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May 12, 2015

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P: Casper Blom; ABG; Analyst

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C: Jan Rindbo;Dampskibselskabet NORDEN A/S; CEO
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P: Casper Blom;ABG;Analyst
P: Operator;;

+++ presentation
Operator^ Good day, ladies and gentlemen. And welcome to the NORDEN Q1 Report 2015 conference call.

At this time, I would like to turn the conference over to Jan Rindbo. Please go ahead.

Jan Rindbo^ Thank you very much. Welcome to the presentation of NORDEN's 2015 first quarter results.

My name is Jan Rindbo and I am the new CEO of NORDEN. I took up office on the 30th of April. And I look forward to lead this great company, together with my colleagues in executive management.

I bring with me 20 years of international shipping experience from Denmark, North America and Asia. And I'm proud now to be part of NORDEN and our unique blend of modern shipping anchored in a strong heritage.

I will now hand over to CFO, Michael Tønnes Jørgensen and Executive Vice President, Martin Badsted, who will run through the results for the quarter.

Michael Tønnes Jørgensen^ Thank you, Jan.

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 out by outlining the highlights of the quarter, and then look close at some of the financial figures. Subsequently, Martin will then present the market conditions and conclude with our guidance for 2015. At the end of the presentation, we will open up for the Q&A session.

Next slide please.

We have had a solid start to 2015 with an EBIT result of $30 million. This result was generated in markets which developed significantly differently in tankers and dry cargo.

In tankers we were very well positioned to take advantage of strong market conditions, while we, in a very difficult dry cargo market, have benefited value from the high coverage levels were in place at the start of the year.

Cash flow generated from operations was in the first quarter $44 million. When we adjust for the $47 million we have prepaid on selected time charter contracts that we have restructured.

Based on the two very different market outlooks in the tanker and dry cargo, we maintain the full year guidance.

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As mentioned, NORDEN generated a Group EBIT of $30 million. The EBIT from dry cargo was $4 million, which is a significant improvement over last year's result for the first quarter. This improvement is among other things a lower carrying cost for the chartered fleet.

December last year, we made a provision of $230 million against onerous T/C-in contracts. This provision will gradually be reversed over the coming years; and had a positive impact of $20 million in the first quarter.

The EBIT from tankers was $28 million. This is by far the best quarter NORDEN has had for the tanker division for many years. And is the result of average earnings of above $20,000 per day.

NORDEN succeeded in outperforming the average one-year time charter benchmark by 44% in dry cargo and the spot index 113%, partly as a result of the high coverage levels in place at the start of the year.

Tankers outperformed the average one-year time charter benchmark by 41%, as spot rates continued at very high levels.

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Turning to cash flows and liquidity, we have improved the overall financial position of NORDEN during the first quarter. Cash flow from operations was positive by $44 million, when adjusting for the payment of $47 million, which relates to the prepayment of hire we made on selected time charter contracts, as announced in February.

The strong tanker market is naturally the driver of the positive cash flow in the first quarter. But a significant part also comes from improvements in working capital.

At the end of the quarter, the Company had cash and securities of $220 million, which have increased to $286 million as of 30th of April, primarily caused by sale of vessels. To this can be added undrawn credit facilities of $420 million. And NORDEN's overall liquidity reserves has thereby increased to above $700 million as per end of April, in comparison, there are outstanding payments on new building program of $309 billion.

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As a result of the very poor trade market in dry cargo secondhand prices have continued to drop in the first quarter. And this has impacted NORDEN's fleet value negatively.

Based on valuations from three independent brokers, the market value on NORDEN's vessels including new building orders was estimated at $1.35 billion at the end of Q1. This is $148 million below carrying amounts and costs.

However, NORDEN's assessment of future earnings supports book values of owned business and the cost levels of time-charter contracts. There is, therefore, currently no need for further write-downs or provisions on onerous time-charter contracts.

The market value of our chain of vessels represented at the end of Q1 around 46% of NORDEN's total fleet value. This is in spite of market values of tanker vessels have so far not reacted strongly to the improved freight market.

Now, over to Martin for a closer look at the market. Next slide, please.

Martin Badsted^ Thank you, Michael.

Freight rates in the dry cargo market declined to record low levels in Q1, driven especially by lower Chinese coal imports. The slow-down in Chinese economy, protectionism of domestic coal output, and the higher power supply from non-fossil energy resources contributed to the 42% decline in Chinese coal imports compared to the same period of last year.

Chinese iron ore imports grew by 2% compared to the same quarter last year, which is somewhat lower than the growth rate seen in recent years, thereby not sufficient to compensation for the large drop in Chinese coal import.

On a more positive note, India's importance to the seaborne market continues to increase. And India actually overtook China as the largest importer of coal in the first quarter.

A further positive development is the comeback for Chinese imports of bauxite, which, in March, reached 4.4 million tons, the highest level since the introduction of Indonesian ban in early 2014.

The grain season of South America has had a slow start; but volumes did pick up during the quarter. The increased volumes did not, however, have any noticeable effects on general market rates due to lower coal volumes being transported.

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The start of 2015 has seen a strong supply reaction to the very poor market conditions. And the dry cargo fleet has essentially not grown over the last three months.

Scrapping activity has reached very high levels and are now almost 6% annualized. At the same time, deliveries from yards have been lower than anticipated, and slippage for the first four months has been around 40%.

If the current trends in deliveries and scrapping continue for the remainder of the full year, the full year net fleet growth would end up at around 2%, which is considerably lower than the 4% to 5% fleet growth expected previously.

While the current supply response is beneficial for overall supply/demand balance, we do not expect demand growth will be sufficient to create a significant improvement in rates during 2015.

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The greatly improved product tanker market remains strong in the first quarter of 2015. Just like in Q4 of last year, the strong rates have been broadly founded in terms of geography and across all vessel types. And, particularly, the important Atlantic market has been strong in the first quarter.

One of the drivers of improved earnings in the Atlantic has been increased activity in gasoline exports from Europe. In all different parts of the U.S., the cold winter resulted in partial downtime for the region's refineries. And in order to compensate for the lack of own production, considerable quantities of refined oil products were imported in particular from Europe.

In general, the refining sector has had a very favorable production environment where output of refined products has been driven by large amounts of cheap crude supplies and higher product margins, even planned maintenance has been postponed to keep production going.

Record high refinery utilization in the U.S. Gulf, combined with increased regional exports, furthermore, supported the Atlantic market.

Crude runs at the new refineries in the Middle East have also increased leading to exports of products, part of this new export volume have moved long haul to northeastern U.S. and South America.

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The low oil prices are leading to increased oil demand. And IEA has now, for three months straight, increased its estimates for 2015 full year oil demand. The increased oil demand will continue to support the strong activity levels seen for product tankers in the last six months.

At the same time, the overall structural changes in global refining capacity will continue throughout 2015. In the Middle East, the new refineries continue to ramp up, leading to increased exports of refined products. Additionally, the growth in exports from the U.S. is also expected to continue due to both capacity expansions and higher utilization.

Fleet growth for product tankers during the start of the year has been running at above 7% annualized. And it is noteworthy that such levels has been absorbed in the market without significant negative impact on freight rate.

When taking account of the usual high deliveries in January, we continue to expect supply growth of around 5% to 6% for this year. But due to lower scrapping activity, it will likely end in the higher end of the range.

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Now, for an update on our expectations for the year.

We maintain our guidance on Group level where we expect an EBIT between minus $40 million and plus $40 million for 2015. But while maintaining the overall guidance, we adjust the full year expectations for each of the two segments.

Full year expectations for tankers is raised to an EBIT between $35 million and $65 million. While rates have declined slightly since the first quarter, the strong results from Q1 and improved market outlook provide the basis for a more optimistic view on the full year result.

Based on current market conditions and the challenging outlook for dry cargo, we adjust the full year expectation down to an EBIT between minus $60 million and 0.

We have had a solid start to the year, but our outlook for the rest of 2015 is lower than the levels we had in Q1. And NORDEN will, therefore, be more exposed to expected low spot rates in the second half.

Based on current known investments, net Cap Ex is expected to be $20 million to $40 million for the year. This is lower than previously communicated, primarily due to asset sales.

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Please remember there are uncertainties related to any forward-looking statements. So please read this one carefully.

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And this concludes our presentation. Now we open our Q&A session. So please await the conference host's instructions.

+++ q-and-a
Operator^ (Operator Instructions). [Casper Blom, ABG].

Casper Blom^ Thanks a lot. And happy to see a sound start of the year.

I'd like to start by diving into the dry cargo market. I suppose it's always the big question how rates will develop. But in light of how the Chinese coal import has developed over the last six months or so, would you say that the transparency of the market is worse than it normally is? If we start there.

Martin Badsted^ Yes. Hi, Casper. I think you should always be very humble in your firmness on the views on the dry coal market. There tends to be a lot of surprises along the way.

But you are right in the sense that having coal as a big swing factor in terms of Chinese imports is quite dramatic. So China still consumes or produces close to 4 billion tons of coal annually. And imports are only 3% to 4% of that now.

So we do not need to see a whole lot of changes on either production or consumption in China for coal imports to really change, which will have a dramatic effect on overall dry bulk demand.

April's numbers for coal imports to China were perhaps a little positive indication. They were higher than March. But, still, of course, dramatically down over last year. So maybe we are starting to see some sort of flattening of the declines in Chinese coal imports.

It's not unlikely that some of this could rebound. But we still think that most of the indicators are for fairly negative development here.

Casper Blom^ Okay. With regards to the high scrapping levels seen in dry cargo which I suppose is some support even though it's still hard. Do you think these levels seen in the first months of 2015 can continue for the remainder of the year?

Martin Badsted^ Yes. I think so that actually there is a fairly large pool still of older ships. So we are seeing, especially in the cape size segments, we are seeing ships being scrapped, even in the 15 to 20 year age bracket. So I think they are still close to 10% of the fleet being more than 20 years old, and almost 20% being more than 15 years old. So there is a potential for this scrapping to continue.

And, actually, which is positive, we have seen scrap pricing maintain a fairly high level despite this rapid scrapping. So we think it can continue.

Of course, the flip side of this is it will probably only continue if we see a very weak market. So this is the first step in the rebalancing. It is an important one, but we also need to see demand firming up in the future.

Casper Blom^ Okay. And just to be sure that I understood your comments on scrapping earlier, is it your view that even if scrapping continues at this level, it will not necessarily be enough to cause a rebound in the market in 2015?

Martin Badsted^ I think to a certain extent there is a little bit of the two being mutually exclusive here that if you have a better market, you will also see scrapping rates slowing down. But I think you could easily see this scrapping continue for the rest of 2015, my point was just that after all of that scrapping, you will need to see a firmness in demand also to see a real improvement in rate.

Casper Blom^ Understood. Then just a final question maybe to Jan. Of course, this is the obvious question. But what has been your first impression in joining NORDEN? Any big surprises?

Jan Rindbo^ Thank you, Casper, for that question. No. I've only had about eight working days in the Company. And I'm going through my introduction now with the various teams that are here. And I think one observation I've had is a very strong passion and dedication for the Company, which is great.

I will continue my instruction program here in the first few months. And then after that, revert more explicitly and externally with my assessment of the future direction of NORDEN.

Casper Blom^ Good to hear. I'm happy that the new Chairman hasn't tricked you into anything. Thanks a lot.

Operator^ There are no further question in the queue. (Operator Instructions).

There are no further questions in the queue. I will hand the call back over for any additional or closing remarks.

Jan Rindbo^ All right. Thank you very much. This concludes our first quarter call. And we thank you for your attention.