NORDEN
Interim Report Q3-2011, transcript of tele conference, 15 November 2011.

Good afternoon ladies and gentlemen and welcome to the presentation of NORDEN's Interim Report for the third quarter of 2011. My name is Carsten Mortensen, I am the CEO of the company. I will be presenting together with CFO Michael Tønnes Jørgensen and Senior Vice President Martin Badsted who is responsible for our Investor Relations. I trust that you have all found time to down the accompanying PowerPoint slides from our website. We shall try to 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 no. 2, please. Here you have today's agenda. I will start out by outlining the highlights of the third quarter. Subsequently Michael will go over the key financial figures. Then Martin will present the market conditions in Dry Cargo and Tankers and Michael will finish off with our current expectations for 2011. After the presentation we will open for our Q&A session so please wait until then with any questions that you may have.

Slide no 3, please. Group EBITDA for the third quarter was 36 million against USD 22 million in the same period last year. The EBITDA was 11 % lower than the second quarter of this year. At the end of the third quarter Dry Cargo was fully covered for 2011 and 57 % covered for 2012. In Tankers we maintained a low coverage for 2012 and onwards as we believe there is more upside than downside in the current weak forward market and we will only log in coverage with high-quality counterparts at sufficiently attractive rates. We believe we continue to have a strong cash position and we also have added to our financial flexibility and resources in recent months through two new long-term loan agreements at very competitive terms.

In light of a solid performance in the first nine months of the year, I am pleased that we can now upgrade our full-year guidance for 2011 to an EBITDA of between USD160 and USD180 million and an EBIT of USD 80-100 million. Now over to Michael who will take you through the key financial highlights. Michael?

2.20
Thank you, Carsten. Out of the group EBITDA of USD 36 million, the Dry Cargo department generated USD 35 million and USD 3 million was generated by our Tanker business. The Tanker performance was in line with expectations while the Dry Cargo department performed slightly better than expected. This was primarily due to improved market conditions as well as high coverage at sound rate levels.

This year, NORDEN's owned fleet has grown by 10 vessels and as a reflection of that, depreciation has increased from a year ago. The trend will continue for the remainder of the year, as 7 vessels will be delivered to NORDENs owned fleet in the fourth quarter.

Results for the third quarter were a net loss of 21 million dollars, negatively affected by fair value adjustments of hedging instruments of 29 million dollars. The adjustments are due to declining

bunker prices and increasing freight rates in the third quarter, and reflect a reversal of positive adjustments in previous periods.
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Total theoretical NAV at the end of the quarter was 1.9 billion dollars or 249 DKK per share – up 3 DKK from 249 DKK. The increase is due to a 7% higher USD/DKK exchange rate which more than offsets the lower value of the owned fleet and purchase options. Please bear in mind though, that the majority of our coverage is not included in these NAV figures.

The fleet values were assessed by 3 independent shipbrokers and on a comparable basis the value of our Dry Cargo vessels decreased by 7% during the quarter, while our tanker vessels decreased in value by 3%.

The total market value of vessels in operation and newbuildings is approximately 1.6 billion dollars and remaining capex is 222 million dollars, which will fall due in the period 2011 to 2013.

At the end of the quarter, the net selling price of NORDEN's fleet, excluding 2 vessels in joint venture and vessels held for sale, was 176 million dollars below the carrying amounts and costs of newbuildings. And that is equal to -151 million dollars in Dry Cargo and -25 million dollars in Tankers. Consequently, an impairment test was carried out, and based on this there was no indication of impairment and thus no need for write-downs.

Slide 6 please, and over to Martin

5.10
Thank you, Michael.

The dry cargo market regained some strength during the third quarter after a sluggish first half of the year. The Baltic Dry Index rose by 50% from the beginning of August until the end of the quarter, primarily driven by significant improvement in Capesize earnings, but also by better spot earnings in smaller vessel types. Despite a stronger spot market, forward rates did not show much improvement during the quarter, and after the end of the quarter market rates started declining.

The main reasons behind better market conditions in the third quarter were a considerable increase in iron ore exports from Brazil to Asia, the return to normal of Australian coal exports after the flooding of mines and infrastructure in early 2011, and increased demand by Japan for raw materials.

During the quarter approximately 25 million dwt were delivered to the global dry cargo fleet, taking total deliveries for the first 9 months to 72 million dwt, compared to 77 million dwt. delivered in 2010. Scrapping was 5 million dwt. during the third quarter, compared to an average scrapping rate of 6.5 million dwt. in the two previous quarters. This slowdown was mainly due to stronger freight markets. We expect scrapping to continue at a high level but despite this the fleet growth is still expected to be around 12-13% net in 2011, while actual tonnage demand is predicted to grow by approximately 9%.

Slide 7 please As mentioned earlier, one of the factors contributing to the improved market conditions in the third quarter was an increased demand from Japan for raw materials.

In August Japan imported a record-high volume of 10.4 million tons of thermal coal due to lower utilisation of nuclear power plants following the tsunami earlier in the year. This is expected to continue as long as nuclear power plants remain out of operation.

Iron ore imports also rebounded strongly in July and August, reaching their highest monthly level since October 2008. This is undoubtedly a sign of the ongoing reconstruction of infrastructure and real estate damaged in the disaster in March. Japan's imports are expected to continue at a high level as the reconstruction efforts continue into 2012 and beyond.

Slide 8 please
Chinese demand held up strongly in the first 9 months of the year despite slowing growth momentum. During the period, China imported 509 million tonnes of iron ore, an increase of 11% compared to the same period last year. In addition to strong volume growth, average distances have also increased. This year, one of the most important changes in trading patterns has been a 24% decrease in India's iron ore exports to China compared to last year, while exports from Australia and Brazil to China have increased by 9% and 14%, respectively. So Brazil has taken market share from India, which adds a lot of tonne miles.

We expect this development to continue in the coming years as India ramps up its domestic steel production, and Brazil and Australia further increase their mining capacities.

Chinese coal imports have also added to the improvement in spot rates in the third quarter. While monthly coal imports have been below 2010 levels in the first part of the year we have seen September figures up by some 25 % over the year before.

Slide 9 please
In the third quarter, the product tanker market was negatively affected by the uncertainty surrounding Europe's debt crisis and seasonal slowdown in Europe. These factors, combined with sluggish US gasoline demand resulted in very low spot markets in the Western Hemisphere. On a more positive note, South America continued to show strong demand, the resumption of imports of refined oil to Libya also had a positive effect on the market and overall demand in the Eastern hemisphere was quite strong.

In general, the market fundamentals are still relatively unchanged. Despite of persistently high oil prices and fear of a slowdown, global oil demand has held up reasonably well and is expected to reach 89.2 million barrels per day on average in 2011, an increase of 1 million barrels per day compared to 2010. And restructuring of the refining sector in Europe and the US east coast is continuing which in combination with added capacity in the Middle East and Asia is expected to support ton-mile growth going forward. Fleet growth, on the other hand, is expected to remain very limited in the foreseeable future, which will help restore the balance between supply and demand.

Now Michael will take you through our current guidance.

Slide 10 please.
10.22
Thank you Martin.

I will conclude our presentation with an update of our earnings outlook and guidance.

As mentioned in the beginning of the presentation, we are pleased to adjust our earnings guidance for 2011 upwards - to an EBITDA of between 160 and 180 million dollars and an EBIT of between 80 and 100 million dollars.

In Dry Cargo, we now expect EBITDA to be 150-170 million dollars, and we maintain expected Tanker earnings EBITDA of 20-30 million dollars.

CAPEX is expected at USD 295-335 million dollars for the year.

Especially in light of difficult market conditions and current financial turmoil in Europe, we are very satisfied that we have increased our operating earnings, while increasing our market presence in Dry Cargo. In a market that's growing by 5-6% in volumes, we have increased the volumes of cargoes carried by 32% year on year – which is well above our strategic target of 15%

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And when looking at this slide, please remember that there are uncertainties related to any forward looking statements. This finalizes our presentation and we look forward to taking any questions you may have.

11.47
Operator
Thank you. If you have a question please press star, then 1 on your touch tone phone.
The first question comes from Martin Korsvold from Pareto Securities, please

12.00
Martin Korsvold
Good afternoon. I have a question, you mentioned in your written report, but could you talk a bit more about the potential impact on the probable tanker market in the Atlantic Basin of this likely shut-down of your refining capacity

12.18
A: Yes, Hi Martin. Yes, I guess you are referring to the US East Coast refineries that the owners so far have put up for sale and I think the expectations are that it will be quite difficult to actually sell them to any one, and if not, they will be closed down in the middle of 2012. We are actually talking some 6 to 700,000 barrels a day of refining capacity so it is quite significant. And I think it is

about 43 % of what is actually PADD 1 - the US East Coast - capacity. So it depends a lot on how you think that closure will actually be substituted with alternative products and probably some of it will come from the US West Coast or US Gulf refineries, which will not impact product tanker markets a whole lot but I am sure a lot of it will actually also come from European refineries that will be able to supply the market with products, which would be very, very positive for the product tanker markets. If you add the 6 or 700,000 barrels per day onto a graph of the import volumes into the US market, this would actually, I think, completely offset the decline in US imports that we have seen since 2005 and 2006 so the potential of this is actually quite significant, but it will probably be a gradual impact to the market.

13.55
Martin Korsvold
OK, interesting. Also in terms of values, what is your feeling on Dry Bulk and Products, especially Products, do you think we are bottoming here or do you see further downside in the two segments? If so, how much?

14.13
A: Hi, well who knows? I think you have to look at the overall demand side, you can say if you look at the banking sector, funding a very capital intensive industry, they are certainly scrambling a lot of them to survive themselves. And there is not a whole lot of demand out there. There is demand, though. Dry Cargo values have come down a further 7 %. Tanker values a further 3 % in the past quarter. I think altogether we are now – we think we are probably near the bottom in the Tanker segment. We have seen sharp corrections after the end of the third quarter whereas for Dry Cargo we are focusing much more on increasing our cargo base than necessarily acquiring a lot of ships at the moment.

15.10
Martin Korsvold
OK, lastly, can you speak a little bit about what is happening on the coal export side out of the US? We understand that there is actually the potential in the increase of volumes out of there and you've got obviously close on that market.

15.26
A: Yes, I think actually the US coal exports as it looks now are on track to be probably one of the strongest years for 20 years or so and you can say, I think there are two very important factors that actually make this happen. One is that there is a war on coal as they call it in the US where government legislation is actually making it almost prohibitively expensive to run old coal plants, at least they need a lot of investments in upgrading. And to the extent that this legislation is actually rolled out, it could have continuing impact on the coal consumption in the US and therefore the amount of coal being available for exports. And at the same time you have seen this very strong gas volume in the US market that has driven down the gas price, which in turn also means that coal consumption is weakening because they want to use more gas so it is really an interesting story, really, about coal volumes being made available and of course also demand has to be there but with the high coal prices I think all the US mines are actually working hard to build

out their infrastructure, build out their port facilities to actually make this happen, so it is very positive for Dry Bulk.

16.54
Martin Korsvold
OK, thanks so much.

Operator
The next question comes from Noah Parquette from Cantor Fitzgerald, please

17.03
Noah Parquette
Hi, I was wondering if you can give me a little bit more colour on what you are seeing for the Handymax market in the Pacific and then when do you expect some of these Indian iron ore exports to resume and what do you see in terms of the nickel cargoes in the monsoon season?

17.20
A: Well, that was a very detailed question. No, overall if you look at the two Basins, the Pacific and the Atlantic, I think we are in a situation where the Pacific is, you can say, constantly oversupplied with ships compared to the Atlantic. The inefficiency between the two Basins, the more ballast you need to take to position ships into the Atlantic, sometimes pulls up or reduces supply in the Pacific. I have to admit, I don't have any smart answers or good answers for your specific question on nickel ore at the moment, I have to say. Sorry about that.

18.05
Noah Parquette
OK, so with that dynamic, do you find the Pacific a more attractive place to, you know, place your fleet in terms of the triangulation and stuff like that?

18.15
A: For both the Handymaxes and the Panamaxes we are very much trading in between the two basins and we are also quite active in the two basins but I think it is a positive for the Dry Cargo market that you are seeing this constant build-up. 80 % of all dry cargo raw materials imports in the world are today taking place between the range of India to Japan. That is also where you have the entire yard industry so you have, you can say, a constant of build-up of ships out there. If you then ballast longer, you have a more inefficient fleet and that is of course good for demand for ships.

18.58
Noah Parquette
In terms of India, how do you see the port infrastructure developing in terms of taking larger ships? What do you think the future of that will be?

19.08

A: Well, I think India is growing tremendously on for instance coal import over the next 5-7 years. Coal for energy generation is in constant undersupply. I think India imported 60-70 million tons of coal last year and I think in 2020 India is expected to import about 500 million tons of coal for thermal purposes, so India is a tremendous growth economy. We have been talking for many years about India improving port infrastructure and it is certainly happening particularly on some of these new coal terminals, but we are still using many of our geared Handymaxes to discharge into barges in India so it is not quite developed yet. And it is certainly a big Handymax market altogether.

20.04
Noah Parquette
OK, and then I guess I just have a quick question on, you know, you put in place new facilities. With your discussions with the banks. What kind of loan-to-value levels are they comfortable with now, I mean is it, how about 50 % or do they go higher than that if there are charterers attached?

20.21
A: Well, I can briefly comment on that. I can say that we have been quite busy over the past 12-18 months to find good, long-term credit facilities for Norden so that we can add on our flexibility – financial flexibility and it has not been an easy task but I would say we have also been very selective in what we have accepted. I would say the loan percentage will of course depend very much on where on the cycle you make your investment because the banks fully realise that current market values are significantly down - especially we made expensive orders back in 2008. So my estimation would be that a very expensive ship from 2008 you may be able to get financing on up to 50 % today. Whereas if you go out in the depressed market you can see now the values are more sort of reasonable. You may be able to get up to 70 %.

A: I think it is also fair to say that we are probably not the experts on loans, Noah, because we don't have that many of them but there is a clear tendency that it requires more equity to be a ship owner today than it did 3-4 years ago and many ship owners have been worn down through the crisis we have had in the last 3-4 years. So it is very interesting. I think many of the big shipping banks have been more busy in restructuring loans than issuing new loans so …

21.53
Noah Parquette
Yes, that is why I wanted to get your opinion because I mean you might have a small expense for the loans but you have better credit than most people.

22.01
A: Exactly, we have received under three facilities Michael mentioned and we could actually have financed the entire new-building fleet that we have cash - from our own cash, but are of course building up the flexibility that Michael was talking about. The irony of course is that the people who don't need the loans, they can get the loans. So I think the market is severely challenged. You need to be an existing customer to get into a dialogue at all with your banks and I think you would see that even at current values the banks would be hesitant to go much beyond 60 % - 65 % loan to the value today.

22.43
Noah Parquette
OK, then just one really quick final question. Your interest expenses did go higher this quarter and then can you talk about what that was? I mean, was it from the new facilities? What do you look for..

22.56
A: Isn't that exchange rates also?

A: There are some exchange rate adjustments and there are some banking fees and well, there are some adjustments in currency and other things.

23.07
Noah Parquette
OK, some of those banking fees – that is one thing.

A: Yes

23.13
Noah Parquette
All right, that is all I have. Thank you.

A: Okay

Operator
The next question comes from Jacob Pedersen from Sydbank, please

23.22
Jacob Pedersen
Hi gentlemen, just a couple of questions. First of all, could you be a bit more specific on where you have done better so far this year. Has it been more ship earnings days or has it been higher freight rates than you would expect? Also, I would like to hear your thoughts on the possibility of improving coverage further for 2012.

23.45
A: Yes, hi Jacob. I think actually one of the areas where we have done quite well in this quarter was what Carsten also talked about before, the positioning between the two basins so an important part of our cargo focus is often to try to find paying cargoes for the difficult parts of the repositioning. And this also means that when the market is developing as it did in the third quarter with improvements primarily in the Atlantic basin we actually benefited because we positioned our ships being open in the Atlantic whereas a lot of our cover is actually taking us from the Pacific to the Atlantic or maybe from the European continent over to the US Gulf so it is actually the spot rates that you see in general actually hide a little bit, the volatilities that go on between the

different routes and between the different regions and it is actually positioning to benefit from these volatilities that have done well in this quarter. And what was the second question?

25.06
Jacob Pedersen
Thoughts on coverage for improving 2012 coverage both in terms of the rates and also in terms of percentage of course.

25.15
A: I think, actually, you need to be aware of a change in the mix of in particular our Dry Cargo fleet going forward when you compare the level of coverage one year ahead today versus previous periods. We are increasing our fleet a lot in Handisize which is more a spot-driven business than contract business. And since we are increasing that segment you will tend to see lower coverage percentages 12 months into the future compared to historical levels but when you look at the traditional segments of Norden, Handymax and Panamaxes, the coverage for next year is actually quite high. Could we increase coverage overall further for next year? It is certainly something that we are working on but I would say based on current forward levels and based on the economic uncertainty we are also being cautious, first of all we are not too keen on locking in the discounted forward curve presently and I would say it is not easy to find counterparts where you are completely convinced that they will be able to make it through a crisis. But when you talk about the overall activities on building up the cargo pipeline, the 15 % forward growth that we have talked about in our strategic focus I think we are certainly very satisfied with the way things are going but it is very difficult to predict exactly when these big contracts actually are being signed or are being concluded. They will come in big lumps and then it may be in this year, it may be into next year, but the pipeline is certainly looking very healthy.

27.07
Jacob Pedersen
OK, thanks a lot.

Operator
As a reminder ladies and gentlemen if you would like to ask a question, please press star then 1 on your phone please. We have no further questions at this time.

All right, thank you very much for listening in. If you have any further questions do not hesitate to contact us here at the headquarters. Thank you very much. Have a good afternoon. Bye-bye.