.

Special items amounted to USDm 25 and comprised mainly USDm 15 from the use of provisions for onerous contracts and USDm 8 from the reversal of impairments on vessels. By comparison, special items amounting to USDm 30 in 2017 were mainly related to the use of provisions for onerous contracts.

FINANCING AND TAX

Net financial income and expenses amounted to USDm (13), which was the same as in 2017. Interest costs decreased in 2018 after repayment of a corporate bond in 2017, whereas fair value adjustments of cash flow hedges totalled a net loss in 2018 compared to a net gain in 2017.

Income tax amounted to USDm (1) compared to USDm (2) in 2017.

OPERATING ASSETS AND LIABILITIES

Vessels

At year-end, we tested our fleet for impairment. The impairment test resulted in the reversal of write-downs of USDm 8 related to our gas carriers.

The carrying amount of the vessels totalled USDm 354 compared to USDm 372 in 2017. Brokers' valuations totalled USDm 356.

Investments in joint ventures

Investments in joint ventures totalled USDm 28 against USDm 27 in 2017.

Net working capital and other receivables

Net working capital amounted to USDm 18 against USDm 6 in 2017 mainly due to a decrease in trade payables. Other receivables including pool receivables amounted to USDm 9, up from USDm 2 in 2017.

Provisions for onerous contracts

Provisions for onerous time-charter contracts amounted to USD nil against USDm 15 in 2017 due to use of provisions.

Invested capital

Invested capital amounted to USDm 404, up from USDm 396 in 2017 primarily due to reversal of impairments on vessels and use of provisions for onerous contracts, partly offset by depreciation and the sale of one bulk carrier.

At year-end 2018, total assets amounted to USDm 462, down USDm 42 on 2017, mainly related to vessels and cash.

CAPITAL STRUCTURE AND FINANCES

Equity

Shareholders' equity was USDm 236, down from USDm 261 in 2017. Solvency was 51%, down from 52% at year-end 2017.

Liabilities

Total interest-bearing debt increased to USDm 204 from USDm 198 in 2017, mainly due to the sale and lease-back of four gas carriers.

At year-end 2018, total liabilities amounted to USDm 226, against USDm 244 in 2017. The decrease mainly reflects the decrease in provisions for onerous contracts, partly offset by the increase in interest-bearing debt.

CASH FLOW AND FINANCIAL RESOURCES

Cash flow from operating activities totalled USDm (25) compared to USDm (48) in 2017, mainly reflecting the increase in EBITDA and a decrease in outgoing financial payments partly offset by an increase in working capital.

Cash flow from investment activities amounted to USDm (2) which mainly related to investment in dockings and joint ventures, partly offset by proceeds from sales of vessels. In 2017, cash flow from investment activities amounted to USDm (5), also mainly related to dry dockings, partly offset by proceeds from sales of vessels.

Cash flow from financing activities amounted to USDm 3, comprising repayment of debt offset by the proceeds from the sale and lease-back of four gas carriers. In 2017, cash flow from financing activities amounted to USDm (30), comprising a capital injection of USDm 80 and repayment of debt of USDm (110).

Cash and cash equivalents at year-end amounted to USDm 33 compared to USDm 59 at year-end 2017.

At year-end 2018, undrawn committed facilities and committed facilities available upon delivery of vessels amounted to USD nil and were in line with year-end 2017.

In addition to the cash and cash equivalents, J. Lauritzen has an unsecured, uncommitted overdraft facility of DKKm 40 for multi-currency short-term financing needs.

Management *statement*

Today, the Board of Directors and the Executive Management have discussed and approved the annual report of J. Lauritzen A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and the cash flows for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's operations and financial matters, the results of the Group's and the Parent Company's operations and financial position and describes the material risk and uncertainties affecting the Group and the Parent Company.

We recommend that the annual report be approved at the annual general meeting.

Hellerup, 22 February 2019

EXECUTIVE MANAGEMENT

Mads Peter Zacho
Chief Executive Officer (CEO)

BOARD OF DIRECTORS

* Elected by the employees

Tommy Thomsen, Chairman

Kristian V. Mørch, Vice Chairman

Barbara Plucnar Jensen

Peter Poul Lauritzen Bay

Søren Berg*

Rolf Andersen*

Karsten Gauger*

Independent *auditors' report*

To the Shareholder of J. Lauritzen A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of J. Lauritzen A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet statement, cash flow statement, equity statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company 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.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 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 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 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 conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient 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, 22 February 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender
State Authorised
Public Accountant
MNE no. 21332

Consolidated financial statements

Notes

Income Statement

USD '000	Note	2018	2017
Revenue	2.1, 2.2	565,368	555,111
Voyage related costs		(184,699)	(209,877)
Time-charter equivalent income		**380,669**	**345,234**
Other operating income		3,269	3,146
Hire of chartered vessels	2.2	(287,101)	(278,989)
Operating costs of vessels	2.4	(67,687)	(62,403)
Administrative costs	2.4	(35,435)	(37,972)
Operating income before depreciation (EBITDA) and special items		**(6,285)**	**(30,984)**
Profit/(loss) on sale of vessels and other assets		114	364
Depreciation	3.1	(27,545)	(27,927)
Share of profit in joint ventures	2.2, 3.4	(775)	(1,076)
Operating income (EBIT) before special items		**(34,492)**	**(59,622)**
Special items, net	2.2	24,524	29,805
Operating income (EBIT) after special items		**(9,968)**	**(29,817)**
Financial income	4.3	779	3,914
Financial expenses	4.4	(14,039)	(17,351)
Profit/(loss) before tax		**(23,227)**	**(43,254)**
Income tax	5.4	(1,092)	(2,154)
Profit/(loss) for the year		**(24,319)**	**(45,408)**
Profit/(loss) attributable to:			
The J. Lauritzen Group		**(24,319)**	**(45,408)**

Statement of Comprehensive Income

USD '000	Note	2018	2017
Profit/(loss) for the year		**(24,319)**	**(45,408)**
Items that can be reclassified subsequently to income statement:			
Other comprehensive income net of tax:			
Exchange differences on translating foreign operations		(313)	698
Fair value adjustment of hedging instruments during the year		287	1,773
Gain/(loss) on hedging instruments transferred to financial expenses		412	1,074
Fair value adjustment of shares available for sale		-	(52)
Other comprehensive income net of tax		**386**	**3,493**
Total comprehensive income for the year		**(23,933)**	**(41,914)**
Total comprehensive income attributable to:			
The J. Lauritzen Group		(23,933)	(41,914)
		(23,933)	**(41,914)**

Balance sheet statement

ASSETS

USD '000	Note	2018	2017
Vessels, property and equipment	3.1	356,237	375,291
Investments in joint ventures	3.4	28,380	27,134
Deferred tax assets	5.3	2,200	4,100
Receivables from joint ventures		3,555	1,794
Other receivables		520	542
Non-current assets		**390,892**	**408,861**
Bunkers		16,321	14,976
Trade receivables	4.5	4,220	8,405
Other receivables	3.6	9,423	2,372
Prepayments		6,176	6,953
Current tax receivables	5.4	456	-
Derivative financial instruments	4.5	391	4,311
Cash and cash equivalents		33,431	58,540
		70,418	95,556
Assets held for sale	5.1	923	-
Current assets		**71,342**	**95,557**
Total assets		**462,233**	**504,418**

LIABILITIES

USD '000	Note	2018	2017
Share capital		65,473	65,473
Retained earnings		176,860	201,928
Reserves		(6,092)	(6,478)
Equity	**4.6**	**236,241**	**260,923**
Non-current derivative financial instruments	4.5	290	477
Long-term borrowings	4.1	191,106	193,705
Non-current liabilities		**191,397**	**194,182**
Current portion of long-term borrowings	4.1	13,305	4,348
Trade payables		11,617	18,240
Other payables		7,622	10,083
Provisions	3.7	-	15,327
Derivative financial instruments	4.5	2,051	811
Current tax payables	5.3	-	504
Current liabilities		**34,596**	**49,313**
Total liabilities		**225,993**	**243,495**
Total equity and liabilities		**462,233**	**504,418**

Cash flow statement

USD '000	Note	2018	2017
Operating income before special items		(34,492)	(59,622)
Depreciation carried back		27,545	27,927
Share of profit in joint ventures		775	1,076
Special items with cash flow effect		54	-
IFRS 15 adjustment in P/L carried back		(260)	-
(Profit)/loss on sale of vessels and other assets		(114)	(364)
Change in bunkers		(1,345)	(1,807)
Change in receivables		(5,184)	22,382
Change in payables		(6,896)	1,791
Cash flow from operations before financial items		(19,916)	(8,618)
Ingoing financial payments		779	1,088
Outgoing financial payments		(6,120)	(41,350)
Cash flow from ordinary operations		(25,257)	(48,879)
Paid corporate tax	5.4	(141)	1,174
Cash flow from operating activities		**(25,399)**	**(47,706)**
Investments in vessels	3.1	(11,003)	(9,427)
Investments in machinery and equipment	3.1	(14)	(36)
Investments in joint ventures	3.4	(2,145)	(1,009)
Investment in joint ventures, non cash		321	-
Sale of vessels		9,878	5,432
Sale of other non current assets		90	12
Sale of land and buildings		483	-
Cash flow from investment activities		**(2,390)**	**(5,028)**
Financial receivables		(1,624)	(5)
Installment on long-term debt		(24,632)	(109,622)
Finance lease proceeds		29,815	-
Finance lease repayments		(822)	-
Increase in share capital		-	80,000
Cash flow from financing activities		**2,737**	**(29,627)**

	2018	2017
Changes for the year in cash and cash equivalents	(25,052)	(82,362)
Cash and cash equivalents at beginning of year	58,540	140,572
Currency adjustments on cash and cash equivalents	(58)	331
Cash and cash equivalents at the end of the year	**33,431**	**58,540**
Undrawn committed credit facilities at end of year *)	-	-
Financial resources at the end of the year	33,431	58,540

*) J. Lauritzen has an unsecured overdraft facility of DKKm 40 (2017 DKKm 40) for multi-currency short-term financing needs.

Equity statement

USD '000	Share capital	Hedging instruments	Shares available for sale	Translation gain/loss	**Reserves**	Retained earnings	**Total equity**
Equity 1/1 2018	65,473	(970)	(52)	(5,456)	(6,478)	201,928	260,923
Effect of change in accounting policies (implementing IFRS 15)						(749)	(749)
Profit/(loss) for the year	-	-	-	-	-	(24,319)	(24,319)
Other comprehensive income:							
Exchange differences on translating foreign operations	-	-	-	(313)	(313)	-	(313)
Deferred (gain)/loss on hedging instruments transferred to financial expenses	-	412	-	-	412	-	412
Fair value adjustment of hedging instruments during the period	-	287	-	-	287	-	287
Fair value adjustment of shares available for sale	-	-	-	-	-	-	-
Other comprehensive income	-	699	-	(313)	386	-	386
Total comprehensive income	**-**	**699**	**-**	**(313)**	**386**	**(24,319)**	**(23,933)**
Equity 31/12 2018	**65,473**	**(271)**	**(52)**	**(5,769)**	**(6,092)**	**176,860**	**236,241**
Equity 1/1 2017	63,864	(3,817)	-	(6,154)	(9,971)	168,945	222,837
Profit/(loss) for the year	-	-	-	-	-	(45,408)	(45,408)
Other comprehensive income:							
Exchange differences on translating foreign operations	-	-	-	698	698	-	698
Deferred (gain)/loss on hedging instruments transferred to financial expenses	-	1,074	-	-	1,074	-	1,074
Fair value adjustment of hedging instruments during the period	-	1,773		-	1,773	-	1,773
Fair value adjustment of shares available for sale	-	-	(52)	-	(52)	-	(52)
Total other comprehensive income	-	2,847	(52)	698	3,493	-	3,493
Total comprehensive income	**-**	**2,847**	**(52)**	**698**	**3,493**	**(45,408)**	**(41,914)**
Transactions with owners:							
Capital increase	1,609	-	-	-	-	78,391	80,000
Total transactions with owners	**1,609**	**-**	**-**	**-**	**-**	**78,391**	80,000
Equity 31/12 2017	**65,473**	**(970)**	**(52)**	**(5,456)**	**(6,478)**	**201,928**	**260,923**

Section 1
Basis for reporting

For improved presentation and relevance of the contents of the financial report the explanatory notes are gathered into sections with information of key areas, and the accounting policies and critical accounting estimates and judgments are presented in the notes to which they relate.

The general accounting policies that apply to the consolidated financial statement as a whole are described below.

NOTE 1.1 GENERAL INFORMATION

J. Lauritzen A/S is a private limited company with domicile in Denmark. The consolidated financial statements for the period 1 January – 31 December 2018 comprise J. Lauritzen A/S and its subsidiaries (The Group).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of reporting class C, large enterprise.

NOTE 1.2 CHANGE IN ACCOUNTING POLICIES AND NEW FINANCIAL REPORTING STANDARDS

With effective date 1 January 2018, we have adopted the standards and interpretations that became effective in EU from 2018. Only IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers* has affected recognition or measurement in 2018.

J. Lauritzen has adopted IFRS 9 *Financial Instruments*, the new standard changes the classification and measurement of financial instruments and hedging instruments and introduces an expected-credit-loss-model for financial assets. The transition does not have significantly impact on the financial statement.

J. Lauritzen has adopted IFRS 15 *Revenue from contracts with customers*, the new standard changes the way revenue is recognised as the control passed to the customer. Earlier revenue was recognised using discharge to discharge method, and revenue was recognised during the total days of voyage from discharge to discharge.

After the implementation of IFRS 15, revenue is recognised using load to discharge method and revenue is recognised during the time the cargo is transported. The standard is implemented using the modified retrospective method and with an opening balance effect on equity of USDm (0.7).

NOTE 1.3 GENERAL ACCOUNTING POLICIES

Basis of preparation
The financial statements are presented in US dollars, which is J. Lauritzen's functional currency. All amounts have been rounded to the nearest thousand.

The accounting policies set out below have been applied consistently by all Group entities and to all periods presented in these consolidated financial statements.

Materiality in financial reporting
In preparation of the Annual Report, Management considers the presentation of financial statements to ensure content is relevant and material for the user. A judgment is made of whether more detailed specifications are necessary in the presentation of the Groups financial position and results or whether an aggregation of less material amounts is preferred. The notes to the financial statement are prepared with focus on ensuring that the content is relevant and the presentation clear. All judgments are made with due consideration of legislation.

Basis of consolidation
The consolidated financial statements comprises the Parent Company, J. Lauritzen A/S, and subsidiaries controlled by the Parent Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are in substance exercisable or convertible are considered when assessing whether the Group has control or significant influence over another entity.

Enterprises in which the Group has a significant influence, but not control over the financial and operating policies are classified as associates.

Joint ventures and associates are recognised using the equity method.

The Consolidated Financial Statements are prepared on the basis of the financial statements of the Parent Company and its subsidiaries, by combining items of a uniform nature and eliminating intercompany transactions and balances and are based on financial statements prepared in compliance with the Group's accounting policies.

Acquisitions, disposals and entities formed during the year are included in the Consolidated Financial Statements during the period of the Group's control or significant influence. Comparative figures are not adjusted for acquisitions.

Translation of foreign currencies
Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Foreign currency transactions are translated into the functional currency at the exchange rate of the date when initially recognised. Gains and losses arising between the exchange rate of the transaction date and that of the settlement date are recognised in the income statement under financial items.

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

The results and financial position of any Group entity that has a functional currency different from J. Lauritzen's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities, including goodwill and fair value adjustments arising on consolidation are translated at the closing rates at the date of the balance sheet.
- Income and expenses for each income statement are translated at exchange rates approximating the exchange rate of the date of transaction date, and all resulting exchange differences are recognised as a separate component of equity.
- Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates, joint ventures and of borrowings or other currency instruments relating to hedging such investments are recognised in other comprehensive income in the translation reserve of equity. Exchange differences are released to the income statement upon disposal of the net investment.

Cash flow statement
The cash flow statement has been prepared according to the indirect method and shows the cash flows from operating, investing and financing activities for the year.

Cash and cash equivalents include bank deposits and short-term deposits that without restriction can be exchanged into cash funds.

NOTE 1.4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements includes management estimates and judgments that affect the recognition and carrying amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported performance. Estimates and judgments are based on historical data and other assumptions and sources that are considered reasonable. Actual results could differ from those estimates and judgments.

The following items have been identified as significant accounting estimates and judgments used in the preparation of its consolidated financial statements, they are presented in the related notes:

Critical accounting estimates and judgments:
- Estimated useful life and residual value of vessels – note 3.1
- Impairment test of non current assets and charter commitments – note 3.1

Critical accounting judgments:
- Special items – note 2.2
- Leases – note 2.3 and 3.2
- Joint ventures – note 3.3
- Assets held for sale – note 5.1
- Tax – note 5.4

Methods for determination of fair value
A number of assets and liabilities are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods for determination of fair value for measurement and/or disclosure purposes are described in the relevant notes.

General business risk and the impact on financial position
Vessel investments and medium/long-term chartering are commitments or financial liabilities expected to be covered by future earnings which in turn are dependent on future market levels. Likewise, profits from long-term cargo contracts are dependent on future charter rate levels for tonnage to perform the contracts. Commitments, either tonnage or cargo, entail market exposure and thereby commercial risk until employment or tonnage is secured specifically against the commitment. Commitments also entail counterparty risk when such commitments develop favorably for JL. Where the business activity has its focus on booking employment (cargo) to be performed by short-term chartered vessels or vice versa, the expected profit relies particularly on the margin that can be obtained.

Irrespective of whether the trading activity is focused on medium/long-term commitments or short-term trading, the actual profit can deviate from the expected profit due to risk factors related to the actual performance of the agreed business, counterparty credit risk and/or operational complexity causing higher costs and/or delays.

Our business activities are exposed to risk factors common for cyclical, global industries like ocean shipping: on the one side, demand for raw materials, energy and seaborne transportation of these commodities typically fluctuate in tandem with global economic growth; and, on the other side, a supply of tonnage where capacity can only adapt at a slow pace. These factors have a direct impact on profit and financial strength through volatility in market rates, margins and vessel values. Historically the volatility has been substantially higher for our dry cargo activities than for our gas carrier operations.

Accepting exposure (commitments) either to employ tonnage or to carry cargo is the central element of commercial risk-taking related to the business models for both our business units.

Risk management in respect of commercial risk has its focus on ensuring, firstly, that we only accept commercial risk that we get paid for and where the gross risk can be hedged, offset or minimised by way of contract, transfer, insurance, etc., in such a manner that the residual, net risk is commercially acceptable to us; secondly, that accepted commitments are aligned to the expected development in the particular market; and, thirdly, that due diligence and constant care is taken in the actual performance of the agreed business to ensure the commercial value is realised as expected.

During 2018, the commercial risk profile of Lauritzen Bulkers was re-balanced by reducing the amount of long-term commitments and by increasing flexibility, mainly by reducing cargo commitments and chartering-in tonnage on periods not exceeding two years.

Lauritzen Kosan procures cover for its tonnage by annual renewal of Contracts of Affreightment and to some extent by chartering-out tonnage. In anticipation of further market improvements in 2019, the amount of forward cover is relatively low for our dry cargo activities, whereas Lauritzen Kosan traditionally has a higher level of forward cover.

Fluctuations in freight rate levels impact the income statement and cash position. Fluctuations in the value of our owned vessels affect the income statement, balance sheet, compliance with financial covenants and can affect our liquidity via minimum value requirements in our loan agreements. Details are disclosed in note 4.5.

NOTE 1.5 NEW ACCOUNTING REGULATIONS FOR FUTURE IMPLEMENTATION

TThe IASB has issued a number of new or revised accounting standards (IAS and IFRS) and interpretations (IFRICs), that are not compulsory for the Group in the preparation of the financial statements for 2018.

In January 2016 IFRS 16 *Leases* was issued. The new standard implies that all J. Lauritzen's operational lease-contracts with a duration of more than 12 months shall be recognised at the balance sheet as a lease liability and a right-of-use asset measured at the present value of lease payments.

Implementing IFRS 16 will have an impact on the Income Statement as the lease expenses will be recognised as amortisation and interest (below EBITDA), and on financial ratios. The Cash Flow Statement will be affected by lease payments being classified as cash flow from financing activities instead of cash flow from operating activities.

IFRS 16 is adopted using the modified retrospective approach where the right of use asset and lease liability is equal at the date of initial adoption (1 January 2019). The lease liability is calculated as the present value of the remaining lease payments without restating prior year figures.

Definitions:

- Leases: A firm period above 12 months, with no redelivery options prior to the firm period and with full control of the asset. All leases have been assessed, and low value leases are excluded.
- Discount rates: The discount rate is calculated as a weighted average of the secured and unsecured borrowing rate for a like to like asset. The discount rate is calculated in nominal terms as the cash flows are also in nominal terms based on a 60/40 loan ratio.
- Service elements: The lease commitment is reduced by the service element that has been estimated as the average vessel operating cost of a like to like asset on market terms.

Based on the current time charter and bare boat fleet (TC/BB) with a duration of minimum 12 months and an applied discount rate of 7.3%, the effect on financial statements for 2019 is calculated as follows:

- Balance sheet: On 1 January 2019, a right of use asset and a lease liability of USDm 207 is recognised on the balance sheet.
- Income statement: During 2019, TC/BB hire of USDm 118 in total, that would have been expensed according to the current accounting policy, will be replaced by OPEX of USDm 48, depreciation of USDm 62 and finance costs of USDm 13. The impact on EBITDA is USDm 70, and the impact on profit for the year is USDm (6).
- Cash flow: The effect on the cashflow is neutral, but the cashflow from operating income (TC/BB hire, OPEX and finance cost) will be impacted by USDm 56, and the financial cashflow (repayment of lease debt) will be impacted by USDm (56).

Except for IFRS 16 none of the issued accounting standards and interpretations are expected to have influence on the financial reporting for the Group. We expect to implement the standards and interpretations on effective date as issued by the IASB subject to their endorsement by the EU.

NOTE 1.6 KEY FIGURES, FINANCIAL RATIOS, AND NON-IFRS MEASURES

The Income statement includes financial measures which are not defined by IFRS. These measures are included because they are used to analyse and manage the business and to provide management and stakeholders with useful information on the Group's Income statement.

Time-charter equivalent income is defined as revenue less voyage related costs.

EBITDA before special items is defined as Operating income before depreciation and special items.

Profit margin is calculated as operating income before special items excl. share of profit in joint ventures divided by revenue.

Solvency ratio is calculated as total equity at year end divided by total assets at year end.

Return on equity is calculated as J. Lauritzen's share of profit/(loss) divided by J. Lauritzen's average share of equity.

Invested capital is total assets less cash, securities, non operational assets and non interest-bearing current liabilities.

Return on invested capital is calculated as operating income after special items divided by average invested capital.

Net interest bearing debt (NIBD) is Interest-bearing liabilities, less subordinated loan, interest-bearing assets and cash.

NIBD/EBITDA is calculated as NIBD divided by operating income before depreciations and special items.

Section 2
Operating activities

NOTE 2.1 REVENUE

The revenue reported represents revenue from external customers.

USD '000	2018	2017
Freight revenue	320,852	394,561
COA revenue	94,113	109,613
Time charter revenue	150,403	50,937
Total	**565,368**	555,111
Revenue per business unit		
Lauritzen Bulkers	461,892	463,790
Lauritzen Kosan	103,476	91,321
Total	**565,368**	555,111

ACCOUNTING POLICIES

Revenues

Revenue consist of three types of contracts with customers; spot contracts with carriage of a specific quantity of cargo in a single voyage, Contract of Affreightment (COA) with carriage of a certain quantity of cargo with multiple voyages over a specified period of time, and time-charter contracts of vessels. Each voyage is recognised as a performance obligation no matter if it is part of a spot contract or a COA.

The transaction price is agreed with the customer for all types of contracts. The voyage result (revenue and voyage related costs) is recognised during the voyage based on estimates of costs and the duration of the voyage. Revenue is recognised using load to discharge method and revenue is recognised during the time the cargo is transported.

In addition revenue comprises changes in fair value on forward freight agreements (FFA) used to hedge future freight income. Hedge accounting is not applied for these transactions.

Voyages in progress

Revenue is recognised as a percentage of the estimated revenue for the voyage based on the percentage of completion of the estimated duration of the voyage. There is a higher uncertainty for revenue recognised from voyages in progress compared to completed voyages, as conditions can change for the estimated uncompleted part of the voyage.

Voyage related costs

Voyage related costs include bunker oil, port costs, agent's commissions and other voyage related costs. Furthermore, voyage related costs include fair value changes on financial bunkers contracts used to hedge future bunkers purchases. Hedge accounting is not applied for these transactions.

Time-charter equivalent income

The time-charter equivalent income is an industry specific key ratio, consisting of revenue less voyage-related costs.

Other operating income

Other operating income includes commercial and technical management fee.

Operating cost of vessels

Operating cost of vessels includes maintenance and repairs, crew staff costs, insurance of hulls and machinery, consumption of lubricants and supplies etc.

NOTE 2.2 SPECIAL ITEMS

To increase the comparability of the operating activities, a number of one-off items have been recognised as special items:

USD '000	2018	2017
A) One-off revenue from sale of claims, claim settlements and termination of contracts	54	-
B) Sale of vessels as a consequence of counterparty defaults or strategic initiatives	419	-
B) Impairment losses/reversals on vessels	8,403	14,112
C) Provisions for onerous contracts	-	(15,914)
C) Use of provisions for onerous contracts	15,327	30,392
D) Impairment losses/reversals on vessels owned by joint ventures	321	1,215
Special items, net	**24,524**	**29,805**

INCOME STATEMENT - CONDENSED

USD '000		2018	2017
Revenue	A)	565,422	555,111
Other operating income		3,269	3,146
Costs	C)	(559,595)	(574,175)
Operating income before depreciation (EBITDA)		**9,096**	**(15,918)**
Profit/(loss) on sale of assets		533	364
Depreciation and impairment losses	B)	(19,142)	(14,402)
Share of profit in joint ventures	D)	(454)	139
Operating income		**(9,968)**	**(29,817)**
Net financial items	E)	(13,260)	(13,437)
Profit/(loss) before tax		**(23,227)**	**(43,254)**
Income tax		(1,092)	(2,154)
Profit/(loss)		**(24,319)**	**(45,408)**

ACCOUNTING POLICIES

"Special items" include significant one-off income and expenses, such as revenue from sale of claims and claim settlements and compensation from termination of contracts, sale of assets as a consequence of counterparty default or strategic initiatives, impairment losses on vessels and on investments in joint ventures as well as provisions for onerous contracts and the use and reversals hereof. These items are presented separately in the income statement to increase the transparency and comparability of the operating activities.

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

The use of special items entails management judgment in the separation from other items in the income statement. Management carefully considers such changes in order to ensure the correct distinction between the operating activities and one-off items.

NOTE 2.3 OPERATING LEASING INCOME

At the balance sheet date the Group has the following contractually committed leasing income from time-charter contracts:

2018	USDm committed income	No. of vessels, full year equivalents
< 1 Year	41.9	11.1
1 - 2 Year	5.9	1.8
2 - 3 Year	0.5	0.1
3 - 4 Year	-	-
4 - 5 Year	-	-
> 5 Year	-	-
Total	**48.2**	-
2017		
< 1 Year	36.4	10.6
1 - 2 Year	5.6	2.0
2 - 3 Year	3.2	1.1
3 - 4 Year	0.5	0.2
4 - 5 Year	-	-
> 5 Year	-	-
Total	**45.8**	-

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

The Group enters into different contracts regarding chartering vessels out. The majority of these contacts can easily be categorised as either operational or financial leases. However, some contracts may require judgment as to the substance of the agreement in order to recognise and measure them in accordance with the Group's accounting policies.

NOTE 2.4 STAFF COSTS, OFFICE & FLEET

USD '000	Staff costs onshore employees [1] 2018	2017	Staff costs, crew on vessels [2] 2018	2017	Total staff costs 2018	2017
Salaries	20,442	22,301	28,002	27,214	48,445	49,515
Pensions (defined contribution plan)	1,873	2,295	-	-	1,873	2,295
Social security	462	406	-	-	462	406
Contract labour	81	198	-	-	81	198
Total	**22,858**	**25,200**	**28,002**	**27,214**	**50,860**	**52,415**

1) Included in "Administrative costs"
2) Included in "Operating costs of vessels"

	Number of employees, onshore 2018	2017	Number of employees, crew on vessels 2018	2017	Number of employees, total 2018	2017
Average number of employees	165	174	560	524	725	698
Number of employees at year end	167	165	538	522	705	687

USD '000	2018	2017
Remuneration to J. Lauritzen A/S'		
Executive Management - salaries	699	684
CEO Mads Peter Zacho	*699*	*684*
Executive Management - bonus	125	76
CEO Mads Peter Zacho	*125*	*76*
Board of Directors	479	426
	1,303	**1,186**

Remuneration to Executive Management consists of a fixed and variable compensation. No variable compensation has been paid in 2018 and 2017.

Section 3
Operating assets and liabilities

NOTE 3.1 VESSELS, PROPERTY & EQUIPMENT

USD '000 **2018**	Vessels	Vessels under construction	Land & buildings	Machinery, tools and equipment	Total
Cost as at 1 January	811,104	-	2,489	10,181	823,774
Exchange rate adjustments	(384)	-	(52)	(11)	(447)
Additions	11,003	-	-	14	11,017
Disposals	(15,049)	-	(483)	(27)	(15,559)
Transfer, assets held for sale	(6,205)	-	-	-	(6,205)
Cost as at 31 December	800,469	-	1,954	10,157	812,580
Depreciation and impairment losses as at 1 January	(438,881)	-	(903)	(8,699)	(448,482)
Exchange rate adjustments	312	-	36	11	360
Depreciation	(27,454)	-	(76)	(16)	(27,545)
Reversal of impairment losses	8,403	-	-	-	8,403
Disposals	5,639	-	-	-	5,639
Transfer, assets held for sale	5,282	-	-	-	5,282
Depreciation and impairment losses as at 31 December	(446,697)	-	(942)	(8,702)	(456,343)
Balance as at 31 December	**353,772**	-	**1,011**	**1,455**	**356,237**
Hereof finance leased assets	18,023	-	-	-	18,023

USD '000 2017	Vessels	Vessels under construction	Land & buildings	Machinery, tools and equipment	Total
Cost as at 1 January	847,963	24,340	2,320	10,108	884,730
Exchange rate adjustments	1,105	-	168	38	1,311
Additions	9,427	-	-	36	9,463
Disposals	(47,390)	(24,340)	-	-	(71,730)
Transfer, assets held for sale	-	-	-	-	-
Cost as at 31 December	811,104	-	2,489	10,181	823,774
Depreciation and impairment losses as at 1 January	(467,675)	(24,340)	(720)	(7,841)	(500,576)
Exchange rate adjustments	(607)	-	(100)	(36)	(743)
Depreciation	(27,022)	-	(83)	(823)	(27,927)
Reversal of impairment losses	14,112	-	-	-	14,112
Disposals	42,311	24,340	-	-	66,651
Depreciation and impairment losses as at 31 December	(438,881)	-	(903)	(8,699)	(448,483)
Balance as at 31 December	**372,224**	-	**1,586**	**1,483**	**375,291**

Impairment test 2018

For Small Bulk Carriers, the impairment test at year end 2018, resulted in book values being supported by either broker values or value in use of the vessels.

For Fully-pressurised Gas Carriers the impairment test resulted in a reversal of impairments of USDm 8.4 due to book values being exceeded by both broker values and value in use of the vessels.

For Other Gas Carriers the book values are supported by either broker values og value in use.

ACCOUNTING POLICIES

Vessels

Vessels are measured at cost less accumulated depreciation and accumulated impairment losses. Vessels are depreciated on a straight line basis to an estimated scrap value. The expected useful life of vessels is 25 years.

The cost of vessels acquired by way of finance leases are stated at the lower of fair value, and the present value of the minimum lease payments at the inception of the lease.

Rebuilding of vessels is capitalised if the rebuilding is intended to extend the service life and/or improve the earning potential. Rebuilding is depreciated over the expected service life of the investment.

Costs relating to dry dockings are capitalised and depreciated on a straight line basis. The expected useful life of dry dockings range from 30 to 60 months.

Vessels under construction are measured at cost incurred until the time the vessel is taken into service less accumulated impairment losses.

Land

Land is measured at cost. Land is not depreciated.

Buildings

Buildings are measured at cost less accumulated depreciation and accumulated impairment losses. Buildings are depreciated on a straight line basis. Expected useful life of buildings is 50 years.

Machinery, tools and equipment

Machinery, tools and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Machinery, tools and equipment are depreciated on a straight line basis. Expected useful life of machinery, tools and equipment is 5-10 years.

Impairment

The carrying amount of fully owned and chartered vessels and vessels under construction together with part owned vessels through investments in joint ventures and associates are tested annually for impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses of assets within a CGU are allocated to the carrying amount of the assets in the CGU on a pro rata basis to the higher of fair value less cost to sell and value in use. If the total carrying amount of the assets in the CGU still exceeds the value in use of the CGU, provisions are made for onerous contracts. Provisions are made to individual contracts, if net present value from an individual contract is negative.

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

Estimated useful life and residual value of vessels

The estimated useful life and residual value of vessels are assessed annually and adjusted if appropriate. The residual value is based on estimates on steel value less costs to scrap. Estimated useful life of vessels is 25 years and the useful life of dry dockings range from 30 to 60 months.

There has been no significant impact on profit/loss arising from changes in estimated useful life or residual value in 2017 or 2018.

Impairment test of non-current assets and charter commitments

The impairment test is carried out at the lowest level for which there are separately identifiable cash inflows (cash generating units, CGU).

The CGUs applied in the impairment test for 2018 are identical to those applied for 2017:

Lauritzen Bulkers	Small bulk carriers
Lauritzen Kosan	Fully-pressurised Other gas carriers

Fair value less costs of disposal is estimated by use of at least two independent broker valuations (considered level 3 in fair value hierarchy), and value in use is calculated as present value of future cash flows to be derived from the vessels and other non-current assets during their useful life.

The key assumptions used in the impairment test include estimated future earnings (including charter income, COAs and estimated risk adjusted spot rates for open ship days), operating costs, counterparty risk, the composition of CGUs and the rate used to discount future cash flows. The estimated future earnings are based on internal forecasts in which input presented by ship broking research units and consultants are taken into consideration.

From 2018 is has been decided to use specific discount rates for the individual business units to align with the CGU's. For Bulk Carrier CGU's we use a nominal risk adjusted weighted average cost of capital of 9.0% equal to 6.9% in real terms after tax to discount deflated future cash flows, while the nominal risk adjusted weighted average cost of capital for Gas Carriers CGU's is 7.3% equal to 5.1 in real terms. In 2017 we used a nominal risk adjusted weighted average cost of capital of 8.9% equal to 6.7% in real terms after tax to discount deflated future cash flows for all CGU's. Due to tonnage tax regulations, the pre-tax weighted average cost of capital corresponds to the weighted average cost of capital after income taxes.

NOTE 3.2 OPERATING LEASING OF VESSELS

At the balance sheet date the Group has the following operational lease obligations from time-charter and bareboat contracts:

2018	USDm committed obligation	No. of vessels, full year equivalents
< 1 Year	125.9	33.6
1 - 2 Year	92.2	24.4
2 - 3 Year	66.4	17.3
3 - 4 Year	56.0	12.8
4 - 5 Year	47.5	10.8
> 5 Year	27.8	6.2
Total	**415.8**	-
2017		
< 1 Year	115.7	30.2
1 - 2 Year	87.3	22.4
2 - 3 Year	67.1	16.1
3 - 4 Year	56.5	13.1
4 - 5 Year	55.7	12.8
> 5 Year	79.3	18.1
Total	**461.7**	-

According to the lease agreements there are no contingent rents.

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

The Group enters into different contracts regarding chartering vessels in. The majority of these contacts can easily be categorised as either operational or financial leases. However, some contracts may require judgment as to the substance of the agreement in order to recognise and measure them in accordance with the Group's accounting policies.

NOTE 3.3 FINANCE LEASING OF VESSELS

During 2018, the Group has entered into sale and lease back arrangements for 4 gas carriers. The contracts are considered as financial leases. At the end of the lease period, the owner of the vessels has a put-option to sell the vessels back to J. Lauritzen.

USDm

2018	Minimum lease payments	Interest	Present value of minimum lease payments
< 1 Year	7,585	2,979	4,605
1 - 5 Year	29,618	5,880	23,737
> 5 Year	-	-	-
Total	**37,202**	**8,860**	**28,343**

There were no finance lease agreements in 2017.

NOTE 3.4 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

USD '000	2018	2017
Cost as at 1 January	21,850	20,842
Additions during the year	2,145	1,009
Cost as at 31 December	23,995	21,850
Revaluation as at 1 January	(1,516)	(1,655)
Revaluations during the year	(775)	139
Revaluation as at 31 December	(2,291)	(1,516)
Balance as at 31 December	21,704	20,335
Negative equity settled against receivable from joint ventures	6,676	6,799
Balance as at 31 December	**28,380**	**27,134**

Key figures for joint ventures (100%):

USD '000	2018	2017
Revenue	19,520	17,680
Net profit	(144)	(2,849)
Assets	110,500	91,340
Liabilities	80,027	54,756
Group's share of net profit	(1,920)	(1,425)
Internal profit/loss	1,145	1,564
Net profit in joint ventures	(775)	139
Group's share of equity	19,912	19,687
Internal profit/loss	1,792	648
	21,704	20,335

Guarantees and payment obligations relating to joint ventures:

USDm	2018	2017
Guarantees undertaken for debt in joint ventures	20	23
Max. obligations to pay in capital into joint ventures	-	3

ACCOUNTING POLICIES

Share of profit in associated companies and joint ventures
The proportionate share of the net profit after tax in associated companies and joint ventures, after the elimination of proportional share of internal profit/loss is recognised in the income statement.

Investments in associates and joint ventures
Investments in associates and joint ventures are recognised according to the equity method of accounting.

Any goodwill resulting from the acquisition is included in the carrying value of the investment. The investments in associates and joint ventures are tested annually for impairment.

Associates and joint ventures with negative equity are measured at USD 0 (nil), unless the Group has a legal or constructive obligation to cover the negative balance of the associate.

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

The assessment of the level of control in an investment and thereby the classification of an investment as subsidiaries, associates or joint ventures is based on managerial judgment.

NOTE 3.5 WORKING CAPITAL

USD '000	2018	2017
Bunkers	16,321	14,976
Trade receivables	4,220	8,405
Other receivables	9,423	2,372
Prepayments	6,176	6,953
Total working capital assets	36,140	32,706
Trade payables	11,617	18,240
Other payables	6,222	8,850
Total working capital liabilities	17,840	27,090
Net working capital	**18,300**	**5,616**

NOTE 3.6 OTHER RECEIVABLES

USD '000	2018	2017
Working capital receivables:		
Pool receivables	8,078	309
Other short-term receivables	1,345	2,063
Total other receivables	**9,423**	**2,372**

NOTE 3.7 PROVISIONS

USD '000	2018	2017
Provisions as at 1 January	15,327	34,670
Additions included in special items	-	15,914
Used during the year included in special items	(15,327)	(30,392)
Used during the year, other	-	(4,865)
Provisions as at 31 December	**-**	**15,327**
Hereof:		
Current liabilities	-	15,327
Provisions as at 31 December		**15,327**

The provisions refer primarily to onerous long-term time-charters.

Section 4
Capital structure and financing

NOTE 4.1 LONG-TERM BORROWINGS

USD '000	2018 <1 year	1 - 2 year	2 - 3 year	3 - 4 year	4 - 5 year	> 5 year	Total
Mortgages on vessels *)	(8,700)	(8,700)	(141,689)	(5,419)	(10,912)	(0)	(175,419)
Finance leasing	(4,605)	(5,164)	(5,746)	(6,418)	(6,463)	(597)	(28,993)
Total long-term borrowings	**(13,305)**	**(13,864)**	**(147,434)**	**(11,837)**	**(17,375)**	**(597)**	**(204,412)**

USD '000	2017 <1 year	1 - 2 year	2 - 3 year	3 - 4 year	4 - 5 year	> 5 year	Total
Mortgages on vessels *)	(4,348)	(9,961)	(9,961)	(157,599)	(5,326)	(10,859)	(198,052)
Total long-term borrowings	**(4,348)**	**(9,961)**	**(9,961)**	**(157,599)**	**(5,326)**	**(10,859)**	**(198,052)**

*) The bank facilities include covenants customary to ship finance, including:

- Security maintenance: Ratio between security and outstanding debt in the particular facility minimum 120%.
- Financial covenants: Value-adjusted consolidated solvency ratio of minimum 30%, consolidated liquidity of the higher of USD 25m and 10% of the total interest bearing debt of the Group calculated on a consolidated basis, and consolidated working capital ratio to be higher than one.

USD '000	Currency	Fixed/ Variable	Interest rate fixation	Average effective interest rate excl. hedging	Average effective interest rate incl. hedging	Book value
2018						
Bank debt:						
Mortgages on vessels	USD	Variable	3-6 month	5.04%	5.16%	(148,677)
Mortgages on vessels	JPY	Variable	6 month	2.07%	2.71%	(26,741)
				4.55%	4.75%	(175,419)
Other financing:						
Finance leasing	USD	Fixed	0-60 month	11.06%	N/A	(28,993)
Total						**(379,830)**
2017						
Mortgages on vessels	USD	Variable	3-6 month	4.12%	4.32%	(172,004)
Mortgages on vessels	JPY	Variable	6 month	2.07%	2.85%	(26,048)
Total				**3.82%**	**4.11%**	**(198,052)**

NOTE 4.1 LONG-TERM BORROWINGS (continued)

Currency exposure on non-USD long-term borrowings, net of hedging:

	2018			2017		
USD '000	Book value	Currency hedging derivatives	Net currency exposure on loan	Book value	Currency hedging derivatives	Net currency exposure on loan
JPY	(26,741)	27,000	259	(26,048)	27,000	952
Total	**(26,741)**	**27,000**	**259**	**(26,048)**	**27,000**	**952**

Interest exposure on long-term borrowings to floating interest rates:

USD '000	2018	2017
Total long-term borrowings (including current portion)	(175,419)	(198,052)
Hereof amortised formation costs	4,411	5,826
Floating interest borrowings	(179,830)	(203,878)
Interest rate swaps floating to fixed, nominal	103,512	143,739
Exposure to floating interest rates at year end	**(76,317)**	**(60,140)**

ACCOUNTING POLICIES

Mortgage debt and other interest bearing debt are initially recognised at fair value less any transaction costs incurred. Subsequently, financial liabilities are measured at amortised cost using the effective interest rate method, such that the difference between the proceeds and the redemption value is recognised in the income statement over the lifetime of the loan.

Changes in liabilities arising from financing activities

USD '000 2018	Mortage on vessels	Finance lease of vessels	Corporate bonds	Total liabilities from financing activities
Book value 1 of January	198,052	-	-	198,052
Repayment (Cash flow)	(24,632)	(822)	-	(25,454)
Proceeds (Cash flow)	-	29,815	-	29,815
Foreign exchange movement	584	-	-	584
Amortised formation costs	1,415	-	-	1,415
Balance as at 31 December	**175,419**	**28,993**	-	**204,412**

USD '000 2017	Mortage on vessels	Corporate bonds	Total liabilities from financing activities
Book value 1 of January	248,865	51,531	300,396
Repayment (Cash flow)	(53,627)	(55,995)	(109,622)
Foreign exchange movement	1,599	4,138	5,737
Amortised formation costs	1,216	326	1,541
Balance as at 31 December	**198,052**	-	**198,052**

NOTE 4.2 MORTGAGES

USD '000	2018	2017
Debt for a total of	175,419	198,052
is secured by mortgages on assets at the following book values:		
Vessels	331,801	366,463

NOTE 4.3 FINANCIAL INCOME

USD '000	2018	2017
Interest income, bank deposits	687	996
Other financial income	93	92
Currency exchange gains and losses, net	-	13
Financial instruments at FV through P&L, net	-	2,812
Financial income	**779**	**3,914**

NOTE 4.4 FINANCIAL EXPENSES

USD '000	2018	2017
Interest expenses on loans	(10,905)	(16,788)
Finance lease interest	(143)	-
Other financial expenses	(586)	(562)
Currency exchange gains and losses, net	(309)	-
Financial instruments at FV through P&L, net	(2,096)	-
Financial expenses	**(14,039)**	**(17,351)**

ACCOUNTING POLICIES

Financial items include interest income and expenses, realised and unrealised exchange gains and losses, adjustments to the value of securities and certain financial instruments and other financial income and expenses.

Borrowing costs directly attributable to the acquisition or construction of assets are capitalised as part of the cost of the asset.

NOTE 4.5 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Through its operations, investments and financing, the Group is exposed to certain financial risk; this financial risk relates to and is defined as follows:

Liquidity risk	The risk that J. Lauritzen is not able to meet its future cash flow needs
Market risk	The risk of losses in financial positions arising from movements in market prices to which J. Lauritzen is exposed
Credit risk	The risk of incurring a financial loss if a customer or counterparty fails to fulfill its contractual obligations

Financial risks are regularly assessed and prioritised based on how likely they are to occur and their potential impact. As defined by the Board of Directors, overall policies and objectives for financial risks were generally unchanged from 2017.

LIQUIDITY RISK

Liquidity is managed at Group level to ensure that sufficient funds are available to cover daily flows.

Liquidity forecasts are produced and updated regularly based on forecasts on operational cash flows, net financing cash flow, CAPEX and investment commitments. Sensitivity analysis and stress tests are performed regularly.

At year-end 2018, cash and cash equivalents amounted to USDm 33. In addition to cash and cash equivalents an unsecured, uncomitted overdraft facility of DKKm 40 for multi-currency short-term financing needs is in place.

The Group's loan portfolio consists of traditional mortgage-backed ship finance (approximately 84% of total facilities) and ECA (Export Credit Agency) backed agreements (approximately 16% of total facilities).

The Group's loan agreements include a minimum value clause (MVC) where cash security has to be pledged if outstanding loan to market value reaches a certain limit. At year-end 2018, the Group had pledged USDm 0m related to MVC in loan agreements (2017: USDm 0). There were no breaches of credit facilities at year-end 2018 and 2017. Should vessel values decrease by 10% during 2019 compared to the December 2018-valuations, nil would be required by year-end 2019 as additional security.

Changes in market values on derivatives could cause margin calls. To reduce the risk of margin calls, we have established credit lines with a number of financial counterparties based on second priority mortgages on our vessels. At year-end 2018, the Group had not pledged cash for cover of margin calls (2017: USDm 0).

Below is a maturity analysis of the financial liabilities at year-end 2018. A maturity analysis of operational lease obligations is included in note 3.2.

MARKET RISKS

Market risk is the risk of losses on financial positions arising from movements in market prices to which the Group is exposed through financial instruments. Market risk is regularly assessed and prioritised based on how likely they are to occur and their potential impact. Based on this assessment, the following market risk factors are considered significant for the Group:

USD '000

2018	Carrying amount	Contractual cash flow	<1 year	1 - 2 year	2 - 3 year	3 - 4 year	4 - 5 year	> 5 year
Interest-bearing debt *)	(204,412)	(238,863)	(25,861)	(25,404)	(154,457)	(14,177)	(18,334)	(630)
Trade and other payables	(19,239)	(19,239)	(19,239)	-	-	-	-	-
Derivatives, liabilities at fair value	(2,342)	(2,342)	(2,051)	(175)	(94)	(15)	(6)	(1)
Total at 31 December 2018	**(225,993)**	**(260,444)**	**(47,151)**	**(25,579)**	**(154,551)**	**(14,191)**	**(18,340)**	**(631)**
2017								
Interest bearing debt *)	(198,052)	(232,338)	(13,963)	(19,226)	(18,761)	(162,592)	(6,437)	(11,358)
Trade payable and other payables	(28,323)	(28,323)	(28,323)	-	-	-	-	-
Derivatives, liabilities at fair value	(1,289)	(1,289)	(811)	(187)	(177)	(94)	(13)	(6)
Total at 31 December 2017	**(227,664)**	**(261,950)**	**(43,097)**	**(19,413)**	**(18,938)**	**(162,686)**	**(6,450)**	**(11,365)**

**) Contractual cash flow includes undiscounted interest payments based on interest levels at year-end.*

To a minor extent the Group is exposed to other market risk factors that are considered less significant. These include risk on financial instruments related to share prices, oil prices and freight rates (FFA). We use derivatives to hedge oil and freight rates when applicable. The fair value of these instruments is disclosed in the table "Derivative financial instruments".

Currency risk – Operational cash flow

Currency risk from operations is related to non-USD costs where DKK expenses are the largest contributor

Currency risk – Investments

Relates to the risk of contractual commitments in non-USD. At year-end 2018, the Group had no non-USD commitments on newbuildings

Currency risk – Financing

Relates to long-term borrowings in non-USD. At year-end 2018, the Group had long-term borrowings denominated in JPY, ref note 4.1

Interest rate risk – Long-term borrowings

The long-term floating rate borrowings are fixed to a large extent (58%) using interest rate swaps

Below is a description of how we manage the significant market risk factors and perform sensitivity analysis of the exposure.

Sensitivity information is calculated at balance sheet date and comprises only sensitivity relating to financial instruments, so the amounts disclosed do not necessarily give a complete picture of the Group's risk relating to changes in currency rates and interest rates.

Currency risk

The operating and reporting currency is USD and thus all amounts are recorded and reported in USD. Matching income and expenses and assets and liabilities minimises the net currency risk, leaving net positions to be focused on.

Our policy is to use derivative instruments to hedge the currency risks relating to net non-USD cash flows from operating activities, investments and financing. The general hedging policy is approved by the Board of Directors.

The hedging strategy for operating costs is based on estimated annual net non-USD cash flows, i.e. 12 months rolling cash flow. Hedge accounting is not applied to forward contracts relating to future costs in non-USD currencies.

Please refer to note 4.1 for further disclosure of the currency exposure of long-term borrowings and hedging hereof.

Sensitivity of currency risk

To measure currency risk in accordance with IFRS 7, sensitivity is calculated as the change in fair value of future cash flows from financial instruments as a result of fluctuations in exchange rates on the balance sheet date. Other things being equal and after tax, sensitivity to fluctuations in non-USD currencies at balance sheet date based on a 10% decrease in currency translation rates against USD (assuming 100% effectiveness) would result in a net profit/(loss) of USDm (1.9) (2017: USDm (2.0)) and affect equity by USDm (1.9) (2017: USDm (2.0)). The effect of a 10% increase in the currency translation rates against USD would have a corresponding inverse effect.

Interest rate risk

Our policy is to hedge risk associated with changes in interest rates to limit the negative financial effects of adverse changes in interest rates by converting variable interest rates to fixed interest rates. Net interest rate risk may be hedged via forward rate agreements, interest rate swaps and related instruments if assessed as advantageous. The general hedging policy is approved by the Board of Directors.

Cash flow hedge accounting is used in respect of interest rate derivatives. These are recycled in the income statement over the term of the hedged loans. Please refer to note 4.1 for disclosure of the exposure to floating interest rates at balance sheet date.

Sensitivity of interest rate risk

Sensitivity of interest fluctuations is calculated as the hypothetic effect on net profit and equity as a result of fluctuations in interest rates at balance sheet date.

The sensitivity analysis includes financial instruments recognised at fair value for which the calculated effect on equity represents an immediate fair value change from a thought change in interest rates and financial instruments with variable interest recognised at amortised costs for which the calculated effect represents a one year effect on net profit and equity based on balances at year end.

Assumptions for the sensitivity analysis:

- All hedging instruments are assumed 100% effective.
- Changes in interest rates are global and thus the impact on the fair value of forward currency contracts and similar derivatives is not considered.
- Shares available for sale and shares at fair value through profit or loss are not included in sensitivity calculations due to inability to reliably measure the sensitivity of share prices to interest rate changes.

On financial instruments at fair value, the calculated effect after tax based on a 1% interest rate increase would affect profit/loss by USDm 1.0 (2017: USDm 1.3)) and equity by USDm 1.5 (2017: USDm 2.3). On financial instruments with variable interest recognised at amortised costs, profit/loss and equity would be affected by USDm (1.4) (2017: USDm (1.4)).

A 1% interest rate decrease would as a maximum have a corresponding inverse effect.

CREDIT RISK

Credit risk is the risk of incurring a financial loss if a customer or counterparty fails to fulfill their contractual obligations.

Our placement of deposits entails a potential credit risk and we only place deposits with banks that are either categorised as Structurally Important Financial Institutions (SIFI) or meet a minimum rating requirement.

Likewise, contracts for long-term business entail a potential counterparty credit risk. To mitigate the counterparty risk related to business contracts, we perform a thorough credit assessment prior to concluding long-term contracts. Large contracts are approved by the Board of Directors.

Standard payment terms for the Bulk business is that 95% of the transaction price (estimated revenue) for the voyages is due 3 days after loading the cargo, while the remaining revenue is due after discharge, therefore the majority of the revenue is paid before releasing the cargo to the customer. For the Kosan business standard payment terms is 100% of the transaction price after discharge, when trading with known and creditworthy customers, otherwise it is typically agreed that payment is due before discharge. Due to payment terms for the business, historic losses on trade receivables are immaterial, and therefore the Group do not recognise expected losses on trade receivables. In 2018 and 2017 no provisions were made for losses on trade receivables. The Group did not have any further overdue trade receivables (2017: USD nil).

At year-end 2018, the majority of our financial counterparties had credit ratings of or above Baa2.

The exposure to credit risk at balance sheet date can be illustrated as follows:

USD '000	2018	2017
Other long-term receivables	4,074	2,336
Trade receivables	4,220	8,405
Financial derivatives	391	4,311
Other short-term receivables	9,423	2,372
Cash and bank deposits	33,431	58,540
Maximum credit risk	**51,539**	**75,963**

The maximum credit risk corresponds to the carrying value of the individual assets.

DERIVATIVE FINANCIAL INSTRUMENTS

Our policy is to use derivative financial instruments to hedge financial risk. At year-end, the Group held the following derivatives:

USDm	Cash flow / Fair value hedge	2018 Nominal, USDm	2018 Duration, month	2018 Recognised on equity	2018 Fair value	2017 Nominal, USDm	2017 Duration, month	2017 Recognised on equity	2017 Fair value
Hedge accounting applied:									
Interest rate swaps	Cash flow	103.5	14-59	(0.3)	(0.4)	113.5	4-72	(1.1)	(1.3)
Terminated interest rate swap	Cash flow	N/A	N/A	0.1	N/A	N/A	N/A	0.1	N/A
Total				**(0.3)**	**(0.4)**			**(1.0)**	**(1.3)**
Hedge accounting not applied:									
Currency: USD/EUR	N/A	3.4	0-8	-	(0.1)	-	0	-	-
Currency: USD/DKK	N/A	21.1	0-9	-	(0.7)	22.5	0-12	-	1.1
Currency: USD/JPY	N/A	27.0	0-1	-	0.3	27.0	1-9	-	0.4
Interest rate swaps	N/A	-	-	-	-	30.3	4	-	(0.0)
FFA's and oil contracts	N/A	N/A	1-12	-	(1.0)	N/A	1-12	-	2.8
Total				-	**(1.5)**			-	**4.3**
Total derivative financial instruments					**(1.9)**				**3.0**
Presented in the financial statement as:									
Derivative financial instruments, assets					0.4				4.3
Non-current derivative financial instr., liabilities					(0.3)				(0.5)
Derivative financial instruments, liabilities					(2.1)				(0.8)

ACCOUNTING POLICIES

Derivatives are recognised at fair value. Positive and negative fair values of derivatives are presented in the statement of financial position in separate line items, and offsetting is made only when the Group has the right and intention to settle several derivatives net.

Fair value hedge
Changes in the fair value of derivatives designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability. Hedging of future cash flows relating to firm commitments are treated as fair value hedges.

Cash flow hedge
Where a derivative financial instrument is designated as a hedge of a highly probable forecasted transaction, the effective part of any gain or loss on it is recognised in other comprehensive income in the hedging reserve of equity. When the forecasted transaction is subsequently realised, the associated cumulative gain or loss is reclassified from other comprehensive income in the hedging reserve of equity to the income statement in the same period or periods during which the hedged forecasted transaction affects profit or loss. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income in the hedging reserve of equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is immediately recognised in the income statement.

Net investment hedge
Derivatives used to hedge net investments in foreign subsidiaries, associates or joint ventures are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain and loss relating to the ineffective portion is immediately recognised in the income statement.

Derivatives that do not qualify for hedge accounting
For derivatives that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as they occur.

Methods for determination of fair value – derivatives
The fair values of derivative instruments are based on their listed market price, if available, or estimated using appropriate market rates prevailing at the balance sheet date.

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The following categories of financial assets and liabilities are recognised in the balance sheet:

USD '000	2018	2017
Fin. assets at FV through P/L *)	391	4,311
Loans and receivables**)	51,148	71,653
Fin. liabilities - at FV through P/L *)	(2,341)	(1,288)
Fin. liabilities - at amortised cost**)	(223,651)	(226,375)

*) Figure includes financial derivatives designated for hedge accounting
**) Amounts recognised for financial asset and liabilities at amortised cost do not differ materially from their fair value.

Fair value hierarchy
All financial instruments are stated at fair value on the basis of observable market prices (Level 2), directly as prices or indirectly derived from prices.

ACCOUNTING POLICIES

Financial assets
Investments are classified in the following categories:

- Financial assets at fair value through profit or loss (financial derivatives)
- Loans and receivables

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments on initial recognition and re-evaluates this designation at every reporting date to the extent that such a designation is permitted and required. Financial assets classified at fair value through profit or loss is investments that are measured and reported at fair value in the internal management reporting.

Financial assets at fair value through profit or loss
Comprise financial derivatives on which hedge accounting is not applied and securities which is classified as such on initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in Trade receivables and Other receivables in the statement of financial position. Trade receivables and Other receivables are stated at amortised cost. Until 2018 the incurred loss model was used to measure Trade and other receivables. From 2018 Trade and other receivables are measured using the ECL method, and expected losses are recognised in the profit and loss.

Recognition and measurement of financial assets
Purchases and sales of investments are recognised on the settlement date. Investments are initially recognised at fair value plus transaction costs for all financial assets not classified as fair value through profit or loss.

Methods for determination of fair value

Listed shares: For listed shares the fair value is determined as the stock exchange closing price at the balance sheet date.

Bonds: The fair value of investments in bonds is based on the closing price at the balance sheet date obtained directly from the market or from third parties. The fair value of bond related products where an active and liquid market does not exist, is obtained by using discounted cash flow techniques and observable market data prevailing at the balance sheet dat

NOTE 4.6 EQUITY

The authorized and issued share capital of J. Lauritzen A/S amount to DKKm 460 (2017: DKKm 460) with 37 shares (2017: 37 shares) of DKK 50,000 or multiples of this.

	No. of shares		Nominal DKKm	
	2018	2017	**2018**	2017
1 January	37	36	460	450
Capital increase	-	1	-	10
31 December	**37**	**37**	**460**	**460**

Capital

J. Lauritzen A/S pursues a prudent dividend policy that secures the necessary liquidity and supports our ability to grow the business organically.

At the end of 2018 and 2017, no proposed dividends were included in retained earnings.

ACCOUNTING POLICIES

Proposed dividend is recognised as a separate item under equity until approved at the Annual General Meeting, where after it is recognised as a liability.

Section 5
Other notes

NOTE 5.1 ASSETS HELD FOR SALE

USD '000	2018	2017
Assets held for sale		
One gas carrier	923	-
Total assets held for sale	923	-

The vessel was sold with delivery to the new owner in January 2019.

ACCOUNTING POLICIES

Assets held for sale
Assets held for sale comprise non-current asset or disposal groups if its carrying amount will be recovered principally through a sale transaction within one year rather than through continuing use. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation and amortisation ceases when the assets are classified as held for sale.

Impairments arising from the first classification to assets held for sale and subsequent gains or losses on re-measurement to the lower of its carrying amount and fair value less costs to sell are recognised in the income statement and specified in the notes.

In the statement of financial position, non-current assets or assets and liabilities in a disposal group are presented separately from other assets and liabilities in the statement of financial position. Prior period comparative information is not re-presented. In the notes to the financial statements the major classes of assets and liabilities classified as held for sale are separately disclosed.

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

Assets held for sale: Whether or not a sale is highly probable within a year is based on managerial judgment.

NOTE 5.2 OTHER OPERATING LEASES

In 2014, J. Lauritzen A/S entered into a rental contract of offices from May 2015. The contract is not terminable until 2020.

USD '000	2018	2017
<1 year	976	976
1-5 years	325	1,301
> 5 years	-	-
Total	**1,301**	**2,277**

In 2018, operational lease of offices recognised in the income statement amounts to USDm (1.0) (2017: USDm (1.0)).

NOTE 5.3 CONTINGENT LIABILITIES

USDm	2018	2017
Guarantees towards insurance company	1	20
Guarantees for debt in former joint ventures	56	56

For guarantees and payment obligations relating to joint ventures, please refer to note 3.4.

Certain claims have been raised against the Group. The judgment of the management is that the outcome of these claims will not have any material impact on the Group's financial position.

J. Lauritzen A/S has issued certain guarantees in connection with sale of assets, which are not expected to have a material impact on the Group's financial position.

NOTE 5.4 TAX

USD '000	2018	2017
Tax in the Income Statement consists of:		
Current tax	808	(2,554)
Deferred tax	(1,900)	400
Income tax	(1,092)	(2,154)
Total	**(1,092)**	**(2,154)**
Tax on the profit is specified as follows:		
Calculated 22% of result before tax	5,110	9,516
Adjustment in foreign companies deviating from 22% tax	152	37
Tax effect of:		
Tonnage tax	(4,544)	(10,550)
Tax asset valuation adjustment	(1,900)	400
Non-taxable items	(245)	806
Adjustments previous year	335	(2,096)
Share of profit joint ventures	-	(267)
	(1,092)	**(2,154)**
Effective tax rate	**5%**	**5%**
Deferred tax on the Balance Sheet:		
Deferred tax 1 January	4,100	3,700
Tax on profit	(1,900)	400
Deferred tax 31 December	**2,200**	**4,100**
Deferred tax concerns:		
Taxable losses carried forward to be used within five years	2,200	4,100
	2,200	4,100
Unrecognised share of taxable losses carried forward	1,100	100

USD '000	2018	2017
Corporate tax (receivable)/payable can be specified as follows:		
Balance 1 January	504	(2,870)
Exchange rate adjustments	(10)	(353)
Paid during the year	(141)	1,174
Provision for the year	(473)	458
Adjustment to prior years	(335)	2,096
	(456)	**504**

Certain Group companies are jointly taxed with subsidiaries of the Lauritzen Foundation, the sole owner of J. Lauritzen A/S.

Provision for income tax for the year includes estimates of non-deductible finance expenses under the interest ceiling rules as well as estimates on the effect of joint taxation contribution.

In 2005, the Danish based companies of the Group entered the Danish tonnage taxation system, the adoption of which is binding until at least 2024. We do not expect to exit the tonnage taxation and thus no deferred tax provision has been made on the assets or liabilities effected by the Danish tonnage taxation system. If, however, the Danish Group companies were to leave the Danish tonnage taxation system there could be a deferred tax liability of up to a maximum of USDm 18.

ACCOUNTING POLICIES

Income tax

Income tax consists of tax calculated according to the regulations of the Danish Tonnage Tax Act for Danish based shipping activities and according to foreign tax regulations for foreign activities, as well as adjustments related to deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Corporate and deferred tax

Corporate tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, as well as any adjustment to tax payable in respect of previous years.

ACCOUNTING POLICIES (continued)

Deferred tax is calculated using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

The Group recognises deferred tax assets, including the expected tax value of tax loss carryforwards, if management assesses that these tax assets can be offset against positive taxable income in the foreseeable future. This judgment is made annually and based on budgets and business plans for the coming years, including planned initiatives.

NOTE 5.5 FEES TO AUDITORS

USD '000	2018	2017
Total fees to elected auditors	492	343
Specified as follows:		
Statutory audit	254	316
Tax advisory services	2	-
Fee for other services	236	27

NOTE 5.6 RELATED PARTIES

As owners of J. Lauritzen A/S, the Lauritzen Foundation and its affiliated companies, are related parties.

Other related parties with a significant influence on the activities of J. Lauritzen A/S is the company's Board of Directors and the Executive Management (key management personnel).

Finally, additional related parties comprise joint ventures companies (cf. note 3.3) in which the Group has a significant influence. Subsidiaries and joint ventures together with the shareholding are shown in the List of group companies.

Transactions with related parties comprised the following income/(expenses):

USD '000	2018	2017
Lauritzen Ship Owners:		
Bareboat hire	6,128	-
Management fee	8	350
LF Investment:		
Management fee	79	142
DFDS A/S		
Insurance refund	515	-
Joint ventures and associated companies:		
Management fee	1,065	911

Increase in share capital:
In 2017, Lauritzen Fonden, our sole shareholder, injected capital of USDm 80.

There have been no other material transactions with related parties other than those stated above.

Remuneration to key management personnel is disclosed in note 2.4.

NOTE 5.7 EVENTS AFTER THE BALANCE SHEET DATE

One 5,900 cbm gas carrier was sold with delivery to the new owner in January 2019.

An agreement was reached with Teekay, one of the world's largest energy transportation companies, for seven ethylene gas carriers owned by Teekay to enter Lauritzen Kosan's pool of ethylene carriers.

List of group *companies*

Company name	Country	Ownership %
Group operating entities (ship owning)		
J. Lauritzen A/S	Denmark	-
J. Lauritzen Singapore Pte. Ltd.	Singapore	100
Gasnaval S.A.	Spain	100
Other group operating entities		
J. Lauritzen S.A.	Switzerland	100
J. Lauritzen (USA) Inc.	USA	100
Joint-ventures (ship owning)		
Admiral Logistics Corporation	Panama	50
LKT Gas Carriers Pte. Ltd.	Singapore	50
Milau Pte. Ltd.	Singapore	50
Other operating interests		
De Forenede Sejlskibe I/S	Denmark	43
Dormant		
KRK 4 ApS	Denmark	100
Lauritzen Reefers A/S	Denmark	100

Parent company financial statements

Notes

Income statement

USD '000	Note	2018	2017
Revenue	2.1	541,385	526,189
Voyage related costs		(183,929)	(206,446)
T/C equivalent income		**357,455**	**319,743**
Other operating income		3,294	3,143
Hire of chartered vessels	2.3	(297,684)	(287,355)
Operating costs of vessels	2.4	(45,852)	(42,069)
Administrative costs	2.4	(28,109)	(29,882)
Operating income before depreciation (EBITDA) and special items		**(10,897)**	**(36,419)**
Profit/(loss) on sale of vessels and other assets		-	300
Depreciation	3.1	(17,928)	(18,071)
Operating income (EBIT) before special items		**(28,824)**	**(54,190)**
Special items, net	2.2	17,439	25,093
Operating income (EBIT) after special items		**(11,385)**	**(29,097)**
Financial income	4.3	1,605	4,877
Financial expenses	4.4	(15,713)	(16,282)
Profit/(loss) before tax		**(25,493)**	**(40,500)**
Income tax	5.3	(953)	(2,084)
Profit/(loss) for the year		**(26,446)**	**(42,584)**

Statement of comprehensive income

USD '000	Note	2018	2017
Profit/(loss) for the year		**(26,446)**	**(42,584)**
Items that can be reclassified subsequently to profit or loss:			
Other comprehensive income net of tax:			
Exchange differences on translating foreign operations		363	(629)
Fair value adjustment of hedging instruments during the year		287	1,489
Deferred gains/(loss) on hedging instruments transferred to financial expenses		412	1,074
Fair value adjustment of shares available for sale		-	(52)
Other comprehensive income net of tax		**1,063**	**1,883**
Total comprehensive income for the year		**(25,383)**	**(40,701)**

Balance sheet statement

USD '000	Note	2018	2017
ASSETS			
Vessels, property and equipment	3.1	223,709	229,877
Investments in subsidiaries	3.4	208,984	213,690
Investments in joint ventures	3.5	5,195	3,700
Deferred tax assets	5.3	2,200	4,100
Other receivables	4.5	520	542
Non-current assets		**440,607**	**451,909**
Bunkers		16,161	14,685
Trade receivables	4.5	4,554	6,657
Other receivables	3.7	9,129	1,561
Prepayments		6,293	7,015
Receivables from affiliated companies		1,879	2,301
Current tax receivables	5.3	570	-
Derivative financial instruments	4.5	391	4,311
Cash and cash equivalents		28,713	48,357
Current assets		**67,689**	**84,885**
Total assets		**508,296**	**536,795**

USD '000	Note	2018	2017
LIABILITIES			
Share capital		65,473	65,473
Retained earnings		161,663	188,858
Reserves		490	(573)
Equity	4.6	**227,626**	**253,758**
Non-current derivative financial instruments	4.5	290	477
Long-term borrowings	4.1	119,035	118,895
Non-current liabilities		**119,324**	**119,372**
Current portion of long-term borrowings	4.1	10,567	3,125
Trade payables		11,212	17,650
Other payables		6,279	8,839
Provisions	3.8	-	15,327
Debt to affiliated companies		131,236	117,528
Derivative financial instruments	4.5	2,051	811
Current tax payables	5.3	-	385
Current liabilities		**161,346**	**163,665**
Total liabilities		**280,670**	**283,037**
Total equity and liabilities		**508,296**	**536,795**

Cash flow statement

USD '000	Note	2018	2017
Operating income before special items		(28,824)	(54,190)
Depreciation carried back		17,928	18,070
Special items with cash flow effect		54	-
IFRS 15 adjustment in P/L carried back		(260)	-
(Profit)/loss on sale of vessels and other assets		-	(300)
Change in bunkers		(1,476)	(1,863)
Change in receivables		6,276	9,055
Change in payables		(6,089)	550
Cash flow from operations before financial items		(12,391)	(28,678)
Ingoing financial payments		(532)	(263)
Outgoing financial payments		(1,242)	(37,635)
Cash flow from ordinary operations		(14,165)	(66,576)
Paid corporate tax	5.3	-	1,245
Cash flow from operating activities		**(14,165)**	**(65,331)**
Investments in vessels	3.1	(10,120)	(7,594)
Sale of vessels		-	5,368
Sale of other non current assets		-	12
Increase of share capital in subsidiaries	3.4	-	(349)
Investments in joint ventures	3.5	(1,495)	(1,009)
Reversal of provisions related to joint ventures		321	-
Cash flow from investment activities		**(11,294)**	**(3,572)**
Financial receivables		(4)	(5)
Installment on long-term debt		(23,116)	(95,434)
Finance lease proceeds		29,815	-
Finance lease repayments		(822)	-
Increase in share capital		-	80,000
Cash flow from financing activities		**5,873**	**(15,439)**

USD '000	Note	2018	2017
Changes for the year in cash and cash equivalents		(19,585)	(84,341)
Cash and cash equivalents at beginning of year		48,357	132,367
Currency adjustments on cash and cash equivalents		(58)	331
Cash and cash equivalents at the end of the year		**28,713**	**48,357**

Equity statement

USD '000	Share capital	Hedging instruments	Shares available for sale	Translation gain/loss	**Reserves**	Retained earnings	**Total**
Equity 1/1 2018	65,473	(958)	(52)	437	(573)	188,858	253,758
Effect of change in accounting policies (implementing IFRS 15)	-	-	-	-	-	(749)	(749)
Profit/(loss) for the year	-	-	-	-	-	(26,446)	(26,446)
Other comprehensive income:							
Exchange differences on translating foreign operations	-	-	-	363	363	-	363
Deferred (gain)/loss on hedging instruments transferred to financial expenses	-	412	-	-	412	-	412
Fair value adjustment of hedging instruments during the period	-	287		-	287		287
Fair value adjustment of shares available for sale	-	-	-	-	-	-	-
Other comprehensive income	-	699	-	363	1,063	-	1,063
Total comprehensive income	-	**699**	-	**363**	**1,063**	**(26,446)**	**(25,384)**
Equity 31/12 2018	**65,473**	**(259)**	**(52)**	**801**	**490**	**161,663**	**227,625**
Equity 1/1 2017	63,864	(3,521)	-	1,066	(2,455)	153,051	214,460
Profit/(loss) for the year	-	-	-	-	-	(42,584)	(42,584)
Other comprehensive income:							
Exchange differences on translating foreign operations	-	-	-	(629)	(629)	-	(629)
Deferred (gain)/loss on hedging instruments transferred to financial expenses	-	1,074	-	-	1,074	-	1,074
Fair value adjustment of hedging instruments during the period	-	1,489		-	1,489	-	1,489
Fair value adjustment of shares available for sale	-	-	(52)	-	(52)	-	(52)
Total other comprehensive income	-	2,563	(52)	(629)	1,883	-	1,883
Total comprehensive income	-	**2,563**	**(52)**	**(629)**	**1,883**	**(42,584)**	**(40,701)**
Transactions with owners:							
Capital increase	1,609	-	-	-	-	78,391	80,000
Total transactions with owners	**1,609**	-	-	-	-	**78,391**	**80,000**
Equity 31/12 2017	**65,473**	**(958)**	**(52)**	**437**	**(573)**	**188,858**	**253,758**

Section 1
Basis for reporting

NOTE 1.1 GENERAL INFORMATION

The separate financial statements for the parent company form part of the Annual Report as required by the Danish Financial Statement Act.

NOTE 1.2 ACCOUNTING POLICIES

The accounting policies for the financial statements of the parent company are unchanged compared to last financial year and are the same as for the Group consolidated financial statements with the following additions. For a description of the accounting policies of the Group, please refer to the notes of the Group consolidated financial statements.

SUPPLEMENTARY ACCOUNTING POLICIES FOR THE PARENT COMPANY

Financial assets
Investments in subsidiaries, associates and joint ventures are recognised in the financial statement of the parent company at cost less accumulated impairment losses. Cost includes fair value of consideration paid plus directly attributable acquisition costs.

If there are indications of impairment, impairment test is performed as described in accounting policies to the consolidated financial statements.

In the income statement dividends received during the year from subsidiaries are shown under financial income. If the distribution from subsidiaries exceeds retained earnings, the distribution reduces the cost of the investment in subsidiaries when the distribution is characterised as repayment of the parent company's investment.

Tax
J. Lauritzen A/S is subject to the Danish tax regulations which means that by law it is taxed jointly with its parent company, the Lauritzen Foundation and all Danish subsidiaries under the Lauritzen Foundation.

J. Lauritzen A/S are subject to compulsory joint taxation with LF Investment ApS and DFDS A/S. LF Investment ApS is the administration company in the joint taxation and settles all payment of company tax with the authorities . Tax receivables and tax payables are recognised as current assets and current liabilities respectively. Outstanding tax contributions from other companies included in the joint taxation are recognised as receivable/debt from affiliated companies.

NOTE 1.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported performance. Management bases its estimates on historical experience and various other assumptions and sources that are considered reasonable. Actual results could differ from those estimates.

The critical accounting estimates and judgments described in the notes of the Group consolidated financial statement also apply for the financial statement of the parent company. In addition hereto material accounting estimates for the parent company comprise estimates included in impairment testing of investments and receivables in affiliated companies.

NOTE 1.4 NEW ACCOUNTING REGULATIONS FOR FUTURE IMPLEMENTATION

Reference is made to note 1.5 of the Group consolidated financial statements for disclosure of new accounting regulation.

The effect from IFRS 16 *Leases* is the same for the Parent company as for the Group.

Section 2
Operating activities

NOTE 2.1 REVENUES

The revenue reported represents revenue from external customers.

USD '000	2018	2017
Freight revenue	315,808	384,457
COA revenue	95,079	103,937
Time charter revenue	130,498	37,795
Total	**541,385**	526,189
Revenue per business unit		
Lauritzen Bulkers	453,596	456,585
Lauritzen Kosan	87,789	69,604
Total	**541,385**	526,189

NOTE 2.2 SPECIAL ITEMS

To increase the comparability of the operating activities, a number of one-off items have been recognised as special items:

USD '000	2018	2017
A) One-off revenue from sale of claims and claim settlements and termination of contracts	54	-
B) Sale of vessels as a consequence of counterparty defaults or strategic initiatives	419	-
B) Impairment losses/reversals on vessels	1,640	10,615
C) Provisions for onerous contracts	-	(15,914)
C) Use of provisions for onerous contracts	15,327	30,392
Special items, net	**17,439**	**25,093**

If special items had been included in the operating profit before special items, they would have been included in the Income Statement as follows:

INCOME STATEMENT - CONDENSED

USD '000	Ref.	2018	2017
Revenue	A)	541,438	526,189
Other operating income		3,294	3,143
Costs	C)	(540,248)	(550,684)
Operating income before depreciation (EBITDA)		**4,484**	**(21,352)**
Profit/(loss) on sale of assets		419	300
Depreciation and impairment losses	B)	(16,288)	(8,044)
Operating income		**(11,385)**	**(29,096)**
Financial items, net	D)	(14,108)	(11,405)
Profit/(loss) before tax		**(25,493)**	**(40,500)**
Income tax		(953)	(2,084)
Profit/(loss) from continuing operations		**(26,446)**	**(42,584)**

NOTE 2.3 OPERATING LEASING INCOME

At the balance sheet date J. Lauritzen A/S has the following contractually committed leasing income from time-charter contracts:

2018	USDm committed income	No. of vessels, full year equivalents
< 1 Year	5.9	11.1
1 - 2 Year	0.5	1.8
2 - 3 Year	-	-
3 - 4 Year	-	-
4 - 5 Year	-	-
> 5 Year	-	-
Total	**6.4**	-
2017		
< 1 Year	19.4	3.9
1 - 2 Year	-	-
2 - 3 Year	-	-
3 - 4 Year	-	-
4 - 5 Year	-	-
> 5 Year	-	-
Total	**19.4**	-

NOTE 2.4 STAFF COSTS, OFFICE & FLEET

USD '000	Staff costs onshore employees [1] 2018	2017	Staff costs, crew on vessels [2] 2018	2017	Total staff costs 2018	2017
Salaries	14,143	14,802	20,039	19,112	34,181	33,913
Pensions (defined contribution plan)	1,762	1,832	-	-	1,762	1,832
Social security	104	16	-	-	104	16
Contract labour	81	198	-	-	81	198
Total	**16,090**	**16,848**	**20,039**	**19,112**	**36,128**	**35,959**

1) Included in "Administrative costs"
2) Included in "Operating costs of vessels"

	Number of employees, onshore 2018	2017	Number of employees crew on vessels 2018	2017	Number of employees, total 2018	2017
Average number of employees	118	122	380	346	498	468
Number of employees at year end	119	117	381	340	500	457

USD '000	2018	2017
Remuneration to J. Lauritzen A/S'		
Executive Management - salaries	699	684
CEO Mads Peter Zacho	*699*	684
Executive Management - bonus	125	76
CEO Mads Peter Zacho	*125*	76
Board of Directors	479	426
	1,303	**1,186**

Remuneration to Executive Management consists of a fixed and variable compensation. No variable compensation has been paid in 2018 and 2017.

Section 3
Operating assets and liabilities

NOTE 3.1 VESSELS, PROPERTY & EQUIPMENT

USD '000

2018	Vessels	Vessels under construction	Machinery, tools and equipment	Total
Cost as at 1 January	554,507	-	9,497	564,005
Additions	10,120	-	-	10,120
Disposals	(403)	-	-	(403)
Cost as at 31 December	564,224	-	9,497	573,722
Depreciation and impairment losses as at 1 January	(326,029)	-	(8,099)	(334,128)
Depreciation	(17,928)	-	-	(17,928)
Reversal of impairment losses	1,640	-	-	1,640
Disposals	403	-	-	403
Depreciation and impairment losses as at 31 December	(341,914)	-	(8,099)	(350,013)
Balance as at 31 December	**222,310**	**-**	**1,398**	**223,709**
Hereof finance leased assets	18,023	-	-	18,023

Impairment test 2018

For Small Bulk Carriers, the impairment test at year end 2018, resulted in book values being supported by either broker values or value in use of the vessels.

For Fully-pressurised Gas Carriers the impairment test resulted in a reversal of impairments of USDm 1.6 due to book values being exceeded by both broker values and value in use of the vessels.

For Other Gas Carriers the book values are supported by either broker values og value in use.

2017	Vessels	Vessels under construction	Machinery, tools and equipment	Total
Cost as at 1 January	577,029	24,340	9,497	610,867
Additions	7,594	-	-	7,594
Disposals	(30,116)	(24,340)	-	(54,456)
Transferred to assets held for sale (note 5.1)	-	-	-	-
Cost as at 31 December	554,507	-	9,497	564,005
Depreciation and impairment losses as at 1 January	(344,413)	(24,340)	(7,295)	(376,048)
Depreciation	(17,268)	-	(804)	(18,071)
Reversal of impairment losses	10,615	-	-	10,615
Disposals	25,037	24,340	-	49,377
Depreciation and impairment losses as at 31 December	(326,029)	-	(8,099)	(334,128)
Balance as at 31 December	**228,479**	**-**	**1,398**	**229,877**

NOTE 3.2 OPERATING LEASING OF VESSELS

At the balance sheet date, J. Lauritzen A/S has the following operational lease obligations from time-charter and bareboat contracts:

2018	USDm committed obligation	No. of vessels, full year equivalents
< 1 Year	125.9	33.6
1 - 2 Year	92.2	24.4
2 - 3 Year	66.4	17.3
3 - 4 Year	56.0	12.8
4 - 5 Year	47.5	10.8
> 5 Year	27.8	6.2
Total	**415.8**	-
2017		
< 1 Year	115.7	29.3
1 - 2 Year	87.3	22.4
2 - 3 Year	67.1	16.1
3 - 4 Year	56.5	13.1
4 - 5 Year	55.7	12.8
> 5 Year	79.3	18.1
Total	**461.7**	-

NOTE 3.3 FINANCE LEASING OF VESSELS

During 2018 the parent company has entered into sale and lease back contracts for four gas carriers. The contracts are considered as financial leases. At the end for the lease period, the owner of the vessels has a put-option to sell the vessels back to J. Lauritzen.

USDm

2018	Minimum lease payments	Interest	Present value of minimum lease payments
< 1 Year	7,585	2,979	4,605
1 - 5 Year	29,618	5,880	23,737
> 5 Year	-	-	-
Total	**37,202**	**8,860**	**28,343**

There were no finance lease agreements in 2017.

NOTE 3.4 INVESTMENT IN SUBSIDIARIES

	Ownership 2018	2017
Lauritzen Reefers A/S, Denmark	100%	100%
J. Lauritzen Singapore Pte., Singapore	100%	100%
Lauritzen Kosan Manila ROHQ	100%	100%
KRK 4 ApS, Denmark	100%	100%
J. Lauritzen Shanghai Co. Ltd., China	0%	100%
Gasnaval S.A., Spain	100%	100%
J. Lauritzen (USA) Inc., USA	100%	100%
J. Lauritzen S.A., Switzerland (in liquidation)	100%	100%

USD '000	2018	2017
Cost as at 1 January	340,874	340,525
Additions during the year	-	349
Disposal during the year	(719)	-
Cost as at 31 December	340,155	340,874
Accumulated impairment losses at 1 Jan	(127,185)	(126,422)
Revaluations during the year	(4,706)	(763)
Disposal during the year	719	-
Revaluation as at 31 December	(131,172)	(127,185)
Balance as at 31 December	**208,984**	**213,690**

Vessels and other assets and liabilities in subsidiaries have been recognised in accordance with the company's accounting principles including principles for impairment testing. Consequently the cost price after impairment losses is accounted for in the equity.

NOTE 3.5 INVESTMENT IN JOINT VENTURES

USD '000	2018	2017
Cost as at 1 January	3,700	2,692
Additions during the year	1,495	1,009
Disposal during the year	-	-
Cost as at 31 December	5,195	3,700
Balance as at 31 December	**5,195**	**3,700**

Assets in joint ventures consist of vessels which have been recognised and impairment tested in accordance with the company's principles for impairment testing. Consequently the cost price after impairment losses is in line with the equity value.

Key figures for joint ventures, in total:

USD '000	2018	2017
Revenue	983	-
Net profit	(224)	-
Assets	26,168	3,700
Liabilities	25,395	-

Guarantees and payment obligations relating to joint ventures:

USDm	2018	2017
Max. obligations to pay in capital into joint ventures	-	3

NOTE 3.6 WORKING CAPITAL

USD '000	2018	2017
Bunkers	16,161	14,685
Trade receivables	4,554	6,657
Other receivables	9,129	1,561
Prepayments	6,293	7,015
Total working capital assets	36,136	29,918
Trade payables	11,212	17,650
Other payables	5,201	7,893
Total working capital liabilities	16,413	25,543
Net working capital	**19,723**	**4,374**

NOTE 3.7 OTHER RECEIVABLES

USD '000	2018	2017
Working capital receivables:		
Pool receivables	8,078	309
Other short term receivables	1,050	1,252
Total other receivables	**9,129**	**1,561**

NOTE 3.8 PROVISIONS

USD '000	2018	2017
Provisions as at 1 January	15,327	34,670
Additions, included in special items	-	15,914
Used during the year included in special items	(15,327)	(30,392)
Used during the year, other	-	(4,865)
Provisions as at 31 December	**-**	**15,327**
Hereof:		
Current liabilities	-	15,327
Provisions as at 31 December	**-**	**15,327**

The provisions refer primarily to onerous long-term time-charters.

Section 4
Capital structure and financing

NOTE 4.1 LONG-TERM BORROWINGS

	2018			
USD '000	<1 year	1-5 year	> 5 year	Total
Mortgages on vessels *)	(5,962)	(94,647)	-	(100,609)
Financial leasing	(4,605)	(23,791)	(597)	(28,993)
Total long-term borrowings	**(10,567)**	**(118,438)**	**(597)**	**(129,602)**

	2017			
USD '000	<1 year	1-5 year	> 5 year	Total
Mortgages on vessels *)	(3,125)	(108,036)	(10,859)	(122,020)
Total long-term borrowings	**(3,125)**	**(108,036)**	**(10,859)**	**(122,020)**

**) Please refer to note 4.1 in the Consolidated Financial Statements for a description of financial covenants, capital structure and refinancing.*

USD '000	Currency	Fixed/ Variable	Interest rate fixation	Average effective interest rate, excl. hedging	Average effective interest rate incl. hedging	Book value
2018						
Bank debt:						
Mortgages on vessels	USD	Variable	3-6 months	4.90%	5.13%	(73,868)
Mortgages on vessels	JPY	Variable	6 months	2.07%	2.71%	(26,741)
				3.82%	4.44%	(100,609)
Other financing:						
Finance leasing	USD	Fixed	0-60 months	11.06%	N/A	(28,993)
Total						**(129,602)**
2017						
Mortgages on vessels	USD	Variable	3-6 month	4.12%	4.32%	(95,972)
Mortgages on vessels	JPY	Variable	6 month	2.07%	2.85%	(26,048)
Total				**3.82%**	**4.11%**	**(122,020)**

NOTE 4.1 LONG-TERM BORROWINGS (continued)

Currency exposure on non-USD long-term borrowings, net of hedging:

	2018			2017		
USD '000	Book value	Currency hedging derivatives	Net currency exposure on loan	Book value	Currency hedging derivatives	Net currency exposure on loan
JPY	(26,741)	27,000	259	(26,048)	27,000	952
Total	**(26,741)**	**27,000**	**259**	**(26,048)**	**27,000**	**952**

Interest exposure on long-term borrowings to floating interest rates:

USD '000	2018	2017
Total long-term borrowings (including current portion)	(100,609)	(122,020)
Hereof amortised formation costs	3,678	4,800
Floating interest borrowings	(104,287)	(126,820)
Interest rate swaps floating to fixed at year end, nominal	103,512	143,739
Exposure to floating interest rates at year end	**(775)**	**16,918**

Changes in liabilities arising from financing activities

USD '000 **2018**	Mortage on vessels	Finance lease of vessels	Corporate bonds	Total liabilities from financing activities
Book value 1 of January	122,020	-	-	122,020
Repayment (Cash flow)	(23,116)	(822)	-	(23,939)
Proceeds (Cash flow)	-	29,815	-	29,815
Foreign exchange movement	584	-	-	584
Amortised formation costs	1,122	-	-	1,122
Balance as at 31 December	**100,609**	**28,993**	**-**	**129,602**

USD '000 **2017**	Mortage on vessels	Corporate bonds	Total liabilities from financing activities
Book value 1 of January	158,894	51,531	210,425
Repayment (Cash flow)	(39,439)	(55,995)	(95,434)
Foreign exchange movement	1,599	4,138	5,737
Amortised formation costs	966	326	1,292
Balance as at 31 December	**122,020**	**-**	**122,020**

NOTE 4.2 MORTGAGES

USD '000	2018	2017
Debt for a total of	100,609	122,020
is secured by mortgages on assets at the following book values:		
Vessels	222,310	228,479

NOTE 4.3 FINANCIAL INCOME

USD '000	2018	2017
Interest income, bank deposits	639	991
Other financial income	645	789
Financial instruments at FV through P&L, net	-	3,096
Reversal of impairment on Joint ventures	321	-
Financial income	**1,605**	**4,877**

NOTE 4.4 FINANCIAL EXPENSES

USD '000	2018	2017
Interest expenses on loans	(6,831)	(13,456)
Finance lease interest	(143)	-
Interest on debt to subsidiaries	(1,171)	(1,254)
Other financial expenses	(304)	(417)
Currency exchange gains and losses, net	(462)	(392)
Financial instruments at FV through P&L, net	(2,096)	-
Impairment subsidiaries	(4,706)	(763)
Financial expenses	**(15,713)**	**(16,282)**

NOTE 4.5 FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Financial risk for J. Lauritzen A/S relate to:

Liquidity risk	The risk that J. Lauritzen is not able to meet its future cash flow needs
Market risk	The risk of losses in financial positions arising from movements in market prices to which J. Lauritzen is exposed
Credit risk	The risk of incurring a financial loss if a customer or counterparty fails to fulfill its contractual obligations

Financial risk is regularly assessed and prioritised based on how likely it is to occur and its potential impact. As defined by the Board of Directors, overall policies and objectives for financial risks were generally unchanged from 2017. For a description of financial risk and how it is managed reference is made to note 4.5 of to the consolidated financial statements.

LIQUIDITY RISK

Liquidity risk relates to the risk that J. Lauritzen will not be able to fulfill its financial obligations as they fall due. Below is a maturity analysis of financial liabilities at year-end 2018:

USD '000

2018	Carrying amount	Contractual cash flows	< 1 year	1-5 years	> 5 years
Interest-bearing debt *)	(129,602)	(153,961)	(19,005)	(134,326)	(630)
Trade and other payables	(17,491)	(17,491)	(17,491)	-	-
Debt to affiliates	(131,236)	(131,236)	(131,236)	-	-
Derivatives, liabilities at fair value	(2,342)	(2,342)	(2,051)	(291)	0
Total at 31 December 2018	**(280,672)**	**(305,030)**	**(169,783)**	**(134,617)**	**(630)**

2017					
Interest bearing debt *)	(122,020)	(144,710)	(9,298)	(124,054)	(11,358)
Trade and other payables	(26,489)	(26,489)	(26,489)	-	-
Debt to affiliates	(117,528)	(117,528)	(117,528)	-	-
Derivatives, liabilities at fair value	(1,289)	(1,289)	(811)	(469)	(9)
Total at 31 December 2017	**(267,326)**	**(290,016)**	**(154,126)**	**(124,523)**	**(11,367)**

*) Contractual cash flows include undiscounted interest payments based on interest levels at year-end.

MARKET RISK

Market risk is risk of losses on financial positions arising from movements in market prices to which J. Lauritzen A/S is exposed through financial instruments. The sensitivity analysis of J. Lauritzen A/S's exposure to market risk is disclosed below.

Sensitivity information is calculated at balance sheet date and comprises only sensitivity relating to financial instruments, therefore the amounts disclosed do not necessarily give a complete picture of the Parent Company's risk relating to changes in currency rates and interest rates.

Currency risk

To measure currency risk in accordance with IFRS 7, sensitivity is calculated as the change in fair value of future cash flows from financial instruments as a result of fluctuations in exchange rates on balance sheet date. Other things being equal and after tax, sensitivity to fluctuations in non-USD currencies at balance sheet date based on a 10% decrease in currency translation rates against USD (assuming 100% effectiveness) would result in a net profit/loss of USDm (1.9) (2017: USDm (2.0)) and affect equity by USDm (1.9) (2017: USDm (2.0)). The effect of a 10% increase in the currency translation rates against USD would have a corresponding inverse effect.

Interest rate risk

Sensitivity of interest fluctuations is calculated as the hypothetic effect on net profit and equity as a result of fluctuations in interest rates at balance sheet date.

The sensitivity analysis includes financial instruments recognised at fair value for which the calculated effect on equity represents an immediate fair value change from a thought change in interest rates and financial instruments with variable interest recognised at amortised costs for which the calculated effect represents a one year effect on net profit and equity based on balances at year-end.

Assumptions for the sensitivity analysis:

- All hedging instruments are assumed 100% effective.
- Changes in interest rates are global and thus the impact on the fair value of forward currency contracts and similar derivatives is not considered.
- Shares available for sale and shares at fair value through profit or loss are not included in sensitivity calculations due to inability to reliably measure the sensitivity of share prices to interest rate changes.

On financial instruments at fair value, the calculated effect after tax based on a 1% interest rate increase would affect profit/loss by USDm 1.0 (2017: USDm 1.1)) and equity by USDm 1.5 (2017:

USDm 2.3). On financial instruments with variable interest recognised at amortised costs, profit/loss and equity would be affected by USDm (0.7) (2017: USDm (0.7)).

A 1% interest rate decrease would as a maximum have a corresponding inverse effect.

CREDIT RISK

Credit risk is the risk of incurring a financial loss if a customer or counterparty fails to fulfill its contractual obligations.

In 2018 and 2017 no provisions were made for losses on trade receivables. The Parent Company did not have any further overdue trade receivables (2017: USD nil).

At year-end 2018, the majority of our financial counterparties had credit ratings of or above Baa2.

J. Lauritzen A/S's exposure to credit risks at balance sheet date can be illustrated as follows:

The maximum credit risk corresponds to the carrying value of the individual assets.

Our policy is to use derivative financial instruments to hedge financial risks. At year end the Company held the following derivatives:

USD '000	**2018**	2017
Other long-term receivables	520	542
Trade receivables	4,554	6,657
Financial derivatives	391	4,311
Other short-term receivables	11,007	3,861
Cash and bank deposits	28,713	48,357
Maximum credit risk	**45,184**	**63,727**

DERIVATIVE FINANCIAL INSTRUMENTS

Our policy is to use derivative financial instruments to hedge financial risks. At year end the Company held the following derivatives:

USDm		2018				2017			
	Cash flow / Fair value hedge	Nominal, USDm	Duration, month	Recognised on equity	Fair value	Nominal, USDm	Duration, month	Recognised on equity	Fair value
Hedge accounting applied:									
Interest rate swaps	Cash flow	77.7	14-59	(0.3)	(0.4)	71.4	26-72	(1.1)	(1.2)
Terminated interest rate swaps	Cash flow	N/A	N/A	0.1	N/A	N/A	N/A	0.1	N/A
Total				**(0.3)**	**(0.4)**			**(1.0)**	**(1.2)**
Hedge accounting not applied:									
Currency: USD/EUR	N/A	3.4	0-8	-	(0.1)	-		-	-
Currency: USD/DKK	N/A	21.1	0-9	-	(0.7)	22.5	1-12	-	1.1
Currency: USD/JPY	N/A	27.0	0-1	-	0.3	27.0	1-9	-	0.4
Interest rate swaps	N/A	25.8	-	-	0.0	72.3	4	-	(0.0)
FFA's and oil contracts	N/A	N/A	1-12	-	(1.0)	N/A	0	-	2.8
Total				-	**(1.5)**			-	**4.3**
Total derivative financial instruments					**(1.9)**				**3.0**
Presented in the financial statement as:									
Derivative financial instruments, assets					0.4				4.3
Non-current derivative financial instr., liabilities					(0.3)				(0.5)
Derivative financial instruments, liabilities					(2.1)				(0.8)

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The following categories of financial assets and liabilities are recognised in the balance sheet:

USD '000	2018	2017
Fin. assets at FV through P/L *)	391	4,311
Loans and receivables**)	44,793	59,417
Fin. liabilities - at FV through P/L *)	(2,341)	(1,288)
Fin. liabilities - at amortised cost**)	(278,329)	(266,037)

**) Figure includes financial derivatives designated for hedge accounting*

***) Amounts recognised for financial asset and liabilities at amortised cost do not differ materially from their fair value*

Fair value hierarchy

All financial instruments are stated at fair value on the basis of observable market prices (Level 2), directly as prices or indirectly derived from prices.

NOTE 4.6 EQUITY

Composition of share capital and dividends are disclosed in note 4.6 in the consolidated statements.

Section 5
Other notes

NOTE 5.1 OTHER OPERATING LEASES

In 2014, J. Lauritzen has entered into a rental contract of offices from May 2015. The contract is not terminable until 2020.

USD '000	2018	2017
<1 year	976	976
1-5 years	325	1,301
> 5 years	-	-
Total	**1,301**	**2,277**

In 2018, operational lease of offices recognised in the income statement amounts to USDm (1.0) (2017: USDm (1.0)).

NOTE 5.2 CONTINGENT LIABILITIES

USDm	2018	2017
Guarantees for debt in subsidiaries	76	77
Guarantees for debt in former joint ventures	56	56
Guarantees towards insurance company	1	20

For guarantees and payment obligations relating to joint ventures, please refer to note 3.4.

Certain claims have been raised against J. Lauritzen A/S. The judgment of the management is that the outcome of these claims will not have any material impact on the financial position.

J. Lauritzen A/S has issued certain guarantees in connection with sale of assets, which are not expected to have a material impact on the financial position.

NOTE 5.3 TAX

USD '000	2018	2017
Tax in the Income Statement consists of:		
Current tax	947	(2,484)
Deferred tax	(1,900)	400
Income tax	**(953)**	**(2,084)**
Tax on the profit is specified as follows:		
Calculated 22% of result before tax	5,609	8,910
Tax effect of:		
Tonnage tax	(3,982)	(9,084)
Tax asset valuation adjustment	(1,900)	400
Non-taxable items	(1,057)	(211)
Adjustments previous year	377	(2,099)
	(953)	**(2,084)**
Effective tax rate	**4%**	**5%**
Deferred tax on the Balance Sheet:		
Deferred tax 1 January	4,100	3,700
Tax on profit	(1,900)	400
Deferred tax 31 December	**2,200**	**4,100**
Deferred tax concerns:		
Taxable losses carried forward to be used within five years	2,200	4,100
	2,200	4,100
Unrecognised share of taxable losses carried forward	1,100	100
Corporate tax (receivable)/payable can be specified as follows:		
Balance 1 January	385	(2,984)
Exchange rate adjustments	(8)	(360)
Paid during the year	-	1,245
Provision for the year	(570)	385
Adjustment to prior years	(377)	2,099
	(570)	**385**

J. Lauritzen is subject to Danish tax regulations which means that by law it is taxed jointly with all Danish subsidiaries under the Lauritzen Foundation.

Provision for income tax for the year includes estimates of non-deductible finance expenses under the interest ceiling rules as well as estimates on the effect of joint taxation contribution.

In 2005 the Danish based companies of the JL Group entered the Danish tonnage taxation system, the adoption of which is binding until at least 2024. JL does not expect to exit the tonnage taxation and thus no deferred tax provision has been made on the assets or liabilities effected by the Danish tonnage taxation system. If, however, J. Lauritzen were to leave the Danish tonnage taxation system there could be a deferred tax liability of up to a maximum of USDm 18.

NOTE 5.4 FEES TO AUDITORS

USD '000	2018	2017
Total fees to elected auditors	403	270
Specified as follows:		
Statutory audit	176	243
Tax advisory services	2	-
Fee for other services	225	27

NOTE 5.5 RELATED PARTIES

As owners of J. Lauritzen A/S, the Lauritzen Foundation and its affilliated companies, are related parties.

Other related parties with a significant influence on the activities of J. Lauritzen A/S is the company's Board of Directors and the Executive Management (key management personnel).

Finally, additional related parties comprise joint ventures companies (cf. note 3.4) in which J. Lauritzen has a significant influence. Subsidiaries and joint ventures together with J. Lauritzen's shareholding are shown in the List of group companies.

Transactions with related parties comprised the following income/(expenses):

USD '000	2018	2017
Lauritzen Ship Owners:		
Bareboat hire	6,128	-
Management fee	8	350
LF Investment:		
Management fee	79	142
DFDS A/S:		
Insurance refund	515	-
Group companies:		
Management fee, income/(expenses)	(2,420)	(3,173)
Guarantee commission income/(expenses)	645	789
TC income/(expenses)	(7,231)	(9,028)
Internal interests income/(expenses)	(1,171)	(1,254)
Joint ventures and associated companies:		
Management fee	1,065	875

Increase in share capital
In 2017 Lauritzen Fonden, our sole shareholder injected capital of USDm 80.

There have been no other material transactions with related parties other than those stated above.

Remuneration to key management personnel is disclosed in note 2.4.

NOTE 5.6 EVENTS AFTER THE BALANCE SHEET DATE

Please refer to note 5.7 in the consolidated statements.

FINANCIAL YEAR
1 January - 31 December

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