

## NORDEN WEBCAST 7 March 2012

**CM:**

Welcome to the presentation of NORDEN's annual report 2011. 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.

**Slide 2, please**

**CM:**

The agenda for today will be as follows:

I will start by outlining the highlights of 2011 and our strategic focus

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, so please wait until then with any questions you may have.

**Slide 3, please**

**CM:**

Our full year financial results were significantly better than both our original guidance from March and our upgraded estimate from November. The main reason was a strong fourth quarter which – when you adjust for one-off items - was in fact the best quarter of operating earnings since Q3 2008.

For the full year, group EBITDA was 186 million dollars. Excluding non-recurring items, EBITDA in 2011 was actually 10 million dollars higher than in 2010.

We continue to have a strong cash position of just over 400 million dollars and significant leverage potential in our balance sheet, putting NORDEN in a strong position to take advantage of new investment opportunities.

Shareholders of NORDEN will also benefit from these good results, and therefore the Board of Directors is proposing a dividend of 4 Danish Kroner per share corresponding to a direct yield of some 2.5%

Finally, we are guiding for an EBITDA of 110-150 million dollars for 2012

**Slide 4, please**

**CM**

We remain committed to the strategic targets we set out last year in the strategy plan which we called “*Long Term Growth in Challenging Times*”. We can’t do anything about the market, so we focus our attention on relative outperformance and building long term competitiveness. In Dry Cargo, this means taking market share in terms of cargo growth and adding value as an operator by leveraging our client relationships, our global network of offices and NORDEN's strong brand name. In Tankers, we should also add value by beating market benchmarks while at the same time positioning ourselves for an expected improvement in freight rates and asset values.

While the fundamental plan remains the same, we have for this year increased attention to keeping a tight focus on costs both on-shore and on board vessels.

So let’s look at how we did.

**Slide 5 please**

**CM:**

I’m actually proud to say that we have delivered on all targets:

In Dry Cargo we transported 40% more cargo than in 2010, well ahead of the target of 15% growth per year. And in addition, contractually secured forward cargo volumes grew by 16%. We also added value through our operator activity, which increased Dry Cargo EBITDA by 22 million dollars. In both segments we realised timecharter rates above market benchmarks. In Panamax, our biggest Dry Cargo segment, we beat the spot market by 24% on average and in MR Tankers by 40%. In Tankers, we took over a newbuilding order at a Korean yard and converted the order to 4 fuel-efficient MR vessels with delivery in 2013 - By doing so we have taken a significant step towards the target of owning at least 25 vessels at the end of 2013.

Finally, we outperformed our listed peer group. So, while the total return to NORDEN shareholders was negative 32% which is not satisfactory, it was however substantially better than the average return of negative 59% for the group of 11 peers in dry cargo and product tankers.

So, while these are indeed *challenging times*, we have done very well, and we are ready for long term growth.

**Now over to Michael and slide 6 please**

**MTJ:**

Thank you Carsten.

Out of the Group EBITDA of 186 million dollars in 2011, the Dry Cargo department generated 171 million dollars while 26 million dollars was generated by our tanker business.

The performance in Tankers was as expected, while Dry Cargo performed better than expectations. During the year, the Dry Cargo department entered into a number of short-term cargo contracts at attractive rates and was generally well positioned with many backhaul voyages to the Atlantic. This, along with

optimization of the logistics in cargo contracts, were the main factors contributing to earnings turning out better than expected.

2011 was a record year of newbuilding deliveries to NORDEN. During the year we took delivery of 17 vessels, which is clearly reflected in our depreciation. This trend will continue into 2012, however at a slower rate, as 6 owned vessels will deliver to NORDENs active owned fleet this year.

We have enforced a strict focus on overhead and administration costs. O/A was up 7% last year, which is low compared to an increased activity of 19% measured in vessel days.

Net profit for the year was 88 million dollars which includes a net loss of 15 million dollars from fair value adjustment of certain hedging instruments.

**Slide 7 please**

**MTJ:**

Total theoretical NAV was by the end of 2011 calculated to be 258 DKK per share which is 9 DKK higher than at the end of Q3 2011, which is the result of a higher USD exchange rate offsetting slightly lower asset values. As usual, the NAV is based on fleet value estimates from 3 independent shipbrokers. What is interesting to note is that following our investments into growing the product tanker fleet, this segment now constitutes 40% of total fleet value.

The vessel values were 217 million dollars lower than book values at the end of 2011, but our VALUE IN USE calculations continue to support the conclusions that there is no need for impairments.

**Slide 8 please**

**MTJ**

We believe we are approaching a long term floor for newbuilding prices for both dry cargo and product tanker vessels. Although current newbuilding prices in US dollar terms are still higher than the trough seen at the end of 90s this is mainly a reflection of higher input costs. Thus, when adjusting for rising steel prices, labor costs and currencies in shipbuilding nations versus the US dollar, newbuilding prices are in fact at a historical low, which implies limited downside to current price levels going forward.

We expect the yard sector to consolidate as rising input costs and strengthening currencies against the US dollar have eroded their margins. This will be important for the future supply/demand balance.

So far we have had a patient investment strategy. But we think the time is approaching where we will start to add more Dry Cargo investments in addition to our Tanker focus. And when considering new investments we are convinced that the added earnings potential of modern fuel efficient tonnage will be an important competitive driver going forward.

**Now over to Martin for the market perspectives, slide 9 please**

**MBA**

Thank you Michael

In Dry Cargo, the big challenge in recent years has been supply growth, and 2011 was no exception. Despite very high scrapping activity of 22 mill dwt and 32% of newbuildings not delivering as planned, supply still increased by just over 15%.

2012 looks set to become yet another year with high net fleet growth but the good news is that the peak in newbuilding deliveries is most likely behind us now. And following expected net growth of 11% in 2012, 2013 could see much more manageable newbuilding deliveries.

With expected tough market conditions and very little shipping financing available, we do not think there will be a sudden rush to add significant newbuilding orders.

#### **Slide 10 please**

##### **MBA**

While the short term outlook is challenging due to high fleet growth we believe that the long term market outlook is more attractive as the export oriented mines in South America, Australia and Africa expand their raw material production and urbanization and industrialization in Asia continues.

The big five iron ore producers have invested heavily in capacity expansions in the previous years and are expected to continue investing. This is driven by the prospect of increased iron ore exports, especially to China which imported a record high amount of 687 million tons of iron ore in 2011.

If announced expansions of the Big 5 Miners come on stream within the stated timeframe, capacity is expected to grow by 11% annually to 2015.

In addition to this, iron ore mining projects by other companies in Australia and Africa could increase the growth to a total of 18% annually.

Especially the expansions in Brazil and Africa, could provide strong support to overall ton mile demand growth

#### **Slide 11 please**

##### **MBA**

China has for many years been the world's largest producer and consumer of coal. In 2011, China also became the world's largest importer of coal, overtaking Japan.

India's coal imports grew less than expected in 2011 as power projects that were expected to come online during the year were delayed. India's coal imports are still expected to grow strongly in the near term.

The US became a prominent exporter in 2011, more than offsetting the shortfall in Australian exports that was caused by flooding and bad weather in the beginning of the year.

The record high global coal prices are a clear sign of the strong underlying demand, and especially in China, coal remains the most important energy source. In 2011, Chinese coastal coal trade amounted to 640m tonnes, which is an increase of 19% year on year. This year the coastal coal trade is expected to increase by a further 80-100 million tons, and thus becoming a significant factor in global drycargo tonnage demand.

#### **Slide 12 please**

##### **MBA**

We expect the dry cargo market to be very challenging in 2012 and freight rates are on average expected to be lower than in 2011. However, we do expect some improvement during the year from the current very weak spot rates.

Also in the medium term do we see the potential for improved markets. Demand for raw materials in emerging markets continues to be strong and improving raw material availability in the medium term is expected to have a positive impact on the market.

Vessel supply will grow robustly this year but is expected to trail off towards the end of the year and into 2013.

NORDEN is well positioned to meet the challenging market conditions in 2012 with 86% coverage for the year at mid February. With uncertainty being high in the markets, we will tightly control expenses both on shore and at sea, and continue focusing on optimizing our internal operations.

We are keeping our focus on growing our cargo base, but only at sound levels and with good counterparts. As market conditions continue to be difficult and asset prices remain under pressure, attractive investment opportunities are expected to arise. When these opportunities present themselves, we will be ready to take advantage of them.

#### **Slide 13 please**

##### **MBA**

Product tanker rates have gradually improved over the past 3 years, and although the absolute levels are still unattractive, the performance of Norient Product Pool has ensured NORDEN satisfactory earnings levels even in a difficult market environment. Thus, Norient achieved average MR rates of close to 15,000 dollars per day, which is substantially above the market.

For 2012, we again expect a gradual improvement in both market rates and our realised rates.

#### **Slide 14 please**

##### **MBA**

The outlook for the supply side in product tankers is good, especially in Handysize where the global fleet is expected to decrease by 3% in 2012-14 due to low contracting and high scrapping.

In MR, on the other hand, the fleet is expected to grow a total of 13% in the same period, reaching a total fleet of 52 million deadweight tons.

The total clean tanker net fleet growth reached its peak in 2009. Since then newbuilding ordering has remained moderate which means expected fleet growth going forward, is much more manageable, with expected annual growth rates around 3%.

**Slide 15 please**

**MBA**

Although global oil consumption grows only slowly, we believe there is good reason to expect stronger growth in product tanker demand going forward. The fundamental reason is outsourcing of refining capacity.

In the last 10 years we have seen the share of total oil consumption transported by sea grow from 15% to 20%. And there is plenty of potential for this to increase further.

Refining capacity is being closed or idled in Europe and US East Coast, which provides support for added import demand. New refinery additions able to supply these imports are expected to come on stream mainly in Asia and the Middle East.

These structural changes mean that demand for seaborne transportation grows much faster than global oil demand. In fact, during the last 10 years, seaborne volumes have grown 3-5 times faster than oil demand.

So with moderate fleet growth expected we think the supply/demand balance in the product tanker market will be gradually improving.

**Slide 16 please,**

**MBA**

Overall, we expect a gradual recovery in product tanker freight rates.

In NORDEN we are positioned to take advantage of improved market conditions, with currently very low coverage.

We continue to focus on growing our fleet of owned vessels, and are particularly interested in fuel efficient ECO types.

**Slide 17 please, and over to Carsten for the guidance for 2012**

**CM**

Thank you Martin

Before finishing this presentation, I would like to provide you with our earnings outlook and guidance for 2012. The guidance is based on current capacity and coverage.

In Dry Cargo we expect an EBITDA of 85-125 million dollars, while in Tanker we expect an EBITDA of between 25-45 million dollars.

For the Group we expect an EBITDA of 110-150 million dollars, and an EBIT of 10-50 million dollars. CAPEX is expected to be 140-160m USD for the year.

**Next slide please**

**CM:**

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

Please study this presentation carefully

**Next slide please**

**CM:"**

## TRANSCRIPT - Q&A at the Norden webcast

This concludes our presentation, and we are now open for the questions from the audience so please follow the instructions given by the conference host.

Operator

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

0.22

Jacob Pedersen, Sydbank

Hi gentlemen, I have a couple of questions. First of all, if we look at your guidance, it seems that your known ship days for 2012 are quite a bit below the ship days you had in 2011. I expect that you will gradually move up towards the level of 2011, probably exceeding it, even. Could you try to talk us through the effect of these new days on your guidance and on your income?

0.59

Answer

Yes, hi Jacob, you are correct, our days in dry cargo when we started the year were around 35,000. This is actually at a level similar to where we started in 2011 and we do have a tendency to add a lot more days during the year. Our guidance currently is based on the known capacity that we had on our book as of mid or end February and new activity - to the extent that, of course, this will be earning positive profits – this will then come on top of that going forward. It tends to be that way that in rising markets we typically add more days during the year whereas in weaker markets we typically add a little bit fewer days as we concentrate on just performing our existing contracts and moving cargoes with our core fleet but since we still have our focus on strengthening our cargo base I am convinced that we will also see growth in capacity this year.

2.06

Jacob Pedersen, Sydbank

But if we look at the current market situation, how does that provide you any possibility to grow and make a profit at the same time?

2.20

Answer

You can say there are actually many more opportunities to make profits from the operator activity in addition to just taking positions in a rising market. What we try to do is to optimise the logistics behind moving the cargoes and fulfilling the cargo contracts so this means reducing ballast days to a minimum thus saving both charter hire and fuel costs and also on existing contracts optimising the actual execution of the voyage to increase our time charter equivalent earning a little bit above where our estimates were when we started.

3.01

Jacob Pedersen, Sydbank



OK, just to clarify your basis and the assumptions behind your earnings guidance and these extra earning days it is not different than it was a year ago?

3.16

Answer

No.

3.17

Jacob Pedersen, Sydbank

No, OK, great. Then I have another question concerning the capacity and the problems with freight rates being so low. We have seen, for example, in the container industry that rates have gone up quite dramatically because the container companies they have reduced their capacity and I know that driver gives a completely different market and could you say are there any things in sight that might bring sort of a capacity reduction to ease the market sentiment a bit?

3.59

Answer

Hi Jacob, it is Carsten here. You can certainly see increased scrapping as opposed to other segments I would say. What is good about the dry cargo market is that a lot of capacity is being taken out instantly when the freight rates are going down. You saw that in the wake of Lehman in the fourth quarter of 2008 and the first quarter of 2009. You have seen healthy scrapping in 2010 and you are seeing that at a faster pace right now. But you are seeing now on the larger ships, on the capesize ships that people are, you know, there are limits as to how low you can go. If you look at earnings on a capesize carrier now you are TC equivalents of running cost or below so there are simply limits as to what owners will take and continue to trade at. But permanent capacity reduction, you have to see that through scrapping.

5.05

Jacob Pedersen, Sydbank

OK. You say that there are limits. But how is that different from the product tanker market that we have now seen being firmly depressed for three years?

5.16

Answer

Well, 14,000 last year in earnings here, 13,000-14,000 the year before, our bottom earnings in Norden and Norient product pool were actually in 2009. So there is a difference as to earnings whether you are at running costs or whether you can cover your running costs, your interest and some repayments on your loans. So probably if you have a downturn in the market, the tougher the downturn is, and the longer it lasts, the more clean out or scrapping you will have. The problem with the product tankers to a large extent is it has not been enough to support the old asset prices and it has not been good, it has been tough but it has not been a complete disaster.

6.17

Jacob Pedersen, Sydbank

Yes, a last question concerning your counterparty risk. What should we look for here, going forward? I know that you have taken some huge steps to improve this situation compared with 2008 and 2009. Could you talk a bit about how you see your own position? You have taken a one-off, as I see it in 2012 already.

6.48

Yes, Jacob, it is Michael speaking. What I can say is that we have tightened up a lot on our credit evaluations so I would say the position we have today is much stronger than the position we had in 2008. One big difference is that today we have all the physical cargoes, we have direct relations with mining companies, the energy companies and they have a much healthier balance sheet than many of the operators that we were doing business with back in 2008. So I would say we have a better situation now and the only case that we sort of work on right is with this Chinese counterpart which has been mentioned also in the guidance

7.31

Jacob Pedersen, Sydbank

OK, great, thanks a lot, guys.

7.36

Operator

Noah Parquette from Cantor Fitzgerald is on line with a question

7.40

Noah Parquette

Thank you. I just want to touch on a point you made in the presentation. I think it is really interesting about how newbuilding prices are – you know – kind of constrains you because they are getting marginal costs for the ship builders so I mean with rates the way they are is there any situation where you see newbuilding prices become unattached from the market because it is not economic any more to buy ships and you know how do you also grow in that context, I mean is it the second hand market where you have to work?

8:12

Answer

Hello, it is Carsten here. I think this is where you are really going to see sort of the battle going forward between the ... the difference in price between modern second hand ships and the newbuilding orders, the newbuilding prices. If you look at the production costs in yen for instance in Japan with the strong yen, the yards are suffering. There is hardly any financing available in the market and demand is really low for newbuildings. We cannot really see who should be driving the newbuilding market going forward. There is too much capacity on the yard side that has been built up over the last 4-5 years, in China particularly, but also in Japan and in South Korea. So the interesting thing is you are getting significantly better designs out of the yards now, so we are seeing that the newbuilding prices have to find their levels as well as the second hand prices and it is under pressure because of the lack of financing, lack of potential buyers, you need more equity to be a buyer today, and prices in local currencies are back to the Asian crisis or 2002. So you

simply – we do not see any other solution than that you need more consolidation on the yard side and there is less competition for new capacity for a company like Norden.

9.50

Noah Parquette

Yes, and then talking more about those new designs and the fuel efficiency. You know, looking forward to next year, how do you see that effect in the market, I mean, can that keep driving newbuildings more than they otherwise would be. Can you see a two-tier market, I mean, how important will fuel efficiency be? On dry bulk and products?

10.07

Answer

I think it will be important, it will be very important going forward from here, but so long as you have, you can say, second hand or ... In certain pockets of the product tanker market today on existing ships because you don't have any eco ships on the water today if you have earnings at 15-20 dollars a day on a product tanker that will of course put a floor under the current second hand prices, but I think you will have a competitive edge going forward on these new eco designs if you save 6 tonnes per day of fuel oil expecting the fuel prices to be strong over the coming 2-3-4 years you really have a competitive advantage. We have stepped into that with 5 long-term deals on dry cargo and four acquisitions on our MR tankers so we will participate in renewing the fleet so to speak as much as we can.

11.17

Noah Parquette

Yes that is kind of what I am worrying about. The new build design and the fuel efficiency will keep the orders going despite the overcapacity but, you know, it will be more..

11.25

Answer

It still takes more equity to buy these ships and I am not quite seeing where that is coming from at the moment.

11.35

Noah Parquette

Yeah

11.34

Answer

I also think there is a good argument to be made that with the current high steel prices, which makes scrapping quite attractive, the inefficiency of the very old ships and high oil prices will also lead to accelerated scrapping so you could have sort of a repeat of the single hull situation in the tankers, only it is not politically mandated but it is economically mandated that if you can get 10 million dollars to scrap an old capesize and you cannot find employment because it is so fuel-inefficient then you will take the scrap value so I think you could see accelerated scrapping going forward.

12.11

Noah Parquette

Yeah I agree to that, you know, with the fleets getting so young now, I mean, do you see 15-year old ships getting scrapped here? Potentially?

12.23

Answer

I think it has been quite interesting to see some of the double hull VLCCs actually being scrapped at ages below 20 years. I don't think we have seen that just yet in dry bulk, but I think certainly the tendency is for ships right now to be scrapped at lower ages than just 3-4 years ago.

12.45

Noah Parquette

OK and then just one last question. It is that you know you have large exposures on the dry bulk Handymax sector that has definitely outperformed the larger ships the last couple of years. Do you see that continuing – is there a point or supply that builds up and you lose that sort of advantage or?

13.03

Answer

We are seeing that as we speak, basically you have seen a small rebound in Handymaxes in the Far East again so always in times of bad markets you will see that the smaller ships relatively speaking are performing better than the larger ships and I think you will see the same this time around.

13.23

Noah Parquette

OK, thank you very much, guys.

Operator

Once more, if you have a question please press start and then one on your touch tone phone

Closing remarks

Well it does not seem that there are any more questions so thank you very much for listening in. You are always welcome to call us if you have any further questions. Have a nice afternoon. Thank you very much. Bye-bye.