

NORDEN

Interim Report Q1-2012, transcript of tele conference, 15 May 2012.

Welcome to the presentation of NORDEN's interim report for the first quarter of 2012. My name is Carsten Mortensen and I am the CEO. I will be presenting together with our CFO Michael Tønnes Jørgensen and Senior Vice President Martin Badsted, who is responsible for our Investor Relations.

I trust 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.

- Turn to slide 2, please

The agenda for today will be as follows:

- I will start by outlining the highlights of the first quarter.
- Subsequently, Michael will go over the key financial figures.
- Then Martin will present the market conditions in Dry Cargo and Tankers and I will finish with our current expectations for 2012
- After the presentation we open our Q&A session,

Slide 3, please

We had a strong operating result in the 1st quarter with a Group EBITDA of 50 million dollars against 48 million dollars in the same period last year. On a comparable basis EBITDA was 34% higher than last year.

We incurred a 300 million dollar impairment charge on vessel values, as a result of the prolonged downturn in asset values and freight rates. The impairment charge reflects the fact that NORDEN also made vessel acquisitions in the high market of 2007 and 2008, and this adjustment brings book values closer in line with the market values of our assets.

Michael will offer more details on this in a minute – The important thing is that the impairment has no impact on our cash flows. Cash from operations remain strong and we maintain our expectations on operating earnings for 2012, on EBITDA of 110-150 million dollars.

Our cash position increased during the quarter by 43 million dollars to 450 million dollars. In addition we have unused credit facilities of 150 million dollars - and thus have the financial flexibility to invest when we see attractive opportunities in the market.

Now over to Michael who will take us through the financial highlights and more details on the impairment charge.

Slide 4, please

Thank you, Carsten.

Out of the Group EBITDA of 50 million dollars, the Dry Cargo department generated 40 million dollars and 12 million dollars was generated by our tanker business. Both results were in line with expectations.

As a result of the impairment of 300 million dollars, EBIT for the 1st quarter was -275 million dollars, while EBIT before impairment was USD 25 million dollars.

The impairment was distributed in the following way: 250 million of the charge is related to drycargo vessels, 40 million to Tanker vessels and 10 million to joint ventures. As a consequence the net result was -256 million dollars – or USD 44 million exclusive impairment charge.

I'd like to point out some of the key reasons for taking the impairment charge:

- 2nd hand vessel values have dropped significantly during the first quarter – on average 11% from already low levels
- N/B prices have continued to decline
- Forward rates have fallen significantly since the beginning of the year
- and finally, a large part of the coverage NORDEN entered into in the high markets of 2007 and 2008 is being converted to cash, and will therefore no longer to the same extent be used in the calculation to support book values in the cash generating units

The impairment has no impact on cash flows, loan agreements or otherwise the financial flexibility of NORDEN.

In addition, Management is confident regarding the long term value creation of our Company.

Slide 5 please

Total theoretical NAV is unaffected by the impairment and at the end of the quarter this was 1.759 billion dollars or 237 DKK per share – down 21 DKK from 258 DKK.

The decrease is mainly due to the sharp drop in vessel values. As usual, our fleet values were assessed by 3 independent shipbrokers, and on a comparable basis the value of our Dry Cargo vessels decreased by 12 % during the quarter, while our tanker vessels decreased in value by 8%.

The total market value of vessels in operation and newbuildings is approximately 1.4 billion dollars and remaining capex incl. JV's is 179 million dollars, which fall due in the period 2012 to 2013.

As a consequence of the impairment, the net selling price of NORDEN's fleet, including 2 vessels in joint venture and vessels held for sale, was 61 million dollars below the carrying amounts and costs of newbuildings.

- 20 million dollars in Dry Cargo and - 41 million dollars in Tankers.

Slide 6 please, and over to Martin

Deliveries to the dry cargo fleet was the highest ever recorded in one quarter and consequently put significant pressure on freight rates. Around 30m DWT were delivered to the global fleet although, net fleet growth was reduced as about 8m DWT were scrapped during the quarter, indicating an annualized net fleet growth in 2012 of 14%. Despite the high influx of vessels, only 43% of the planned orders were actually delivered during the first quarter.

China is still the driving force behind the dry cargo market and in the first quarter of 2012 it increased its seaborne imports by 17% compared to the same period last year. Much of the growth came from coal where imports grew by 56%. Coal imports are driven by favourable international pricing conditions as well as China's inability to support the increasing demand through own mining. Mainly due to domestic infrastructure constraints.

In addition, other minor bulk commodities, such as bauxite, alumina, and soy beans, also saw healthy growth rates of 39 % compared to 1st quarter 2011.

The largest imported commodity is still iron ore, which due to a decreasing steel production, only grew by 6%. However, latest steel market reports indicate that Chinese steel production in April reached an all time high of 84 million tonnes.

Next slide pls.

In contrast to the market for dry bulk, the market for clean tankers is re-balancing after significant supply growth in recent years.

The order book is decreasing and at the same time some vessel deliveries are being postponed.

Scrapping has contributed to the low fleet growth, where approx. 750k DWT has been scrapped so far in 2012. If the trend continues fleet growth could be even lower than the currently projected 3%.

Despite the relatively warm weather in the first quarter of 2012, and therefore fewer ice premiums, NORDEN's earnings were in line with expectations and the MR segment earned on average 15,500 dollars per day. Freight rates in Q1 were supported by legislative changes in Russia, where an increase in export taxes effective from April 2012 helped drive the market through an end of March surge in exports ahead of the change.

The global refinery sector continues to undergo structural changes that are favourable for the product tanker market. Refineries in the US and Europe are being idled or shut down, while expansion of capacity is mainly happening in the Middle East or Asia - thus supporting the need for longer haul transportation of product oil.

Next slide please and over to Carsten,

Thank you Martin.

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

As mentioned in the beginning, the impairment charge does not affect our operating earnings, and thus our EBITDA guidance for 2012 has not changed.
We continue to expect an EBITDA of 110-150m USD.

As a result of the impairment, depreciation for the year is reduced, and thus expected EBIT before impairment is increased to 20-60 million dollars.
But this is a technical effect of the impairment and is not related to our expectations on operating earnings in 2012.

The impairment charge does of course affect EBIT, and since a future impairment or reversal of impairment will affect the EBIT line, we've decided to only guide on EBITDA going forward.
This does not mean that we anticipate further write downs – nor a reversal of write downs.

For Capex, we still expect USD 140-160 million dollars for the year.

Next slide please

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

This concludes our presentation. Now, we open our Q&A session. Please await the conference host's instructions.

Q&A

10.00

Operator

Thank you. If you have a question, please press star and then 1 on your touch tone phone.
Jakob Pedersen from Sydbank is on line with a question

10.12

Jakob Pedersen

Yes, good afternoon gentlemen. I just have a couple of questions. Carsten, you said that you have the financial strength to take what you consider attractive opportunities. Could you expand a bit on that? Does that mean that you are on the acquisition path now? What is it you are primarily looking for?

10.35

A: Thank you Jakob. We focus more and more on fuel efficient ships and we have been in dialogue for quite some time now with certain Far Eastern shipyards. We are not saying that the timing is very near, but at some moment in time but we are certainly getting closer to very attractive levels. It is difficult for shipowners to find financing these days so it requires more equity to be a shipowner, to go out and contract new ships so demand is lacking and shipyards are getting... prices are becoming more and more attractive so the focus is of course in both our segments. We

have had a focus in the last 2 or 3 years on tankers but we are certainly reaching a point now where dry cargo opportunities are also becoming interesting.

11.41

Jakob Pedersen

You have guided and implied a sharply lower EBITDA in the coming quarters in your business. Does that reflect the fact that you have been shielded from the low spot market rates in the first quarter by your coverage or how should we model this because we have seen rates go up a bit from the level in the first quarter recently. That would imply higher earnings for you going forward.

12.16

A: Yes, hi Jakob. Certainly one effect of this is that when we entered the year we had about 78 % coverage in dry cargo and most of that you can say 100 % coverage was probably the case for Q1 and Q2 whereas we were a little bit more open towards the second half of the year. So we have been very shielded against the downturn that we saw in the middle of Q1, but it is also, the strong first quarter a reflection of, you can say, a continuation of the performance of the fourth quarter of 2011 that some of the good fixtures and positioning that we were able to do in Q4 also had a positive impact on the numbers in Q1 so that was all included you can say in the expectations for the full year and you are right when you look at the quarterly breakdown we are looking at a lower EBITDA run rate going forward from here in 2012.

13.15

Jakob Pedersen

If we look at the different markets, if we start with the dry bulk outlook, we have often talked about the decoupling of the smaller vessel sizes from the capesize ships. There seems once again to be some decoupling – capesizes are very low and we have seen Panamax, Handymax coming up from the lowest level. How do you view this going forward?

13.43

A: Well, I think, when you look at the import statistics into China that we also touched upon during the presentation, the weakest commodity although even 6 % import growth in Q1 into China is actually rather healthy. On a relative basis the minor bulks actually contributed far more to growth rates and these are the commodities that are primarily being transported in the smaller segments – Handymaxes and Handysizes – and in addition to this we have seen the Panamaxes as usual being supported in recent weeks by the grain season in South America so we think actually that this is quite sustainable although if you look at recent years and the seasonality in steel production you have typically seen iron ore imports into China being strongest in the second half of the year and to the extent that you see a repeat of that you could also see some renewed strength in capesizes but there is a little bit you can say division in the market between the big ships and the smaller ones.

14.56

New speaker

A: And by far the most growth you had on tonnage supply has been on the larger ships also for quite some time now half of the entire order book has been in deadweight terms in the capesize segment so we are seeing strong fleet growth there whereas the Handysize fleet is in relative terms quite old compared to the cape fleet.

Jakob Pedersen

OK that was my questions. Thank you very much for taking them.

Operator

Once again if you have a question, please press star and then 1 on your touch tone phone
We have no further questions at this time.

I think we have set a new record here. I suppose that we have been thorough in our release so all questions have been answered but thank you very much for listening in and should you have any further questions, do not hesitate to contact us. Have a nice day. Goodbye for now.