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Corporate Participants

Carsten Mortensen
NORDEN – CEO

Michael Tønnes Jørgensen
NORDEN - CFO

Martin Badsted
NORDEN – EVP

Presentation

Carsten Mortensen - *NORDEN*

Good afternoon and welcome to the presentation of NORDEN's interim report for the third quarter 2013. My name is Carsten Mortensen and I am the CEO of the company. I'll be presenting, together with CFO Michael Tønnes Jørgensen and Executive Vice President Martin Badsted, who is responsible for our investor relations. I trust that 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 subsequently.

Slide number two, please. Here you have the agenda of today. I will start out by outlining the highlights of the third quarter. Subsequently, Michael will go through the key financial figures and then Martin will present the market conditions in dry cargo and tankers and I will finish out with the current expectations for 2013. After the presentation we will open up for the Q&A session.

Slide number three, please. Group EBITDA for the quarter was $19 million, the best quarter of 2013, but lower than third quarter of last year. The spot market in dry cargo was better than expected, especially in the Capesize market, where spot rates increased from the mid-teens to more than $40,000 a day at the end of the quarter. In the product tanker market third quarter spot earnings were the highest recorded in recent years.

As a consequence of the improved market conditions and the positive change in sentiment, vessel values improved and, based on independent broker evaluations, the value of NORDEN's fleet increased by 5% during the Quarter, which means that the value of the NORDEN's fleet has increased by $100 million during the last six months and is now only $19 million below the book value.

As mentioned earlier, 2013 is an investment year, where we optimise our fleet with new fuel-efficient vessels. During the third quarter we have taken long-term charters of three Japanese-built Panamax vessels and after the end of the quarter we have additionally made two contracts of two Supermaxes. Consequently, NORDEN's order book now stands at 29 fuel-efficient ECO-ships. We narrowed the range of our financial guidance for 2013 to an EBITDA of between $25 million and $45 million, from the previous $15 million to $45 million.

This is based on an expectation of a positive dry cargo result and a tanker result in the high end of the guidance. Now, over to Michael, who will take us through the financial highlights. Slide number four, please.

Michael Tønnes Jørgensen - *NORDEN*

Thank you, Carsten. As Carsten mentioned, NORDEN generated group EBITDA of $19 million, distributed with $11 million in the tanker department and $10 million in the dry cargo department. For the dry cargo department, this was the best quarter so far this year and the performance was supported by the heavy spike in the earnings in the second half of the quarter.

In tankers, the market experienced a slight downturn in the third quarter, but overall earnings indicate continued improvement in market conditions. This is also evidenced in NORDEN's T/C-earnings, which were 26% higher than the same period last year. Results for the third quarter were a net profit of $0.6 million. Net cash flow, in other words, cash from operations, investments and financing, amounted to $29 million, where cash flow from operations was positive $3.9 million.

NORDEN has a solid cash position, with cash and securities of $529 million at the end of the quarter and unused credit facilities of $170 million.

Slide five, please.
In expectation of improving market conditions and to capture near-term upside, NORDEN has decided to increase its exposure in most segments for the period 2014 to 2016.

As an example, NORDEN added 4,000 extra Panama vessel days to 2015 during the third quarter, which consequently lowers the average T/C end costs with $2,500 US per day to a total of $12,900 per day. This increase in exposure and lowering of average unit cost has also been done for 2014, 2015, and 2016. More details can be found in the quarterly announcement.

And now over to Martin, who will take us through the market.
Slide six, please.

Martin Badsted - *NORDEN*

Thank you, Michael. The dry cargo market saw an improvement in the second half of the third quarter, where Capesize rates rose to more than $40,000 US per day. Although a seasonal spike is normal, the spike was higher than expected and rates have since decreased to a lower level between $15,000 and $20,000 per day.

The improved Capesize market also impacted the Post-Panamaxes and the smaller vessel sizes, which saw healthy rate levels. The improvement in the market was mainly due to new iron ore capacity coming on line, which increased the iron ore shipments from Australia and Brazil to Asia, particularly to China, whose iron ore import was a record high in both July and September, with 73 million tons and 74.5 million tons, respectively.

Consequently, China’s total iron ore import increased 17% compared to the third quarter of last year. Although iron ore stole the headlines, the improvement was, in fact, broad-based. During the quarter China’s minor bulk imports increased 40% compared to the same period last year. This increase is mainly due to larger volumes of bauxite and nickel ore, where bauxite in particular hit a record of 21 million imported tons in the quarter, which is four times higher than last year.

And on top of this, China’s imports of coal rose 29% year on year, to 67.4 million tons. So in total China’s dry bulk imports were up around 23% compared to last year. Also, we saw strong Brazilian imports of fertiliser being up 37% year to date, compared to the same period last year, while actually the US grain exports decreased slightly in the third quarter.

So underlying demand drivers remain supportive, although world GDP growth forecasts continue to slowly decline. Chinese steel, electricity and industrial production numbers were each up by more than 10% year on year in September.

Slide seven, please.
Turning to the market outlook, there are a number of indicators supporting our belief that the market is gradually tightening from here on. First of all, fleet growth is slowing down. Although scrapping has slowed down slightly, due to the improved market conditions, this has been more than offset by a 46% decline in new deliveries.

In the first nine months of the year there has been an influx of new orders, but the order book is still at its lowest levels seen in ten years and we still think demand growth will be able to absorb it. Additionally, we expect positive demand from a strong grain season later in the year and the coming on line of several new iron ore projects in both Australia and Brazil. Overall, we expect a gradually improving supply and demand balance from here on.

Slide eight, please.

In general, the product tanker market has experienced a continued improvement during the year, compared to recent years. Product tanker spot markets in the third quarter were slightly lower than in previous quarters of 2013, but did much stronger than in the same period of last year.

Based on the Baltic exchange, the MR spot rate was 60% higher than the third quarter in 2012. The major driver was again the US, where exports of refined products hit a new record high. The consequence of this is a change in trading patterns. Where vessels previously ballasted to Europe to transport gasoline back to the US, they now ballast to the US to collect diesel destined for either Europe, South America or Africa.

Also, Russian exports of fuel oil provided some support to an otherwise inactive European market. The market east of Suez was in a large part of the quarter affected by low activity, where exports out of China and demand from Japan and Australia all decreased. On average,the Norient Product Pool realised MR spot time charter earnings of around $17,000 a day during the quarter.

Next slide, please.

During the third quarter the improved market conditions dampened the level of scrapping, which was reduced by half, to 0.3 million deadweight tons, compared to the same period last year. However, despite this the net fleet growth continues at a low pace. In the third quarter the product tanker fleet grew by 0.9% while it, for the first nine months of the year, has grown 2.7%. Following the recent strong ordering activity, net fleet growth is expected to accelerate slightly into 2014, but we think demand growth will be strong enough to absorb it and we expect the gradual improvement in rates to continue.

Slide ten, please.

Carsten Mortensen - *NORDEN*

Thank you very much, Martin. As mentioned earlier, we narrowed the range of our financial guidance for 2013 to an EBITDA of between $25 million and $45 million, from previously $15 million to $45 million. Earnings in dry cargo have been and will continue to be affected by the challenging market conditions and thus NORDEN expects an EBITDA of between 0 and $10 million for the dry cargo business.

The tanker department earnings are expected to generate an EBITDA of between $25 million and $45 million and probably in the high end of that. Based on our current known investments and sales, CAPEX is expected to be between $110 million and $120 million for the year.

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

Next slide, please. That concludes our presentation; we are now open for the Q&A session. Please await the conference hosts' instructions.

Questions and Answers

Operator

Thank you. If you wish to ask a question please press star one on your telephone. Your first question comes from Mikkel Nielsen, from SEB. Please go ahead.

Mikkel Nielsen - *SEB*

Good afternoon, gentlemen. A question about the dry cargo deliveries that you have on one of your slides. How much do you see or expect for the rest of the year and how much do you expect to be pushed into next year?

Martin Badsted - *NORDEN*

Hi, Mikkel, it's Martin here. Overall, we still maintain our full year guidance of a net fleet growth of 4% to 7%. It has been 4.4% year to date, fleet growth, which is, when you annualise it, close to the high end of our original range. So you can say in terms of net fleet growth what we expect in the last couple of months of the year would be to the tune of 1% to 1.5%.

Mikkel Nielsen - *SEB*

Okay. Then, in the current market, given that rates have come down, of course, in dry cargo recently, are you seeing sort of sustained, a bit of elevated spot market levels, especially for Post-Panamax and Capesizes in this quarter and maybe into 2014?

Carsten Mortensen - *NORDEN*

Hi, Mikkel, Carsten here. I think one of the things we got out of the spike in the third quarter was that the whole level of activity was lifted. Also when you heard Martin talking about demand for minor bulks for instance, into China, and shortfalls on deliveries of more than 45%.

If you take the Handymax market now, it's trading spot around $13,800 a day. Which is pretty decent. Capesizes have come down to around $20,000 per day now. When you look at the futures for next year they are slightly below the $20,000 for the Capes and Post-Panamaxes, but overall, we think for next year the demand growth will outpace the delivery, so we are expecting 3% to 4% supply growth next year and 6% to 8% demand growth next year.

So we think we're gradually moving towards better times in dry cargo. In the first quarter you have the phenomenon that a lot of new ships are being pushed into the first quarter, so you can clearly see that on the futures for the first quarter. But, hey, if the demand is there, then the market will again surprise, even in a quarter where many new ships are delivered.

Mikkel Nielsen - *SEB*

Okay. And then on the tanker market, are you seeing any sort of early signs of the winter market? Is there some firmness in the rates that you can do going, let's say, two or three months out or what are you seeing?

Carsten Mortensen - *NORDEN*

Very positional right now, I think it is fair to say, so in certain markets if you take the distillates exports out of the US that's pretty firm now. The Far East is okay, but then you have pockets in the dirty market in the Med and on the Continent on the rise now, but then you have a clean market for the Handys that are down. It's very positional, but underlying I think you'll see slight improvements, particularly with the winter market approaching now also in product tankers on the Continent.

So, overall, there the conclusion is more or less the same. We think we are headed towards slightly better times in 2014 over 2013.

Mikkel Nielsen - *SEB*

And on the fleet, that you have taken five long-term Panamaxes and of course effectively lowering your average rates in 2015 and onwards, as we can see. You're saying you're also in current negotiations or discussions on investments. Can you say something more on that? I assume that's also for dry cargo vessels?

Martin Badsted - *NORDEN*

Since we're actually positive on both segments, we are contemplating investments in both our business units and you can say the overall headline for us is to continue the focus that we have had for the last couple of years, which is that the fuel efficiency is here to stay and it's going to be important for our future competitiveness.

So we will be concentrating on the best designs, in terms of fuel efficiency. And we will also continue, as you mentioned, particularly in dry cargo, where we see probably, you can say, the biggest difference between demand and supply next year. In tankers it's going to be more price sensitive, because the most recent indications that we see from shipyards indicate that they have become a little bit more greedy, you can say, in terms of increasing their prices. So it remains to be seen what can be done, in terms of attractive new deals.

Mikkel Nielsen - *SEB*

Yes, I mean we've spoken about that before and that was going to be my next question, on new buildings and what are you seeing for the quality yards? Have they sort of filled up, are they beginning to offer '17 slots now or how do you see that?

Carsten Mortensen - *NORDEN*

It depends on whether you look at China, Korea or Japan. I think for the Japanese, quality yards on dry cargo, you're certainly seeing yards talking '17 deliveries now and the number of tanker yards that can do quality tankers, MR tankers, is not much more than a good handful these days and they are pretty well booked up now also, at least through 2015 and into 2016.

But as Martin said, you've seen the tanker values coming up quicker than you've seen dry cargo values coming up, so it will be more of a cherry-picking mission that we'll be on there and then continue the focus on investing in dry cargo, too.

Mikkel Nielsen - *SEB*

Okay. Thank you.

Operator

Thank you. We have no further questions from the phone lines; please continue. We have a question that has arrived from Lars Heindorff from ABG; please go ahead.

Lars Heindorff - *ABG*

Good afternoon, gentlemen. A question regarding your contract coverage. It's gone up a little bit and I know there tends to be sort of a movement from quarter to quarter, but I don't know if you can elaborate a little bit on some of your thoughts, here. I can see that the margins in the book, forward book that you have for next year have gone down again. And yet you sort of increase that. Is this a reflection of you sort of rolling the book forward or are there any other thoughts behind that?

Carsten Mortensen - *NORDEN*

Hi Lars; Carsten here. What you have to, when you look at the table, bear in mind is that it includes ballast legs as well. So we often have a focus on doing the extreme low-paying legs and then playing the front haul legs open. So we may put in coverage at a return of $0 dollars per day, but that is eventually going to be good business because that will position us into South America where we can then do a front haul voyage afterwards.

So, overall, we have been pushing down the coverage for 2014, 2015, and 2016 in dry cargo. And we remain 80% open in tankers for next year, so that you can also read into that that we do expect rates to improve on the tanker side.

Lars Heindorff - *ABG*

And then, I'm sorry if I just heard the last part of Mikkel's questions, but regarding the supply visibility for next year, you talked a little bit about tankers, but in dry cargo how is that looking and what are your thoughts about that? I mean, are you still aiming for the ECO-ships and if you want to order that kind of ship today, what will be sort of the first point of delivery, at this point?

Carsten Mortensen - *NORDEN*

Well, it very much depends on which yards you are looking at, but you'd certainly be looking, overall, into 2016, 2017, for delivery of super ecoships. But you will have noticed also from, you can say, it's a two-step approach we are taking. We are increasing our tonnage days in 2014 to 2016 in anticipation of a stronger market; that's current ships.

And then we are long-term investing in fuel-efficient ships that will be coming in two or three years' time. So you'll see that we are opening up; we've taken in, as Martin said during the presentation, 4,000 extra days in 2014 and 2015 on the Panamax segment. And that's certainly in the hope that we will see better returns, spot. And then long term competitiveness on the fleet is our focus and we are seeing now , you can say, we got delivery of the first four... first generation ECO-ships over the summer on the tanker side and they are living up to the expectations.

So on the debate whether we believe in the fuel efficiency story or not, we do and we are seeing it happening now. So long-term investments, 25% to 30% savings on fuel, we are seeing that and we are strong believers in that.

Lars Heindorff - *ABG*

Then, lastly, I think it was in the first quarter of this year, there was a lot of talk about repositioning and you had moved a lot of cargo – sorry; not cargo, but vessels – around in order to position yourself for the grain season. We didn't really see sort of the benefit of that in the second quarter. It looks like you've been a bit stronger also the market has been stronger in the third quarter. Is there any sort of news here that we should... events that we should know about, how you've been positioning yourself in the fourth quarter, which might affect earnings or sacrificing earnings in order to get it maybe at a later stage?

Carsten Mortensen - *NORDEN*

I think specifically the move we did on the South American grain season, we invested approximately $40 million to $45 million in repositioning ships in there during the first quarter and I think the total return on that was $8 million. So that was a good investment and that was spread out over first, second and third quarters. No, I think you cannot read... we haven't made any big positioning at the current moment of time. But we expect overall the market to improve next year.

Lars Heindorff - *ABG*

Thank you, guys.

Operator

Thank you. We have no further questions from the phone lines. Please continue.

Carsten Mortensen - *NORDEN*

Okay. I think that is it from us here, if you have any further questions do not hesitate to call us. Thank you very much for listening in and have a nice afternoon.

Operator

Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.