NASDAQ OMX

Moderator: Klaus Nyborg
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Presenters:

Interim CEO, **Klaus Nyborg**
CFO **Michael Tønnes Jørgensen**
EVP **Martin Badsted**

KLAUS NYBORG

Welcome to the presentation of NORDEN's 2014 annual results. My name is Klaus Nyborg and I am the interim 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 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.
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The agenda for today will be as follows:
I will start by outlining the highlights of 2014 and then go through initiatives we have taken as reaction to the challenging market conditions in dry cargo. Subsequently, Michael will go over the key financial figures and Martin will then present the market conditions. Finally, I will conclude with our guidance for 2015 and then we will open up for the Q&A session.
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2014 has been a very challenging year and EBITDA ended at minus 261 million dollars and the Net Result was minus 416 million dollars, which is not satisfactory, but in line with the most recently announced expectations.
The downturn in the dry cargo market heavily impacted the result for the year not least due to the provision for onerous TC-in contracts of USD 230 million which was made in the fourth quarter.
In tankers, the market experienced a sizeable spike in the fourth quarter after 3 quarters with lower than expected rates, and the tanker department had the best result since 2008.

Based on the very challenging market conditions in dry cargo, it is considered important that the Company maintains its financial strength and therefore it is proposed that no dividends will be paid out for 2014
A number of initiatives have been implemented as a reaction to the very challenging market conditions in the dry cargo market. Among the initiatives taken is a significant increase in the coverage for 2015 in Dry cargo and NORDEN is currently almost equally exposed to rate developments in the dry cargo and tanker markets.
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NORDEN has reacted to the deteriorating market conditions in the Dry cargo market by implementing a number of initiatives within many different areas. Among these are

-Lowering the activity levels in dry cargo by 21%
-Halting the investment programme
-Selling 5 vessels with proceeds of USD 112 million dollars
-Initiating a cost savings programme of USD 20 million annually
-Increasing coverage levels for 2015
-Secured 221 million dollars in new credit facilities
-Improving working capital by 34 million dollars
-Utilising our financial position to obtain hire savings of 10.5 million dollars
-Re-organising the dry cargo department
-Strengthening the fuel savings initiative

The implementation of these initiates will greatly improve NORDENS positioning towards the difficult markets. And now over to Michael for a closer look at the financials

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MICHAEL TØNNES JØRGENSEN: Thank you Klaus.
As mentioned by Klaus NORDEN generated group EBITDA of minus 261 million dollars. The EBITDA from underlying operations in Dry Cargo was at minus 64 million dollars while the non-cash provision against onerous TC-in contracts accounted for minus 230 million dollars. The EBITDA from Tankers was 44 million dollars, which was heavily impacted by a strong market in the fourth quarter where NORDEN made 19,200 USD per day on MRs. The result from tankers have now improved for 4 straight years. NORDEN succeeded in outperforming the average 1-year T/C by 2 percent in Dry cargo and the spot index by 35 percent. While in Tankers we outperformed the average 1 year T/C by 6%

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In 2015 we have had a strong focus on increasing the available credit facilities and secured extra debt facilities of 221 million dollars. After this we have access to undrawn credit facilities of USD 418 million and in addition to these we at the end of 2014 had USD 259 million in cash and securities.

The outstanding yard payments were recently lowered by USD 53 million due to a resale of 2 supramaxes and are now USD 352 million which is more than covered by the cash & securities and undrawn facilities. NORDEN is currently net debt free and if the facilities are fully drawn, gross debt will correspond to 47% of the estimated market value of the fleet at year-end.
The financial gearing has increased to 1.09 including the effect of the provision taken in Q4 2014. NORDEN has at the beginning of 2015 utilized its financial position to achieve significant savings on future payments on T/C-in contracts by making a one-off payment of USD 51.5 million in return for a reduction of future time charter payments of USD 62 million in the coming 4 years

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Secondhand prices dropped steadily during 2014, while newbuilding prices ended at the same levels as in the start of the year 2014.
In the dry cargo market, the secondhand prices decreased by 11-22% whereas the resale price of newbuildings remained unchanged for NORDEN's dry cargo vessel types.
In the product tanker market, secondhand prices also dropped over the year but started to rebound as spot rates improved in Q4.
Based on valuations from 3 independent brokers, the market value of NORDEN's vessels including newbuilding orders was estimated at 1,462 million dollars at year-end, which is 58 million dollars below carrying amounts and costs. The market value of NORDEN's newbuilding programme for delivery is 461 million dollars, which is USD 32 million above carrying amounts and costs.
It should be noted that due to the increased fleet of owned vessels in Tankers during recent years and the better performance of asset values, Tankers now represent 43% of the total fleet value.
And now over to Martin for a closer look at NORDENs positioning and the markets.

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MARTIN BADSTED:

Thank you Michael
The dry cargo market was surprisingly weak in 2014 and ended lower than in 2013. Especially 2nd half was much worse than seen in 2013 and the traditional seasonal spike in Q4 never materialised.
Although supply growth of 4,5 % was the lowest for many years, demand growth turned out to be insufficient to absorb this. The lack of demand growth was due to a number of developments but most notably the global coal trade which fell for the first time in more than 20 years. Especially Chinese coal imports were hit hard, and decreased by 16% due to strong hydro power generation and political restrictions on imports. Indian coal

imports did show a strong increase but it wasn't sufficient to fully compensate for the lower Chinese imports.
The iron ore trade was in 2014 expected to drive strong growth for vessel capacity, but while the volumes transported increased as expected the average distances declined due to Australia gaining market share in the Chinese imports.
Across all commodities the Chinese imports were in the fourth quarter 7.5% lower than in the strong fourth quarter of 2013 which were impacted by the stockpiling of Nickel and Bauxite leading up to the Indonesian ban on exports.

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Looking into 2015 we unfortunately see the very challenging markets in dry cargo continue. Demand is expected to increase by 3-5% - about the same as supply growth.
The iron ore trade will remain a key demand driver as Australia and Brazil continue to increase exports to China. The key uncertainty is to which degree China will scale down the domestic production making room for imports from other countries.
As for the global coal trade, we expect a slight rebound, driven by increasing imports to India. While much depends on Chinese politics and hydro generation our base case for Chinese coal imports in 2015 is continued decline. There has been significant political interference in the Chinese coal markets recently which adds substantial uncertainty to import volume s and therefore also overall dry cargo demand.
Fleet growth is expected to stay at levels between 4 to 5%. While the orderbooks officially are fairly large for 2015, we do believe there will be a high level of cancelations and slippage given the poor market outlook. Scrapping is off to a very strong start with an annualised level in the first two months of the year of 4.7% of the fleet. In combination with a complete stop to new ordering, the market is starting to rebalance to the lower demand expectations.

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During the fourth quarter of last year NORDEN increased its coverage for 2015 significantly and these efforts have continued into the early parts of the new year. The coverage is front loaded and almost half our 2015 exposure is now in Q4. The average TC rate for the coverage was 11,400 USD per day.
It has proven increasingly challenging to secure coverage through COAs as the cargo holders currently are facing larger uncertainty around future volumes for transport. This uncertainty is driven by the very low commodity prices and is resulting in a hesitance towards locking in long term transport capacity. Securing COAs will continue to be a cornerstone of NORDENs business model in dry cargo but a larger share of the coverage than in recent years will likely come in the form of Time charters and FFAs.

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The product tanker market was split in 2 distinctively different periods in 2014. The first 3 quarters saw lower rates than expected and in the fourth quarter the market reached highs not seen for many years.
While the changes in global refinery capacities developed as expected the market was hit by a number of unforeseen effects. Warm weather in Europe reduced diesel imports and cold weather in the US increased the consumption and reducing the US exports in the first quarter. Rates in the second quarter were then also impacted by high levels of refinery maintenance and delays in refinery additions.
Upside finally appeared in the fourth quarter with a significant increase in demand sparked by a fall in crude prices and a number of refinery shut downs in Venezuela. The improvements were broad based geographically and across all product tanker segments which strengthened and prolonged the improvements.

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The high rates from Q4 last eyar has continued into the beginning of this year and for 2015 as a whole we expect the annual average rates to be similar to 2014 levels.
Global refinery additions of approximately 1.8 mb/d are expected during 2015. The majority of this new capacity is to a large degree export oriented and should lead to higher vessel demand for exports of products to especially Europe, Japan and Australia. As seen in 2014 with Jubail the pace of start-up of the refineries can be slow and the timing of the impact on markets is uncertain.
American exports of refined products are also expected to show an increase based on a number of smaller refinery expansions, but we do not expect the growth rates seen in recent years to continue - partly because of slower shale production growth due to the reduced oil price.
Supply growth is also picking up with the many orders from 2012 & 13 now to be delivered – resulting in net fleet growth of roughly 5-6%. This supply increase could well cancel out the demand growth, but the strong crude markets and very low supply growth for uncoated tankers could provide upside to rates during 2015.
Now back to Klaus for a look at the guidance for 2015.

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KLAUS NYBORG: Thank you Martin.
Now for the guidance for 2015. We expect a EBIT of minus 40 dollars and plus 40 million dollars for 2015. Based on the challenging market outlook for dry cargo, we expect a EBIT of minus 40 to plus 20 milion dollars, while a positive result is expected for tankers of between 5 and 45 million dollars.
It should be noted that we have chosen to guide on EBIT levels rather than EBITDA to include the depreciation of the increasing share on own vessels in the fleet.

It should be noted that there is still considerable uncertainty around the 2015 results and a change in the rates of 1000 USD per day would impact the EBIT by 12 million in dry cargo and 10 million in tankers. Based on current known investments, CAPEX is expected to be 80-120 million dollars for the year.

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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: Thank you very much indeed, sir. As a gentle reminder to ask a question please press star one on your telephone keypad and wait for you name to be announced. That's star one to ask a question and the hash key to cancel it.

And you have a question that comes from the line of Frans Høyer. Your line is now open.

FRANS HØYER: Thank you very much. The $20 million savings that you now implement how are they actually – what is it you're doing precisely and how will these savings actually materialize. I was also wondering on the networking capital reduction that you achieved during 2014 whether there is more work to do on that side and generally on the whole effort to reduce risk and conserve cash are there more initiatives in the pipeline that you are considering?

KLAUS NYBORG:The first part of your question – how would the $20 million savings initiative take place, it's fair to say that we currently are evaluating all our voyage costs which are non-bunker related as well as our OPEX, our Operating Costs of our fleet – of our own fleet. So what it means is actually we are simply going through that with a fine-toothed comb to see whether there are places where we can save costs and we firmly believe that we can save significant costs and therefore have set ourselves a target to save $20 million in three years time. That will mean that, that will not materialize initially but three years down the road we expect we can improve costs - or reduce cost by $20 million. It's fair to say that that will naturally have an impact on our cost level and therefore improve our time charter equivalents accordingly.

FRANS HØYER: It's not really related to your – the reduction in your short term buying charter activity.

KLAUS NYBORG: No. It's completely separate initiative.

FRANS HØYER: OK. Thanks.

MICHAEL TØNNES JØRGENSEN: And then I can add for the working capital we've been working on that intensively and the improvement we have for $34 million is, of course, very good. And it relates very much to, you know, improvements in invoicing and collecting efforts and so on – but also optimizing bunker inventories and debt to suppliers.

FRANS HØYER: Yes.

MICHAEL TØNNES JØRGENSEN: So, these are the three elements. And then you also notice that we have achieved good savings in Japan from changing the payment terms out there. And, of course, we would like to do similar deals if we can get to them.

FRANS HØYER: But is there more to do on the networking capital side?

MICHAEL TØNNES JØRGENSEN: We have a project ongoing and it's probably a little bit too early but I think we can do a little bit more.

FRANS HØYER: OK. And then generally on the cash – I mean you have sold a couple of vessels and various initiatives to conserve cash. Is there more – are you trying to achieve more without being too specific?

KLAUS NYBORG: We don't have any immediate plans but I think it– has been important to us to take initiative to arrange financing and secure financing generated from our business in order to have a perfect decision in this very, very challenging market.

FRANS HØYER: OK. Thank you.

KLAUS NYBORG:And what we have said in addition is actually we don't have any plans vis-à-vis dramatic change of our fleet, we just say that we optimize that from time to time. But we are comfortable with the order book and the fleet we hold.

MICHAEL TØNNES JØRGENSEN: And our current financial gearing is around 1.0 and we do not expect to take up more debt. It's about maintain that level, seek additional coverage and that will be sort of the level we are targeting for 2015.

FRANS HØYER: Yes. OK. I'll get back in line.

OPERATOR: Thank you very much indeed, Sir. And your next question comes from the line of Jacob Pederson. Your line is now open.

JACOB PEDERSON: Hi. Just a few questions from us. – first of all could you talk a bit more about counterparty risk in the dry bulk segment. What do you do to mitigate this and how bad are the situations of the counterparties? That's my first question.

KLAUS NYBORG: NORDEN has introduced years ago a very prudent sort of credit risk analysis on all our counterparts. So, that's a work that is ongoing. Everytime that we do have a counterpart before entering into the business that indivual or that company counterpart is qualified so that's a job that we take very seriously.

It's fair to say that the counterparty risk no doubt have increased significantly. And this time, it's not only about operators or other owners it's definitely also about the shippers, i.e. the trading houses or the mines, et cetera, in certain parts of the world.

Having said that, our risk would, overall, respectively compared to say 2008 would be much, much lower given that off course our coverage is taken at a much, much lower level than at that time.

But it's still worth for us to emphasize. There are definitely risk out there. And we are unfortunately exposed to it as well. We haven't seen it but we fear that it can happen in this market.

JACOB PEDERSON: And then a question on the oil price effects on earnings at an EBIT line and then a comment on the possible reverse of the big hit on the fair value adjustments in your P&L?

MICHAEL TØNNES JØRGENSEN: You can see in our account for 2014 we have taken value adjustments of $61 million. It's very important to say that they are unrealized – these market adjustments regarding future periods from early '15, '16, '17 on both FFA´s and bunkers. A lot of that will come back, I would say, in 2015. And that is included in our guidance for '15.

JACOB PEDERSON: OK.

KLAUS NYBORG: And then, Jacob. You could add on a similar note on – that of the provision taken of $230 million, $81 million will come into the accounts of 2015.

JACOB PEDERSON: Yes, yes. I got that from the report. Thanks. I think you also state in the report that you'll probably be more active in the purchase and sell-off of fleet in 2015 than you've been in 2014. Can you give any more comments on that?

KLAUS NYBORG: Yes, I think you can say that – over the recent years, NORDEN has mainly been active in the new building market, and therefore we could say that we would like to change that focus slightly in order to be more active in the S&P market as well. And, of course, this market would offer us opportunities from time to time, which we will take the liberty to make use of.

We don't have any concrete plans, any objectives or targets in that respect so just be active in that market as well. I know that could mean disposals as well.

JACOB PEDERSON: OK, OK. Thanks a lot.

KLAUS NYBORG: Thank you.

OPERATOR: Thank you very much indeed, sir. And just once more that's star one on your telephone keypad. If you wish to ask a question, star one to ask a question and the hash key to cancel it.

At this time, gentlemen, there appear to be no further questions.

KLAUS NYBORG: Thanks very much for listening in to our annual presentation and our guidance for 2015 and looking more to welcome you back next time.

OPERATOR: Thank you very much indeed. So with many thanks to all our speakers today, that does conclude our conference. Thank you all for participating. You may now disconnect.

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