Chief Executive Officer's Review

A year of mixed results for the Group

Niels G. Stolt-Nielsen
Chief Executive Officer
Stolt-Nielsen Limited

"With our strategic focus we expect to see a continued strengthening of the Group's underlying cash flow generation."

The Company reported a net profit of $54.0 million for 2018 including $24.9 million relating to US tax reforms, with earnings per share of $0.89. This compares to $50.1 million in 2017, with earnings per share of $0.81. 2018 proved to be a mixed year of results for the Group. Stolt Tankers faced several headwinds including rising bunker prices and significant growth in the supply of tonnage. This pulled down our overall results, despite Stolt Tank Containers (STC), Stolthaven Terminals (SHVN) and Stolt Sea Farm (SSF) producing improved results.

Our free cash flow after interest and capital expenditures was $153 million resulting in a debt reduction of $77.5 million for the year. Our debt at the end of the fiscal year was $2,392 million and our equity was $1,476 million.

Over the course of 2018, conditions in the chemical tanker market continued to gradually unfold in line with our expectations. There were 46 deliveries of newbuildings in the market, down from 50 in 2017, and while the orderbook continues to shrink, we still expect more than 30 newbuilding deliveries in 2019. Bunker fuel prices, which steadily increased over the last three years, started to drop off toward the end of November 2018. Unfortunately, this was only temporary - after bottoming out at around $325 per tonne in January 2019, it rebounded to around $400 per tonne in early February. Volatility seems to be the only certainty, and we have therefore mitigated this with the continuation of our bunker hedging programme. We have hedged 74.3% of our 2019 bunker consumption through bunker clauses in our COAs and paper hedges.

Another ongoing development in the tanker market is the significant ramping up of preparations for the implementation of the IMO's global 0.5% cap on sulphur content in bunker fuel, starting in 2020. This new regulation could increase our annual bunker fuel bill by as much as $130 million, which we simply cannot afford. These additional costs will have to be passed on to our customers and I am pleased to say that we have already seen evidence that customers understand the need for them to absorb these costs, and we are optimistic that this will become the accepted practice.

In contrast to the somewhat disappointing performance at Stolt Tankers, SNL's other operating units' results were considerably better. Performance at Stolthaven Terminals continued to steadily improve, with a 12.1% increase in year-on-year operating profit, excluding one-time items in both periods. This result reflects the focus management has had on operational excellence in the form of customer service, operational efficiency through the upgrading of infrastructure and investing in the automatisation of processes where possible.

Stolt Tank Containers had a strong year overall despite a weakening of markets in the latter half of 2018, reporting a 30.1% increase in operating profit, due partly to successful cost-reduction efforts. The total number of tank container shipments was up slightly, whereas average utilisation remained unchanged at around 72%. STC's strong performance in 2018 despite the competitive market, was also due to the teams' continuous focus on adopting new technologies. These included the launch of new tools to automate processes and a modernised online customer interface, as part of ongoing efforts to reduce costs and improve operational efficiency, while continuously improving customer service.

I am pleased to report that Stolt Sea Farm saw much improvement during the period, with market prices for turbot and sole up 10.5% and 11.4%, respectively. Meanwhile, turbot volume increased by 21.9%, driven mainly by additional volume traded. Operating profit for the year was 115% higher than 2017, excluding the impact of the fair-value adjustment on inventories. The improvements seen here were largely due to the launch of a new marketing strategy which has moved the company's primary focus from being on production to being much more focused on the development of new markets, new products and attracting new customers.

STOLT-NIELSEN GAS

Stolt-Nielsen Gas is the holding company for our investments in gas. Our strategy is to use our expertise in shipping, storage and distribution and apply it to the gas segment. Our current holdings are a 45% stake in Avenir LNG, an 8.6% stake in Avance Gas Holding Ltd and a 2.3% stake in Golar LNG Ltd.

DIVIDEND AND EMPLOYEE INCENTIVE PLANS

On November 15, 2018, Stolt-Nielsen Limited's Board of Directors approved an interim dividend of $0.25 per Common Share, payable on December 12, 2018 to shareholders of record as of November 28, 2018. A final dividend of $0.25 per Common Share was recommended by the Board of Directors on February 14, 2019, subject to the approval of Shareholders at the Company's Annual General Meeting on April 16, 2019. In February 2018, the Board authorised continuation of the share buy-back programme initially announced on March 2, 2016. In the year ended November 30, 2018 the company repurchased 1,066,489 shares at an average price of $14.21 each. Even though SNL's stated strategy is to build and grow long-term sustainable EBIDTA so that we can increase returns to our shareholders, the total dividend for 2018 was 50 cents per share versus our traditional $1.00 per share. As stated in last year's annual report; we will continue to focus on debt reduction and the Board therefore felt it was prudent to hold back on dividend levels again in 2018.

Stolt-Nielsen Limited compensates its employees competitively and fairly through salaries, short-term incentive plans (profit sharing), and long-term incentive plans that consist of cash rewards and benefits. We regularly compare our packages with salary surveys and, when possible, with industry-specific surveys. For 2018, the employee profit-sharing and performance incentive plans for SNL made payments of $8.7 million in early 2018.

OUTLOOK

Looking ahead, our outlook remains cautiously optimistic. At Stolt Tankers, we expect to see market demand growing in line with global trade which has historically been faster than global GDP. Growth of the industry's deep-sea chemical tanker fleet, which ran at about 6% annually from 2017 to 2018, is expected to gradually drop to about 2% or less per year for 2020 to 2021. Providing that orders for newbuildings remain low, we expect the excess tonnage to eventually be absorbed creating a more balanced market. Assuming global economic and / or trade conditions do not take an unexpected turn for the worse, we may finally begin to see an improvement in chemical markets later this year, with continued strengthening in 2020.

At Stolthaven, we expect to see further improvements during 2019. Chemical storage markets are likely to remain stable. Strong market fundamentals in the US will likely drive rates upward at both our Houston and New Orleans terminals in the US. Capacity expansions at our terminals in Santos, Brazil; New Orleans, US; Westport, Malaysia and Ulsan, South Korea will enable us to satisfy anticipated increases in demand at those locations. While recent volatility in the petroleum sector has impacted the storage market as a whole, Stolthaven's focus on chemicals helps to mitigate these effects.

We believe Stolt Tank Containers will continue to grow and prosper even as competition continues to increase. I believe that the long-term fundamentals of the tank container business remain strong, with more products moving from drums and chemical ships to tank containers due to attractive cost and time efficiencies. As the industry leader, STC is committed to its long-term strategy of providing the highest levels of service at the lowest cost. Cost efficiency is our priority and key to competitive advantage. 2019 will see the opening of three STC terminals in Saudi Arabia: the modernised facilities in Dammam and Jubail, and the rebuilt facility in Jeddah. These additions to STC's global terminal network substantially enhance STC's footprint in Saudi Arabia, a key emerging market for chemicals.

At Stolt Sea Farm we are expecting another good year. SSF's strategy is to deliver precisely what customers want; sustainably produced premium fish products with a steady supply, a steady quality and a steady price. Efforts to expand into new geographic markets are a key element of SSF's growth strategy, and the opening of new, state-of-the-art recirculation farms for sole in Portugal and Spain will provide additional volume as SSF continues to expand its presence in its targeted markets.

With our strategic focus we expect to see a continued strengthening of the Group's underlying cash flow generation. Our debt levels will likely increase slightly as we work to complete a number of ongoing expansion projects, and as these become operational we will increase our efforts to reduce debt, strengthen the balance sheet, and increase the cash available for our shareholders.

Looking beyond 2019, whatever the market conditions are in which we operate, we will only be able to deliver on our strategy if we do it in a safe and sustainable way towards our employees, towards the environment and towards our customers. Safety and sustainability will therefore continue to be our priority.

Niels G. Stolt-Nielsen
Chief Executive Officer
Stolt-Nielsen Limited

MARCH 11, 2019