



Presenters:

CARSTEN MORTENSEN, CEO

MICHAEL TØNNES JØRGENSEN, CFO

MARTIN BADSTED, EVP

CARSTEN MORTENSEN:

Welcome to the presentation of NORDEN's annual report 2012. My name is Carsten Mortensen and I am the CEO. I will be presenting together with our CFO Michael Tønnes Jørgensen and Executive Vice President Martin Badsted, who is among other things responsible for our Investor Relations.

I trust you have all found time to download the accompanying PowerPoint slides from our website. We will refer to the specific slides as we go along. Please note that this presentation and the following Q&A session will be recorded and made available on our website.

Slide 2, please

The agenda for today will be as follows:

I will start by outlining the highlights of 2012.

Subsequently, Michael will go over the key financial figures and present the new information we have made available to you.

Martin will then present the market conditions and provide a little information on the financial performance in Dry Cargo and Tankers.

Finally, I will finish with our current expectations for 2013, and, after the presentation, we will open our Q&A session.

Slide 3, please

For 2012, group EBITDA was USD 148 million, which was in the high end of our expectations. Both segments ended Q4 better than expected, due to a strong finish on product tankers, and smart positioning in a weak dry cargo market.

Along with the operating results it is worth mentioning cash from operations which were USD 122 million, and even if you include net investments and divestments we were net cash flow positive with USD 91 million in 2012.

NORDEN's shareholders should also benefit from this strong cash flow, and therefore, the Board of Directors is proposing a dividend of DKK 3 per share. Furthermore, the Board of Directors has approved a share buyback of up to USD 30 million.

NORDEN has also used 2012 to prepare for the future: we have implemented new IT systems, strengthened the organization and implemented a new management structure, and we've come a long way in the eco transformation of our core fleet. We now have 18 eco units in our core fleet and more is on the way.



Now over to Michael and **slide 4, please.**

MICHAEL TØNNES JØRGENSEN

NORDEN generated a Group EBITDA of USD 148 million resulting from good operations and tight cost control in weak markets. Although the result was 21% lower than 2011, it was in the high end of our guidance and achieved under very challenging market conditions.

Overhead costs were down 6% despite growth in vessel days of 7%.

NORDEN had a strong cash generation where cash from operations amounted to USD 122 million, which was a little higher than the year before.

Net cash flow, i.e. cash from operations, investments and financing amounted to USD 91 million and resulted in a solid cash position, with cash and securities of USD 529 million at year-end and in addition undrawn credit facilities of USD 161 million

In 2012, NORDEN had a total of USD 324 million in "balance sheet clean-up"

- USD 300 million in impairment and USD 24 million in loss on vessel sales

In addition, NORDEN had depreciation of USD 89 million. It should be mentioned that NORDEN depreciates its vessels over a period of 20 years to a low residual value. This is a prudent principle compared to other shipping companies which typically depreciate vessels over a period of 25 years.

Adjusted for impairment of USD 300 million and fair value adjustments of certain hedging instruments, NORDEN had an adjusted net profit of USD 31 million.

Slide 5, please.

We have made a change to the way we report our Net Asset Value, which will enable you to estimate more precisely the value of our portfolio, and the sensitivity to changing freight rates.

We still provide you with information on the NAV based on broker values for owned vessels, net cash and other balance sheet items. The NAV was DKK 213 per share at year-end or approximately USD 1.6 billion which is more or less unchanged from Q3.

However, instead of reporting the so-called Theoretical NAV, we now disclose a full overview of our entire T/C capacity and coverage, enabling you to do a mark-to-market valuation of that based on your own assumptions regarding the forward freight rates.

One thing to notice here is that the overview of this coverage will also include the T/C cover on own ships which brokers' estimate to a value of USD 54 million. So in order to avoid including it twice, you should eliminate it as shown in the table on the slide.

In addition, we provide you with an estimate of the value of the purchase and extension options in isolation – this estimate of USD 100 million is based on the same methodology as previously.

The values illustrated here of course still only includes a snapshot of the portfolio as it is right now – and it doesn't include any value for how that might be improved through our operator activities.



Now over to Martin for the market perspectives, **slide 6 please.**

MARTIN BADSTED

2012 was a brutal year in Dry cargo. The Baltic Dry Cargo index was down 41% compared to the year before.

As opposed to previous years, where mainly the big Capes were hurting, all segments were under severe pressure in 2012.

Despite strong demand growth and record scrapping, newbuilding deliveries were simply too much for the market to absorb.

The decline was visible in asset prices with declines of 25% on secondhand vessels and 8-10% for newbuildings.

Slide 7, please.

In this environment, our focus was on controlling downside, so we maintained high coverage throughout the year.

In the end, we were able to make USD 35 million in EBITDA in Q4, which resulted in a full-year figure of USD 131 million – which was above expectations.

We realised T/C equivalent earnings above the 1-year market in all segments except Post-Panamax, which was fully exposed to the spot market. And against the spot benchmark our Post-Panamax desk beat the market index by 13%.

And, importantly despite the declining market we were able to add USD 22 million in operator profits during the year through new business, optimizations and fuel savings.

Our investment focus was to optimize our core fleet within a neutral exposure. So even though we sold vessels, we also reinvested in a similar number of fuel efficient ships, and currently 12 out of 81 vessels in the core fleet are eco vessels. And please note that another part of this eco transformation will gather pace automatically as existing long-term charters expire over the coming years.

Slide 8, please.

On the cargo targets that we have communicated previously we decided to change focus somewhat. We are still on track – or slightly ahead even – with our target for 15% annual growth in cargo volumes transported.

However, our portfolio of forward contracts declined slightly. We have said all along that contract growth should be profitable – we are not seeking volume just for volume's sake. And due to the weak market, customers' rate expectations have declined to an extent where we did not want to follow. We retain the overall ambition of growing our cargo contract portfolio, but still subject to profitability and perhaps slightly lower priority since focus now will be more on building upside.



Slide 9, please

Now, turning to the market outlook, the most important thing is that fleet growth is slowing down substantially. For the two months of December and January, newbuilding deliveries are down 40% compared to those two months a year ago, and at the same time scrapping in this period is up 20%. Overall, this means that given reasonable assumptions about non-deliveries in the order book and continued scrapping, we could see net fleet growth coming down to 4-7%. Scrapping is probably the main short-term risk – if rates – or even sentiment – start to improve you could see scrapping momentum decline. But so far, the pressure to scrap vessels is still high: low earnings, high steel prices and high fuel costs.

Slide 10, please.

We expect the strong demand growth of recent years to continue in 2013.

China remains the key growth driver and ended last year with strong growth figures. Q4 commodity imports were 10% higher than Q3.

And although we are unlikely to see a strong re-acceleration in Chinese growth, just the expected stabilisation at around 7.5-8% GDP growth will support the dry cargo market, as China's import share of commodities continues to rise as new mines come online.

In addition, other emerging markets seem to be gaining some growth momentum, and in the short term, a strong grain season is expected – much of it long haul exports from South America to Asia.

Slide 11, please.

The medium term demand outlook remains positive.

Despite the reduction in iron ore expansion plans, the 5 big miners are still expecting to grow capacity by 9% annually over the next 3-4 years, meaning more than 300 million tons extra to be transported.

In the near term, average distances may be less supportive as the first expansions happen in Australia, but subsequently, the dry cargo market should benefit from renewed growth in Brazilian long haul exports.

Slide 12, please.

So overall, we think 2013 could still be very tough in dry cargo, but that the fleet overcapacity will gradually diminish going forward giving some cause for optimism in 2014 and onwards.

And that's really how we have positioned ourselves.

Here we show you the new capacity and coverage table, which separate own fleet from the T/C fleet.

At the bottom, you will see that we start the year with 76% coverage. Mid-February, this has increased to 81%, so the downside of continued market weakness is limited.



But already next year, coverage is significantly lower, and this is where we are now starting to focus on building further upside.

Slide 13, please.

So how does it look on a net basis. In the graph on the left hand side, we have converted all the T/C capacity and coverage into Handymax equivalents by weighing each segment according to its historical average earnings potential in relation to Handymaxes. You will see the weight used at the bottom. The blue line shows the net open capacity each year. So when you exclude own ships, we are slightly short for 2013, and for the next 3 years, we have the equivalent of 24 open Handymaxes on average. And on top of that, we have the 27 own vessels.

So, there is already significant upside in our book, and focus during 2013 will be to build additional upside. We have already started: we have added 7 units to our fleet in recent months – 3 of them in 2013.

It's a mix of own and long-term chartered vessels. But all are newbuildings and all are ECO types. And more than half has been the result of distressed situations.

We want to add a further 10 ships – with a focus on Handymax and Panamax, and our priority is still ECO newbuildings but we also find that secondhand prices for 7-10-year-old vessels have come down to an interesting level – so you could see us allocating a part of our investments there.

What is also interesting to notice is that our T/C capacity is decreasing, meaning that we are able to substitute the older vessels with newer T/C vessels, and in that way increase the share of eco tonnage in our fleet.

Slide 14, please.

Turning now to the product tanker market, 2012 was characterized by high volatility. The year started well and ended well, but in the middle, it was a brutal summer for product tankers. Overall, the spot market was lower than 2011, but as you can see from the graphs, by year-end the market was firmer than in the same period of 2011.

In the Atlantic, hurricane Sandy started the firming winter market while in the east we saw strong imports of oil products into Australia and Indonesia.

Asset prices continued the downward trend from previous years, and a 5-year old MR decreased by 18% during 2012, while newbuilding prices remained fairly stable.

Slide 15, please.

After a very tough second and third quarter, earnings picked up and EBITDA ended the year at USD 28 million, which was above the latest guidance.

Again this year, Norient Product pool performed well, and realised MR earnings just over 15,000 per day in Q4. For the full year, realised T/C earnings were on average 5% above the 1-year T/C market. And MR, more specifically, was 42% above the spot market.



Slide 16, please.

The outlook for product tankers remains positive.

Despite recent MR ordering, fleet growth remains manageable at around 3% for the product tanker fleet from Handysize to LR2s.

There will be a growing influx of new MRs especially during 2013, but this is offset by net scrapping in Handysize and low growth in the larger segments.

Slide 17, please.

On the demand side, market developments remain supportive.

New large export oriented refineries are coming on stream in the Middle East and India. And the combination of the shale oil boom in the US and crude export restrictions mean that the expanding refining sector there will have the same effect: more products for seaborne exports. On the import side, we are seeing strong import growth in emerging regions with limited refining capacity such as Latin America and Africa, but also in mature countries such as Australia, Japan and Europe due to refineries closing down and being replaced with imports.

And with only 22% of all refined oil product consumption being transported by sea, there is a huge potential in the future as refineries get larger and more centralized.

All in all, we continue to expect a gradual improvement in the product tanker market

Slide 18, please.

We have positioned ourselves for such an improving tanker market with almost 10,000 open ship days in 2013, and a similar level in subsequent years.

We have bought or ordered 12 ships in the last couple of years. We did sell 3 of them in Q4 at a very good price, and our intentions are to replace them with 4 fuel efficient MR newbuildings. Other than that, focus will be to optimise the book without adding much further to it.

Slide 19 please, and over to Carsten for the guidance for 2013.

CARSTEN MORTENSEN

Thank you Martin.

Now for the outlook for 2013. Previously, we have talked about control downside and retain upside. This year, our working headline is “control downside and build upside”. So, we are adding capacity and proceeding with the eco transformation of our fleet for the benefit of future earnings.

For 2013, we expect a “time-out” year earnings-wise. Dry cargo will have a breakeven year, and EBITDA for tankers will be USD 25-45 million.

The guidance is based on current capacity, coverage and forward rates as of mid-February.



Based on current known investments and sales, CAPEX is expected to be USD 70-80 million for the year.

We are well positioned: in Tankers, we've doubled our own fleet and remain highly exposed to a gradually improving spot market.

In Dry Cargo, we have high coverage to take us through a challenging 2013, and we have money to spend to build upside while asset prices are low.

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And please remember that there are uncertainties related to any forward looking statements...

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This concludes our presentation. Now, we open our Q&A session. Please await the conference host's instructions.

OPERATOR

If you wish to ask a question please press * and 1 on your telephone. That is *1 to ask a question. The first question is from Noah Parquette of Global Hunter, please go ahead.

NOAH PARQUETTE – *Global Hunter*

Hello thank you. I just have a question on ECO class product tankers. You've had a couple of competitors pretty aggressively ordering new builds, has this changed your outlook or your strategy at all about expansion for that sector?

CARSTEN MORTENSEN:

No, we have focused all along, we've got naval architects sitting in here and we are strong believers in optimizing the ships that we have already i.e. retro fitting them and obviously the eco transformation takes up a lot of our time now and we strongly believe in these new designs that will save us 5, 6, 7 tons of fuel per day i.e. USD 2 to 3.000 per day. We have not been inspired by the others, we've been running our own business and maybe we have not been as vocal as some of the competitors.

NOAH PARQUETTE – *Global Hunter*

Thanks and then on to dry bulk. Part of the problem, people are looking to expand the sector, it is hard to get a second hand ships and size because there is now liquidity and so people are turning to



the new build market. Do you see that changing at all, I mean do you see banks more willing to sell vessels or portfolios to mark this year?

CARSTEN MORTENSEN:

You can say it's been a game, I think. Banking is not our business but to us it looks like it been a game about kicking the can down the road a little bit or extending and pretending. Eventually, I think they have to face the music. We marked our book down earlier this year and I think many of the shipping portfolios with the banks needs marking down but that's their business and we see what happens. We have managed to do some distress deals where ship owners, trading houses have come to us and placed new buildings where the other charters could not perform.

NOAH PARQUETTE – *Global Hunter*

Great, that's really helpful, thank you very much and great quarter.

OPERATOR

The next question is from France Hou of [unclear]. Please go ahead.

Franz Hoyer - *Jyske Bank*

Good afternoon, thank you. I wanted to ask you about the, how can you ensure that on the fuel efficient eco vessels that the saving that you make on the fuel will actually accrue to you as apposed to just serving for you to win the business? How is that going to play out and how do you expect to control that process?

MARTIN BADSTED

That's a good question Franz. I think one of the strengths actually to the business model that we are trying to operate is that we are doing a lot of our business on what we call voyage basis, which means that we actually get a freight rate either as a lump sum or in dollars per ton of cargo which means that we then pay for the fuel to operate the ship beneath that revenue line. This actually means that if we can well on the fuel savings, it's actually increasing our own margins. As opposed to that, if we were to put our ships away on time charter, it would be more negotiations between the charter and the owner what we could actually guarantee in terms of fuel performance and such and that's much more debatable if you will how large a part of the fuel saving would accrue to you.



But I think having the model where we actually do the transportation of cargo and clients pay us for that service means that cost savings go to our own bottom line.

FRANZ HOYER - *Jyske Bank*

Understood. How big a share of the business on voyage terms?

MARTIN BADSTED

I don't have the exact number but it's more than two thirds.

FRANZ HOYER - *Jyske Bank*

Okay thanks and second question, briefly, the EBITDA guidance for dry bulk operations where you have 24% of capacity is still not covered, what rate assumptions do you make? I mean for the 76% that is covered you say the average rate is 12,680 per vessel per day. Can you give me an idea of how much lower that forward rate benchmark you have applied for the remaining capacity of 2013, how much lower is that rate?

MARTIN BADSTED

What we have said is that we have applied the forward curve as of the middle of February and it goes without saying that that has been pretty depressed lately and if you look just at the FFA rates in the middle of February I think in all the three major segments Handysize, Handymax's and Panamax's, the forward rate for calendar year '13 has been around \$7,500 a day, maybe 7, maybe \$8,000 depending on the segment. It is increasing right now on the back of expectations for the strong grain season as we also commented on and of course, what would really impact the open days would be increases to the Handysize forward curve since that is where we have by far the majority of our own open ship days.

FRANZ HOYER - *Jyske Bank*

Great, thank you very much.

OPERATOR

There are no more questions please continue.

CARSTEN MORTENSEN

All right then, thank you very much for dial-in. If you have any further questions do not hesitate to contact us here. Have a nice afternoon. Good bye for now.