OMX

Moderator: Carsten Mortensen
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Presenters:
CARSTEN MORTENSEN, CEO
MICHAEL TØNNES JØRGENSEN, CFO
MARTIN BADSTED, EVP

CARSTEN MORTENSEN:
Welcome to the presentation of NORDEN's annual report 2013. 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 Power Point 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.

Slide 2, please
CARSTEN MORTENSEN:
The agenda for today will be as follows:
I will start by outlining the highlights of 2013.
Subsequently, Michael will go over the key financial figures
I will thereafter give a brief status of our "2011-13 strategy" and introduce the new updated strategy for 2014 and onwards
Martin will then present the market conditions
Finally, I will conclude with our guidance for 2014 and then we will open up for the Q&A session.

Slide 3, please
CARSTEN MORTENSEN
As expected, 2013 was indeed a challenging year. In advance we had proclaimed it as a year of investment, not a year of profit making. EBITDA for 2013 was USD 24 million, just short of our latest guidance of USD 25-45 million.

The net result of the year was USD -48 million.

In Dry Cargo the first six months period of the year, turned out to be the lowest Baltic Dry index for 27 years. The market improved significantly in the second half, however, the benefit to our open vessel days, was outweighed by higher costs to service our cargo contracts.
2013 also marked a turn for the better however;

- The Tanker department delivered the best result in 5 years.
- Vessel values increased significantly and the added value was USD +92 million end year, which was an improvement of USD 228 million over the year.
- NORDEN continued to take advantage of the attractive newbuilding prices and invested in 18,5 vessels during the year

On top of that NORDEN last month entered into agreements on further investments in 7.5 Panamax and Supramax eco newbuildings, bringing the orderbook to a total of 37 vessels representing an investment of more than USD 1 bn.
The Board of Directors is proposing a dividend of DKK 5 per share.

And now over to Michael and **slide 4 please.**

MICHAEL TØNNES JØRGENSEN
Thank you Carsten.

As mentioned NORDEN generated group EBITDA of USD 24 million distributed with USD -5 million in the Dry Cargo department and USD 39 million in the Tanker department.

The Dry cargo result was impacted by a poor Q4 result. Some of our attractive coverage contracts which have protected earnings during the downturn expired and regional rate spikes meant that some cargo contracts became very expensive to fulfill. Therefore, the result for the fourth quarter was a disappointing EBITDA of minus 14 million US dollar, which offset the earnings of previous quarters so full year EBITDA ended at minus 5 million US dollar - slightly below expectations. Even though the company's earnings did not keep up with the increase in the spot market in Q4, average earnings for the entire year were 17% higher than the 1 year T/C-rates.

In the Tanker department, NORDEN benefitted from the improved market conditions and delivered the best full year result since 2008 and again this year, Norient Product pool performed well, and realised earnings that on average were 7% above the 1yr TC rates.
In spite of the 2013 decline in results, NORDEN continues to have a strong balance sheet and solid financial resources. Going forward, NORDEN is thus well positioned to take advantage of further investment opportunities. At year-end, NORDEN had cash and securities totaling USD 486 million and undrawn credit facilities of USD 211 million.

Slide 5 please
MICHAEL TØNNES JØRGENSEN
After several years with decreasing vessel values, there was a change in development in 2013. Both newbuilding and secondhand prices increased within all of NORDEN's vessel types. It was not least the development in the second half-year, which contributed to the positive value development in NORDEN's fleet. On the left side of the slide you'll find an index-based calculation of the market value of the vessels, which shows, that NORDEN's dry cargo vessels increased by a total of 16% during the year, while the value of the Company's product tanker fleet grew by 11%. These figures also include the effect of the fact that the Company's fleet has aged.

Based on assessments from 3 independent brokers, the market value of NORDEN's 44 owned vessels and 12 newbuilding orders including joint ventures was estimated at USD 1,540 million at year-end, which is USD 92 million above the carrying amounts and costs - an improvement of 228 mil. USD during the year.
Now back to you Carsten

Slide 6 please
CARSTEN MORTENSEN
Thank you Michael

Last year, we concluded the strategy period 2011-13 and worked on the strategic plans for the coming period.

Most of the things we set out to do in the plan "*Long-term Growth in Challenging Times* 2011-13" we have achieved, and I believe that NORDEN stands stronger than ever before. The overall objective for NORDEN was to generate a better shareholder return than that of comparable shipping companies. In USDollars we have over the period achieved a total shareholder return including dividends of 56%, against 13% for comparable shipping companies.

Slide 7 please
CARSTEN MORTENSEN
The new strategy has been named *Capture value in improving markets.* This reflects the improved outlook for the general market level within both dry cargo and tankers. We have to capture near term value whilst at the same continue to build long term competitiveness.

The investment focus will predominantly be in Dry Cargo. We will continue to pursue a higher gearing and lower coverage level than during the previous strategy period, where protecting downside was more in focus.

Cargo contracts as well as fuel efficiency are still important focus areas – but with small changes. As for cargo contracts, we will now be less focused on volume growth and be more selective, and pursue "the right contracts". Reducing fuel cost remains a top priority, but as markets improve, focus will shift from slow steaming to right steaming.

Slide 8 please
CARSTEN MORTENSEN
With the prospect of improved markets in 2014, NORDEN has already started implementing the new Strategy.

The coverage in Dry Cargo is significantly lower going into 2014 compared to 2013. At the beginning of 2014, NORDEN had covered 59% of its vessel days leaving 16,505 open vessel days, which is more or less double the amount of open days compared to 2013.
In Tankers, NORDEN has decided to maintain its high exposure to the spot market and at the beginning of the year, NORDEN had a coverage of 24%. We therefore enter 2014 with more than 11,000 open product tanker ship days, which is more than a 20% increase over last year. All together we have about 28,000 open days thus an increase of USD 1,000 per day leads to USD 28 million higher result.

With the significant recent ordering activity, we have also increased our long term exposure. Our core fleet capacity from 2017 and beyond, has been increased by 34%.
During the economic crisis in recent years NORDEN has operated with a low gearing. This has served us well. We have kept our powder dry and have now decreased our coverage, taken in attractive time charter vessels and invested in new eco vessels at historically attractive prices. All leading to increased gearing and a position with significant upside. And we still have a strong balance sheet with ability to further invest.
And now over to Martin for an update on the segments.

Slide 9 please
MARTIN BADSTED
For dry cargo 2013 was a year of 2 halves. First half was the worst since 1986, while second half was highly volatile and showed clear signs of better markets.

Demand growth was strong – especially in the second half where new iron ore capacity in Australia came on stream and China imported a record amount of iron ore in 2013: 820 million tonnes – up 10% y/y.

As usual China was the key driver of dry bulk trade and imported record amounts of coal and minor bulk in addition to iron ore.
Net fleet growth was below 6% and the lowest in 9 years with 62 million dwt delivered and 22 million dwt scrapped.

Slide 10, please
MARTIN BADSTED
NORDEN expects demand for tonnage to grow between 7 and 9% in 2014 and the demand growth is again expected to be driven by Chinese imports.
The completion and ramp-up of mine expansion in Australia and Brazil will together with Chinese import substitution support a higher level of iron ore export to China.

Chinese import of coal is also expected to develop positively although growth rates will probably decline somewhat compared to the very high levels seen in recent years.

Political trade barriers like the Indonesian ban on export of unprocessed ores and a potential Chinese ban on import of low quality coal will play a pivotal role for the demand for transportation by sea. In the short term such bans will typically have a negative impact, but this could be counterbalanced in the long term by the fact that the raw materials would need to be delivered by more distant mines.

Slide 11, please
MARTIN BADSTED
NORDEN expects a low net fleet growth of 4-6% in 2014. Scrapping is expected to be around 2% of the existing fleet, while 15% of the current orderbook is expected to be either postponed or cancelled.

Even when factoring in the extra capacity, that can be freed through increased speed as a consequence of improving markets, fleet growth is estimated to be at a level which will be more than offset by demand growth.
The high level of ordering seen during 2013 is giving some cause for concern if it continues through 2014. But so far we believe the orderbooks still look manageable.

Next slide, please
MARTIN BADSTED
Turning to the product tanker market where overall rates showed healthy improvements over 2012. Especially the 1st and the 3rd quarter exceeded expectations, driven by increased Australian imports in the 1st quarter and strong US exports in the 3rd quarter. Generally, a key driver of the improvement in the product tanker markets has been the continued increase of exports of refined products out of the US which even led to a reversal of the main flow between the US and Europe during periods in 2013
Fleet growth is estimated to have been only 2.7% in 2013. And overall spot earnings in the Norient Product Pool were up by 20% compared to 2012.

Slide 13 please
MARTIN BADSTED
Looking forward, the continued relocation of the global refinery capacity will continue to drive increased demand for product tanker vessels. The European refinery industry will be under increasing pressure and utilisation rates will drop further and eventually lead to closures. Europe will therefore have to increase its already significant imports of refined petroleum products adding support for product tanker demand.

The Middle East is expected to emerge as a significant export hub as new highly complex refineries come on stream and the region will export a large share of the oil production as refined products rather than crude oil. The US is also expected to increase its exports further as a series of minor capacity expansions in the refinery industry are completed.
So the fundamental demand story in the product tanker market remains strong.

Slide 14 please
MARTIN BADSTED
NORDEN expects a slight increase in supply growth in 2014, but we are still looking at levels significantly below the [10 year] historical average of 9%
There will be an uptick in deliveries after 2 years with very limited activity and scrapping is expected to stay in the 1-2% range
The orderbooks for 2015 and ‘16 still look manageble, however the ordering activity in 2013 was excessive and we need to see slower pace of ordering in 2014 or there is a real risk supply will once again outpace demand.

Slide 15 please, and over to Carsten for the guidance for 2014
CARSTEN MORTENSEN
Thank you Martin.
Now for the guidance for 2014. Given an improved market outlook we expect EBITDA for NORDEN to be between USD 20 and USD 120 million for 2014. A relatively weak first quarter improving over the year.
We have chosen to enter 2014 with significantly more open vessel days than in recent years. A 10% increase in average rates will lead to an increase in EBITDA of USD 51 million and given the volatility in both our markets, it is clear that there is significant upside potential as well as downside risk for NORDEN in 2014.
Based on current known investments, CAPEX is expected to be USD 90-120 million for the year.

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CARSTEN MORTENSEN:
And please remember that there are uncertainties related to any forward looking statements…

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CARSTEN MORTENSEN:
- This concludes our presentation. Now, we open our Q&A session. Please await the conference host’s instructions.

Operator: Thank you sir. Ladies and gentleman, if you'd like to ask a question at this point, please press star, one on your telephone and to cancel your request, you can press the hash or pound key. Once again, that's star, one to register a question and the hash or pound key to cancel your request. There will be a short silence while our participants register their questions.

The first question comes from the line of Noah Parquette. Please go ahead announcing your company.

Noah Parquette: Thank you. I just had a couple of questions. Firstly, there's been some speculation that ship yards have been holding back on their 2015 slots, or at least a few of their slots, in the hope that asset values increase. Can you talk a little bit about if you've seen that at all, if that's happening, and what kind of risk that has for supply in 2015?

Carsten Mortensen: Hello, Noah. This is Carsten. I just came back from Japan last week. It doesn't – there may be, as always, a few slots up the sleeve. But generally speaking, if you want to go into Japan for dry cargo ordering, you're looking at 17 or 18 now. So I don't think it is very significant.

Noah Parquette: OK –

Carsten Mortensen: May be some more open slots in China for bulk carriers. Product tankers is – the number of yards that can actually produce product carriers now is relatively limited and you're looking at Korea there and you are, I think, in to 16, 17 there also.

Noah Parquette: OK. That's good to hear. And then can you talk a little bit more about Indonesia and the effect it's having on your operations – I guess firstly, do you see any risk that this gets overturned or have you, you know, resigned yourself that this is going to be reality going forward? And how does that affect how you employ the ships in the region?

Martin Badsted: Yes, hi Noah. I think what we saw towards the end of 2013 and in the very early beginnings of 2014, was an elevated level of transportation of especially nickel ore and bauxite out of Indonesia into China. So I think the latest months, you had imports of 15 million tons each month, probably November and December.

So it was actually a huge part of the market in the Pacific and especially for these smaller vessel types where we operate, especially the Handymaxes. So we did see a severe correction in the middle of January, early February. So I think it to a large extent, that is a reflection of the falling away of this rather significant part of the month.

But I think the positive thing is actually that the market seems to have been able to absorb that within a relatively short period of time. And possibly the spot markets are improving again. So I think that's a testament to rather strong, underlying fundamentals. We don't think that they will, in the short-term, reverse this ban. There may be the yacht exemption here and there. But I don't think it's going to change a whole lot.

They seem pretty determined to actually keep it in place, although there is a lot of politics involved. I think the main pressure on the politicians will be the current account balance when – once they really start to miss those U.S. dollars in the government's budgets, then it might actually put on some pressure.

And as far as I know, it is an election year. So things can change quickly. But so far, I think there are no real signs that they are budging on the – on the rather severe stance on this export ban. So what happens now is then that – depending on where nickel prices and bauxite prices are going to stabilize, that we should be able to see China sourcing these raw materials from elsewhere.

That could be especially Australia on the bauxite and maybe Phillipines on nickel ore. So we think in the – in the medium to longer term as we said in the presentation, it isn't going to be a really big deal.

Noah Parquette: OK, no. That's really helpful. And then, just lastly, India has been, you know, a great source of coal demand. You know, there's some ports that are starting to be able to take capesize ships. Can you talk about the role of capesizes in the Indian coal trade, you know, in the future?

Martin Badsted: Yes. I think it's – I think one thing if you go back to the other country, China, they have really been able to ramp up imports exactly because they actually built a lot of capesize ports. I think in India, they are going that same route again. But it's something that takes a lot of time.

There will be ports built. They are taking in capesizes now, but still a lot of the trade is also taking place still on the smaller vessels. So it's not something that in the short-term we think will fundamentally change things.

Noah Parquette: OK, thanks. Thanks so much.

Operator: The next question comes from the line of Frans Hoyer. Please go ahead announcing your company.

Frans Hoyer: Yes. Good afternoon. Frans Hoyer from Jyske Bank. I was hoping you might be able to quantify the level of demand growth and product in the product tanker market that you experienced in '13 and what do you see as realistic for 2014?

Martin Badsted: That's a very good question, Frans. I think that exact demand numbers on product tankers is always pretty complex. I think based on what happened on fleet growth and the overall improvement that we saw in the market, it's reasonable to assume that demand probably grew four to five percent.

We have historically been able to, say, estimate demand growth based on sort of a multiple of three to four on global oil demand growth. It is a very crude rule of thumb, but it has tended to work quite well. So based on that, with an improving world economy and a slightly higher oil demand growth this year, you could probably see around the same numbers.

Frans Hoyer: OK. In your guidance for 2014, what – and you have quite a lot of open exposure as you explained – what sort of assumptions do you actually make for the open exposure in your guidance?

Martin Badsted: Yes. Well, it depends on the segments. If you go into the tanker segment, we have said that we assume a market which is moderately better than 2013. So you can say, we basically assume that the market will improve as we expect and that we will continue to be able to beat the market somewhat.

And then, in dry cargo, we base it on the forward curve. So it's not a flat rate for the open days. It's really a curve by quarter for the open capacity that we have in that particular quarter. So – and that was the – the guidance is based on the forward curve as it looks around mid-February.

Frans Hoyer: OK.

Martin Badsted: And then the dry cargo, as we have said, we have included $20 million in profits from new activity in addition to the forward curve earnings.

Frans Hoyer: OK. And finally, a question on this situation in China with the corporate default that hit the mining stocks quite badly over the – on Friday. Does that have any bearing on your business as far as you can tell at this stage?

Martin Badsted: I'm actually not completely sure what it is that you are talking about. So it's not something that we think will have a huge impact on us.

Frans Hoyer: OK. Thank you.

Operator: Once again, ladies and gentleman, that's star one to register a question and the hash or pound key to cancel. The next question comes from the line of Jacob Pedersen. Please go ahead. Your line is now open.

Jacob Pedersen: Yes, hi guys. Just a question on the current decoupling of the – of the spot rates and the period market when we look in – look into the near future. Could you maybe share some thoughts on how you plan to do things this year? When do you intend to log in new earnings and when do you expect to just go with the spot market? Any thoughts on this in relation to this decoupling?

Martin Badsted: Very interesting question that you raise there. It has been – as it was in Q4, the start of the year has also actually been quite challenging in terms of operating and generating profits from new activity exactly as you say because taking in period vessels and putting them out on the spot market is a loss-making proposition in the very short-term.

So in that case, if there's – if there's no money to be made from new activity, we will tend to – you can say step back a little bit and just let it play out. So I think to a large extent, that is what we are doing. We are taking our chances in the spot market. But of course, we are still trying to position ourselves for what we think will happen later in the year. And then in some selected instances, you will also see us taking some coverage, for instance, in Capes or Post Panamaxes.

Jacob Pedersen: OK. And any thoughts – I mean you – at this time you usually have a very high degree of coverage. Now you're going into the year with a – with a very low degree of coverage, of course, a year when you expect things to improve. But how have you as a company considered this increasing risk on your – on your earnings?

Carsten Mortensen: I think – hey Jacob, Carsten here. We still retained quite a significant cash position and strong balance sheet. And we have opened up – we had 59 percent cover for the year rather than in previous years 80 to 90 percent. But that is risk that we can deal with.

And Risk Management has always been religion in this company and it will still be religion going forward from here. But obviously, we are gearing our business up. So we had a net gearing at the start of last year at 0.26 of the book equity. And that is today 0.84. But it will still constitute a very conservative balance sheet.

Jacob Pedersen: OK. And maybe if you would tell everyone on what went wrong in the fourth quarter. I can't – I can't remember seeing you hitting that far off-target in for a lot of quarters in the past. Could you share some more words on it? Was it simply the fact that you went short in the market that was moving up or yeah –

Martin Badsted: So it's not really that. But let me start out by just putting some perspective on it. If you say our guidance was a small, positive result and we came out with minus five. If you call it 10 million, it's less than one half percent of annual revenues.

So in that terms, you can say, it's not a big swing. But of course, it is a disappointment to us as well. So what basically happened in Q4 was that we had a couple of contracts, where to give you one example, for instance, we had three sourcing areas in Asia, in the Middle East, and Black Sea. And typically when you do a contract like that, you will make some assumptions based on your experience and what you know has happened previously around the share between those different sourcing regions.

And then you make some assumptions about what it will cost to find new ships in – when sourcing – or when loading the cargos. So what happened in Q4 was actually a combination of a very high spot market in Black Sea – so that is what we call a regional spike – combined with the fact that the customer then decided to actually nominate practically all cargos sort of out of that area.

And once that happens, it is really a mismatch of, let's say, you're hit. So the coverage actually opened you up to another risk and when that happens, it just costs dearly. So towards the end of the year, costs for each cargo nomination could be $6 or $700,000 each. And then the clock is ticking quite fast and we are losing money on a contract like that.

So that is really the big difference between a cargo contract and time charter contract. That you do run operational risk. And 90 percent of the time, it goes well and we are happy with that risk. But sometimes it just takes you by surprise.

Jacob Pedersen: Yes. OK.

Carsten Mortensen: I want to comment also. When you're going from a structurally oversupplied market into a better balance market, there is a transition period where you will see extreme volatility. So if you just look at the averages for the second half, they were quite – they looked quite peaceful and higher – definitely higher than the first half.

But under that average, you actually saw extreme volatility and a market which is not a super easy to operate in when you have a significant fleet like we have. But we are pleased with the spikes because that's indicating we are moving gradually towards a better balance in the market.

So all in all, it's a – also a period where we have decided deliberately to push down our coverage, to increase our gearing, combined with that volatility. It was not exactly an easy quarter to operate in. But yes, we disappointed. But – and we had a bit of a tough start to 2014. But we – if we just look one or two quarters forward, then it certainly looks a lot sounder.

Jacob Pedersen: Great. OK. Thanks a lot guys.

Operator: Once again, ladies and gentleman, that's star, one to register a question and the hash key to cancel your request. There is a follow-up question from the line of Frans Hoyer. Please go ahead. The line is now open.

Frans Hoyer: Yes. A question. You mentioned the gearing going up from – to 70 percent or so and I wonder where will this ratio move to once you've taken delivery of the new builds? Will that be a level that you will be comfortable to run or will you also be divesting a few vessels?

Martin Badsted: Well the gearing that we are talking about is the gearing we calculate in our internal risk system which actually does already incorporate all new building installments and then time charter obligations. So if it was all delivered tomorrow, the gearing would still be the same...

Frans Hoyer: I understand.

Martin Badsted: …because that cash outflow is already accounted for.

Frans Hoyer: Of course.

Martin Badsted: So if the question is where will that gearing be a year from now, that depends on your view on what will happen to equity and what will happen in terms of further investment.

Frans Hoyer: Are you comfortable with the 70 percent or will you be unloading some of the other older vessels, less efficient vessels, and so on to try to get to a level that you're comfortable with?

Martin Badsted: No, no. We are comfortable with the 70 percent and actually it has gone up to 84 percent as we did these seven and a half new buildings during January.

Frans Hoyer: I understand.

Martin Badsted: So – but we still think this is a really strong balance sheet and we still think that we have actually plenty of capacity to do more investments if we find the right opportunities.

Frans Hoyer: OK. Thank you very much.

Operator: Once again, ladies and gentleman, that's star, one to register a question and the hash or pound key to cancel your request.

Carsten Mortensen: All right. It doesn't seem like there are any more questions so thank you very much for calling in. If you have any further questions, do not hesitate to contact our Investor Relations department. Thank you very much for listening in. Have a good afternoon. Bye bye for now.

Operator: Thank you sir. Ladies and gentleman, thank you for your participation today. This concludes today's conference and you can now disconnect your lines. Thank you.

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