
Dannebrog Rederi A/S

Rungsted Strandvej 113, DK-2960 Rungsted Kyst

Annual Report for 1 January - 31 December 2018

CVR No 67 78 40 14

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
29/4 2019

Rasmus Lund-Jacobsen
Chairman of the General
Meeting



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Management's Statement

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

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

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

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

Rungsted, 29 April 2019

Executive Board

Rasmus Lund-Jacobsen

Board of Directors

Johan Ernst Wedell-Wedellsborg
Chairman

Rasmus Lund-Jacobsen

Oluf Myhrmann

Independent Auditor's Report

To the Shareholder of Dannebrog Rederi A/S

Opinion

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

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

Basis for opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Hellerup, 29 April 2019

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Flemming Eghoff
State Authorised Public Accountant
mne30221

Mark Philip Beer
State Authorised Public Accountant
mne29472

Company Information

The Company

Dannebrog Rederi A/S
Rungsted Strandvej 113
DK-2960 Rungsted Kyst

Telephone: + 45 + 45 45 17 77 77

CVR No: 67 78 40 14

Financial period: 1 January - 31 December

Municipality of reg. office: Hørsholm

Board of Directors

Johan Ernst Wedell-Wedellsborg, Chairman
Rasmus Lund-Jacobsen
Oluf Myhrmann

Executive Board

Rasmus Lund-Jacobsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2018	2017	2016	2015	2014
	USD '000	USD '000	USD '000	USD '000	USD '000
Key figures					
Profit/loss					
Revenue	18,361	23,308	33,912	26,271	10,854
Gross profit/loss	-4,411	-2,674	64	8,616	4,373
Profit/loss before financial income and expenses	-4,418	-2,690	-7,630	2,633	-739
Net financials	-3,947	-2,070	449	36,064	6,719
Net profit/loss for the year	-8,280	-4,751	-7,227	38,780	5,949
Balance sheet					
Balance sheet total	14,266	18,344	90,335	103,726	68,272
Equity	1,403	9,696	84,447	91,537	53,868
Investment in property, plant and equipment	0	0	0	0	-1,721
Number of employees	0	0	0	15	14
Ratios					
Profit margin	-24.1%	-11.5%	-22.5%	10.0%	-6.8%
Solvency ratio	9.8%	52.9%	93.5%	88.2%	78.9%
Return on equity	-149.2%	-10.1%	-8.2%	53.3%	11.1%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Main activity

The primary activity of Dannebrog Rederi A/S is to act as a tonnage provider of modern and specialized Handy and Medium Range tanker vessels to its charterers.

Development in the year

The income statement of the Company for 2018 shows a loss of t.USD 8,280, and at 31 December 2018 the balance sheet of the Company shows equity of t.USD 1,403.

The year was characterized by a tanker market which deteriorated during the year.

The past year and follow-up on development expectations from last year

As expected, and expressed in the 2017 report, the excess supply of tanker vessels resulted in a continued worsening of the freight rates in the tanker market. Management decided mid-2018 to re-let two long-term chartered MR vessels to other tanker operators in the industry. The charter rates in these two re-let TC contracts, although better than the spot market, were below the original charter rates owed to owners. The company have hence made a provision for loss giving MR vessel TC contracts in 2019, which effect the 2018 result negatively.

Market risks

Revenues from the shipping operations are linked to global market trends, which through demand fluctuations affect freight rates as well as prices of e.g. tonnage and fuel.

International provisions imply that in case of a maritime accident that results in oil or chemical spillage, the Group will be imposed heavy financial liabilities in terms of the clean-up work. To reduce this risk, the widest possible insurance coverage has been taken out, comprising environmental and pollution coverage, coverage of the value of vessel and cargo, liability coverage as regards third parties and war risk insurance.

Foreign exchange risks

The income from shipping activities is in USD, and hence no currency risk for Dannebrog reporting in USD.

Targets and expectations for the year ahead

After two years of declining freight rates in the tanker market, management sees a better supply and demand balance in the industry, and expects freight rates to strengthen during the year. Having re-let the two MR vessels on long-term TC contracts in 2018, the result in 2019 will primarily be borne by owned tonnage, which will reduce the average vessel cost and also contribute towards a better result in 2019.

Management's Review

Research and development

The shipping company is not involved in research and development activities.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

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

Income Statement 1 January - 31 December

	Note	2018 USD '000	2017 USD '000
Revenue		18,361	23,308
Other operating income		359	47
Vessel operating costs		-21,738	-25,305
Other external expenses		-1,393	-724
Gross profit/loss		-4,411	-2,674
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-7	-16
Profit/loss before financial income and expenses		-4,418	-2,690
Income from investments in group enterprises	3	-3,070	-2,166
Income from investments in associates	4	-638	-411
Financial income	5	36	978
Financial expenses	6	-275	-471
Profit/loss before tax		-8,365	-4,760
Tax on profit/loss for the year	7	85	9
Net profit/loss for the year		-8,280	-4,751

Balance Sheet 31 December

Assets

	Note	2018 USD '000	2017 USD '000
Other fixtures and fittings, tools and equipment		0	7
Property, plant and equipment	8	0	7
Investments in group enterprises	9	131	3,251
Investments in associates	10	11,100	11,107
Fixed asset investments		11,231	14,358
Fixed assets		11,231	14,365
Trade receivables		116	814
Receivables from group enterprises		455	0
Other receivables		38	1,426
Corporation tax		0	35
Prepayments	11	566	33
Receivables		1,175	2,308
Cash at bank and in hand		1,860	1,671
Currents assets		3,035	3,979
Assets		14,266	18,344

Balance Sheet 31 December

Liabilities and equity

	Note	2018 USD '000	2017 USD '000
Share capital		12,675	12,675
Retained earnings		-11,272	-2,979
Equity		1,403	9,696
Trade payables		6	1
Payables to group enterprises		11,694	8,418
Other payables		1,040	66
Deferred income	13	123	163
Short-term debt		12,863	8,648
Debt		12,863	8,648
Liabilities and equity		14,266	18,344
Going concern	1		
Distribution of profit	12		
Contingent assets, liabilities and other financial obligations	14		
Related parties	15		
Accounting Policies	16		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	USD '000	USD '000	USD '000
Equity at 1 January	12,675	-2,979	9,696
Exchange adjustments relating to foreign entities	0	-13	-13
Net profit/loss for the year	0	-8,280	-8,280
Equity at 31 December	12,675	-11,272	1,403

Notes to the Financial Statements

1 Going concern

The Company has lost more than 50% of the nominal share capital. Management has complied with section 119 of the Danish Companies Act. Management expects to re-establish nominal share capital, with a profit expected for 2019. In addition, the Company's Parent Company have committed financial support, which are valid until 31 December 2019. The financial Statements are therefore presented on a going concern assumption.

	2018 USD '000	2017 USD '000
2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Depreciation of property, plant and equipment	7	16
	7	16

3 Income from investments in group enterprises

Share of profits / losses of subsidiaries	-3,070	-1,259
Loss from sale of investment	0	-907
	-3,070	-2,166

4 Income from investments in associates

Share of profits / losses of associates	-638	-417
Profit from sales of investments	0	6
	-638	-411

5 Financial income

Interest received from group enterprises	6	781
Other financial income	16	12
Exchange adjustments	14	185
	36	978

Notes to the Financial Statements

	2018 USD '000	2017 USD '000
6 Financial expenses		
Interest paid to group enterprises	271	464
Other financial expenses	4	7
	275	471
7 Tax on profit/loss for the year		
Current tax for the year	-120	-9
Adjustment of tax previous years	35	0
	-85	-9
8 Property, plant and equipment		
		Other fixtures and fittings, tools and equipment USD '000
Cost at 1 January		570
Cost at 31 December		570
Impairment losses and depreciation at 1 January		563
Depreciation for the year		7
Impairment losses and depreciation at 31 December		570
Carrying amount at 31 December		0
Depreciated over		3 - 10 years

Notes to the Financial Statements

	2018 USD '000	2017 USD '000
9 Investments in group enterprises		
Cost at 1 January	26,678	26,678
Disposals for the year	-12,145	0
Cost at 31 December	14,533	26,678
Value adjustments at 1 January	-23,427	-22,190
Disposals for the year	12,104	0
Exchange adjustment	-9	22
Net profit/loss for the year	-3,070	-1,259
Value adjustments at 31 December	-14,402	-23,427
Carrying amount at 31 December	131	3,251

Investments in group enterprises are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Borgship I ApS	Hørsholm (Danmark)	DKK 250.000	100%
Borgship V	Hørsholm (Danmark)	DKK 6.885.000	69%
Borgship Tankers Inc.	Houston (USA)	USD 1,000	100%
Weco Marine Services Ltd.	Polen	PLN 50.000	100%

Notes to the Financial Statements

	2018 USD '000	2017 USD '000
10 Investments in associates		
Cost at 1 January	15,390	7,314
Additions for the year	635	8,076
Cost at 31 December	16,025	15,390
Value adjustments at 1 January	-4,283	-2,887
Disposals for the year	0	-969
Exchange adjustment	-2	-15
Net profit/loss for the year	-638	-417
Other equity movements, net	-2	5
Value adjustments at 31 December	-4,925	-4,283
Carrying amount at 31 December	11,100	11,107

Investments in associates are specified as follows:

Name	Place of registered office	Share capital DKK	Votes and ownership
Kronborg Shipping K/S	Hørsholm (Danmark)	40.000.000	72%
Kronborg Management ApS	Hørsholm (Danmark)	1.000.000	72%
Stenwec I P/S	København (Danmark)	500.000	50%
Komplementarselskabet Stenwec ApS	København (Danmark)	50.000	50%

All foreign associates are recognised and measured as separate entities.

11 Prepayments

Prepayments comprise prepaid expenses concerning future financial years.

Notes to the Financial Statements

	2018 USD '000	2017 USD '000
12 Distribution of profit		
Retained earnings	-8,280	-4,751
	-8,280	-4,751

13 Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

14 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	0	18
Between 1 and 5 years	0	2
	0	20

Guarantee obligations

The Company's contractual obligations relating to short-term chartering of vessels total tUSD 21,419 (2017: tUSD 42,955).

Other contingent liabilities

There is a residual liability corresponding to the Company's share of the non-paid capital totalling USD 1.9 million tied to the investment in Kronborg Shipping K/S.

At the withdrawal from the tonnage tax regime, a tax liability totalling USD 7.9 million is incumbent on the Company.

The Danish Group companies are jointly and severally liable for the tax on the Group's jointly taxed income.

Notes to the Financial Statements

15 Related parties

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company:

Name	Place of registered office
Weco A/S	Hørsholm

Notes to the Financial Statements

16 Accounting Policies

The Annual Report of Dannebrog Rederi A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

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

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Weco A/S, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Weco A/S, the Company has not prepared a cash flow statement.

Recognition and measurement

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

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

Liabilities are recognised in the balance sheet when the value of the liability can be measured reliably.

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

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

Leases

All leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements

16 Accounting Policies (continued)

Translation policies

USD is used as the presentation currency. All other currencies are regarded as foreign currencies.

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

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Income Statement

Revenue

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

Vessel operating costs

Vessel operating costs comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises as well as office expenses, etc.

Staff expenses

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

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of property, plant and equipment together with gains and losses on the sale of property, plant and equipment.

Notes to the Financial Statements

16 Accounting Policies (continued)

Other operating income and expenses

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

Income from investments in subsidiaries and associates

The items “Income from investments in group enterprises” and “Income from investments in associates” in the income statement include the proportionate share of the profit for the year.

Financial income and expenses

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

Tax on profit/loss for the year

The Company is comprised by the tonnage tax regime. No provision is made for deferred tax since no deferred tax is expected to arise under the tonnage tax regime.

The Company is jointly taxed with Weco A/S. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Property, plant and equipment

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

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

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

Other fixtures and fittings, tools and equipment	3-10 years
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Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

16 Accounting Policies (continued)

Impairment of fixed assets

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

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method.

The items “Investments in group enterprises” and “Investments in associates” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to “Reserve for net revaluation under the equity method” under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries and the associates.

Subsidiaries and associates with a negative net asset value are recognised at USD 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

Prepayments comprise prepaid expenses concerning future financial years.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Notes to the Financial Statements

16 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Financial Highlights

Explanation of financial ratios

Profit margin	$\frac{\text{Profit before financials}}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year}}{\text{Average equity}}$