Final Transcript

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Corporate Call Participants

Carsten Mortensen

NORDEN - CEO

Michael Tønnes Jørgensen

NORDEN - CFO

Martin Badsted

NORDEN – EVP

Presentation

Carsten Mortensen:

Welcome to the presentation of NORDEN's interim report for the first half of 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 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 through the key financial figures and the status on our strategy.
- Then Martin will present the market conditions in Dry Cargo and Tankers and I will finish with our current expectations for 2013
- After the presentation we open our Q&A session

Slide 3, please

Spot markets were better than expected in both our segments in the second quarter. In Dry Cargo, the quarter was better than expected and in most vessel types rates actually improved albeit from very low levels. In tankers the typical seasonal slowdown was only visible in some regions and not in the important Atlantic market.

Group EBITDA for the quarter was USD 4 million bringing first half EBITDA to USD 13 million. Importantly, cash flow from operations was USD 55 million in the second quarter, as a lot of working capital tied up during the repositioning to the South American grain season was freed up.

Our gearing including off-balance sheet leases and newbuilding installments is increasing as a result of new vessel investments with focus on fuel efficiency. In addition to the investments already mentioned in the Q1 report, we have after the end of the second quarter taken another 3 long term leases with purchase options. This brings the total investments in new ECO vessels to 19 units since the start of Q4 last year.

We have agreed new attractive 10 year bank financing for 5 newbuildings during the quarter and we now have cash and undrawn credit facilities worth USD 681 million. This puts us in a good position to take advantage of further investment opportunities in the market. The headline for this year is unchanged: Control downside and build upside.

We maintain our financial guidance for 2013, where we to expect an EBITDA of USD 15-45 million.
Now over to Michael who will take us through the financial highlights.
Slide 4, please

Michael Tønnes Jørgensen:
Thank you, Carsten.

Out of the Group EBITDA of USD 4 million, the Tanker department generated USD 8 million, while the Dry Cargo department had an EBITDA of USD minus 2 million.

Due to good spot earnings the Tanker department generated a positive EBITDA of USD 8 million, which is twice as high as the same period last year.
On the other hand, the Dry Cargo performance continue to be impacted by a very challenging market. The positioning of Panamaxes from the Pacific to the Atlantic, which impacted the first

quarter result negative, gave a positive contribution in the second quarter, which is expected to continue into the third quarter as well.

Net cash flow, i.e. cash from operations, investments and financing amounted to minus USD 15 million. NORDEN still has a solid cash position, with cash and securities of USD 485 million at end of the second quarter and unused credit facilities of USD 197 million..
Result for the second quarter was a net profit of minus USD 22 million.

As a consequence of the improved spot market in both segments, ship values have stabilised. Broker valuations of vessels owned by NORDEN during the entire quarter are unchanged, and there are early signs in the market suggesting that ship values are increasing.
Slide 5 please

In the 2011 to 2013 strategy plan called Long-term Growth in Challenging Times, NORDEN aims to increase cargo volumes in Dry Cargo by 15% per annum on average over the period, create added value as an operator in Dry Cargo, outperform market rates in Tankers and increase the number of owned tanker vessels to 25 units. During the last year NORDEN has also increased Dry Cargo investments. Both segments are focusing on ECO investments and currently NORDEN has 28 ECO vessels on order while three is already on the water.

In the first half of 2013 NORDEN exhibited an increase of 12% in realised Dry cargo volumes transported, which brings the annual growth rate to 18% since the initiation of the 2011-2013 strategy plan. The current weak spot markets continue to influence the pricing of the long-term cargo contracts to a degree where we find long-term contracts unattractive.

Although market conditions in Dry Cargo continue to be difficult, the Dry Cargo department is still on track to realise the goal of creating positive operator profits.

The Tanker department is close to the goal of increased ownership as NORDEN's owned fleet now consists of 17 active vessels and 7 newbuildings.
Despite historically challenging markets, we have come a long way in achieving the goals in the strategy plan 2011-2013. We will continue to focus on long-term growth and higher returns to shareholders than our peers.
Slide 6 please and now over to Martin

Martin Badsted:

Thank you, Michael.

The Dry Cargo market remains very challenging but contrary to normal seasonality, spot rates actually improved towards the end of the second quarter. The Baltic Dry Index was up 12% compared to the first quarter, but – to put it in perspective - was still 13% below last year. The market is still struggling with overcapacity built up over the last few years.

Demand remains strong, however. China's dry cargo imports were up 8% compared to the first quarter mainly due to a 6.2% increase in iron ore imports caused by re-stocking, and 23.5% increase in minor bulk trade due to significant increase in sugar, soybean and Bauxite imports. Moreover China's coal imports were almost flat with a quarter on quarter increase of 1.5%. Furthermore, India's coal import was up 46% compared to same quarter last year due to increased demand from power stations and steel makers
The South American grain season continues to give a lot of long haul exports from South America to Asia.

Underlying demand drivers remain supportive although world GDP growth forecasts continues to slowly decline. Chinese steel production is up by 8.2 % YTD and electricity production is up close to 6% also YTD with actually a little acceleration to 8% in June.
Slide 7, 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. Deliveries in first half of 2013 was 45% less than the same period last year. Scrapping remained in the higher end in the first half with 13 million dtw. scrapped. There is still potential for further scrapping since around 10% of the fleet is older than 20 years and as long as freight rates are under pressure and bunker prices are high, many older vessels will be unable to compete with modern tonnage.

There has been an influx of new orders in the first part of the year, but so far we believe that net fleet growth will continue its declining trend well in to next year.
In addition, we expect positive demand support from a strong grain season in Q4 and the coming on-line of several new iron ore projects in both Australia and Brazil which could ad up to 200 million tons per annum of new capacity within the next 6-9 months.
Overall, we expect a gradually improving supply/demand balance towards the end of 2013 and the beginning of 2014.
Slide 8 please,

Product tanker spot markets were much stronger than in the same period last year. However, there were still big regional differences. As you can see from the two graphs to the right, rates in dirty products and in the pacific were under the usual seasonal pressure. But in the Atlantic market rate levels saw significant improvements over last year and especially after the end of the quarter there has been a development much stronger than last year as you can see on the graph on the left.

In the Western market, the major driver was the US, whose export increased as a consequence of lower domestic demand, increasing refinery utilisation and more online capacity. Also Russia increased its export of refined oil products in the second quarter, however in opposition to the US Russia has plans of increasing their refinery capacity and updating the old ones, thus export out of Russia is expected to continue rising.

On the other hand, the Eastern market saw large declines during the second quarter. Here decreasing Chinese imports could not be offset by Australia's increasing import
On average NORDEN realised spot MR T/C-earnings of USD 15.800 per day during the quarter
Next slide please

During the first half of 2013, net fleet growth in the total product tanker fleet was around 3.5%. In NORDEN's two vessel types, MR and Handysize, net fleet growth was somewhat lower at approximately 2.6%. Following the seasonally strong first quarter, deliveries as well as removals slowed and net fleet growth for the full year is still expected to be around 3 to 4%, which is in balance with tonnage demand.

It is still the case that a relatively high MR growth is offset by negative fleet growth in Handysize. Following recent strong ordering net fleet growth looks to accelerate slightly into 2014 which will tend to reduce the extent of the ongoing upturn in product tanker rates. However, a lot of the growth in orderbooks comes from the LR2 segment which will most likely have less of a direct impact in NORDENs segments.
Slide 10, please

Carsten Mortensen:
Thank you, Martin.
We maintain our expectations for the full year guidance - an EBITDA of USD 15-45 million.

Earnings in Dry Cargo are affected by the very challenging market conditions and thus NORDEN expects an EBITDA of around USD 0 million. The Tanker department earnings are expected to generate an EBITDA of USD 25-45 million.
The guidance is based on current capacity, coverage and forward rates, where open capacity in Tankers are employed at rates of USD 13,100 for Handysize and USD 13,800 for MR per day.

Based on current known investments and sales, CAPEX is expected to be USD 120-140 million 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.

Questions and Answers

Operator
Ladies and gentlemen, if you would like to register a question please press *1 on your telephone. The first question comes from the line of Nicolay Dyvik please go ahead announcing your company.

[Nicolay Dyvik – *DNB Markets]*
Hello it is Nicolay Dyvik from DNB calling. Having positioned the product fleet in the Atlantic basin over the course of the summer and into the third quarter, how would the rates then be compared to the second quarter of $15,800? At least listening to the Scorpio call they said that the MR rates, at least quarter-to-date at the time were more in the mid 20s, at least above 20. I don't whether you would like to comment?

Carsten Mortensen
Hi this is Carsten, so we of course have already seen what is happening into July and August now and there are voyages that come out very good in the mid 20's, 30's but we are reporting the

average for the entire MR fleet and 15.8 for the second quarter was pretty decent and it seems to be holding up reasonably well here in the third quarter.

Nicolay Dyvik
So would you expect the third quarter to be significantly above the second quarter or more on par?

Carsten Mortensen
15.8 was not that bad for the second quarter. I think we are going to see that kind of levels going into the third quarter, yes.

Nicolay Dyvik
Okay, should we expect more newbuildings going forward or you find now more long term charter more attractive as announced this quarter?

Carsten Mortenson
We are looking at the cheapest way of financing our fleets and we are happy to do either long term charters with purchase options or acquisitions. We were offered as presented today, three very attractive deals with the Super ECO Ships, Kamsarmaxes savings compared to 2007, is 25% to 30% on fuel. So we chartered them on long term with the purchase option. We certainly had the funds to acquire more but we are now coming to the end of the 2011 to 2013 plan. We are already in a strategy process and we will continue to invest in both our segments but where we will invest and how we will invest that is for us to find out and for you to learn later on.

Nicolay Dyvik
Okay, thank you.

Operator

Your next question comes on the line of Frans Hoyer. Please go ahead announcing your company.

Frans Hoyer – *Jyske Bank*

Good afternoon it is from Jyske Bank. It is a question relating to the Capesize vessels and the fact that they go off contract towards the end of the current year and I was wondering if you could give me some guidance on how much is the drop in the rates that they are currently employed at and then to the level that they could be employed at today?

Carsten Mortenson

You can see the average on page - let me just see here - in the quarterly report or half year report on page 9, you will see what the average earnings are on average for the whole of 2013 and that is USD 31,163. So we will see a significant, we have one particular Capesize ship that has been running for five years that is falling out. If you take fourth quarter earnings now or forwards, they are trading at USD 18,500 a day and mind you that is up from an average in the second quarter of USD 6,200 a day. So we will certainly see an average drop on the current levels but it looks like with all the new iron ore capacity coming on by the three large iron ore miners in Australia and also Vale in Brazil, that there is support to the story about more iron ore moving and perhaps more Beta on the Capes going forward into 2014. But we have been privileged to have very high coverage for the last five years on two units and that is of course ending up now, but it looks like it is coinciding with a little renewed hope in the Capesize market.

Frans Hoyer

So it sounds like a drop of just over USD 10,000 per day from the rate currently earned to the rate that could be earned in the Spot Market right now?

Carsten Mortenson

The USD 31,000 is the coverage that we have for 2013. We also employed two of the Capesizes in the spot market. So actual earnings on our Capes so far has actually been, in the second quarter also been the same level USD 31,747. So you will see a drop going forward but it much depends on how the Cape market fares. If one market has been hit particularly hard in the last two, three years that has been the Cape market so we do really welcome a rebound in that market and something indicates that there is support to the story with for instance, the July iron ore import numbers being 73 million tons into China which is an all-time high, one month import into China. And mind you, we have four Cape Sizes but we also have eight Post-Panamaxes as we call them, between 110,000 and 120,000 deadweight. They are also fully open for 2014. So there is a lot of Beta upside on our larger units.

Frans Hoyer
Continuing on that, you have four vessels in that particular, the biggest segment there. Is D/S NORDEN a long term player in that segment?

Carsten Mortenson
Yes, but with a more opportunistic approach you can say than we have in some of the more industrial segments. The Capesize market is, as I said, much more of the Beta gamble. If you look at the average book value of our Capesize fleet, that is very, very low. Capesize you typically ballast halfway and go laden the other way. Much of our core businesses is in the smaller segments where you are optimising the logistics of the business. We are happy to have Beta and we will certainly have that in the Post-Panamaxes and in the Capesizes, but you won't see us growing the Capesize Market tremendously.

Frans Hoyer
Okay, thanks very much.

Operator
Your next question comes on the line of Herman Hildan please go ahead announcing your company.

Herman Hildan – *RS Platou Markets*

Hi this is Herman Hildan from RS Platou Markets. I have a short question. There has been some rumours about both Torm and Maersk considering a larger fleet sale. Have you been looking at either of those fleets?

Carsten Mortenson

The answer is no.

Herman Hildan

Okay and previously you also said that you've either considered buying new builds or second hand tonnage, call it the surge in newbuild prices. Does that mean that you're more focused on second hand now than newbuilds or how should we think about that?

Carsten Mortenson

We've come to 28 ECO ships now. And how do you define an ECO ship? That is if you compare to, you can say, the modern recent designs, but here you have a saving of anything between 20 and 30% on fuel consumption on full speed. That has really been with our plan the target to try and steer the entire fleet over towards a more fuel efficient fleet. So we don't mind buying a second hand ship but historically you've seen us growing through new buildings and that's also been … the last 19 ships we've done has been purely new buildings. So if second hand prices are cheap enough, then we will certainly have a look at it, but NORDEN's average age on our dry cargo core fleet is four years. In three years' time with the redeliveries we expect and the new ships coming in, the average age would be five years. So we have a very young fleet, almost the same numbers for the tanker fleet as well - it's about five years the average at the end of this year. So our focus is very much on modern fuel efficient ships, but we don't mind buying at second hand prices, if they're cheap enough, we don't mind. We can handle second hand ships as well, but the focus will be mainly on fuel efficiency and new designs.

Herman Hildan

Okay and also on a more strategic level, you've probably been asked this quite a few times in the past in terms of splitting up your … or call it spinning off either the dry bulk or for the tanker division to create a more pure-play bet. Is this back on the plate or how do you see the likelihood of this happening?

Carsten Mortenson

NORDEN was stock listed all the way back in 1871 and I won't come with a lot of anecdotal evidence here, but we're actually, we're a one-stock listed company. We think that there are fundamentals where we share customers in both segments, we share shipyards, we share trading houses, we share basic education on the staff, on the seafarers. And there is some anti-cyclicality. If you remember, we had three or four years' investment focus on tankers where we literally did not touch dry cargo investment. We've now swapped over to dry cargo investments and I think there's a very plausible and good solid story around having both segments. So there are no acute plans to split up the business.

Herman Hildan

Okay thank you very much.

Operator

The next question comes from the line of Jacob Pedersen. Please go ahead announcing your company.

Jacob Pedersen – *[Sydbank]*

Hello it's Jacob Pedersen from Sydbank. You seem to be more confident in the turnaround in the market, talking about the improvement in late 2013 and even 2014. On the other hand, we've got Clarksons saying that there are 30% too many dry bulk ships and you're talking about a big [driver]? market. Could you maybe talk a bit more about how much does it take to get rid of this overcapacity and how can you … you're actually quite a bit more positive than you were just three months ago looking at the supply and demand balances in the market?

Martin Badsted:

I think when you look at the demand side, if you go back during the spring, we I think along with anyone else were also a little bit worried about the developments in China, but I think what has happened during the first half and this summer is that even though you see that slowdown of GDP numbers out of China, that the fundamental dry bulk demand story continues actually to play out on the same growth levels that we have seen consistently for quite a number of years now. In our view it's really very much driven by the growing import share of iron ore in China. So what we are watching very closely are the big mines expansion plans that we also talked about where we see upwards of 200 million tons of annual capacity coming on stream. Of course they will take some time to ramp up, but after having a couple of years where the talk was all about reducing CAPEX budgets with the mines, it's very encouraging to see that they now say these projects are definitely coming and they are coming very soon. So I think that is cause for a little bit of optimism at least. Of course we've had a stronger inflow of new orders in dry bulk and that is also something that you have to watch quite carefully. But we think, first of all, it hasn't been that bad so the outlook for next year still looks okay in terms of declining net fleet growth. Actually of the order book that was scheduled to deliver this year, 45% have not arrived compared to what was scheduled in the first half. So we still see some fairly strong variables that are starting to support the market balance. Also, I would say talking about 30% oversupply in dry bulk, I think it looks a little bit exaggerated considering the fact that you have no dry bulk ships in layup. You have congestion driven by problems with loading capacity in certain ports and, yes, of course we are going slower than we did five years ago, but we think we can still have pick up in rates from here without that being a problem where slow steaming will still be rational to do. So we think it's a long way out before the so-called shadow capacity will become a problem. So yes, even though there are new orders coming in, there are also good reasons to believe that the market balance is going to improve.

Jacob Pedersen

You talked about orders not coming through to the market as quickly as expected. How much of that would be cancellations and how much just postponements?

Martin Badsted

I think it's impossible to get a good grip on that, but of course we have talked about this for a number of years and it has just been a consistent trend, for a handful of years now, that you have a shortfall in orders or in deliveries compared to the plan. We think it's safe to say that a lot of these ships are simply just not coming or they weren't orders in the first place, but of course some will also be postponed into next year. But still, I think accounting for a reasonable amount of just postponements, you are still seeing a manageable fleet growth next year.

Jacob Pedersen

Okay that's very nice, thanks a lot.

Operator

There are no further questions at this time Sir.

Carsten Mortenson

Alright. That seems to be it for now. If you have any further questions do not hesitate to contact our IR department. Thank you very much for listening in and have a good day. Bye-bye.