NORDEN

ANNUAL REPORT 2019

Dampskibsselskabet NORDEN A/S

Contents

Management's Review

Introduction

Strategy

Business performance

Governance

Sustainability report

Signatures

Financial statements

Consolidated financial statements

Parent company financial statements

Other

Disclosure of quarterly financial information

In the Annual Report, quarterly financial information is presented. Such quarterly financial information is un-audited.

NORDEN – enabling smarter global trade

Since 1871, NORDEN has built a reputation for providing reliable and efficient transport solutions to customers across the world. The Copenhagen-listed group offers shareholders earnings from industry-leading operator and owner activities generated by a highly skilled organisation in addition to cyclical exposure to the dry cargo and product tanker markets.

~400
Vessels

~127
million tonnes cargo transported

>600
Customers

1,110
Employees

32
Employee nationalities

~9,600
port calls

With 11 offices across 6 continents, NORDEN operates at the heart of global trade, transporting dry cargo and product tanker commodities across the globe.

Jan Rindbo
CEO

Klaus Nyborg
Chairman of the
Board of Directors

Trading to the next level

The world of global trade is changing and is more uncertain than ever before.

Fluctuating fuel prices, trade wars and unstable markets, lately exemplified by the COVID-19 virus, mean that optimising transport operations has never been more important. With these conditions in mind, we see that agility, reliable performance and high-quality service matters more to our customers than the ultimate ownership of the vessel.

The trading transition

This recognition that traditional shipping business models are not optimised for the modern shipping market led us to divide our offerings into 'asset management' and 'operator' services. Therefore, from Q1 2020 onwards, we will report based on a business unit structure of Asset Management, Dry Operator and Tanker Operator.

Asset Management represents the traditional market value of the owned and leased fleet, while the two operator units generate additional margins through voyage optimisation and short-term market positions on cargoes and chartered vessels in the Dry Cargo and Product Tanker segments. Not only does this approach allow us to better cope with the volatility of the marketplace, it allows us to take advantage of it by selecting the best vessels, at the right price, to service our customers. Using advanced risk management, market analytics and a trading-oriented mindset, NORDEN is therefore set to deliver better returns.

There is no transition without change, and 2019 has been marked by organisational changes to support the strategy. We acquired full control of Norient Product Pool at end-2018, allowing us to establish the Tanker Operator. Furthermore, Asset Management has been bolstered through the merging of our technical, commercial and research expertise, and we evolved our successful Fuel Efficiency team into an Advanced Analytics and Digital Solutions function. The strengthened support functions are thus ready to take the 3 business units to the next level.

As the transition continues, NORDEN delivers an Adjusted Result of USD 23 million for the financial year 2019, within the range of the latest announced guidance of USD 10 to 45 million. This is thereby the third consecutive year with black figures, but with a low return on equity of 2.3%, there is still room for improvement.

From transition to implementation

With this and many other smaller internal tunings in place, NORDEN exits the decade stronger, ready to embrace a trading-oriented future.

As the chapter opens on the 2020's, NORDEN embarks on an exciting future as a more agile and trading-oriented company. Many of the building blocks for future growth have already been laid, and the organisational changes made during 2019 position NORDEN better than ever to reap the benefits of the many competencies we have. 2020 also marks the introduction of the strategy, 'Trading to the next level', which builds on the strategy of the past years. This next phase focuses on further cementing and implementing the strategy, allowing NORDEN to take a dynamic approach to shipping and trading with the ability to deliver better returns than if we were merely an owner of vessels. This resilience means we can deliver better results with lower risk, servicing customers on vessels which are not always our own – now in both Dry Operator and Tanker Operator.

"The Board of Directors proposes that a dividend of DKK 2.50 per share is paid to the shareholders"

Klaus Nyborg

New dividend policy introduced
With a strong balance sheet and low CAPEX requirement from our asset-light growth strategy, we are looking to increase dividend payments to shareholders. As a new dividend policy for 2020 onwards, NORDEN targets annual dividends based on a pay-out ratio of minimum 50% of the annual 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 the year. 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%.

Creating a more sustainable future
This year, we have decided to include our Environmental, Social and Governance (ESG) data and sustainability report in NORDEN's annual report, a signal of our prioritisation of this agenda. We are accelerating our sustainability efforts in order to create a more sustainable future. In 2019, we, among other things, continued our biofuel testing, created a dedicated decarbonisation function and entered into a new biofuel collaboration, along with the introduction of the IMO 2020 regulations.

In 2020, we will continue our work towards creating a more resilient, agile and ambitious NORDEN based on our core values. These values underline our engagement and passion to constantly steer us forward and deliver smarter global trade. Our positive development is underlined by the fact that we expect an Adjusted Result for 2020 in the range of USD 30 to 70 million, which would be the best result for NORDEN since 2011.

Klaus Nyborg
Chairman of the Board of Directors

Jan Rindbo
CEO

"We expect an Adjusted Result for 2020 in the range of USD 30 to 70 million, which would be the best result for NORDEN since 2011."

Jan Rindbo

Fourth quarter 2019

The Adjusted Result for the fourth quarter 2019 amounted to USD 31 million.

The Adjusted Result for NORDEN in the fourth quarter of 2019 amounted to USD 31 million, making it by far the best quarter of the year and the best since Q2 2015. The profit for the period was USD 32 million, including gains on sale of vessels of USD 1 million.

Dry Operator successfully navigated a difficult fourth quarter market where rates declined throughout the quarter. Dry Operator realised its best quarter of the year and generated an Adjusted Result of USD 14 million.

With high coverage, Dry Owner was unaffected by declining dry cargo rates in Q4 and realised an Adjusted Result of USD 2 million, which was slightly better than in Q3 2019.

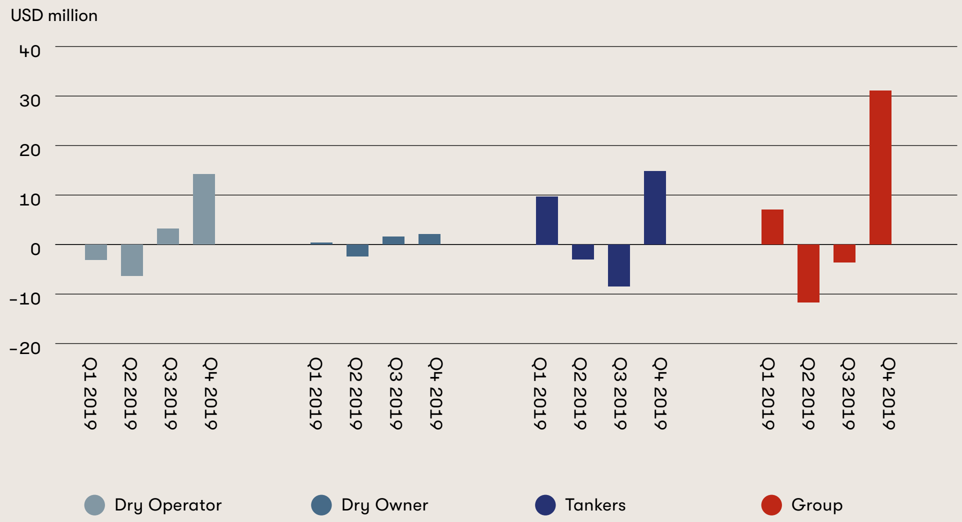
The tanker market improved significantly in Q4, and Tankers created an Adjusted Result of USD 15 million. Handysize earnings improved significantly in the period, while MR rates only improved from December.

Business unit key figures Q4 2019

USD million	Dry Operator	Dry Owner	Tankers	Total Q4 2019	Total Q4 2018*
Contribution margin	29.9	23.7	52.2	105.8	47.9
EBITDA	19.4	20.8	44.2	84.4	31.7
EBIT	14.6	3.6	20.0	38.2	19.9
Profit for the period	14.1	2.2	16.1	32.4	19.3
Adjusted Result Q4 2020	**14.1**	**2.2**	**14.9**	**31.2**	**19.3**

* Key figures for 2018 are not restated to reflect IFRS 16

Adjusted Result by business unit



31

Adjusted Result in USDm Q4 2019

Financial highlights 2019

With a strong finish to the year, the Adjusted Result for 2019 amounted to USD 23 million.

The Adjusted Result for NORDEN in 2019 amounted to USD 23 million in line with the latest announced expectations of USD 10 to 45 million. The profit for the year was USD 19 million, which includes loss from sale of vessels of USD 4 million.

The Adjusted Result for the year is significantly negatively impacted by the introduction of the new accounting standard IFRS 16 Leases. NORDEN estimates the impact to be negative of USD 14 million.

Dry Operator generated an Adjusted Result for the year of USD 8 million. After a challenging period in the middle of 2019, Dry Operator successfully navigated a market in strong decline in the fourth quarter.

Although benefitting from high coverage, higher than normal off-hire in relation to installations of exhaust gas cleaning systems reduced revenue generating days, and Dry Owner generated an Adjusted Result of USD 2 million in 2019.

In a year with high volatility in product tanker rates, NORDEN's Tanker business generated an Adjusted Result of USD 13 million. After a period with very poor market conditions in the middle of the year, the tanker market improved significantly towards the end of the year.

Business unit key figures 2019

USD million	**Dry Operator**	**Dry Owner**	**Tankers**	**Total 2019**	**Total 2018***
Contribution margin	66.9	95.4	132.7	295.0	132.3
EBITDA	28.3	84.6	104.6	217.5	72.5
EBIT	13.1	22.8	20.9	56.8	39.4
Profit for the period	8.0	4.1	7.1	19.2	28.8
Profit/loss from the sale of vessels, etc.	0.0	2.4	-6.0	-3.6	8.8
Adjusted Result for the year	**8.0**	**1.7**	**13.1**	**22.8**	**20.0**

* Key figures for 2018 are not restated to reflect IFRS 16

23
Adjusted Result in USDm

218
EBITDA in USDm

281
Cash flow from operations in USDm

5.0%
ROIC

2.3%
ROE

DKK 2.50
Proposed dividend per share

Key figures and financial ratios

USD million	2019	2018*	2017*	2016*	2015*
INCOME STATEMENT					
Revenue	2,583.9	2,451.4	1,808.6	1,251.2	1,653.4
Contribution margin	295.0	132.3	116.8	76.1	70.9
EBITDA	217.5	72.5	68.1	30.6	20.5
Profit/loss from sale of vessels etc.	-3.6	8.8	0.9	-45.5	-31.0
Depreciation, amortisation and impairment losses	-156.9	-44.3	-42.2	-49.6	-248.6
EBIT	56.8	39.4	23.3	-64.5	-282.0
Financial items, net	-32.7	-6.9	-0.9	-12.2	-9.4
Profit/loss for the year	19.2	28.8	24.6	-45.6	-284.9
Adjusted Result for the year [1]	22.8	20.0	28.4	-34.6	-263.0
STATEMENT OF FINANCIAL POSITION					
Total assets	1,742.4	1,464.4	1,326.5	1,301.0	1,604.7
Equity	859.0	826.8	834.4	801.4	856.1
Liabilities	883.4	637.6	492.1	499.6	748.6
Invested capital	1,283.5	970.2	836.7	753.8	788.7
Net interest-bearing debts/assets	-424.5	-143.4	-2.3	47.6	67.3
Cash and securities	209.3	188.6	219.4	263.9	365.7
CASH FLOWS					
From operating activities	280.5	-15.8	6.3	-79.7	76.9
From investing activities	-90.9	-78.4	-0.2	102.1	-112.9
- hereof investments in property, plant and equipment	-102.7	-202.7	-75.4	-36.8	-131.6
From financing activities	-211.2	95.4	3.0	-85.3	67.5
ENVIRONMENTAL AND SOCIAL KEY FIGURES					
EEOI** (gCO_2/tonnes-mile)	8.70	8.60	8.75	9.03	8.78
LTIF*** (million working hours)	1.45	0.29	1.58	0.89	0.88

	2019	2018*	2017*	2016*	2015*
SHARE RELATED KEY FIGURES					
No. of shares of DKK 1 each (including treasury shares)	42,200,000	42,200,000	42,200,000	42,200,000	42,200,000
No. of shares of DKK 1 each (excluding treasury shares)	39,311,533	39,923,933	40,467,615	40,467,615	40,467,615
No. of treasury shares	2,888,467	2,276,067	1,732,385	1,732,385	1,732,385
Earnings per share (EPS), USD (DKK)	0.5 (3)	0.7 (4)	0.6 (4)	-1.1 (-8)	-7.0 (-47)
Diluted earnings per share (diluted EPS), USD (DKK)	0.5 (3)	0.7 (4)	0.6 (4)	-1.1 (-8)	-7.0 (-47)
Dividend per share, DKK	2.5	2.0	0.0	0.0	0.0
Book value per share, USD (DKK)	21.9 (146)	20.7 (135)	20.6 (128)	19.8 (140)	21.2 (144)
Share price at year-end per share DKK 1	106.7	92.4	116.5	110.5	122.1
OTHER KEY FIGURES AND FINANCIAL RATIOS					
EBITDA ratio	8.4%	3.0%	3.8%	2.4%	1.2%
ROIC	5.0%	4.4%	2.9%	-8.4%	-10.6%
ROE	2.3%	3.5%	3.0%	-5.5%	-28.6%
Payout ratio (excluding treasury shares)[2]	76.6%	41.7%	0.0%	0.0%	0.0%
Equity ratio	49.3%	56.5%	62.9%	61.6%	53.3%
Price/book value	0.7	0.7	0.9	0.8	0.8
Total no. of ship days for the Group	138,327	122,852	93,738	79,060	75,763
USD rate at year-end	667.59	651.94	620.77	705.28	683.00
Average USD rate	667.03	631.74	659.53	673.27	672.69

The ratios were computed in accordance with "Recommendations and Financial Ratios" issued by the Danish Association of Financial Analysts. However, "Profit and loss from the sale of vessels, etc." is not included in EBITDA. Please see definitions in the section "Definitions of key figures and financial ratios". The figures are adjusted for the Group's holding of treasury shares.

1 "Adjusted Result" for the year is computed as "Profit/loss for the period" adjusted for "Profit and loss from sale of vessels, etc." and for 2015-17 "Fair value adjustment of certain hedging instruments". Including adjustment for sale of vessels in joint ventures.

2 The payout ratio was computed based on proposed dividends for the year, including extraordinary dividends paid during the year.

* Key figures for 2015-2018 are not restated to reflect IFRS 16

** The Energy Efficiency Operational Indicator (EEOI) is a measurement of efficiency and is defined as the amount of CO_2 emitted per tonne of cargo transported 1 mile. EEOI is influenced by commercial effects including cargo availability, waiting time and port stays where the vessel is not active. EEOI is affected by speed, vessel size and fuel type.

*** Lost Time Injury Frequency (LTIF) is the frequency a seafarer is unable to work for more than 24 hours per 1 million working hours.

STRATEGY

Major trends affecting shipping

NORDEN has transformed its business unit structure and commercial focus in order to capture the opportunities provided by important trends affecting the shipping industry.

A number of major trends will require a more agile business approach and use of digital solutions to increase efficiency and capture value.

Decarbonisation

- Climate change and environmental concerns are driving the world towards decarbonisation of the energy sector and potentially decreasing global use of both coal and oil. This poses a risk to growth in transportation demand within both dry cargo and tankers
- Uncertainty about the development in vessel fuel types and engine technology potentially leading to a slowing in newbuilding ordering and lower supply growth, but also increasing the risk of obsolescence of vessels using old technology

Shorter shipping cycles

- Weaker structural demand growth, coupled with increased uncertainty due to trade and geopolitical tensions and growing frequency of new regulations and sanctions, leads to increasing uncertainty and shorter shipping cycles creating opportunities for trading and earning margins in a volatile market
- The world still has more shipyard capacity than is needed. This means we will be operating in a market environment where upturns can be quickly eroded by newbuilding deliveries

A changing China story

- The Chinese economy is slowing down and transitioning away from heavy industry focus to services and consumption. This poses a risk to growth in dry cargo imports
- Chinese iron ore imports - the most important dry cargo trade globally - is facing headwinds from a combination of maturing Chinese steel demand, increased use of recycled steel and limited further potential from domestic iron ore substitution

Digitalisation

- The shipping industry is still highly dependent on analogue processes and data flows. However, opportunities to use growing data volumes for better decision-making and process optimisation are increasing. Actively pursuing such opportunities and harvesting their benefits requires scale and a mindset which is different from what worked in the past

NORDEN's transformation

NORDEN believes that in the market environment resulting from the megatrends, attractive returns should be sought through deepening of client relations, trading within the market volatility that still prevails and a continuous focus on harvesting operational efficiencies.

NORDEN has transitioned to a new business unit structure which brings more agility and focus. This transition will facilitate:

- Realisation of higher risk-adjusted returns through a stronger focus on short-term trading-oriented operator activities and active exposure management
- Better performance enabled by transparency resulting from the establishment of individual bottom-lines which are much less dependent on long-term cyclical market developments
- Assigning a clear value to each type of activity by enabling separate reporting of the value being created in each unit

From 2020: New business unit structure with focus on operator activities and active management of cyclical market exposure

ASSET MANAGEMENT

DRY OPERATOR

TANKER OPERATOR

New business unit structure

With an increased focus on short-term operator activities and agile management of tradable positions, NORDEN is less dependent on long-term cyclical market exposure and more focused on advanced analytics and risk systems.

ASSET MANAGEMENT

Generate superior long-term returns through active management of cyclical market exposure within dry cargo and product tanker segments

DRY OPERATOR

Generate attractive risk-adjusted returns by providing efficient global transport solutions to dry cargo customers and active management of short-term market exposure in the dry cargo market

TANKER OPERATOR

Generate attractive risk-adjusted returns by providing efficient global transport solutions to product tanker customers and active management of short-term market exposure in the product tanker market

KEY PERFORMANCE MEASURE: RETURN ON ALLOCATED RISK CAPITAL

Asset Management

- Time and negotiate transactions of owned and leased vessels
- Build attractive optionality through leases
- Safe and cost-efficient technical management
- All capacity employed on period charters to either Dry Operator, Tanker Operator or external customers

Dry Operator

- Maximise operational base margin between spot earnings and timecharter vessel costs through voyage optimisation, vessel selection and capacity utilisation
- Maximise positioning margin by taking short-term directional and regional positions on both cargo and tonnage based on analytics and market expertise

Tanker Operator

- Maximise operational base margin between spot earnings and timecharter vessel costs through voyage optimisation, vessel selection and capacity utilisation
- Maximise positioning margin by taking short-term directional and regional positions on tonnage based on analytics and market expertise
- Commercial management of third party tanker vessels

Business unit value drivers

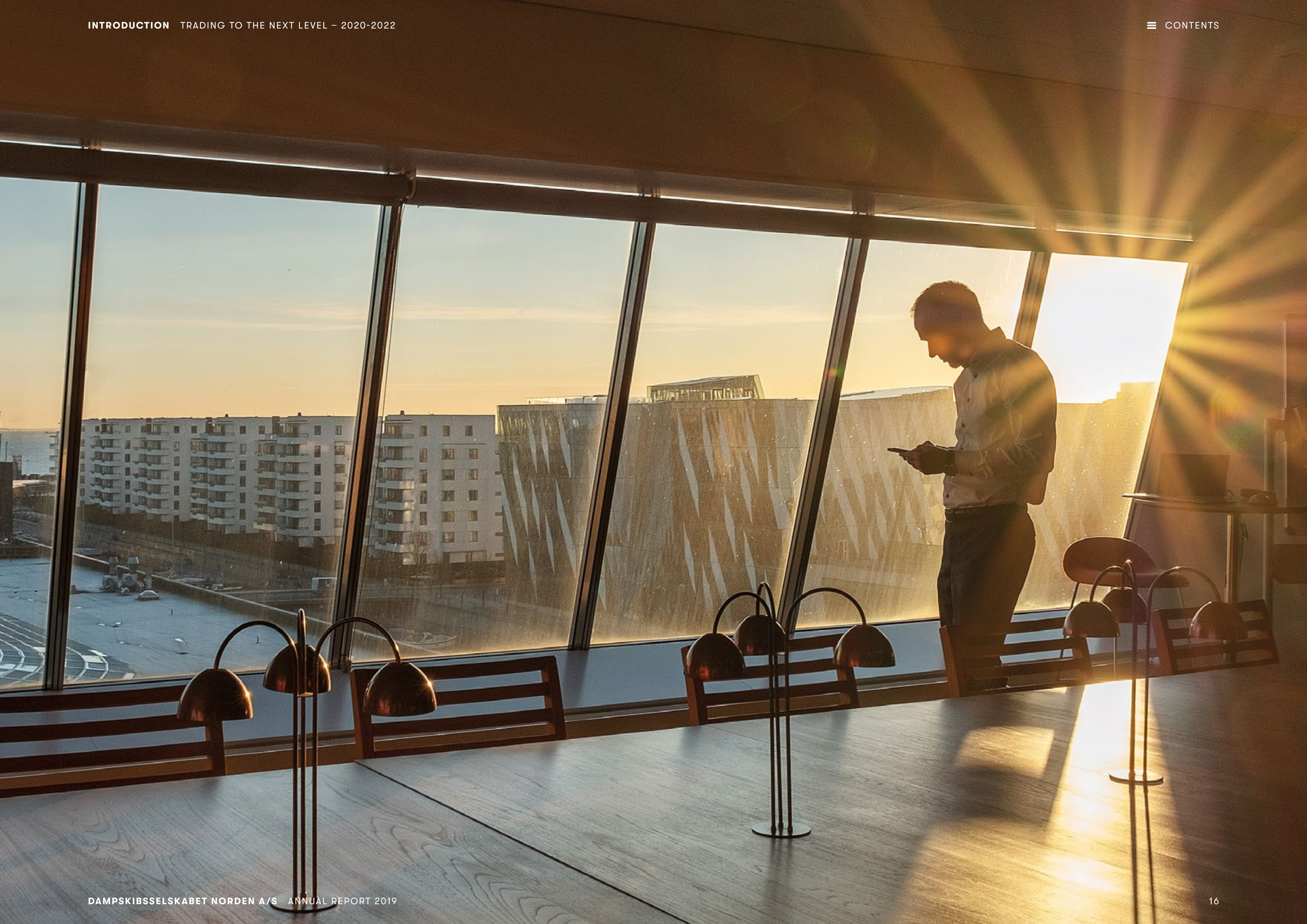
	Market exposure Taking a view on market direction and manage exposure	**Regional exposure** Taking a view on regional rate developments	**Options** Securing and realising value of optionality (period and purchase options)	**Employment arbitrage** Choosing between cargoes, T/C-out and FFAs to fix income	**Clip deals** Securing margin on a single voyage performed on a third party vessel with a minimum of market risk	**Vessel selection** Evaluating earnings capacity of owned and chartered tonnage	**Vessel operation** Speed setting, cargo handling and port operations	**Minimising ballast** Optimising the matching of COAs and market cargoes with available vessels	**Technical management** Safe, reliable and cost-efficient technical management of owned fleet	**Pool management** Generating fees as commercial manager of Norient Product Pool
ASSET MANAGEMENT	✸		✸			✸			✸	
DRY OPERATOR	✸	✸	✸	✸	✸	✸	✸	✸		
TANKER OPERATOR	✸	✸	✸	✸		✸	✸	✸		✸
	Positioning margin			**Base margin**						

Trading to the next level – 2020-2022

Aligned with NORDEN's purpose of enabling smarter global trade, the 3-year strategic focus across the Group is:

ASSET MANAGEMENT **DRY OPERATOR** **TANKER OPERATOR**

Clients – access and liquidity	• Nurture relations to become first choice for clients • Drive volume growth in two operator business units • Offer low-carbon transportation options as part of our commitment to the UN Sustainable Development Goals (SDG) • Use NORDEN's knowledge and experience to optimise infrastructure logistics as part of SDG 9
Data as an asset	• Build strong data platforms giving users easy access to relevant and reliable information • Enable process automation and scale efficiency • Use data to drive continuous improvements
Advanced analytics	• Harvest the power of data to improve decision-making • Develop predictive trading tools • Develop decision support applications for efficient voyage execution
New risk capabilities	• Professionalise risk management framework covering Group and business units • Support trading mentality and delegation of decision-making through reliable risk monitoring • Improve capital efficiency through disciplined risk capital allocation process
Leading transformation	• The transformation of NORDEN requires a strengthened focus on change leadership • High tech, high touch – use technology to be more relevant to customers and engage them more proactively



Outlook for 2020

In challenging markets, NORDEN expects to deliver higher earnings than in 2019 with an expected Adjusted Result for 2020 of USD 30-70 million.

NORDEN has had a strong start to the year, but the outbreak of the COVID-19 virus has had a negative impact on the markets and adds considerable uncertainty to earnings in the rest of 2020.

Asset Management

The Asset Management business unit expects a significant improvement in earnings for 2020. With only 4,700 open days, the Dry Cargo fleet enters the year with very high coverage, which has been made at rates better than current forward rates for the year. Asset Management enters the year with Tanker coverage of 60% or around 6,000 open days. Earnings in Asset Management is expected to be positively influenced by an average of 25 active scrubber fitted vessels.

Dry Operator

Dry Operator expects an Adjusted Result above that for 2019. The expectation is based on a net margin per vessel day in line with the average over the last 10 quarters and an activity level similar to 2019. The distribution of earnings per quarter is expected to continue to be subject to significant volatility.

Tanker Operator

Tanker Operator expects an Adjusted Result below that of 2019. The expectation is based on a net margin per vessel day lower than for 2019 and an activity level similar to 2019. With around 9,000 open days, the net margin for Tanker Operator is subject to a much higher degree of market exposure than the Dry Operator margin. In line with seasonality in tanker rates, earnings are expected to mainly be realised in Q1 and Q4.

Events after the reporting date

No significant events have occurred between the reporting date and the publication of this Annual Report that have not already been included and adequately disclosed in the annual report and that materially affect the assessment of the Company's and Group's results of operations or financial position.

Financial calendar for 2020

4 March	Annual report 2019
27 March	Annual general meeting
5 May	Interim report – first quarter 2020
19 August	Interim report – second quarter and first half-year 2020
4 November	Interim report – third quarter 2020

Forward-looking statements

This annual report contains certain forward-looking statements reflecting Management's present judgement of future events and financial results. Statements relating to 2020 and the years ahead are inherently subject to uncertainty, and NORDEN's realised results may therefore differ from projections.
Factors that may cause NORDEN's realised results to differ from the projections in this annual report include, but are not limited to: Changes to macroeconomic and political conditions – particularly in the Group's principal markets; changes to NORDEN's rate assumptions and budgeted operating expenses; volatility in freight rates and tonnage prices; regulatory changes; counterparty risks; any disruptions to traffic and operations as a result of external events, etc.

Proforma profit/loss 2019 - new business unit structure (un-audited)

	Asset Management	Dry Operator	Tanker Operator	Group
Contribution margin	180.7	66.9	47.4	295.0
Overhead & adminstration	-21.8	-38.6	-17.1	-77.5
EBITDA	**158.9**	**28.3**	**30.3**	**217.5**
Depreciations	-130.5	-15.2	-11.2	-156.9
Vessel sales	-3.6	0.0	0.0	-3.6
Other	-0.2	0.0	0.0	-0.2
EBIT	**24.6**	**13.1**	**19.1**	**56.8**
Financials & tax	-30.9	-5.1	-1.6	-37.6
Profit/loss	**-6.3**	**8.0**	**17.5**	**19.2**
Adjusted Result	**-2.7**	**8.0**	**17.5**	**22.8**

Our people

With a common goal of enabling smarter global trade, the NORDEN employees have positioned the Group for growth for the past 149 years – and today, continue to push the boundaries of innovation.

By understanding early on that people are our most important resource, NORDEN has learned to synergise, optimise and leverage the skills of its employees. The four core values of flexibility, reliability, empathy and ambition guide employees both on shore and at sea to always do the right thing – even when no one is looking.

Talent attraction

With NORDEN continuing its transformation to secure long-term growth, employees are at the core of making this a possibility. To succeed, NORDEN is dependent on attracting and retaining highly skilled employees. The combined competencies of the organisation ensure NORDEN is positioned ideally to the everchanging markets and can optimise the logistical challenges in combining cargoes and vessels and subsequently transporting commodities across the globe.

This combined knowledge of the NORDEN employees is a vital driver for the continued growth and transformation. Through strong leadership, a company culture of winning as a team is created and maintained, forming an even stronger NORDEN of tomorrow.

Access to the full talent pool is vital to ensure NORDEN's continued growth. This includes a good gender mix. One of the initiatives supported by NORDEN is the new network WIS (Women in Shipping) connecting women in shipping across position, seniority and segments.

Developing advanced skill sets

As growth in trading activity continues, so too does the need to hire yet more specialists with skills not traditionally found in the shipping sector. Building on past developments, more trade and risk-oriented competencies have been hired, including FFA traders (Forward Freight Agreements), enabling NORDEN to be less exposed to cyclical market developments.

Another step forward is the establishment of Advanced Analytics and Digital Solutions. The team continues its growth and has in 2019 grown to 11 people. With skilled engineers, data scientists and quantitative analysts, the team continuously refines algorithms enabling the individual charterer to charter in the right vessels and the operator to operate these with the correct speed taking into consideration, among other things, cargo, weather and route.

Aligning organisation to strategy

In the second half of 2019, the organisation was further aligned to the strategy of increasingly becoming an asset trader of dry cargo vessels with the outsourcing of the technical management of the dry cargo fleet and integration of the Technical Department into the Asset Management Department. Furthermore, the finance functions were centralised and merged to better gain economies of scale. To strengthen internal communication and employer branding, HR, Corporate Communication and CSR were combined into one strong team. With the full acquisition of Norient Product Pool at end-2018, 64 "new" employees joined the NORDEN team to support a sharper focus on both short- and long-term tanker activities.

Average number of employees

	2019
On shore:	395
At sea:	715
Total:	1,110

32

Number of nationalities

An investment in the future

In order to continually deliver optimal results to customers, NORDEN must constantly develop own resources, enabling employees to deliver optimally to both internal and external stakeholders.

To achieve this, NORDEN aspires to further invest in the development of talents as well as the education of new skilled persons to the shipping industry. At the end of the year, NORDEN had 26 employees on global assignments where the employees gain experience in other markets and countries.

NORDEN is increasingly focusing on entry level programmes for shipping as well as analytical graduates and recruits new talents with alternative backgrounds e.g. business, mathematics and data science, as well as traditional backgrounds for the at-sea functions (see more in the Sustainability section).

This is likewise vital in terms of talent retention, where growth in activity and needed skill sets require a focus on attracting, retaining and developing these skilled employees. In 2019, the retention rate for employees at the NORDEN offices was 91%, and at sea, the retention rate was 96%. The high retention rate, which is considered satisfactory, secures continuity and preserves knowledge and skills in the organisation.

The focus on talent retention is also reflected in ongoing engagement surveys, which investigate whether employees feel empowered, have good access to the information needed and understand their valuable contribution to the overall goals of NORDEN. With an overall engagement rate of 82%, NORDEN has a high ranking compared to industry peers.

"By understanding early on that people are our most important resource, NORDEN has learned to synergise, optimise and leverage the skills of its employees."

Risk management

In volatile markets, active and smart management of freight and asset price risks is a core part of the value creation in NORDEN.

Active risk management plays a key role in NORDEN's goal to generate attractive risk-adjusted returns in fluctuating markets. It is NORDEN's policy to only assume material risks within the commercial aspects of its trading and shipping operations, i.e. freight and asset values. Other risk factors are mitigated to the extent possible.

Our market presence, combined with strong relationships with customers and tonnage providers all over the world, gives access to market liquidity and insight that most of our competitors do not have.

This access to market liquidity and insight, combined with in-house research and sophisticated trading models, is used to create further margins by taking calculated risk where we take positions in the market by booking vessels and cargoes.

Strengthening of Risk Management
NORDEN's risk management capabilities have been significantly strengthened in recent years with the establishment of both a Risk Committee under the Board of Directors and a separate Risk Management team.

The purpose of the Risk Committee is to assist the Board of Directors in its oversight of the Group's overall risk-taking tolerance and management of market, credit and liquidity risks.

The Risk Management team consists of 6 people with backgrounds within mathematics, physics and finance. The responsibility of the Risk Management team is to identify, quantify, monitor and report risk use and limits to the Board of Directors, the Risk Committee, Executive Management and Senior Management.

New risk frameworks to support trading focus
Following the implementation in 2018 of a new risk framework for Dry Operator, the focus for 2019 has been to establish similar risk frameworks for the Group and the two other business units. The new group risk framework will be implemented during the first half of 2020. The new framework focuses on freight and asset price risks and includes a formalisation of the connection between risk capital and risk limits. Due to the dynamics of shipping markets, several risk measures are used, for example Value at Risk, stress tests and P&L flags (agreed thresholds for changes in expected earnings triggering a review of the current position).

In anticipation of increased oil price volatility related to the IMO 2020 regulation severely restricting the use of high-sulphur fuel types, a new bunker risk framework has been developed and implemented towards the end of the year. The new bunker risk management framework ensures more precise measuring, monitoring and hedging of NORDEN's total bunker price risk.

The in-house developed risk system has been expanded to ensure significantly improved risk reporting with accurate overviews of positions, market values and relevant risk measures for both freight and bunkers on a daily basis.

Sanctions risk is an area of increasing importance. All of NORDEN's commercial counterparts are screened daily on a number of potential risk factor issues, including sanctions lists, global law enforcement lists and vessel information.

To make sure that the Risk Management team is an integrated part of daily business, it is situated directly on the trading floor with the chartering teams, enabling the team to manage their mandate, challenge their positions, provide regular and ad hoc analysis and advise on risk optimisation and reduction.

Risk management principles

The Board of Directors' Risk Committee assists the Board of Directors in its oversight of the Group's overall risk-taking while the Executive Management is responsible for identifying and analysing material risks and developing the Group's risk management. Exposures and the utilisation of the framework are reported to the Board of Directors on a quarterly basis.

Material commercial risks

Below is a review of the material commercial risks.
For a review of the financial risks, please see note 4.1 “Financial risk management” on page 95 as well as the section ”Financial position 2019” on page 22.

	Risk	NORDEN mitigation
RISKS ACTIVELY TAKEN		
Freight rate risks	Chartering vessels and booking cargoes imply a risk as the Group assumes financial liability in expectation of generating earnings which are dependent on the freight market.	To control the uncertainty relating to earnings, future open ship days are covered by cargo contracts, T/C contracts and Forward Freight Agreements (FFAs) to the extent to which Management finds it attractive.
Vessel value risks	Changes in vessel values have a significant impact on the value of the Group, both directly on the value of the owned fleet and indirectly through the value of purchase options.	With a prudent capital structure, NORDEN is continuously focusing on how to allocate capital to optimise the risk-adjusted return on vessels.
OTHER RISK FACTORS		
Bunker price risk	The Group’s largest variable cost is fuel in the form of bunkers. When entering into cargo contracts at a fixed price, earnings from such contracts are very dependent on changes in the bunker price. Furthermore, in connection with charter in and out agreements, the Group has a bunker price risk in relation to the quantity of bunkers onboard and the quantity the vessel must be redelivered with. For vessels where a scrubber has been installed, the Group is subject to a risk related to the spread between high sulphur and low sulphur fuel.	The Group uses bunker swaps to hedge future consumption of bunkers when entering into COAs in case there is no bunker adjustment clause in the agreement. Based on a new bunker risk framework implemented towards year-end, NORDEN now hedges its entire direct bunker price exposure including the price risk related to redelivery of bunker. However, the price spread risk related to scrubber vessels is not hedged, because the hedging tools available are not considered sufficiently effective.
Counterparty risks (Credit risk and sanctions risk)	NORDEN engages with a significant number of counterparties covering suppliers, tonnage providers, cargo owners, shipyards, etc. This involves the risk that the counterparty does not perform or is or becomes subject to sanctions.	NORDEN reduces its counterparty risks through systematic assessment and monitoring of their creditworthiness and sanctions risk. For this purpose, own analyses are applied based on input from external credit rating agencies, sanctions databases and publicly available information. Each analysis results in an internal rating, which is subsequently used in NORDEN’s determination of the allowed scope of the commitment. In connection with newbuilding contracting, it is assessed whether the credit risk in relation to prepayments to the yard should be reduced through repayment guarantees issued by banks with good credit ratings.
Vessel related accidents (Oil spill and total loss)	In terms of value, the most material events are oil spills and total loss (lost value of owned vessels, purchase options and charter parties).	The Group covers these risks by taking out insurances with recognised international insurance companies. In addition, risks are minimised by operating a modern fleet and by investing in the maintenance of the vessels and in staff awareness of both external and internal environments.
Piracy	In various places around the world, especially West Africa, the crew and vessel are at risk of pirate attacks aiming at theft and/or kidnapping.	NORDEN experienced no piracy attacks on the Group’s vessels during the year. Identifying and managing security risks continues to be essential to NORDEN, and to ensure adequate safeguards, NORDEN has in place a company security function that assesses security risks on an on-going basis in conjunction with risk intelligence providers and military organisations.
IT & cyber security	NORDEN’s operations are very dependent on stable IT systems. This implies a risk related to unavailability of systems and data either due to technical malfunctions or external interferences.	The IT Department has established a technical emergency capacity with an IT environment distributed on 2 locations with mirrored critical systems. In addition, the Group has established an IT Disaster Recovery Plan involving the entire organisation and supporting the IT Department in setting up emergency operations as soon as possible after a disaster.

Financial position 2019

NORDEN continues to maintain a strong financial position, and after several years of investments in newbuildings, scrubbers and ballast water treatment systems, future investment requirements are expected to be much lower.

A strong balance sheet
The implementation of IFRS 16 Leases as of 1 January 2019 has had a significant impact on NORDEN's balance sheet as the recognition of right-of-use assets and related lease liabilities amounted to USD 303 million and USD 361 million at the beginning of the year, respectively, and USD 271 million and USD 331 million at year-end 2019, respectively. In addition, significant investments in scrubbers and ballast water treatment systems during 2019 have added to invested capital, which had increased to USD 1,284 million at year-end.

Total equity was USD 859 million (USD 827 million) at year-end, mainly increasing due to the profit for the year of USD 19 million.

In spite of the significant investments and recognition of lease liabilities, NORDEN's equity ratio remains at a high level of 49% (57%*).

Cash and cash equivalents amounted to USD 209 million at year-end.

Positive cash flows
While implementation of IFRS 16 lease accounting has no cash flow impact overall, it has had a significant effect on the individual elements of the cash flow statement. Thus, cash flows from operating activities increased by USD 296 million (USD -22 million*), while cash flows from financing activities declined by USD 306 million. Total cash flows from operating and investing activities (excluding change in cash term deposits) was USD 25 million. The majority of these changes 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.

The other main factors impacting cash flows were an improvement in net working capital, which added USD 51 million to operating cash flows, as well as a refinancing of major loan facilities.

Reduced funding costs
In 2019, NORDEN adjusted and simplified a substantial portion of its loan portfolio. As a result of the adjustments, NORDEN has lowered funding costs and prolonged the repayment profile in order to better match the expected development in future cash flows and asset values.

New dividend policy
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 remain. Thus, future investment requirements are expected to be much lower, and NORDEN therefore expects to be able to return capital to shareholders and has decided on a new dividend policy with the target of paying out at least 50% of Adjusted Result.

NORDEN's loan amortisation profile (USD million)

2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 onwards
36	36	36	36	36	74	10	10	28	6

* Figures for 2018 are not restated to reflect IFRS 16

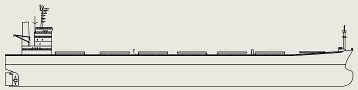
BUSINESS PERFORMANCE

Vessels and commodities

Dry Cargo

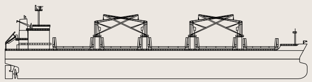
Panamax

Length	215-230 metres
Width	32 metres
Cargo capacity (deadweight)	75,000-93,000 tonnes
Panamax vessels in global fleet	2,725
Panamax vessels operated by NORDEN	113



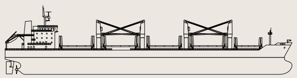
Supramax

Length	190-200 metres
Width	32 metres
Cargo capacity (deadweight)	50,000-64,000 tonnes
Supramax vessels in global fleet	3,713
Supramax vessels operated by NORDEN	115



Handysize

Length	170-190 metres
Width	27-30 metres
Cargo capacity (deadweight)	28,000-39,000 tonnes
Handysize vessels in global fleet	2,835
Handysize vessels operated by NORDEN	60




Grain


Soybean


Salt


Wood pellets

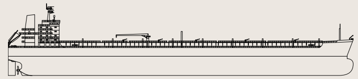

Coal


Alumina

Tankers

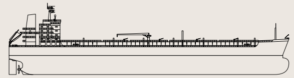
LR1

Length	228 metres
Width	32 metres
Cargo capacity (deadweight)	74,500 tonnes
LR1 vessels in global fleet	463
LR1 vessels operated by NORDEN	2



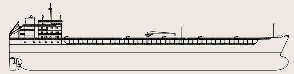
MR

Length	180-185 metres
Width	32 metres
Cargo capacity (deadweight)	46,000-52,000 tonnes
MR vessels in global fleet	1,594
MR vessels operated by NORDEN	58



Handysize

Length	175-185 metres
Width	27-31 metres
Cargo capacity (deadweight)	36,000-40,000 tonnes
Handysize vessels in global fleet	735
Handysize vessels operated by NORDEN	47




Naphtha


Gasoline


Gasoil


Diesel


Jet fuel

DRY OPERATOR

Well-positioned for growth

Dry Operator showed its agility in a challenging market environment in 2019.

2019 result

The 2019 Adjusted Result was USD 8 million. This is within the latest guidance for Dry Operator, which was revised in October 2019 to USD 5 to 20 million. The result was the outcome of a total of 100,997 vessel days operated with an average contribution margin of USD 662 per vessel day. After inclusion of all costs, the average Adjusted Result per vessel day amounted to USD 79.

The full-year result is satisfactory, and Dry Operator showed its strength by constantly adjusting the exposure to the market. 2019 was a challenging trading environment with several event-driven market impacts such as the Vale dam accident in Brazil, Chinese swine flu and unpredictable news on the ongoing trade war between the USA and China. At the same time, the severity of weather disruptions was more significant in 2019. Incidents like abnormal water levels in the Mississippi River during Q2 created operational challenges, which had a negative impact on the results.

Strong result in fourth quarter

In the fourth quarter of 2019, Dry Operator delivered the best quarterly result in 2019 with a total Adjusted Result of USD 14 million. After a challenging period in the middle of 2019, Dry Operator successfully navigated a market in strong decline in the fourth quarter.

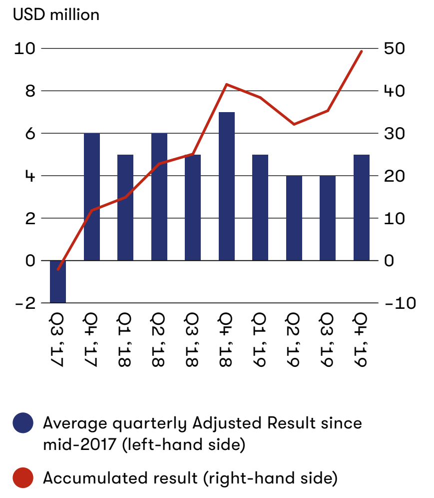
The overall activity was purposely lower at the end of the fourth quarter where the Dry Operator fleet was reduced to an average of 261 vessels. This reduction in the size of the operated fleet was actively chosen in light of expectations of a weak market at the beginning of 2020 and the significant uncertainties created by the initiation of the IMO 2020 low sulphur regulation on 1 January 2020. The drop in activity levels is temporary, and the ambition to grow the overall size of Dry Operator remains in place.

Creating value

Dry Operator was established on 1 July 2017 and has during the 10 quarters of existence generated a total Adjusted Result of USD 50 million. This is an encouraging start by the business unit and an attractive return given the significantly lower risk taken and capital needed compared with the traditional asset owning business models in the shipping industry.

In the coming years, NORDEN will continue to pursue growth for Dry Operator both in terms of activity but also in the margins created per vessel day.

Accumulated and average result



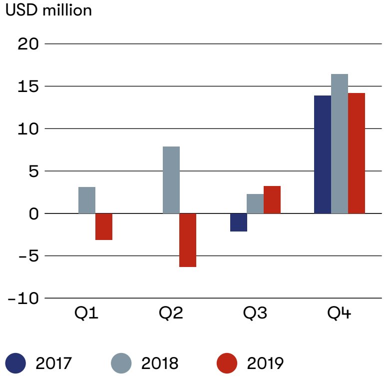
Dry Operator key figures and financial ratios

Key figures and financial ratios

USD million	2018 Total	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 Total
Revenue	1,990.8	510.6	508.4	538.5	508.1	2,065.6
EBITDA	33.0	0.9	-1.4	9.3	19.5	28.3
EBIT	32.3	-1.5	-4.9	4.8	14.7	13.1
Total number of operated ship days	96,123	25,088	25,709	26,185	24,015	100,997
Adjusted Result for the year	29.8	-3.1	-6.3	3.2	14.2	8.0

DRY OPERATOR

Dry Operator Adjusted Result by quarter



Seasonality in results

The Dry Operator business is subject to seasonality, which is also reflected in the results of the first 10 quarters. The seasonality does, however, not only come from the normal rate seasonality that exists in dry cargo. Rather, it comes from the regional positioning of vessels in NORDEN's key vessel types Handysize, Supramax and Panamax.

Together with coal, the key commodity for these vessel types is grain, and here, the seasonal trading patterns are highly driven by the harvest seasons in the North and South Atlantic.

During Q1 and Q3, NORDEN will position vessels to the relevant areas. This will often be done with low-paying cargoes or even in ballast. In Q2 and Q4, the vessels will then execute fronthaul voyages with grain at high-paying rates. Therefore, the results of a given quarter should not be evaluated by itself but rather on longer term average developments.

DRY OWNER

Limiting exposure

In anticipation of weaker dry cargo markets in 2020, Dry Owner has in 2019 focused on reducing forward exposure.

2019 results

Although benefitting from high coverage, higher than anticipated off-hire in relation to installations of exhaust gas cleaning systems reduced revenue generating days, and Dry Owner generated an Adjusted Result of USD 2 million in 2019. The result is in line with the latest announced guidance. The development in the value of the portfolio has been fairly stable during 2019.

The Adjusted Result for the year is significantly impacted by the introduction of the new accounting standard IFRS 16 Leases. Based on the portfolio of contracts at the time of implementation, NORDEN estimates the impact to be negative of USD 12 million for Dry Owner.

Fourth quarter 2019

Dry Owner delivered an Adjusted Result of USD 2 million in the fourth quarter of 2019. Asset and forward markets declined towards the end of the year, and this decline has continued into the early parts of 2020. NORDEN chose to further limit the exposure to the dry cargo market by selling 6 vessels in 2019 in anticipation of such market weakness.

Market 2019

The dry cargo market in 2019 was characterised by significant volatility in rates during the year. The year started with very weak rates in the first half-year but recovered during the year, and the yearly averages were on par with rates in 2018. Such

Employment and rates

Dry Owner, TCE, 2019	Days	USD/day
Panamax	6,627	13,411
Supramax	7,806	10,696
Handysize	2,386	10,552

Key figures and financial ratios

	2018	2019				2019
USD million	**Total**	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Revenue	205,8	51.8	51.0	47.6	38.6	189.0
EBITDA	32.2	20.9	18.9	24.0	20.8	84.6
Profit and loss from sale of vessels, etc.	11.6	-5.1	3.4	4.1	0.0	2.4
EBIT	34.3	1.4	6.1	11.7	3.6	22.8
Adjusted Result for the year	17.9	0.4	-2.5	1.6	2.2	1.7

DRY OWNER

Dry Owner 2019

rate levels are still insufficient to create an attractive return with a traditional passive buy and hold business model.

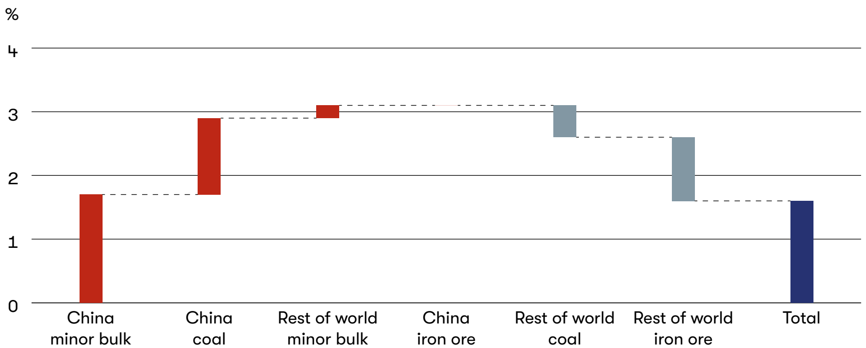
At the end of 2019, asset prices were 5-10% lower than at the beginning of the year, and generally, asset markets have now been fairly stable over the last 2-3 years.

The year started with an extraordinarily strong drop in rates partly created by the major Vale dam accident in Brazil. The important iron ore trade out of Brazil suffered significantly, and while the iron ore trade is limited in the vessel types where NORDEN has activities, the drop in Capesize rates carried over negatively to the smaller vessel types.

The generally weaker global economy also created a clear headwind for the trade of most commodities globally, and the volumes transported were only 1.5% higher than in 2018 with tonne-miles growth ending up at just below 1%. The key exception to the lower import volumes was once again China, which, despite slower economic growth, significantly increased its imports of minor bulk commodities and coal.

On the supply side, the overall fleet grew by 4%, but growth in the active fleet was considerably lower as many vessels entered dry docks for an extended period for the installation of scrubbers and ballast water treatment systems.

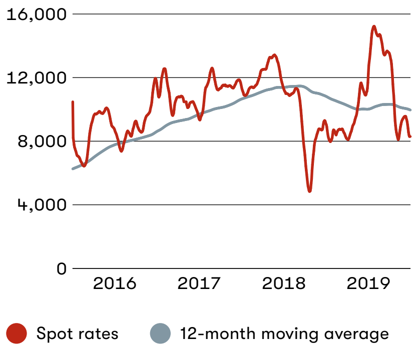
Demand growth



Source: NORDEN AIS system TRACS

The key driver of demand growth was the transport of coal and minor bulks which favoured NORDEN's core vessel types Supramax and Panamax.

Supramax spot rates



Source: Baltic Exchange

DRY OWNER

Market 2020

The dry cargo market has been very weak at the beginning of 2020, and on an overall basis, the year is not expected to be stronger than 2019. The improvements in the trade talks between USA and China could lead to generally improved optimism and also on average longer distances for parts of the global trade. Furthermore, there will likely be a rebound in the iron ore trade after last year's events. However, the outlook for general global economic growth does not support strong growth in the general trade.

The outbreak of the COVID-19 virus has had a significantly negative impact on markets in the beginning of 2020, and it adds considerable uncertainty to the market developments in 2020.

The dry cargo order book amounts to 9% of the global dry cargo fleet, but parts of this will likely slip into 2021 if rates remain depressed. Higher scrapping levels due to the increasing fuel disadvantage of older vessels may result in fleet growth potentially not being as high as the orderbook suggests. The active fleet will, however, get additional tonnage as the share of the global fleet tied up in dry docks is reduced during 2020. Total growth in the active trading fleet is expected to be higher that what can be absorbed by demand.

Activity during the year

In anticipation of a weaker dry cargo market in 2020, Dry Owner activity during 2019 has focused on reducing the forward exposure of the business unit. This has been achieved through a combination of vessel sales and entering into attractive coverage agreements.

In 2019, Dry Owner has:

- sold 2 Panamax, 2 Supramax and 2 Handysize vessels
- secured approximately 6,000 days of long-term coverage through various employment contracts for 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 Dry Owner 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.

Finally, NORDEN has in 2019 installed 9 exhaust gas cleaning systems on parts of the Dry Owner fleet in anticipation of the increase in bunker prices for low sulphur fuels in connection with the introduction of the IMO 2020 global sulphur cap.

Dry Owner owned fleet

By year-end, Dry Owner owned a total of 14.5 vessels of which 2 are newbuildings for delivery in Q3 2020. Based on the average of 3 independent broker valuations, the market value of NORDEN's owned dry cargo vessels and newbuilding orders including joint ventures and assets held for sale at year-end was estimated at USD 330 million. This is a decline of 2% compared to the end of 2018 for vessels owned throughout the year. Average daily operating costs amounted to USD 5,319 and USD 4,583 for Panamax and Supramax, respectively, which is a slight reduction compared to last year.

Daily OPEX by vessel type, Dry Owner

	2018	2019	Change
Panamax	5,529	5,319	-4 %
Supramax	4,591	4,583	0 %

Dry Owner T/C portfolio

In addition to owned vessels, Dry Owner manages an extensive long-term T/C portfolio consisting of 31 vessels and 8 newbuildings with delivery in 2020. A majority of the chartered-in tonnage comes with significant optionality through both period and purchase options providing the Group with the ability to expand the number of fleet days in strong market periods. In total, Dry Owner holds 36,000 optional days, supplemented by purchase options on 33 vessels, which at the end of the year had an estimated market value of USD 17 million.

Dry Owner had high coverage throughout 2019, which has shielded the business unit from the challenging market conditions during most of the year. In total, Dry Owner holds 47,775 cover days, and in 2020, only 25% of total capacity is exposed to the spot market.

DRY OWNER

Fleet values & T/C in and cover portfolio

Dry Owner fleet and values at 31 December 2019 (USD million)

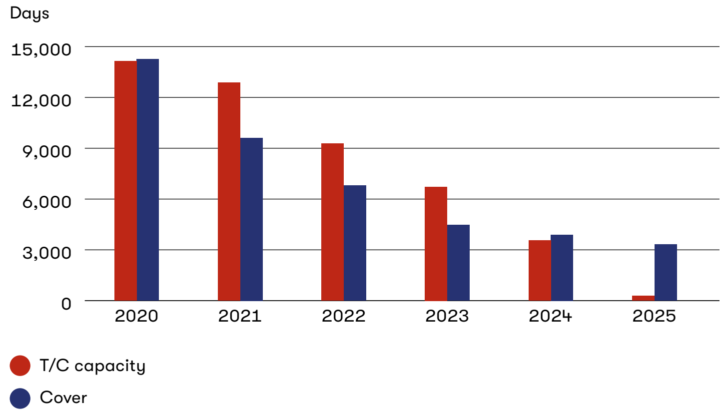
Vessel type	Panamax	Supramax	Handysize	Total
Vessels in operation				
Owned vessels	2.0	8.5	2.0	12.5
Chartered vessels	13.5	14.0	3.0	30.5
Total active fleet	**15.5**	**22.5**	**5.0**	**43.0**
Vessels to be delivered				
Owned vessels	0.0	2.0	0.0	2.0
Chartered vessels	2.0	5.0	1.0	8.0
Total vessels to be delivered	**2.0**	**7.0**	**1.0**	**10.0**
Total gross fleet	**17.5**	**29.5**	**6.0**	**53.0**
Dry Cargo fleet values at 31 December 2019 (USD milion)				
Average age of owned vessels	6.0	2.8	7.0	4.0
Market value of owned vessels and newbuildings*	34	270	25	329
Broker estimated value of certain charter parties attached to owned vessels	5	0	10	15
Carrying amount/cost	39	265	40	344
Market value vs. book value	**0**	**5**	**-5**	**0**
Value of purchase and extension options on chartered tonnage	**9.0**	**7.8**	**0.1**	**16.9**

* Charter free and including joint ventures and assets held for sale, if any.

Assessment of indicators of impairment

NORDEN has carried out a routine assessment of indicators of impairment. Based on this, the Group has assessed that in the cash generating unit Dry Cargo, there is no indication of a need for impairment or reversal of previous impairment. For a more detailed description, please see note 3.1 "Tangible assets" to the consolidated financial statements.

T/C capacity and cover



The long-term T/C-in and cover portfolio at year-end consisted of 46,850 vessel days, and of these, 102% were covered at fixed rates.

DRY OWNER

Dry Owner positioning

Capacity and coverage, Dry Owner, at 31 December 2019

	2020	2021	2022	2020	2021	2022
Owned vessels		**Ship days**				
Panamax	730	730	730			
Supramax	3,351	3,833	3,833			
Handysize	730	730	730			
Total	**4,811**	**5,293**	**5,293**			
Chartered vessels					**Cash costs for T/C capacity (USD per day)**	
Panamax	5,740	4,983	3,293	13,078	12,888	12,691
Supramax	6,269	6,205	5,411	12,069	12,219	12,025
Handysize	2,134	1,680	569	9,523	9,518	10,169
Total	**14,143**	**12,868**	**9,273**	**12,094**	**12,126**	**12,148**
Total capacity	**18,954**	**18,161**	**14,566**			
Coverage					**Revenue from coverage (USD per day)**	
Panamax	5,678	3,288	2,699	13,062	12,888	13,163
Supramax	6,103	4,022	2,437	11,883	11,149	11,710
Handysize	2,484	2,304	1,663	11,257	11,336	11,198
Total	**14,265**	**9,614**	**6,799**	**12,243**	**11,789**	**12,161**
Coverage in %						
Panamax	88%	58%	67%			
Supramax	63%	40%	26%			
Handysize	87%	96%	128%			
Total	**75%**	**53%**	**47%**			

Costs are cash T/C hire costs, excluding overhead and administration costs.

Coverage is predominantly to Dry Operator.

Dry Owner 2020 capacity

Ship days

18,954

Coverage in 2020

75%

TANKERS

A highly volatile market environment

Despite a strong start to the year, most of 2019 was categorised by a struggling macro-economy, which translated into a low-growth oil demand environment.

2019 results

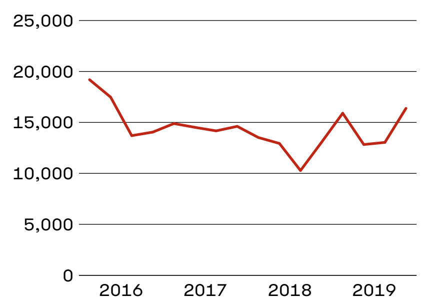
In a year with high volatility in product tanker rates, NORDEN's Tanker business generated an Adjusted Result of USD 13 million. The Adjusted Result for the year is impacted by the introduction of the IFRS 16 accounting standard. The impact is estimated to be negative of USD 2 million.

In the fourth quarter of 2019, Tankers created an Adjusted Result of USD 15 million. The crude tanker market started improving early in the fourth quarter, which quickly had a positive impact on the fuel oil trade and led to increases in Handysize tanker spot rates. In the clean market, MR rates only improved significantly later in the quarter. With a strong finish to the year, the Group's Handysize tankers generated average daily earnings of USD 14,806, while daily earnings in the MR fleet amounted to 14,413.

Market 2019

Despite a strong start to the year, most of 2019 was categorised by a struggling macro-economy, which translated into a low-growth oil demand environment. Demand growth for clean oil products slumped to below 1% year-on-year during the second and third quarter of 2019, which, combined with increased stock draws, resulted in

NORDEN MR T/C spot rates



Key figures and financial ratios

USD million	2018 Total	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 Total
Revenue	410.6	122.0	102.2	103.7	142.3	470.2
EBITDA	7.3	30.6	17.7	12.1	44.2	104.6
Profit and loss from sale of vessels, etc.	-2.8	-7.2	0.0	0.0	1.2	-6.0
EBIT	-27.2	6.0	-0.2	-4.9	20.0	20.9
Total number of ship days	19,212	5,045	5,518	5,154	5,456	21,173
Adjusted Result for the year	-27.7	9.7	-3.1	-8.4	14.9	13.1

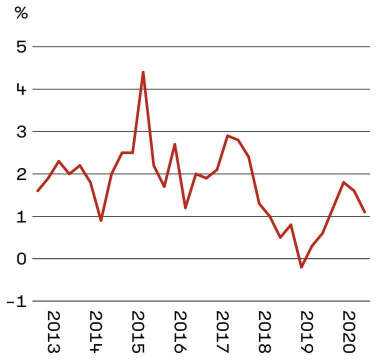
TANKERS

product tanker rates hovering at levels around cash breakeven. Additionally, high fleet growth in especially crude tankers and a similarly weak crude tanker market resulted in a large number of VLCCs cannibalising on clean cargoes on the long-haul routes, further impacting product tanker tonne-mile demand. However, during the fourth quarter, a combination of larger than usual dry docking, US sanctions on a subsidiary of COSCO and increased sailing distances created a scramble for crude tankers pushing rates to record levels. The strong market also affected the product tanker market as many clean tankers started carrying crude oil. Despite the strong crude tanker market, product tanker rates for the smaller vessel types did not react before the end of the quarter – especially in the Atlantic Basin.

Market 2020

The strong tanker market continued into the new year as oil and oil products demand rebounded and refinery runs reached an all time high in both the USG

Clean petroleum products demand growth



Source: Energy Aspects

Employment and rates

Vessel type		Q1	Q2	Q3	Q4	2019	Benchmark*	NORDEN vs. benchmark
LR1	Ship days	180	182	184	182	728	16,214	9%
	NORDEN spot TCE (USD per day)	17,345	16,025	-	-	16,741		
	NORDEN TCE (USD per day)	17,345	16,657	18,430	18,428	17,718		
MR	Ship days	3,803	4,286	3,776	4,053	15,918	14,315	1%
	NORDEN spot TCE (USD per day)	15,902	12,829	13,038	16,381	14,539		
	NORDEN TCE (USD per day)	15,994	13,146	13,531	15,093	14,413		
Handysize	Ship days	1,062	1,050	1,194	1,221	4,527	13,087	13%
	NORDEN spot TCE (USD per day)	18,549	11,507	10,077	20,629	15,501		
	NORDEN TCE (USD per day)	17,131	11,754	10,873	18,536	14,806		
Total**	Ship days	5,045	5,518	5,154	5,456	21,173	14,117	3%
	NORDEN spot TCE (USD per day)	16,443	12,740	12,395	17,348	14,771		
	NORDEN TCE (USD per day)	16,282	12,997	13,090	15,975	14,570		

* Latest 12-month average
** Weighted average
NORDEN TCE is calculated as freight income less voyage costs (such as broker commissions, bunkers and port costs), but before payment of pool management fee

TANKERS

and the Far East. Product tanker rates in the Atlantic Basin started the year being especially strong with MR rate levels out of the US Gulf reaching levels not seen since 2015. However, markets have subsequently been significantly negatively affected by the outbreak of the COVID-19 virus, which has reduced oil demand and tanker activity. NORDEN still expects an overall stronger market in 2020 than in 2019, but given the unknow development of the virus, there is considerable uncertainty.

Both the product and crude tanker order books are historically low, the world economy looks to have troughed and new refineries are coming online in the Far East, all of which are expected to result in overall tonne mile demand growth outpacing that of supply.

Activity during the year

Throughout the year, NORDEN's Tanker business has expanded the MR fleet through a combination of both short- and long-term charter agreements and the acquisition of 2 MR vessels during the fourth quarter. At the same time, the improved tanker forward rates in the second half of the year provided opportunities to charter out vessels at levels significantly above cash break-even values. In total, NORDEN has added 13,403 days of capacity and 8,161 days of coverage during the year.

In 2019, Tankers has:

- expanded the MR fleet by purchasing 2 MR vessels
- sold 2 Handysize vessels in line with the strategy of focusing on MR
- chartered out 8 vessels at attractive rates for a duration of 3 years at strong market rates
- entered into long-term charter agreements for 5 MR vessels with a duration of between 3-5 years, with delivery in 2021 and significant optionality attached

Finally, NORDEN has installed 7 exhaust gas cleaning systems on parts of the owned MR fleet in anticipation of the increase in bunker prices for low sulphur fuels in connection with the IMO 2020 global sulphur cap.

Owned Tanker fleet

At year-end, NORDEN owned a total of 24 tanker vessels, of which 17 are MR and 7 are Handysize. Throughout 2019, the value

NORDEN's Tanker fleet and values at 31 December 2019

Vessel type	LR1	MR	Handysize	Total
Vessels in operation				
Owned vessels	0.0	17.0	7.0	24.0
Chartered vessels	2.0	27.0	8.0	37.0
Total active fleet	**2.0**	**44.0**	**15.0**	**61.0**
Vessels to be delivered				
Owned vessels	0.0	0.0	0.0	0.0
Chartered vessels	0.0	12.0	0.0	12.0
Total vessels to be delivered	**0.0**	**12.0**	**0.0**	**12.0**
Total gross fleet	**2.0**	**56.0**	**15.0**	**73.0**
Tanker fleet values at 31 December 2019 (USD milion)				
Average age of owned vessels	0	8.1	10.9	8.9
Market value of owned vessels and newbuildings*	0	406	97	503
Broker estimated value of charter parties	0	4	0	4
Carrying amount/cost	0	424	133	557
Market value vs. book value	**0**	**-14**	**-36**	**-50**
Value of purchase and extension options on chartered tonnage	**0.4**	**13.1**	**14.8**	**28.3**

* Charter free and including joint ventures and assets held for sale, if any.

Assessment of indicators of impairment

NORDEN has carried out a routine assessment of indicators of impairment. Based on this, the Group has assessed that in the cash generating unit Tankers, there is no indication of a need for impairment or reversal of previous impairment. For a more detailed description, please see note 3.1 "Tangible assets" to the consolidated financial statements.

TANKERS

of product tanker vessels appreciated in line with the strengthening of the tanker market. Based on the average of 3 independent broker valuations, the market value of NORDEN's owned tanker vessels and assets held for sale at year-end was estimated at USD 503 million. This is an increase of 9% compared to the end of 2018 for vessels owned throughout the year. Average daily operating costs amounted to USD 6,235 and USD 6,418 for MR and Handysize, respectively, which is in line with the levels of the previous year.

Daily OPEX by vessel type, Tankers

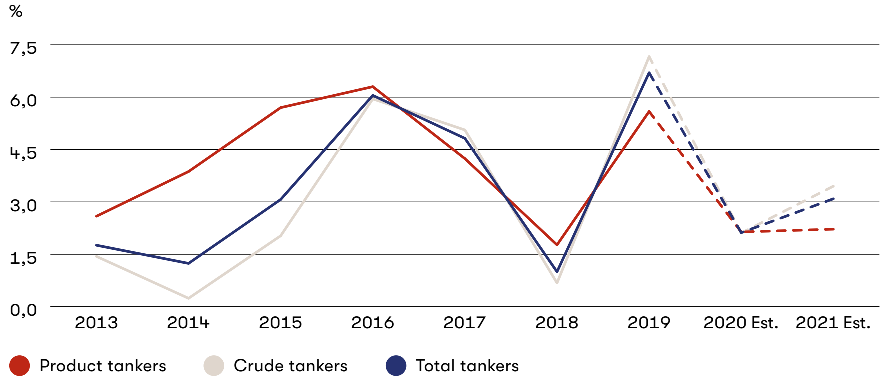
	2018	2019	Change
MR	6,348	6,235	0%
Handysize	6,391	6,418	0%

Tanker T/C portfolio

In addition to owned vessels, NORDEN's Tanker business manages an extensive T/C portfolio of both short- and long-term charter-in agreements. At year end, the total chartered-in fleet consisted of 37 vessels of which 16 were vessels with a charter agreement of 2 years or more. To this should be added 10 newbuildings with delivery in 2020 and 2021, each with a duration of more than 3 years. A majority of the chartered-in tonnage comes with significant optionality through both period and purchase options, providing the Group with the ability to expand the number of fleet days in strong market periods. In total, Tankers hold 24,000 optional days, supplemented by purchase options on 20 vessels, which at the end of the year had a market value of USD 28 million.

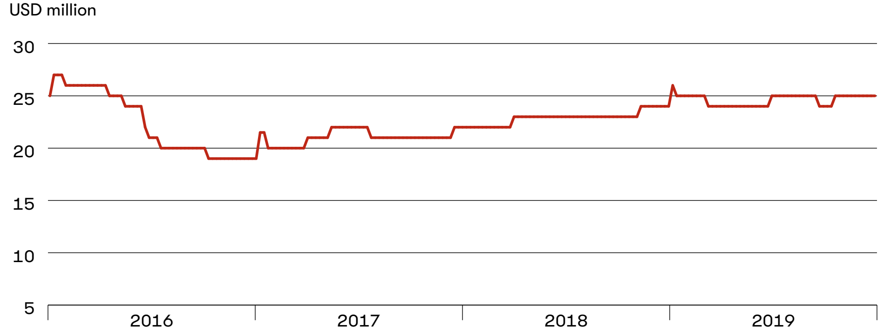
NORDEN has significantly increased the forward cover throughout the year adding cover contracts with a duration of 3 years and thereby securing steady revenue regardless of market conditions in the coming year. Overall, NORDEN's Tanker business remains exposed to the spot trade, and the Tanker business entered 2020 with coverage of 25%, leaving 75% of more than 20,000 days open and is thereby well positioned to benefit from the expected strong market in 2020.

Tanker fleet growth



Source: SSY and NORDEN

Vessel value, 5-year-old MR



Source: Clarksons

TANKERS

Tanker positioning

Capacity and coverage, Tankers, at 31 December 2019

	2020	2021	2022	2020	2021	2022
Owned vessels		**Ship days**				
MR	6,194	6,205	6,205			
Handysize	2,555	2,555	2,555			
Total	**8,749**	**8,760**	**8,760**			
Chartered vessels					**Cash costs for T/C capacity (USD per day)**	
LR1	277	0	0	18,600	0	0
MR	9,205	6,766	6,185	14,761	15,345	15,252
Handysize	1,943	85	0	13,359	13,233	0
Total	**11,425**	**6,851**	**6,185**	**14,616**	**15,319**	**15,252**
Total capacity	**20,174**	**15,611**	**14,945**			
Coverage					**Revenue from coverage (USD per day)**	
LR1	277	0	0	18,520	0	0
MR	4,450	2,887	1,824	17,415	17,235	17,087
Handysize	359	0	0	16,139	0	0
Total	**5,086**	**2,887**	**1,824**	**17,385**	**17,235**	**17,087**
Coverage in %						
LR1	100%	0%	0%			
MR	29%	22%	15%			
Handysize	8%	0%	0%			
Total	**25%**	**18%**	**12%**			

Tanker 2020 capacity

Ship days

20,174

Coverage in 2020

25%

GOVERNANCE

Corporate governance

With a long-term focus, the aim of the Group is to develop for the benefit of its stakeholders within the risk framework set out.

The management of NORDEN is based on the values of flexibility, reliability, empathy and ambition and the Group's purpose aiming at enabling smarter global trade.

The focus is long-term, and the goal for the Group is to develop for the benefit of its stakeholders within the risk framework set out by the Board of Directors (see "Risk management" on page 20 and note 4.1 "Financial risk management" to the consolidated financial statements.

Election, tasks and authorities

NORDEN has a two-tier management structure with a Board of Directors and an Executive Management. No individuals are part of both bodies. The Board of Directors is made up of 6 members elected for a term of 1 year by the shareholders and 3 members elected for a term of 3 years by the employees.

The Board of Directors determines strategies, policies, goals and budgets. In addition, it sets out the risk management framework and supervises the work, procedures, etc. carried out by the day-to-day management. The Board of Directors appoints the Executive Management and sets out its responsibilities and conditions.

The Executive Management is responsible for the day-to-day management, organisation and development of NORDEN, for managing assets, liabilities and equity, accounting and reporting, and it also prepares and implements the strategy. The ongoing contact between the Board of Directors and the Executive Management is primarily handled by the Chairman and the CEO. The Executive Management participates in board meetings and is supplemented by other managers in the strategy meetings and when relevant.

The Board of Directors has a 1-year authority to acquire treasury shares at market price up to a nominal value not exceeding 10% of the share capital and a 5-year authority to increase the share capital by a nominal value of 10%. The latter is effective until April 2021.

The Articles of Association can be found on the Group's website. Generally, resolutions to amend the Articles of Association require a quorum of at least two-thirds of the voting share capital represented at a general meeting and a majority of at least two-thirds of the votes cast as well as of the voting share capital represented at such general meeting. In addition, certain resolutions on changes of the shareholders' dividend or voting rights or the transferability of shares as set out in the Danish Companies Act require a special supermajority of at least 9/10 of the votes and of the capital represented.

Board work

The Board of Directors sets out an annual work schedule to ensure that all relevant issues are discussed during the year. As part of the annual schedule and to ensure focus on both short- and long-term targets, a board meeting specifically focusing on operational targets and short-term strategies is supplemented by daylong seminars reviewing the long-term strategy of the Group.

In 2019, the Board of Directors held 13 board meetings of which 4 were teleconferences in connection with financial reporting. Attendance was 97% for the shareholder-elected board members and 93% for the employee-elected board members. To this should be added that one of the employee-elected board members is a seafarer, who might be otherwise occupied at sea and therefore cannot attend.

Board committees

In line with the corporate governance recommendations, the Board of Directors has established 4 subcommittees to ensure extra focus on certain issues deemed of high importance.

Audit Committee

The Audit Committee consists of Karsten Knudsen (committee chairman), Helle Østergaard Kristiansen and Klaus Nyborg. The committee supervises financial reporting, transactions with closely related parties, auditing, etc. The terms of reference are published on NORDEN's website where a statement of control and risk management in connection with financial reporting can also be found. During the year, the committee held 4 meetings, and all committee members participated in all the meetings.

Risk Committee

The Risk Committee consists of Tom Intrator (committee chairman), Karsten Knudsen and Stephen John Kunzer. The purpose of the committee is to assist the Board of Directors in its oversight of the Group's overall risk-taking tolerance and management of market, credit and liquidity risks. The committee's terms of reference are available on NORDEN's website. During the year, the committee held 5 meetings, and all committee members participated in all the meetings.

Remuneration Committee

The Remuneration Committee consists of Klaus Nyborg (committee chairman), Karsten Knudsen, Tom Intrator and Stephen John Kunzer and is responsible for supervising the implementation of the Group's remuneration policy. The policy has been updated and is to be adopted at the annual general meeting. The current policy is available on NORDEN's website. The committee's terms of reference are available on NORDEN's website. The committee held 2 meetings in 2019, and all committee members participated in all the meetings.

Nomination Committee

The Nomination Committee consists of Klaus Nyborg (committee chairman) and Johanne Riegels Østergård. The committee is responsible for describing the qualifications required in i.a. the Board of Directors and the Executive Management, and the committee is also in charge of an annual assessment of the competences, knowledge and experience present in the 2 management bodies. The committee's terms of reference are available on NORDEN's website. No meetings were held in the Nomination Committee in 2019.

In addition to the Remuneration and Nomination Committee meetings, the chairman of the two committees has held regular meetings with the Executive and Senior Management and committee members.

Qualifications and evaluation

For the Board of Directors to be able to perform its managerial and strategic tasks and, at the same time, act as a good sounding board to the Executive Management, the following skills are deemed particularly relevant: insight into shipping (specifically dry cargo and tankers), general management, strategic development, risk management, commodity trade, investment, finance/accounting as well as international experience.

In 2019, the Board of Directors and the Executive Management assisted by external consultants conducted a self-assessment of the composition, qualifications and dynamics of the Board of Directors. The assessment concluded that the Board of Directors possesses relevant skills and has good working relationships and dynamics. A similar assessment is planned for 2020.

Board composition and remuneration

At the annual general meeting in April 2019, all board members were re-elected as members to the Board of Directors.

The Board of Directors has a target figure for the share of the underrepresented gender on the Board of Directors and formulated a policy to increase the share of the underrepresented gender on the other management levels. The target for the share of shareholder-elected women on the Board of Directors is to have minimum 2 out of 6 shareholder-elected female board members by 2020, and the target has been met.

Board remuneration amounts to a total of USD 0.8 million. Specific board remuneration can be found in the Remuneration Report 2019 available on NORDEN's website: https://cms.norden.com/sites/cms.norden.com/files/2020-05/remunerationreport2019.pdf. The Board of Directors proposes unchanged remuneration in 2020.

Corporate governance

The Board of Directors has discussed the recommendations from the Danish Committee on Corporate Governance.

NORDEN follows all recommendations except for recommendation 3.4.2 as the Nomination Committee has 1 independent and 1 non-independent member, while all other committees in line with recommendations have a majority of independent members. A systematic review of the recommendations can be found in the Statutory Statement for Corporate Governance:
https://cms.norden.com/sites/cms.norden.com/files/2020-05/Statutorystatement2019.pdf

2020

The Board of Directors has planned 14 meetings, 4 of which are teleconferences in connection with the annual and interim reports. At the annual general meeting on 27 March 2020, all board members elected by the shareholders will stand for re-election.

Board of Directors

	 **Klaus Nyborg**	 **Johanne Riegels Østergård**	 **Karsten Knudsen**	 **Tom Intrator**
Position	Chairman Managing Director	Vice Chairman Architect	Board Member Managing Director	Board member Former CEO and President in Cargill
Other directorships	A/S United Shipping & Trading Company (CB), Bawat A/S (CB), Moscord Pte. Ltd. (CB), Bunker Holding A/S (VCB), Uni-Tankers A/S (VCB), DFDS A/S (VCB), X-Press Feeders Ltd. (BM), Norchem A/S (BM), Maritime Investment Fund I and II K/S (Chairman of investment committee), Karen og Poul F. Hansens Familiefond (BM) and Return ApS (MD)	Plus Animation Film IvS (CB), A/S Motortramp (BM), D/S Orients Fond (BM), Ejendomsselskabet Amaliegade 49 A/S (BM) and Lion Danmark I ApS (BM)	Vækst-Invest Nordjylland A/S (CB), Polaris IV Invest Fonden (CB), Nordsøenheden (VCB), A/S Motortramp (BM), D/S Orients Fond (BM), Obel-LFI Ejendomme A/S (BM), Velliv Pension & Livsforsikring A/S (BM), Saga I-VII GP ApS (MD), Saga VII-USD PD AIV K/S (MD), Saga VII-EUR K/S (MD) and Saga VII-USD K/S (MD)	Macsteel Holdings (BM), Argus Media (BM) and Marquard & Bahls (BM)
Relevant skills	Experience with management of global, listed shipping companies, strategy, investment, sale and purchase, financial issues and risk management	General management, financial and business insight as well as detailed knowledge of NORDEN's values and history	General management and strategy, broad financial experience, comprising accounting, investment banking and management of financial risks, including credit risks	Experience as an executive in one on the world's largest trading houses, international background, and extensive knowledge of energy, shipping and metals. Experience within management, strategy, investment, customer relations and service, financial issues and risk management
Board member since	2012 (Chairman since 2015)	2016 (Vice Chairman since 2017)	2008	2017
Term expires	2020	2020	2020	2020
Attendance 2019*	100%	100%	100%	78%
Committees and attendance 2019	Audit Committee (100%) Remuneration Committee (100%), Nomination Committee	Nomination Committee	Audit Committee (100%), Risk Committee (100%), Remuneration Committee (100%)	Risk Committee (100%), Remuneration Committee (100%)
Independent/ Not independent**	Independent	Not independent	Not independent	Independent
Born in	1963	1971	1953	1959
Gender	Male	Female	Male	Male
Nationality	Danish	Danish	Danish	Swiss
No. of shares	1,700	499	2,000	0

Directorships and shareholdings are stated as at 31 December 2019. The directorships do not include positions within the NORDEN Group.

CB: Chairman of the Board. VCB: Vice Chairman of the Board. BM: Board Member. MD: Managing Director.

* Calculated as percentage of required attendance
** In addition to the shares held personally by Johanne Riegels Østergård and Karsten Knudsen or through their related parties, both are associated with A/S Motortramp, which holds 12,741,803 shares in NORDEN. Employee-elected board members are not independent by virtue of their employment.





	Helle Østergaard Kristiansen	Stephen John Kunzer	Lars Enkegaard Biilmann	Susanne Fauerskov	Jesper Svenstrup
Position	Board member CEO of Danske Commodities	Board member Former CEO in Eastern Pacific Shipping	Board member Captain	Board member Head of Marine Payroll	Board member Head of Supramax South Atlantic
Other directorships	Stauning Whiskey A/S (BM) and Systematic A/S (BM)	Braemar Shipping Services Plc. (BM)	Elected by the employees	Elected by the employees	Elected by the employees
Relevant skills	Experience as CEO and CFO in an international energy trading house, extensive knowledge of energy, risk management, optimising processes and digitalisation. Competences within digitalisation, international financing and risk management	Experience within management of one of the world's largest private family ship owners. Competences within international shipping especially within the tanker segment and experience in operating a large diverse fleet			
Board member since	2018	2018	2013	2018	2018
Term expires	2020	2020	2021	2021	2021
Attendance 2019*	100%	100%	78%	100%	100%
Committee	Audit Committee (100%)	Risk Committee (100%), Remuneration Committee (100)%	-	-	-
Independent/ Not independent**	Independent	Independent	Not independent	Not independent	Not independent
Born in	1978	1966	1964	1975	1975
Gender	Female	Male	Male	Female	Male
Nationality	Danish	British	Danish	Danish	Danish
No. of shares	800	0	723	723	470

Senior Management

		
	Jan Rindbo	**Martin Badsted**
Position	CEO	CFO
Education	Trained in shipping and has completed executive training programmes at INSEAD	Holds an M.Sc. in International Business
Other directorships	Danish Shipping (BM), D/S Orients Fond (BM) and BIMCO (BM)	
Employed in	2015	2005
Born in	1974	1973
No. of shares	18,057	4,223

Remuneration for the Executive Management can be found in the Remuneration Report 2019 available on NORDEN's website.

					
	Christian Vinther Christensen	**Henrik Lykkegaard Madsen**	**Heidi Nykjær Persson**	**Karina Sundbæk**	**Søren Huscher**
Position	Head of Dry Operator	Head of Asset Management	Head of People, Communications and Sustainability	Head of Finance	Head of Tanker Operator
Education	Trained in shipping and has completed executive training programmes at Duke CE	Trained in shipping, holds a graduate diploma in Marketing Economics and has completed executive training programmes at INSEAD and IMD	Trained in shipping, holds a BA in Shipping and Transportation from Shanghai University and an MA in Consulting and Coaching Change from INSEAD	Holds an M.Sc. in Economics and Auditing from CBS	Trained in shipping and has completed executive training programme at INSEAD
Employed in	2017	2010	2018	2017	2000
Born in	1970	1962	1968	1974	1962

Directorships, etc. are stated at 31 December 2019 and do not include positions within the NORDEN Group. BM: Board Member.

Investor relations

Master data

Share capital	DKK 42.2 million
Number of shares	42,200,000 of DKK 1
Classes of shares	1
Voting and ownership restrictions	None
Stock exchange	Nasdaq Copenhagen
Ticker symbol	DNORD
ISIN code	DK00600083210
Bloomberg code	DNORD.DC
Reuters code	DNORD.CO

Investor relations
During 2019, NORDEN has had ongoing dialogue with analysts and investors and participated in a large number of investor conferences and seminars. The share is monitored by 7 analysts.

Additionally, NORDEN ended the previous share buy-back programme on 13 February 2019. A total of 706,900 shares at an average price of DKK 93.36 was acquired from 8 November 2018 where the programme was initiated.

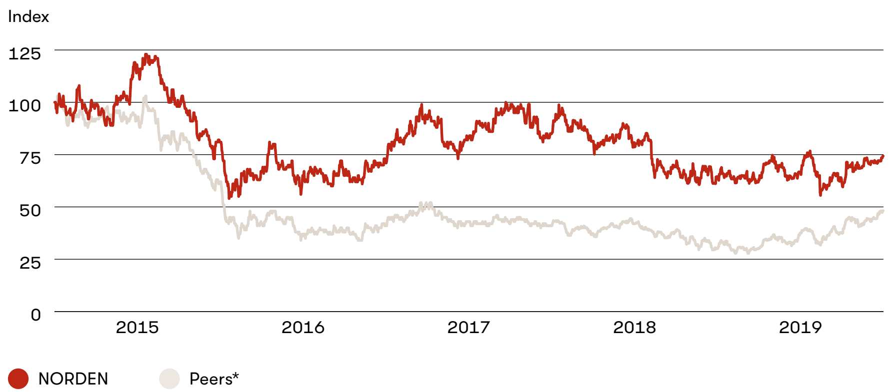
Share buy-back
On 7 November 2019, NORDEN initiated a share buy-back of up to a total of USD 10 million. The programme ran until 28 February 2020. By the end of 2019, a total of 347,500 shares at an average price of DKK 103.16 was acquired.

Dividends
The Board of Directors recommends for approval by the general meeting that a dividend of DKK 2.50 per share is paid to the shareholders.

Shareholder return
During 2019, NORDEN's share price increased from DKK 91.7 to DKK 106.7, and the adjusted return in USD has been +17.3%. When looking at a 5-year period, the NORDEN share performed above the peer group of dry cargo and product tanker companies. This confirms NORDEN as a relevant long-term investment due to the diversified business model spread across both markets.

Trading volume
On average, 116,111 shares were traded on a daily basis on Nasdaq Copenhagen in 2019, which is a decrease of 18.2% compared to 2018. The average daily trading value on Nasdaq Copenhagen was DKK 11.2 million against DKK 15.5 million in 2018.

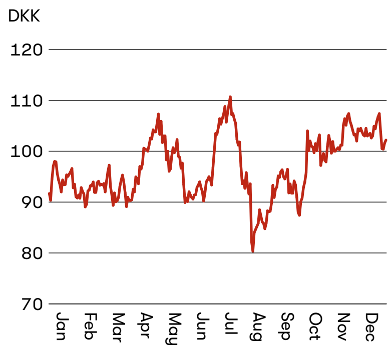
Total shareholder return* 5 years (1/1 2015 = 100)



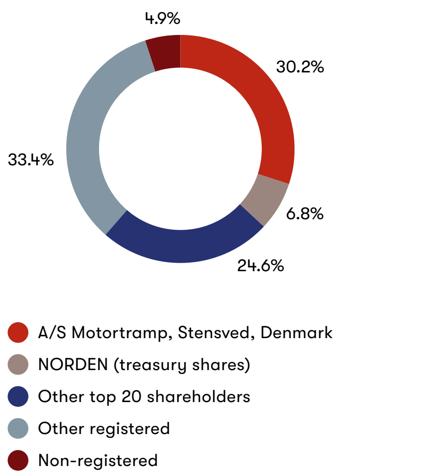
* The total return measured as the total value of dividend payments and share price increases expressed in USD.

The total return of the peer group is calculated based on 10 dry cargo companies (Safe Bulkers, Diana Shipping, Golden Ocean, Pacific Basin, Scorpio Bulkers, Navios Maritime Holdings, Eagle Bulk, Star Bulk, Genco, and Dry Ships) – each weighted by their market capitalisation – and 8 product tanker companies (Concordia, D'Amico, Teekey Tankers, Scorpio Tankers, Ardmore Shipping, Torm, Navios Maritime Acquisition, and Diamond S Shipping) – each weighted by their market capitalisation – the average return of which is weighted on a 60/40 basis in favour of the dry cargo companies.

Share price development 2019



Composition of shareholders



* International ownership share counted 634 registred shareholders, in aggregate owning 28.1% of the share capital

SUSTAINABILITY REPORT

Introduction

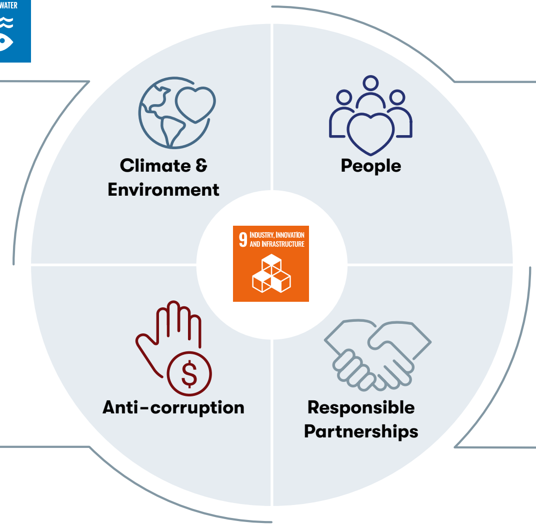
The shipping industry handles about 90% of the world's transported goods. Shipping links production, people and companies in global trade and contributes to development and growth all over the world.

Developing efficient, reliable and smart solutions for transporting goods from producers to buyers is a key component in ensuring sustainable development through trade.

NORDEN reports on sustainability annually to the UN Global Compact, and this section in the annual report functions as our Communication on Progress for the financial year 2019. It also represents our statutory statement on corporate social responsibility and underrepresented gender and diversity in accordance with sections 99a and b of the Danish Financial Statements Act.

Sustainability in NORDEN

The Sustainability Strategy is part of NORDEN's overall business strategy and NORDEN's Corporate Soul Purpose. With SDG 9 *Industry, innovation and infrastructure* at the center of our sustainability focus, we recognise the following 4 areas as our operational foundation: Climate & Environment, People, Anti-corruption and Responsible Partnerships. Read more on NORDEN's Sustainbility Strategy on page 51.



CO_2 emissions, transport work, spills, SOx, NOx, plastic

See Climate & Environment on page 52

Safety, human rights and employees

See People on page 54

Anti-corruption compliance, training and whistleblower

See Anti-corruption on page 58

MACN, SRTI, IMPA ACT

See Responsible Partnerships on page 61

Sustainability in NORDEN

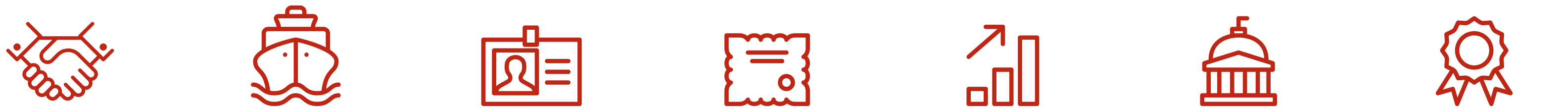
NORDEN's key stakeholder groups are our customers, suppliers, employees, shareholders, financiers, industry associations and regulators. NORDEN seeks to engage in dialogue with these stakeholders whenever relevant to identify the most important sustainability issues to focus on going forward.

At least every other year, NORDEN carries out an internal assessment of each sustainability issue – a materiality assessment – where the significance of each sustainability issue's impact, to stakeholders as well as to NORDEN, is considered and categorised as either a risk or a responsibility. A materiality assessment was carried out in 2019, representing a reality check of our sustainability focus as well as the allocation of our efforts and resources in the Group.

Through the sustainability materiality process, the list of material sustainability issues has been calibrated and prioritised into a matrix by the Executive Body for Sustainability, comprised of the CEO and representatives from 5 different departments across NORDEN.

The assessment of whether a sustainability disclosure is material includes considerations of whether the matter is of such relevance and importance that it could substantively influence the valuation by financial capital providers of NORDEN's ability to create value over the short, medium and long term.

NORDEN's stakeholders



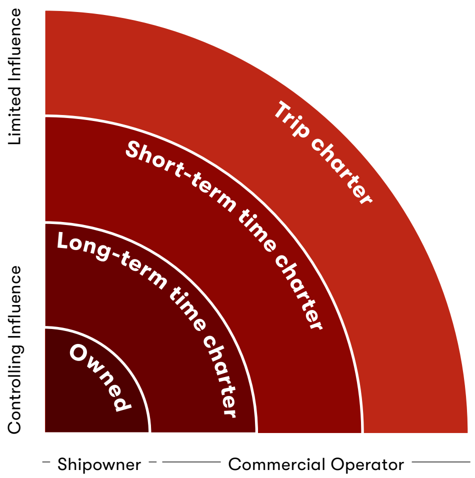
Customer **Suppliers** **Employees** **Shareholders** **Financiers** **Regulators** **Industry associations**

Top sustainability issues

Sustainability issue	Accidents & Oil Spills	Energy Efficiency & Decarbonisation	Sanctions Compliance and Anti-corruption
Importance to the Group	We have an accident prevention plan in place to reduce the number of accidents, and if accidents occur, that they are mitigated, confined and reported. NORDEN registers any oil spills with the Technical Department. We want to do our best to prevent and mitigate accidents as it is a risk to our crew, the environment and NORDEN if our management systems are not capable of sufficiently mitigating accidents and oil spills. Therefore, the topic is of high importance.	Energy efficiency and decarbonisation is part of the 2030 agenda to curb emissions while working towards carbon neutrality in 2050. Further, it is NORDEN's responsibility to manage our vessels in the most energy-efficient way. With our asset light model, it will become more important to address this issue with our chartered vessels as well.	Doing business with a sanctioned party is illegal and can in the worst case cause great harm to NORDEN. It is an enormous risk to NORDEN if we do not make certain that our business relations are responsible and unsanctioned. On a daily basis, all our commercial counterparts are screened against sanctions lists as well as environmental and human rights issues.
Reference	• UN Global Compact • IMO MARPOL Convention Annex VI • Initial IMO Strategy on Reduction of GHG Emissions from Ships	• UN Global Compact • IMO MARPOL Convention Annex VI • EU Sulphur Directive 2016/802 • UNCLOS	• UN Global Compact • OECD Guidelines for Multinational Enterprises • US Foreign Corrupt Practices act and UK Bribery Act
Policy	NORDEN's Safety and Environmental Protection Policy ensures that all employees in every function execute their work under safe and healthy conditions and with proper concern for protecting the environment. NORDEN aims to eliminate potential dangers which may result in personal injury, professional illness, accidents, damage to property and damage to the environment.	NORDEN's Safety and Environmental Protection Policy ensures that all employees in every function execute their work under safe and healthy conditions and with proper concern for protecting the environment. The Group aims to eliminate potential dangers which may result in personal injury, professional illness, accidents, damage to property and damage to the environment. Further, we have committed ourselves to decarbonise through our work under NORDEN's sustainability strategy, including aligning our climate target with IMO's. We have also established a Decarbonisation Manager position in the Group to further engage in collaborations with partners in exploring decarbonisation solutions.	NORDEN's Anti-corruption Compliance Programme aims at ensuring compliance with anti-corruption legislation, including sanctions, protecting NORDEN's reputation and guiding employees in what is expected when working for NORDEN. The programme applies to all employees, to management and to the Board of Directors.

Leverage and responsibility
NORDEN is moving in a more asset-light direction, with relatively fewer owned vessels and more vessels on charter. Consequently, we have outsourced the technical management of our dry cargo fleet. With our leverage decreasing, the responsibility of ensuring accountability with our business partners to avoid potential wrongful practices is becoming increasingly more important.

Sphere of influence and responsibility



Commercial operator

- Contracting voyages and cargoes for destinations
- Arranging support activities for voyages
- Optimisation of the voyage in collaboration with the shipowner and the customer

Shipowner

- Legislative responsibility towards flag state and international regulation and conventions
- Employment and training of crew if not in external management
- Dry-docking, stores, repair and maintenance
- Vetting and Port State Control inspections

NORDEN seeks to strengthen global partnerships in support of the ambitious targets of the UN 2030 Agenda
In bringing together national governments, the international community, civil society, the private sector and other actors, partnerships are important means for ensuring regulatory compliance, level playing field, transparency and stakeholder inclusion.

During 2019, NORDEN partnered up with ShippingLab, a non-profit project collaboration for smart shipping, through which we commenced collaboration with pioneering company Kvasir Technologies, which is investigating sustainable bio crude oil. NORDEN also signed up with Getting to Zero Coalition, and our CEO is an active participant in a collaboration whose purpose is to define a common standard for the industry for calculating CO_2 emissions per voyage.

NORDEN is part of the following global partnerships, initiatives and collaborations:

Sustainability Strategy

SDG sub-targets
9.1, 9.4

NORDEN's Executive Body for Sustainability, chaired by NORDEN's CEO, is ultimately responsible for sustainability across the Group. The Executive Body for Sustainability is cross-functionally represented and is responsible for mandating NORDEN's Sustainability Strategy, ambition level and policies as recommended by the Sustainability Department.

Launched in 2019, NORDEN's Sustainability Strategy focuses on finding new business opportunities within the agenda of the Sustainable Development Goals (SDGs) where NORDEN can contribute to a significant difference. This is an addition to NORDEN's operational foundation where we work with responsibility and sustainability. In the strategy development process, NORDEN has prioritised the SDGs and subsequently mapped them to our core business activities.

Sustainable Development Goals

Adopted by the UN in

2015

17 goals and 169 underlying targets define global sustainable development priorities and aspirations for the year

2030

For NORDEN, the SDGs are chosen as basis for our Sustainability Strategy

2019-21

SDG 9 Industry, Innovation and Infrastructure holds a strategic potential aligned with NORDEN's business strategy

2 areas of business opportunity

Decarbonisation
Shipping has a high climate impact. At NORDEN, we have come a long way in increasing fuel efficiency. With the IMO targets on CO_2 reductions, it is evident that increased fuel efficiency alone is not enough. We need alternative solutions, and under the Decarbonisation heading, we want to contribute with low-carbon transportation options.

Decarbonisation performance 2019
NORDEN has expanded its portfolio of initiatives. We are currently looking into different alternative fuel options. We have already completed 2 test voyages with 100% biofuel from Goodfuels and are now working on the last adjustments. We are also working with pioneer company Kvasir Technologies on a bio crude oil solution, and further, we are investigating a wing sails solution. We expect to engage in even more partnerships in the future.

Logistics optimisation
Effective transport and logistics can help drive the expansion of world trade. We will use NORDEN's knowledge and experience in optimising infrastructure logistics by addressing bottleneck issues with for instance congestion or inefficiencies in port handling, unpredictability in inland transportation or difficulties in transitions from inland transportation to ocean-going vessels. Under the Logistics optimisation heading, we will find collaborative ways to remove these barriers, creating shared value for customers, partners, local communities, regions and NORDEN.

Logistics optimisation performance 2019
NORDEN is currently in the process of developing 4 port optimisation projects around the world to become increasingly involved with cargo loading and unloading operations. With our port captains, we are looking at optimising operation and hope to contribute to the development of local infrastructure.

Climate & Environment

SDG sub-targets
9.1, 9.4, 12.4, 12,7, 12c,
13.2, 13.3, 14.1, 14.3, 14c

Climate & Environment covers efficiency and various emissions

Climate

Climate change derived from CO_2 emissions is a risk to biodiversity and livelihoods and poses operational and commercial challenges to NORDEN's business.

NORDEN's climate goal is aligned with IMO's carbon reduction strategy in reducing relative CO_2 emissions by 40% in 2030 compared to 2008. Further, in December 2019, the Danish government's climate partnership with the Danish maritime sector defined a climate ambition of a 2050 carbon neutrality. NORDEN applauds this ambition, and under our Sustainability Strategy, we will also work towards this goal by engaging in partnerships.

NORDEN's activity measured in transport work (tonnes cargo transported) increased by 7% in 2019 compared to 2018. This is reflected in our CO_2 emissions, which also increased by 7% compared to 2018.

The last few years, the relative emission reductions have not increased much. The year 2019 shows we have reached 22% of our total 2030 relative emission reduction target. NORDEN has worked to optimise operational air emissions for several years, but it is clear that we need to do more. Our Advanced Analytics and Digital Solutions Department works with a strategic ambition of investigating new low-carbon fuel options as well as optimising logistics, and NORDEN wants to further add to the decarbonisation agenda as is stated in our Sustainability Strategy. We have several decarbonisation initiatives in the pipeline that will hopefully address this development in a positive direction during 2020.

NORDEN's climate target is aligned with the targets of IMO and the Danish government

40%

40% transport work emission reduction by 2030 compared to 2008

100%

100% carbon neutral in 2050

8.70

EEOI

Climate

NORDEN's ambition
- Further investigate low-carbon shipping options and logistical optimisation at ports
- Transport work emission reduction of 40% by 2030 compared to 2008
- Carbon neutral in 2050 aligned with Danish Shipping and the Danish government's climate partnership

Performance 2019

Transport work
- 470,000 million tonne-miles (tonnes cargo transported 1 mile), an increase of 7% compared to 2018

EEOI (Energy Efficiency Operational Indicator)
- 8.70, a slight increase from 8.60 in 2018.
- Compared to 2008: All operated vessels reached 22% towards the 2030 target, i.e. we have 10 years to make up for the remaining 78%. Assuming a linear reduction, NORDEN has come 45% of where we should be today

Emissions
- CO_2: 4,092,000 tonnes

Absolute CO_2 reduction
- Accounting for absolute CO_2 reduction will commence in 2020 under our decarbonisation initiative.

Looking ahead
- Focus on further fuel efficiency and low-carbon options

Relevant policies
- Safety & Environmental Protection Policy: All employees in every function execute their work under safe and healthy conditions and with proper concern for protecting the environment. NORDEN aims to eliminate possible dangers which may result in personal injury, professional illness, accidents, damage to property and damage to the environment
- Climate Policy for Danish Shipping from November 2019 describes expectations for the shipping industry, including a zero carbon industry in 2050 and the first carbon neutral vessels by 2030
- IMO's Greenhouse Gas Reduction Strategy and NORDEN's climate goal in alignment with the Paris Agreement of reducing transport work CO_2 emission reduction of 40% by 2030 compared to 2008 and a total CO_2 emission reduction of 50% in 2050

Environment
Shipping carries risks to the environment through spills, discharges and emissions to air, land and water. Managing these outputs is critical to environmental protection, the industry, to NORDEN and to our customers. Monitoring and management tools are key in minimising the environmental impact of NORDEN's activities and ensuring compliance with local and international regulations.

NORDEN's SOx and NOx emissions increased with 9 and 7%, respectively, compared to 2018. The SOx increase is due to a higher sulphur average in the fuel consumed combined with increased activity, measured in transport work. Transport work increased by 7% compared to 2018.

Activity increase is also the reason for the higher NOx emissions which is directly proportional to the increase in CO_2 emissions.

Sulphur IMO 2020
In order to reduce sulphur emissions on a global scale, IMO decided on a maximum emission of 0.5% sulphur limit on vessels, as opposed to 3.5% before. These sulphur emission levels have been in effect since 1 January 2020.

NORDEN's strategy to comply with the regulation is to switch to new fuel on some vessels and installing scrubbers on others, including installing 20 scrubbers on our owned vessels and 16 on long-term chartered vessels.

Plastic
During 2019, Plastic Change visited NORDEN's offices in Hellerup to discuss the issues of plastics in general and plastics in the ocean. After the visit, NORDEN completed an internal plastic policy including a number of action points to address waste handling and reduction of use of plastics in the offices. The purpose of the policy is to create awareness internally addressing waste and plastics in a more responsible manner.

Relative reduction of CO_2
Since the IMO has yet to define the calculation method for relative emissions, to represent the relative emissions, NORDEN uses Energy Efficiency Operational Indicator (EEOI), a measure of efficiency expressed in level of relative emissions to cargo transported.

EEOI is easily affected by change in vessel type composition, fuel type and speed. Vessel size determines the amount of cargo that can be transported. Even though smaller vessels might be the right mode of transport, they are less energy-efficient compared to bigger vessels.

NORDEN's vessel type composition changes continuously. Therefore, we have split up the data points by vessel types in dry cargo. In tankers, the vessel type composition does not vary greatly, hence, we show the consolidated progress for tankers.

The percentages show how far NORDEN has come in reaching our 2030 target, and assuming a linear reduction, how far in reaching today's target.

- Handysize: 34% and 69%
- Panamax: 26% and 52%
- Supramax: 17% and 33%
- Tankers: 14% and 28%

Environment

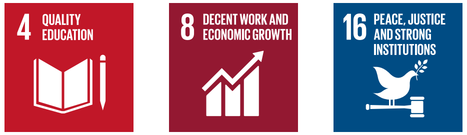
NORDEN's ambition
- 0 oil spills into water
- Ensure continuous sulphur emission compliance

Performance 2019
Emissions
- SOx: 54,400 tonnes, an increase of 9% from 2018
- NOx: 128,500 tonnes, an increase of 7% from 2018

Looking ahead
- Continue 0 oil spills into water
- Continue to investigate the possibility of NORDEN vessels' contribution to plastic pollution data collection

Relevant policies
- Safety & Environmental Protection Policy: All employees in every function execute their work under safe and healthy conditions and with proper concern for protecting the environment. NORDEN aims to eliminate possible dangers which may result in personal injury, professional illness, accidents, damage to property and damage to the environment
- NORDEN's Plastic Policy sets out principles for how we work with waste reduction through various initiatives phasing out products that cause unnecessary plastic waste and other waste.

People



SDG sub-targets
4.4, 8.8, 16.5

With recent organisational changes, we found it timely to change the name of the section covering topics of Safety, Human Rights and Employees to simply People.

Safety

Operating at sea involves safety and security risks that must always be managed carefully to safeguard the crew, the vessel, the cargo and the environment. A safe working environment for employees comes before anything else. All employees must return home from work safely, and NORDEN operates by the principle that no injury or environmental incident is acceptable.

In 2019, there was an increase in injuries where crew members were unable to work the next day, primarily concerning fingers, knees and back injuries. In 2020, we are launching a "Safety Delta" campaign addressing safety on board.

Piracy

NORDEN experienced no piracy attacks on the Group's owned vessels during the year. However, in 2019, NORDEN experienced 1 case of cargo theft in Nigeria, 1 attempted cargo theft in Nigeria and 1 case of stowaway passengers in Nigeria. The coast of Somalia, the Gulf of Aden, the southern part of the Red Sea, the northern part of the Gulf of Oman, the Straits of Hormuz, the Arabian Gulf, the coast of West Africa and Southeast Asia remain a major security concerns. Identifying and managing security risks to people, vessels and cargo continues to be essential to NORDEN. To ensure adequate safeguards, NORDEN has a company security function in place that assesses security risks on an on-going basis in conjunction with risk intelligence providers and military organisations.

Safety

NORDEN's ambition

- 0 accidents

Performance 19

- Number of piracy incidents stayed at 0 in 2019 as in 2018
- Lost Time Injury Frequency rate increased from 0.29 per million working hour in 2018 to 1.5 in 2019
- Rest hour non-conformities decreased from 0.33 per FTE in 2018 to 0.25 in 2019
- Number of fatalities in 2019 remained 0 in 2019
- Observations per SIRE inspection remained 3.4 in 2019 as in 2018
- Rate of deficiencies per Port State Control inspection decreased from 1.2 in 2018 to 1.1 in 2019

Looking to 2020

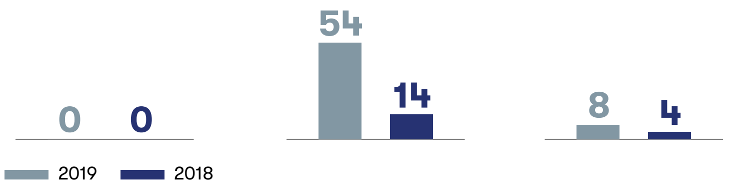
- Continuous high focus on safety and launch of "Safety Delta" campaign addressing safety culture on board

Relevant policies

- Safety & Environmental Protection Policy: All employees in every function execute their work under safe and healthy conditions and with proper concern for protecting the environment. NORDEN aims to eliminate possible dangers which may result in personal injury, professional illness, accidents, damage to property and damage to the environment.

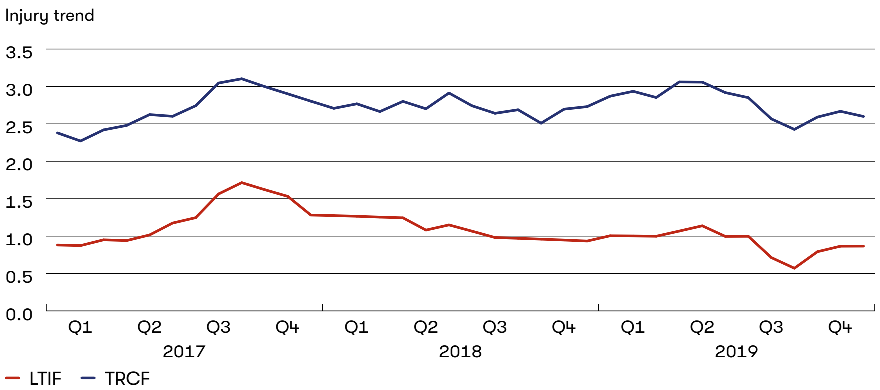
Injuries at sea

FATALITIES **DAYS OFF DUTY** **SIGNED OFF**



NORDEN takes safety very seriously and will continue to promote and focus on a strong safety culture

INJURY TREND – 24-MONTH MOVING AVERAGE



Fatalities: Work related accidents with fatal consequences for an employee at sea
Signed off: People signed off due to a work related injury
Days off duty: While on board due to work-related injuries
LTIF (Lost Time Injury Frequency) is the frequency a seafarer is unable to work for more than 24 hours per 1 million working hours
TRCF (Total Recordable Case Frequency) measures the frequency of any work related injuries beyond first aid

Human Rights
Assessing human rights impacts is a complex task for a global company like NORDEN who has business relationships all over the world. NORDEN recognises that implementing the necessary policies, due diligence processes and grievance mechanisms, in line with the requirements of the UN Guiding Principles for Business and Human Rights, is part of a continuous process.

NORDEN has conducted a human rights impact assessment focusing on owned vessels and employees at sea as well as offices and employees on shore. During 2020, we are planning to conduct an update of our human rights impact assessment.

UN Guiding Principles on Business and Human Rights
The UN Guiding Principles on Business and Human Rights apply to all states and to all business organisations, including transnationals, regardless of size, sector, location, ownership and structure.

Governance of Human Rights
NORDEN works to embed respect for human rights into everyday practices and decision-making by ensuring various reporting measures, including a whistleblower scheme.

Human rights

NORDEN's ambition
- Ensure that NORDEN conducts business with respect for human rights as a process of continuous improvement
- Danish Shipping working group in human rights risks in shipping

Performance 2019
- Participated in Danish Shipping's working group on salient human rights in shipping

Looking to 2020
- Conduct an updated human rights impact and risk assessment of NORDEN

Relevant policies
- Human Rights Policy: NORDEN's framework for human rights is operationalised by the UN Guiding Principles on Business and Human Rights. NORDEN expects all business relationships directly linked to NORDEN to respect the human rights. Supplier Code of Conduct: The provisions set forth in this code, part of NORDEN's General Terms and Conditions, provide the minimum expectations to suppliers. These minimum expectations are based on the general principles contained in the UN Global Compact and other relevant international principles and are in line with NORDEN's values and principles on ethical and responsible business conduct.
- NORDEN is committed to respecting the internationally recognised human rights expressed in the UN Guiding Principles on Business and Human Rights (UNGPs).

Employees

NORDEN's ambition
- Preferred employer in the shipping industry

Performance 2019
Diversity
- 32 nationalities
- 22% women in management on shore
- 26% women in senior management on shore
- 33% women in the Board of Directors

Engagement and turnover
- Employee engagement on shore: latest measure 78-83 out of 100
- 7% turnover (voluntary and involuntary leavers) at sea
- 96% retention (voluntary leavers) at sea
- 16% turnover (voluntary and involuntary leavers) on shore
- 91% retention (voluntary leavers) on shore

Education
- Shipping Programmes at Copenhagen Business School and Technical University Programmes
- 18 cadets
- 4 new trainees, bringing the total to 9 in 2019

Looking to 2020
- Update and implement Diversity Policy, including additional diversity aspects

Relevant policies
- Employee Code of Conduct: The code describes the ethical, social and environmental behaviour which every employee, regardless of position, should adhere to when working at NORDEN. It is in accordance with NORDEN's values, which are ambition, empathy, flexibility and reliability.
- Policy for Diversity and Gender Equality: NORDEN believes in equal opportunities for everyone and fair treatment. The policy sets forth initiatives to increase the share of women in a primarily male industry and builds on clear requirements for diversity in recruitment and employee development as stated in NORDEN's Diversity Policy.

Employees

It is NORDEN's aspiration to become a preferred employer in the industry. To support this ambition, we have in 2019 worked on a new branding process, as well as further focused on NORDEN as a responsible company whose employees conduct business in an ethical manner.

All employees are subject to NORDEN's Employee Code of Conduct that frames the standard of conduct expected of all employees in NORDEN. The Code of Conduct covers anti-corruption, environment, safety, social conditions and compliance and references where the various policies can be found.

At NORDEN, we want our employees to be engaged. In 2019, NORDEN administered 1 employee engagement survey resulting in a satisfactory assessment on which we will now base discussions for improvements. In comparison to industry peers, NORDEN has a high ranking.

Employee engagement on shore

Engagement	82
Strategy	83
Working together	78
Personal development	81

Some level of turnover is expected in any company. At NORDEN, we use both the indicators turnover and retention. Turnover includes both voluntary and involuntary leavers, where retention only accounts for voluntary leavers.

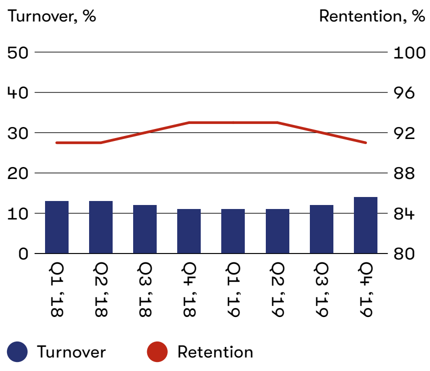
Retention and turnover

	2019	2018	2017
Retention rate at sea (%)	96	96	94
Retention rate on shore (%)	91	92	94
Turnover at sea (%)	7	10	-
Turnover on shore (%)	16	12	10

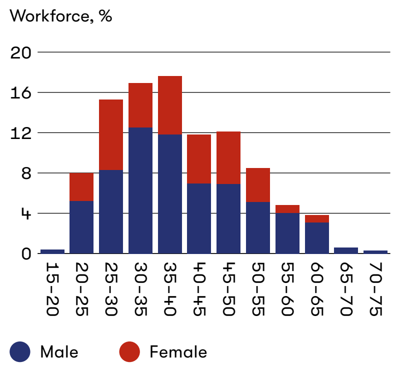
29%

29% women in senior management on shore, an increase from 25% in 2018

Turnover and rentention on shore



Workforce demographics on shore



Diversity

Diversity includes gender, ethnicity, race, socioeconomic status, level of education, age, religion, sexual orientation, etc. NORDEN encourages a high level of diversity. Employee diversity allows for flexible thinking and prevents inveterate conceptions and habits. By assembling teams consisting of a variety of ages, levels of experience and education, nationalities, languages and genders, NORDEN brings all its employees' unique contributions into play for the benefit of improved customer service.

NORDEN also believes that a company with a diversity of people increases employee satisfaction. NORDEN seeks to reach a balanced gender representation, built on clear requirements for diversity in recruitment and employee development as stated in NORDEN's Diversity Policy to be updated in 2020.

NORDEN's board composition is increasingly more international with 33% international shareholder-elected board members. As of 31 December 2019, the board composition is at 33% shareholder-elected women (2 out of 6) reaching our target and the target set out by the Danish Business Authority. Further, the Board of Directors has formulated a policy to increase the share of under-represented gender in other management levels.

Education

NORDEN wants to focus on the education of new skilled persons to the shipping industry. With internships and scholarships at Singapore Management University, Shanghai Maritime University, Nanyang Technological University and Copenhagen Business School, NORDEN invests in new knowledge and talent in the industry.

NORDEN is also a partner with the Singapore Management University by supporting their Maritime Economics Concentration (MEC) programme through a scholarship of SGD 30,000 annually since 2014. This scholarship goes towards supporting the costs of the programme as well as student fees. The MEC programme also partners on an exchange programme with students from CBS in Denmark.

WIS (Women in Shipping) is a new network that aims to connect women in shipping, across position, seniority and segments where 2 NORDEN employees have been appointed as ambassadors. The network's goal is to shed light on some of the blind spots female employees may encounter in a traditionally male-dominated industry.

Female share

	2019	2018	2017
Gender diversity at sea (%)	1	1	-
Gender diversity on shore (%)	33	35	33
Gender diversity in executive management (%)	0	0	0
Gender diversity in senior management (%)	29	25	25
Gender diversity in department leads (%)	20	25	-
Gender diversity in management (%)	25	22	24
Share of male employees who are managers (%)	21	27	-
Share of female employees who are managers (%)	13	14	-

Anti-corruption

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

SDG sub-targets
16.5

NORDEN seeks to enable smarter global trade. Corruption impedes access to global markets and constitutes barriers for economic and social development around the world.

For businesses in the maritime sector, corruption also escalates costs, endangers the safety and well-being of the crew and poses legal and reputational risks. In 2019, NORDEN had 9,648 calls across 121 countries, some of them in regions where concepts of integrity and good business conduct vary. In this context, making the right choice is important and complex. For the promotion of integrity, NORDEN has an anti-corruption compliance programme in place, including an anti-corruption policy applicable to all employees and management. Further, to reduce risk and ensure NORDEN's compliance with legal requirements and stakeholders' expectations, due diligence is used for risk awareness in relation to business partners. All NORDEN's third-party contacts are screened daily on several potential risk factor issues, including sanctions lists, global law enforcement lists, vessel information, as well as environment and human rights issues.

Due diligence, monitoring, training and controls are key tools in implementing the anti-corruption policy.

NORDEN has taken several initiatives to fight corruption, aiming at a maritime industry free of corruption while contributing to enabling global trade and providing a safe working environment on board our vessels in line with our overall goal of smarter global trade.

Under our new policy from 2019, NORDEN has zero-tolerance towards bribery and says no to facilitation payments. The updated policy involves a refusal of facilitation payments. The wording in the policy is chosen to acknowledge that we typically

meet examples of extortion rather than facilitation payments. Facilitation payment is seen as a small payment in money or in kind to facilitate a smooth call, and very often, a demand for facilitation can be waived. Extortion is when officials, using threats, refuse to perform their duties, or abuse their position of authority, resulting in improper fines and delays to our vessels. We see extortion as a threat to the security on board our vessels, and we wish to place more focus on this in our continued fight against corruption.

Employee anti-corruption and ethics training

We feel that anti-corruption and ethics training is a natural part of conducting business responsibly.

Annual anti-corruption and ethics training is mandatory for all NORDEN employees and comprise of e-learning and tests. In addition, all new employees receive face-to-face training followed by the e-learning and test. For exposed employee groups, NORDEN also conducts additional face-to-face training.

The training includes topics of anti-corruption, bribery and facilitation payments, gift and entertainment, conflict of interests, commissions, fraud, third-party procedures and whistleblower scheme. NORDEN's expectation is that every eligible person completes the training. We follow the completion rate closely and take contact to the employee directly if the test has not been completed in time.

The completion rate for office employees is 100%, however, new employees starting after September 2019 are not part of this scope and have not been tested. We will follow up in the spring 2020 with a new platform for testing.

With an onboard IT application now installed on 20 owned vessels, it is easier to document training onboard. Going forward, the application will also track training completion for employees onboard NORDEN vessels in external management. The completion rate as of 31 December 2019 was 73% which we find is a satisfactory level with room for improvements, and we continuously focus on training while developing and improving the IT application onboard.

9,648

Port calls

121

Countries

Whistleblower scheme

NORDEN is committed to providing an environment where the high NORDEN standards and best practices are encouraged and safeguarded. In support of this, NORDEN has since 2011 had a whistleblower scheme accessible to NORDEN employees, including the Executive Management and Board of Directors, auditors, lawyers, external consultants, suppliers, customers and other business partners and stakeholders. Employees in NORDEN have access to raise workplace and operational concerns directly with their manager or with the HR function. If the matter cannot be managed effectively through these channels, employees may use NORDEN's whistleblowing scheme to report anonymously. The whistleblower reports are directed to the Chairman and Vice Chairman of the Board of Directors as well as Head of Legal. In 2019, no substantiated whistleblower reports were received.

Maritime Anti-Corruption Network

NORDEN seeks to enable smarter global trade. Corruption impedes access to global markets and constitutes barriers for economic and social development around the world. As a founding and steering group member, NORDEN works towards raising awareness and eliminating all forms of maritime corruption, addressing the issues through collective action.

MACN
Maritime Anti-Corruption Network

Anti-corruption performance

NORDEN's ambition

- Continued integration of anti-corruption compliance into operations, decision-making and business relationships
- Zero tolerance to bribery and no to facilitation payments

Performance 2019

- 0 substantiated whistleblower reports received
- Implementing no to facilitation payments policy
- Employee training: 100%* and 73% of land-based and off-shore employees (20 vessels), respectively, trained in anti-corruption and ethics
- Anti-corruption policy programme updated
- In collaboration with MACN, conducted lecture at World Maritime University Malmö
- Tax policy launched

Looking ahead

- Continue work with Maritime Anti-Corruption Network
- Implement new initiatives including for instance cashless on board and strengthening demand reporting practices from vessels

Relevant policies

- Anti-Corruption Policy: The policy aims to ensure compliance with key anti-corruption legislation, protect NORDEN's reputation and guide employees in what is expected when working for NORDEN. The programme applies to all employees, management and the Board of Directors
- Employee Code of Conduct: The code describes the ethical, social and environmental behaviour which every employee, regardless of position, should adhere to when working at NORDEN. It is in accordance with NORDEN's values, which are ambition, empathy, flexibility and reliability.

* New employees since September 2019 not included

7 steps

Below are the 7 steps of the Anti-Corruption Compliance Programme.

1. **Top-level commitment**
2. **Risk assessment**
3. **Procedures**
4. **Training and communication**
5. **Monitoring and internal control measures**
6. **Due diligence**
7. **Reporting, discipline and incentives**

Tax

As a company with global reach, NORDEN operates in multiple jurisdictions with different tax rules and regulations. With our Anti-Corruption Compliance Programme and other programmes in sustainability, NORDEN wants to operate a business of integrity, prompting NORDEN to adopt a tax policy in 2019. NORDEN will meet the tax requirements in every country of operation. NORDEN do not organise in tax havens.

TRACE certified

Again in 2019, NORDEN completed a comprehensive due diligence process administered by TRACE and became TRACE certified. TRACE is an internationally recognised anti-bribery organisation and provider of third-party risk management solutions. The certification means that NORDEN has completed internationally accepted due diligence procedures and has been forthcoming and cooperative during the review process. The successful completion of TRACE certification demonstrates NORDEN's commitment to commercial transparency, allowing NORDEN to serve as a valued business partner to multinational companies.

Responsible partnerships

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

SDG sub-targets
8.8, 12.4, 12.7, 12c, 16.5

Conducting business in a legally, ethically and socially responsible manner is core to NORDEN.

Engaging with shipowners, charter operators, agents, brokers and others is part of NORDEN's business. Some counterparties, however, may be conducting their business in an irresponsible and/or illegal manner, and by engaging with these business partners, NORDEN could be directly or indirectly contributing to bad or illicit behaviour. These counterparty actions can also have an impact on NORDEN's reputation.

With NORDEN's new business strategy of becoming increasingly asset-light, and simultaneously decreasing our direct leverage, ensuring responsible business practice and good partnerships in our relationships becomes even more significant. Therefore, NORDEN engages in several multi-stakeholder partnerships.

NORDEN's multi-stakeholder partnerships

Maritime Anti-Corruption Network (MACN)

NORDEN is a founding and steering group member of MACN, a global business network working towards the vision of a maritime industry free of corruption enabling fair trade to the benefit of society at large. Established in 2011, MACN has now grown to include more than 120 members globally and has become one of the pre-eminent examples of collective action to tackle corruption.

IMPA ACT

Responsible supply chain management programme run by the International Marine Purchasing Association and developed by NORDEN and J. Lauritzen in 2012. It is the first standard for the shipping industry in this area. When signing up to IMPA ACT, buyers like NORDEN agree to implement the stipulations of a Supplier Code of Conduct, based on UN Global Compact and UN Guiding Principles for business and Human Rights.

Ship Recycling Transparency Initiative (SRTI)

NORDEN is a founding member of the international SRTI and has adopted several initiatives to support the SRTI, among others regarding the sale of owned vessels and the return of chartered vessels, which are past a certain date as per our Responsible Ship Recycling Policy.

Responsible partnerships performance

NORDEN's ambition

- Screening all commercial counterparts contacts for sanctions and environmental and human rights risks
- Initiating 5 new tier-1 technical suppliers each year
- Ensuring responsible ship recycling

Performance 2019

- New multistakeholder partnerships formed

Looking to 2020

- Continue to develop new partnerships

Relevant policies

- Counterparty screening policy: All NORDEN's third-party contacts are screened daily on a number of potential factor issues, including sanctions lists, global law enforcement lists, vessel information and environmental and human rights issues.
- Supplier Code of Conduct: The provisions as set forth in this code are part of NORDEN's General Terms and Conditions and provide the minimum expectations to suppliers. These minimum expectations are based on the general principles contained in the UN Global Compact and other relevant international principles and are in line with NORDEN's values and principles on ethical and responsible business conduct.
- Responsible Ship Recycling Policy: Describes NORDEN's approach to responsible ship recycling and transparency.

Sustainability risks

NORDEN's value chain is global and complex. It comprises dry and tanker shipping, ports and yards, etc. This is a description of material sustainability issues in NORDEN's value chain.

Value chain	Risk	Mitigation measure
Port operations	NORDEN could be facilitating the occurrence of significant negative impacts related to the transported cargo or the actors that produce or purchase the cargo. During port calls, NORDEN receives provisions, spare parts and bunker fuel from suppliers, if needed. There is a risk that NORDEN engages with suppliers who fail to live up to NORDEN's standards. Ship agents typically arrange for all support activities in connection with loading and discharge operations, including coordination with local authorities on NORDEN's behalf. This makes the Group vulnerable to sub-standard performance of agents when they represent NORDEN, and there is a risk of engaging with counter parties who have other standards than NORDEN's.	NORDEN's Anti-Corruption Compliance Programme and daily screening of NORDEN third-party commercial counter-parts on various potential risk factor issues, including sanctions lists, global law enforcement lists, etc.
Shipping	Vessels are high-risk workplaces, and severe injuries can happen if instructions are not followed at all times. Seaborne transport involves safety and potentially also security risks. A risk assessment determines which mitigation measures to utilise prior to passage in high-risk areas. Discharges from vessels, such as oil, waste, ballast water and emissions could not be managed in line with local and global standards, potentially impacting ecosystems negatively and posing a risk to human health. External charterer could not adhere to NORDEN standards when operating NORDEN's vessels. In the long term, climate change will influence NORDEN's operations. Increased water levels result in a higher transported mass as well as new routes, but climate change also causes an increased frequency of hurricanes, flooded ports and delays. Production costs may increase, thereby changing the demand for shipping of certain products.	Anti-corruption & Ethics Training, Safety & Environmental Protection Policy, Human Rights Policy. Long-term climate change risk guidance to the Board of Directors and Senior Management on an annual basis as well as planned agenda item on Board strategy meeting in June 2020. Climate target is aligned with the UN IMO.
Shipping (continued)	A ship that has responded to a call of distress and rescued a group of individuals can encounter challenges with health and safety during boarding of the rescue mission as well as on board caused by limited capacity. Situations including people in distress at sea are responded in accordance with SOLAS and IMO guidelines.	Safety & Environmental Protection Policy and Best Management Practices to Deter Piracy v5 standard, including how to use anti-piracy equipment.
NORDEN's supply chain	The levels of anti-corruption, environment and health and safety management systems are below NORDEN's standards.	Under IMPA ACT, NORDEN initiates the screening of 5 tier-1 suppliers per year.
Sale, redelivery of chartered tonnage and recycling	Vessels are redelivered or sold to other shipowners for further trade before recycling becomes relevant. In the sale or redelivery of chartered vessels, shipowners may choose to dispose of the vessel in an unsustainable way shortly after sale.	Responsible Recycling Policy.
Second-hand tonnage	Vessels bought by NORDEN from other shipowners could fail to live up to NORDEN's quality standards on vessel performance and environmental footprint.	Quality pre-assessment of the vessels for acquisition.
Chartering	Compliance with NORDEN's integrity standards may not be safeguarded in commercial contracts and activities, including scenarios where NORDEN may engage with business partners who fail to live up to NORDEN's standards when taking on NORDEN's business around the world.	Anti-corruption & Ethics Training, Safety & Environmental Protection Policy.
Newbuildings	Safety and adequate labour rights adherence at the yards and potential negative impacts on the environment from yard activities.	Risk assessment and inspections of yards.

ESG performance 2019

	2019	2018	2017
ENVIRONMENTAL PERFORMANCE			
Energy Efficiency (gCO_2/tonnes-mile)			
EEOI	8.70	8.60	8.75
Energy consumption			
Heavy fuel oils (1,000 tonnes)*	1,134	1,083	1,086
Distillate fuel oils (1,000 tonnes)*	156	142	117
Very low sulphur residuals (1,000 tonnes)	17	-	-
Electricity (MWh)	1,233	1,276	1,283
Total energy consumption (TJ)*	52,988	49,611	48,652
Transport work (1,000,000 tonnes cargo x mile)			
Total operated vessels*	469,897	445,758	429,864
CO_2 emissions (1,000 tonnes)			
Direct CO_2 emissions (Scope 1 GHG protocol)*	4,088	3,829	3,757
Indirect CO_2 emissions (Scope 2 GHG protocol)**	0.2	0.4	0.4
Other indirect CO_2 emissions (Scope 3 GHG protocol)*	3.6	3.0	3.3
Total CO_2 emissions*	4,092	3,832	3,761
Other emissions (1,000 tonnes)			
SOx emissions	54	50	53
NOx emissions*	129	120	118
Spills			
Spills > 1 barrel	0	0	0

	2019	2018	2017
SOCIAL PERFORMANCE			
Employees			
Employees at sea (FTE)*	715	878	874
Employees on shore (FTE)	395	361	346
Nationalities represented (of total workforce)	32	30	26
Women in management on shore (%)	26	22	24
Gender split at sea – gender with the lowest representation ♀ (%)	1	1	-
Gender split on shore – gender with the lowest representation ♀ (%)	35	35	33
Safety			
Rest hour non-conformity (hours per FTE)	0.25	0.33	0.34
Fatalities	0	0	1
Lost time injury frequency (million working hours)	1.45	0.29	1.58
GOVERNANCE PERFORMANCE			
Shareholder-elected board members			
Gender with the lowest representation ♀ (%)	33	33	17
Attendance (%)***	97	94	-

* New accounting policy since 2019, data is not comparable to previous years
** Updated MWh to CO_2 factor used in 2019
*** New accounting policy since 2019. In 2018, phone and strategy meetings are out of scope

Covered by PwC's 2019 report on non-financial data

ESG accounting policies

Boundary setting
The CSR report boundary includes assets and employees in the parent company and in subsidiaries as well as assets in joint ventures (JVs). Assets in JVs include vessels owned by NORDEN together with partners in the company NORD SUMMIT Pte. Ltd. Common to the vessels in JVs is that they are operated by NORDEN, but all material decisions regarding the commercial, operational and technical management of the vessels are made in agreement with the partners.

The reporting boundary
- Owned vessels
- Operated vessels
- Employees on shore
- Employees at sea
- NORDEN's site offices

Data quality and data collection
Collecting information and data on NORDEN's sustainability and ESG performance, the reporting principles of balance, clarity, accuracy, reliability, timeliness and comparability are applied. Data includes comparable data from the past 3 years; 5 if part of key figures. Significant variations in data are explained in the relevant section of the sustainability report. The sustainability assurance provider, PwC, provides independent limited assurance on NORDEN's ESG performance indicators. The ESG report includes performance data from the CSR report supplemented by additional indicators and accounting policies.

Changes to reported ESG data compared with 2018
Employees at sea (FTE) in 2019 is aligned with the financial scope where seafarers on internal and external contracts are included, and seafarers between contracts are excluded. For calculating retention and turnover, the scope for employees at sea (FTE) is defined as seafarers on internal vessels, including seafarers between contracts.

Due to new data management, accounting for bunker fuel consumption for 2019 has changed slightly from 2018 and prior. Data from 2019 and 2018 is therefore not directly comparable.

With our new asset-light business model, we find that reporting on consolidated transport work is more relevant than previously where we distinguished between owned and operated vessels. Further, it has become more relevant to report on efficiency which is why we include a consolidated EEOI in performance data overview.

In the 2019 ESG performance overview, we have also added governance indicators, including board-level gender diversity and attendance.

Environmental performance
NORDEN is liable for consumption, emissions and other environmental elements. For owned assets which are leased out, NORDEN is not liable for consumption, emissions and other environmental elements – the lessee is.

Energy consumption
Transport work (1,000,000 tonnes cargo x mile): Transport work of owned and operated vessels as well as vessels chartered and operated. Transport work expresses the mass of cargo transported over distance, both as registered in the Integrated Maritime Operations System IMOS, NORDEN's commercial maritime chartering, operations and financial solution. Cargo transported over distance, compared with the amount of CO_2 emitted, provides a picture of fleet efficiency - see EEOI.

Heavy fuel oil and distillate fuel oil and very low sulphur residuals (1,000 tonnes): Bunker fuel consumed directly by owned and operated vessels, including all the fuels, gas oils and residuals used on board for activities such as steam, generating electricity, marine boilers, heating, main and auxiliary engines. In Norient Product Pool, consumed fuel accounted for includes the vessels controlled by NORDEN. Total daily consumption reported by vessels into IMOS validated with bunker acquisitions and deviations is regularly controlled.

Electricity (MWh): Electricity and heat consumed indirectly in operational activities for onshore offices. Based on annual consumption in Brazil, China, Denmark, India, Ivory Coast, Singapore offices. Excludes Australia, Canada, Chile, Cyprus and USA offices as utilities are included in the rent.

Total energy consumption (TJ): calculated adding up tonnes fuel and electricity use, using heating value 40.2MJ/kg for heavy fuel oil, 42.7MJ/kg for distillate fuel oil, 41.7MJ/kg for very low sulphur residuals and 0.0036 MWh for electricity.

Energy Efficiency Operational Indicator (gCO_2 /cargo-mile): The Energy Efficiency Operational Indicator (EEOI) is a measurement of efficiency and is defined as the amount of CO_2 emitted per tonne of cargo transported 1 mile based on fuel consumption and transport work.

CO_2 emissions (1,000 tonnes): Compatible with the Greenhouse Gas (GHG) Protocol

- Scope 1: Direct emissions from NORDEN's own consumption of fuel from owned company cars and energy from owned and chartered vessels
  - Chartered and owned vessels: Based on fuel consumption for the year
  - Owned company cars: per 31 December 2019 based on conversion Key2Green conversion factor 2.65 kg CO_2/L
- Scope 2: Indirect emissions from purchased electricity and district heating as well as for owned electrical car assuming 15kWh/100km.
- Scope 3: Indirect emissions from third party activities. Measures CO_2 emissions from air travel and leased company cars.
  - Air travel: Route < km 1,000 = CO_2 0.18 per km and routes > km 1,000 = CO_2 0,11 per km
  - Leased cars: per 31 December 2019 based on conversion Key2Green conversion factor 2.65 kg CO_2/L

NOx and SOx emissions (1,000 tonnes)
- NOx: Nitrogen oxide emissions from combustion of fuels from owned and operated vessels. NO_2 emissions from the energy produced by main engine x Tier I NOx limit (i.e. 17 g/kWh).

- SOx: Sulphur oxide emissions mainly stem from the burning of the sulphur compound in the fuel from owned and operated vessels. SO_2 emissions are calculated from the fuel quantity consumed during the year multiplied by the average sulphur content in the bunker fuel purchased by Bunkers Department.

Spills (> 1 barrel): includes incidents of oil spills larger than 1 barrel (159 litres) into the sea from owned and/or operated vessels. Any oil spills are registered in NORDEN's fleet and vessel performance system K-Fleet/C-experience.

Social performance
Scope and boundaries
Scope for FTEs at sea includes areas where NORDEN has the direct governing authority and responsibility for safety and environmental management of people, processes, facilities and vessels. Out of scope: Non-owned vessels and vessels on bare-boat charter.

Scope for full-time workforce FTEs on shore includes permanent and time-limited employees (fix-term, student job and temporary) in NORDEN's offices, except for indicators Retention and Turnover where scope includes average FTE on shore of permanent employees and excludes fix-term, student job and temporary.

Employees
Employees at sea (FTE): Average full-time equivalent number of employees at sea during the year. Scope for 2017-2018 includes employees on NORDEN's owned vessels, including average seafarers employed on permanent and fixed-term contracts as defined in NORDEN's crew management system. Scope for 2019 includes seafarers on internal and external, excl. seafarers between contracts. Note scope 2017-2018 is used to calculate retention and turnover in the People section.

Employees on shore (FTE): Average full-time equivalent number of employees on shore as defined in NORDEN's HR system (Fairsail). Scope for employees, women in management, gender split: Average FTE calculation includes permanent and time-limited employees (fix-term, student job and temporary).

Nationalities represented (of total workforce): Number of nationalities in total workforce on shore (based on NORDEN's HR system Fairsail) and at sea for owned vessels in internal management (based on crew management system) during the accounting year.

Women in management on shore (%): Average FTE number of women in management positions on shore out of the total pool of average FTE onshore managers. Managers are defined as a person with responsibility for a team of at least 1 other employee, subject to NORDEN's employee development programme (excluding students, interns, etc.) as defined in NORDEN's HR system (Fairsail).

Gender split at sea, gender with the lowest representation ♀ (%): The percentage of the average number of women FTE at sea out of a total average number of FTEs at sea during the year based on crew management system.

Gender split on shore, gender with the lowest representation ♀ (%): The percentage of the average number of women FTE on shore out of a total average number of FTEs at sea during the year based on NORDEN's HR Management System Fairsail.

Health and safety
Rest hour non-conformity (RHNC) at sea (hours per FTE): Rest hour non-conformities is defined as number of days where a seafarer is not in compliance. The number of non-compliance days per 30-working day period on board. Not more than 1 violation is registered per unique person in a 24 hour period. Rest hour non-conformity is monitored onboard in NORDEN's crew management system in accordance with the ILO and STCW conventions. Scope for RHNC includes FTEs on owned operated vessels in own management.

Fatalities: Number of fatalities in the reporting year registered in NORDEN's technical administration system.

Lost Time Injury Frequency at sea (injuries per million working hours): Calculated based on the number of work-related accidents registered in NORDEN's technical management system, which causes a seafarer to be unable to work for more than 24 hours (based on exposure hours), in accordance with OCIMF's 'Marine Injury Reporting Guidelines', per one million exposure hours. Scope for LTIF includes FTEs on owned vessels in own or external management.

Governance
Shareholder–elected board members: Gender with the lowest representation ♀ (%): Percentage of shareholder-elected women in the Board of Directors out of total number of shareholder-elected Board members at year-end.

Attendance (%): Attendance rate at Board meetings (including phone and strategy meetings) attended by shareholder-elected board members throughout the year. Scope is excluding employee-elected board members. Scope for 2018 excludes phone and strategy meetings

SIGNATURES

Statement by the Board of Directors and Executive Management

The Board of Directors and the Executive Management have today considered and adopted the Annual Report of Dampskibsselskabet NORDEN A/S for the financial year 1 January – 31 December 2019.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements stated in the Danish Financial Statements Act. The Financial Statements of the Parent Company are prepared in accordance with the Danish Financial Statements Act. The Management's Review is also prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements of the Parent Company give a true and fair view of the financial position at 31 December 2019 of the Group and the Parent Company and of the results of the Group's and the Parent Company's operations and the Group's consolidated cash flows for the financial year 2019.

In our opinion, the Management's Review provides a fair review of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty, which the Group and the Parent Company are facing.

In our opinion, the ESG performance data on page 63 is presented in accordance with the stated accounting policies on page 64-65 and provides a fair and balanced view of the Group's sustainability performance and social responsibility for the financial year 2019.

We recommend that the Annual Report be adopted at the Annual General Meeting on 27 March 2020.

Copenhagen, 4 March 2020

Executive Management

Jan Rindbo
CEO

Martin Badsted
CFO

Board of Directors

Klaus Nyborg
Chairman

Johanne Riegels Østergård
Vice Chairman

Karsten Knudsen

Thomas Intrator

Helle Østergaard Kristiansen

Stephen John Kunzer

Lars Enkegaard Biilmann

Jesper Svenstrup

Susanne Fauerskov

Independent Auditor's Report

To the shareholders of Dampskibsselskabet NORDEN A/S

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements, page 72-120, and the Parent Company Financial Statements, page 121-136, of Dampskibsselskabet NORDEN A/S for the financial year 1 January to 31 December 2019 comprise Income Statement, Balance sheet, Statement of Changes in Equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and Statement of Comprehensive Income and Statement of Cash Flows for the Group.

Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Dampskibsselskabet NORDEN A/S for the financial year 1998. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 22 years including the financial year 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of vessels, right-of-use assets and prepayments on vessels and new-buildings The carrying amount of the Group's and the Parent Company's vessels, right-of-use assets and prepayments on vessels and newbuildings is significant. Management monitors continuously the carrying value of the above-mentioned assets, managed on a portfolio basis. The assessment is based on the cash-generating units (CGUs); Dry Cargo and Tankers. Management performs an impairment test if any indication of impairment or reversal of previous impairments exists. The indications assessed by Management comprise, among others vessel values, newbuilding prices and future development in freight and time charter rates. If indications exist, the carrying value of the mentioned assets may be subject to material impairment or reversal of previous impairments. As of 31 December 2019, Management concluded that no indicators of impairment or reversal of previous impairments exists for any of the CGU's; Dry Cargo and Tankers. Thus, no impairment tests have been performed. We focused on this area because Management's assessment of whether indication of impairment exists are subject to considerable judgement because of the complexity in assessing such indicators. Refer to Note 3.1 and Note 4.7 in the Consolidated Financial Statements and Note 3.1 and Note 4.7 in the Parent Company Financial Statements.	We discussed with Management and evaluated the methodology by which Management monitors indicators of impairment of vessels, right-of-use assets and prepayments on vessels and newbuildings, including identification of CGUs. Regarding Management's assessment of indicators of impairment of vessels etc., we: • Obtained and assessed the appropriateness of Management's assessment of whether any indicator of impairment on the mentioned assets or reversal of previous impairment losses exists. • Evaluated the sources of information used by Management in their assessment. • Challenged Management's assessment by comparing assumptions when determining future freight and time charter rates to external markets rates. • Evaluated the independence, objectivity, qualifications and experience of brokers used by Management, the historical accuracy of such valuations and whether the valuations were appropriate for the purpose. We assessed the appropriateness of Management's presentation of these matters in the Financial Statements.

Statement on Management's Review
Management is responsible for Management's Review, page 3-65.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the

Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 4 March 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Bo Schou-Jacobsen
State Authorised Public Accountant
mne28703

Søren Ørjan Jensen
State Authorised Public Accountant
mne33226

Limited assurance report of the independent auditor

To the stakeholders of Dampskibsselskabet NORDEN A/S
Dampskibsselskabet NORDEN A/S (NORDEN) engaged us to provide limited assurance on the ESG performance data for the period 1 January - 31 December 2019 as included on page 63 in NORDEN's Annual Report for 2019.

Our conclusion
Based on the procedures we performed and the evidence we obtained, nothing came to our attention that causes us not to believe that the ESG performance data for 2019 as stated on page 63 is free of material misstatements and is prepared, in all material respects, in accordance with the ESG accounting policies as stated on pages 64 - 65.

This conclusion is to be read in the context of what we say in the remainder of our report.

What we are assuring
The scope of our work was limited to assurance over the ESG performance data for the period 1 January – 31 December 2019 on page 63.

Professional standards applied and level of assurance
We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control
We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in ESG reporting and assurance.

Understanding reporting and measurement methodologies
Data and information needs to be read and understood together with the ESG accounting policies (pages 64 - 65) of NORDEN's Annual Report for 2019), which Management is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Work performed
We are required to plan and perform our work in order to consider the risk of material misstatement of data. In doing so and based on our professional judgement, we:

- Made inquiries regarding methods, procedures and internal control, observation of processes performed and selected interviews with data and reporting responsible personnel;
- Checked data on a sample basis to underlying documentation, and evaluated the appropriateness of quantification methods and compliance with stated ESG accounting policies;
- Conducted analytical review of the data and trend explanations submitted by data suppliers for consolidation at Group level; and
- Evaluated the evidence obtained.

Management's responsibilities
Management of NORDEN is responsible for:

- Designing, implementing and maintaining internal controls over information relevant to the preparation of the ESG performance data on page 63 that is free from material misstatement, whether due to fraud or error;
- Establishing objective accounting policies for preparing data;
- Measuring and reporting the ESG performance data based on the ESG accounting policies; and
- The content of the ESG Performance data for the period 1 January – 31 December 2019.

Our responsibility
We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the ESG performance data for the period 1 January – 31 December 2019 on page 63 is free from material misstatement and prepared, in all material respects, in accordance with the accounting policies;
- Forming an independent conclusion, based on the procedures performed and the evidence obtained; and
- Reporting our conclusion to the stakeholders of NORDEN.

Hellerup, 4 March 2020

PricewaterhouseCoopers, Statsautoriseret Revisionspartnerselskab, CVR no. 3377 1231

Bo Schou-Jacobsen State Authorised Public Accountant	Jens Pultz Pedersen M.Sc.(eng.)

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement 1 January - 31 December

Amount in USD million	Note	2019	2018
Revenue	2.1	**2,583.9**	**2,451.4**
Other operating income	2.1	16.3	3.1
Vessel operating costs	2.1/2.3	-2,305.2	-2,322.2
Contribution margin		**295.0**	**132.3**
Overhead and administration costs	2.2	-77.5	-59.8
Profit before depreciation, amortisation and impairment losses, etc. (EBITDA)		**217.5**	**72.5**
Income/(loss) from sale of vessels etc.	3.1	-3.6	8.8
Depreciation, amortisation and impairment losses	2.4	-156.9	-44.3
Income/(loss) from investments in joint ventures	3.2	-0.2	2.4
Profit from operations (EBIT)		**56.8**	**39.4**
Financial income	2.5	5.1	9.0
Financial expenses	2.5	-37.8	-15.9
Profit before tax		**24.1**	**32.5**
Tax for the year	2.6	-4.9	-3.7
Profit for the year		**19.2**	**28.8**
Attributable to:			
Owners of Dampskibsselskabet NORDEN A/S		**19.2**	**28.8**
Earnings per share (EPS)	4.5		
Earnings per share (USD)		0.48	0.71
Earnings per share, diluted (USD)		0.48	0.71

Statement of Comprehensive Income 1 January - 31 December

Amount in USD million	Note	2019	2018
Profit for the year		**19.2**	**28.8**
Items which will be reclassified to the income statement:			
Fair value adjustment for the year, securities		-0.3	-0.1
Fair value adjustment for the year, cash flow hedges	4.2	33.7	-31.4
Tax on fair value adjustment of securities		0.0	0.0
Other comprehensive income, total		**33.4**	**-31.5**
Total comprehensive income for the year, after tax		**52.6**	**-2.7**
Attributable to:			
Owners of Dampskibsselskabet NORDEN A/S		**52.6**	**-2.7**

Balance sheet at 31 December

Amount in USD million	Note	2019	2018
Vessels	3.1	803.4	795.6
Right-of-use assets	4.7	271.0	0.0
Property and equipment	3.1	49.0	49.5
Prepayments on vessels and newbuildings	3.1	16.1	24.9
Total Tangible assets		**1,139.5**	**870.0**
Investments in joint ventures	3.2	11.9	11.8
Receivables from subleasing	4.8	19.2	0.0
Total Financial assets		**31.1**	**11.8**
Total Non-current assets		**1,170.6**	**881.8**
Inventories	1.3	80.5	87.2
Receivables from subleasing	4.8	11.3	0.0
Freight receivables	3.3	164.0	172.6
Receivables from joint ventures	3.3	5.8	12.4
Tax receivables		0.9	0.0
Other receivables	3.3	31.6	28.4
Prepayments	3.4	68.4	93.4
Securities		0.0	4.2
Cash and cash equivalents		209.3	184.4
		571.8	**582.6**
Vessels held for sale	3.6	0.0	0.0
Total Current assets		**571.8**	**582.6**
TOTAL ASSETS		**1,742.4**	**1,464.4**

Amount in USD million	Note	2019	2018
Share capital	4.4	6.7	6.7
Reserves	4.2	8.9	-24.5
Retained earnings		843.4	844.6
Total Equity		**859.0**	**826.8**
Loans	4.6	268.4	206.5
Lease liabilities	4.7	198.7	0.0
Provisions		0.0	21.3
Total Non-current liabilities		**467.1**	**227.8**
Loans	4.6	34.9	125.5
Lease liabilities	4.7	131.8	0.0
Provisions		0.0	19.0
Trade payables		117.6	118.8
Tax payables		0.0	2.7
Other payables		58.5	54.9
Deferred income	3.5	73.5	88.9
		416.3	**409.8**
Liabilities relating to vessels held for sale	3.6	0.0	0.0
Total Current liabilities		**416.3**	**409.8**
Total Liabilities		**883.4**	**637.6**
TOTAL EQUITY AND LIABILITIES		**1,742.4**	**1,464.4**

Statement of Cash Flows 1 January – 31 December

Amount in USD million	Note	2019	2018
Profit for the year		19.2	28.8
Reversal of items from the income statement	5.2	206.7	16.9
Change in working capital	5.2	50.5	-61.2
Instalments on sublease receivables	4.8	11.7	0.0
Income tax, paid		-7.6	-0.3
Cash flows from operating activities		**280.5**	**-15.8**
Investments in vessels, vessels held for sale and other tangible assets	3.1	-102.7	-202.7
Additions in prepayments on newbuildings	3.1	-43.2	-1.3
Investment in subsidiaries including acquired cash		0.0	7.7
Investments in joint ventures	3.2	-1.0	-1.1
Proceeds from sale of vessels and newbuildings		98.3	88.4
Sale of securities		4.9	4.0
Change in cash and cash equivalents with rate agreements of more than 3 months, etc.		-47.2	26.6
Cash flows from investing activities		**-90.9**	**-78.4**
Dividend paid to shareholders		-12.0	0.0
Acquisition of treasury shares	4.4	-9.4	-5.9
Proceeds from loans	4.6	219.1	138.7
Repayment of loans	4.6	-245.9	-28.5
Instalments on lease liabilities	4.7	-124.8	0.0
Interest, received		1.5	6.3
Interest, paid		-39.7	-15.2
Cash flows from financing activities		**-211.2**	**95.4**
Cash flow from operating, investing and financing activities		**-21.6**	**1.2**
Liquidity at 1 January		115.2	115.6
Exchange rate adjustments		-0.7	-1.6
Change in liquidity for the year		-21.6	1.2
Liquidity at 31 December		**92.9**	**115.2**
Cash and cash equivalents with rate agreements of more than 3 months, etc.		116.4	69.2
Cash and cash equivalents 31 December		**209.3**	**184.4**

Amount in USD million	Note	2019	2018
Which can be explained as follows			
Demand deposits and cash balance		28.3	80.0
Money market investment		163.6	97.0
Other cash and cash equivalents		17.4	7.4
Cash and cash equivalents 31 December		**209.3**	**184.4**

§ Accounting policies

Consolidated statement of cash flows

The statement of cash flows shows the Group's cash flows for the year distributed on operating, investing and financing activities, net changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

Positive amounts indicate inflows, whereas negative amounts indicate outflows.

Cash flows from operating activities

Cash flows from operating activities are stated as the profit/loss for the year adjusted for non-cash operating items such as depreciation, profit/loss from the sale of vessels, etc., changes in working capital and plus or minus corporation tax paid or received. Working capital includes current assets less current liabilities, excluding the items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from the acquisition and sale of non-current assets.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of loan, instalments on lease liabilities as well as payments to and from shareholders, and interests received/paid.

Liquidity

Liquidity comprises marketable securities with a term of less than 3 months and cash not subject to significant limits to its availability.

Cash and cash equivalents

Cash and cash equivalents are measured in the balance sheet at nominal value, and mainly consists of demand deposits, cash balance and money market investments.

Statement of Changes in Equity at 31 December

Amount in USD million	Note	Share capital	Reserves	Retained earnings	Total
		Shareholders of NORDEN			
Equity at 1 January 2019		**6.7**	**-24.5**	**844.6**	**826.8**
Total comprehensive income for the year		0.0	33.4	19.2	52.6
Acquisition of treasury shares	4.4	0.0	0.0	-9.4	-9.4
Dividends paid	4.4	0.0	0.0	-12.8	-12.8
Dividends related to treasury shares		0.0	0.0	0.8	0.8
Share-based payment	2.3	0.0	0.0	1.0	1.0
Changes in equity		**0.0**	**33.4**	**-1.2**	**32.2**
Equity at 31 December 2019		**6.7**	**8.9**	**843.4**	**859.0**

Amount in USD million	Note	Share capital	Reserves	Retained earnings	Total
		Shareholders of NORDEN			
Equity at 1 January 2018		**6.7**	**7.0**	**820.7**	**834.4**
Total comprehensive income for the year		0.0	-31.5	28.8	-2.7
Acquisition of treasury shares	4.4	0.0	0.0	-5.9	-5.9
Share-based payment	2.3	0.0	0.0	1.0	1.0
Changes in equity		**0.0**	**-31.5**	**23.9**	**-7.6**
Equity at 31 December 2018		**6.7**	**-24.5**	**844.6**	**826.8**

See note 4.4 “Share capital and dividends” for a specification of reserves available for distribution as dividends and note 4.2 “Derivatives” for a specification of cash flow hedging.

Notes to the financial statements – contents

Notes to the financial statements

SECTION 1
SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Note

1.1 Basis of preparation

This note provides a list of accounting policies adopted in the preparation of the consolidated financial statements and the financial statements of the Parent Company to the extent they have not been disclosed in the respective notes below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Dampskibsselskabet NORDEN A/S with its subsidiaries is one of Denmark's oldest internationally operating shipping companies. NORDEN operates in dry cargo and tankers worldwide.

Dampskibsselskabet NORDEN A/S is a public limited company incorporated in Denmark and is listed on Nasdaq Copenhagen.

Principal accounting policies

The annual report for the period 1 January – 31 December 2019 with comparative figures comprises the consolidated financial statements of Dampskibsselskabet NORDEN A/S (the Parent Company) and its subsidiaries (the Group) and the financial statements of the Parent Company.

The consolidated financial statements of the Group for 2019 have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements from the Danish Financial Statements Act.

The financial statements of the Parent Company, Dampskibsselskabet NORDEN A/S, for 2019 have been prepared in accordance with the Danish Financial Statements Act applying to enterprises of reporting class D.

Measurement basis

The consolidated financial statements and the financial statements of the Parent Company have been prepared based on the historical cost principle, with the exception of the following assets and liabilities:

- Derivative financial instruments and financial instruments classified as fair value through other comprehensive income, which are measured at fair value
- Non-current assets and groups of assets held for sale are measured at the lower of carrying amount before the changed classification and fair value less selling costs

USD is the functional currency of all enterprises in the Group as well as the Parent Company. In the annual report, the presentation currency is USD, and amounts are presented in million USD with one decimal rounded, except when otherwise stated.

Applying materiality

The financial statements are a result of processing large numbers of transactions and aggregating those transactions into classes according to their nature or function. When aggregated, the transactions are presented in classes of similar items in the financial statements. If a line item is not individually material, it is aggregated with other items of a similar nature in the financial statements or in the notes.

There are substantial disclosure requirements throughout IFRS. Management provides specific disclosures required by IFRS unless the information is considered immaterial to the economic decision making of the users of these financial statements or not applicable.

Notes to the financial statements

Note

1.2 Basis of consolidation

Consolidation principles

The consolidated financial statements comprise the Parent Company, Dampskibsselskabet NORDEN A/S and subsidiaries. An investment is classified as a subsidiary when, below conditions are met:

- Dampskibsselskabet NORDEN A/S has control over the company
- Dampskibsselskabet NORDEN A/S is exposed to variability in return on the investment
- The control over the company can be used to affect the return on the investment

At consolidation, intra-group income and expenses, shareholdings, dividends and accounts as well as unrealised intra-group gains and losses on transactions between the consolidated enterprises are eliminated.

The financial statements used in the consolidation are prepared in accordance with the Group's accounting policies. The consolidated financial statements are prepared on the basis of the financial statements of the Parent Company and the subsidiaries by aggregating items of a uniform nature.

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the date of acquisition using the purchase method. Enterprises divested or wound up are included in the consolidated income statement until the date of disposal. Comparative figures are not restated to reflect acquisitions, divestments or companies wound up.

1.3 General accounting policies

Inventories

Inventories primarily comprise bunker and lubrication oil kept on board vessels. Inventories are measured at the lower of either cost according to FIFO method or net realisable value.

Foreign currency translation

A functional currency is determined for each of the reporting entities in the Group. The functional currency is the currency in the primary economic environment in which the reporting entity operates. Transactions in currencies other than the functional currency are transactions in foreign currencies.

Transactions in foreign currencies during the year are translated at the exchange rates at the transaction date. Gains and losses arising between the exchange rate at the transaction date and the exchange rate at the date of payment are recognised in the income statement as "Financial income" or "Financial expenses".

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the reporting date are translated at the exchange rates at the reporting date. Differences between the exchange rates at the transaction date and the exchange rate at the reporting date are recognised in the income statement as "Financial income" or "Financial expenses".

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date, when fair value in a foreign currency are translated using the exchange rate at the date, when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

In determining the spot exchange rate use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payment or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Exchange rate adjustments of bonds denominated in foreign currencies held for sale are recognised in the income statement as "Financial income" or "Financial expenses".

Change in the presentation of the cash flow statements

Change in the presentation of interests, received and paid, has been reclassified from operating activities to be presented under financing activities, as these cash flows are related to the Group's financing activities.

Financial ratios

Financial ratios are calculated in accordance with the "Recommendations and Financial Ratios" issued by the "Danish Association of Financial Analysts", unless specifically stated. However, "Profit/loss from sale of vessels, etc." is not included in EBITDA. The figures are adjusted for the Group's holding of treasury shares. Definitions of key figures and financial ratios are shown on page 137.

Non-IFRS financial measures

In the Annual Report, the Group discloses certain financial measures of the Group's financial performance, financial position and cash flows that reflect adjustments to the most directly comparable measures calculated and presented in accordance with IFRS. These non-IFRS financial measures may not be defined and calculated by other companies in the same manner and may thus not be comparable.

The non-IFRS financial measures disclosed in the annual report are:

- Adjusted Results for the year – Profit/loss for the year excluding profit/loss from sale of vessels
- Contribution Margin – The contribution margin is defined as Revenue less Vessel operating costs plus Other operating income, net. Using the terminology in the segment reporting in note 2.1 "Segment information", Contribution margin is defined as T/C equivalent revenue less Charter hire for vessels and Other vessel operating costs plus Other operating income.

1.4 Significant accounting estimates and judgements

The preparation of the consolidated financial statements of the Group and the financial statements of the Parent Company requires Management to make estimates and judgements. These are the basis for recognition and measurement of the Group's and Parent Company's income, expenses, assets and liabilities.

The applied estimates are based on historical data and other factors that Management considers appropriate under the given circumstances, but which are inherently uncertain or unpredictable. Such

Notes to the financial statements

Note

assumptions may be incomplete or inaccurate, and unexpected events or circumstances may occur. In addition, the Group is subject to risks and uncertainties that may cause actual outcomes to deviate from these estimates.

It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to new information or subsequent events the change affects the current as well as future periods. Below are the accounting estimates and judgements, which Management deems significant to the preparation of the financial statements:

- Impairment test (note 3.1 "Tangible assets") (Estimate and judgement)
- Non-lease component for leases under IFRS 16 Leases (note 4.7 "Leases - lessee") (Estimate)

The accounting policies are described in each of the specific notes to the financial statements, which also include additional description of the most significant accounting estimates and judgements.

1.5 Changes in accounting policies and disclosures

The Group has adopted standards and interpretations effective as of 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Adoption of new or amended IFRSs

IFRS 16 Leases

The impact of the adoption of IFRS 16 Leases and the new accounting policies are disclosed in note 4.7 "Leases - lessee" and note 4.8 "Leases - lessor". The other standards did not have any impact on the accounting policies and on the consolidated financial statements of the Group.

In addition, NORDEN has implemented the following amendments and interpretations to existing standards:

- IFRIC Interpretation 23, Uncertainty over Income Tax Treatments
- Amendments to IFRS 9: Prepayments Features with Negative Compensation
- Annual Improvements 2015-2017 Cycle (issued in December 2017)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term interests in associates and joint ventures

None of these amendments or interpretations have had any effect on the accounting policies applied by the Group.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

All of the new and amended financial reporting standards are either irrelevant or insignificant to NORDEN and comprise the following:

- IFRS 17 Insurance Contracts
- Amendment to IFRS 3, Business combinations: definition of a business
- Amendments to IAS 1 and IAS 8: defining materiality
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

Notes to the financial statements

SECTION 2
INCOME STATEMENT

Note

2.1 Segment information

§ Accounting policies

The segment information is provided on the Group's 3 business segments; Dry Owner, Dry Operator and Tankers. The information is based on the Group's organisation, business management and management control, including internal financial reporting to NORDEN's operative management.

NORDEN's operative management function comprises the Executive Management and the Board of Directors in union. The Executive Management is responsible for the day-to-day management. The Board of Directors approves strategy, action plans, targets and budgets and limits for financial and market risks, and it supervises the Executive Management. The Executive Management's and Board of Directors' functions and responsibilities are described in further detail in the section "Corporate governance" in the Management's Review. The operative management function assesses performance and carries out allocation of resources on the basis of adjusted result for the year.

The Dry Cargo segments offer transport of bulk commodities such as grain, coal, iron ore and sugar. Dry Owner handles owned vessels and charters in long- term vessel capacity and charters out its capacity of owned and long term chartered tonnage to Dry Operator at market rates and to third parties. Dry Operator handles NORDEN's short-term dry cargo activities, i.e. optimising the actual cargo liftings and voyage execution. The vessel capacity in Dry Operator comprises vessels chartered on short term basis either from third parties or from Dry Owner at market rates.

The services offered by NORDEN's Tanker segment comprise transport of fuel oil or refined oil products. NORDEN's segments generate revenue consisting of freight and T/C income from owned and chartered vessels and management income. Information is not provided by geographical segment as the global market is a unit, and the activities of the individual vessels are not limited to specific parts of the world. Nor does the internal financial reporting for the operative management provide such information. It is therefore not possible to provide geographical segment information on revenue from external customers or non-current assets.

Presentation of the segment income statement items and their order are consistent with NORDEN's consolidated income statement, except for voyage costs, which are not included in the item "Vessel operating costs" but presented as a separate item, and the segment income statement therefore comprises the subtotal "T/C equivalent revenue". The Group has chosen to disclose profit/loss from sales of vessels, even though this item is not included in adjusted result for the year.

The methods of allocating income statement items to segments are consistent. The allocation between Dry Operator, Dry Owner and Tankers is as follows:

- Items included in the segment profit are allocated to the extent that the items are directly or indirectly attributable to the segments.
- Items allocated by indirect calculation, the allocation keys are defined on the basis of each segment's drawing on key resources.

Inter-segment transactions comprise charter hire from Dry Operator to Dry Owner.

Revenue

Revenue comprises the present value of services rendered, net of discounts, and revenue obtained from subleasing. Services rendered comprise freight income and time charter income. Revenue is recog-

Notes to the financial statements

Note

nised in the income statement for the financial year as earned.

All freight income and voyage costs are recognised as the freight services are rendered (percentage of completion). The percentage of completion is determined using the load-to-discharge method based on the percentage of the estimated duration of the voyage completed at the reporting date. According to this method, freight income and related costs are recognised in the income statement according to the entered charter parties from the vessel's load date to the delivery of the cargo (discharge). The voyage begins on the date when the cargo is loaded, and the voyage ends at the date of the next discharge (load to discharge). This applies to all spot transports and transports under Contracts of Affreightment (COAs). Costs directly attributable to relocating the vessel to the load port under the contract are capitalised to the extent that they are recoverable.

Demurrage is recognised if the claim is considered probable.

Other operating income
Management income, mainly income in connection with administration of pool arrangements, is recognised upon receipt of the services in accordance with the management agreements concluded.

Gain/loss on subleases, the derecognised right-of-use asset, is recognised in the income statement as other operating income/expenses.

Vessel operating costs
Vessel operating costs comprise the expenses, excluding depreciation, incurred to generate the revenue for the year. Vessel operating costs therefore include charter hire for chartered vessels (short-term leases) and the non-lease component of leases recognised with a right-of-use asset (long-term leases), bunker oil consumption, other voyage costs such as commissions and port charges, repair and maintenance costs, insurance costs, crew wages and other operating expenses. Costs directly attributable to transportation of the vessel to the loading port are capitalised and amortised over the course of the transportation period. Vessel operating costs other than these capitalised costs are recognised upon receipt of services in accordance with the charter parties concluded.

Overhead and administration costs
Overhead and administration costs comprise costs of staff (onshore), properties, travel, office expenses, external assistance, etc.

! Accounting estimates

In recognition of freight income and voyage costs, including net income from pool arrangements, Management decides on closing dates, voyages, etc.

In connection with the recognition of the non-lease component of lease contracts that meets the criteria of recognition of an right-of-use asset and lease liability in accordance to IFRS 16 Leases, see note 4.7 "Leases - lessee".

Notes to the financial statements

Note	Amount in USD million	Dry Operator	Dry Owner	Tank	Elimi-nations	Total
2.1	**Segment information – continued**					
	2019					
	Revenue – services rendered, external	2,065.6	46.3	470.0	0.0	2,581.9
	Revenue – services rendered, internal	0.0	140.9	0.0	-140.9	0.0
	Revenue – sublease financial income	0.0	1.8	0.2	0.0	2.0
	Voyage costs*	-892.8	-2.7	-174.1	1.9	-1,067.7
	T/C equivalent revenue	**1,172.8**	**186.3**	**296.1**	**-139.0**	**1,516.2**
	Other operating income	0.4	1.0	14.9	0.0	16.3
	Charter hire and OPEX element*	-1,106.3	-68.2	-125.7	139.0	-1,161,2
	Operating costs*	0.0	-23.7	-52.6	0.0	-76.3
	Contribution margin	**66.9**	**95.4**	**132.7**	**0.0**	**295.0**
	Overhead and administration costs	-38.6	-10.8	-28.1	0.0	-77.5
	Profit/loss before depreciation, amortisation and impairment losses, etc. (EBITDA)	**28.3**	**84.6**	**104.6**	**0.0**	**217.5**
	Profit/loss from sale of vessels, etc.	0.0	2.4	-6.0	0.0	-3.6
	Depreciation, amortisation and impairment losses	-15.2	-64.0	-77.7	0.0	-156.9
	Share of profit/loss of joint ventures	0.0	-0.2	0.0	0.0	-0.2
	Profit/loss from operations (EBIT)	**13.1**	**22.8**	**20.9**	**0.0**	**56.8**
	Financial income	1.6	0.9	2.6	0.0	5.1
	Financial expenses	-3.6	-18.9	-15.3	0.0	-37.8
	Profit/loss before tax	**11.1**	**4.8**	**8.2**	**0.0**	**24.1**
	Tax for the year	-3.1	-0.7	-1.1	0.0	-4.9
	Profit/loss for the year	**8.0**	**4.1**	**7.1**	**0.0**	**19.2**
	Adjusted for:					
	Profit/loss from sale of vessels, etc.	0.0	-2.4	6.0	0.0	3.6
	Adjusted Results for the year	**8.0**	**1.7**	**13.1**	**0.0**	**22.8**

* Included in the item "Vessel operating costs" in the income statement.

Note	Amount in USD million	Dry Operator	Dry Owner	Tank	Elimi-nations	Total
2.1	**Segment information – continued**					
	2018					
	Revenue – services rendered, external	1,990.8	50.0	410.6	0.0	2,451.4
	Revenue – services rendered, internal	0.0	155.8	0.0	-155.8	0.0
	Revenue – sublease financial income	0.0	0.0	0.0	0.0	0.0
	Voyage costs*	-825.9	-0.7	-180.5	0.0	-1,007.1
	T/C equivalent revenue	**1,164.9**	**205.1**	**230.1**	**-155.8**	**1,444.3**
	Other operating income	1.0	1.8	0.3	0.0	3.1
	Charter hire and OPEX element*	-1,097.0	-137.1	-159.4	155.8	-1,237.7
	Operating costs*	0.0	-28.6	-48.8	0.0	-77.4
	Contribution margin	**68.9**	**41.2**	**22.2**	**0.0**	**132.3**
	Overhead and administration costs	-35.9	-9.0	-14.9	0.0	-59.8
	Profit/loss before depreciation, amortisation and impairment losses etc. (EBITDA)	**33.0**	**32.2**	**7.3**	**0.0**	**72.5**
	Profit/loss from sale of vessels, etc.	0.0	11.6	-2.8	0.0	8.8
	Depreciation, amortisation and impairment losses	-0.7	-13.5	-30.1	0.0	-44.3
	Share of profit/loss of joint ventures	0.0	4.0	-1.6	0.0	2.4
	Profit/loss from operations (EBIT)	**32.3**	**34.3**	**-27.2**	**0.0**	**39.4**
	Financial income	0.0	5.9	3.1	0.0	9.0
	Financial expenses	0.0	-10.1	-5.8	0.0	-15.9
	Profit/loss before tax	**32.3**	**30.1**	**-29.9**	**0.0**	**32.5**
	Tax for the year	-2.5	-0.6	-0.6	0.0	-3.7
	Profit/loss for the year	**29.8**	**29.5**	**-30.5**	**0.0**	**28.8**
	Adjusted for:					
	Profit/loss from sale of vessels, etc.	0.0	-11.6	2.8	0.0	-8.8
	Adjusted Results for the year	**29.8**	**17.9**	**-27.7**	**0.0**	**20.0**

* Included in the item "Vessel operating costs" in the income statement.

Financial comments

Financial figures for 2018 are not restated to reflect IFRS 16 Leases.

The amounts of revenue stated in the above tables for both current financial year and the comparable financial year include the agreed time charter rates earned during the lease. The lease and service components are recognised as revenue under the same pattern of transfer to the customers. Separate disclosure of the lease components and the service income components have not been provided as it is impracticable to establish this disclosure.

NORDEN has no single customer with whom the external revenue exceeds 10% of total revenue.

Notes to the financial statements

Note	Amount in USD million	2019	2018
2.2	**Expenses by nature**		
	Vessel operating costs	2,305.2	2,322.2
	Overhead and administration costs	77.5	59.8
	Total	**2,382.7**	**2,382.0**
	These costs can be split by nature:		
	Voyage costs excluding bunker oil	493.7	468.9
	Bunker oil	574.0	538.2
	Charter hire	0.0	1,237.8
	Expenses related to the service component of right-of-use assets	122.2	0.0
	Expenses related to short-term leases	1,039.0	0.0
	Operating costs owned vessels excluding seafarers	37.7	40.0
	Other external costs	23.9	14.2
	Staff costs, see note 2.3	92.2	82.9
	Total	**2,382.7**	**2,382.0**

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as “finance leases” under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group’s borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, refer to note 5.8 “Transition to IFRS 16”.

Note	Amount in USD million	2019	2018
2.3	**Staff costs and remuneration**		
	Onshore employees – the amount is included in “Overhead and administration costs”:		
	Wages and salaries	48.2	40.9
	Pensions – defined contribution plans	3.0	2.5
	Other social security costs	1.4	1.1
	Share-based payment, see note 5.3	1.0	1.0
		53.6	**45.5**
	Seafarers – the amount is included in “Vessel operating costs”:		
	Wages and salaries	36.0	34.6
	Pensions – defined contribution plans	1.0	1.4
	Other social security costs	1.6	1.4
		38.6	**37.4**
	Total	**92.2**	**82.9**
	Average number of employees:		
	Onshore employees	395	299
	Seafarers	715	792
	Total	**1,110**	**1,091**

Staff costs and average number of employees exclude employees on T/C vessels but include employees and staff costs related to these paid by external technical managers.

Notes to the financial statements

Note	Amount in USD million

2.3 Staff costs and remuneration – continued

	2019			2018		
	Parent Company Board of Directors	Parent Company Executive Management	Total	Parent Company Board of Directors	Parent Company Executive Management	Total
Wages and salaries	0.8	2.3	3.1	0.6	2.4	3.0
Other social security costs	0.0	0.0	0.0	0.0	0.0	0.0
Share-based payment	0.0	0.3	0.3	0.0	0.2	0.2
Total	**0.8**	**2.6**	**3.4**	**0.6**	**2.6**	**3.2**

Financial comments

Refer to "Remuneration report 2019" published on NORDEN's website.

See also note 5.3 "Share-based payment".

2.4 Depreciation

	2019	2018
Vessels, see note 3.1	44.6	43.3
Right-of-use assets, see note 4.7	111.5	0.0
Property and equipment, see note 3.1	0.8	1.0
Total	**156.9**	**44.3**

Note	Amount in USD million	2019	2018

2.5 Financial income and expenses

	2019	2018
Interest income	1.5	5.4
Fair value adjustment, cross currency swaps	0.0	0.3
Exchange rate adjustments	3.6	3.3
Total financial income	**5.1**	**9.0**
Interest costs	17.1	15.9
Fair value adjustment, cross currency swaps	1.1	0.0
Interest expenses on lease liabilities	19.6	0.0
Total financial expenses	**37.8**	**15.9**

Notes to the financial statements

Note **Amount in USD million**

2.6 Taxation

§ Accounting policies

The Company's current tax consists of tax paid according to the regulations of the Danish Tonnage Tax Act for shipping activities and according to general tax regulations for net financial income and other activities. Other activities comprise of letting of the Group's domicile and management income. Shipping activities are taxed on the basis of the net tonnage (vessels) which the Parent Company has at its disposal.

Based on the Parent Company's planned use of vessels and recovery of reversed depreciation, respectively, the tonnage tax regime does not result in a liability, hence, it does not result in any deferred tax in the statement of financial position. The liability is merely a contingent liability. Other activities of the Group and the Parent Company are not subject to deferred tax either.

! Accounting estimates

Based on the Group's business plans, the Parent Company has entered the Danish tonnage tax regime for a binding 10-year period from 2011. The Group expects to prolong the participation in the tonnage tax scheme after the binding period.

Contingent tax, disclosed under this note, may become a current tax if the tonnage tax regime is dissolved, if the Company's net investments in vessels decrease significantly or if the Company is liquidated. The Group's business plans therefore constitute an important basis for this estimate.

In addition, the tax rules are complicated when a company has activities that are partly covered by the tonnage tax regime and partly by corporate taxation. In calculation of the taxable income, estimates are made which in a later assessment by the Danish tax authorities may result in corrections to previous estimates of recognised tax assets and liabilities in the balance sheet.

Note	Amount in USD million	2019	2018
2.6	**Taxation – continued**		
	Tax on the profit/loss for the year	6.0	3.7
	Adjustment of tax regarding previous years	-1.1	0.0
	Total	**4.9**	**3.7**
	Tax on profit/loss for the year is broken down as follows:		
	Profit/loss before tax	24.1	32.4
	of which results from Danish tonnage activity	-15.4	-5.1
	Total	**8.7**	**27.3**
	Calculated tax of this, 22.0% (22.0%)	1.9	6.0
	Tax effect from:		
	- Higher/lower tax rate in subsidiaries	-3.5	-6.8
	- Other	3.6	0.8
		2.0	**0.0**
	Tonnage tax	4.0	3.7
	Total	**6.0**	**3.7**
	Contingent tax under the tonnage tax scheme	16.3	16.3
	Contingent tax is calculated equalling the tax rate for 2019 and going forward.	22%	22%

Notes to the financial statements

SECTION 3
INVESTED CAPITAL AND WORKING CAPITAL

Note **Amount in USD million**

3.1 Tangible assets

§ Accounting policies

Tangible assets are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price and costs directly related to the acquisition up until the time when the asset is ready for use.

Borrowing costs concerning either specific or general borrowing directly related to assets with an extended construction period are included in cost over the period of construction.

The basis of depreciation is calculated as the excess of cost over the estimated scrap value. The scrap value of vessels is determined based on the market price per lightweight tonne for scrapping of the vessel.

The basis of depreciation is allocated on a straight-line basis over the useful lives at an estimated residual value. The useful lives of new assets are as follows:

	Years
Buildings	50
Vessels	25
Fixtures, fittings and equipment	3-10

Land is not depreciated. Estimated useful lives and residual values are reassessed annually.

Dry docking costs are recognised in the carrying amount of vessels when incurred and depreciated over the period until the next dry docking.

Scrubbers are recognised in the carrying amount of the vessels and depreciated over the remaining lifetime of the vessels.

The depreciation period for secondhand vessels is determined on the basis of the condition and age of the vessels at the time of acquisition, but the depreciation period does not exceed 25 years from delivery from the shipyard.

Prepayments on newbuildings are recognised in assets as vessels under construction as payments are made. At the delivery of the vessel, it is reclassified to the item “Vessels”.

Profit/loss from sale of vessels is stated as the difference between the sales price less selling costs and the carrying amount of the vessel in question at the time of delivery. Furthermore, any gains and losses upon repayment of related loans are included.

Profit/loss from sale of property and equipment well as impairment of assets held for sale are also included.

Notes to the financial statements

Note **Amount in USD million**

3.1 Tangible assets – continued

Impairment test

Management monitors continuously, on a portfolio basis, the carrying value of vessels, right-of-use assets, property and equipment and prepayments on vessels and newbuildings in order to determine, whether there are any indications of impairment in excess of the amount provided for by normal depreciations and whether previous impairments and provisions should be reversed.

An impairment test is conducted if there is an indication that the carrying amount of an asset or a cash-generating unit exceeds the expected future cash flows from the asset. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower recoverable amount. The recoverable amount of the asset is determined as the higher of the net selling price and the value-in-use. If a recoverable amount for the individual assets cannot be determined, the smallest group of assets for which it is possible to determine the recoverable amount (cash-generating unit) is analysed for impairment.

Management's assessment of indication of impairment on owned vessels, leased vessels recognised in the balance sheet as right-of-use assets and prepayments on newbuildings is based on the cash-generating units (CGUs) in which vessels, etc. are included; Dry Cargo and Tankers.

Assessment of indication of impairment is made concurrently on a portfolio basis.

Reversal of previous impairments is only recognised if there has been a change in the estimates used to determine the recoverable amount since the last impairment test was carried out.

Accounting choices

The Group's choice of historical cost rather than fair value as the basis for measuring tangible assets – vessels – has a material impact on the calculation of the Group's and the Parent Company's results and equity.

Accounting judgements

A significant accounting judgement include the definition of CGUs. Among other things, the judgement effects on which basis an impairment test is performed. The CGUs are Dry Cargo (Dry Operator and Dry Owner combined) and Tankers. When determining that Dry Cargo form one single CGU, Management has considered the degree of interdependency between the two operating segments in respect of taking decisions related to the vessel capacity. Management has concluded that the interdependency is of such extent that the cash inflows are not largely independent from each other and that, consequently, the two operating segments form one CGU. When determining that the CGU is not at a lower level than the total Dry Cargo and Tanker fleets, respectively, Management has attached importance to the fact that both fleets are managed on a portfolio level.

Further, assessing whether any indication of impairment exists is depending on complex and subjective judgements by Management. Only if any indication of impairment exists, an impairment test is performed within a CGU.

Note **Amount in USD million**

3.1 Tangible assets – continued

The indications assessed by Management comprise, among other things, financial performance, vessel values, newbuilding prices and development in freight and time charter rates.

When considering vessel values, Management obtains three independent broker valuations of all vessels and newbuildings, which are indicative. Management uses these broker valuations to, among other things, determine the net selling price, which is also part of the recoverable amount in an impairment test. In this regard, Management assesses the broker's independency, objectivity, qualifications and experience and whether the valuations are appropriate for the purpose, e.g. based on sufficient market data.

Assessment of development in newbuilding prices is based on market data such as known transactions, prices on potential newbuildings and analyses reports from brokers.

Management's assessment of future freight and time charter rates are especially highly judgemental. Short-term rates are based on publicly available market data of FFAs covering a future period of one to two years. Mid- and long-term rates are based on Management's subjective judgements.

Management considers all these indicators when assessing whether an impairment test has to be performed.

Accounting estimates

If indications exist, Management assesses through an impairment test the recoverability of the carrying amount of tangible assets including right-of-use assets related to the relevant CGU (see above under Accounting policies).

Recoverable amount is determined based on a calculation of the higher of the net selling price and the value-in-use.

Regarding assessment of the net selling price for owned vessels, reference is made to the description in respect of broker valuations mentioned above under Accounting judgements.

The net settling price of right-of-use assets is determined based on estimated time charter rates for leases of similar vessels over the remaining lease term.

The principal risk when determining the value-in-use is in relation to Management's assessment of the timing and value of future cash flows including Management's estimates of long-term freight and T/C rates as well as determination of WACC.

Finally, other significant accounting estimates when determining the carrying value of tangible assets include i.a. useful lives and scrap values.

Notes to the financial statements

Note **Amount in USD million**

3.1 Tangible assets – continued

	Vessels	Property and equipment	Prepayments on vessels and newbuildings	Total
2019				
Cost at 1 January	1,207.3	54.5	29.1	1,290.9
Additions for the year	102.4	0.3	43.2	145.9
Disposals for the year	-4.8	-0.2	0.0	-5.0
Transferred during the year	55.9	0.0	-55.9	0.0
Transferred during the year to assets held for sale	-237.0	0.0	0.0	-237.0
Transferred during the year to other items	0.0	0.0	-0.3	-0.3
Cost at 31 December	1,123.8	54.6	16.1	1,194.5
Depreciation at 1 January	-284.9	-5.0	0.0	-289.9
Depreciation for the year	-44.6	-0.8	0.0	-45.4
Depreciations related to derecognised assets	4.8	0.2	0.0	5.0
Transferred during the year to assets held for sale	80.0	0.0	0.0	80.0
Depreciation at 31 December	-244.7	-5.6	0.0	-250.3
Impairment losses at 1 January	-126.8	0.0	-4.2	-131.0
Transferred during the year	-4.2	0.0	4.2	0.0
Transferred during the year to tangible assets held for sale	55.3	0.0	0.0	55.3
Impairment losses at 31 December	-75.7	0.0	0.0	-75.7
Carrying amount at 31 December	**803.4**	**49.0**	**16.1**	**868.5**

Note **Amount in USD million**

3.1 Tangible assets – continued

	Vessels	Property and equipment	Prepayments on vessels and newbuildings	Total
2018				
Cost at 1 January	1,198.5	79.8	41.4	1,319.7
Additions for the year	80.5	0.9	100.1	181.5
Disposals for the year	-48.0	-26.2	0.0	-74.2
Transferred during the year	112.0	0.0	-112.0	0.0
Transferred during the year to assets held for sale	-135.7	0.0	0.0	-135.7
Transferred during the year to other items	0.0	0.0	-0.4	-0.4
Cost at 31 December	1,207.3	54.5	29.1	1,290.9
Depreciation at 1 January	-323.1	-30.2	0.0	-353.3
Depreciation for the year	-43.3	-1.0	0.0	-44.3
Depreciations related to derecognised assets	40.8	26.2	0.0	67.0
Transferred during the year to assets held for sale	40.7	0.0	0.0	40.7
Depreciation at 31 December	-284.9	-5.0	0.0	-289.9
Impairment losses at 1 January	-183.7	0.0	-7.5	-191.2
Reversal of impairment losses on vessels disposed of	7.2	0.0	0.0	7.2
Transferred during the year	-3.3	0.0	3.3	0.0
Transferred during the year to tangible assets held for sale	53.0	0.0	0.0	53.0
Impairment losses at 31 December	-126.8	0.0	-4.2	-131.0
Carrying amount at 31 December	**795.6**	**49.5**	**24.9**	**870.0**

Notes to the financial statements

Note **Amount in USD million**

3.1 Tangible assets – continued

Dry Cargo

Management has concluded that no impairment test had to be performed for the CGU Dry Cargo.

Compared to when the last impairment test was carried out, the realised and expected financial performance of the CGU is in line with Management's expectations. Further, Management's expectations to future mid- and long-term rates are unchanged. Finally, vessel broker valuations do not differ significantly from the carrying amounts.

On that background, Management assesses that there are no significant indications of impairment or impairment reversals at the end of 2019. It is thus Management's assessment that at the end of 2019, there is no need for additional impairment of vessels, prepayments on vessels, right-of-use assets and newbuildings or reversal of previous impairments.

Tankers

For the CGU Tankers, Management also concluded that no impairment test had to be performed at year-end 2019.

Management carried out an impairment test of Tankers at end-September 2018 and concluded that based on a value-in-use assessment, the Group's Tanker fleet was not impaired. Based on the average of three independent broker valuations, the net selling price of the Group's Tanker fleet was USD 50 million below the carrying amount at year-end 2019 (2018: USD -100 million). Thus, broker valuations have improved by USD 50 million in 2019. Furthermore, the Tanker segment has realised a positive Adjusted Result for 2019 and Management's expectation to the future financial performance is positive.

In conclusion, the development in freight rates in 2019 is in line with Management's expectations since the last impairment test carried out at 30 September 2018.

On that background, Management assesses that there are no indications of impairment at the end of 2019. It is thus Management's assessment that at the end of 2019, there is no need for additional impairment of vessels, prepayments on vessels, right-of-use assets and newbuildings or reversal of previous impairments.

Note **Amount in USD million**

3.1 Tangible assets – continued

	2019	2018
Mortgages and securities		
Security for loans	303.3	332.0
-number of vessels pledged	30	28
-number of buildings pledged	2	2
-carrying amount	726.2	672.7
-mortgaged amount	605.3	608.6
Amount insured on vessels	906.0	931.0

Some of the mortgages have been registered with an amount to secure future drawings under a revolving credit facility of USD 100 million of which 0 million have been drawn.

Capital commitments

The Group has entered into agreements for future delivery of vessels. The remaining contract amount is payable as follows:

	2019	2018
Within 1 year	38.4	43.5
Between 2 and 3 years	0.0	34.6
More than 3 years	0.0	0.0
Total	**38.4**	**78.1**

Notes to the financial statements

Note Amount in USD million

3.2 Investments in joint ventures

NORDEN engages in jointly controlled arrangements which include joint ventures and joint operations. In joint ventures, the parties do not have direct share in assets and liabilities, etc., but solely a share in the net profit or loss and equity. On the other hand, joint operations provide the parties with direct rights to the assets and direct obligations for the liabilities. Each joint operator recognises its part of assets, liabilities, income and costs.

§ Accounting policies

In the Group's income statement, the Group's share of the joint ventures' profit/loss after tax is included in the item "Share of profit/loss of joint ventures".

Enterprises, which are contractually operated jointly with one or more other enterprises and which are thus jointly controlled, are recognised in the consolidated financial statements according to the equity method.

In the Group's statement of financial position, the Group's share of the net asset value of joint ventures is thus included in the item "Investments in joint ventures", calculated on the basis of the Group's accounting policies and after deduction or addition of the Group's share of any unrealised intra-group gains or losses.

Joint ventures with negative net asset values are valued at USD 0 million. If the Group has a legal or constructive obligation to cover the enterprises' negative balance, such obligation is recognised by writing down any receivable from the joint venture or under provisions.

! Accounting judgements

Assessment of control in shared ownership

The classification of activities and enterprises which are in part jointly owned with other companies and thus how these activities and enterprises are treated in the consolidated financial statements is to a certain extent based on judgements of formal and actual conditions.

In the assessment of joint control, an analysis has been made as to which decisions require unanimity and whether these relate to relevant activities, which are activities that significantly affect the return of the arrangement. It is assessed that joint control by default exists when business plans and budgets must be adopted unanimously.

Note Amount in USD million

3.2 Investments in joint ventures – continued

Investments comprise:		2019	2018	2019	2018
	Ownership	Shares of result of joint ventures		Carrying amount	
Norient Product Pool ApS, Denmark*	100%	0.0	-1.7	0.0	0.0
Norient Cyprus Ltd., Cyprus*	100%	0.0	0.1	0.0	0.0
Nord Summit Pte. Ltd., Singapore	50%	0.0	0.9	11.9	11.8
Polar Navigation Pte. Ltd., Singapore	50%	-0.2	3.1	0.0	0.0
Norden Alrayn Maritime Co. Ltd, Saudi Arabia	50%	0.0	0.0	0.0	0.0
Total		**-0.2**	**2.4**	**11.9**	**11.8**
Guarantees regarding joint ventures		0.0	0.0	0.0	0.0
Hereof profit/loss from sale of vessels		0.0	0.0	0.0	0.0

* The remaining shares have been acquired at year-end 2018. Thus, the entities are now fully owned.

	2019	2018
Key figures (100%)		
Revenue and other income	24.4	38.7
Costs	24.8	33.8
Non-current assets	86.3	80.8
Current assets	9.3	10.6
- hereof cash and cash equivalents	4.3	8.0
Non-current liabilities, debt	60.0	62.4
Current liabilities	18.4	16.0
Total results	**-0.4**	**4.9**
Share of results of NORDEN	**-0.2**	**2.4**
Total carrying amount	17.2	15.6
Transferred to other payables (NORDEN's share)	3.3	4.1
Carrying amount of NORDEN	**11.9**	**11.9**

Financial comments

No significant restrictions apply to distributions from joint ventures.

Notes to the financial statements

Note	Amount in USD million

3.3 Receivables

Accounting policies

Receivables are measured at amortised cost less allowances for impairment losses. Impairment losses for trade receivables are determined as the expected loss over the life of the receivables.

Accounting estimates

Allowances of trade receivables is determined using the lifetime expected credit loss which include factors such as internal rating, historical information about payment patterns, collateral received as well as prevailing economic conditions. Estimates made are updated if the debtor's ability to pay changes.

It is estimated that the allowances made are sufficient to cover bad debt.

Note	Amount in USD million	2019	2018
3.3	**Receivables – continued**		
	Receivables from invoiced voyages	123.0	110.9
	Receivables from voyages commenced at the balance sheet date	45.6	66.0
	Freight receivables	168.6	176.9
	Allowances regarding demurrage claims etc.	-4.6	-4.3
	Freight receivables, net	164.0	172.6
	Receivables from joint ventures	5.8	12.4
	Other receivables	31.6	28.4
	Total	**201.4**	**213.4**

Trade receivables are predominately denominated in USD, as other currencies account for less than 1% percent in both 2019 and 2018.

	2019	2018
Set out below is the movement in the allowance:		
As at 1 January	-4.3	-0.6
Applied allowances during the year	0.0	0.2
Allowances reversed	1.1	0.5
Allowances made during the year	-1.4	-4.4
As at 31 December	**-4.6**	**-4.3**

	2019	2018
Freight receivables which have been written down in allowance regarding demurrage claims etc. amount to:	5.0	7.7
Freight receivables due, which have not been written down in allowance regarding demurrage claims etc. amount to:		
– due in less than 3 months	0.4	3.6

Financial comments

Loss on other receivables and receivables from joint ventures is not expected, and thus, no impairment losses have been made.

Regarding freight receivables, the Group usually has the opportunity to use the cargo as security. See also note 4.1 "Financial risk management" and note 4.3 "Fair value hierarchy".

Notes to the financial statements

Note **Amount in USD million**

3.4 Prepayments

Accounting policies

Prepayments include costs incurred regarding the succeeding financial year such as prepaid hire, interest and insurance premiums.

Prepayments are measured at nominal value.

	2019	2018
Prepayments are distributed as follows:		
Within 1 year	68.0	81.7
Between 1 and 5 years	0.4	11.6
More than 5 years	0.0	0.1
Total	**68.4**	**93.4**

Financial comments

NORDEN has entered into agreement on reduction of future time charter payments relating to long-term chartered vessels in return for prepayment of charter hire. The carrying amount on the reporting date is	0.0	20.0

Upon adoption of IFRS 16, prepayments on vessel charter contracts with a remaining term of more than one year as of 1 January 2019, USD 17.0 million, have been reclassified to right-of-use assets, see note 5.8 “Transition to IFRS 16”.

3.5 Deferred income

Within Dry Cargo, customers normally have an obligation to pay substantially all revenue before discharge. Within Tankers, customers normally have to pay within 2-5 days after discharge.

Deferred income arises from prepayments for voyages and timecharter income. All deferred revenue as of 31 December 2018 has been recognised as revenue in 2019.

Part of deferred income comprises prepaid timecharter income comprising as well a lease element as a service element. The pattern of transfer is the same for the lease and the service element, and therefore, the lease element is not separated for purpose of this disclosure.

Note **Amount in USD million**

3.6 Vessels held for sale and relating liabilities

Accounting policies

Vessels held for sale comprise of vessels for which a binding sales agreement has been entered into and the vessel will be transferred to the buyer within 12 months of the reporting date.

Vessels and prepayments on vessels held for sale are measured at the lower of carrying amount before classification as held for sale and fair value less selling costs and are recognised under current assets.

Depreciation is not provided for vessels held for sale.

Assets and directly related liabilities in relation to vessels held for sale are recognised in separate items in the balance sheet.

Gains and losses are included in the income statement in the item ”Profit/loss from sale of vessels, etc.”. Gains are recognised on delivery and losses, when they are classified as ”held for sale”.

Vessels held for sale

	2019	2018
Carrying amount at 1 January	0.0	15.9
Additions for the year to tangible assets held for sale	0.0	21.3
Additions for the year from vessels, see note 3.1	101.7	42.0
Disposals for the year	-101.7	-79.2
Carrying amount at 31 December	**0.0**	**0.0**
Liabilities relating to vessels held for sale		
Prepayments received on sold vessels and newbuildings	0.0	0.0
	0.0	**0.0**

Notes to the financial statements

Note **Amount in USD million**

3.7 Joint operations

NORDEN engages in jointly controlled arrangements which include joint ventures and joint operations. In joint ventures, the parties do not have direct share in assets and liabilities, etc., but solely a share in the net profit or loss and equity. On the other hand, joint operations provide the parties with direct rights to the assets and direct obligations for the liabilities. Each joint operator recognises its part of assets, liabilities, income and costs.

NORDEN's shipping activities are to some extent conducted through pool arrangements. In pools, revenue and related costs are recognised according to criteria corresponding to those applied by NORDEN. For vessels operating in pools, the pool's profit is allocated to the pool participants on the basis of an agreed principle. The agreed priciple may differ from pool to pool. Generally, the pool profit is allocated to the participants according to the number of days the vessels have been at the pool's disposal, but weighted for the capacity and characteristics of the individual vessels.

Pool arrangements are considered joint operations. Accordingly for vessels operating in pools, the proportionate share of income and costs is presented as gross amounts in the income statement. For example, the share of revenue in pools is recognised in "Revenue", while the proportionate share of costs in pools, such as direct voyage costs (e.g. bunker oil, commissions and port charges) and charter hire for chartered pool tonnage, is recognised in "Vessel operating costs". Similarly, NORDEN's share of assets and liabilities in pools is recognised, and NORDEN's share of other liabilities, etc. is included in the notes to the financial statements.

NORDEN operates a few pools. As pool operator, NORDEN receives management income to cover its costs in this respect. Management income is calculated as a fixed percentage of charter/freight income for each individual agreement, however, with a minimum amount. The management income is recognised in the income statement in the item "Other operating income" as the underlying charter/freight agreement is recognised.

Joint operations comprise the following pools:

- Norient – Handy Pool
- Norient – MR Pool
- Norient – Short Term Tank Pool
- Norient – NIP Pool
- Norient – AEV Pool
- Norient – N51 Pool
- Norient – Handysize Bulker Pool (under liquidation)

Note **Amount in USD million**

3.7 Joint operations – continued

Assessment of control in shared ownership – pool arrangements

The classification of activities and enterprises which are in part jointly owned with other companies and thus how these activities and enterprises are treated in the consolidated financial statements is to a certain extent based on judgements of formal and actual conditions.

In connection with the assessment of control, an analysis of the operator role in NORDEN's agreements on pool arrangements has been made. The operator is responsible for the daily management of activities carried out within a jointly established framework. Since the operators are not exposed to, and are not entitled to, a return apart from the participating share and the fact that they can be replaced upon agreement, the operators are considered to be agents as defined in IFRS 10.

In the assessment of joint control, an analysis has been made as to which decisions require unanimity and whether these relate to relevant activities, which are activities that significantly affect the return of the pool arrangement. It is assessed that joint control by default exists when business plans and budgets must be adopted unanimously.

For NORDEN's pool arrangements, unanimity is required on decisions relating to relevant activities. It has also been established that the pool partners have rights and obligations directly and unlimited with regard to the assets and liabilities of the arrangements, and as the pool arrangements have not been structured into separate legal units, these are treated and classified as joint operations.

Liabilities

The following is an overview of NORDEN's total liabilities and coverage in respect of jointly controlled operations in the event that other pool partners are unable to meet their obligations.

	2019	2018
Share of unrecognised liabilities for which the partners are jointly and severally liable	11.0	6.6

Notes to the financial statements

SECTION 4
CAPITAL STRUCTURE AND RISKS

Note

4.1 Financial risk management

The Group is exposed to a variety of risks, and Management acts upon the risk, and in addition, Management is supported by the Risk Committee that advises on financial risks and the appropriate financial risk governance framework of the Group.

The Risk Committee is responsible for assisting the Board of Directors in its oversight of the Group's risk management including developing frameworks that ensure risk taking is aligned with risk capital allocation, and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives.

The Board of Directors reviews and agrees on policies for managing each of the risks, which are described below.

The financial risk of the Group is the risk of lacking financing or liquidity as well as the risk of adverse movements in the Group's portfolio of financial instruments. NORDEN seeks to reduce financial risks the best way possible through diversification, guarantees or by hedging the exposure, when future risks are known.

In 2018, NORDEN developed and implemented a new Risk Management system for Dry Operator covering freight exposures, which has significantly improved risk monitoring and enabled the empowerment of profit center leaders to actively manage their portfolio. During first half of 2020, the risk system will be expanded to cover asset and bunker exposures and rolled out to the other business units.

While the risk framework for Dry Operator has been refined, NORDEN's overall risk management policies are unchanged from last year.

Credit risks

NORDEN reduces its credit risks through systematic credit assessment of counterparties and through regular monitoring of their creditworthiness. For this purpose, own analyses are applied based on external credit rating agencies and publicly available information. Each analysis results in an internal rating, which is subsequently used for determining the allowed scope of the commitment.

The internal ratings are based both on a financial and a non-financial assessment of the counterparty's profile. Each category receives a rating from A to D, A being the highest achievable score. The highest total score is an AA rating, which typically comprises counterparties with attractive ownership structures, production-based business models, good reputations and strong financial ratios.

The Group's credit exposure totalled USD 844 million (USD 846 million) at the end of 2019 with USD 664 million (USD 785 million) in Dry Cargo and USD 180 million (USD 61 million) in Tankers.

As a large part of the exposure is related to a few counterparties, a concentration risk arises. In Dry Cargo, coverage of known ship days involved 201 (213) counterparties, of which the 20 largest accounted for 80% (79%) of the covered revenue in the segment, whereas the 5 largest counterparties accounted for 50% (48%). In Tankers, coverage was distributed on 50 (45) counterparties, of which the 5 largest accounted for 84% (64%) of the covered revenue in the segment. It is assessed that the main part of the 201 and 50 counterparties, respectively, are solid, and NORDEN keeps updated on the performance and activities of these companies on a regular basis.

Credit risks regarding time-charters and voyages performed can be divided between time-charter revenue and freight revenue. Time-charter revenue is

Notes to the financial statements

Note

generally paid in advance and therefore only limited credit risks exist.

Within Dry Cargo, customers normally have an obligation to pay substantially all revenue before discharge. Thus, the credit exposure is limited. Within Tankers, customers must normally pay within 2-5 days after discharge. Due to the nature of the counterparties as described above, the credit risks are determined to be limited.

Based on the Group's assessment of the credit risk connected with prepayments to yards, repayment guarantees from banks have not been obtained. Besides the regular credit risk on customers, the Group has a credit risk on tonnage suppliers who have received prepaid T/C hire. At the end of 2019, the total prepaid hire amounted to USD 13 million (USD 20 million).

It is assessed that the credit risk is limited as the counterparties continue to have a financial self-interest in maintaining the charter party, just as the counterparties' banks as a general rule have confirmed that they will respect the agreements.

Freight rate risks
Purchasing and chartering vessels imply a risk as the Group assumes financial liability in expectation of generating earnings which are dependent on the freight market. To control the uncertainty relating to earnings, future open ship days are covered by cargo contracts, T/C contracts and Forward Freight Agreements (FFAs) to the extent it is possible and Management finds it attractive. FFAs are also used to fix the hire of highly probable physical vessels and index vessels.

Bunker price risks
The Group's largest variable cost is fuel in the form of bunkers, and the total costs of the Group will therefore depend on the market price for bunkers. The Group uses bunker swaps to hedge future consumption of bunkers when entering into COAs in case there is no bunker adjustment clause in the agreement. In connection with charter agreements, the Group has a bunker price risk in relation to the quantity of bunkers onboard and with which the vessel must be redelivered. This bunker price risk is hedged by bunker swaps. For vessels, where a scrubber has been installed, the Group has a bunker price risk towards the spread between high sulphur fuel oil and low sulphur fuel oil. As the available hedging tools are not considered to be sufficiently effective, this bunker spread price risk is not hedged.

Interest rate risks
Most of the Group's loan obligations are paying interest on the basis of 1, 3, or 6 months USD libor. Most of the Group's considerable cash balance is placed on short term bank deposits thus netting out the loan's libor exposure. The Group's net interest rate exposure does not have a significant effect on the results of the Group.

Currency risks
The Group's functional currency is USD. Since administrative expenses and dividends are paid in DKK, there is a currency risk in this connection. The Group hedges expected administrative expenses payable in DKK for a period of 6-24 months. In connection with newbuilding payments, typically in JPY, CNY or KRW, there is also a currency risk. This is hedged by forward contracts in connection with newbuilding orders. At the end of 2019, all newbuilding payments were, however, in USD. The strike price in some of the Group's purchase options is determined in JPY, and it is the Group's policy only to hedge these if the option is exercised and only upon exercise.

In connection with the conclusion of a COA in GBP, cross currency swaps were simultaneously entered into to fix expected freight income in USD.

Overview of financial risks

Amount in USD	**Nominal value**		
Credit	**2019**	**2018**	**Comments**
Freight receivables	164 million	173 million	The credit rating of counterparties is assessed on an ongoing basis. NORDEN reduces its credit risks through systematic credit assessment of counterparties and through regular monitoring of their creditworthiness.
Bank deposits	209 million	184 million	The Group's liquidity is strictly placed with financial institutions with a Moody's rating of at least A3 or classified as systemic important financial institutions (SIFI).
Bonds	0 million	4 million	A minor part of the Group's free capital was invested in securities, which as a minimum have a BBB rating in accordance with S&P ("investment grade"), a Moody's rating of Baa3 or corresponding creditworthiness without official rating.
Prepayments on vessels and newbuildings	16 million	25 million	As a main rule, newbuilding contracts with shipyards are entered into with repayment guarantees issued by banks with good credit ratings. Based on the Group's assessment of the credit risk related to prepayments on newbuilding contracts, repayment guarantees from banks have not been obtained.
FFAs	Sold net 116 million	Purchased net 7 million	To limit credit risk, the Group's FFAs are only entered into through established clearing houses as these have daily margin settlement.
Bunker swaps	102 million	138 million	The Group's bunker swaps are entered into with financial institutions and with major, recognised business partners with good credit ratings. ISDA agreements are also entered into, ensuring continuous collateral.

Notes to the financial statements

Note

Overview of financial risks

Amount in USD	**Nominal value**			
Market	**2019**	**2018**	**Sensitivity**	**Comments**
Freight rate risks (FFAs)	Sold net 116 million	Purchased net 7 million	A 10% drop in freight rates at year-end would negatively impact equity by USD 11 million (impact of USD 0 million).	The Group uses FFAs to hedge highly probable freight income, index linked time charters and highly probable charter hire.
Bunker price risks (Bunker hedge)	102 million	138 million	A 10% drop in bunker prices at year-end would negatively impact equity by USD 10 million (negative impact of USD 11 million).	The Group uses bunker swaps to hedge future consumption of bunkers when entering into COAs in case there is no bunker adjustment clause in the agreement. Based on a new bunker risk framework implemented towards year-end. NORDEN now hedges its entire direct bunker price exposure.
Currency risks	43 million	83 million	A 10% increase in the DKK, EUR and GBP exchange rates at year-end would have the following impact: net results positively by USD 0 million (USD 3 million) and equity USD 0 million (USD 3 million) in regards of DKK, equity by 0 million (USD 3 million) in regards of EUR, and net results positively by USD 5 million (USD 5 million) and equity by USD 5 million (USD 5 million) in regards of GBP.	The Group's functional currency is USD. Currency risks therefore arise in connection with transactions in currencies other than USD, including administrative expenses in DKK, dividends in DKK as well as investment of excess liquidity in DKK. In connection with the conclusion of a COA in GBP, a forward exchange contract was simultaneously entered into to fix expected freight income in USD. The Group's exposure to other respective currencies than DKK and GBP is insignificant.
Interest rate risks	-	-	Based on the Group's liquidity and debt at year-end, a 1% increase in interest rates would, all other things being equal, impact earnings before tax negatively by USD 1 million (USD 1 million) and equity negatively by USD 1 million (USD 2 million).	Most of the Group's loan obligations are paying interest on the basis of 1, 3, and 6 months USD libor. Most of the Group's considerable cash balance is placed on short-term bank deposits thus netting out the loan's libor exposure.

Liquidity risks

The Group maintains sufficient cash resources in order to manage the short-term fluctuations in cash flows. The uncertainty in connection with the development in liquidity is primarily due to fluctuations in bunker prices and freight rates. The Group's internal limits to the medium-term cash reserves ensure a considerable buffer in relation to the loan portfolio's cash covenants. Liquidity prognoses are made on a daily basis to support liquidity planning just as exposure to oil and freight derivatives with an effect on liquidity is reported continuously.

Financial contracts, including bunker swaps, FFAs and interest rate swaps, are backed by margin deposits in accordance with the market value of the instruments. This is to ensure that the Group's credit risk in connection with these is kept small. Demands for margin collateral on financial contracts affect liquidity since the corresponding changes in the market value of the underlying commercial exposure is not backed by collateral. In order to monitor this risk, weekly calculations are made as to how much NORDEN risks having to place as margin in the event of great stress in the financial markets.

The terms to maturity of financial assets and liabilities are disclosed by category and class distributed on maturity periods. All interest payments and repayments of financial assets and liabilities are based on contractual agreements. Interest payments on floating-rate instruments are determined based on a 0-coupon interest structure adjusted with the Group's interest margin. All cash flows are undiscounted.

Capital management risks

The Group's formal external capital requirement is limited to the contributed capital of the Parent Company and the subsidiaries, which is significantly lower than the Group's equity.

The Group's equity ratio was 49.3% (56.5%) at the end of 2019. This significant equity ratio should be considered relative to the Group's future payment obligations in the form of operating lease liabilities (T/C contracts) and payments for newbuildings not recognised in the statement of financial position.

Notes to the financial statements

Note **Amount in USD million**

4.1 Financial risk management – continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

2019	Maturities Within 1 year	Between 1-3 years	More than 3 years	Total	Carrying amount
Derivative financial instruments					
Derivative financial instruments with a positive market value	4.8	0.0	0.0	4.8	4.8
Derivative financial instruments with a negative market value	-4.4	0.0	0.0	-4.4	-4.4
Cash flow hedging with a positive market value	4.2	1.2	1.1	6.5	6.5
Cash flow hedging with a negative market value	-8.3	-0.1	0.0	-8.4	-8.4
Loans and receivables measured at amortised cost					
Receivables from subleasing	12.7	20.4	0.0	33.1	30.5
Cash and cash equivalents	209.3	0.0	0.0	209.3	209.3
Freight receivables	164.0	0.0	0.0	164.0	164.0
Receivables from joint ventures	5.8	0.0	0.0	5.8	5.8
Other receivables	20.3	0.0	0.0	20.3	20.3
Total	412.1	20.4	0.0	432.5	429.9
Financial assets at fair value through other comprehensive income					
Bonds	0.0	0.0	0.0	0.0	0.0
Financial liabilities measured at amortised cost					
Loans	-42.6	-82.7	-214.3	-339.6	-303.3
Lease liabilities	-146.5	-197.9	-9.9	-354.3	-330.5
Trade and other payables	-163.4	0.0	0.0	-163.4	-163.4
Total	-352.5	-280.6	-224.2	-857.3	-797.2

Note **Amount in USD million**

4.1 Financial risk management – continued

2018	Maturities Within 1 year	Between 1-3 years	More than 3 years	Total	Carrying amount
Derivative financial instruments					
Derivative financial instruments with a positive market value	5.1	0.0	0.6	5.7	5.7
Derivative financial instruments with a negative market value	0.0	0.0	-0.2	-0.2	-0.2
Cash flow hedging with a positive market value	0.7	1.0	0.0	1.7	1.7
Cash flow hedging with a negative market value	-26.1	-1.6	-1.5	-29.2	-29.2
Loans and receivables measured at amortised cost					
Cash and cash equivalents	184.4	0.0	0.0	184.4	184.4
Freight receivables	172.6	0.0	0.0	172.6	172.6
Receivables from joint ventures	12.4	0.0	0.0	12.4	12.4
Other receivables	21.2	0.0	0.0	21.2	21.2
Total	390.6	0.0	0.0	390.6	390.6
Financial assets at fair value through other comprehensive income					
Bonds	4.2	0.0	0.0	4.2	4.2
Financial liabilities measured at amortised cost					
Loans	-135.8	-81.4	-159.1	-376.3	-332.0
Trade and other payables	-138.0	0.0	0.0	-138.0	-138.0
Total	-273.8	-81.4	-159.1	-514.3	-470.0

Financial comments

On the reporting date, floating-rate loans have an interest rate of 3-6 months' LIBOR plus a margin of up to 1.7%.

See note 4.3 "Fair value hierarchy".

Notes to the financial statements

Note	Amount in USD million

4.2 Derivatives

Accounting policies

The Group uses derivative financial instruments to hedge its bunker price risks, interest risks, freight risks and currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets (other receivables) when the fair value is positive and as financial liabilities (other payables) when the fair value is negative.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Changes in the fair value of derivative financial instruments that are designated as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement in the same item as any changes in the carrying amount of the hedged asset or hedged liability.

Changes in the fair value of derivative financial instruments designated as hedges of expected future transactions (cash flow hedge) are recognised in other comprehensive income and presented under "Reserve for cash flow hedges" (equity). A break down of the movement into each type of cash flow hedge is presented below. Where the expected future transactions results in the acquisition of non-financial assets, any amounts deferred under equity are transferred from equity to the cost of the asset. Where expected future transaction results in income or expense, amounts deferred under equity are transferred from equity to the income statement in the same item as the hedged transaction.

Changes in derivative financial instruments used for economic trading is recognised in the income statement in a separate item under other operating income.

4.2 Derivatives – continued

Amount in USD million	2019	2018
Fair value of cash flow hedges		
Fair value adjustment at 1 January	-24.8	6.5
Fair value adjustment at year-end, net	33.7	-31.3
Fair value adjustment at 31 December	**8.9**	**-24.8**
The fair value adjustment of cash flow hedges at year-end at 31 December can be specified as follows:		
Bunker hedging	-2.6	-26.9
FFA hedging	10.7	1.5
Interest rate hedging	0.0	0.1
Foreign currency risk hedging	0.8	0.5
Fair value adjustment at 31 December	**8.9**	**-24.8**

Bunker hedging

As discussed in note 4.1 "Financial risk management", it is NORDEN's strategy to hedge bunker price risk to the extent possible. As a result of this strategy, financial bunker hedge contracts for the expected bunker consumption are entered into when entering into a COA. Further, such financial bunker hedge contracts are entered into in respect of the redelivery of bunker related to T/C contracts and bunker on board not covered by a COA. Further, such financial bunker hedge contracts are entered in respect of the redelivery of bunker related to T/C contracts and bunker on board not covered by a COA.

Such contracts are designated as cash flow hedges of the price risk related to highly probable forecasted purchases of bunker in respect of expected bunker consumption and redelivery of bunker and hedge of the bunker component of highly probable future freight revenue in respect of bunker on board.

Exposures related to voyages west of Suez are hedged by entering into Rotterdam price contracts and exposures related to voyages east of Suez are hedged by entering into Singapore price contracts. Management has based on analysis of the market structure determined that the Rotterdam and Singapore prices, respectively, are separated, identifiable, and reliably measurable, among other things, due to the high price correlation between the two harbours and other west harbours and east harbours, respectively, and the fact that readily accessible transportation exists between the respective harbours. Therefore, the instruments are designated as the risk of the change in the Rotterdam and Singapore component, respectively, of the total bunker price by applying a 1:1 hedge ratio. Differences in timing and credit risk adjustments may cause ineffectiveness.

Notes to the financial statements

Note

4.2 Derivatives – continued

The bunker hedging activities comprise the following contracts:

2019 Volume	Positive fair values	Negative fair values	Settlement 2020	Settlement 2021	Settlement 2022	Settlement after 2023
196,272 Mts	5.8	-8.4	158,216 Mts	18,292 Mts	11,364 Mts	8,400 Mts
Weighted average hedge price per Mts			USD 530.7	USD 505.5	USD 488.6	USD 355.0

2018 Volume	Positive fair values	Negative fair values	Settlement 2019	Settlement 2020	Settlement 2021	Settlement after 2022
338,029 Mts	0.8	-28.9	285,973 Mts	17,105 Mts	15,187 Mts	19,764 Mts
Weighted average hedge price per Mts			USD 394.0	USD 498.3	USD 497.80	USD 431.80

	2019	2018
Movements in the hedging reserve:		
Beginning of year	-26.9	7.9
Fair value adjustment for the year	28.1	-14.1
Transferred to operating costs, vessels	-3.8	-20.7
End of year	**-2.6**	**-26.9**

Note **Amount in USD million**

4.2 Derivatives – continued

FFA hedging

Forward Freight Agreements (FFAs) are used to hedge freight price risk. Freight price risk is managed on the basis of a Value at risk model with a risk limit set by the Board of Directors. All FFA contracts which keep the freight price risk within limits are designated as cash flow hedges as follows:

- sales contracts: highly probable forecasted freight income
- purchase contracts: index charter hire payments on existing T/C in contracts and highly probable payments for future capacity

FFA hedging contracts are contracts with the published Baltic Dry spot indices for the respective vessel types (Handysize, Supramax, Panamax) as the underlying index. Actual earnings on spot voyages within the respective vessel types compared to the Baltic Dry indices show a high correlation between the variability in actual average earned spot rates compared to the respective indices. Hedges of future freight income is therefore considered to be effective when applying a 1:1 hedging ratio.

The movement in price difference between the Baltic Dry indices and the actual freight rates, CVA/DVA adjustment to the financial hedge contracts and difference in actual number of days may cause ineffectiveness for sales contracts.

The price risk related to payment of time charter hire on index vessels is hedged through FFA contracts on the same vessel type as the index according to the time charter contracts. This establishes a 1:1 match in the cash flows. The only source of ineffectiveness is the CVA/DVA adjustment on the FFA contracts. For highly probable payments for future capacity, the sources of ineffectiveness are the same as for highly probable forecasted freight income.

Notes to the financial statements

Note

4.2 Derivatives – continued

The FFA hedging activities comprise of the following contracts as of 31 December 2019:

2019 Volume	Fair values assets	Fair values liabilities	Settlement 2020	Settlement 2021	Settlement 2022	Settlement after 2023
Revenue hedge – 21,054 days	15.9	-1.9	18,326 days	1,316 days	176 days	1,235 days
Weighted average revenue hedge price per day			USD 9,996	USD 9,378	USD 10,476	USD 10,476
T/C hire hedge – 9,969 days	2.1	-5.4	6,281 days	896 days	596 days	2,195 days
Weighted average T/C hire hedge price per day			USD 9,314	USD 9,592	USD 9,924	USD 9,768

2018 Volume	Fair values assets	Fair values liabilities	Settlement 2019	Settlement 2020	Settlement 2021	Settlement after 2022
Revenue hedge – 8,227 days	4.0	-0.5	7,327 days	900 days	0 days	0 days
Weighted average revenue hedge price per day			USD 11,619	USD 11,635	USD 0	USD 0
T/C hire hedge – 9,202 days	1.7	-3.7	8,002 days	420 days	360 days	420 days
Weighted average T/C hire hedge price per day			USD 11,400	USD 9,800	USD 9,750	USD 9,693

Note Amount in USD million

4.2 Derivatives – continued

	2019	2018
Movements in the hedging reserve:		
Beginning of year	1.5	0.9
Fair value adjustment for the year	12.5	5.2
Realised contracts, transferred to vessel operating costs	3.4	0.2
Realised contracts, transferred to revenue	-6.7	-4.8
End of year	**10.7**	**1.5**

Interest rate hedging

NORDEN used interest rate derivatives to reduce exposure to increasing rates on its floating rate debt. The interest rate derivatives have expired in 2019.

	2019	2018
Movements in the hedging reserve:		
Beginning of year	0.1	-0.3
Fair value adjustment for the year	0.0	0.7
Transferred to financial expenses	-0.1	-0.3
End of year	**0.0**	**0.1**

Notes to the financial statements

Note	Amount in USD million

4.2 Derivatives – continued

Foreign currency risk hedging

In 2016, NORDEN agreed to transport wood pellets from the USA to the UK with one monthly cargo during 2019-2034. Part of the payments for the transport during 2020-2025 was denominated in GBP. The currency exposure arising from these payments has been swapped to USD at two of NORDEN's partnership banks at an average GBP/USD rate of 1.37.

2019 Principal	Fair values assets	Fair values liabilities	Settlement 2020	Settlement 2021	Settlement 2022	Settlement after 2023
tUSD 43,665	0.8	0.0	tUSD 8,005	tUSD 8,733	tUSD 8,733	tUSD 18,194

2018 Principal	Fair values assets	Fair values liabilities	Settlement 2019	Settlement 2020	Settlement 2021	Settlement after 2022
tUSD 43,665	0.8	0.0	0	tUSD 8,005	tUSD 8,733	tUSD 26,927

In 2018, NORDEN agreed to scrubber purchases denominated in EUR. Part of the EUR denominated payments were due on the signing of the scrubber purchase contracts. The derivatives related to the scrubber purchase have expired in 2019.

	2019	2018
Movements in the hedging reserve:		
Beginning of year	0.5	-2.0
Fair value adjustment for the year	-0.5	2.5
End of year	**0.0**	**0.5**

Derivatives - not hedge accounting

The Group has entered into hedging transactions, where hedge accounting is not used and where assets and liabilities are recognised with the following amounts:

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Cross Currency Swaps	0.0	0.0	0.0	1.3	-0.2	1.1
Freight Forward Agreements	1.3	-1.4	-0.1	0.0	0.0	0.0
Forward exchange contracts	4.8	-4.4	0.4	4.3	0.0	4.3

Note	Amount in USD million

4.3 Fair value hierarchy

Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: - In the principal market for the asset or liability or - in the absence of a principal market must be accessible by the Group. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

In measuring the fair value of unlisted derivative financial instruments and other financial instruments for which there is no active market, fair value is determined using generally accepted valuation techniques.

- Market-based parameters such as market-based yield curves and forward exchange prices are used for the valuation.
- For bunker contracts the price is based on observable stock markets, e.g. Rotterdam and Singapore.
- The value of FFAs is assessed on the basis of daily recorded prices from the Baltic Exchange.
- For non-current liabilities and other interest rate based financial instruments, the fair value is based on a discounted value of future cash flows. The 0-coupon rate with the addition of the Group's interest margin is used as discount factor.

The fair value of receivables and debt with a maturity of less than 1 year is assumed to approximate their face values less any estimated credit adjustments.

The fair value of bank debt is calculated as the present value of expected future repayments and interest payments. As discount rate at the calculation of present value, a 0-coupon interest with similar maturities adjusted with the Group's interest margin has been used.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as following accounting hierarchy:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2: Valuation techniques for which lowest level input is significant to the fair value measurement is directly or indirectly observable
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurment is unobservable

Notes to the financial statements

Note	Amount in USD million

4.3 Fair value hierarchy – continued

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

		Fair value measurement using		
2019	**Carrying amount**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Receivables from subleasing [1]	30.5	0.0	30.5	0.0
Freight receivables [2]	164.0	0.0	0.0	0.0
Other receivables [2]	20.3	0.0	0.0	0.0
Receivables from joint ventures [2]	5.8	0.0	0.0	0.0
Cash and cash equivalents [2]	209.3	0.0	0.0	0.0
Total financial assets at amortised costs	**429.9**	**0.0**	**30.5**	**0.0**
Derivatives	6.5	0.0	6.5	0.0
Total financial assets at fair value through other comprehensive income	**6.5**	**0.0**	**6.5**	**0.0**
Derivatives	4.8	0.0	4.8	0.0
Total financial assets at fair value through the income statement	**4.8**	**0.0**	**4.8**	**0.0**
Loans	-303.3	0.0	-307.3	0.0
Lease liabilities	-330.5	0.0	0.0	0.0
Trade payables [2]	-117.6	0.0	0.0	0.0
Other debt [2]	-45.7	0.0	0.0	0.0
Total debt at amortised cost	**-797.1**	**0.0**	**-307.3**	**0.0**
Derivatives	-8.4	0.0	-8.4	0.0
Total financial liabilities at fair value through other comprehensive income	**-8.4**	**0.0**	**-8.4**	**0.0**
Derivatives	-4.4	0.0	-4.4	0.0
Total financial liabilities at fair value through the income statement	**-4.4**	**0.0**	**-4.4**	**0.0**

Note	Amount in USD million

4.3 Fair value hierarchy – continued

		Fair value measurement using		
2018	**Carrying amount**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Freight receivables [2]	172.6	0.0	0.0	0.0
Receivables from joint ventures [2]	12.4	0.0	0.0	0.0
Other receivables [2]	21.2	0.0	0.0	0.0
Cash and cash equivalents [2]	184.4	0.0	0.0	0.0
Total financial assets at amortised costs	**390.6**	**0.0**	**0.0**	**0.0**
Bonds	4.2	4.2	0.0	0.0
Derivatives	1.7	0.0	1.7	0.0
Total financial assets at fair value through other comprehensive income	**5.9**	**4.2**	**1.7**	**0.0**
Derivatives	5.6	0.0	5.6	0.0
Total financial assets at fair value through the income statement	**5.6**	**0.0**	**5.6**	**0.0**
Loans	-332.0	0.0	-334.1	0.0
Trade payables [2]	-118.8	0.0	0.0	0.0
Other debt [2]	-19.2	0.0	0.0	0.0
Total debt at amortised cost	**-470.0**	**0.0**	**-334.1**	**0.0**
Derivatives	-29.2	0.0	-29.2	0.0
Total financial liabilities at fair value through other comprehensive income	**-29.2**	**0.0**	**-29.2**	**0.0**
Derivatives	-0.2	0.0	-0.2	0.0
Total financial liabilities at fair value through the income statement	**-0.2**	**0.0**	**-0.2**	**0.0**

[1] The carrying amount is approximately equal to the fair value.
[2] Due to the short term nature, the carrying amount is assumed to approximate the fair value.

Notes to the financial statements

Note

4.3 Fair value hierarchy – continued

Financial comments

Derivative financial instruments: Fair value of NORDEN's forward exchange contracts and other derivative financial instruments (commodity instruments) are considered for fair value measurement at level 2 as the fair value can be determined directly on the basis of the published exchange rates and forward interest rates and prices at the reporting date.

Bonds: Fair value measurement of bonds is at level 1 as the fair value is determined on the basis of market prices.

Other financial instruments: Fair value of NORDEN's other financial instruments is considered for fair value measurement at level 2 as the fair value can be determined on the basis of observable inputs.

4.4 Share Capital and dividends

Accounting policies

Dividend

Dividend is recognised as a liability at the time of adoption by the shareholders in general meeting. Dividend proposed by Management in respect of the year is stated under equity.

Treasury shares

The acquisition and sale of treasury shares and dividends thereon are taken directly to retained earnings under equity.

Treasury shares

	Number of shares		Nominal value (DKK'000)		% of share capital	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
1 January	2,276,067	1,732,385	2,276	1,732	5.39	4.11
Acquisition	612,400	442,000	612	442	1.45	1.04
Addition due to acquisition*	0	101,682	0	102	0.0	0.24
31 December	**2,888,467**	**2,276,067**	**2,888**	**2,276**	**6.84**	**5.39**

* Addition due to acquisition of remaining shares in former joint venture.

Note **Amount in USD million**

4.4 Share Capital and dividends – continued

Financial comments

The Company is authorised by the general meeting to acquire a maximum of 4,220,000 treasury shares, equal to 10% of the share capital.

Treasury shares are i.a. acquired for the purpose of hedging in connection with sharebased payment, see note 5.3 to the consolidated financial statements.

At 1 January 2019, the Group had a total of 39,923,933 outstanding shares of DKK 1 each, and at 31 December 2019, a total of 39,311,533 outstanding shares of DKK 1 each.

On 6 November 2019, NORDEN initiated a share buy-back programme, which runs from 6 November 2019 up to and including no later than 28 February 2020. The share buy-back programme is initiated pursuant to the authorisation granted to the Board of Directors, which entitles NORDEN to acquire treasury shares at a nominal value not exceeding 10% of the share capital at the market price applicable at the time of acquisition with a deviation of up to 10%. The purpose of the share buy-back programme is to adjust the capital structure of the Group. A maximum of 4,220,000 shares can be acquired.

Since the 2019 share buy-back programme was initiated up until year-end 2019, the total number of acquired shares is 347,500 at a total amount of DKK 35,847,370. Acquired shares in 2019 related to share buy-back programme 2018 amounts to 264,900 at a total amount of DKK 24,565,212.

In 2019, shares were acquired at an average price of DKK 98.65 per share, with prices ranging from DKK 89.64 to DKK 107.62. The total cost of DKK 60,412,582 was deducted from retained earnings.

Dividends

	2019	**2018**
Proposed dividend per share, DKK	2.5	2.0
The amount available for distribution as dividends comprises	520.0	400.1

Dividends paid in 2019 amount to USD 12.8 million (DKK 2 per share). The proposed dividend for 2019 will be considered on the annual general meeting on 27 March 2020.

Notes to the financial statements

Note

4.5 Earnings per share (EPS)

	2019	2018
The basis for calculating earnings per share and diluted earnings per share is set out below:		
Profit for the year (mUSD)	**19.2**	**28.8**
Weighted average number of ordinary shares	42,200,000	42,200,000
Weighted average number of treasury shares	2,554,610	1,770,450
Weighted average number of shares	39,645,390	40,429,550
Dilutive effect of outstanding options and restricted performance shares	41.878	1.836
Weighted average number of shares including dilutive effect of options and restricted performance shares	39,687,268	40,431,386
Earnings per share, EPS (USD)	0.48	0.71
Earnings per shares, Diluted, EPS-D (USD)	0.48	0.71

Note **Amount in USD million**

4.6 Loans

§ Accounting policies

Loans comprise of amounts borrowed from banks and a credit institution.

Loans are recognised at the time the liabilities are obtained in the amount of the proceeds after deduction of transaction costs. In subsequent periods, such loans are recognised at amortised cost, equivalent to the capitalised value applying the effective rate of interest at the inception of the loan, to the effect that the difference between the proceeds and the nominal value is recognised as interest expense in the income statement over the term of the loan. Commission paid to set up a credit facility is recognised as transaction costs to the extent that it is probable that the facility will be partially utilised. To the extent that it is not probable that the facility will be partially or fully utilised, commission is recognised as a prepayment for making the facility available and amortised over the term of the credit facility.

	2019	2018
Interest-bearing liabilities include bank debt, which includes the following items:		
Current portion of non-current debt within 1 year	34.9	125.5
Non-current liabilities between 1 and 5 years	141.2	122.2
Non-current liabilities over 5 years	127.2	84.3
	303.3	**332.0**
Interest-bearing liabilities comprise the carrying amount:		
Fixed-rate loans	22.2	25.2
Floating-rate loans*	284.4	308.5
Borrowing costs	-3.3	-1.7
	303.3	**332.0**
Movements in interest-bearing liabilities:		
Interest-bearing liabilities at 1 January	332.0	221.8
New loans	219.1	138.7
Instalments	-245.9	-28.6
Other adjustments	-1.9	0.1
Interest-bearing liabilities at 31 December	**303.3**	**332.0**

Notes to the financial statements

Note Amount in USD million

4.6 Loans – continued

Financial comments

NORDEN continues to optimise the profile of the Group's credit facilities and increasing alignment to the asset portfolio. As part of this, NORDEN in 2019 secured a USD 200 million credit facility with Danish Ship Finance to improve the overall capital structure through repayment of 2 existing loan facilities. The new loan portfolio results in an improved repayment profile and lower interest expenses.

*Floating-rate loans have partly been hedged by interest rate swaps, see note 4.2 "Derivatives", with USD 24 million at a fixed rate until 2019. The Group's loan agreements generally include a clause on the lender's option to terminate agreement in the event the majority control of the Group is changed.

Mortgages and security provided in relation to liabilities are disclosed in note 3.1 "Tangible assets".

See note 4.3 "Fair value hierarchy" for fair value of loans.

4.7 Leases – lessee

This note provides information for leases where the Group is the lessee.

The nature of the Group's leasing activities

The majority of the Group's lease contracts are time charter contracts on vessels, and lease of office spaces for representation offices around the world, office equipment and a limited number of company cars.

Time charter leases have originally been entered with a lease period for up to 8 years. Some leases include an option to be extended for 1 additional year at a time for up to 3 years. Leases may also include purchase options, typically exercisable as from the end of the third year to the expiry of the period of extension.

Note Amount in USD million

4.7 Leases – lessee –continued

§ Accounting policies

At inception of a new contract, NORDEN assesses whether a contract is a lease or contains a lease. This involves exercise of judgement whether:

- the contract depends on the use of a specific asset,
- NORDEN obtains substantially all the economic benefits from the use of the assets, and
- NORDEN has the right to direct the use of the asset.

Right-of-use assets

NORDEN recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation, impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made before the commencement date. Unless NORDEN is reasonbly certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Impairment of right-of-use assets

Similar to owned assets, right-of-use assets are subject to testing for impairment if there is an indicator of impairment. See note 3.1 "Tangible assets" for further description.

Lease liabilities

At the commencement date of a lease, NORDEN recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease term comprises the non-cancellable period with addition of periods covered by options, if NORDEN is reasonably certain to exercise such extention options. This assessment is made on inception of the lease. The lease payments include fixed payments and variable payments depending on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by NORDEN. Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant period rate of interest on the remaining balance of the liabilities for each period.

Notes to the financial statements

Note	Amount in USD million
4.7	**Leases – lessee – continued**

Lease liabilities - continued

In calculating the present value of lease payments, NORDEN uses the incremental borrowing rate at the lease commencement date. The incremental borrowing rate applied is in the range of 4.75-6.00%, depending on the maturity of the lease contracts. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

NORDEN applies the lease recognition exemptions related to the short-term leases (lease term 12 months or less) and leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised in the income statement as an expense on a straight-line basis over lease term.

Cash flows

In the statement of cash flows, cash payments for the principal portion of the lease liabilities and related cash payments for the interest portion are classified within the financing activities.

For short-term leases or leases of low-value assets, the lease payments are classified within the operating activities.

Accounting estimates

NORDEN has elected to separate lease and non-lease components for leases of time charter contracts on vessels. For these contracts, the estimated non-lease component (daily running costs) is excluded from the right-of-use assets. Assessing the consideration attributable to the non-lease component includes a significant accounting judgement, where Management uses market data from an independent service provider. The market data consists of benchmarking reports and allows NORDEN to benchmark vessel operating costs against a global sample. The measurement of the non-lease component takes several factors into consideration such as operating costs, aging of the vessels, vessel types, etc.

In this regard, Management assesses the service provider's independency, objectivity and qualifications and whether the market data is appropriate for the purpose, e.g. based on sufficient market data. Furthermore, to ensure accuracy and validation of the market data used for the allocation of the non-lease component, NORDEN performs an analysis of the level of daily running costs and compares to internal data.

Note	Amount in USD million	2019
4.7	**Leases – lessee – continued**	
	Amounts recognised in the balance sheet	
	Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the period:	
	Right-of-use assets	
	Cost at 1 January, see note 5.8	302.8
	Additions	77.4
	Remeasurements	9.1
	Disposals	-6.8
	Cost at 31 December	**382.5**
	Depreciation at 1 January	0.0
	Depreciation	-111.5
	Depreciation at 31 December	**-111.5**
	Carrying amount	**271.0**
	Lease liabilities	
	Lease liabilities at 1 January, see note 5.8	360.8
	Additions	87.1
	Remeasurements	7.4
	Instalments	-124.8
	Lease liabilities at 31 December	**330.5**
	Non-current	198.7
	Current	131.8

Notes to the financial statements

Note	Amount in USD million	2019
4.7	**Leases – lessee – continued**	
	Amounts recognised in the income statement	
	The following are the amounts recognised in the profit/loss:	
	Expenses related to the service component of right-of-use assets (included in vessel operating costs)	122.2
	Expenses related to short-term leases (included in vessel operating costs)	1,039.0
	Depreciation of right-of-use assets (included in depreciation, amortisation and impairment losses)	111.5
	Interest expenses of lease liabilities (included in financial expenses)	19.6
	Amounts recognised in the statement of cash flows	
	Instalment on lease liabilities	124.8
	Interest, lease liabilities	19.6

Lease commitments and options (excluding the non-lease component)

Balance sheet

At 31 December 2019, the Group has entered into lease agreements with future commencement date, which will affect the balance sheet, when the time-chartered vessels will be delivered, and the Group obtains control of the asset. The minimum lease payments excluding the non-lease components amount to (undiscounted):

	Dry Operator	Dry Owner	Tankers	Total
Within 1 year	3.5	73.3	67.3	144.1
Between 1 to 5 years	0.0	0.0	24.4	24.4
More than 5 years	0.0	0.0	0.0	0,0
Total	**3.5**	**73.3**	**91.7**	**168.5**

Note	Amount in USD million
4.7	**Leases – lessee – continued**

Some leases include an option to be extended for 1 additional year at a time for up to 3 years. The exercise of the options is based on an individual assessment. If all available extension options as of 31 December 2019 where excised when possible, the right-of-use asset and corresponding lease liability would increase with the following amounts in each future year (undiscounted and excluding non-lease component).

	Dry Operator	Dry Owner	Tankers	Total
Within 1 year	6.2	4.4	19.8	30.4
Between 1 to 5 years	0.0	192.0	80.1	272.1
More than 5 years	0.0	62.6	23.1	85.7
Total	**6.2**	**259.0**	**123.0**	**388.2**

Leases may also include purchase options, typically exercisable as from the end of the third year to the expiry of the period of the extension. Exercise of a purchase option on an individual vessel is based on an individual assessment. On a few leases, the payment is linked to a freight index. For information on the Group's charter contracts with purchase option, see the section "Dry Owner and Tankers" in the Management's Review.

Income statement

At 31 December 2019, the Group has entered into lease agreements of vessels, which will have the following future effect in the income statement related to the non-lease component (daily running costs):

	Dry Operator	Dry Owner	Tankers	Total
Within 1 year	13.9	65.2	60.4	139.5
Between 1 to 5 years	1.1	146.6	95.2	242.9
More than 5 years	0.0	1.3	9.7	11.0
Total	**15.0**	**213.1**	**165.3**	**393.4**

Notes to the financial statements

Note	Amount in USD million

4.8 Leases – lessor and COAs

This note provides information on leases where the Group is the lessor.

§ Accounting policies

Subleases

NORDEN enters into arrangements to sublease an underlying asset to a third party, while NORDEN retains the primary obligation under the original lease. In such arrangements, NORDEN acts as both the lessee and lessor of the same underlying asset.

If a leased vessel is subleased under terms transferring substantially all remaining risks and rewards under the head lease to the lessee in the sublease, the right-of-use asset is derecognised, and a lease receivable is recognised. Gain/loss on the derecognised right-of-use asset is recognised in the income statement as other operating income/expenses.

During the term of the sublease, NORDEN recognises both finance income on the sublease (as revenue) and interest expense on the head lease (as financial expenses).

Cash flows

Cash payments received on sublease receivables are classified within the operating activities.

Note	Amount in USD million	2019

4.8 Leases – lessor and COAs – continued

Amounts recognised in the income statement

The following are the amounts recognised in the profit/loss:

Revenue from sublease financial income (included in revenue)	2.0
Gain on derecognised right-of-use assets (included in other operating income)	0.6
Amounts recognised in the statement of cash flows	
Instalment on sublease receivables	11.7

Amounts recognised in the balance sheet

Set out below are the carrying amounts of receivables from subleasing recognised and the movements during the period:

Receivables from subleasing	
Receivables from subleases at 1 January	35.3
Additions for the period	6.9
Instalments	-11.7
Receivables from subleases	**30.5**

Below is the maturity analysis for sublease receivables based on a contractual undiscounted payments :

	Dry Operator	Dry Owner	Tankers	Total
Within 1 year	0.0	9.7	3.0	12.7
Between 1 to 5 years	0.0	20.4	0.0	20.4
Later than 5 years	0.0	0.0	0.0	0.0
Total	**0.0**	**30.1**	**3.0**	**33.1**

Notes to the financial statements

Note **Amount in USD million**

4.8 **Leases – lessor and COAs– continued**

COAs and operating lease income

Accounting policies

The Group leases out vessels under non-cancellable operating lease agreements. Such leases have varying terms, escalation clauses and renewal rights.

Agreements to charter out vessels on time charters, where all significant risks and rewards of ownership have been transferred to the lessee are recognised as a receivable in the balance sheet. The receivable is measured in the same way as the lease liability in cases, where the Group is the lessee.

Other agreements to charter out vessels are considered operating leases in accordance to IFRS 16 Leases, where NORDEN is presented as the lessor. Lease income in connection with operating leases is recognised as revenue on a straight-line basis in the income statement over the terms of the leases.

Accounting judgements

Management's assessment of whether leases of vessels should be classified as financial or operational leasing is based on an overall evaluation of each lease.

Note **Amount in USD million**

4.8 **Leases – lessor and COAs– continued**

At 31 December, the Group had entered COAs with customers amounting to:

	2019				2018		
	Dry Operator	Dry Owner	Tankers	Total	Dry Cargo	Tankers	Total
Within 1 year	173.9	0.0	0.0	173.9	229.7	0.0	229.7
Between 1 to 2 years	74.2	0.0	0.0	74.2	64.7	0.0	64.7
Between 2 to 3 years	56.9	0.0	0.0	56.9	59.3	0.0	59.3
Between 3 to 4 years	44.0	0.0	0.0	44.0	45.6	0.0	45.6
Between 4 to 5 years	41.9	0.0	0.0	41.9	37.1	0.0	37.1
Later than 5 years	130.9	0.0	0.0	130.9	137.2	0.0	137.2
Total	**521.8**	**0.0**	**0.0**	**521.8**	**573.6**	**0.0**	**573.6**

The Group has operating lease income as lessor amounting to:

	2019				2018		
	Dry Operator	Dry Owner	Tankers	Total	Dry Cargo	Tankers	Total
Within 1 year	16.3	42.7	75.1	134.1	79.8	27.1	106.9
Between 1 to 2 years	0.0	30.5	50.5	81.0	38.2	4.1	42.3
Between 2 to 3 years	0.0	26.5	30.2	56.7	26.3	0.0	26.3
Between 3 to 4 years	0.0	8.4	3.9	12.3	22.5	0.0	22.5
Between 4 to 5 years	0.0	0.0	0.0	0.0	7.1	0.0	7.1
Later than 5 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**16.3**	**108.1**	**159.7**	**284.1**	**173.9**	**31.2**	**205.1**

The above amounts regarding operating lease income comprise the agreed time charter rates. The lease and service components will be recognised as revenue under the same pattern of transfer to the customer. Separate disclosure of the lease components and the service income components has not been provided as it is impracticable to establish this disclosure.

The above includes the Group's expected share of COAs and lease income.

Separate disclosure of owned vessels cf. note 3.1 "Tangible assets" and right-of-use assets cf. note 4.7 "Leases - lessee", leased out under operating leases, is not provided as entering into time charter out contracts is an integral part of the business and no vessels are designated as time charter out vessels.

Notes to the financial statements

SECTION 5
OTHER NOTES

Note **Amount in USD million**

5.1 Fees to auditor appointed at the general meeting

	2019	2018
"Overhead and administration costs" include the following fees to PricewaterhouseCoopers:		
Statutory audit	0.6	0.5
Other assurance services	0.0	0.0
Tax consultancy	0.2	0.1
Other services	0.2	0.1
Total	**1.0**	**0.7**

The fee for non-audit service performed by PricewaterhouseCoopers Statsautoriseret Revisionspartner-selskab is USD 0.4 million (2018: USD 0.2 million) and comprises tax advisory services and advisory services.

Notes to the financial statements

Note	Amount in USD million	2019	2018
5.2	**Cash flow specification**		
	Reversal of items from the income statement		
	Depreciation, amortisation and impairment losses	156.9	44.3
	Financial items, net	32.7	6.9
	Change in provision	0.0	-27.8
	Profit/loss from sale of vessels, etc.	3.6	-8.8
	Share of profit/loss of joint ventures	0.2	-2.4
	Other reversed non-cash operating items	13.3	4.7
	Total	**206.7**	**16.9**
	Change in working capital		
	Inventories	6.7	-19.5
	Freight and other receivables, etc.	6.4	-68.8
	Trade and other payables, etc.	0.4	55.2
	Fair value adjustments of cash flow hedging instruments taken to equity	33.4	-31.4
	Exchange rate adjustment of working capital	3.6	3.3
	Total	**50.5**	**-61.2**

NORDEN has in 2019 engaged in supply chain finance with some suppliers, which is included in net working capital. The supply chain finance program has not changed significant characteristic of the debt, and therefore the classification as trade payable is maintained.

Note **Amount in USD '000**

5.3 Share-based payment

§ Accounting policies

The value of services rendered by employees as consideration for share-based incentive payments is measured at the fair value of the granted options and restricted shares, respectively. For both, this fair value is recognised in the income statement over the vesting period. A corresponding increase is recognised in equity.

The fair value of the options is determined using the Black-Scholes valuation model, taking into account the terms of the grant and the actual number of vested options. The fair value of restricted shares is determined using the share price at the grant date adjusted for expected dividend per share, which is based on historical dividends. On recognition, the number of options and restricted shares expected to vest are estimated. The estimate is adjusted over the vesting period to the actual number of vested options and restricted shares.

Restricted shares

In 2019, the Board of Directors has granted restricted shares comprising a total of 82,452 shares to a number of employees.

The restricted shares are granted free of charge and remain restricted during a vesting period of 3 years. Transfer of the restricted shares is subject to the continued employment within the Group in the 3 years vesting period. It applies that upon vesting the employee will receive one share of nominally DKK 1 for each vested restricted share. Special terms apply in case of death and illness. Other than being employed by NORDEN at the time of granting of the restricted shares, no conditions are attached to the grant. Where a recipient resigns during the vesting period, non-vested restricted shares will lapse.

The share price at the grant date was DKK 89.05 (DKK 122.10). Expected dividend per share at the grant date was DKK 2.00 (DKK 0).

Movement in the number of outstanding restricted shares is as follows:

	2019	2018
Outstanding at 1 January	54,064	0
Granted during the period	82,452	54,909
Lapsed during the period	-6,026	-845
Outstanding at 31 December	**130,490**	**54,064**

Notes to the financial statements

Note	Amount in USD million

5.3 Share-based payment – continued

Outstanding restricted shares is composed as follows:

		Number of restricted shares				
Granted	Vesting period	Originally granted in total	Executive Management	Other executives	Others	Total
13 June 2018	13 June 2018 – 13 June 2021	54,909	18,446	19,339	13,444	51,229
30 Jan. 2019	30 Jan. 2019 – 31 Jan. 2022	82,452	23,317	33,807	22,137	79,261

The fair value of restricted shares granted in 2019 is USD 1,179 thousand (USD 1,062 thousand).

The expense for the year regarding restricted shares is USD 537 thousand (USD 146 thousand).

Share options

In the years 2014-2017, the Board of Directors has granted share options comprising a total of 1,772,184 shares to a number of employees. The distribution between years and exercise periods can be seen below. It applies to all the programmes that the options entitle the holder to acquire one share per option at an exercise price.

The share options may be exercised after at least 3 years and no more than 6 years from the respective grant dates. Exercise of the share options is subject to the continued employment with the Company at the exercise date. Special terms apply in case of death and illness.

Upon exercise, the Executive Management and some of the executives must reinvest 25% of any net gain in NORDEN shares and keep these for at least 2 years. If the employee already owns shares, this can be included in the determination of the investment amount.

The exercise price is determined as the 5-day average of the market price following the grant, less all dividend payments after the grant date plus a fee of 10% (2014-2017), respectively, in proportion to the market price at the date of grant.

Note	Amount in USD million

5.3 Share-based payment – continued

Movement in the number of outstanding share options is as follows:

	2019	2018
	Number of options	Number of options
Outstanding at 1 January	1,709,773	1,731,393
Addition due to acquisition*	0	197,003
Lapsed during the period	-78,266	-13,179
Expired during the period	-275,800	-205,444
Outstanding at 31 December	**1,355,707**	**1,709,773**

* Addition due to acquisition of remaining shares in former joint venture, cf. note 3.2 “Investments in joint ventures”.

Notes to the financial statements

Note **Amount in USD million**

5.3 Share-based payment – continued

Outstanding share options is composed as follows:

Granted	Exercise period	Exercise price at 31 December 2019, DKK	Number Originally granted in total	Executive Management	Other executives	Others	Total
Share options							
11 March 2014	11.03.2017 - 11.03.2020	257.62	446,319	18,505	74,906	177,963	271,374
4 March 2015	04.03.2018 - 04.03.2021	161.49	382,515	22,480	84,660	171,383	278,523
4 May 2015	04.05.2018 - 04.05.2021	149.01	50,000	50,000	0	0	50,000
2 March 2016	02.03.2019 - 02.03.2022	108.00	435,159	78,000	102,364	156,719	337,083
9 Janaury 2017	09.04.2020 -09.04.2023	128.80	50,000	0	50,000	0	50,000
2 March 2017	02.03.2020 - 02.03.2023	146.39	408,191	80,000	118,349	170,378	368,727
Outstanding at 31 December		**161.66**	**1,772,184**	**248,985**	**430,279**	**676,443**	**1,355,707**

Financial comments

The division into employee categories is based on the title of the employee at the grant date. Resigned employees are included in the category "Others". For a more detailed specification of the share options distributed within the Excecutive Management at the end of the year, see the Remuneration Report on NORDEN's website.

The expense for the year regarding share options

The expence for the year is USD 420 thousand (USD 858 thousand).

Notes to the financial statements

Note **Amount in USD million**

5.4 Unrecognised contingent assets and liabilities

Accounting policies

Contingent assets are recognised, when it is virtually certain that the claim will have a positive outcome for the Group. A contingent liability is recognised, if it is likely that the claim will have a negative outcome and when the amount is estimable. Rulings in connection with such matters may in future accounting periods produce realised gains or losses, which may differ considerably from the recognised amounts or information.

Accounting estimates

Management assesses provisions and contingencies on an ongoing basis, as well as the likely outcome of pending or potential legal proceedings, etc. The assessments are made on the basis of legal opinions of the signed agreements, which in considerable claims also include assessments obtained from external advisors including external legal advisers, among others.

Contingent Liabilities
Claims have been made against the Group, primarily concerning discharge responsibility and broker fees, etc. The Group and its legal advisors consider the claims unjustified, and it is Management's opinion that the claims will not have any material impact on the Group's financial position, results of operations and cash flows.

Note **Amount in USD million**

5.5 Related party disclosures

Accounting policies

Related parties include the Board of Directors and the Executive Management as well as their close relatives. Related parties also include companies in which the above persons have significant interests as well as companies and foundations which have direct or indirect significant influence through shareholdings.

In addition, related parties include joint ventures, see note 3.2 "Investments in joint ventures "

	2019	2018
Income statement		
Sale of goods and services, joint ventures	34.9	35.5
Purchases of goods and services, joint ventures	16.2	10.8
Assets		
Receivables, joint ventures	5.8	12.4

The Group has no related parties controlling NORDEN.
Accounts with joint ventures are related to operations, unsecured and with usual interest rates.

Remuneration and share-based payment of the Board of Directors and the Executive Management are disclosed in note 2.3 "Staff costs and remuneration" and note 5.3 "Share-based payment". Guarantees to joint ventures are mentioned in note 3.2 "Investments in joint ventures".

No other transactions took place during the year with the Board of Directors, the Executive Management, major shareholders or other related parties.

5.6 Events after the reporting date

See page 17 in the Management's Review.

Notes to the financial statements

Note

5.7 Group structure

- **Dampskibsselskabet NORDEN A/S**
  - NORDEN Tankers & Bulkers Chile SpA – Chile 100%
  - Svalbard Maritime Services AS – Norway 100%
  - NORDEN Shipping (Singapore) Pte. Ltd. – Singapore 100%
    - NORDEN Tankers & Bulkers India Private Ltd. – India 100%
    - NORDEN Shipping (Shanghai) – China 100% Branch
    - NORD SUMMIT Pte. Ltd. – Singapore 50%
    - Polar Navigation Pte. Ltd. – Singapore 50%
    - NORDEN Shipping (Australia) Pty. Ltd. – Australia 100%
    - Nord Goodwill LLC – USA 100%
  - NORDEN Shipping (USA) LLC – USA 100%
  - NORDEN Tankers & Bulkers do Brazil Ltda. – Brazil 100%
  - Norient Cyprus Ltd. – Cyprus 100%
  - Norient Product Pool ApS – Denmark 100%
    - Norient (USA) LLC – USA 100%
    - Norient Product Pool – Singapore 100% Branch
  - NORDEN Alrayn Maritime Co Ltd (Norabic) – Saudi Arabia 50%
  - NORDEN Shipping Abidjan SARLU – Ivory Coast 100%
  - NORDEN Shipping (Canada) – Canada 100% Branch
  - NORDEN Shipping Middle East DMCC – UAE 100%

Notes to the financial statements

Note **Amount in USD million**

5.8 Transition to IFRS 16

This note explains the effect of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

NORDEN has adopted IFRS 16 retrospectively without restating comparative figures by determining the lease liability as of 1 January 2019 and measure the right-of-use asset at the same amount. The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The majority of the Group's lease contracts are time charter contracts on vessels. For these contracts, the estimated non-lease component (daily running costs) are excluded from the lease liability. These lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The incremental borrowing rate applied to the lease liabilities on 1 January 2019 were in the range of 5.75-5.94%, depending on the maturity of the lease contracts.

The Group has elected to use the exemptions not to recognise contracts with a lease term of 12 months or less and lease contracts of low value assets. The Group leases certain office equipment that are considered of low value.

The Group has applied the following practical expedients on adoption of IFRS 16 Leases permitted by the standard:

- Leased assets with a remaining term of 12 months or less as of 1 January 2019 will not be recognised as lease assets
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- The carrying amount of the provision for onerous operating lease contracts are offset against the carrying amount of the related right of use assets

The Group did not need to make any adjustments to the accounting for assets held as a lessor under operating lease agreements as a result of the adoption of IFRS 16 Leases.

As of 1 January 2019, the average term of the Group's vessel leases exceeding a remaining term of 12 months is approx. 38 months.

Note **Amount in USD million**

5.8 Transition to IFRS 16 – continued

The lease liability as of 1 January 2019 amounts to USD 360.8 million and can be reconciled to the operating lease commitment disclosed in the annual report 2018 note 25 "Operational lease liabilities" as follows:

Total operating lease commitments	**1,305.8**
Leased assets with a remaining term of 12 months or leases as of 1 January 2019	-253.6
Lease obligation regarding assets not delivered	-338.1
Estimated daily running cost of vessel leases (non-lease component)	-312.2
Interest element	-41.1
Lease liability as of 1 January 2019	**360.8**
Hereof subleases	-34.7
Provision for onerous contracts	-40.3
Time charter prepayments	20.0
– Hereof with a remaining term of 12 months or less	-3.0
Right-of-use asset as of 1 January 2019	**302.8**

Notes to the financial statements

Note **Amount in USD million**

5.8 Transition to IFRS 16 – continued

The 2019 opening balance restatement effect is disclosed below:

	As reported 31 December 2018	Change	IFRS 16 1 January 2019
Vessels	795.6	0.0	795.6
Property and equipment	49.5	0.0	49.5
Prepayments	24.9	0.0	24.9
Right-of-use assets	0.0	302.8	302.8
Total tangible assets	870.0	302.8	1,172.8
Receivables from subleasing	0.0	26.4	26.4
Other non-current assets	11.8	0.0	11.9
Total non-current assets	881.8	329.2	1.211
Receivables from subleasing	0.0	8.3	8.3
Current assets	582.6	-17.0	565.6
TOTAL ASSETS	**1,464.4**	**320.5**	**1,784.9**
Equity	826.8	0.0	826.8
TOTAL EQUITY	**826.8**	**0.0**	**826.8**
Lease liabilities, non-current	0.0	246.5	246.5
Onerous contracts, non-current	21.3	-21.3	0.0
Other non-current liabilities	206.5	0.0	206.5
Total non-current liabilities	227.8	225.2	453.0
Lease liabilities, current	0.0	114.3	114.3
Onerous contracts, current	21.2	-19.0	2.2
Other current liabilities	388.6	0.0	388.6
Total current liabilities	409.8	95.3	505.1
TOTAL LIABILITIES	**637.6**	**320.5**	**958.1**

Note **Amount in USD million**

5.8 Transition to IFRS 16 – continued

The income statement for 2019 has been effected by a reduction of operating costs and an increase of depreciation and interest expenses. Due to the relative short term of the leases, the year by year net effect on profit/loss is limited. However, until the point in time where the provisions for onerous leases would have been fully utilised under the current accounting policies, the effect is negative. This is due to the fact that the provisions were expected to be utilised over a shorter period than the lease term, whereas the right-of-use assets are amortised straight line over the full lease term.

Applying an unchanged lease portfolio as of 1 January 2019, profit/loss from operations (EBIT) is estimated to be increased by approx. USD 3 million, and profit/loss for the year to be decreased by USD 14 million.

	2019
Profit/loss effect of IFRS 16 Leases	
Vessel operating costs	98
Profit/loss before depreciation, amortisation and impairment losses (EBITDA)	**98**
Depreciation	-95
Profit/loss from operations (EBIT)	**3**
Financial expenses	-17
Profit/loss for the year	**-14**

Previous accounting policies prior to the adoption of IFRS 16 Leases
Below is presented the original accounting policies and disclosures applied until 31 December 2018 in the consolidated financial statements under the principles of IAS 17 Leases.

Notes to the financial statements

Note **Amount in USD million**

5.8 Transition to IFRS 16 – continued

PROVISIONS

Accounting policies

Provisions are recognised when, as a consequence of an event that has occurred before or on the reporting date, the Group has a legal or constructive obligation, and it is likely that economic benefits will flow from the Group to meet the obligation.

Provisions include provisions for docking for vessels on bareboat charter, provisions for joint ventures and provisions for onerous time charter contracts.

Provisions for docking are made on an ongoing basis with an amount corresponding to the proportionate share of estimated costs for the individual vessel's next docking.

Provisions concerning time charter contracts and docking for vessels on bareboat charter are recognised in the income statement under the item "Vessel operating costs". Provisions for joint ventures are recognised in the income statement under the item "Share of profit/loss of joint ventures".

Accounting estimates

The determination of provisions is based on Management's best estimate of future events and is therefore subject to significant uncertainty.

Provisions for onerous contracts are recognised when it is inevitable that a loss will be incurred on performance of the contract. The provision is measured according to Management's best estimate of expected future freight and charter rates and is measured at net realisable value. The estimate includes an assessment of the future development in the world fleet, freight volumes, historical rates and current market rates, respectively.

The provision is calculated on a portfolio basis, based on a "value-in-use" calculation comprising owned as well as chartered vessels. Reversal of previous provisions are only recognised if there has been a change in the estimate used to determine the initial provision recognised.

See the section "Accounting policies" in note 3.1 "Tangible assets" for a description.

Note **Amount in USD million**

5.8 Transition to IFRS 16 – continued

	2018
	Total
Provisions at 1 January	67.4
Utilised provisions during the year	-27.1
Provisions at 31 December	**40.3**
Provisions are distributed as follows:	
Within 1 year	21.3
Between 1 and 5 years	19.0
Total	**40.3**

Financial comments

The provision of onerous leases have been offset against the right-of-use assets recognised in the balance sheet upon adoption of IFRS 16 on 1 January 2019, see above table.

OPERATING LEASE LIABILITIES

Accounting policies

Agreements to charter vessels and to lease other tangible assets, where all substantial risks and rewards of ownership have been transferred to the Group (finance leases) are recognised in the statement of financial position. Other agreements to charter vessels and other leases are considered operating leases. Payments in connection with operating leases are recognised on a straight-line basis in the income statement over the terms of the leases.

Accounting policies

Management's assessment of whether leases on vessels should be classified as financial or operational leasing is based on an overall evaluation of each lease. In financial leasing, a non-current asset and a payable are recognised. In classification as operational leasing, the running lease payments are recognised in the income statement.

Notes to the financial statements

Note **Amount in USD million**

5.8 Transition to IFRS 16 – continued

	2018		
	Dry Cargo	**Tankers**	**Total**
Within 1 year	362.9	121.4	484.3
Between 1 to 5 years	480.3	264.5	744.8
More than 5 years	28.8	48.0	76.8
Total	**872.0**	**433.9**	**1,305.9**
– hereof provisions for onerous time charter contratcs and other payables	56.3	0.0	56.3
Total	**815.7**	**433.9**	**1,249.6**

Financial comments

The lease liabilities do not represent the Group's net exposure since liabilities are hedged on an ongoing basis in accordance with the Group's risk management policy.

Operating lease payments in the form of charter hire including daily operating costs recognised in the income statement are disclosed in note 2.1 "Segment information".

The above includes NORDEN's expected share of jointly controlled operating lease liabilities, see note 3.2 "Investments in joint ventures".

PARENT COMPANY FINANCIAL STATEMENTS

Income Statement 1 January – 31 December

Amount in USD million	Note	2019	2018
Revenue		**2,432.2**	**2,253.2**
Other operating income		3.7	4.2
Vessel operating costs		-2,151.1	-2,139.5
Other external costs		-25.9	-20.3
Staff costs	2.1	-64.5	-59.7
Profit before depreciation, amortisation and impairment losses, etc. (EBITDA)		**194.4**	**37.9**
(Loss) from sale of vessels, etc.		-4.0	-0.2
Depreciation, amortisation and impairment losses	2.2	-149.6	-26.8
Profit from operations (EBIT)		**40.8**	**10.9**
Income from investments in subsidiaries	3.2	18.5	33.9
Income/(loss) from investments in joint ventures	3.3	0.0	-1.6
Financial income	2.3	4.9	4.4
Financial expenses	2.3	-40.7	-15.7
Profit before tax		**23.5**	**31.9**
Tax for the year	2.4	-4.3	-3.3
Profit for the year	**4.4**	**19.2**	**28.6**

Statement of Changes in Equity at 31 December

Amount in USD million	Note	Share capital	Reserve under the equity method	Retained earnings	Proposed dividend	Total
Equity at 1 January 2019		**6.7**	**420.0**	**387.3**	**12.8**	**826.8**
Profit for the year		0.0	-87.7	106.9	0.0	19.2
Fair value adjustments taken to equity, hedging instruments		0.0	0.0	33.4	0.0	33.4
Acquisition of treasury shares	4.3	0.0	0.0	-9.4	0.0	-9.4
Dividends paid		0.0	0.0	0.0	-12.0	-12.0
Dividends related to treasury shares		0.0	0.0	0.8	-0.8	0.0
Proposed dividend	4.4	0.0	0.0	-14.7	14.7	0.0
Proposed dividend on treasury shares	4.4	0.0	0.0	-1.1	1.1	0.0
Share-based payment	5.2	0.0	0.0	1.0	0.0	1.0
Changes in equity		**0.0**	**-87.7**	**116.9**	**3.0**	**32.2**
Equity at 31 December 2019		**6.7**	**332.3**	**504.2**	**15.8**	**859.0**

	Note	Share capital	Reserve under the equity method	Retained earnings	Proposed dividend	Total
Equity at 1 January 2018		**6.7**	**495.2**	**332.5**	**0.0**	**834.4**
Profit for the year		0.0	-75.2	103.8	0.0	28.6
Fair value adjustments taken to equity, hedging instruments		0.0	0.0	-31.3	0.0	-31.3
Acquisition of treasury shares		0.0	0.0	-5.9	0.0	-5.9
Proposed dividend	4.4	0.0	0.0	-12.0	12.0	0.0
Proposed dividend on treasury shares	4.4	0.0	0.0	-0.8	0.8	0.0
Share-based payment	5.2	0.0	0.0	1.0	0.0	1.0
Changes in equity		**0.0**	**-75.2**	**54.8**	**12.8**	**-7.6**
Equity at 31 December 2018		**6.7**	**420.0**	**387.3**	**12.8**	**826.8**

Balance sheet at 31 December – Assets

Amount in USD million	Note	2019	2018
Vessels	3.1	592.2	522.1
Right-of-use assets	4.7	284.3	0.0
Property and equipment	3.1	48.5	49.0
Prepayments on vessels and newbuildings	3.1	16.1	24.9
Total tangible assets		**941.1**	**596.0**
Investments in subsidiaries	3.2	356.4	444.0
Investments in joint ventures	3.3	0.0	0.1
Receivables from subleasing	4.8	12.9	0.0
Total financial assets		**369.3**	**444.1**
Total non-current assets		**1,310.4**	**1,040.1**
Inventories		78.0	80.3
Receivables from subleasing	4.8	7.9	0.0
Freight receivables		156.0	145.2
Receivables from subsidiaries		8.3	0.8
Receivables from joint ventures		1.6	32.4
Company tax		0.6	0.0
Other receivables		30.0	27.6
Prepayments		64.1	75.8
Securities		0.0	4.2
Cash and cash equivalents		187.1	164.7
Total Current assets		**533.6**	**531.0**
TOTAL ASSETS		**1,844.0**	**1,571.1**

Balance sheet at 31 December – Equity and Liabilities

Amount in USD million		2019	2018
Share capital	4.3	6.7	6.7
Reserve for net revaluation according to the equity method		332.3	420.0
Retained earnings		504.2	387.3
Proposed dividend	4.4	15.8	12.8
Total Equity		**859.0**	**826.8**
Loans	4.5	268.4	206.5
Lease liabilities	4.7	195.3	0.0
Provisions	4.6	0.0	8.3
Total Non-current liabilities		**463.7**	**214.8**
Loans	4.5	34.9	125.5
Lease liabilities	4.7	132.6	0.0
Provisions	4.6	0.0	12.4
Trade payables		111.3	108.2
Debt to subsidiaries		129.4	153.7
Current tax liabilities		0.0	3.3
Other payables		41.6	47.7
Deferred income		71.5	78.7
Total Current liabilities		**521.3**	**529.5**
Total Liabilities		**985.0**	**744.3**
TOTAL EQUITY AND LIABILITIES		**1,844.0**	**1,571.1**

Notes to the financial statements – contents

Notes to the financial statements

SECTION 1
BASIS OF PREPARATION

Note

Significant accounting policies and significant accounting estimates and judgements

1.1 Summary of significant accounting policies
NORDEN prepares the Parent Company financial statements for Dampskibsselskabet NORDEN A/S in accordance with the Danish Financial Statements Act applying to enterprises of reporting class D.

NORDEN has implemented the changes in accounting policies as mentioned in note 1 “Significant accounting policies and significant accounting estimates and judgements”” of the consolidated financial statements. Other changes has had no impact in the Parent Company.

Income statement and balance sheet
Income/loss from investments in subsidiaries and joint ventures
In the Parent Company’s income statement, the proportional share of earnings is recognised under the items “Income/(loss) from investments in subsidiaries” and “Income/(loss) from investments in joint ventures”.

Investments in subsidiaries and joint ventures
Investments in subsidiaries and joint ventures are recognised and measured according to the equity method.

In the balance sheet under the items “Investments in subsidiaries” and “Investments in joint ventures”, the proportional ownership share of the companies’ net asset value is recognised.

The total net revaluation of investments in subsidiaries and joint ventures is transferred through the distribution of profits to “Reserve for net revaluation according to equity method” under equity. The reserve is reduced by dividend payments to the Parent Company and is adjusted with other changes in equity in subsidiaries and joint ventures.

Subsidiaries and joint ventures with negative net asset value are recognised at USD 0 million, and a provision to cover the negative balance is recognised if such a present obligation for this purpose exists.

Other accounting policies
With reference to the provisions of the Danish Financial Statements Act, the Company has refrained from both preparing a cash flow statement and presenting segment information in the Parent Company financial statements. For this information, see the consolidated financial statements for Dampskibsselskabet NORDEN A/S. Please see section 1 “Basis of preparation” in the consolidated financial statements for other accounting policies.

1.2 Changes in accounting policies and disclosures (IFRS 16)
Within the framework of the Danish Financial Statements Act, the Parent Company has as of 1 January 2019 changed accounting policies in respect of applying the accounting methods of IFRS 16 regarding leasing. The principles from this standard have been applied in accordance with the modified retrospective approach and the effect is recognised at 1 January 2019. The changes of accounting policy are made due to changes in Group accounting policies and a wish to apply the same policies for the consolidated financial statements and the Parent Company financial statements.

In the context of the transition to IFRS 16 Leases, right-of-use assets of USD 306.4 million and lease liabilities of USD 342.8 million were recognised as at 1 January 2019. For 2019, negative net effect on profit for 2019 amounts to approx. USD 14 million. The prior-year figures were not adjusted.

Please see note 4.7 “Leases - lessee” and note 4.8 “Leasess - lessor and COAs” in the consolidated financial statements for elaboration of IFRS 16 accounting policy.

Notes to the financial statements

SECTION 2
INCOME STATEMENT

Note	Amount in USD million	2019	2018
2.1	**Staff costs and remuneration**		
	Wages and salaries	58.5	54.1
	Pensions – defined contribution plans	3.3	3.5
	Other social security costs	1.7	1.1
	Share-based payment	1.0	1.0
	Total	**64.5**	**59.7**
	Average number of employees	766	710

Staff costs and average number of employees exclude employees on T/C vessels.

For remuneration of the Executive Management and the Board of Directors, see note 2.3 “Staff costs and remuneration” to the consolidated financial statements.

See also note 5.3 “Share-based payment” to the consolidated financial statements.

Note	Amount in USD million	2019	2018
2.2	**Depreciation**		
	Vessels	31.4	25.9
	Right-of-use assets	117.6	0.0
	Property and equipment	0.6	0.9
	Total	**149.6**	**26.8**

Notes to the financial statements

Note	Amount in USD million	2019	2018
2.3	**Financial income and expenses**		
	Interest income	1.2	0.6
	Fair value adjustment, cross currency swaps	0.0	0.3
	Exchange rate adjustment	3.7	3.5
	Total financial income	**4.9**	**4.4**
	Interest costs	20.7	15.7
	Fair value adjustment, cross currency swaps	1.1	0.0
	Interest expenses on lease liabilties	18.9	0.0
	Total financial expenses	**40.7**	**15.7**
2.4	**Taxation**		
	Tax on the results for the year	5.4	3.3
	Adjustment of tax regarding previous years	-1.1	0.0
	Total	**4.3**	**3.3**

The Company decided to continue under the tonnage tax scheme as of 1 January 2011 for a binding 10-year period. The Company expects to prolong the participation in the tonnage tax scheme after the binding period.

If the Company's net investments in vessels decrease noticeably or if the Company is liquidated, the contingent tax from before the Company joined the tonnage tax scheme will be released.

	2019	2018
Contingent tax under the tonnage tax scheme	16.3	16.3
Contingent tax is calculated equalling the tax rate for the year and going forward.	22%	22%

Notes to the financial statements

SECTION 3
INVESTED CAPITAL AND WORKING CAPITAL

Note **Amount in USD million**

3.1 Tangible assets

2019	**Vessels**	**Property and equipment**	**Prepayments on vessels and newbuildings**	**Total**
Cost at 1 January	720.9	52.9	29.1	802.9
Additions for the year	91.6	0.1	43.2	134.9
Disposals for the year	-87.1	0.0	0.0	-87.1
Transferred during the year	55.9	0.0	-55.9	0.0
Transferred during the year to other items	0.0	0.0	-0.3	-0.3
Cost at 31 December	781.3	53.0	16.1	850.4
Depreciation at 1 January	-167.0	-3.9	0.0	-170.9
Depreciation for the year	-31.4	-0.6	0.0	-32.0
Reversed depreciation on vessels disposed of	45.3	0.0	0.0	45.3
Depreciation at 31 December	-153.1	-4.5	0.0	-157.6
Impairment losses at 1 January	-31.8	0.0	-4.2	-36.0
Impairment losses for the year	0.0	0.0	0.0	0.0
Transferred during the year	-4.2	0.0	4.2	0.0
Impairment losses at 31 December	-36.0	0.0	0.0	-36.0
Carrying amount at 31 December	**592.2**	**48.5**	**16.1**	**656.8**

Amount insured on vessels USD 702 million (USD 634 million).

Notes to the financial statements

Note	Amount in USD million

3.1 Tangible assets – continued

2018	Vessels	Property and equipment	Prepayments on vessels and newbuildings	Total
Cost at 1 January	559.8	78.3	51.6	689.7
Additions for the year	76.0	0.5	121.4	197.9
Disposals for the year	-26.9	-25.9	-31.5	-84.3
Transferred during the year	112.0	0.0	-112.0	0.0
Transferred during the year, other items	0.0	0.0	-0.4	-0.4
Cost at 31 December	720.9	52.9	29.1	802.9
Depreciation at 1 January	-165.7	-28.9	0.0	-194.6
Depreciation for the year	-25.9	-0.9	0.0	-26.8
Reversed depreciation on vessels disposed of	24.6	25.9	0.0	50.5
Depreciation at 31 December	-167.0	-3.9	0.0	-170.9
Impairment losses at 1 January	-30.7	0.0	-11.3	-42.0
Impairment losses for the year	0.0	0.0	0.0	0.0
Transferred during the year	-3.3	0.0	3.3	0.0
Reversal of impairment losses on vessels disposed of	2.2	0.0	3.8	6.0
Impairment losses at 31 December	-31.8	0.0	-4.2	-36.0
Carrying amount at 31 December	**522.1**	**49.0**	**24.9**	**596.0**

Note	Amount in USD million

3.1 Tangible assets – continued

Mortgages and security

	2019	2018
As securities for loans	303.3	332.0
-number of vessels pledged	21	19
-number of buildings pledged	2	2
-carrying amount	540.3	492.5
-mortgaged amount	565.6	467.1

Some of the mortgages have been registrered with an amount to secure future drawings under a revolving credit facility of USD 100 million of which USD 0 million have been drawn.

In addition to the above, the subsidiary NORDEN Shipping (Singapore) Pte. Ltd. has granted a mortgage on 9 vessels (9 vessels) with a carrying amount of USD 186 million (USD 180 million). Furthermore, the subsidiary guarantees debt in the Parent Company amounting to USD 98 million (USD 319 million) at the reporting date.

Capital commitments

The Company has entered into agreements for future delivery of newbuildings and declared purchase options, etc. The remaining contract amount is payable as follows:

	2019	2018
Within 1 year	38.4	43.5
Between 2 and 3 years	0.0	34.6
After 3 years	0.0	0.0
Total	**38.4**	**78.1**

Notes to the financial statements

Note	Amount in USD million	2019	2018
3.2	**Investments in subsidiaries**		
	Cost at 1 January	23.8	18.2
	Transferred from joint ventures	0.0	5.4
	Additions for the year	0.1	0.2
	Cost at 31 December	23.9	23.8
	Value adjustments at 1 January	420.2	500.4
	Share of result for the year	19.0	34.4
	Purchase of treasury shares	1.3	0.0
	Transferred from joint ventures	0.0	-6.6
	Depreciation for the year internal profit/loss	-0.5	-0.5
	Dividends received	-107.5	-107.5
	Value adjustments at 31 December	332.5	420.2
	Carrying amount at 31 December	**356.4**	**444.0**

To see the overview of the subsidiaries, refer to note 5.7 “Group structure” in the consolidated financial statements.

No significant restrictions apply to distributions from subsidiaries.

Note	Amount in USD million	2019	2018
3.3	**Investments in joint ventures**		
	Cost at 1 January	0.2	5.6
	Transferred to subsidiaries	0.0	-5.4
	Additions for the year	0.0	0.0
	Cost at 31 December	0.2	0.2
	Value adjustments at 1 January	-0.2	-5.2
	Share of result for the year	0.0	-1.6
	Transferred to subsidiaries	0.0	6.6
	Value adjustments at 31 December	-0.2	-0.2
	Carrying amount at 31 December	**0.0**	**0.0**

Investments in joint ventures comprise:	Ownership	Ownership
Norient Product Pool ApS, Denmark*	-	-
Norient Cyprus Ltd., Cyprus*	-	-
Norden Alrayn Maritime Co. Ltd, Saudi Arabia	50%	50%
Key figures (100%) for joint ventures are:		
Revenue and other income	0.2	11.9
Costs	0.2	15.1
Non-current assets	0.0	1.0
Current assets	4.0	1.4
Current liabilities	4.0	1.4

No significant restrictions apply to distributions from joint ventures.

* See note 3.2 Investments in subsidaries. Acquired 100% of shares year-end 2018.

Notes to the financial statements

SECTION 4
CAPITAL STRUCTURE AND RISKS

Note **Amount in USD million**

4.1 Financial risk management

See note 4.1 “Financial risk management” to the consolidated financial statements.

4.2 Derivatives

See note 4.2 “Derivatives” to the consolidated financial statements.

Notes to the financial statements

Note	Amount in USD million

4.3 Share capital

The share capital consists of 42,200,000 shares of a nominal value of DKK 1 each. No shares are subject to any special rights or restrictions.

Treasury shares

	Number of shares		Nominal value (DKK'000)		% of share capital	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
1 January	2,276,067	1,732,385	2,276	1,732	5.39	4.11
Aquisition	612,400	442,000	612	442	1.45	1.04
Acquisition due to acquisition*	0	101,682	0	102	0.0	0.24
31 December	**2,888,467**	**2,276,067**	**2,888**	**2,276**	**6.84**	**5.39**

* Addition due to acquisition of remaining shares in former joint venture, c.f. note 3.2 "Investments in joint ventures" to the consolidated financial statements.

The Company is authorised by the general meeting to acquire a maximum of 4,220,000 treasury shares, equal to 10% of the share capital.

Treasury shares are i.a. acquired for the purpose of hedging in connection with sharebased payment, see note 5.3 "Share-based payments" to the consolidated financial statements.

At 1 January 2019, the Group had a total of 39,923,933 outstandings shares of DKK 1 each, and at 31 December 2019, a total of 39,311,533 outstandings shares of DKK 1 each.

On 6 November 2019, NORDEN initiated a share buy-back programme, which runs from 6 November 2019 up to and including no later than 28 February 2020. The share buy-back programme is initiated pursuant to the authorisation granted to the Board of Directors, which entitles NORDEN to acquire treasury shares at a nominal value not exceeding 10% of the share capital at the market price applicable at the time of acquisition with a deviation of up to 10%. The purpose of the share buy-back programme is to adjust the capital structure of the Group. A maximum of 4,220,000 shares can be acquired.

Since the 2019 share buy-back programme was initiated up until year end 2019, the total number of acquired shares is 347,500 at a total amount of DKK 35,847,370. Acquired shares in 2019 related to share buy-back programme 2018 amounts to 264,900 at a total amount of DKK 24,565,212.

In 2019, shares were acquired at an average price of DKK 98.65 per share, which prices ranging from DKK 89.64 to DKK 107.62. The total cost of DKK 60,412,582 was deducted from retained earnings.

Note	Amount in USD million	2019	2018
4.4	**Proposal for the distribution of profit**		
	Reserve for net revaluation according to the equity method	-87.7	-75.2
	Proposed dividends	15.8	12.8
	Retained earnings	91.1	91.0
	Total	**19.2**	**28.6**
	Proposed dividend per share, DKK	2.50	2.00
4.5	**Loans**		
	Repayment within 1 year	34.9	125.5
	Repayment between 1 to 5 years	141.2	122.2
	Repayment over 5 years	127.2	84.3
	Total	**303.3**	**332.0**
4.6	**Provisions**		
	As at 1 January	20.7	42.7
	Change in accounting policy	-18.5	0.0
	As at 1 January adjusted	2.2	42.7
	Provisions made during the year	0.0	0.0
	Applied provision during the year	-2.2	-22.0
	As at 31 December	**0.0**	**20.7**
	Provisions are distributed as follows:		
	Within 1 year	0.0	12.4
	Between 1 and 5 years	0.0	8.3
	More than 5 years	0.0	0.0
	Total	**0.0**	**20.7**

Financial comments

Due to the implementation of IFRS 16 Leases per 1 January 2019, provisions related to onerous contracts of long-term lease agreements have been offset in provision primo 2019.

Notes to the financial statements

Note	Amount in USD million	2019
4.7	**Leases - lessee**	
	This note provides information for leases where the Company is the lessee.	
	Amounts recognised in the balance sheet Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the period:	
	Right-of-use assets	
	Cost at 1 January	306.4
	Additions	96.2
	Remeasurements	6.1
	Disposals	-6.8
	Cost at 31 December	**401.9**
	Depreciation at 1 January	0.0
	Depreciation	-117.6
	Depreciation at 31 December	**-117.6**
	Carrying amount	**284.3**
	Lease liabilities	
	Lease liabilities at 1 January	342.8
	Additions	105.7
	Remeasurements	4.4
	Instalments	-125.0
	Lease liabilities at 31 December	**327.9**
	Non-current	195.3
	Current	132.6

Note	Amount in USD million	2019
4.7	**Leases – lessee - continued**	
	Amounts recognised in the income statement The following are the amounts recognised in the profit/loss:	
	Expenses related to the service component of right-of-use assets (included in vessel operating costs)	125.4
	Expenses relating to short-term leases (included in vessel operating costs)	980.3
	Depreciation of right-of-use assets (included in depreciation, amortisation and impairment losses)	117.6
	Interest expenses of lease liabilities (included in financial expenses)	18.9

Lease commitments and options (excluding the non-lease component)

Balance sheet

At 31 December 2019, the Company has entered lease agreements with future commencement date, which will affect the balance sheet as follow, when the time-chartered vessels will be delivered, and the Company obtains control of the asset. The minimum lease payments excluding the non-lease components amounts to:

	Dry operator	Dry owner	Tankers	Total
Within 1 year	3.5	73.3	67.3	144.1
Between 1 and 5 years	0.0	0.0	24.4	24.4
More than 5 years	0.0	0.0	0.0	0.0
Total	**3.5**	**73.3**	**91.7**	**168.5**

Notes to the financial statements

Note	Amount in USD million

4.7 Leases – lessee - continued

Some leases include an option to be extended for 1 additional year at a time for up to 3 years. The exercise of the options is based on an individual assessment. If all available extension options as of 31 December 2019 where excised when possible, the right-of-use asset and corresponding lease liability would increase with the following amounts in each future year (undiscounted and excluding non-lease component).

	Dry operator	Dry owner	Tankers	Total
Within 1 year	6.2	4.4	19.8	30.4
Between 1 and 5 years	0.0	152.4	80.1	232.5
More than 5 years	0.0	57.7	23.1	80.8
Total	**6.2**	**214.5**	**123.0**	**343.7**

Leases may also include purchase options, typically exercisable as from the end of the third year to the expiry of the period of the extension. Exercise of an purchase option on an individual vessel is based on an individual assessment. On a few leases, the payment is linked to a freight index. For information on the Group's charter contracts with purchase option, see the section "Dry Owner" and "Tankers" in the Management's Review.

Income statement

At 31 December 2019, the Company has entered lease agreements of vessels, which will have the following impact in the income statement related to the service-component (daily running costs):

	Dry operator	Dry owner	Tankers	Total
Within 1 year	13.9	61.6	68.3	143.8
Between 1 and 5 years	1.1	135.3	107.9	244.3
More than 5 years	0.0	1.3	9.7	11.0
Total	**15.0**	**198.2**	**185.9**	**399.1**

Note	Amount in USD million	2019

4.8 Leases – lessor and COAs

This note provides information for leases where the Company is lessor.

Amounts recognised in the balance sheet
Set out below are the carrying amounts of receivables from subleasing recognised and the movements during the period:

Receivables from subleasing	2019
Receivables from subleases at 1 January	22.4
Additions for the period	6.9
Instalments received	-8.5
Receivables from subleases at 31 December	**20.8**
Non-current	12.9
Current	7.9

Amounts recognised in the income statement
The following are the amounts recognised in the profit/loss:

	2019
Revenue from sublease financial income (included in revenue)	1.3
Gain/loss on derecognised right-of-use assets (included in other operating income)	0.6

Below the maturity analysis for sublease receivables based on contractual undiscounted payments :

	Dry operator	Dry owner	Tankers	Total
Within 1 year	0.0	5.8	3.0	8.8
Between 1 to 5 years	0.0	13.8	0.0	13.8
Later than 5 years	0.0	0.0	0.0	0.0
Total	**0.0**	**19.6**	**3.0**	**22.6**

Notes to the financial statements

Note **Amount in USD million**

4.8 Leases – lessor and COAs– continued

COAs and operating lease income

At 31 December 2019, the Company had entered into COAs with customers amounting to:

	2019				2018		
	Dry operator	Dry owner	Tankers	Total	Dry Cargo	Tankers	Total
Within 1 year	165.6	0.0	0.0	165.6	221.3	0.0	221.3
Between 1 to 2 years	73.4	0.0	0.0	73.4	64.7	0.0	64.7
Between 2 to 3 years	56.9	0.0	0.0	56.9	59.3	0.0	59.3
Between 3 to 4 years	44.0	0.0	0.0	44.0	45.7	0.0	45.7
Between 4 to 5 years	41.9	0.0	0.0	41.9	37.1	0.0	37.1
Later than 5 years	130.9	0.0	0.0	130.9	137.3	0.0	137.3
Total	**512.7**	**0.0**	**0.0**	**512.7**	**565.4**	**0.0**	**565.4**

The Company has operating lease income amounting to:

	2019				2018		
	Dry operator	Dry owner	Tankers	Total	Dry Cargo	Tankers	Total
Within 1 year	16.0	26.1	75.1	117.2	59.4	27.1	86.5
Between 1 to 2 years	0.0	13.9	50.5	64.4	21.6	4.1	25.7
Between 2 to 3 years	0.0	13.5	30.2	43.7	9.8	0.0	9.8
Between 3 to 4 years	0.0	5.9	3.9	9.8	9.8	0.0	9.8
Between 4 to 5 years	0.0	0.0	0.0	0.0	5.8	0.0	5.8
Later than 5 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**16.0**	**59.4**	**159.7**	**235.1**	**106.4**	**31.2**	**137.6**

The above amounts regarding operation lease income comprise the agreed time charter rates. The lease and service components will be recognised as revenue under the same pattern of transfer to the customer. Separate disclosure of the lease components and the service income components has not been provided as it is impracticable to establish this disclosure.

Notes to the financial statements

SECTION 5
OTHER NOTES

Note	Amount in USD million	2019	2018
5.1	**Fees to auditor appointed at the general meeting**		
	"Other external costs" include the following fees to PricewaterhouseCoopers:		
	Statutory audit	0.5	0.4
	Other assurance services	0.0	0.0
	Tax consultancy	0.2	0.1
	Other services	0.2	0.1
	Total	**0.9**	**0.6**

The fee for non-audit service performed by PricewaterhouseCoopers Statsautoriseret Revisionspartner selskab is USD 0.4 million (2018: USD 0.2 million) and comprise tax advisory services and advisory services.

5.2 Share-based payment

See note 5.3 "Share-based payment" to the consolidated financial statements.

5.3 Unrecognised contingent liabilities

The Company guarantees the subsidiaries' lease liabilities towards external counterparties and the subsidiaries' newbuilding liabilities. The total liabilities are disclosed in the Group's note 5.4 "Unrecognised contingent assets and liabilities" and note 4.7 "Leases – lessee".

5.4 Related party disclosures

See note 5.5 "Related party disclosures" to the consolidated financial statements.

Definitions of key figures and financial ratios

Key figures and financial ratios are computed in accordance with "Recommendations and Financial Ratios" issued by the Danish Society of Financial Analysts. However, NORDEN deviates from the recommendation in the calculation of EBITDA as the Group does not recognise gains and losses from sale of vessels in EBITDA. This item is included in the operating profit (EBIT).

The ratios listed in the key figures and financial ratios section are calculated as follows:

Adjusted Result for the year	=	Profit/loss for the period adjusted for profit and loss from the sale of vessels etc. and fair value adjustment of certain hedging instruments
Book value per DKK 1 share	=	$\frac{\text{Year-end equity, excluding minority interests}}{\text{Number of shares at year-end, excluding treasury shares}}$
Contribution margin	=	Revenue less Vessel operating costs plus Other operating income, net
Dividend yield	=	$\frac{\text{Dividend per share x 100}}{\text{Share price}}$
EBITDA	=	Earnings Before Interest, Tax, Depreciation and Amortisation
EBITDA ratio	=	$\frac{\text{EBITDA x 100}}{\text{Net revenue}}$
Equity ratio	=	$\frac{\text{Equity at year-end, excluding minority interests x 100}}{\text{Total assets}}$
Invested capital	=	Equity, including minority interests + net interest-bearing debt at year-end
Net interest-bearing debt	=	Interest-bearing debt less cash and securities at year-end
Net profit or loss per DKK 1 share	=	$\frac{\text{Profit or loss for the year}}{\text{Number of shares at year-end, excluding treasury shares}}$
Payout ratio	=	$\frac{\text{Dividend, excluding treasury shares x 100}}{\text{Profit or loss for the year, excluding minority interests}}$
Price/book value	=	$\frac{\text{Share price at year-end per DKK 1 share}}{\text{Book value per DKK 1 share}}$
Profit margin (EBIT margin)	=	$\frac{\text{Profit or loss from operations x 100}}{\text{Net revenue}}$
Return on assets	=	$\frac{\text{Profit or loss from operations x 100}}{\text{Total assets at year-end}}$
Return on equity in % (ROE)	=	$\frac{\text{Profit or loss for the year, excluding minority interests x 100}}{\text{Average equity, excluding minority interests}}$
Return on invested capital (ROIC)	=	$\frac{\text{Profit or loss from operations x 100}}{\text{Average invested capital}}$
Share price at year-end per DKK 1 share	=	The last-quoted average price on Nasdaq Copenhagen for all trade in the company share at the reporting date
Total shareholder return	=	The total return of a share to an investor based on share price performance and dividends. Dividends are assumed to have been reinvested in the share. Return is based on USD.
USD exchange rate at year-end	=	The USD exchange rate quoted by the National Bank of Denmark at year-end

Technical terms and abbreviations

A **Adjusted Result for the period** Results for the period without the effects from purchase and sale of vessels and fair value adjustments of certain hedging instruments used for example when purchasing bunkers.

B **Baltic Dry Index (BDI)** Index of the dry cargo rate development on selected routes for Handysize, Supramax, Panamax and Capesize.

Bunker Fuel used by the vessels.

Bunker hedging Forward agreement to purchase or sell bunker oil at a predetermined price.

C **CAPEX (capital expense)** Newbuilding instalments, docking and investments in vessel equipment e.g. ballast water treatment system and scrubbers, etc.

Cargo contract See COA.

Charter party Overall term for contracts in shipping, including COAs (see COA).

CO_2 Carbon dioxide.

COA (Contract of Affreightment/cargo contract) Agreement to transport cargo for a predetermined period – 3 months, 5 years, 10 years, etc. – and at a predetermined price per tonne.

Commercial management Agreement to operate a vessel on the account and risk of the shipowner.

Consultas Shipping system used by the Technical Department in connection with maintenance of the vessels, purchase, voyage reporting, etc.

Contract of Affreightment See COA.

Coverage Securing employment of a vessel for a longer period of time (see spot market).

D **Dwt.** Deadweight tonne. A measure of a vessel's cargo carrying capacity.

E **EBIT** Earnings Before Interest and Tax.

EEOI (Energy Efficiency Operational Indicator) Measurement of efficiency defined as the amount of CO_2 emitted per tonne of cargo transported 1 mile.

ESG data Non-financial data on environmental, social and governance issues

F **FFA (Forward Freight Agreement)** Forward agreement to purchase or sell the transport of cargo for a particular type of vessel and route at a predetermined price.

Forward rate Market expectations for future rate levels.

H **Handysize** Bulk carrier of 28,000-39,000 dwt. capacity or product tanker of 36,000-40,000 dwt. capacity.

I **IAS** International Accounting Standards.

IFRS International Financial Reporting Standards.

IMO International Maritime Organisation – shipping organisation under the UN.

IMOS Shipping system which supports chartering, operations and accounting related functions for NORDEN and Norient Product Pool's fleet of dry cargo and product tanker vessels.

INTERTANKO International association of independent tanker owners.

L **Long-term charter** Agreement to charter a vessel for more than 13 months.

LTIF (Lost Time Injury Frequency) The frequency a seafarer is unable to work for more than 24 hours per 1 million working hours.

M **MACN** Maritime Anti-Corruption Network.

MARPOL IMO's international regulations for the prevention of pollution by garbage from ships.

MR (medium range) Product tanker of 46,000-52,000 dwt. capacity.

N **Net Asset Value (NAV)** Booked equity adjusted for the market value of the fleet.

NOx Nitrogen oxides NO and NO2

O **OECD** Organisation for Economic Co-operation and Development.

Operator activities Combination of cargoes and available vessels in the market.

OPEX (operating expenses) Daily running costs on vessels including salaries and stores.

P **Panamax** Bulk carrier of 75,000-93,000 dwt. capacity – largest vessel type to pass the Panama Canal.

Pool Group of vessels with different owners but commercially operated together.

Port State Control The countries' technical inspection of foreign vessels calling at their ports.

Product tank Transport of refined oil products such as fuel oil, gas oil, gasoline, naphtha and jet fuel.

Purchase option A right, but not an obligation, to purchase a vessel at an agreed price.

R **ROE** Return on equity.

ROIC Return on invested capital.

S **Ship days** Total number of days with available vessel capacity.

Short-term charter Agreement to charter a vessel for less than 13 months.

SIRE (Ship Inspection Report Programme) The oil companies' inspection of the safety and operational standard of the product tankers.

SOx Various sulphur oxides such as SO and SO2.

Spot market Day-to-day market for cargo contracts.

Supramax Bulk carrier of 50,000-64,000 dwt. capacity.

Sustainable Development Goals (SDGs) 17 global goals adopted by all UN member states in 2015 as a call to action to end poverty, protect the planet and ensure prosperity for all.

T **T/C (time charter)** Lease of a vessel whereby the vessel is hired out for a short or long period.

T/C equivalent (time charter equivalent) Freight revenues less bunker consumption and port charges.

Technical management Agreement to manage a vessel's technical operations and crew at the account and risk of the shipowner.

Tonne-mile A measure of demand for capacity. Calculated as the freight amount times the transport distance in nautical miles.

TRACS AIS-based vessel tracking system developed by Tufton Oceanic.

Tramp shipping Voyages without fixed routes – NORDEN's business area.

U **UN Global Compact** The UN's social charter for enterprises, etc.

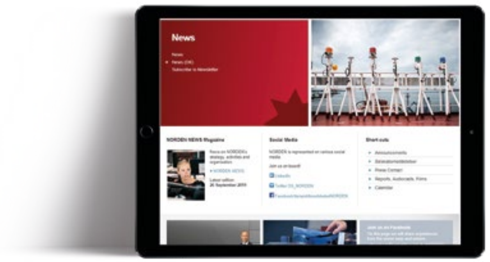
V **Vetting** Collective term for the many kinds of inspections of product tankers – including SIRE inspections – which the oil companies carry out themselves or demand to have carried out.

Stay up-to-date

Annual Report 2019
Visit the Annual Report 2019 page and get an overview of the financial results for 2019

2019 in 5 mins
CEO Jan Rindbo presents NORDEN's Annual Report 2019 in a short film

News
Stay up to date with NORDEN's financial announcements and press releases and subscribe to our newsletter



Follow us here

Company information

Company information
Dampskibsselskabet NORDEN A/S
52, Strandvejen
DK-2900 Hellerup
Telephone: +45 3315 0451
Fax: +45 3315 6199

CVR no.: 67 75 89 19
Financial year: 1 January - 31 December
Municipality of domicile: Gentofte

Fax Tanker Department:
+45 3393 1599
Fax Dry Cargo Department:
+45 3271 0799
Fax Technical Department
+45 3393 3733
Website: www.ds-norden.com
Email: direktion@ds-norden.com

Board of Directors
Klaus Nyborg, Chairman
Johanne Riegels Østergård, Vice Chairman
Karsten Knudsen
Tom Intrator
Helle Østergaard Kristiansen
Stephen John Kunzer
Lars Enkegaard Biilmann
(employee representative)
Susanne Fauerskov
(employee representative)
Jesper Svenstrup
(employee representative)

Executive Management
Jan Rindbo, CEO
Martin Badsted, CFO

Auditor
PricewaterhouseCoopers
Statsaut. Revisionspartnerselskab
44, Strandvejen
DK-2900 Hellerup
Denmark

Annual General Meeting
The annual general meeting will be held on Friday 27 March 2020 at 3.00 p.m. at Radisson Blu Scandinavia Hotel,
70, Amager Boulevard,
DK-2300 Copenhagen S.

Dampskibsselskabet NORDEN A/S
52, Strandvejen
DK-2900 Hellerup
Denmark

Telephone: +45 3315 0451
www.ds-norden.com
CVR no. 67 75 89 19

Design and production: Noted