



Nordisk Skibsrederforening

(NORDISK DEFENCE CLUB)

ANNUAL REPORT 2019

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**Photos:**

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# REPORT FROM THE BOARD



The shipping markets in 2019 were in many ways not much different to the preceding year. Developments were fragmented, with overall negative trends in many segments, although some wet sector markets were an exception. For many members, the introduction of the IMO 2020 sulphur cap rule was a focus area. Positively for both Nordisk and our members, Nordisk had slightly fewer cases compared to 2018 and with fewer costly cases to deal with. The number of members and the number of entered vessels grew compared to the previous year.

In last year's report we expressed hope that the trade war between the US and China was coming to an end. This hope did not materialize and during 2019 the trade war escalated, with a negative

impact on many shipping segments. Volatility in the dry bulk and tanker markets has continued to be the norm, with rate spikes and optimism for a few months before markets turned down again.

Global transport demand in 2019 appeared lower than expected, due to the trade wars and geopolitical uncertainty, with some hope for improvements following the newly signed de-escalation agreement between China and the US. The positive trade effects of a normalization of relations between the US and China may very well be offset by the negative effects of the coronavirus pandemic, however. At the time of writing, we can expect the pandemic to seriously hamper global trade and sea transportation in the months ahead. In the shipping sector, we are already seeing delays, force majeure situations, problems with drydocking, crew change problems, cancellations and quarantine cases increasing, following the outbreak of the virus.

Nordisk received 1,665 new cases during 2019, slightly down from 2018. The reduction in the number of cases puts last year's caseload below the average annual number of cases over the

last 10 years and significantly below the record number of cases seen in 2014 and 2015. One of Nordisk's special activities in 2019 was assisting our members in preparing for the IMO 2020 bunker regime. In addition, we assisted members in navigating the stricter regulatory environment for the recycling of vessels. Other features of 2019 included advising members about changes in sanctions regimes around the world, and in particular how the new US sanctions against Venezuela were affecting the tanker market. As in previous years, Nordisk has assisted its members with numerous sales and purchases of vessels, sale and leaseback projects, shipbuilding contacts, conversions and ship finance. Nevertheless, the core activity for Nordisk as an FD&D Club remains in providing proactive advice and assistance to our members in the numerous charterparty questions and disputes that arise in the maritime sector.



The offshore sector, which comprises the combined fleet of rigs, seismic vessels, FPSOs and the full range of offshore support vessels, still represents about a quarter of all vessels entered with Nordisk. This sector faced very challenging markets in 2018 which to a large extent continued into 2019, however with improved rates for PSVs and AHTSs, but still at insufficient profit levels. The situation with over-supply, lay-ups and rate pressure seems likely to continue into 2020. For Nordisk, the combined effects of consolidation, sale of vessels, lay-ups and a depressed market have resulted in a reduction in offshore cases compared to 2018, but 2019 brought a consistent demand for tender and contract reviews.

The dry bulk sector represents the second largest segment for Nordisk, accounting for about 23 % of all entered vessels, with the number increasing during 2019. Bulk freight rates have been volatile throughout 2019, with very low rates towards the end of the year and continuing into the start of 2020. The relative volume of cases in the bulk sector expressed as case frequency increased slightly compared to 2018.

The wet markets, another large segment for Nordisk, experienced for some parts stronger markets in 2019, especially in the fourth quarter. At the time of writing, the tanker market remains strong, but the other wet sector markets are suffering from reduced Chinese demand and the effects of the coronavirus pandemic, with longer waiting time and vessels idle in ports.

Following a hopefully normalized global trading pattern pending a successful de-escalation of the China/US trade war, an uptick in most shipping segments could follow. However, uncertainty about the aftermath of the pandemic and its knock-on effects on global trade patterns will likely offset any such positive developments in the near future. Newbuilding activity is generally low, save for a steady flow of orders for LNG vessels in Asia for projects in the Middle East and Africa. Many yards in Europe and Asia are still struggling financially. The shipyard consolidation we saw in 2018 and 2019 will likely result in reduced output from shipyards, especially

in China. Hopefully, the limited scope of new newbuilding orders could be a positive factor to balance the markets in coming years as global trade normalizes.

The Nordisk team in Singapore services our members in the Asian region, and activity levels this past year have followed the same trend as for the rest of Nordisk. The Singapore office handles a cross-section of the types of cases seen at the head office, including a substantial share of offshore work in the region. The team moved into new offices during 2019, with better potential to support growth and provide continued support to our Asian members and their vessels.

In light of the overall situation in the shipping markets, and the increased number of vessels entered with Nordisk, the Board expects Nordisk's caseload to increase in 2020 especially in light of recent experiences from the coronavirus pandemic.

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At the end of 2019, Nordisk had 2,512 units entered. This is an increase of 109 vessels for the year. The outlook for 2020 is positive with an expected further net growth of vessels. The Board is pleased to note both the addition of new members and the high rate of retention for 2019, showing an increasing number of vessel entries.

Nordisk's financial statement for 2019 shows a consolidated profit after tax of NOK 4.95 million and equity of NOK 62.4 million. The positive result is mainly due to increased income from membership fees and more consultancy work, in combination with a strong focus on cost control and positive cost contributions from cases won. Nordisk's reserves are held principally in equities and money market funds. The Board considers Nordisk's financial position to be strong. In addition to Nordisk's own equity, its financial strength and liquidity are further strengthened through management and insurance agreements with Northern Shipowners Defence Club (Bermuda) Ltd. The equity/retained earnings of this entity were equivalent to NOK 204 million at the end of 2019. In addition, the

reserves maintained to cover future costs stood at equivalent of NOK 48 million.

Nordisk maintains its reinsurance policy in the Lloyd's market, covering possible high expenditure in individual cases. The policy was modified from the year 2019 onwards to provide better protection to Nordisk while covering cases up to a maximum of NOK 100,000,000. This limit corresponds to the limit of cover established in the new Statutes and Rules.

The Board is satisfied with the 2019 results and the positive development in the number of vessels entered, the growth in the membership fees and the increased consultancy income. We are confident that Nordisk will continue to develop positively during 2020 and onwards. It is in critical times like these, with the coronavirus pandemic, global travel restrictions and a global financial downturn, that the services of Nordisk are in high demand. The Board will review the

situation as it develops, with a focus on ensuring continued service to our members, maintaining and securing Nordisk's business and ensuring the well-being and safety of our employees and members. In these uncertain times, we would like to thank the members for their continued support and loyalty, and Nordisk's management and staff for their excellent work and dedication to our members during 2019.

*Oslo, 31 December 2019*

*26 March 2020*

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Styreformann  
(Sign.)

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# MANAGING DIRECTOR'S COMMENTS



Six years without general premium increase; increased marketing focus; successful renewal process in 2019 with more than 100 new vessels joining; more than 400 years of combined shipping experience; providing members with a very strong and competitive product.

2019 proved to be a good year for Nordisk. We promoted three of our lawyers to senior lawyer in 2019, reflecting the very strong competence base the Association retains in the maritime legal community.

As in the previous year, and as continues to this day, many of our members are facing hard competition and rate pressure in weak markets. Some are also facing structural changes. There were however some positive developments

in 2019, with some wet markets developing positively compared to last year. With lower newbuilding activities in general, there is room for some optimism when trade wars end and the brutal effects of the coronavirus have passed. This may however be months, or possibly years, ahead.

During its 131 years of existence, Nordisk's strategy in difficult times has been to support our members by keeping premiums down at a com-

petitive level, and at the same time offering the high quality of service to our members for which we are renowned. This was also the case in 2019 and continues to be the case in 2020. We are now experiencing a global coronavirus lockdown, which seriously hampers our way of doing business. In these circumstances, Nordisk continues to serve its members, but using home-office solutions instead. Our lawyers and staff are showing a willingness to help which is just outstanding in these difficult times. Hopefully, we will get back to normal operating procedures in the not-too-distant future.

The financial results for the Association in 2019 are positive, thanks to a lot of hard work both on the marketing side, case-handling side and consultancy side. We have won or settled many costly cases in 2019, which combined with increased turnover and a positive financial result has been positive for Nordisk. Nordisk does not aim to maximise its profit and build limitless reserves. Our aim is to keep premiums as low as possible while maintaining a healthy financial position to further build Nordisk and its organisation, in order to support our members in claims and dispute-handling in the years to come. Given the excellent cooperation with Northern Shipowners Defence Club (NSDC), Nordisk is well placed to continue and further build upon its successful FD&D business as it has done for many years.

Nordisk maintained a team of 22 talented maritime lawyers to serve our members in 2019, providing unique access to maritime legal expertise. Although more vessels have joined, we have seen a reduction in the number of cases. Accordingly, the added volume can be supported with our current resources. Going forward, however, we expect to strengthen our team with younger maritime legal talents, in accordance with Nordisk's well-planned succession strategy for the coming years.

We continue to believe that our strong in-house team ensures the best possible service to our members, as we believe we are quite simply providing a better service at a lower cost than our competitors. We use external lawyers if and when

required, mostly when a dispute is in a jurisdiction where we lack expertise or when a case is too big to handle internally.

During 2019, we once again committed considerable efforts to arranging and holding member meetings and seminars. Feedback from these meetings and seminars remains very positive. We find these events motivate the participants to engage with the Nordisk team, allowing us to respond well before problems materialize and even to draft better and clearer contractual wording. Using legal expertise preventatively is more cost-effective than dealing with legal disputes resulting from poor or unclear contract drafting – especially in the English language and under English law.

Nordisk has evolved over time and has offered a wide range of legal services over the years, although freight, demurrage and defence services have always been our core offering. We aim to continue building on our core offering, but also to try to be an “external-internal” legal department for as many of our members as possible. In order to achieve this goal, Nordisk offers a wide array of consultancy services to our members within our core areas of competence. We typically assist in S&P transactions, sale-and-leasebacks, newbuilding projects, pool arrangements and offshore charterparty negotiations. The experience we gain from our defence work helps us to provide the best assistance on the transaction side, and vice versa. When combined with our team of Norwegian-, US- and English-qualified lawyers, this experience makes the service we offer to our members unique.

During last year, we appointed Lars Theodorsen as our new Head of Finance, replacing Marius Juul who has retired after 16 years of service. I would like to thank Marius for his dedicated service to Nordisk and its members and for always keeping full control of our finances. We also look forward to working with Lars to further build and improve the financial and reporting systems at Nordisk. As last year we have maintained a continued focus on improving and enhancing our administrative processes, and in 2020 we will focus on further automating our back-office



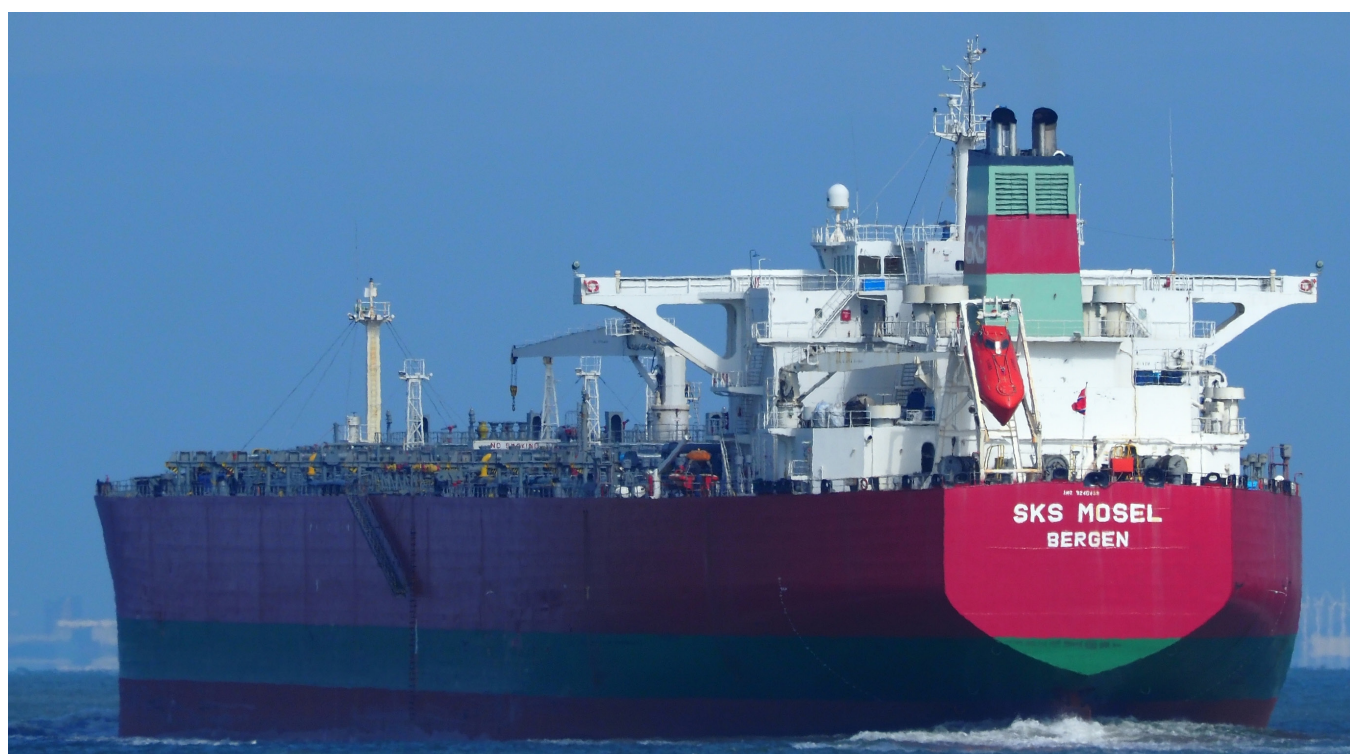
processes to the extent that is possible.

Our most important investment is to continue to ensure that Nordisk remains a good place to work, with a focus on further developing our maritime expertise and offering equal opportunities and terms for all. We take pride in maintaining this strategy. Our low absence rate of 1.1 % in 2019 (adjusted for long-term sickness) both supports and demonstrates our good working environment. This rate is below industry average.

Nordisk's business does not pollute the environment in any material way. However, we strive to be environment-friendly by being conscious of the impact of our travel, and also how we arrange our daily business. During 2019 we reduced our long-distance travel significantly by handling closing meetings via Skype instead of in person, making closings less costly and more environment-friendly. Furthermore, we use air-to-air heat pumps and biofuel for our office heating, to ensure compliance with new environmental regulations. We will continue to look at ways of reducing our environmental footprint as technology develops.

In summary, in 2020 Nordisk is well placed

to assist current and new members going forward, regardless of where the shipping markets move in these difficult and uncertain times. I would like to thank all Nordisk members for their continuing support and loyalty, and we at Nordisk look forward to working with you to make the best out of whatever legal challenges may arise in 2020.



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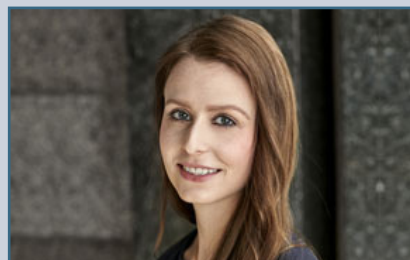
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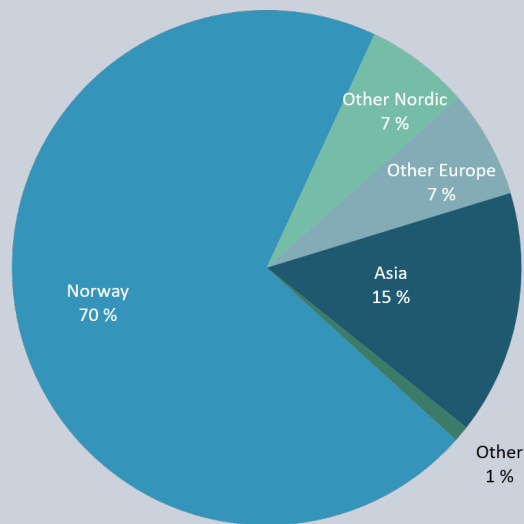
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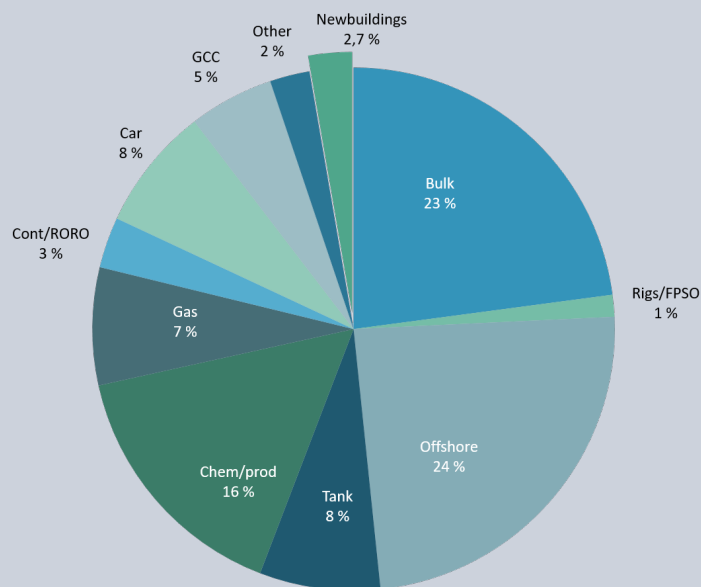


# MEMBERS AND MAIN SEGMENTS

## Geographical spread of the membership



## Vessel type distribution



By number of vessels

# FINANCIAL STATEMENT 2019

## Summary of Audited Accounts

All amounts in 1000 NOK	2019	2018
<b>PROFIT AND LOSS ACCOUNT</b>		
<b>OPERATING REVENUES AND EXPENSES</b>		
Total operating revenues	114 273	107 743
<b>OPERATING EXPENSES</b>		
Legal fees	2 242	12 731
Personnel expenses	92 517	84 109
Depreciation of fixed assets	1 950	2 314
Other operating expenses	14 391	14 843
Total operating expenses	111 100	113 997
<b>OPERATING PROFIT</b>	<b>3 173</b>	<b>-6 255</b>
Net financial income	2 687	1 830
<b>PROFIT BEFORE TAX</b>	<b>5 860</b>	<b>-4 424</b>
Tax expense	915	-240
<b>Profit for the year</b>	<b>4 945</b>	<b>-4 184</b>
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
Intangible assets	3 829	4 623
Fixed assets	17 567	18 536
Financial assets	402	270
Total non-current assets	21 799	23 430
<b>CURRENT ASSETS</b>		
Debtors	13 050	21 920
Shares in money market and mutual funds	53 179	38 128
Deposits	20 072	26 486
<b>Total current assets</b>	<b>86 302</b>	<b>86 533</b>
<b>Total assets</b>	<b>108 100</b>	<b>109 963</b>
<b>EQUITY AND LIABILITIES</b>		
Total equity	62 409	57 369
<b>LIABILITIES</b>		
Total long-term provisions	15 651	14 683
<b>Current liabilities</b>		
Outstanding legal fees	1 071	11 068
Northern Shipowners' Defence Club Ltd.	-	-
Other current liabilities	28 969	26 843
<b>Total current liabilities</b>	<b>30 040</b>	<b>37 911</b>
<b>Total equity and liabilities</b>	<b>108 100</b>	<b>109 963</b>

# CASH FLOW STATEMENT

All amounts in 1000 NOK	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Operating profit before tax	5 860	-4 424
Tax paid	-110	-189
Depreciation	1 950	2 314
Profit/loss from sale of assets	-197	-75
Difference between pensions expense and premiums and pensions paid	970	414
Changes in debtors	8 873	-10 754
Changes in liabilities	-7 205	12 961
<b>Net cash from operating activities</b>	<b>10 140</b>	<b>247</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Investments in fixed assets	1 482	-1 657
Proceeds from sales of fixed assets	690	280
Changes in other investments	-18 773	11 032
<b>Total cash flow from investment activities</b>	<b>-16 600</b>	<b>9 655</b>
Currency gain/loss on cash and bank deposits	47	18
<b>NET CHANGE IN CASH</b>	<b>-6 413</b>	<b>9 920</b>
Cash and bank deposits 01.01	26 486	16 566
Cash and bank deposits 31.12	20 072	26 486



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