Chief Executive Officer's Review

Building strong foundations for growth

"We cannot achieve success without great people. I would like to thank each one of them for their valuable contribution."

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

2019 was another challenging year for Stolt-Nielsen Limited (SNL), primarily caused by an oversupply of chemical tankers and increased competition in the tank container market. The change in trade flows caused by the US-China trade war also negatively impacted results.

With safety being our top priority, the explosion and fire onboard *Stolt Groenland* in September was a stark reminder of how dangerous our business can be. Fortunately, there were no fatalities, and we sincerely regret the injuries suffered. Regardless of the outcome of investigations into the causes of the accident, we remain committed to operating safety.

The Group reported a net profit of $19.1 million, with earnings per share of $0.35, compared with $54.0 million, with earnings per share of $0.89 in 2018. Efforts to manage our capital expenditure resulted in a $46.7 million year-on-year reduction in debt to $2,345.5 million, and a positive free cash flow (cash from operations less interest and capital expenditures) of $114.1 million. Shareholders' equity was $1,377 million at year end, compared with $1,476 million a year ago.

Stolt Tankers' operating revenue fell to $1,147.9 million, down from $1,219.2 million in 2018, with an operating profit of $56.7 million for the year, down from $66.6 million a year ago. Decreases in revenue and joint venture income were partially offset by actions to reduce our deep-sea operating costs. Adjustments made to our bunker-surcharge clauses in our Contracts of Affreightment (COAs) have successfully mitigated increased fuel costs caused by the IMO 2020 fuel regulations.

Stolthaven Terminals' results were in line with expectations. Full-year operating revenue decreased slightly to $250.8 million from $252.0 million in 2018, reflecting the sale of the rail business in the US and the Altona terminal in Australia. Operating profit was $69.0 million, down from $76.4 million, mainly due to a $5.5 million impairment at our terminal in Newcastle, Australia. During the year we added 0.2 million cubic metres of new capacity globally and improved utilisation and margins at our terminals in the Americas.

At Stolt Tank Containers, revenue declined to $528.6 million, from $551.1 million in 2018, with operating profit of $56.1 million, down from $70.9 million, driven by highly competitive markets, a slowdown in overall shipments and an increased proportion of lower-margin intra-regional shipments. Consequently, fleet utilisation slipped to 67.7% from 72.1%.

At Stolt Sea Farm, we expanded our geographical markets for turbot, resulting in record sales of 8,300 tonnes, an increase of 13% compared with last year, and at a higher average price. Full-year revenue rose to $105.6 million, compared with $98.5 million in 2018. Operating profit, however, fell to $0.9 million, down from $13.0 million the previous year, due to a significant negative swing in the fair value accounting for inventory. Excluding the impact of the fair value adjustments, SSF's full-year operating profit was $6.0 million, compared with $7.6 million in 2018.

INVESTING IN GAS

Stolt-Nielsen Gas (SNG) holds our investments in liquefied natural gas (LNG), with 45% ownership in Avenir LNG Ltd and 2.3% in Golar LNG Ltd. Avenir's strategy is to source, ship, store, distribute and sell LNG to small-scale, stranded communities that do not have access to a natural gas grid.

In October 2018 two strategic partners joined SNG as investors in Avenir, Golar LNG Ltd and Höegh LNG Ltd, each taking a 22.5% stake with Stolt-Nielsen retaining 45%. Avenir has four 7,500 and two 20,000 cbm LNG ships on order and is building its first terminal in Sardinia. Read more on page 16.

FINANCING FOR THE FUTURE

During 2019 the Company closed a $242 million Japanese Operating Lease involving eight ships and a $415.6 million floating-rate facility with China Merchants Bank Financial Leasing involving 20 ships. In July 2019, the Company also completed a $200 million US private placement secured by its New Orleans terminal.

These three financings reduced the overall cost of our debt and future refinancing risk by extending our debt maturity profile. With the liquidity raised the Company repaid a $147.6 million Nordic bond in September and $51.3 million loan facility secured against our Australasian terminals. With a new $141.5 million bond issued in February 2020, the Company has secured sufficient liquidity to repay a $160.7 million Nordic bond which matures in April 2020.

DIVIDENDS AND EMPLOYEE INCENTIVE PLANS

Stolt-Nielsen Limited's strategy is to deliver long-term increasing returns to its shareholders. On November 21, 2019, the Board approved an interim dividend of $0.25 per Common Share, payable on December 11, 2019 to shareholders of record as of November 27, 2019. Subsequently, in response to market uncertainties created by the ongoing coronavirus pandemic, and to protect the liquidity of the Company, the Board decided not to make a further dividend payment for 2019. Our goal is to increase dividend levels once the market recovers.

SNL compensates its employees through salaries and both short- and long-term incentive plans comprising cash rewards and benefits. In early 2019, our profit-sharing and performance-incentive plans made payments of $7.9 million. Low profit levels in 2019 significantly reduced the amount available for profit sharing in 2020, therefore, as detailed in our profit-sharing policy, the Compensation Committee agreed to hold back further payment until 2021.

SUSTAINABILITY COMMITMENT

Sustainability is engrained into our strategy, governance and company values. Our stakeholders also expect us to act in a sustainable, transparent and socially responsible way.

We have a long history of doing the right thing and operating sustainably, but we know we must do more to communicate this, so in 2019 we took action to formalise and communicate our sustainability strategy. You can read more on pages 17 to 28.

BUSINESS TRANSFORMATION

While the conditions of the markets in which we operate are beyond our control, the efficiency of our own operations is something that we do control. In 2019, we launched our Going Further programme, focused on reducing costs by improving our processes and driving innovation. We want to increase our competitive advantage by streamlining our processes, identifying and installing new technology and being the best at getting the full benefits from that technology. Our people are central to our success, so we will continue to invest in their training and development.

OUTLOOK

With a declining newbuilding orderbook for chemical tankers, we expect Stolt Tankers to see a favourable supply/demand balance during 2020 and beyond. We saw some recovery towards the end of 2019 resulting in a healthy increase in those COA rates which were renewed in the fourth quarter, however the coronavirus outbreak is likely to affect markets, although it is too early to say exactly what the impact will be. I personally believe that once the panic settles, markets will recover quickly and global trade will continue to grow at a multiplier of global GDP. What makes me even more optimistic about our shipping segment is the medium- to long-term impact that environmental regulatory uncertainties and the decarbonisation drive by IMO and our lenders and investors will have on new ship orders, leading to lower capacity in the market. Who would risk ordering a ship today that may be technologically obsolete in a few years? Looking further ahead at Stolt Tankers, as I have previously stated, we are well prepared for an IPO, but we will only do this when the market conditions are right and earnings have recovered.

At Stolthaven Terminals, the outlook for 2020 is relatively unchanged from 2019. Despite recent market softness and the ongoing effects of the US-China trade dispute, we anticipate improvements in operational efficiencies to strengthen our results. At the same time, we will continue to drive improvements in both safety and sustainability through training programmes and technology. By continuing to focus primarily on the chemical storage market, we see stable growth in line with global GDP.

At Stolt Tank Containers competition and margin pressure will likely continue during 2020 and beyond, due to overcapacity of tanks and increasing competition. To drive growth, we will continue to digitise the business to lower our cost base, and deliver superior value-added services to our customers, while maintaining our focus on sustainability.

Production at Stolt Sea Farm is expected to increase. The first of our two new sole recirculation farms in Spain has now been stocked with juveniles, with the first product expected in early 2021. We are also entering new geographical markets for both turbot and sole, as we introduce consumers to our expanding range of products.

Overall, uncertainty in our markets will continue into 2020, not least because the macro-economic effects of the coronavirus outbreak are currently unknown. I believe that longer-term we are well positioned in each of our segments to ride out the storm and to grow once the uncertainty is removed.

However, we cannot achieve success without great people. We are market leaders because we have the best people in the industry, and I would like to thank each one of them for their valuable contribution.

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

MARCH 17, 2020