



Nordisk Skisrederforening
(NORDISK DEFENCE CLUB)



ANNUAL REPORT 2018

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REPORT FROM THE BOARD



The shipping markets in 2018 showed fragmented developments with a mixed, but overall negative trend, not that different from 2017. In this environment Nordisk had a stable number of cases compared to last year and we have had few costly disputes to deal with. Another positive note is that our vessel retention rate remains high and we have been able to grow the number of entered vessels in the renewal into next year.

Over the past 12 months, individual markets have developed somewhat differently, including some periods with rate increases and buoyant optimism in some segments. Typically, however, these favorable periods were short-lived. Global transport demand appeared generally lower than

expected, partly caused by, among other things, the ongoing trade war between China and the United States and other geopolitical uncertainty. The lower global transport demand has unfortunately not been offset by a reduced supply side, reflected in low newbuilding activity, lay-ups and

vessel recycling. Generally, the market situation for 2018 turned out to show oversupply in many shipping sectors, with lower rates and earnings as a consequence.

Nordisk received 1,798 new cases during 2018, down by 116 cases from 2017. The reduction in the number of cases follows a slight reduction in the overall volume of entered vessels. The Board continues to be of the view that the exceptionally high numbers of cases seen in 2014 and 2015 reflected the steeply declining markets of those years generating a large volume of disputes, with the OW Bunker cases being the most distinctive category of cases in the period. Those same years also featured numerous costly, sizable and work-intensive disputes. Since the peak in activity of 2014-15, parties' appetite for engaging in legal battles has abated, reflecting the more stable, but nevertheless quite weak shipping markets. One of Nordisk's principal activities during 2018 consisted of assisting its members in preparing for the 1 January 2020 effective date of the IMO 2020 bunker regime. Other significant activities during 2018 included advising members about the new EU recycling regulation for vessels and other floating installations and continuing our regular consultancy work to assist members with sale-and-leasebacks and ordinary sales and purchases of vessels.

The offshore sector, which comprises the combined fleet of rigs, FPSOs and the full range of offshore support vessels, represents more than a quarter of all vessels entered with Nordisk. This sector was hit very hard by the 2014 drop in oil prices, leading to less offshore activity and resulting in a situation with over-supply, lay-ups and severe pressure on rates. The gradual recovery of oil prices has led to a slight increase in the number of tenders and chartering activity, but fundamental oversupply has kept rates low, limiting improvement in owners' cash flow. For Nordisk, the combined effects of consolidation, sale of vessels, lay-ups and these market developments in the offshore sector resulted in a reduction in the frequency of offshore cases by 12 percent compared to 2017.

The dry bulk sector represents another large

segment for Nordisk, with slightly less than a quarter of all entered vessels belonging in this category, after a reduction in volume of some 20 percent compared to the previous year. The year started positive for this sector with gradually increasing freight rates, but ended with steeply falling trends in the Baltic Dry Indices towards the end of the year. The relative volume of cases in the bulk sector expressed as case frequency remains very stable compared to 2017. The Board saw the gradually improving dry bulk market throughout part of 2018 as part of the explanation for the stable volume of dry bulk cases compared to other sectors.

The Nordisk Singapore team provides legal services to members with offices in the Asian region, and activity levels this past year have followed the same trend as for the rest of Nordisk. During the year Dirk Janssen was recruited as the new head of the Singapore team. Mr. Janssen is a German lawyer, but is also admitted to practice in England and Wales, as well as Singapore, where he has more than 20 years of maritime experience. 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 office also provides extensive support to the Far East operational units of Nordisk members with European headquarters.

Many shipping markets remain quite weak, but at the time of writing, positive signals are coming from the US and Chinese trade talks. If the talks are successful, a more normalized global trading pattern could follow, which may positively impact the global shipping industry. On the newbuilding side, there is some activity, but many yards are still struggling, as lately indicated by the merger of Daewoo and Hyundai in Korea. Shipowners should consider the limited scope of new newbuilding orders as a positive factor to balance the markets in coming years.

In light of the overall situation in the shipping market, the Board expects Nordisk's caseload to remain stable or slightly increase in 2019, following the implementation of the IMO 2020 bunker regime towards the end of the year. The

Board was delighted to appoint Steinar Nyrud as managing director in March 2018 and he started work in August 2018. Mr. Nyrud has more than 20 years' experience working in the maritime sector, with his last 13 years as general counsel for the Höegh group.

At the end of 2018, Nordisk had 2,403 units entered. As already mentioned, this figure represents a small reduction since the end of the previous year. However, following the annual renewal process into 2019, the Board is pleased to note both the addition of new members and a very high rate of retention for 2019, showing an increasing number of vessel entries, which bodes well for the future.

Nordisk's financial statement for 2018 shows a loss of NOK 4,184,000 and equity of NOK 57,369,000. The negative result is mainly due to less income from membership fees and less consultancy work in the first half of 2018, but the results were improved by a reduced overall cost picture. 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 De-

fence Club (Bermuda) Ltd. The equity/retained earnings of this entity were equivalent to NOK 181,000,000 at the end of 2018. In addition, the reserves maintained to cover future costs stood at the equivalent of NOK 59,000,000.

Nordisk maintains its reinsurance policy in the Lloyd's market, covering possible particularly high expenditure in individual cases. The policy was modified from the year 2018 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, adopted at the last Annual General Meeting and valid from 1 January 2018.

Under the circumstances, the Board is satisfied with the 2018 results taking into account the challenges Nordisk faced during the year, and we are confident that Nordisk will continue to develop positively during 2019 and onwards, despite the continued challenging times for the shipping and offshore industries. We would like to thank the members for their continued support and the Nordisk's management and staff for their excellent work and dedication to our members during 2018.

Oslo, 31 December 2018
21 March 2019



HANS PETER JEBSEN
Styreformann



TERJE SØRENSEN



JAN FREDRIK MELING



STEPHAN TSCHUDI-MADSEN



BJØRN SJAASTAD



ANDERS THYBERG



PER WESTLING



STEINAR NYRUD
Adm. direktør

MANAGING DIRECTOR'S COMMENTS



Five years without general premium increase; increased focus on marketing; successful renewal process with more vessels joining; more than 380 years' shipping experience; providing members with a very strong and competitive product.

By Steinar Nyrud

2018 proved to be a challenging year for Nordisk and many of its members. Nordisk replaced its managing directors both in Norway and Singapore during the year, which naturally had an impact on an organization with only 36 employees. As the new managing director, I can only thank everyone at Nordisk for a warm and supportive welcome, and I look forward to working with this team of highly competent maritime lawyers

and our members in the years ahead.

Many of our members are facing tough times with rates and earnings decreasing. Over the last few years the market has been difficult, and we are yet to see a general improvement in the shipping segment.

During its 130 years of existence, Nordisk's strategy in difficult times has been to support our members by keeping premium levels down

and competitive, while at the same time continuing to offer our members the level of service for which we are renowned. As a membership organization we aim to be cost-conscious, but without inhibiting our ability to offer the highest level of support to our deserving members in fighting valid claims. Unfortunately, the 2018 financial year ended with red figures in our accounts, as a consequence of reduced premium income from a slightly reduced volume of entries, as well as lower consultancy income. Fortunately, Nordisk and the Northern Shipowners Defence Club (NSDC) have built up sufficient reserves over many years for use in “rainy days” such as these.

In addition to appointing two new managing directors, Nordisk has also strengthened its capacity to provide our members with transaction- and finance-related services. When recruiting, we are pleased to note that Nordisk continues to attract talented and ambitious lawyers with an interest in shipping law. Nordisk currently employs 22 lawyers. These lawyers possess more than 380 years’ experience in shipping law and provide our members with easy access to legal expertise.

We instruct external lawyers when required, but in most of our cases we handle more than 90 percent of the work ourselves. Our business model allows us to possess the expertise to ensure that cases are handled in the most effective and cost-conscious manner. The result is lower deductibles for the member concerned, and lower legal costs for the members overall.

During 2018 we have held many member meetings and seminars. During these meetings, it has become apparent that many members are unaware of the contract reviewing service that is available to them as part of their membership. Although this service is limited in the amount of time spent per contract, the members that use this service report that it plays an important role in mitigating risk and preventing loss. Many legal disputes arise from ambiguous or unclear contract drafting. Such disputes may be costly. Members not already utilizing the contract review service are encouraged to contact us.

For many years, Nordisk has offered members and others assistance outside the scope of

defence cover. This consultancy work has played an important role in enabling us to recruit a top-notch legal team and offer members increased in-house capacity. The consultancy work also provides an additional source of income, keeping the general premium down. We typically assist in S&P transactions, sale-and-leasebacks, newbuilding projects, pool arrangements and offshore charter party negotiations. The experience we gain from our defence work helps us provide the best assistance on the transaction side, and vice versa. In addition, we find that our members see the benefit of working in a wider capacity with a team they already know well, and for our part we endeavour to function as an extended legal department for our members.

During the last year, we have spent time going through our internal routines and procedures, continuing to enhance our administrative procedures to deliver a better product to our members. In doing so we have also focused on keeping Nordisk a good place to work. Nordisk is known for its good working environment, with a high level of retention. The annual absence ratio due to sickness, not including long-term illnesses, hovers around 1.4 percent, which is below industry average. Nordisk is focused on ensuring equal opportunities for both sexes, and at the moment we employ 20 women and 16 men.

As a law firm Nordisk is not a polluter. However, we strive to be environmentally friendly by sorting our waste. As technology continues to develop, we will look at how we can reduce our environmental footprint. As an example, Nordisk will in 2019 invest in more environmentally-friendly heating at our office.

In summary, Nordisk is well placed to assist all our members, new and old, going forward, regardless of whether the shipping markets improve or continue to stay as they are today. We would like to thank all of our members for their continuing support and loyalty, and look forward to working with you to make the best out of the legal challenges that may arise in 2019.

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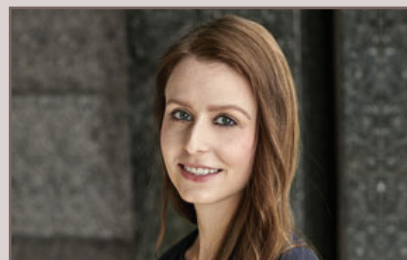
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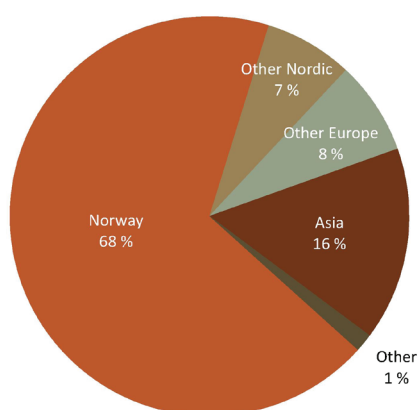
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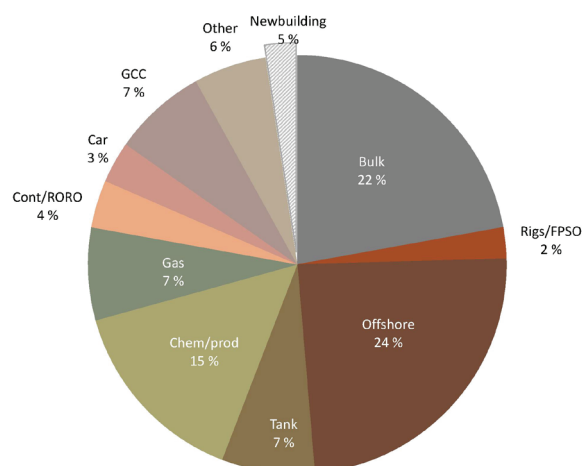
MEMBERS AND MAIN SEGMENTS

Geographical spread of the membership



By number of vessels

Vessel type distribution



By number of vessels

FINANCIAL STATEMENT 2018

Summary of Audited Accounts

All amounts in 1000 NOK	2018	2017
PROFIT AND LOSS ACCOUNT		
OPERATING REVENUES AND EXPENSES		
Total operating revenues	107 743	117 961
OPERATING EXPENSES		
Legal fees	12 731	13 052
Personnel expenses	84 109	84 139
Depreciation of fixed assets	2 314	1 603
Other operating expenses	14 843	12 897
Total operating expenses	113 997	111 692
OPERATING PROFIT	-6 255	6 270
Net financial income	1 830	791
PROFIT BEFORE TAX	-4 424	7 061
Tax expense	-240	1 527
Profit for the year	-4 184	5 534
BALANCE SHEET		
ASSETS		
Intangible assets	4 623	4 297
Fixed assets	18 536	19 397
Financial assets	270	261
Total non-current assets	23 430	23 954
CURRENT ASSETS		
Debtors	21 920	11 156
Shares in money market and mutual funds	38 128	49 160
Deposits	26 486	16 566
Total current assets	86 533	76 882
Total assets	109 963	100 836
EQUITY AND LIABILITIES		
Total equity	57 369	61 517
LIABILITIES		
Total long-term provisions	14 683	14 269
Current liabilities		
Outstanding legal fees	11 068	-861
Northern Shipowners' Defence Club Ltd.	-	-
Other current liabilities	26 843	25 912
Total current liabilities	37 911	25 050
Total equity and liabilities	109 963	100 836

CASH FLOW STATEMENT

All amounts in 1000 NOK

CASH FLOW FROM OPERATING ACTIVITIES

Operating profit before tax	-4 424	7 061
Tax paid	-189	-82
Depreciation	2 314	1 603
Profit/loss from sale of assets	-75	-26
Difference between pensions expense and premiums and pensions paid	414	-360
Changes in debtors	-10 754	-2 857
Changes in liabilities	12 961	-4 156
Net cash from operating activities	247	1 183

CASH FLOW FROM INVESTMENT ACTIVITIES

Investments in fixed assets	-1 657	-4 024
Proceeds from sales of fixed assets	280	409
Changes in other investments	11 032	2 247
Total cash flow from investment activities	9 655	-1 368

Currency gain/loss on cash and bank deposits	18	122
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NET CHANGE IN CASH

	9 920	-63
Cash and bank deposits 01.01	16 566	16 629
Cash and bank deposits 31.12	26 486	16 566



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