
CHAIRMAN'S REPORT BY CHAIRMAN KLAUS NYBORG, NORDEN'S ANNUAL GENERAL MEETING, 5 APRIL 2017

Thank you.

Focus & Simplicity is the headline of NORDEN's strategy. And both focus and simplicity were needed in 2016.

INITIATIVES

With a number of initiatives, we made it through a dry cargo market which hit a historical low point and a tanker market which ran out of steam after a year and a half of very strong rates.

We continuously adapted to the challenging and volatile market conditions at the same time as we laid down the tracks for future growth through a number of initiatives. This is based on the objective to contribute to still more efficient global trade – *smarter global trade*. Because this is NORDEN's core competency. To ensure that cargo is transported in the best way possible from consignor to recipient.

The physical tool to accomplish this task is NORDEN's fleet of owned and chartered vessels. And we have been busy optimising it. During the course of 2016, we have entered into 31 agreements which will improve our core fleet – meaning the vessels we own and have chartered in for more than 13 months.

We have focused on positioning ourselves best possibly for when the markets turn. This means that a significant part of the agreements has revolved around postponing delivery of newbuildings and optimising the vessels we have on order at the yards. In addition, we have also made active use of our financial position to reduce costs related to the part of our fleet which we have chartered in. By prepaying a part of the hire, we have achieved considerable savings, and this contributes to lowering costs.

In accordance with the strategy, we have sold off vessels within the vessel types where NORDEN does not have a strong position. This means that we no longer own Capesize or Post-Panamax vessels, but on the other hand have focused our ownership on the medium-sized vessels Panamax and Supramax. We have for example converted an order for a Capesize vessel to 3 Supramax vessels.

At the same time, we have maintained the momentum in our cost saving programme. At the end of 2014, we launched a heightened focus on vessel costs. The goal is to reduce the annual operating and voyage costs by 20 million dollars. And we have come far. As yet, we have reduced costs by 15 million dollars – i.e. about 100 million Danish kroner annually. The low-hanging fruit has been picked, but our endeavours continue. Because a sharp focus on costs plays a part in improving competitiveness and clearing the way for new contracts.

We saw several examples of this in 2016. Besides the many hundreds of contracts which we conclude as part of everyday business, we also have some employees who focus on the very long-term cargo contracts. Based on strong market knowledge and good customer relationships, which NORDEN's local offices have, they cultivate new opportunities in cooperation with the local NORDEN employees. They use NORDEN's long history, solid financial position and good reputation in the business to gain access to interesting customers and bid for contracts which typically involve several million tonnes of cargo and run over several years.

It has been a busy time for this part of the business, and the efforts have been spiced with success. It resulted in 4 very large contracts – including the largest in terms of volume in the Company's 146-year history. All 4 contracts revolve around transportation of fuel – and here NORDEN also feels the development. 3 out of the 4

contracts concern transportation of wood pellets from the US to power plants in Europe. The contracts have been entered into with some of the world's leading companies within the production of wood pellets, Enviva and Pinnacle, and span up to 15 years. But although wood pellets play an increasingly larger role in the energy sector, coal is still the most significant energy source in many parts of the world. The last of the 4 contracts does concern coal. And in terms of volume, this is the largest contract NORDEN has ever concluded. Over the coming 10 years, NORDEN will be transporting up to 24 million tonnes of coal on behalf of the company GN Power to their power plant in the Philippines. To put 24 million tonnes into perspective, this corresponds to the weight of 4 Cheops pyramids. We do, however, split the cargo into smaller bites in the form of 25-30 loaded Panamax vessels per year.

The long-term contracts do not remove focus from everyday business. Here, we are permanently occupied with positioning the vessels according to the market fluctuations we experience. This is the case both within Dry Cargo and not least Tankers.

A year ago, the tanker market was still strong, but we expected it to weaken and it did. We were therefore pleased with the coverage which we took while the market was good, just as we are also pleased that we sold 3 of our older tanker vessels during 2016 and thereby further reduced exposure to a still weaker market.

The adjustment was a contributory factor to the fact that the tanker fleet yet again generated a positive result, but if we take a closer look at the figures for the year some of them were unfortunately also negative.

KEY FIGURES

The adjusted results for the year amounted to minus 35 million dollars, which corresponds to a result before depreciations etc. – what we call EBITDA – of just about 31 million dollars and an operating profit or loss – EBIT – of minus 65 million dollars. This was in line with the most recently announced expectations for the year but is of course not satisfactory.

Even though activities in terms of number of ship days increased from 75,000 to about 78,000 days, revenue dropped by just about 25% to 1.25 billion dollars as a result of the significantly deteriorated rates which 2016 offered.

In 2016, our balance sheet also decreased, primarily as a consequence of the sale of vessels as well as a draw on our cash and securities. With 1.3 billion dollars, however, we still have a strong balance sheet, which also provides us with extra padding when cash flows from operating activities are negative, as they were in 2016 with 80 million dollars.

A look at vessel values in general shows that especially tanker vessels have been subject to a declining trend as rates came under pressure during the course of the year. Conversely, the value of dry cargo vessels stabilised as rates slowly increased from a historical low point. At the end of the year, according to 3 independent brokers, the value of NORDEN's owned vessels and newbuilding orders including joint ventures and assets held for sale was 894 million dollars.

A part of the optimisation of the fleet has revolved around postponing deliveries of vessels. A large part of the newbuilding programme, which was set to be delivered from 2015-2017, has thus been postponed during the last couple of years. This also concerns for example the 2 vessels that were to be delivered in 2017. We sold those in 2016, meaning that our newbuilding programme is now scheduled to be delivered from 2018 and until 2020 – therefore at a time when we expect the market to be better. In total, NORDEN has 19 dry cargo vessels for delivery – 10 owned vessels and 9 long-term chartered.

Our financial position also remains sound. At the end of the year, NORDEN's cash and securities amounted to 264 million dollars, and to this should be added undrawn credit facilities of 250 million dollars.

All payments for the newbuilding programme are therefore fully covered, as they amounted to 244 million dollars at the turn of the year. We have worked to reduce our net commitments. The long-term contracts, which I mentioned before, have been a contributory factor to the fact that NORDEN has reduced its net commitments during the year by 37% to 620 million dollars. We therefore have an appropriate capital structure which ensures us a solid foundation as well as resources against challenging markets and at the same time provides us with the opportunity for further investments when this is considered attractive.

SHAREHOLDERS' RETURN

If we take a look at the share price, it reflects the declining tanker market and the historically poor dry cargo market. In the first quarter, the NORDEN share price followed the Baltic Dry Index and went down to a price of 80 per share. Towards the end of the year, the price increased as dry cargo rates improved and ended at a price of 110.5 – a drop of just about 9% during the course of the year. In view of the increasing dollar rate, the return in dollars measured as the total value of dividend payments and increases in price has been at around minus 11%.

Despite the negative result, the NORDEN share has done better compared to the peer group of dry cargo and product tanker companies. Altogether, the peer group had a return of around minus 15% – not least due to the fact that the tanker companies had a negative return of 37%.

Since the turn of the year, the NORDEN share has gone up and is currently traded at a price of 140 – an increase of 25% in 2017.

It is never satisfactory to present red numbers in a financial statement, and it is with regret that the Board of Directors again this year has to propose to the annual general meeting that no dividend is paid out for 2016. It is, however, important to the Board of Directors that the Company maintains its financial strength – so we can withstand continued challenging markets as well as utilise the opportunities that present themselves.

DRY CARGO 2016/2017

Let us now turn our attention to the more market specific events within NORDEN's 2 business areas – Dry Cargo and Tankers.

And, as already mentioned, the 2 markets were moving in very different directions. For several years, the dry cargo market has been affected particularly hard by too many vessels and declining demand. This was also the case in 2016.

On 10 February, the Baltic Dry Index reached its lowest level registered in the more than 30-year history of the index. From there, things slowly improved – not so much because of fewer vessels – because actually more were added during the year with a net increase of 2.4%, but more as a result of increasing demand. Once again, China led the development, and this highlighted how important Chinese imports are to the global dry cargo market.

With political measures, the Chinese government boosted imports of especially iron ore for the production of steel. China also increased coal imports after 2 years with steep drops in imports. At the same time, the dry cargo market benefitted from strong grain seasons in North and South America, and the growth within these areas was large enough to counterbalance a decrease in Indian and especially European coal imports.

Altogether, dry cargo demand increased by about 3.5%, while the global fleet of dry cargo vessels as mentioned grew by 2.4%.

NORDEN entered the year with 51% coverage and was able to outperform the market by 19%. Within NORDEN's primary vessel types Supramax and Panamax, earnings were even 21% above the market. That is something to be pleased about, but when the rates are as low as they were in 2016, it is unfortunately not enough to deliver black numbers on the bottom line.

So, despite persistent efforts, the adjusted result for the year in Dry Cargo amounted to minus 52 million dollars.

As mentioned earlier, it is never satisfactory to lose money, and we have therefore launched a number of initiatives with the aim of improving the result. One of these is a strengthening of operator activities in Dry Cargo.

I will ask Jan to tell you more about the background for this.

JAN ON OPERATOR ACTIVITIES

Thank you for this opportunity to let you know more about the part of NORDEN's dry cargo business, which we expect to be able to make more profitable during the years to come: Our operator activities.

But what is operator activity exactly?

Briefly explained, operator activity is the ability to combine cargoes and vessels in the market in the best possible way. For this purpose, good business acumen, strong customer relations and thorough market insight really comes into play. Starting from our global network of offices, NORDEN can pursue and take advantages of the opportunities which always exist if you have an eye for them. Sometimes it may be a cargo that you know that you are able provide inexpensive transportation for. At other times, it may be an opportunity to obtain cheap capacity. This will typically be vessels which we rent – that is charter in – for a short period, maybe just for a single trip. But it can also be a situation where we take advantage of our position as a shipping company to optimise around our owned and long-term chartered vessels.

Earnings from operator activities consist of the difference between what the customer pays for transport and what it costs NORDEN to charter a vessel. Consequently, as a general rule operator activity is less dependent on market rates than the dry cargo business in general.

If freight rates are low, the cost of renting available vessels is also low. Conversely – if the price of available vessels increase, it reflects that freight rates have also gone up. For that reason, it is usually possible to earn money on operator activities during times of prosperity as well as recession. Our long-term exposure and risk to the market are thus reduced while we maintain our earnings potential. In other words, we do not tie up money in vessels needlessly in the hope that the market will turn the investment lucrative at some point in time. Instead we are actively creating value in the market in the short – and less uncertain – term.

A strengthening of our operator activities presents us with new business opportunities, economies of scale and boosts our revenue and income. To carry the strengthening into effect, we have appointed Christian Vinther Christensen as new Head of Dry Cargo. With more than 25 years of shipping experience, including extensive experience with operator activity, he has thrown himself into the battle of making processes and organisation more simple and agile.

In the future, we expect the market to become even more volatile on a global level but definitely also in regional markets. It is thus crucial that we are able to make fast decisions on a regional level to exploit these rapid market fluctuations without taking larger risks than today – rather the opposite.

As part of the process, we have consequently restructured the Dry Cargo Department enabling it to act with an even higher degree of decision-making capacity and agility. This is important as it is often necessary with fast decisions made by competent employees who know how to put together a good voyage. Both in the process of entering into the contracts and when it comes to completing the voyage with all that it entails in terms of port calls, pilots, documents and not least payment.

With more specialised teams, clearly defined business areas and strong competences, we have all the preconditions for strengthening the Company further through operator activities. And we will do so during the years to come. In 2016, we increased the use of short-term chartered vessels by 7% and we have thereby already started the process.

Increased focus on operator activities also brings the competences of our talented employees even more into play – trade talent, business acumen and the ability to constantly optimise voyages.

These are abilities which are not only relevant in respect to operator activities, but to all activities – including our owned vessels and the vessels which we have long-term chartered for several years and typically with purchase option. Because even though we strengthen our operator activities by using more chartered vessels, we still have a large fleet of owned and long-term chartered vessels, which come into play in connection with long-term COAs. At the turn of the year, NORDEN owned 37.5 vessels in total and had 66.5 long-term chartered vessels at its disposal of which the majority are with purchase option. This provides us with a strong foundation on which we can optimise our voyages and at the same time ensures that we are also well positioned if the market and vessel prices increase in the coming years.

Thank you for listening.

TANKERS 2016/2017

Thank you for going over operator activity. As Jan says, operator activity is an area where NORDEN can really take advantage of its strong position, which has been established through decades. We have good access to both customers, cargoes and vessels – and we have a strong organisation supported by well-functioning systems.

This is also the case within NORDEN's other large business area, Tankers. The year in the tanker market got off to a good start, but unfortunately, it was never partly or fully completed.

As demand growth declined and many new tanker vessels were delivered to the global fleet, rates dropped significantly. We expected that the very strong tanker market, as seen through 2015, would end in the course of 2016. For that reason, we spent the second half-year of 2015 and the first half-year of 2016 on lowering our exposure to the increasingly weaker market. We did so by increasing coverage, and during 2016, we also disposed of 3 of our oldest tanker vessels and this lowered our exposure further. The result of our efforts did not fail to appear.

In total, NORDEN's tanker vessels generated earnings which on average were 7% above the market. Adjusted results for the year in Tankers amounted to 17 million dollars.

We continuously adjust our exposure to the markets. Consequently, when we, towards the end of 2016, saw that the price of capacity – that is renting vessels – had dropped to a point where it once again was attractive to increase our capacity, we took advantage of it. We have entered into an agreement on long-term chartering of 2 new MR vessels for delivery in 2018. These will be a supplement to 4 other MR vessels, which we have previously contracted, and which will be delivered during the coming 18 months. All 6 agreements offer good optionality – that means that we have the possibility to extend the charter period if we are interested, and they also offer purchase options – that means that we have the option to buy the vessels at a price agreed upon in advance.

Here and now, we have, however, taken precautions against a tanker market which we have moderate expectations to. We consequently entered 2017 with 21% fewer open ship days than the year before, and despite the current spring feeling in the market, we believe that to be quite sensible.

Many new tanker vessels have been delivered and this is expected to put a damper on the market in 2017. There is, however, a possibility for improvement towards the end of the year – i.e. at the same time as new vessels are delivered to NORDEN.

BOARD WORK

The general meeting is also a good occasion to give account of the work of the Board of Directors. During the last couple of years, we have had an increasingly more structured approach to the many tasks, and a lot of the work has been assigned to the 3 appointed committees: The Audit Committee, the Remuneration Committee and the Nomination Committee.

Our work is scheduled in an annual calendar as usual and we make sure to cover all topics. A new thing for the Board of Directors is that we have introduced strategy seminars where we disconnect from the day-to-day outlook for a couple of days. This is a consequence of the fact that, during recent years, the strategy work has been adjusted to fit the increasingly volatile world and thus operates with a shorter time frame. Therefore, it is important that the Board of Directors also have a long-term perspective, and the seminar results in interesting discussions and gives us a good indication of how NORDEN should be positioned – also in the very long term. The pivotal point is our customers and their need for transport. With its expertise and global reach, NORDEN can draw on knowledge and experience to optimise the solutions for the benefit of the customer, the society and NORDEN.

As mentioned, contributing to *smarter global trade* is NORDEN's overall objective. And our contribution must be delivered responsibly. NORDEN's work with corporate social responsibility is therefore based on our activities and our business. The employees play a key role in this regard. They are the ones who create the results day after day and who with their know-how, experience and expertise enable NORDEN to repeatedly generate earnings above market level. And they are the ones who both form the backbone of the business and are NORDEN's public image through their contact to our numerous customers and stakeholders. I would like to take this opportunity to thank them.

A part of corporate social responsibility deals with even gender distribution. Shipping has been considered a male profession for many years. However, we want to change that perception and each year in connection with trainee recruitment, we strive to ensure a more even gender distribution among the future talents.

The most important element will always be qualifications, no matter the position in NORDEN. But in the Nomination Committee, we also carefully try to find female candidates for the Board of Directors. To help us in

this matter, we have engaged external consultants. There are, however, still only relatively few women with the right qualifications within shipping, and those who are there are in such high demand that they are rarely able to accept more directorships.

So, when we are to debate the Board of Director's proposal regarding new elections to the Board of Directors later today, it will be 2 – admittedly highly talented but nonetheless male candidates, who are up for election. This does not change the fact that we fulfilled the former ambition to continue to have a woman on the Board of Directors, and would have preferred 2 women on the board before the end of 2017. We have now reached 2017, and the Board of Directors have consequently set a new ambition to have 2 female board members before 2020.

In 2016, the Board of Directors has taken a thorough look at remuneration and has once again decided to lower the amount. The remuneration amount will be reduced by 21% compared to the previous scheme. The specific remuneration amount for board members is stated on page 31 of the annual report, and amounts to 0.7 million dollars in total. Since 2015, the total fee in money terms has thus been reduced by 23%.

OUTLOOK

We do our utmost to live up to the trust that the shareholders show us, and through a number of initiatives, we believe that we have taken part in positioning NORDEN ensuring that the Company is well prepared to face the challenges which the future holds.

In the short term, the Company faces a dry cargo market which is still affected by overcapacity in the form of too many vessels in the oceans. Although 2016 also offered very challenging market conditions, many newbuildings were still delivered and this took part in slowing down improvement. We are now past the worst wave of deliveries, and it is our assessment that this will contribute to continued gradual market improvement. We entered the year with 84% coverage and expect a dry cargo market which, due to higher Chinese imports, will offer average rates slightly above the level seen in 2016. In Dry Cargo, our guidance will be based on adjusted results for the year between -15 and +45 million dollars.

Tankers has also experienced busy ordering activity, and the last 3 years have seen fleet growth of 5%. This means that the fleet of product tankers is relatively young. The number of product tanker deliveries is decreasing at the moment but in 2017, we will in return see continued deliveries of many crude oil tankers. This will put pressure on freight rates. On that background, we expect that rates for 2017 will be at a lower level than in 2016 – however, with a possible improvement towards the end of the year. NORDEN entered the year with 21% coverage which allows us to enjoy the good rates, which the current weeks have to offer. In total, we expect adjusted annual results in tankers between -15 and +15 million dollars.

On group level, our guidance is thus in the range of -20 to +40 million dollars. The midpoint of our guidance is consequently plus 10 million dollars, so after some difficult years, we believe that we are headed towards brighter prospects – also in terms of results. Naturally, it is a requirement that the markets develop as expected and not least that we are able to exploit the many strengths and competences within the organisation to the limit. Of course, I cannot guarantee you that we are thereby able to generate black bottom line figures and profit to our shareholders for the first time in 6 years, but I can guarantee you that we will do everything in our power to succeed.

Thank you for listening.