

**Danish Ship Finance A/S (Danmarks Skibskredit A/S)**

12 March 2007

Announcement no. 2, 2007

**Announcement of annual financial results**

The Board of Directors of Danish Ship Finance A/S (Danmarks Skibskredit A/S) has today considered the annual report for 2006. The annual report of Danish Ship Finance A/S is presented in accordance with the Executive Order on a Ship Finance Institute (“the Executive Order”) issued by the Danish Ministry of Economic and Business Affairs.

As a result of investments in unit trust certificates in 2006, it has been deemed appropriate to change the accounting policy for unlisted securities. Unlisted securities were previously measured at the lower of cost and market prices. Under the new accounting policy, unlisted securities are measured at market value. The effect of this change for 2006 was DKK 20.5 million before tax. The effect from before 1 January 2006, DKK 3.5 million, has been recognised in the comparative figures. Otherwise, the accounting policies are unchanged from those applied by Danish Ship Finance A/S for the 2005 financial year.

Dividends of DKK 375.4 million have been proposed for the financial year. In accordance with the accounting policies, proposed dividends are included in capital and reserves until distributed. The annual report will be submitted for approval to the general meeting to be held on 23 April 2007.

<b>Key figures</b>	Danish		Danish		
	Ship Finance A/S	Ship Finance	Ship Finance	Ship Finance	Ship Finance
DKK million	2006	2005	2004	2003	2002
Net interest income from lending operations	174	161	182	154	156
Net interest income from financing operations	411	369	411	453	487
Total net interest income	585	530	593	607	643
Net interest and fee income	630	568	615	632	669
Market value adjustments	-123	-148	-23	-83	136
Staff costs and administrative expenses	-80	-80	-74	-71	-65
Losses and writedowns on debtors	176	56	772	-44	38
Profit before tax	606	399	1,293	435	779
Profit for the year	443	286	907	304	561
Loans	37,746	37,200	35,445	36,981	39,728
Capital and reserves	9,158	8,966	9,486	8,580	8,276
Total assets	62,542	62,534	59,907	64,810	60,232
Solvency ratio *)	17.9	18.6	22.2	19.0	17.8
Return on equity	5.0	3.3	10.4	3.7	7.3

Return on equity is calculated as the profit for the year as a percentage of the average capital and reserves for the year. The guarantee capital, which amounted to DKK 300 million until 12 July 2005, was not paid up and is therefore not included in the calculation of average capital and reserves for use in calculating return on equity.

\*) The solvency ratio for the years 2002-2004 was calculated in accordance with the executive order on Danish Ship Finance (Danmark Skibskreditfond), which was in force until 1 July 2006.

As part of the conversion of Danmarks Skibskreditfond to Danmarks Skibskredit A/S in 2005, a total of DKK 1,610 million was repaid to the Danish government and Danmarks Nationalbank. The repayment affected the capital and reserves recognised at 31 December 2005. The comparative figures for 2002-2004 have not been restated.

### **Activities During the Year**

2006 was a satisfactory year for Danish Ship Finance A/S. The company recorded favourable trends in its lending operations, and the return on the securities portfolio outperformed the benchmark. Owing to growth and persistently high earnings in the maritime sector, a number of loan portfolio writedowns were reversed.

### **The Shipping Markets**

The offshore, tanker and dry cargo shipping companies recorded rates that were well above the historical average, while the container segment saw lower rates than in the last few years. The strong results helped to put the global order books at a historically high level. Having almost 300 vessels on order, Danish shipowners account for a substantial proportion of the order book, underlining the positive trends currently witnessed by the Danish maritime sector.

The most recent Shipping Market Review, which is available from [www.shipfinance.dk](http://www.shipfinance.dk), provides an in-depth description of the shipping markets.

### **Lending activity**

Loan disbursements amounted to a little over DKK 9 billion, which was on a level with 2005, and as the volume of prepayments was reduced by half compared with 2005, the net result was an increase in the loan portfolio. New lending was distributed on Danish as well as foreign shipowners and was achieved through loans to new customers and an increase in lending to a number of existing customers.

Loan offers accepted in 2006 amounted to DKK 12.6 billion, also equivalent to the level recorded in 2005. The figures should be seen in light of a competitive market characterised by an unusually large supply of capital for the shipping industry in 2006.

Danish shipowners accounted for approximately 25% of accepted loan offers in 2006. Loan offers to foreign shipowners were almost evenly distributed by geographic areas, with the highest number of accepted offers being in North America and Norway.

### **Bond issuance**

In 2006, Danish Ship Finance issued new bonds with a value of DKK 7.2 billion. The average maturity of bonds in circulation at the end of 2006 was a little longer than the average maturity of the loans.

### **Rating**

After the conversion in 2005, the rating of Danish Ship Finance was put on Moody's Investors Service's watchlist for a possible downgrade. In December 2006, Moody's confirmed the Aa3 rating that Danish Ship Finance has held since 1998, when the former Danish Ship Finance (Danmarks Skibskreditfond) was assigned its first rating.

### **Securities portfolio**

To date, Danish Ship Finance has invested its securities portfolio in government bonds, mortgage bonds or bonds with similar security. In order to optimise long-term returns, in 2006 the company resolved to invest a proportion of its securities portfolio in shares and corporate bonds. Corporate bonds is the common term for bonds with a higher effective yield and, accordingly, a higher risk than government bonds, for example.

Internal limits have been defined for investments in shares and corporate bonds. The investment limits for the two asset types have currently been capped at 10% and 15% respectively of the capital base, which leaves sufficient room relative to the placement requirements set out in the Executive Order. At the end of the year, the amount invested in shares represented approximately 5% of the capital base, while there were no corporate bond investments. The shares are held by way of unit trust units.

### **Executive Order**

The Executive Order was amended in 2006. The amendments were the result of the conversion of Danish Ship Finance into a limited liability company in 2005. As a result of the Executive Order, Danish Ship Finance is now subject to many of the general rules that apply for financial enterprises in Denmark. A more detailed description is provided in "Regulation".

### **Den Danske Maritime Fond**

As part of the agreement on the conversion into a limited liability company in 2005, it was resolved to set up Den Danske Maritime Fond. The fund holds B shares in Danish Ship Finance corresponding to 10% of the share capital and, in its capacity as a B shareholder, receives advance dividends of 15% of Danish Ship Finance annual profit after tax. For the financial years 2005 and 2006, distributed and proposed dividends

amount to just under DKK 110 million. The objective of the fund is to provide financial support for initiatives and measures to develop and promote Danish shipping and/or the Danish shipbuilding industry. Danish Ship Finance is not involved in the operation of the fund or the allocation of financial support.

### **Profit and Loss Account and Balance Sheet**

The profit for the year after tax amounted to DKK 442.5 million compared with DKK 285.6 million in 2005.

Net interest and fee income rose from DKK 568.0 million in 2005 to DKK 630.0 million in 2006. Of this amount, net interest and fee income from lending operations amounted to DKK 218.2 million in 2006 against DKK 202.0 million in 2005, an increase of DKK 16.2 million, or 8 %. Net interest income from financing operations rose due to the overall increase in market interest rates by DKK 42.9 million from DKK 368.6 million in 2005 to DKK 411.5 million in 2006.

Market value adjustments of securities and foreign exchange amounted to a loss of DKK 122.5 million compared with a loss of DKK 147.9 million in 2005. The bond portfolio consists primarily of Danish government bonds and mortgage bonds or bonds of a similar security. The return on equity investments (unit trust units) amounted to DKK 27.7 million. The combined annual return has been calculated at 2.9% on the bond portfolio and 8.4% on the equity portfolio.

Staff costs and administrative expenses were maintained at the same level as in 2005.

Provisions for bad and doubtful debts amounted to a net income of DKK 176.0 million compared with a net income of DKK 56.1 million in 2005. Writedowns were reduced from DKK 1,005.1 million in 2005 to DKK 829.7 million in 2006 after a reduction of actual losses, DKK 0.3 million. Total writedowns made up 2.2% of total lending as compared with 2.6 % in 2005.

Tax for the year represented an expense of DKK 163.3 million compared with DKK 113.5 million in 2005.

Total assets increased to DKK 62,541.6 million from DKK 62,533.7 million at 31 December 2005.

Lending, calculated at hedged values, increased by DKK 370.7 million compared with last year to stand at DKK 38,575.3 million before writedowns.

The bond portfolio amounted to DKK 16,893.4 million, net, against DKK 22,333.7 million the previous year. The reduction compared with 2005 was primarily due to a decline in the proportion of the loans granted, but still not disbursed, which is invested in short-term bonds until the loans are disbursed.

Issued bonds declined from DKK 51,531.9 million at 31 December 2005 to DKK 50,039.2 million at year-end 2006.

After giving effect to the retained profit for the year, the company's capital and reserves amounted to DKK 9,158.2 million as compared with DKK 8,965.5 million at 31 December 2005. Dividends of DKK 375.4 million have been proposed for the financial year. The proposed dividend is included in capital and reserves but is expected to be disbursed after the approval of the shareholders at the annual general meeting in April 2007, and the amount has therefore been deducted in the solvency calculation below.

The solvency ratio stood at 17.9 % at 31 December 2006, as compared with the statutory minimum requirement of 10%. Using the same calculation method, the solvency ratio stood at 18.6 % at 31 December 2005.

No events have occurred after the balance sheet date that have a material effect on the company's annual accounts.

### **Regulation**

Danish Ship Finance is governed by a specific act and executive order. Pursuant to the Executive Order, the company is governed by parts of the Danish Financial Business Act and other parts of the common regulation for financial enterprises in Denmark. The full wording of the act and the Executive Order is provided on the company's website, [www.shipfinance.dk](http://www.shipfinance.dk).

In addition to the rules that govern Danish Ship Finance, the company is governed by a set of rules that comply with the provisions of the Danish Public Companies Act. The company's in-house activities are also governed by a set of policies that may be more restrictive than the external regulation. These policies have been adopted by the Board of Directors.

### **New capital adequacy rules**

Like other financial enterprises in Denmark, Danish Ship Finance is governed by the new capital adequacy rules implemented in Denmark and the rest of the EU as from 2007. Based on the international Basle II rules, the regulations contain guidelines for calculating the solvency ratio. Danish Ship Finance is required to have a solvency ratio of at least 10%.

Previously, Danish Ship Finance calculated the capital requirement relative to issued bonds in circulation. Today, the capital requirement must be calculated relative to the company's risk-weighted assets. This is the same calculation method that applies to other financial enterprises in this area.

The new capital adequacy rules allow the use of own models with which to calculate the capital requirement. The aim is to encourage financial enterprises to strengthen their risk

management activities through the use of tools such as mathematical models. Financial enterprises applying advanced risk management tools are expected to be accorded a reduction in their capital requirement which would allow them to release capital and reserves. So far, Danish Ship Finance has opted to apply the standard calculation method.

The new capital adequacy rules provide a broader risk definition for the calculation of risk-weighted items. In addition to credit and market risks, the company's operational risks must also be included in the calculation of the capital requirement. Operational risks are defined as the risk of losses as a result of inappropriate or insufficient internal processes, human error and system error or as a result of external events, including legal risk.

The new regulations have also introduced stricter requirements on the disclosure of information about corporate risk profiles, including internal guidelines for risk management and control methods applied. In addition, Danish Ship Finance is obliged to calculate the company's individual solvency requirement. The calculation method is optional but must reflect the company's risk profile. With respect to methodology, Danish Ship Finance has opted to calculate the individual solvency requirement based on a combination of stress testing and qualitative factors.

### **Covered bonds**

The term covered bonds is used to describe particularly secure bonds issued to finance lending secured by real property, ships or government risks within defined loan limits.

Effective from 1 July 2007, new regulations are expected to take effect in Denmark governing the issuance of covered bonds. For Danish Ship Finance, the new regulation entails an amendment to the regulation currently applying to the company. A revised set of rules is thus expected to be issued in 2007.

The Danish rules on covered bonds, which are based on the EU credit institution directives, stipulate stricter requirements for a bond to qualify as a covered bond. For bonds issued by Danish Ship Finance, the loan-to-value ratio of the underlying loans must therefore not exceed 70%. If the value of the mortgaged asset declines, supplementary security must be provided in the form of additional ship's mortgages, approved securities or cash deposits with a view to reducing the loan-to-value ratio to a maximum of 70%. In order to adhere to the loan-to-value ratio, the value of the mortgaged asset must continuously be monitored using current market evaluations.

A special provision will be implemented, applying to all bonds issued by Danish Ship Finance, and others, before 31 December 2007. By definition, such bonds will be covered bonds until expiry. The reason is that Danish Ship Finance is currently listed as one of the European Commission's approved issuers of covered bonds.

## **Outlook for 2007**

Based on the volume of loan offers already made and accepted, outstanding loans at the end of 2007 is expected to be slightly higher than at 31 December 2006. Accordingly, the company expects an increase in earnings on lending activities. However, as in previous years, earnings from lending will be influenced by the level of prepayments, the size of credit margins and the DKK/USD exchange rate, as a significant proportion of new lending is made in USD.

As in previous years, price developments in the securities portfolio and movements in the line item provisions for bad and doubtful debts will determine the size of the profit for the year. The latter depends on tonnage values and the financial capabilities of customers. Falling tonnage values and/or impaired credit quality may lead to a shift from the recent period's reversal of writedowns to a renewed need to write down credit-weak loans. From 2009, Danish Ship Finance have to comply with the IFRS rules, which will result in a change in accounting policies in this area.

During 2007, the Danish parliament is expected to adopt new rules for the issuance of covered bonds. Danish Ship Finance has played an active part in designing the rules in order to ensure that the high bondholder security is maintained. In continuation hereof, the Executive Order will also be reviewed. The changes will primarily be of a technical nature and are not expected to influence the market price of Danish Ship Finance's issued bonds.

Danish Ship Finance has resolved to continue recent years' policy of not issuing quarterly accounts in 2007. The company's financial results, total assets and capital and reserves are strongly influenced by movements in the line item provisions for bad and doubtful debts. Presently, the item is calculated every six months on the basis of external broker assessments of the market value of the mortgaged vessels and Danish Ship Finance's own assessments of the financial standing of each shipowner. A more frequent calculation of the line item would require an excessive amount of resources and, it is believed, would not lead to fluctuations in the company's financial results, total assets and capital and reserves that would have an effect on the pricing of the bonds issued.

### **Management changes in Danish Ship Finance A/S**

At an extraordinary general meeting held on 28 August 2006, the deputy chairman Eivind Kolding retired from the board, and Flemming Ipsen was elected as a new board member. The Board of Directors subsequently re-elected Peter Schütze as its chairman and Per Skovhus as its new deputy chairman.

Members of the board are subsequently:

Peter Schütze (Chairman)  
Per Skovhus (Deputy Chairman)  
Thorkil H Christensen  
Peter Falkenham  
Flemming Ipsen  
Jens Thomsen

General Management:

Bo Jagd, Managing Director  
Denis Dønbo, Senior Vice President  
Erik I. Lassen, Senior Vice President  
Per Schnack, Senior Vice President

At 31 December 2006, Henrik Stage, Senior Vice President, Control Accounting and Administration, resigned from the company.

Copenhagen, 12 March 2007

Peter Schütze  
Chairman of the Board of Directors

Bo Jagd  
Managing Director



**PROFIT AND LOSS ACCOUNT**  
1 January - 31 December

*Amounts in DKK million*

**2006**

**2005**

Note:

1	<b>Interest income</b>	<b>2,376.9</b>	2,299.5
2	<b>Interest expenses</b>	<b>(1,791.8)</b>	(1,770.0)
3	<b>Net interest income</b>	<b>585.1</b>	529.5
	<b>Dividends on shares</b>	<b>0.6</b>	0.6
4	<b>Fee and commission income</b>	<b>44.8</b>	41.1
	<b>Fees and commissions paid</b>	<b>(0.2)</b>	(3.2)
	<b>Net interest and fee income</b>	<b>630.3</b>	568.0
5	<b>Market value adjustments</b>	<b>(122.5)</b>	(147.9)
	<b>Other operating income</b>	<b>3.3</b>	3.4
6.7	<b>Staff costs and administrative expenses</b>	<b>(80.3)</b>	(79.6)
16	<b>Depreciation and writedowns of tangible assets</b>	<b>(1.0)</b>	(0.9)
12	<b>Losses and writedowns on debtors</b>	<b>176.0</b>	56.1
	<b>Profit before tax</b>	<b>605.8</b>	399.1
8	<b>Tax</b>	<b>(163.3)</b>	(113.5)
	<b>Profit for the year</b>	<b>442.5</b>	285.6
	<b><u>Proposed allocation of profit</u></b>		
	<b>Dividend for the financial year</b>	<b>375.4</b>	249.8
	<b>Retained earnings</b>	<b>67.1</b>	35.8
		<b>442.5</b>	285.6

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*Amounts in DKK million*

**BALANCE SHEET as at 31 December**

**2006**

**2005**

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Note:

**ASSETS**

9	Due from credit institutions and central banks	<b>6,149.8</b>	1,591.0
10,11,12	Loans	<b>37,745.7</b>	37,199.7
13.14	Bonds	<b>16,893.4</b>	22,333.7
	Shares, etc.	<b>446.0</b>	18.8
15	Holdings in subsidiary undertakings	<b>0.0</b>	0.5
16	Tangible assets	<b>53.5</b>	54.4
17	Other assets	<b>1,253.2</b>	1,335.6
	Total assets	<b><u>62,541.6</u></b>	<b><u>62,533.7</u></b>

**LIABILITIES, CAPITAL AND RESERVES**

**Liabilities**

18	Due to credit institutions and central banks	<b>2,446.2</b>	864.2
19	Issued bonds	<b>50,039.2</b>	51,531.9
20.21	Other liabilities	<b>898.0</b>	1,172.1
	Total liabilities	<b><u>53,383.4</u></b>	<b><u>53,568.2</u></b>

**22 Capital and reserves**

	Share capital	<b>333.3</b>	333.3
	Undistributable reserve capital	<b>8,343.1</b>	8,343.1
	Retained profit	<b>481.8</b>	289.1
	Total capital and reserves	<b><u>9,158.2</u></b>	<b><u>8,965.5</u></b>
	<i>of which dividend proposed for the financial year</i>	<b><u>375.4</u></b>	<b><u>249.8</u></b>

	Total liabilities, capital and reserves	<b><u>62,541.6</u></b>	<b><u>62,533.7</u></b>
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23 Solvency

24 Guarantee commitments

25 Other commitments

26 Related parties

27 Notional principals of outstanding derivative financial instruments as at 31 December

28 Market values of outstanding derivative financial instruments as at 31 December 2006

29 Exchange rate risk and use of derivative financial instruments at 31 December 2006

## STATEMENT OF CHANGES IN CAPITAL AND RESERVES FOR 2006

*Amounts in DKK million*

	<u>Share capital</u>	<u>Undistributable reserve capital</u>	<u>Profit brought forward</u>	<u>Proposed dividends for the financial year</u>	<u>Total</u>
<b>Capital and reserves at 1 January 2005</b>	0.5	9,186.4	0.0	0.0	9,186.9
Capital reduction	(0.5)	-	-	-	(0.5)
Capital increase through cash payment	300.0	-	800.0	-	1,100.0
Transferred to share capital	33.3	(33.3)	-	-	0.0
Payment to the Danish government	-	(810.0)	-	-	(810.0)
Payment to Danmarks Nationalbank	-	-	(800.0)	-	(800.0)
Profit for the year	-	-	35.8	249.8	285.6
Effect of changed accounting policy for recognition and measurement of unlisted securities	-	-	3.5	-	3.5
<b>Capital and reserves at 1 January 2006</b>	333.3	8,343.1	39.3	249.8	8,965.5
Dividends distributed	-	-	-	(249.8)	(249.8)
Profit for the period	-	-	67.1	375.4	442.5
<b>Capital and reserves at 31 December 2006</b>	<b>333.3</b>	<b>8,343.1</b>	<b>106.4</b>	<b>375.4</b>	<b>9,158.2</b>

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*Amounts in DKK million*

**CASH FLOW STATEMENT**

	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Profit for the year after tax	<b>442.5</b>	285.6
Adjustment for non-cash operating items	<b>(188.9)</b>	(247.5)
Profit for the year adjusted for non-cash operating items	<b>253.6</b>	38.1
<b>Change in working capital</b>		
Loans	<b>(370.5)</b>	(1,656.9)
Issued bonds	<b>(1,492.7)</b>	4,440.7
Other operating capital	<b>(854.7)</b>	(335.6)
Total	<b>(2,717.9)</b>	2,448.2
Cash flows from operating activities	<b>(2,464.3)</b>	2,486.3
<b>Cash flows from investing activities</b>		
Liquidation proceeds from subsidiary undertakings	<b>0.7</b>	-
Purchase of tangible assets	<b>(0.4)</b>	(1.2)
Sale of tangible assets	<b>0.5</b>	0.5
Total	<b>0.8</b>	(0.7)
Cash and cash equivalents, 1 January	<b>23,060.5</b>	20,574.9
Change in cash and cash equivalents	<b>(2,463.5)</b>	2,485.6
Cash and cash equivalents, 31 December	<b>20,597.0</b>	23,060.5
<b>Cash and cash equivalents, 31 December, consist of:</b>		
Due from credit institutions and central banks	<b>6,149.8</b>	1,591.0
Bonds	<b>16,893.4</b>	22,333.7
Due to credit institutions and central banks	<b>(2,446.2)</b>	(864.2)
Cash and cash equivalents, 31 December	<b>20,597.0</b>	23,060.5

**NOTE 1.***Amounts in DKK million*

<b>INTEREST INCOME</b>	<b>2006</b>	<b>2005</b>
Interest from credit institutions	186.1	137.7
Interest on loans	1,913.6	1,546.6
Index revaluations of index-linked loans	36.2	39.6
Interest on bonds	662.0	687.3
Other interest income	43.7	18.5
Derivative financial instruments		
Interest rate contracts	(474.2)	(141.5)
Foreign exchange contracts	9.5	11.3
Total interest income	<u>2,376.9</u>	<u>2,299.5</u>

**NOTE 2.***Amounts in DKK million*

<b>INTEREST EXPENSES</b>	<b>2006</b>	<b>2005</b>
Interest to credit institutions	(60.5)	(49.0)
Interest on issued bonds	(1,632.2)	(1,641.2)
Index revaluations on issued bonds	(36.2)	(39.1)
Other interest expenses	(62.9)	(40.7)
Total interest expenses	<u>(1,791.8)</u>	<u>(1,770.0)</u>

**NOTE 3.***Amounts in DKK million*

<b>NET INTEREST INCOME</b>	<b>2006</b>	<b>2005</b>
<b>Net interest income from lending operations</b>		
Interest on loans	1,949.1	1,585.0
Interest on bonds	205.2	270.4
Interest on block issues included in interest		
due from credit institutions	184.5	135.6
Interest to credit institutions	(12.0)	(12.7)
Interest expenses on issued bonds	(1,668.4)	(1,680.3)
Other interest expenses	(20.1)	(6.9)
Derivative financial instruments		
Interest rate contracts	(474.2)	(141.5)
Foreign exchange contracts	9.5	11.3
Total net interest income on lending operations	<u>173.6</u>	<u>160.9</u>
<b>Net interest income from financing operations</b>		
Interest on bonds	456.8	417.0
Interest on loans	0.8	1.1
Interest due from credit institutions		
excluding interest on block issues	1.5	2.0
Other interest income	43.6	18.7
Interest to credit institutions	(48.5)	(36.4)
Other interest expenses	(42.7)	(33.8)
Total net interest income from financing operations	<u>411.5</u>	<u>368.6</u>
Total net interest income	<u>585.1</u>	<u>529.5</u>

**NOTE 4.***Amounts in DKK million*

<b>FEE AND COMMISSION INCOME</b>	<b>2006</b>	<b>2005</b>
Guarantee commission	0.0	0.3
Fee and other commission income	<u>44.8</u>	<u>40.8</u>
Total fee and other commission income	<u>44.8</u>	<u>41.1</u>

**NOTE 5.***Amounts in DKK million*

<b>MARKET VALUE ADJUSTMENTS</b>	<b>2006</b>	<b>2005</b>
<b>Market value adjustments of bonds</b>		
Realised gains/losses on redemption and sales	(27.6)	(48.8)
Unrealised market value adjustment	<u>(136.8)</u>	<u>(76.5)</u>
Total market value adjustment of bonds	(164.4)	(125.3)
Market value adjustments of shares	27.7	(0.1)
Exchange rate adjustments	8.3	(20.4)
Market value adjustments of financial instruments	<u>5.9</u>	<u>(2.1)</u>
Total market value adjustments	<u>(122.5)</u>	<u>(147.9)</u>

**NOTE 6.***Amounts in DKK million*

<b>STAFF COSTS AND ADMINISTRATIVE EXPENSES</b>	<b>2006</b>	<b>2005</b>
Remuneration, Board of Directors and Board of Representatives	(0.8)	(1.0)
Staff costs	(50.5)	(45.2)
Other administrative expenses	<u>(29.0)</u>	<u>(33.4)</u>
Total staff costs and administrative expenses	<u>(80.3)</u>	<u>(79.6)</u>
Number of employees - full-time equivalents	54	54
Average number of employees - full-time equivalents	53	54

**NOTE 7.***Amounts in DKK million*

<b>AUDIT FEES</b>	<b>2006</b>	<b>2005</b>
Audit fees for statutory audit	(0.8)	(0.8)
Fees for consultancy services and other professional services	<u>(0.6)</u>	<u>(1.3)</u>
Total audit fees	<u>(1.4)</u>	<u>(2.1)</u>

**NOTE 8.***Amounts in DKK million*

<b>TAX</b>	<b>2006</b>	<b>2005</b>
Estimated tax on the profit for the year	(162.1)	(107.3)
Change in deferred tax on the profit for the year	(0.7)	(6.7)
Adjustment due to lowering of corporation tax rate to 28 per cent	-	0.5
Prior-year adjustments of current tax	<u>(0.5)</u>	<u>(0.0)</u>
Tax	<u><u>(163.3)</u></u>	<u><u>(113.5)</u></u>

During the financial year, DKK 157.3 million was paid under the on-account tax scheme  
Underpayment of tax for 2005 amounted to DKK 8.6 million.

**NOTE 9.***Amounts in DKK million***DUE FROM CREDIT INSTITUTIONS  
AND CENTRAL BANKS**

	<b>2006</b>	<b>2005</b>
Repo/reverse transactions	1,963.1	0.0
Other debtors	<u>4,186.7</u>	<u>1,591.0</u>
Total due from credit institutions and central banks	<u><u>6,149.8</u></u>	<u><u>1,591.0</u></u>

**NOTE 10.***Amounts in DKK million***LOANS**

	<b>2006</b>	<b>2005</b>
At 1 January	37,199.7	35,445.2
Additions	9,106.8	8,885.4
Index revaluations during the year	36.3	39.6
Ordinary repayments and redemptions	(3,916.9)	(4,265.4)
Extraordinary prepayments	(1,734.9)	(3,399.5)
Net change concerning revolving credit facilities	167.7	1,142.4
Net change concerning debentures with Danmarks Nationalbank	(694.7)	(760.7)
Exchange rate adjustment of additions and disposals at hedged exchange rate	(2,593.6)	21.2
Losses and writedowns for the year	<u>175.3</u>	<u>91.5</u>
At 31 December	<u><u>37,745.7</u></u>	<u><u>37,199.7</u></u>

**NOTE 11.***Amounts in DKK million*

<b>LOANS</b>	<b>2006</b>	<b>2005</b>
Loans secured against a ship's mortgage	35,109.7	34,389.2
Financial debtors	74.2	242.3
The Financial Administration Agency	108.7	212.3
Compensation from the Danish State for interest subsidies and inflation guarantees	5.0	11.0
Danmarks Nationalbank	679.8	1,347.9
Gross loans at exchange rates at the balance-sheet date	35,977.4	36,202.7
Exchange rate adjustments at hedged exchange rates	2,597.9	2,001.9
Accumulated writedowns	(829.6)	(1,004.9)
Total loans	37,745.7	37,199.7

"Exchange rate adjustments at hedged exchange rates" relate to the difference between the value of loans calculated at exchange rates at the balance-sheet date and the value of loans calculated at hedged exchange rates, as all significant foreign exchange risks are fully hedged.

**NOTE 12.***Amounts in DKK million*

<b>ACCUMULATED WRITEDOWNS</b>	<b>2006</b>	<b>2005</b>
<b>The following writedowns have been made on debtors</b>		
1 writedowns which involve a probable risk of losses	811.4	978.1
2 writedowns which involve losses that are deemed unavoidable	18.3	27.0
Total accumulated writedowns	829.7	1,005.1
<b>As a percentage of loans and writedowns</b>		
1 writedowns which involve a probable risk of losses	2.1	2.5
2 writedowns which involve losses that are deemed unavoidable	0.1	0.1
Total accumulated writedowns	2.2	2.6
<b>Total accumulated writedowns consist of:</b>		
Set off against loans	829.6	1,004.9
Provisions made for other liabilities	0.1	0.2
Total accumulated writedowns	829.7	1,005.1
<b>Movements in accumulated writedowns</b>		
At 1 January	1,005.1	1,102.9
New writedowns made	314.9	534.6
Reversed writedowns	(490.0)	(583.8)
Losses covered by prior-year writedowns	(0.3)	(48.6)
Total accumulated writedowns	829.7	1,005.1
<b>Losses and writedowns on debtors</b>		
New writedowns made	(314.9)	(534.6)
Reversed writedowns	490.0	583.8
Losses not covered by prior-year writedowns	0.0	0.0
Recovered from previous claims written off	0.9	6.9
Total losses and writedowns on debtors	176.0	56.1



**NOTE 13.***Amounts in DKK million*

<b>BONDS</b>	<b>2006</b>	<b>2005</b>
<b>Bond portfolio</b>		
Non-callable bonds	<b>10,660.0</b>	15,444.9
Callable bonds	<u><b>6,233.4</b></u>	<u>6,888.8</u>
Total bonds	<u><b>16,893.4</b></u>	<u>22,333.7</u>
Of which own bonds	<u><b>0.0</b></u>	<u>10.6</u>

**NOTE 14.***Amounts in DKK million*

<b>BOND HOLDINGS SPECIFIED BY TIME TO MATURITY</b>	<b>2006</b>	<b>2005</b>
<b>Bond portfolio</b>		
Bonds with a maturity of up to and including 1 year	<b>4,675.0</b>	5,733.2
Bonds with a maturity of over 1 year and up to and including 5 years	<b>4,916.1</b>	9,711.7
Bonds with a maturity of over 5 years and up to and including 10 years	<b>1,261.6</b>	198.2
Bonds with a maturity of over 10 years	<u><b>6,040.7</b></u>	<u>6,690.6</u>
Total bond holdings specified by time to maturity	<u><b>16,893.4</b></u>	<u>22,333.7</u>

**NOTE 15.***Amounts in DKK million***SHARES IN SUBSIDIARY UNDERTAKINGS****2006****2005**

Shares in subsidiary undertakings, 1 January	<b>0.5</b>	1.0
Disposals during the period	<u><b>(0.5)</b></u>	<u>(0.5)</u>
Shares in subsidiary undertakings, 31 December	<u><b>0.0</b></u>	<u>0.5</u>

	Share capital	Ownership interest	Profit for the year	Book value
Elite Rederi A/S i likvidation *)	1.0	84,8 %	-	-

Aktieselskabet Dansk Skibsfinansiering, which was renamed Aktieselskabet af 13. oktober 1967 in the spring of 2006, was wound up as at 15 December 2006. Other than return on equity, there were no activity in 2006.

\*) The acquisition of Elite Rederi A/S i likvidation was made with a view to restructuring and winding up accounts previously made. The company is expected to be liquidated in the spring of 2007.

**NOTE 16.***Amounts in DKK million*

<b>TANGIBLE ASSETS</b>	<b>2006</b>	<b>2005</b>
<b>Office property:</b>		
Purchase price including leasehold improvements, 1 January	<b>58.9</b>	58.4
Leasehold improvements during year	<b>0.1</b>	0.5
Purchase price including leasehold improvements, 31 December	<b>59.0</b>	58.9
Accrued depreciation, 1 January	<b>5.4</b>	4.8
Depreciation during the year	<b>0.6</b>	0.6
Accrued depreciation, 31 December	<b>6.0</b>	5.4
Total office property	<b>53.0</b>	53.5
The asset comprises the office property at Sankt Annæ Plads 1-3, Copenhagen, the public valuation of which is assessed at DKK 81.0 million at 1 October 2006.		
<b>Other tangible assets:</b>		
Purchase price, 1 January	<b>2.2</b>	2.0
Disposals during the year	<b>(0.7)</b>	(0.5)
Additions during the year	<b>0.4</b>	0.7
Purchase price, 31 December	<b>1.9</b>	2.2
Accumulated depreciation, 1 January	<b>1.3</b>	1.6
Disposals during the year	<b>(0.3)</b>	(0.5)
Depreciation during the year	<b>0.4</b>	0.2
Accumulated depreciation, 31 December	<b>1.4</b>	1.3
Total other tangible assets	<b>0.5</b>	0.9
Other tangible assets comprise acquisitions with a purchase price exceeding DKK 250,000.00.		
Total tangible assets	<b>53.5</b>	54.4

**NOTE 17.***Amounts in DKK million*

<b>OTHER ASSETS</b>	<b>2006</b>	<b>2005</b>
Interest receivable	<b>1,007.2</b>	1,099.8
Accruals related to CIRR financing	<b>196.4</b>	217.0
Market value of derivative financial instruments	<b>6.5</b>	-
Miscellaneous receivables	<b>43.1</b>	18.8
Total other assets	<b>1,253.2</b>	1,335.6

**NOTE 18.***Beløb i mio. DKK*

<b>DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>	<b>2006</b>	<b>2005</b>
Repo transactions	1,963.1	0.0
Debt to Danmarks Nationalbank	400.0	800.0
Other creditors	83.1	64.2
Total due to credit institutions and central banks	2,446.2	864.2

**NOTE 19.***Amounts in DKK million*

<b>ISSUED BONDS</b>	<b>2006</b>	<b>2005</b>
At 1 January	51,531.9	47,091.2
Additions in conjunction with new loans and block issues	6,845.3	13,688.4
Index revaluations during the year	36.2	39.1
Ordinary redemptions	(7,631.3)	(4,451.5)
Extraordinary repayments and prepayments	(742.9)	(4,835.3)
At 31 December	50,039.2	51,531.9
<b>Specification of issued bonds:</b>		
<b>Bonds issued in DKK:</b>		
Bullet bonds	43,348.7	45,365.3
Index-linked loans, nominal value	523.1	1,080.6
Total nominal value	43,871.8	46,445.9
Index premium	664.5	1,320.0
Total issued bonds in DKK	44,536.3	47,765.9
<b>Bonds issued in foreign currency:</b>		
Amortising CIRR bonds, at year-end exchange rates	4,583.1	2,810.3
Bullet bonds at exchange rates at the balance-sheet date	885.1	979.0
Exchange rate adjustments at hedged exchange rates	34.7	(23.3)
Total issued bonds in foreign currency	5,502.9	3,766.0
Total issued bonds	50,039.2	51,531.9

**NOTE 20.***Amounts in DKK million*

<b>OTHER LIABILITIES</b>	<b>2006</b>	<b>2005</b>
Interest payable	820.7	1,011.4
Income tax payable	4.8	7.7
Amount payable to the Danish government concerning CIRR financing	35.0	110.0
Market value of derivative financial instruments	11.9	15.4
Deferred tax	14.2	13.5
Provision guarantees, etc.	0.1	0.2
Miscellaneous liabilities	11.3	13.9
Total other liabilities	<u>898.0</u>	<u>1,172.1</u>

**NOTE 21.***Amounts in DKK million*

<b>DEFERRED TAX</b>	<b>2006</b>	<b>2005</b>
Deferred tax, 1 January	13.5	4.6
Adjustment of prior-year tax charges	-	2.6
Estimated deferred tax on the profit for the year	0.7	6.8
Adjustment due to lowering of corporation tax rate to 28 per cent	-	(0.5)
At 31 December	<u>14.2</u>	<u>13.5</u>

**NOTE 22.***Amounts in DKK million***CAPITAL AND RESERVES****2006****2005****Share capital:**

A shares	<b>300.0</b>	300.0
B shares	<b>33.3</b>	33.3

Total share capital	<b>333.3</b>	333.3
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Tied-up reserve capital	<b>8,343.1</b>	8,343.1
Profit brought forward	<b>481.8</b>	289.1

<b>Total capital and reserves</b>	<b>9,158.2</b>	8,965.5
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<i>of which proposed dividend, cf. allocation of profit</i>	<b>375.4</b>	249.8
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The share capital is divided into the following denominations:

A shares	300,000,000 shares of DKK 1.00 each
B shares	33,333,334 shares of DKK 1.00 each

Each A share of DKK 1.00 entitles the holder to 10 votes

Each B share of DKK 1.00 entitles the holder to 1 vote

**NOTE 23.***Amounts in DKK million***SOLVENCY****2006****2005****Tier 1 capital**

Share capital	<b>333.3</b>	333.3
Undistributable reserve capital	<b>8,343.1</b>	8,343.1
Profit brought forward	<b>481.8</b>	289.1

Total Tier 1 capital	<b>9,158.2</b>	8,965.5
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**Deductions in Tier 1 capital**

Proposed dividends	<b>375.4</b>	249.8
Additional straining relative to the Executive Order on a Ship Finance Institute	<b>12.1</b>	122.6

Total deductions in Tier 1 capital	<b>387.5</b>	372.4
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<b>Tier 1 capital less deductions</b>	<b>8,770.7</b>	8,593.1
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<b>Capital base</b>	<b>8,770.7</b>	8,593.1
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Weighted items not included in the trading portfolio	<b>43,689.2</b>	42,023.9
Weighted items with market risk, etc.	<b>5,372.4</b>	4,060.5

<b>Total weighted items</b>	<b>49,061.6</b>	46,084.4
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Tier 1 capital less deductions as a percentage of total risk-weighted items	<b>17.9</b>	18.6
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Solvency ratio pursuant to the Executive Order on a Ship Finance Institute	<b>17.9</b>	18.6
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Minimum requirement fixed at 10 per cent		
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**NOTE 24.***Amounts in DKK million*

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**GUARANTEE COMMITMENTS**

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**2006****2005**

In the ordinary course of its lending operations, Danish Ship Finance has undertaken guarantee commitments of	<b>221.4</b>	104.1
In the ordinary course of its lending operations, Danish Ship Finance has undertaken obligations to take over loan commitments at the end of syndication periods expiring before the loans mature for an amount of	<b>63.7</b>	99.1
Payment guarantee provided to the Danish Securities Centre	<b>4.4</b>	4.7
Guarantees provided to the Danish Securities Centre	<u><b>2.0</b></u>	<u>2.2</u>
Total guarantee commitments	<u><b>291.5</b></u>	<u>210.1</u>

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**NOTE 25.***Amounts in DKK million*

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**OTHER COMMITMENTS**

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**2006****2005**

As a normal part of its lending operations, DSF has undertaken obligations in connection with unutilised drawing rights on loans with revolving credit facilities in the amount of	<u><b>2,096.2</b></u>	<u>2,083.3</u>
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**NOTE 26.**

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**RELATED PARTIES**

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Related parties comprise members of the company's Management and Board of Directors and subsidiaries. Related parties also comprise shareholders who hold more than 20% of the shares or more than 20% of the voting rights in the company.

All related-party transactions involving deposits and debt and transactions with financial instruments in the form of swap agreements, forward currency agreements, forward rate agreements and forward securities transactions, etc. are made on an arm's length basis. In special cases, however, the terms and conditions are made in accordance with shipyard subsidy schemes or international rules on government participation in the financing of newbuildings.



## NOTE 27.

*Amounts in DKK million***NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVE  
FINANCIAL INSTRUMENTS AS AT 31 DECEMBER****2006****2005*****Swap agreements:***

Swap agreements have been made with the following parties  
to hedge the exchange rate exposure on loans and issued bonds:

Danmarks Nationalbank	<b>1,954.6</b>	2,379.3
Banks	<b>32,324.6</b>	29,961.7

Swap agreements have been made with the following parties  
to hedge the interest rate exposure on loans and issued bonds:

Banks	<b>61,697.2</b>	78,180.2
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Matching swap agreements have been made  
with debtors and banks as follows:

Debtors	<b>5.2</b>	8.7
Banks	<b>5.2</b>	8.7

Swap agreements, for which financial risks are not  
fully hedged, have been made with the following parties:

Banks	<b>2,117.7</b>	346.9
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***Forward currency agreements:***

Forward currency sales	<b>11.7</b>	12.1
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***Forward Rate Agreements:***

Forward Rate Agreements with banks and debtors  
to hedge interest rate exposure

Debtors	-	-
Banks	<b>301.0</b>	2,740.7

***Forward securities transactions:***

Buying	-	2,000.0
Selling	<b>780.0</b>	1,572.3

**NOTE 28.***Amounts in DKK million***MARKET VALUES OF OUTSTANDING DERIVATIVE  
FINANCIAL INSTRUMENTS AS AT 31 DECEMBER 2006**

<i>Swap agreements:</i>	<b>Positive</b>	<b>Negative</b>
Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans:		
Danmarks Nationalbank	223.6	
Banks	2,513.8	76.4
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans:		
Banks	432.0	3,702.5
Matching swap agreements have been made with debtors and banks as follows:		
Debtors	-	0.1
Banks	0.1	-
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
Banks	4.4	30.4
<i>Forward currency agreements:</i>		
Forward currency sales	0.1	-
<i>Forward Rate Agreements:</i>		
Forward Rate Agreements with banks and debtors to hedge interest rate exposure		
Debtors	-	-
Banks	-	7.0
<i>Forward securities transactions:</i>		
Buying	-	-
Selling	6.6	0.3

**NOTE 29.**

**EXCHANGE RATE RISK AND USE OF DERIVATIVE  
FINANCIAL INSTRUMENTS AT 31 DECEMBER 2006**

The total unhedged foreign currency position at 31 December, translated at year-end exchange rates into DKK amounts to DKK (73.4) million. (DKK (8.9) million at 31. December 2005.)

All amounts are translated into DKK at the year-end exchange rates.

The net position is specified as follows:

*Amounts in DKK million*

	USD	Other currencies	Total foreign currency	DKK	Total
Loans at year-end exchange rates	29,498.0	3,573.3	<b>33,071.3</b>	2,906.1	35,977.4
Foreign exchange adjustment at hedge price				2,597.9	2,597.9
Provision for loans				(829.6)	(829.6)
<b>Loans as per the balance sheet</b>					<b>37,745.7</b>
Due from credit institutions and central banks	2,122.0	270.7	<b>2,392.7</b>	3,757.1	6,149.8
Bond portfolios	0.0	0.0	<b>0.0</b>	16,893.4	16,893.4
Interest receivable, etc.	234.7	109.2	<b>343.9</b>	663.3	1,007.2
Other assets	0.0	41.4	<b>41.4</b>	704.1	745.5
<b>Total assets as per the balance sheet</b>	<b>31,854.7</b>	<b>3,994.6</b>	<b>35,849.3</b>	<b>26,692.3</b>	<b>62,541.6</b>
Issued bonds at year-end exchange rates	(4,922.9)	(602.1)	<b>(5,525.0)</b>	(44,479.5)	(50,004.5)
Foreign exchange adjustment at hedge price				(34.7)	(34.7)
<b>Issued bonds as per the balance sheet</b>					<b>(50,039.2)</b>
Due to banks	0.0	(25.8)	<b>(25.8)</b>	(2,420.4)	(2,446.2)
Interest payable	(246.0)	(119.7)	<b>(365.7)</b>	(455.0)	(820.7)
Other creditors				(77.3)	(77.3)
Total capital and reserves				(9,158.2)	(9,158.2)
<b>Total liabilities as per the balance sheet</b>	<b>(5,168.9)</b>	<b>(747.6)</b>	<b>(5,916.5)</b>	<b>(56,625.1)</b>	<b>(62,541.6)</b>
Derivative financial instruments - debtors	589.7	642.1	<b>1,231.8</b>		
Derivative financial instruments - creditors	(27,393.1)	(3,844.9)	<b>(31,238.0)</b>		
<b>Total net position</b> (translated into DKK)	<b>(117.6)</b>	<b>44.2</b>	<b>(73.4)</b>		