

Chairman's Report

When we were gathered here one year ago, I talked about how nice it was to be able to present a profit again, and not least that we were aiming at paying out dividends to our shareholders again. I am very pleased that I can report a profit again this year and equally pleased that we will pay out dividends for the first time in 5 years. The Board of Directors proposes a dividend of DKK 2 per share.

It is not a lot, but it is, however, another clear sign that NORDEN is moving in the right direction towards increasingly stable profits and returns. And presently, namely stability is being challenged on the global scene.

As most of you have noticed, we are currently in troubled waters. Great Britain has very unfortunately decided to leave the EU. The world's two largest economies are bickering and have made obstacles to global trade. And despite record low interest rates, the world economy has trouble getting back to previous levels.

For a global player like NORDEN, this means that we must excel at quickly adjusting to changing markets – in other words being agile. And we are agile. And we have a clear strategy of getting even more in control of our own destiny.

A crucial part of this is to become still more asset light. That is, we charter – or lease – an increasingly larger part of our fleet. NORDEN will continue to own vessels and build on our strong relations with yards and other owners. But growth in our activity will be made with chartered vessels. This way, we can constantly adjust our capacity to the conditions in the world market.

And this is necessary in a time when fundamental conditions are changing with great speed. It is therefore also increasingly difficult to predict what the world markets will look like in 2, 5 or maybe even 10 years. And it makes large investments in vessels even more risky. Therefore, we will strengthen our business in areas where we are in control – where we can make a difference based on our own skills and are less dependent on decisions made in governments, which may have significant impact on our investments in for example vessels.

And we are already well underway; in 2018, more than 85% of the operated fleet was chartered, and this contributed to a sound result.

The Adjusted Result for the year amounted to USD 20 million or what corresponds to approximately DKK 130 million based on today's currency rate. It is a slight drop from 2017, which first and foremost reflects the worst tanker market in a decade.

On the other hand, our two Dry Cargo business units generated a significantly better result than in 2017, which led to the Adjusted Result for the year of USD 20 million.

I will now ask our CFO Martin Badsted to elaborate on some of the key figures. We are experiencing an interesting development in NORDEN, and this is fortunately also reflected in our key figures.

Thank you, Klaus.

It is correct that we are seeing an interesting development in several of NORDEN's key figures. If we start with revenue, it really illustrates the volatility in shipping. Revenue increased by more than 30% to USD 2.3 billion from 2017 to 2018 – close to DKK 16 billion.

EBITDA – earnings before interest and depreciation – increased from USD 68 million to USD 72 million. And NORDEN's balance sheet continues to be strong. At the end of the year, it amounted to close to USD 1.5 billion – that is DKK 10 billion.

As you can see from the table, cash flows from operating activities came to a loss of USD 25 million. This is partly due to an increase in working capital as a result of a higher activity level and partly a provisional – but large – guarantee on our hedging of bunker – that is, securing the price of fuel. To a large extent, NORDEN insures itself against fluctuations in fuel prices, and this protects earnings, but it also affects cash flows when oil prices go up or down. But as mentioned, this is only temporary.

We have also spent money on investing in vessels, which shows in cash flows from investing activities. The figures primarily cover the acquisition of 4 second-hand MR product tankers, which we expect to generate a good return when the tanker market regains momentum after a miserable 2018.

The investments also show in the value of cash and securities. The value has dropped to USD 189 million – close to DKK 1.25 billion – and we are now reaching a more normal level after a few years of relatively large holdings.

Return on equity has on the other hand slightly increased to 3.5%. And even though, this may not be impressive, it is still a sign of continued improvement which has been going on for the last 5 years, and it is our ambition to continue this improvement.

I would also like to comment on solidity. As you can see, it decreases by around 6 percentage points to close to 57%. This is primarily due to the raising of bank loan in connection with financing of our vessel investments. And with a new financial reporting standard coming into force this year, our reported solidity will further decrease. The financial reporting standard called IFRS 16 states that our known future leasing costs on chartered vessels must be capitalised and included in the balance sheet.

We have always made great efforts to inform about the lease liabilities within our business, and the implementation of IFRS 16 should not bring about any surprises. Nevertheless, it means that assets as well as liabilities will in 2019 increase by around USD 300 million – close to DKK 2 billion – and this decreases solidity to 47%. So even after this, NORDEN has a solid balance sheet. In the income statement, leasing costs, which have until now been solely placed in operations, will be distributed between vessel operation costs, depreciation and interest expenses. This will have a positive effect on EBITDA of USD 98 million, but a negative effect on net results of USD 14 million.

However, it does not fundamentally change NORDEN's business – only the way we describe it.

Thank you for listening.

Thanks to Martin for running through some of the key figures. I will follow up with yet another figure. The number of vessel days. As you can see, the number of vessel days has increased from close to 94,000 to more than 122,000. This corresponds to a daily activity of more than 330 vessels and is an increase of more

than 30%. When I emphasise this figure, it is not so much to show that we are growing – because we are. It is also to illustrate that it is becoming increasingly important to look at the number of vessel days instead of the number of owned vessels.

Many shipping companies are valued based on vessel values only – even with a few deductions – and a valuation like this is increasingly wrong for a company like NORDEN. We not only generate value through our ownership of vessels. Our value creation is increasingly based on taking the right market positions – that is, booking cargoes or vessels – and then optimising the individual voyages.

Therefore, NORDEN should also be valued by the market based on these skills. But that is, however, not the case yet.

This becomes clear when you look at the share price. During 2018, the share price dropped from 117 to 92. Based on an increase in the USD rate, this corresponds to a drop of 25%, which is on par with our peer group consisting of both dry cargo and tanker companies.

Especially the latter had a very challenging year. The peer group of product tanker companies felt the repercussions of the poor market on the share prices which dropped by 36% on average. The dry cargo companies did slightly better with a drop in share prices of around 20%.

The share price exemplifies how the market generally sees shipping companies as utterly and completely dependent on external events and macroeconomic tendencies. We will never become completely indifferent to such inputs, but NORDEN actually works determinedly based on a strategy to become increasingly in control of our own destiny. To the benefit of NORDEN and the shareholders.

As you know, there are several ways to benefit shareholders – and here, I am not only thinking of catering at general meetings and such. No, I first and foremost think of increasing the value of each share and not least the return on shares.

In November, we initiated a share buy-back programme with a value of USD 10 million – around DKK 66 million. Share buy-backs entail that the number of shares in circulation is reduced, and this contributes to upholding the value of the remaining shares.

In addition to this, the Board of Directors has decided to resume the good tradition of paying dividends. It is actually the first time in my chairmanship that we have paid out dividends, and it feels good. In total, this gives a pay-out ratio of 34.8%. So, close to a third of this year's result is directly returned to the shareholders, and the value of the share buy-back should be added to this.

It is our talented employees in the entire organisation, who have made this possible, and I would like to take this opportunity to say thank you for your efforts. We have great expectations – also for the years to come. I will now give the word to CEO Jan Rindbo, who will give us an update on our three business units Dry Operator, Dry Owner and Tankers.

Thank you, Klaus.

A good annual dividend to the shareholders would be a nice tradition to introduce, and I will do my best to make it possible. This also means that we will have to introduce new traditions when we talk about our

business units. As we talked about on last year's general meeting, we split our dry cargo business into Dry Operator and Dry Owner in mid-2017, and 2018 was thus the first full calendar year for the new business units.

And we can establish that it has been a successful first year.

Dry Operator, which handles NORDEN's short-term exposure to the dry cargo market, has fully lived up to our expectations – and actually surpassed them in 2018.

Dry Operator generates profit partly by taking market positions – that is, booking vessels and cargoes, respectively. And partly by carrying out voyages as efficiently as possible. And Dry Operator succeeded in both areas in 2018.

One of the reasons for this success is our use of increasingly advanced data systems, market insights and artificial intelligence. We have developed systems, which we, in all modesty, consider some of the best in the industry. Systems which provide us with a complete and precise overview of how each team is positioned every day. In other words, a complete overview of whether more cargo than vessels has been booked and the required investment and possible return. Systems which help us identify the best vessels in the market based on 730 million data points, and systems which enable us to quickly predict and adjust to changes in the markets.

And results showed. In 2018, Dry Operator generated an Adjusted Result for the year of USD 30 million – close to DKK 200 million. There are many reasons to be satisfied with this result. Firstly, it has been generated without a lot of tied-up capital as Dry Operator does not have an owned fleet, but charters vessels for a short period of time or even just for a single voyage.

Secondly, the profit is not just a result of improving markets. It has been generated by predicting the exact short-term movements in the market. This was most clear in the fourth quarter – which was weaker than expected to the surprise of many. Dry Operator had, however, predicted this and had already prepared for it in the third quarter. Therefore, we were well positioned to a market with lower rates, and as a result, Dry Operator delivered its best quarterly result so far in a quarter that most people had very low expectations to. By adjusting to the changed market conditions and good execution of voyages, Dry Operator managed to generate an adjusted quarterly result of USD 17 million – around DKK 110 million.

This shows some of the potential of the machine that we have built on the first floor, among others, in the old Tuborg Brewhouse. I use the term among others as it is not only from the head office in Copenhagen that value is being created. On the contrary, it happens in close cooperation with our 10 local offices placed on every relevant continent.

Last year, we opened a new office in Vancouver, Canada, and on 1 April this year, we entered the African continent when we opened an office in Abidjan, Ivory Coast. We are in other words expanding our global reach. We are moving closer to our customers. And we are contributing to a more efficient world trade with skilled employees, extended use of technology and almost 150 years of experience within shipping.

As Klaus also mentioned, the number of vessel days is important. Dry Operator is an agile business unit which can quickly adjust to changes in the markets. If the market goes down, you do not want to have

overcapacity in the form of too many vessel days whereas it is good to have enough capacity in a market on the rise. It is the ability to adjust – the agility – which is crucial. And Dry Operator has this ability. At the same time, we have a sharp focus on optionality. Optionality is the possibility to extend the chartering of vessels at an already agreed price. You can for example charter a vessel for 4 months with the optionality for another month or two. If the market develops favourably – that is, freight rates go up – you make use of the optionality – if the market goes down, you do not. In other words, the right optionality can be quite profitable, and therefore, it is a natural focus area for a company which chartered more than 1,000 vessels in 2018 alone.

Furthermore, we have the ability to optimise earnings on each vessel day. With advanced analyses of cargo, weather, market conditions and fuel prices, we can determine exactly the right speed and make sure that it is observed. With agelong experience in the organisation, we know how to ensure the smoothest loading and discharging, how many tugboats to be used and how much time to expect in ports.

These are all elements which – when added up – make it possible for Dry Operator to deliver results like in 2018. And that is the reason why we have an ambitious but also very realistic target that Dry Operator can generate an adjusted annual result of USD 40 to 60 million from 2021 onwards. This is DKK 250 to 400 million in annual profit in a business unit with relatively low risk capital.

Because risk is high on the agenda. NORDEN basically makes money on taking risks. We take a risk when we act and position ourselves in the market – that is, predict if the market will go up or down. But the risk must be calculated, completely transparent and not larger than necessary. Our risk management systems ensure this. We can always see the exact risk which each team in Dry Operator is operating with. And we have made very clear limits to how much risk each team can take on. This gives us an overview and security.

We also have a good overview of our risk profile in the other dry cargo unit – Dry Owner.

While Dry Operator operates in the short-term market, Dry Owner handles our long-term exposure to the dry cargo market.

Dry Owner handles buying and selling vessels and entering into the very long charter agreements, which we increasingly match directly with the long contracts of affreightment, which NORDEN has access to. This way, we get capacity and optionality with limited risk.

In contrast to Dry Operator, Dry Owner is thus more exposed to the general market tendencies. The value of vessels typically increases when the markets are good, whereas it decreases when the markets are poor. Therefore, it is important for Dry Owner to have a good feeling of where the general market is heading and act on it. And then be able to execute when the time is right through favourable access to attractive deals with other shipowners and yards.

In 2018, Dry Owner benefitted from a reasonable dry cargo market and good coverage. Especially the first quarters of the year showed improvement compared to 2017, and in general, the Baltic Dry Index was 4.2% above the 2017 level. The improvement was driven by, among other things, increased transportation of coal and minor bulk commodities such as steel, cement and bauxite – commodities which are typically transported on NORDEN's key vessel types – Supramax and Panamax. On the other hand, the fourth

quarter was weaker than expected by many. It was especially the decreased import of iron ore and coal to China, which weakened the market, just as the trade conflict with the USA affected the market.

The overall result was an Adjusted Result of USD 18 million.

At the same time, Dry Owner utilised the market to significantly reduce forward exposure for the next couple of years. This was done by securing short- and long-term coverage at reasonable levels. And as some of you may have noticed, we announced the sale of four of our dry cargo vessels two weeks ago. The sales are in natural continuation of our ambition to become more asset light.

This does not mean that we will no longer own vessels, but it means that that we will buy and sell them to an even higher extent as soon as attractive opportunities arise. And if we must make full use of this potential, the fleet should not be larger than still being easily tradable. Therefore, we have also sold off some of the dry cargo vessels.

This also reduces our exposure to the market. And this is fully intentional. We do not think that the overall gradual improvement of the dry cargo market, which we have experienced in the last 3 years, will continue in 2019. And we think that the long-term demand in both of our business areas will not be at the same level going forward as in the last 15-20 years. China is running out of steam, and the general uncertainty regarding the world economy does not make it obvious to hold a large portfolio of dry cargo vessels which you are uncertain that you will be able to employ profitably. Therefore, we think it is reasonable to cover a large part of our long-term exposure at profitable rates.

Like Dry Operator, Dry Owner has had a sharp focus on the optionality in the portfolio. In line with short-term charters, significant optionality can also be negotiated on long-term charters – and here, we are talking years and not months. This ensures us considerable potential for value creation without taking great risks.

During the year, the number of optional days in the portfolio thus increased by 16%, and consequently, Dry Owner has 35,000 optional days at its disposal in the period 2019 to 2026. Compared to the number of open days, this means that for each open day we have 8 optional days. Furthermore, we also have purchase options on the vessels. There is thus significant potential for added value if the markets should develop more positively than we – and the market – expect.

An area where we on the contrary expect to see a substantial improvement compared to 2018 is tankers. And it is much needed. The market went from bad to worse to the worst in a decade, and a slight improvement at the end of the year could not change the fact that the conditions were extremely difficult. Demand increased by reasonable 1.2%, but increasing demand was mostly met by draws from inventories, and that reduced the need for ship transportation.

Results in NORDEN's tanker business came to a loss of USD 28 million. This is by no means a satisfactory result, but with that being said, there are, however, still some bright spots.

Firstly, our employees managed to deliver earnings in line with the 1-year T/C rate despite a declining market. This means that we have earned the same amount of money in the short-term spot market as we would have under a 1-year contract for employment. And this is a good result in a market where rates

dropped throughout the year. Secondly, NORDEN actively took advantage of the poor market. As Martin mentioned, we bought 4 second-hand MR product tankers during the year and furthermore increased the chartered MR capacity considerably – also with significant optionality. As part of our efforts to become even more agile, we have established a specific T/C desk, which exclusively deals with chartering in and chartering out of tanker vessels for less than 2 years. Furthermore, we now have full ownership of the organisation behind the commercial pool Norient Product Pool and have thus achieved further agility to get the best out of the capacity.

And the increased capacity and optionality may become quite value creating. Because just as many others in the industry, we expect that especially the second half of 2019 will see significant improvements in rates.

This is not least because new fuel regulations will come into force on 1 January 2020 on a global scale. From this date, the highest permissible limit for sulphur content in fuel is reduced from 3.5% to 0.5%. This means that you must either switch to low-sulphur fuel or install exhaust gas cleaning systems on board the vessels.

Most companies are expected to switch to low sulphur fuel to comply with the regulations. This will create demand for a new type of fuel, which will therefore have to be accessible in ports around the world. This means that the demand for transportation in the form of product tankers is expected to increase, and this will make the rates go up.

With increased capacity, NORDEN's tanker business is well positioned for this improvement. 76% of the approximately 17,000 vessel days are open and ready to get the most out of the markets. And we look forward to delivering just that.

Thanks to Jan for the update on the business segments.

I would like to further comment on the IMO 2020 sulphur regulations and tell you how NORDEN has seen this as an opportunity as well. Already in 2017, we established a working group who got the task of analysing how a radical change like this would affect the markets and how NORDEN should react.

The analysis is of course subject to uncertainty, but it showed that it would be a good idea to invest in so-called scrubbers – exhaust gas cleaning systems. This way, we can continue using low-cost fuel which is then cleaned in the chimney and ensures that we are complying with the sulphur regulations.

To get the best return on such an investment, the scrubbers will have to be ordered and installed in good time. Therefore, NORDEN has in 2018 invested in and secured installation of 26 scrubbers. The first scrubbers have already been installed, and the others will be installed during 2019 and in the beginning of 2020. A large part of our owned and long-term chartered vessels will thus be in the favourable position of having significantly lower fuel costs than the vessels without scrubbers which will have to switch to more expensive low-sulphur fuel.

As mentioned, we will to an increasing extent charter in vessels, and as few of these will be equipped with scrubbers, we will also have to buy more expensive low-sulphur fuel in 2020. The additional expenses will be covered by the customers through higher freight rates. But with more expensive fuel, the gains of saving fuel will be even bigger, and this makes it even more important to focus on fuel efficiency. And NORDEN is doing just that.

As Jan mentioned, our skilled data scientists in the Fuel Efficiency team have developed digital tools, which by means of artificial intelligens, 730 million data points and constant updates, makes it possible for NORDEN to fairly accurately calculate the fuel efficiency of all relevant vessels in the world fleet. This way, our charterers, even before they have chartered the vessel, can get a very good idea of how efficient the vessel will be under the given circumstances and operated with NORDEN's agelong expertise.

This is just an example of how NORDEN has embraced the digital agenda and how we, with the development of in-house expertise and advanced systems, create new ways to make transportation – and thus also the world trade – more efficient.

Because that is our overall purpose: Enabling smarter global trade – that is enabling an increasingly efficient world trade. We are an integrated part of the global supply chain. We enable development, growth and progress. And we do this in a responsible manner.

For more than a decade, NORDEN has worked with Corporate Social Responsibility in a structured and targeted way.

During 2018, we have updated our CSR strategy and analysed which of the 17 UN Sustainable Development Goals (SDG) are of special relevance to NORDEN. Also in this area, we wish to focus our efforts. Our work with human rights, responsible supply chain management and anti-corruption is already a fully integrated part of the daily business. Infrastructure is where we see the potential for supporting the development even further. SDG 9 focuses among other things on building resilient infrastructure – and we are contributing to this with our expertise. We have close to 150 years of experience in ensuring that cargo reaches its destination as efficiently as possible.

Within SDG 9, we focus on decarbonisation – that is reducing CO₂ emissions – and logistic optimisation. And our words and targets are followed up by actions. In the autumn, our MR product tanker vessel NORD HIGHLANDER completed the world's first commercial ocean-going voyage with the main engine powered solely by second generation biofuel. Fuel made from waste frying oil.

With the test voyage, we showed an actual alternative to fossil fuels within shipping. We are not saying that this is the only solution, but we are proud that we in this way are showing the way to a more sustainable industry. We are currently planning further test voyages in the coming weeks and expect to be able to offer the first CO₂ neutral transport solutions to selected customers during 2019.

Within logistic optimisation, we provide our great expertise every day to the benefit of our customers and the local communities and ports which depend on shipping and receiving cargoes efficiently. Within this area, we also let words follow action. On 1 April, we opened our first office on the African continent in Abidjan, Ivory Coast. We have sailed in the area for years and seen that there is potential to do more. More business and more to develop the region.

Africa has a massive potential for growth and progress. And we would like to take part in releasing this potential. We have established the office to increase business, but we also see it as a long-term investment in the development of the region. In all modesty, we believe that we can make a difference and enhance the opportunities in the area by entering into partnerships with local partners to the benefit of the local

community. We have a lot of knowledge and we are happy to share it in order to build more resilient infrastructure and optimise logistics.

Knowledge sharing is also at the top of the agenda in the Board of Directors. In 2018, we carried out an assessment of the composition, qualifications and cooperation both internally in the Board of Directors and with the Executive Management. The assessment was assisted by external consultants and was based on interviews with the persons involved. The assessment concluded that the Board of Directors has good working relationships and dynamics – which is also necessary in a changeable world like the one NORDEN operates in.

In December, the Board of Directors was further strengthened with election of Helle Østergaard Kristiansen and Stephen Kunzer. They entered a Board of Directors which also welcomed new employee-elected board members in spring.

I would like to thank all board members for the good cooperation in 2018, and I look forward to sharing more successes with you. Therefore, I also hope that the general meeting will follow the recommendation for re-election of all the board members.

They are strong profiles with insight and knowledge. The last couple of years, we have deliberately aimed at strengthening areas which we consider strategically important. I am therefore particularly pleased to welcome a capacity like Helle on board – she brings great insight within digitalisation and not least risk management. And therefore, I am pleased that we can attract a highly experienced shipping guy like Stephen, who, with 30 years of shipping experience, will strengthen us further. Together with Tom's comprehensive customer insight, Karsten's strong financial background, Johanne's focus on values and the organisational insight of the employee-elected board members, we have a strong team, which in cooperation with the Executive Management can set a strategic course and ensure that NORDEN continues its positive development.

An area, where there on the other hand is no development, is board remuneration. Total board remuneration amounts to around USD 700,000, and the Board of Directors proposes unchanged remuneration in 2019. So here you find stability in contrast to the world in which NORDEN is navigating.

As I mentioned in the introduction, the outlook is marked by uncertainty. And in January, we saw another example of this uncertainty when a dam in Brazil collapsed, and at least, 200 people were killed. Besides the human tragedies, the catastrophe also had a great impact on the dry cargo market. In the wake of the catastrophe, the authorities have closed several mines. This has reduced the need for transportation of iron ore by around a fourth and has severely decreased rates for the large Capesize vessels. Even though NORDEN does not operate the directly affected vessel types, an incident like this drags the whole market down. It spreads. And the incident illustrates how important it is to be able to quickly adjust to the markets. We have entered 2019 with coverage of 89% of the vessel days in Dry Owner. This means that we are relatively well protected against the very poor rates. At the same time, we will in 2019 continue our focus and efforts on making Dry Operator even better at utilising fluctuations in the markets and position itself accordingly.

Combined with a tanker market, which we expect will be significantly better than in 2018, it means that we are aiming for the third consecutive year with stable profits.

In Dry Operator, we expect an even better result. In 2019, we expect an Adjusted Result for the year of USD 20 to 30 million – and that is in a market which is currently badly hit.

In Dry Owner, we expect an Adjusted Result of USD 0 to 10 million while Tankers is expected to generate a much better result than in 2018. Based on increasing demand, 13,000 open tanker days and a skilled organisation, we expect that the loss from 2018 is turned into a profit of USD 5 to 20 million.

In total, this means that NORDEN expects an Adjusted Result of USD 25 to 60 million in 2019 – or what corresponds to DKK 160 to 400 million.

We are in other words on the right track – and increasingly in control of our own destiny in uncertain times. And it feels good.

Thank you for listening.