NORDIC SHIPHOLDING

# Interim Report Q3 2017

22 November 2017
CVR-no. 76 35 17 16

## Summary

*The comparison figures for period ended 30 September 2016 ("9M 2016") are stated in parenthesis.*

Since 2016, the weakening market has continued to impact the tanker industry. TCE revenue fell to USD 18.0 million (USD 22.0 million) for the 9 months ended 30 September 2017 ("9M 2017"). As a result, the Group incurred a loss after tax of USD 2.2 million in 9M 2017 compared to a profit of USD 1.4 million in the same period last year (or a loss after tax of USD 3.7 million after accounting for a one-off impairment loss of USD 5.1 million). No impairment loss was recognised in the period under review.

The reduction in profit of USD 3.6 million was mainly attributable to the lower tanker Time Charter Equivalent ("TCE") revenue from the vessels deployed in the two pools. The loss of earnings arising from the dry-docking of Nordic Hanne in June 2017 also contributed to the decrease.

Expenses relating to the operation of vessels in 9M 2017 was marginally lower at USD 11.1 million (USD 11.4 million) compared to the same period last year.

EBITDA fell to USD 5.4 million (USD 9.2 million) primarily due to the reduction in TCE revenue in 9M 2017.

The Group did not make any impairment nor reversal of impairment during the 9M 2017 (impairment loss of USD 5.1 million in 9M 2016). But development is monitored closely due to market uncertainties.

After accounting for depreciation, interest expenses and other finance expenses, the loss after tax in 9M 2017 was USD 2.2 million (loss after tax of USD 3.7 million).

Under the loan agreement, cash in excess of USD 6.0 million will be used to pay down the loan facility. As the cash balance did not exceed USD 6.0 million, there was no cash sweep for the period under review. For the same period last year, there was a cash sweep of USD 2.7 million.

During the financial period, cash flow generated from operations was USD 3.2 million (USD 6.0 million) mainly from earnings by the two pools and time-charter income received for Nordic Anne, offset by payment of periodic interest expenses on the term loan. During the financial period, the Group invested USD 1.2 million (USD 0.1 million) in dry-docking. The Group made a partial repayment of USD 3.5 million (USD 6.5 million, including a USD 2.7 million cash sweep) on the term loan facility. As at 30 September 2017, cash and cash equivalents was USD 3.5 million (USD 6.0 million).

Given the current soft sentiments on the tankers' market, the Board has revised downwards the outlook for 2017 against the guidance indicated in the Interim Report H1 2017. The result before tax is expected to be between USD -4.5 million – USD -2.5 million, decreased from USD -3.5 million – USD -1.5 million.

## Consolidated financial highlights

| *Amounts in USD thousand* | **YTD 30 Sep 2017** | **YTD 30 Sep 2016** | **FY 2016** |
|---|---|---|---|
| Time charter equivalent revenue (TCE revenue) | 17,990 | 22,025 | 27,703 |
| EBITDA | 5,394 | 9,170 | 10,753 |
| Operating result (EBIT) | 298 | (1,242) | (1,392) |
| Net finance expenses | (2,518) | (2,455) | (3,386) |
| Result after tax | (2,220) | (3,697) | (4,778) |
| | | | |
| Equity ratio (%) | 32.3% | 32.9% | 32.7% |
| Earnings per share US cents | (0.55) | (0.91) | (1.18) |
| Market price per share DKK, period end | 0.73 | 0.92 | 0.76 |
| Market price per share USD, period end | 0.12 | 0.14 | 0.11 |
| Exchange rate USD/DKK, period end | 6.30 | 6.63 | 7.07 |
| Number of shares, period end | 406,158,403 | 406,158,403 | 406,158,403 |
| Average number of shares | 406,158,403 | 406,158,403 | 406,158,403 |

## Company data

**Company**
Nordic Shipholding A/S (the "Company")
Sundkrogsgade 19, DK-2100 Copenhagen, Denmark
CVR- no. 76 35 17 16
Website: www.nordicshipholding.com
Registered office: Copenhagen
Contact persons regarding this interim report: Knud Pontoppidan, Chairman
Philip Clausius, CEO

**Executive Management**
Philip Clausius, CEO

**Board of Directors**
Knud Pontoppidan, Chairman
Jon Robert Lewis, Deputy Chairman
Kristian V. Mørch
Kanak Kapur
Philip Clausius

**Auditors**
PricewaterhouseCoopers, Statsautoriseret Revisionspartnerselskab

**Forward-looking statements**
This report contains forward-looking statements reflecting Nordic Shipholding A/S's current beliefs concerning future events. Forward-looking statements are inherently subject to uncertainty, and Nordic Shipholding A/S's actual results may thus differ significantly from expectations. Factors which could cause actual results to deviate from the expectations include, but not limited to, changes in macroeconomic, regulatory and political conditions, especially on the Company's main markets, changes in currency exchange and interest rates, freight rates, operating expenses and vessel prices as well as possible disruptions of traffic and operations resulting from outside events.

## Management's review

The Group with its six vessels, continues to be a tonnage provider in the product tanker segment. The five handysize tankers remain commercially managed by the UPT Handy Pool (Nordic Agnetha, Nordic Amy and Nordic Ruth) and Hafnia Handy Pool (Nordic Pia and Nordic Hanne). The pool agreement, which qualify as joint operation are recognised and measured in the consolidated financial statements pro rata with the Group's ownership interest and presented on a line-by-line basis in the consolidated financial statements. For the other pool, which does not qualify as a joint operation, the accounting is made on a "net-basis", i.e. Time Charter Equivalent ("TCE") for income and "net" for assets and liabilities. This has resulted in an overall reduction in revenue, compared to 9M 2016.

In 9M 2017, the average daily TCE rate earned by the vessels in the two pools was also lower than the forecasted daily rate, whilst the LR1 vessel (Nordic Anne) tracked the forecasted daily rate.

The LR1 tanker (Nordic Anne) was redelivered upon the completion of the 3-year time charter in October 2017, and simultaneously re-entered the Straits Tankers Pool.

**Financial results for the period 1 January – 30 September 2017**
*The comparison figures for the same period in 2016 are stated in parenthesis.*

The Group incurred a loss after tax of USD 2.2 million in 9M 2017 compared to a profit of USD 1.4 million in the same period last year (or a loss after tax of USD 3.7 million after accounting for a one-off impairment loss of USD 5.1 million). No impairment loss was recognised in the period under review.

The reduction in profit of USD 3.6 million was mainly attributable to the lower tanker TCE revenue from the vessels deployed in the two pools. The loss of earnings arising from the dry-docking of Nordic Hanne in June 2017 also contributed to the decrease.

Expenses relating to the operation of vessels in 9M 2017 was marginally lower at USD 11.1 million (USD 11.4 million) compared to the same period last year.

EBITDA fell to USD 5.4 million (USD 9.2 million) primarily due to the reduction in TCE revenue in 9M 2017.

The Group did not make any impairment nor reversal of impairment during the 9M 2017 (impairment loss of USD 5.1 million in 9M 2016). But development is monitored closely due to market uncertainties.

During the financial period, depreciation amounted to USD 5.1 million (USD 5.4 million). The lower depreciation expense was due to the one-off impairment loss of USD 5.1 million recognised in 9M 2016.

Net finance expenses were at USD 2.5 million (USD 2.5 million). The reduced loan balance was offset by higher 3M-USD LIBOR rates applicable in 9M 2017 as compared to the same period last year.

After accounting for depreciation, interest expenses and other finance expenses, the loss after tax in 9M 2017 was USD 2.2 million (loss after tax of USD 3.7 million).

**Financial position as at 30 September 2017**
*The comparison figures for 30 September 2016 are stated in parenthesis.*

Total assets amounted to USD 114.9 million (USD 122.9 million).

Vessels and docking stood at USD 104.7 million (USD 110.4 million). The change is due to the depreciation on the vessels which is offset with the capitalisation of dry-docking of Nordic Hanne.

Receivables balance was USD 5.8 million as at 30 September 2017 (USD 5.7 million).

From 30 September 2016 to 30 September 2017, net working capital[1] increased by USD 0.3 million from USD 3.8 million to USD 4.1 million.

Cash and cash equivalents stood at USD 3.5 million (USD 6.0 million), a reduction of USD 2.5 million from 30 September 2016. The reduction was due to lower TCE earnings during the period.

Between 30 September 2016 to 30 September 2017, equity decreased from USD 40.5 million to USD 37.2 million as a result of the cumulative loss during the period. Consequently, the equity ratio decreased marginally from 32.9% to 32.3% between 30 September 2016 to 30 September 2017.

Non-current liabilities fell to USD 68.4 million (USD 73.5 million), due to the periodic repayment of the term loan. Current liabilities at USD 9.4 million (USD 8.9 million) comprised the current portion of term loan of USD 6.7 million (USD 6.3 million) arising from regular instalments from October 2017 to September 2018, and other current liabilities of USD 2.7 million (USD 2.6 million).

Under the loan agreement, cash in excess of USD 6.0 million will be used to pay down the loan facility. As the cash balance did not exceed USD 6.0 million, there was no cash sweep for the period under review. For the same period last year, there was a cash sweep of USD 2.7 million.

**Cash flow for the period 1 January – 30 September 2017**
*The comparison figures for the same period in 2016 are stated in parenthesis.*

During the financial period, cash flow generated from operations was USD 3.2 million (USD 6.0 million) mainly from earnings by the two pools and time-charter income received for Nordic Anne, offset by payment of periodic interest expenses on the term loan. During the financial period, the Group invested USD 1.2 million (USD 0.1 million) in dry-docking. The Group made a partial repayment of USD 3.5 million (USD 6.5 million, including a USD 2.7 million cash sweep) on the term loan facility. As at 30 September 2017, cash and cash equivalents was USD 3.5 million (USD 6.0 million).

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[1] Net working capital is defined as inventories, receivables and other current operating assets less trade payables and other liabilities (excluding provisions) as well as other current operating liabilities.

**Events occurring after the end of the financial period**

Except for the redelivery of Nordic Anne upon the completion of the 3-year time charter and her re-entry in the Straits Tankers Pool in October 2017, there is no other significant event which has occurred after 30 September 2017.

**Outlook for 2017**

Operationally, the six vessels are expected to remain commercially deployed in the UPT Handy Pool (three vessels), Hafnia Handy Pool (two vessels) and Straits Tankers Pool (one vessel), respectively.

Given the current soft sentiments on the tankers' market, the Board has revised downwards the outlook for 2017 against the guidance indicated in the Interim Report H1 2017. The EBITDA (earnings before interest, tax, depreciation and amortisation) is expected to be in the range of USD 5.0 million – USD 8.0 million, a reduction from USD 6.0 million – USD 9.0 million. The result before tax is expected to be between USD -4.5 million – USD -2.5 million, decreased from USD -3.5 million – USD -1.5 million. This revised outlook for 2017 does not take into account any impairment of vessels' carrying values.

The Board will look at growth and consolidation opportunities that are accretive to the Company.

## Management statement

We have today considered and approved the interim financial statements of Nordic Shipholding A/S for the period 1 January – 30 September 2017.

The interim report, which has not been audited or reviewed, has been presented in accordance with IAS 34, *Interim Financial Reporting*, as adopted by the EU and additional Danish disclosure requirements for interim reports of listed companies.

In our opinion, the accounting policies applied are appropriate and the interim report gives a true and fair view of the Group's financial position at 30 September 2017 and of its financial performance and cash flows for the period 1 January – 30 September 2017. In our opinion, the management's review gives a true and fair review of the development in and results of the Group's operations and financial position as a whole and a specification of the significant risks and uncertainties facing the Group. Besides what has been disclosed in the interim report for the period 1 January – 30 September 2017, no changes in the Group's most significant risks and uncertainties have occurred relative to what was disclosed in the 2016 Annual Report.

Copenhagen, 22 November 2017

**Executive Management**
Philip Clausius, CEO

**Board of Directors**

Knud Pontoppidan
Chairman

Jon Robert Lewis
Deputy Chairman

Kristian V. Mørch

Kanak Kapur

Philip Clausius

# Consolidated statement of comprehensive income (condensed)

| *Amounts in USD thousand* | **Q3 2017** | **Q3 2016** | **YTD 30 Sep 2017** | **YTD 30 Sep 2016** | **FY 2016** |
|---|---|---|---|---|---|
| Total revenue | **7,550** | **7,219** | **24,378** | **27,983** | **35,693** |
| Voyage related expenses | (2,204) | (1,608) | (6,388) | (5,958) | (7,990) |
| **TCE revenue** | **5,346** | **5,611** | **17,990** | **22,025** | **27,703** |
| Other income | - | - | - | - | 15 |
| Expenses related to the operation of vessels | (3,548) | (3,731) | (11,097) | (11,361) | (15,091) |
| Staff costs | (70) | (66) | (212) | (197) | (261) |
| Other external costs | (418) | (393) | (1,287) | (1,297) | (1,613) |
| **EBITDA** | **1,310** | **1,421** | **5,394** | **9,170** | **10,753** |
| | | | | | |
| Depreciation | (1,734) | (1,787) | (5,096) | (5,362) | (7,095) |
| Write-downs | - | (5,050) | - | (5,050) | (5,050) |
| **Operating result (EBIT)** | **(424)** | **(5,416)** | **298** | **(1,242)** | **(1,392)** |
| | | | | | |
| Financial expenses | (830) | (763) | (2,518) | (2,455) | (3,386) |
| **Result before tax** | **(1,254)** | **(6,179)** | **(2,220)** | **(3,697)** | **(4,778)** |
| Tax on result | - | - | - | - | - |
| **Result after tax** | **(1,254)** | **(6,179)** | **(2,220)** | **(3,697)** | **(4,778)** |
| | | | | | |
| **Other comprehensive income** | - | - | - | - | - |
| **Comprehensive income** | **(1,254)** | **(6,179)** | **(2,220)** | **(3,697)** | **(4,778)** |
| | | | | | |
| **Distribution of result** | | | | | |
| Parent Company | (1,254) | (6,179) | (2,220) | (3,697) | (4,778) |
| Non-controlling interest | - | - | - | - | - |
| | **(1,254)** | **(6,179)** | **(2,220)** | **(3,697)** | **(4,778)** |
| | | | | | |
| **Distribution of comprehensive income** | | | | | |
| Parent Company | (1,254) | (6,179) | (2,220) | (3,697) | (4,778) |
| Non-controlling interest | - | - | - | - | - |
| | **(1,254)** | **(6,179)** | **(2,220)** | **(3,697)** | **(4,778)** |
| | | | | | |
| Number of shares, end of period | 406,158,403 | 406,158,403 | 406,158,403 | 406,158,403 | 406,158,403 |
| Earnings per share, US cents | (0.31) | (1.52) | (0.55) | (0.91) | (1.18) |
| Diluted earnings per share, US cents | (0.31) | (1.52) | (0.55) | (0.91) | (1.18) |

## Statement of financial position (condensed)

| *Amounts in USD thousand* | **30 Sep 2017** | **30 Sep 2016** | **31 Dec 2016** |
|---|---|---|---|
| **Non-current assets** | | | |
| Vessels and docking | 104,677 | 110,355 | 108,622 |
| Other financial assets | 1 | 8 | 29 |
| **Total non-current assets** | **104,678** | **110,363** | **108,651** |
| | | | |
| **Current assets** | | | |
| Bunkers and lubricant stocks | 1,004 | 801 | 894 |
| Receivables | 5,796 | 5,693 | 5,943 |
| Cash & cash equivalents | 3,467 | 6,039 | 4,963 |
| **Total current assets** | 10,267 | 12,533 | 11,800 |
| **Total assets** | **114,945** | **122,896** | **120,451** |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Equity, Parent Company | 37,163 | 40,464 | 39,383 |
| Equity, non-controlling interest | - | - | - |
| **Total equity** | **37,163** | **40,464** | **39,383** |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Finance loans, etc. | 68,387 | 73,517 | 71,855 |
| **Total non-current liabilities** | **68,387** | **73,517** | **71,855** |
| | | | |
| **Current liabilities** | | | |
| Finance loans, etc. | 6,698 | 6,268 | 6,697 |
| Other current liabilities | 2,697 | 2,647 | 2,516 |
| **Total current liabilities** | **9,395** | **8,915** | **9,213** |
| **Total liabilities** | **77,782** | **82,432** | **81,068** |
| **Equity and liabilities** | **114,945** | **122,896** | **120,451** |

## Statement of changes in equity (condensed)

| *Amounts in USD thousand* | **Share capital** | **Retained earnings** | **Equity Parent company** | **Non-controlling interest** | **Total equity** |
|---|---|---|---|---|---|
| **Equity as at 1 January 2017** | **7,437** | **31,946** | **39,383** | **-** | **39,383** |
| Result for the period | - | (2,220) | (2,220) | - | (2,220) |
| Other comprehensive income for the period | - | - | - | - | - |
| **Equity as at 30 September 2017** | **7,437** | **29,726** | **37,163** | **-** | **37,163** |

| *Amounts in USD thousand* | **Share capital** | **Retained earnings** | **Equity Parent company** | **Non-controlling interest** | **Total equity** |
|---|---|---|---|---|---|
| **Equity as at 1 January 2016** | **7,437** | **36,724** | **44,161** | **-** | **44,161** |
| Result for the period | - | (3,697) | (3,697) | - | (3,697) |
| Other comprehensive income for the period | - | - | - | - | - |
| **Equity as at 30 September 2016** | **7,437** | **33,027** | **40,464** | **-** | **40,464** |

## Statement of cash flow (condensed)

| *Amounts in USD thousand* | YTD 30 Sep 2017 | YTD 30 Sep 2016 | Year 2016 |
|---|---|---|---|
| **Operating result (EBIT)** | 298 | (1,242) | (1,392) |
| Adjustments for: | | | |
| Depreciation and write-downs | 5,096 | 10,412 | 12,145 |
| Non-cash financial expenses | - | - | (68) |
| **Operating profit before working capital changes** | 5,394 | 9,170 | 10,685 |
| Changes in working capital | 193 | (718) | (1,168) |
| Net financial expenses paid | (2,407) | (2,457) | (3,348) |
| **Cash flows from operating activities** | **3,180** | 5,995 | 6,169 |
| | | | |
| Investments in tangible assets | (1,151) | (115) | (115) |
| **Net cash from investing activities** | **(1,151)** | (115) | (115) |
| | | | |
| Purchase of interest rate caps | (35) | - | - |
| Repayment of finance loans | (3,490) | (6,475) | (7,725) |
| **Net cash from financing activities** | **(3,525)** | (6,475) | (7,725) |
| | | | |
| Cash flows for the period | (1,496) | (595) | (1,671) |
| Cash and cash equivalents at beginning of period | 4,963 | 6,634 | 6,634 |
| **Cash and cash equivalents at end of period** | **3,467** | 6,039 | 4,963 |

# Notes

## 1. Accounting policies

The interim report has been presented as a condensed set of financial statements in accordance with IAS 34, *Interim Financial Reporting*, as adopted by the EU and additional Danish disclosure requirements for interim reports of listed companies. The accounting policies have been consistently applied. For a further description of the accounting policies, see the 2016 Annual Report for Nordic Shipholding A/S.

*New IAS/IFRSs*
Nordic Shipholding A/S has implemented the new financial reporting standards or interpretations which were effective from 1 January 2017. The changes have no impact on Nordic Shipholding A/S's results or equity in the interim report and disclosure in the notes.

## 2. Accounting estimates

*Impairment tests*
In accordance with IAS 36, intangible assets with indefinite lives are tested for impairment at least annually and tangible assets are tested if there are indications of impairment. The Group evaluates the carrying amount of vessels within two cash generating units – LR1 vessel deployed in the Straits Tankers Pool and handysize vessels deployed in the two pools respectively - to determine whether events have occurred that would require an adjustment to the recognised value of the vessels.

In 9M 2017, there was no impairment loss recognised or reversal of impairment write-down. We have assessed that there is no further reversal of the impairment loss that was recognised in 2012 for the vessels deployed in the two pools.

The value in use calculation is sensitive to fluctuations in freight rates. As an indication of this sensitivity, a fluctuation of 3.0% on the daily long-term TCE rate would, all things being equal, change the calculated value in use by USD 1.9 million for the LR1 tanker and USD 6.7 million for the five handysize vessels. If the daily long-term TCE rate decreases by 3%, there would be no impairment loss for the LR1 tanker and an impairment loss of USD 4.3 million for the five handysize vessels.

Another key assumption used in the value in use calculation is its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Similarly, a fluctuation of 0.5 percentage points on the WACC would, all things being equal, change the calculated value in use by USD 1.1 million for the LR1 tanker and USD 2.6 million for the five handysize vessels. If the WACC increases by 0.5 percentage points, there would be no impairment loss for the LR1 tanker and an impairment loss of USD 0.2 million for the five handysize vessels.

*Depreciation*
Depreciation on vessels is material for the Group. Vessels are depreciated over their useful life, which management estimates to be 25 years, to a residual value. The estimates are reassessed regularly based on available information. Changes to estimates of useful lives and residual values may affect the depreciation for the period. There was no change to the estimates of useful lives and residual values during 9M 2017. The carrying amount of vessels as at 30 September 2017 amounted to USD 104.7 million (30 September 2016: USD 110.4 million; 31 December 2016: USD 108.6 million).

## 3. Finance loans

As at 30 September 2017, the Group had outstanding finance loans of USD 75.1 million (30 September 2016: USD 79.8 million; 31 December 2016: USD 78.6 million). The reduction in finance loans between the periods was due to partial repayment on term loan.