

Chairman's report

We are in the middle of extremely uncertain times, characterised by great fluctuations in the markets. 2019 in itself was a tumultuous year with trade wars, political unrest in several parts of the world and increasing environmental demands, which all affect our business. And the first half of 2020 has also been turbulent and unpredictable with a historically high tanker market and a virus which quickly turned into a pandemic.

Shipping will always be volatile. Even though, we have not been in this exact situation before, we have been in other extreme situations in our almost 150 years as a company. We know how to operate in fluctuating markets, we know how to get through it and we know how to provide efficient transport solutions to our customers all over the world. And it is exactly this volatility which drives our need for increasing agility, the ability to adjust, and with our trading capabilities, we can profit well from these market fluctuations.

Long before any of us knew about COVID-19, we worked on a strategy to increase our agility. Back in 2015, we embarked on the journey towards increased agility to be able to benefit more from the fluctuations in the market and offer more efficient transport solutions to our customers, and now, in 2020, the foundation is in place.

In the past years, we have, among other things, established Dry Operator, obtained 100% ownership of Norient Product Pool, which has made it possible also to establish Tanker Operator, merged our technical, commercial and research expertise in Asset Management, centralised our finance functions, established the department Advanced Analytics & Digital Solutions to advance our use of data and created an independent Risk Management function.

With all this – and much more – in place, NORDEN is ready to embrace a more trading-oriented future. We are on the right track towards a more robust, agile and ambitious NORDEN, which can get hold of great trading opportunities through a strong combination of market volatility, expertise and advanced data analytics – and in that way provide efficient transport solutions to our customers globally. This is what we call 'trading to the next level' in our strategy.

NORDEN's key figures for 2019 are affected by one specific event – the implementation of the accounting standard IFRS 16 regarding leasing as of 1 January 2019. In a company like NORDEN where the core activities to a great extent include leasing or chartering of vessels, this new accounting standard has made its mark, which will become evident in the following presentation of NORDEN's key figures.

NORDEN delivered an Adjusted Result for 2019 of USD 23 million or close to DKK 155 million. To this should be added that the implementation of IFRS 16 had a significantly negative impact on the result of around USD 14 million. NORDEN thus continues the positive trend of black figures on the bottom line for the third consecutive year.

The result for the year was well supported by the Adjusted Result for the fourth quarter 2019 of USD 31 million, which is the best quarterly result since the second quarter 2015. Dry Operator navigated well in a quarter with declining rates and generated the best quarterly result of the year with USD 14 million. Tankers benefitted from the improving market in the fourth quarter and realised an Adjusted Result of USD 15 million.

EBITDA – earnings before interest and depreciation– increased from USD 73 million in 2018 to USD 218 million in 2019, which is primarily due to the changed accounting principles regarding leased vessels following the implementation of IFRS 16.

While implementation of IFRS 16 lease accounting has no cash flow impact overall, it has had a significant effect on the presentation of the individual elements in the cash flow statement. Thus, cash flows from operating activities increased by USD 296 million, while cash flows from financing activities declined by USD 306 million. Total cash flows from operating and investing activities amounted to USD 25 million. The significant changes in cash flows can be attributed to the new accounting principles where a large part of timecharter hire payments is now recorded under financing activities as opposed to previously where they were recorded under operating activities.

Despite significant investments in i.a. newbuildings and scrubbers and recognition of lease liabilities, NORDEN's equity ratio remains at a high level of 49%. Cash and cash equivalents amounted to USD 209 million at year-end – close to DKK 1.4 billion.

Return on invested capital – ROIC – for 2019 was 5% and return on equity – ROE – 2.3%. Return on equity of 2.3% is at the low end which makes the result less satisfactory.

On 1 January 2020, NORDEN introduced a new business structure with a view to improve returns and transparency in the results – and thus emphasise all the values in NORDEN instead of only the usual NAV calculation of the value of owned vessels. I will get back to this new structure, but in the following, I will focus on the results in the existing structure in 2019.

In 2019, the three business units generated a total Adjusted Result for the year of USD 23 million.

The result is particularly driven by profit in the Dry Operator business unit, high coverage and sale of vessels in Dry Owner, and for the Tanker business unit, strong tanker rates especially at the end of the year.

Dry Operator delivered an Adjusted Result for 2019 of USD 8 million. Even though the result is at the low end of our long-term expectations, it is still satisfactory considering the relatively low risk. Dry Operator showed its strength by constantly adjusting its market exposure in a year with a challenging trading environment. Following challenges in the middle of the year, Dry Operator delivered a very strong fourth quarter with an Adjusted Result of USD 14 million in a heavily declining market.

Dry Owner generated a total result of USD 2 million, which, in line with the other business units, was significantly affected by the implementation of IFRS 16. NORDEN estimates that the effect of the new accounting standard is a loss of USD 14 million. In expectation of a weaker dry cargo market in 2020, the activity in Dry Owner in 2019 was focused on reducing future market exposure. This was done through a combination of sale of vessels and securing attractive coverage. 2 Panamax, 2 Supramax and 2 Handysize vessels were thus sold, and Dry Owner secured approximately 6,000 days of long-term coverage through various employment contracts in the period 2020 to 2029. After the vessel sales, and in line with the strategy to actively buy and sell dry cargo vessels, NORDEN has reduced the owned dry cargo fleet to 14.5 vessels. In order to provide NORDEN with the flexibility required to efficiently manage fluctuations in the number of owned vessels, NORDEN outsourced technical management of all dry cargo vessels in 2019.

Fluctuations also characterised the tanker market in 2019 when NORDEN's Tanker business unit delivered an Adjusted Result of USD 13 million. The second half-year of 2019 and particularly the fourth quarter saw strong tanker rates which NORDEN profited by.

The focus areas in the Tanker business unit was, among other things, to increase market exposure in expectation of an improving tanker market at the end of the year and in the 2020 driven by an increasing demand for new types of fuel in connection with the introduction of the IMO 2020 regulations on 1 January 2020. During 2019, NORDEN has entered into a number of leasing agreements on MR tonnage from other

shipping companies to increase our capacity, and we have therefore been well positioned to benefit from the strong tanker market in the first half of 2020.

For more than a decade, NORDEN has worked with corporate social responsibility in a structured and targeted manner. We have now changed the name to Sustainability as this includes all the areas that we are working in. And we have taken another step. The Annual Report 2019 is the first time NORDEN has made an integrated annual report – where the Sustainability report is a part of the main report. We would like to show that we prioritise the sustainability agenda, and going forward, we will work towards an even more integrated report.

To support our ambition of increasingly integrating environmental and social performance in our reporting, we have this year chosen to elaborate our key figures and financial ratios with two new indicators, EEOI and LTIF. The two indicators indicate performance in relation to the fleet's relative CO₂ emissions and the frequency of work injuries where a seafarer is unable to work for more than 24 hours per 1 million working hours. There is a small increase in the fleet's relative CO₂ emissions due to a limited use of Panamax vessels – our most efficient vessels. The frequency of work injuries is increasing, however, no serious injuries have occurred. The increase is primarily due to small injuries, but nonetheless, we have focus on this area, and this spring, a new safety campaign "Safety Delta" has been introduced with the aim of reducing the number of work injuries.

Sustainability also covers the opportunities which can support the daily business – and the further development of same. The UN's Sustainable Development Goals (SDG) no. 9 is about building a resilient infrastructure – and with our expertise, we are a part of this.

Under SDG 9, we focus on decarbonisation – that is reducing CO₂ emissions – and efficient transport solutions. And our words and targets are followed up by actions.

In summer 2019, we completed our second test voyage with second generation biofuel made from waste frying oils. With our test voyages, we proved an actual alternative to fossil fuels also within shipping. We are not saying that this is the only solution, but we are proud that we in this way take part in showing the way towards a more sustainable industry. We are currently planning additional test voyages.

Another major event which we have planned for in most of 2019 was the introduction of IMO's new regulations regarding vessel fuel. To be able to reduce global sulphur emissions, the UN's International Maritime Organisation decided on a sulphur cap of 0.5% against previous 3.5% in vessel fuel as of 1 January 2020. NORDEN's strategy to meet the regulations has been to use low sulphur fuel on some vessels and install scrubbers on other vessels, including installation of 20 scrubbers on owned vessels and 16 on long-term chartered vessels.

In recent years, NORDEN has increased the agility of the business structure to deliver better returns and returns, which are less dependent on the cycles, which have traditionally characterised the shipping industry.

To continue building on this strategy, NORDEN has as of 1 January 2020 introduced a new business structure allowing for more agility, focus and transparency in the value creation.

Our business now comprises three units: Asset Management, Dry Operator and Tanker Operator. The common denominator is focus on creating attractive risk-adjusted returns through trading and active

management of the portfolio by means of advanced data analytics and risk management. For Asset Management, it is active management of the portfolio of owned and long-term leased vessels and long-term cargo contracts – both in Dry Cargo and Tankers.

For the two operator units, it is combining efficient global transport solutions to our customers within dry cargo and tankers, respectively, with short-term trading activity where price fluctuations in the market are actively used to create returns.

The establishment of the three business units happens simultaneously with the roll-out of the 2020-2022 strategy 'Trading to the next level'. It is to a high degree a continuation of the strategy NORDEN has worked on since 2015. The purpose of the strategy is increased customer focus, data as an asset, advanced data analytics, new initiatives within risk management and the ongoing transformation of NORDEN.

Based on the asset light strategy which NORDEN has focused on in recent years and will continue to focus on, we also believe that it is important not only to look at NAV as a valuation of the company.

We believe that the traditional NAV based valuation of shipping companies is not right for NORDEN as we only own around 10% of the operated fleet, and we are therefore much more than the vessels we own.

A central part of the transformation of NORDEN is to highlight these additional values – latest with the division of our business units into Asset Management and the two operator units. Besides the ownership of vessels, we believe that there is a significant value in our large portfolio of leased vessels including purchase and extension options and cover contracts in Asset Management as well as our ability to create additional value in our two asset light operator units – Dry Operator and Tanker Operator. Dry Operator has, for example, generated an average profit of USD 20 million since its establishment in 2017.

NORDEN is now also more actively using both share buy-back and dividends to increase shareholder values in the company such as the new dividend policy of minimum 50% of the Adjusted Annual Result, which we will get back to shortly.

The COVID-19 pandemic has meant that many countries have shut down, travelling across borders has been limited and normal activities for shipowners such as crew changes, delivery of spare parts and vetting of vessels and inspections have been close to impossible. The many shutdowns have also meant that many ports have been closed, and there has even been force majeure declarations from some customers. This, in combination with the many shutdowns around the world, has had a significantly negative effect on the demand for both dry cargo raw material and oil products in the first and second quarter of 2020. Spot rates have, however, developed very differently in the two segments as they have decreased heavily in dry cargo while tanker spot rates have spiked – supported by large demand for floating oil storage. Even though the virus is under control in many parts of the world, it still creates considerable uncertainty as to how the markets will develop in the second half-year of 2020.

Operationally, NORDEN's systems have been ready for the company to continue its operations without disturbances. COVID-19 has turned out to be a great learning for NORDEN where we have succeeded in operating the company from home, fast and efficiently, to a very large extent from the day after the Danish government recommended this – in all the countries we operate in. The learnings we take with us are about increasing efficiency by, among other things, having more virtual meetings and work more flexibly.

All offices have been shut down at some point, and some employees are still working from home. We have been in close contact with all our offices and continue to monitor the situation closely.

Our seafarers have been particularly affected by the situation, and crew changes continue to be challenging. We keep all options open for how we can safely carry out crew changes and have so far carried out a couple of crew changes where the seafarers have been tested for corona before they board the vessel. The tests have all gone well. We are also part of a larger forum with e.g. Synergy and other technical managers where initiatives are also launched.

We have not had any fatalities among the crew due to COVID-19.

The Board of Directors would like to thank NORDEN's seafarers and the onshore employees for their extraordinary efforts, not least the former due to long periods at sea and difficult working conditions.

On the positive side, we are experiencing that the increasing uncertainty makes NORDEN – with its strong balance sheet and long history – a preferred partner both in terms of cargo customers and vessels leased from other ship owners.

For now, NORDEN is handling the situation well, but the operational risks are considerable and market uncertainty still high. We will continue to keep a close eye on the development.

NORDEN delivered the best first quarter result since the first quarter of 2015, with profit in all three business units and an Adjusted Result of USD 29 million.

Asset Management generated an Adjusted Result of USD 7 million and has benefited from high coverage in dry cargo and increased exposure to the tanker market.

Dry Operator delivered an Adjusted Result of USD 4 million. Dry Operator successfully navigated a very weak dry cargo market in the first quarter by matching cargoes with vessels and efficiently carrying out the voyages. Despite operational challenges and disruptions due to COVID-19, Dry Operator has been able to create value through arbitrage and short-term activities. The new bunker risk system introduced last year has worked well and has protected the values in the portfolio even with the extreme fluctuations in oil prices seen lately.

Tanker Operator generated an impressive Adjusted Result of USD 18 million in its first quarter as a new business unit. The strong result was created by a combination of strong spot rates and active positioning in an expected good market. Product tanker rates have been supported by several factors: the transition to IMO 2020, high rates for crude oil tankers as a result of Saudi Arabia's decision to increase its export of crude oil and not least a sudden and massive demand for tanker vessels for floating oil storage. Tanker Operator has been well positioned to benefit from a strong tanker market, but as expected, this did not last long, and the market started declining during May and is now on a significantly lower level.

NORDEN expects an Adjusted Result for 2020 in the range of USD 30-80 million. This is an upward adjustment from USD 30-70 million and is based on expectations of strong tanker spot rates and yet another good result in Tanker Operator in the second quarter, but also a volatile and challenging tanker market in the second half-year.

It is also expected that the dry cargo market will continue to be negatively affected by COVID-19, and generally, there is a high degree of uncertainty attached to this guidance due to the uncertainty regarding COVID-19 and the reopening of the world economies.

NORDEN's share price has in 2019 increased from DKK 91.7 to DKK 106.7, and the adjusted return in USD was 17.3%.

We believe that value creation in shipping should be seen in a longer perspective, and when looking at a 5-year period, the NORDEN share performed above the peer group of dry cargo and product tanker companies.

In the last couple of years, we have returned capital to our shareholders both through dividends and share buy-backs. On 7 November 2019, NORDEN initiated a share buy-back of up to a total of USD 10 million. The programme ran until 28 February 2020 where NORDEN had acquired 668,400 shares at an average price of DKK 100.23 per share. In addition to this share buy-back programme, a previous programme was completed on 13 February 2019 where 706,900 shares at an average price of DKK 93.36 per share had been acquired.

Following major investments in newbuildings, scrubbers and ballast water treatment systems over the past years, only 2 scrubber installations and USD 40 million in newbuilding instalments remained at the end of 2019. NORDEN also has a strong balance sheet and low CAPEX requirement from our asset light strategy. NORDEN has thus introduced a new dividend policy with a target of annual dividends based on a pay-out ratio of at least 50% of the Adjusted Result.

For 2019, the Board of Directors proposes that a dividend of DKK 2.50 per share is paid to the shareholders, representing a pay-out ratio of 77% of the Adjusted Result for 2019. With the USD 10 million share buy-back programme initiated in November 2019, NORDEN will thus return USD 24 million in total to the shareholders, which is a yield of close to 4%. NORDEN will thus have paid out close to DKK 300 million to the shareholders in both dividends and share buy-backs in the last two years.

In December 2018, two new board members joined the Board of Directors, and the new composition works well and has good dynamics – which is necessary in a changeable world like the one NORDEN operates in. They are strong profiles with insight and knowledge, and the new members contribute with i.a. trading and digitalisation know-how as well as market insight. The last couple of years, we have deliberately aimed at strengthening areas which we consider strategically important. 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.

I would like to thank all board members for the good cooperation in 2019, 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.

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 2020. So here you find stability in contrast to the world in which NORDEN is navigating.

As I mentioned in the introduction, we are living in a world marked by uncertainty and instability. And while the uncertainty due to COVID-19 is extreme, we expect that even when this pandemic is under control, instability and uncertainty will still be present. That is the nature of shipping.

Therefore, it is important that NORDEN can navigate all kinds of markets and in all kinds of conditions. We believe that we have now created that foundation with our new business structure. We are ready to build on the strategy we have had in the last 5 years and become an even stronger trading company, based on knowledge and network. NORDEN has had a good start to the year and now expects an Adjusted Result in the range of USD 30-80 million in 2020. Generally, there is great uncertainty attached to this guidance due to the uncertainty in relation to COVID-19 and the challenging markets, but we expect that we can deliver the fifth consecutive year with a profit – and a nice profit despite the difficult market conditions.

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

Thank you for listening.