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Earnings Call

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CORPORATE PARTICIPANTS

Jan Rindbo *Dampskibsselskabet Norden - CEO*

Martin Badsted *Dampskibsselskabet Norden - CFO*

CONFERENCE CALL PARTICIPANTS

Nick Papatasu *Columbia Threadneedle Investments - Analyst*

PRESENTATION

Operator

Good day, and welcome to the DS NORDEN Annual Report 2015 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Jan Rindbo, CEO. Please go ahead, sir.

Jan Rindbo - *Dampskibsselskabet Norden - CEO*

Thank you very much. And welcome to the presentation of NORDEN's results for the 2015 Annual Report, and thank you for calling in. My name is Jan Rindbo and I am the CEO of NORDEN. And today, I will be presenting together with our CFO, Martin Badsted.

I trust you have all found time to download the accompanying presentation 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.

Please go to slide number three, the 2015 highlights. The EBIT was in-line with the recent announced expectations of minus-\$282 million. If we exclude impairment and provision, we have an EBIT of \$58 million. Cash flows from operations was \$77 million. This result was heavily influenced by a terrible market in dry cargo and a consequential \$340 million impairment and provision. However, we minimized this loss by beating the one year time-charter benchmark rates by 37% in dry cargo. During 2015, we reduced our exposure in dry cargo by 24% for 2016 and 2017.

If we turn over to our tanker segment, we delivered the best tanker result ever in NORDEN's history, and we did that on the back of having low coverage, which, therefore, made us well positioned to take advantage of the strong market. Also in our tanker business, we beat the one year time-charter benchmark rates. And the year, we outperformed that benchmark by 27%. Due to the oil loss, the Board proposes no dividend to be paid out for 2015.

I will now hand you over to Martin on slide number five.

Martin Badsted - *Dampskibsselskabet Norden - CFO*

Thank you very much. NORDEN has undertaken a number of measures to reduce our exposure and strengthen our financial position still further. As Jan said, we actually generate \$77 million in cash from operations, and that was actually after paying out \$50 million in prepaid T/C hire to obtain rebates as we had announced earlier in the year.

When you combine this with further vessel sales, additional cover and T/C-redeliveries, we actually managed to reduce our total net commitment by \$268 million during 2015; an overall reduction of 21%. This means that we maintained a well balanced capital structure, as you can see on the graph to the right.

Our cash position strengthened to \$366 million when including securities. And if you also add undrawn bank facilities of close to \$300 million, we actually had a total of \$652 million at our disposal by yearend. Remaining new building CAPEX are down to \$283 million, and actually, if you offset the vessel sales and the proceeds from these vessel sales that will come in over the coming years, the net CAPEX figure that we have committed currently is less than \$200 million.



We now turn to the markets and I ask you to go to slide number 10 please for a look at the dry cargo market. We're following a very weak dry cargo market in 2015. We unfortunately expect the misery to continue through 2016. Demand is weak, driven by stagnation in both of the two major bulks; coal and iron ore. We think Chinese coal imports will continue to decline in 2016, although at a lower pace than what we have seen previously. Indian coal imports, which had a terrific run in 2014, actually slowed significantly in the second half of last year for an overall decline. We do think that the growth in imports will accelerate slightly in 2016, but not nearly to the levels that we saw back in 2014.

The overall main support on the coal trade will mainly come from other emerging markets in South East Asia due to overall economic growth and the construction of new power plants. As for iron ore, we think the headline is another year of pretty weak steel production, and with that also fairly weak iron ore trade. I think all eyes are on the Chinese construction market, which for some time, has shown early signs of bottoming out but have actually yet to really pick up in terms of actual activity levels.

Overall, we see demand growth close to zero for 2016. And on the other side of the coin, we do still see some [pre] growth, although it will also be limited. There will be an elevated level of scrapping, we think around 5% for the year. We have seen scrapping levels being 7% to 8% annualized for the first few months of this year, but we do think there will be some deceleration towards midyear.

On the other hand, there will be a lot of new buildings still coming into the market; the overall order book for the year is close to 12%. We think a lot of these ships will not arrive to the market as planned, and when you factor that in and also account for scrapping, we expect overall net fleet growth in dry of 1% to 3%.

That brings me to the tanker market, and you will see that on page number 13. For tankers, we expect the market to remain strong, although still a little lower than what we saw in 2015. The basic supportive factors remain the same, but they will be less strong this year. Oil demand will still grow at a decent rate. Gasoline demand will outpace diesel demand growth, and export refineries will continue to grow their output as we have seen for some time now.

The increase in land-based storage is likely to stagnate as non-OPEC oil supply declines, but we do not expect any significant destocking this year. On the supply side, product tanker fleet growth will slow down, but this will be offset by growing crude tanker deliveries towards yearend. Overall, tanker supply is expected to grow close to 6%, which will lead to a less tight market towards yearend.

And with that, I hand back to Jan for the full-year guidance on slide 14.

Jan Rindbo - Dampskibsselskabet Norden - CEO

Thank you, Martin. Full-year guidance for 2016 is a minus-\$60 million to a plus-\$30 million as a adjusted net result. As a consequence of the higher number of owned vessels, and therefore, increased loan financing of these, our future guidance is now based on adjusted results for the year, excluding profit and loss from sale of vessels and fair value adjustments of certain hedging instruments.

Our guidance reflects our expectation of a continuingly very challenging market conditions in dry cargo and a good tanker market that may however come under pressure in the second half year, due to increasing new building fleet deliveries.

Please go to the next slide, page 15. And here, just a reminder that there are uncertainties related to any forward-looking statements.

That concludes our presentation. We are now open for the Q&A session. Please await the conference host instructions.

QUESTION AND ANSWER

Operator

Thank you, sir. (Operator Instructions) We now have one question. We will now take that question from Nick Papatasu from Needle's Fund. Please go ahead.

Nick Papatasu - Columbia Threadneedle Investments - Analyst



My question relates to essentially the capital going forward. You have about \$300 million of CAPEX and you have about \$350 million in cash, but you also have some facilities, so the overall fire power is about \$600. With the estimation - the CAPEX requirements - first of all, the CAPEX requirements, does it take into account a certain financing, or is the entire CAPEX requirements? That's one question.

But you see what I'm trying to do? I'm trying to net out completely the effects of the newbuilding investments [outstanding debt] and just how much fire power you have to withstand (inaudible).

Jan Rindbo - Dampskibsselskabet Norden - CEO

Yes, well the CAPEX figure that we talked about before of \$283 million is the remaining gross CAPEX that we owe shipyards to take delivery of the new buildings in our order book. So, it doesn't include any financing and it's not a net equity number; it is the gross remaining CAPEX. What you should also bear in mind is that if you look at page eight, in our annual report at the bottom, you will see the number where we also net out sales proceeds from vessels that we have had already sold by the end of 2015.

And the value of the net CAPEX here is \$185 million. And so, this really indicates to you the CAPEX that still remains to be paid. I do expect that the majority of this CAPEX will be paid using the bank facilities that we have at our disposal.

Operator

(Operator Instructions) As there are no further questions, I would like to turn the call back to Mr. Rindbo for any additional or closing remarks.

Jan Rindbo - Dampskibsselskabet Norden - CEO

All right, well thank you very much for your attention and interest in our company. Thank you, and have a good day.

Operator

Ladies and gentlemen, this will conclude today's conference call. Thank you all for your participation. You may now disconnect.

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