2014 will be an exciting year with great challenges and equally great opportunities. NORDEN is ready for both. We have updated our strategy for it to best possibly ensure that NORDEN can manage the challenges and seize the opportunities. The strategy is named Capture value in improving markets, and a central focal point is investments.

In the short term, we have invested in extra ship days by chartering in extra tonnage and keeping the vessels ready to benefit from the increasing rates. In total, NORDEN entered 2014 with more than 28,000 open ship days, and within Dry Cargo, there were even twice as many open days as the year before.

But we have also been busy securing our long-term competitiveness. This has been done through investing in new NORDEN vessels. Previously, we focused on investments in Tankers buying new fuel efficient product tankers while prices were attractive. But since the end of 2012, we have mainly focused on investments in Dry Cargo. And our Projects Department has been busy. In 2013 alone, orders were made for 18.5 vessels, of which 14.5 were dry cargo vessels, and to this can be added an additional 7.5 dry cargo vessels ordered in 2014. With this, our total order book counts 37 vessels representing an investment of more than USD 1 billion.

All the newbuildings are fuel efficient eco vessels, which we will also be satisfied with should the markets develop negatively in the long term. The vessels are both fuel efficient and acquired at a good price. And this is very different from the vessels ordered during the years from 2006-2008. The fuel efficiency of the new vessels will ensure that the single greatest voyage expense, i.e. bunker oil, will be relatively low. And the reduction in fuel consumption is not only a good thing for the bottom line, but also benefits the environment, which you can read more about on pages 14-15.

On pages 10-11, head of Dry Cargo Ejner Bonderup explains how NORDEN has decided to move forward with a low level of coverage based on the more positive market outlook and what this holds in terms of opportunities and risks. As there is naturally an element of risk involved when moving forward with a lower level of coverage. We are exposed to market fluctuations to a greater extent, but the decision has been made based on very thorough analyses and with a continued strong safety net that is our robust financial position.

This is a position which has been strengthened by the improved performance of the Tanker Department. With 18 owned product tankers at sea and further 6 on order, we also had great timing when investing in fuel efficient tonnage within this segment. Now, the product tanker rates are headed in the right direction, and so are the vessel prices. In 2013, the Tanker Department generated the best operating profit in 5 years, and with more ultramodern eco vessels coming in, the Department is well equipped for future challenges, which our head of Tankers, Lars Bagge Christensen, goes into more detail about on pages 4-8.

The vessel prices have also gone up in our main business segment Dry Cargo – see page 13. It is very positive that the market value of NORDEN’s fleet was USD 92 million above carrying amounts at the end of 2013 as this is not only an indication that the vessels are worth more but also that the market shares our belief that we are heading towards better rates and earnings going forward. The year did start off with relatively low rates in dry cargo, but as the quarters progress, the many open ship days may generate great value to us.

I wish you all happy reading of this first issue of NORDEN NEWS in an exciting 2014.

CARSTEN MORTENSEN, President & CEO
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40 years with the NORDEN star on his chest
The fleet is being renewed with modern, fuel efficient vessels which were ordered while the shipyards’ prices were attractive. The composition of owned and short and long-term chartered vessels is good, and through the Norient Product Pool partnership, NORDEN has tonnage across the globe.

NORDEN’s Tanker Department is trimmed in order to have a share of the expected gradual improvement on the product tanker market – i.e. transportation of refined oil products such as fuel oil, gas oil, gasoline, naphtha and jet fuel.

In 2013, the Tanker Department delivered the best results in 5 years and thus proved that the fleet of 46 owned and short and long-term chartered MR and Handysize vessels is able to extract value from a difficult market, which is, however, showing signs of improvement.

The Tanker Department’s ambition for 2014 and the years to follow is crystal-clear.

“Our aim is to benefit as much as possible from the emerging improvement in the market. During the years of crisis, we not only did everything we could to make it through the historically difficult challenges in one piece by adjusting on all the parameters in our control – i.e. the cost side, the fleet composition, our positioning, coverage versus spot trade, client portfolio, etc. At the same time,
we spent our time preparing ourselves in the best possible way for the market to turn. The goal has been to be in pole position on the day when the good times with higher rates return,” says Executive Vice President Lars Bagge Christensen.

Counter-cyclical investments
One important element in the preparations has been the fact that NORDEN’s Executive Management, with the backing of the Board of Directors, has given the Tanker Department the possibility of future-proofing the fleet by renewing it with eco newbuildings which go considerably further on a ton of bunker oil than conventional vessels in the global tanker fleet. The renewal is being executed by investing counter-cyclically as it is called. That means that you invest when the market and thereby also prices on newbuildings are low – and when market research builds confidence that the market will turn around followed by higher rates.

During the years of financial crisis, starting with the Lehman Brothers crash in September 2008, a total of 10 new fuel efficient product tankers have been ordered: 4 MR vessels delivered in 2013, 2 Handysize vessels to be delivered in 2014, and 4 MR vessels, which will be delivered in 2014 and 2015.

“This is a significant renewal of the fleet, which after the delivery of the 4 new vessels in 2013 counts 18 owned vessels. And it is a renewal that we have been able to make because of NORDEN’s strong financial position and because of the trust that the Board of Directors and the Executive Management have in our strategy and assessment of the possibilities in the market going forward,” says Lars Bagge Christensen.

Difficult years during the crisis
Lars Bagge Christensen is the one in charge of the Tanker Department – how large a fleet does NORDEN want, how many vessels should the Company own, how many vessels should the Company charter and at what price and for how long etc.

He has been head of NORDEN’s Tanker Department since 1999.
“The years during the financial crisis have been difficult, very difficult indeed. However, with skilful operation of the Tanker fleet and through relatively high coverage, losses have after all been manageable. But red numbers on the bottom line – those we did have for 4 consecutive years. The more noteworthy and gratifying it is to be able to present a profit for 2013 – not a large one, but large enough to mark a considerable change in market conditions,” says the head of the Tanker Department.

Oil majors among the customers
The commercial and operational management of NORDEN’s tanker fleet is embedded in the almost 10 year old product tanker pool No-

Product tanker market continues to improve

The improvement of the product tanker market is expected to continue in the longer term. The main explanation is a continuously increasing demand for product tankers while fleet growth, although it is subject to great uncertainty, is expected to turn out below the historical level.

The positive development in demand is strongly supported by the down-scaling or even shutting down of older oil refineries in Europe that is taking place these days. As European consumption of fuel oil, diesel oil, gasoline, jet fuel, gas oil, etc. is expected to remain relatively unchanged, the reduced refinery capacity in Europe will lead to increased imports – and to more cargoes for the product tanker vessels.

At the same time, there is a tremendous expansion of refinery capacity going on in the Middle East with the opening of new, efficient refineries close to the major oil wells. Despite continuously strong growth in demand in these countries, the Middle East is expected to become one of the world’s largest exporters of refined oil products in the long term.

Uncertainty about refineries
It is also a positive for the product tanker fleet that recent years’ import growth in South America seems to continue, albeit with a lower growth rate. A string of planned refineries in South America may decrease the demand for import of refined oil products, but it is uncertain when the construction of these refineries will be carried out.

Africa may have a growing, although relatively small, influence on the product tanker market. The economic growth in this part of the world is beginning to pick up, and this necessitates more refined oil products, which need to be imported due to unrest many places in Africa impeding the development of refinery projects.

The dark horse
The dark horse in the product tanker market game is first of all the size of fleet growth. Improved market prospects have prompted many shipping companies to contract new tonnage, but NORDEN has a lead over many other owners.

The Handysize NORD GERANIUM will be delivered along with its sister vessel from Guangzhou Shipyard International in China in May and July, respectively.
Best earnings in 5 years

In 2013, NORDEN’s Tanker Department achieved the best earnings in 5 years, and they were 7% higher than the 1-year T/C rates in NORDEN’s two primary vessel types.

Profit before depreciation etc. – EBITDA – reached USD 39 million, which was in the high end of the expectations of USD 25-45 million and USD 11 million above profits in 2013. This underlines the gradual improvement in the product tanker market resulting from a better balance between the supply of vessels and the demand for transportation.

The tanker market had a good start to the year but was hit by weak demand and resultant low rates in the second and third quarter. At the end of the year, rates recovered, which Tanker was well positioned to profit from.

The USA continued to be one of the important driving forces in the product tanker market in 2013. The increasing extraction of shale oil has resulted in record high exports of refined oil products, which, as far as diesel oil goes, is shipped to South America and Europe where the refinery capacity is inadequate in meeting demand. Asia also played a part in lifting the market, just as shutdown of refineries in Australia and Japan increased the countries’ imports of refined oil products.

Clean products largest cargo

Clean petroleum products such as gasoline, diesel/gas oil, naphtha and jet fuel account for two thirds of NPP’s cargo volume, while the remaining third is made up of dirty petroleum products, which is primarily fuel oil that continues to be the largest cargo type with 28% of the total cargoes.

Gasoline, diesel/gas oil and naphtha account for 52% of total cargo, and the majority of it is transported on traditional routes – i.e. diesel from North America to South America and Europe and gasoline from Europe to North America. Europe and North America thus continue to be NPP’s most important markets.

In 2013, NPP’s cargo volume dropped by 10% to 25.1 million tonnes. Among the reasons were longer voyages and more waiting time.

Flexible fleet composition

On all parameters, the Tanker Department feels well equipped for the future, Lars Bagge Christensen emphasises.

“We are moving towards a larger and the most modern/fuel efficient fleet ever. We have – and at the right price, mind you – increased our fleet of chartered vessels, i.e. the so-called T/C fleet so that we have just the right fleet composition in regards to owned and short and long-term chartered vessels. We have a fleet composition that is flexible, which makes us able to take advantage of the upswing in the market as well as decrease our exposure to the market if this should be necessary. All in all, the number of ship days for the T/C fleet has gone up by 16% from 2013 to 2014 to a total of 8,111 ship days, which means that total capacity has increased significantly – to 15,134 ship days or 15.3% more ship days than in 2013 to be exact. Furthermore, by means of the cooperation in NPP, we have tonnage all over the globe, and this tonnage is well positioned, while at the same time, we are present locally with own offices covering chartering and operations on the most vital markets,” says the head of the Tanker Department.

Increased spot exposure

What goes for the Dry Cargo Department also applies to the Tanker Department – in order to derive maximum benefit from improved market conditions, the focus is now being shifted towards the spot market where, during times of financial upturn, better rates can usually be achieved than through shorter contracts with customers. While Tankers entered 2013 with coverage of 27% of ship days, coverage at the beginning of 2014 is 24% and 1% for 2015.

The percentage ratio between coverage and exposure towards the spot market will always be dynamic and reflect how coverage rates relate to NORDEN’s own earnings in the spot market. When the latter is markedly higher than the former, coverage will be lower. NORDEN does not want to be completely without coverage as it functions as a risk management tool and a tool for creating strong customer relationships.

Exciting development in 2013

“The spot market has undergone a very exciting development in 2013, and our results for the year show that...
The balance between the supply of product tanker vessels and the demand for transportation was considerably improved in 2013 – resulting in better rates.

In 2013, global fleet growth in the product tanker market was just under 3% or the same as in 2013, but much lower than historical fleet growth, which for the past 10 years has amounted to an average of 9% a year.

NORDEN’s and NPP’s fleet of tankers is composed of MR and Handysize.

Fleet growth in MR totalled 7% in 2013. On the other hand, the global Handysize fleet was reduced by 2.5%.

In 2014, product tanker fleet growth is expected to total up to 4.5%, which is mainly due to growth in the LR2 and MR vessel types, while in the Handysize and LR1 vessel types, there has been almost no contracting in the past few years. Demand growth is expected to be 4-5%.

This year and next year, 2 new Handysize and 4 new MR vessels will be delivered to the NORDEN Tanker Department from shipyards in China and Korea, respectively.

“The spot market has undergone a very exciting development in 2013, and our results for the year show that we did in fact profit from this development”

Executive Vice President Lars Bagge Christensen

Head of NORDEN’s Tanker Department, Executive Vice President Lars Bagge Christensen: “NORDEN’s tanker fleet should be in pole position when the good times with higher rates return.”

Strength with only 2 partners

He points out that NPP has a great strength in its cooperation being only between 2 partners – it is after all easier for 2 partners to find solutions than it is for more partners. Even though NPP formally is a pool, in reality, it functions as a joint venture with 2 partners who share the same values and ambitions, who have a homogenous and pragmatic approach to doing business and who have known how to stand together during both the ups and downs of the markets.

“Add to this that running a fleet of some 80 vessels in 2 related vessel types – MR and Handysize – gives us a strength vis-à-vis the customers of the pool. Also in the eyes of the customers, NPP is a supplier of a large fleet and a stable supplier of tonnage with good geographical coverage, managed by relatively few but efficient people. Our customers experience – at least so they tell us – that they are always treated in the same way, no matter the ship in question and no matter which office or person they are talking to. NORDEN and Interorient Navigation Company have mutually adjusted a number of procedures, and they work in the daily routines,” says Lars Bagge Christensen.

Measures strengthen the position

“By virtue of NPP, NORDEN is already today a very important player on the global product tanker market. I believe that we have made a number of strategic measures that can only strengthen our position,” he adds.
235 times in 2013, a NORDEN dry cargo vessel sailed through the 77 kilometre long canal, which saves the vessels detours of thousands of nautical miles.

With 235 passages in 2013, NORDEN is the dry cargo shipping company in the world, which most frequently sails through the Panama Canal – the 77 kilometre long shortcut between the Atlantic and the Pacific oceans, which makes it possible for the shipping industry to avoid detours south of South America or Africa of thousands of nautical miles.

NORDEN is number 10 on the list while the 9 shipping companies before NORDEN are all container shipping companies.

The dry cargo shipping company which, after NORDEN, has the largest number of passages through the Panama Canal only has half as many passages as NORDEN.

“The numbers both indicate how great a dry cargo player NORDEN is and how important the Panama Canal is for the completion of our voyages in that part of the world,” says head of Dry Cargo Operations, Vice President Jens Christensen.

Together with the 169 kilometre long Suez Canal from 1869, the Panama Canal has since the opening in 1914 saved the global shipping industry and thus also to a high degree NORDEN many million nautical miles of extra sailing. Around 25,000 vessels or approximately 15% of the world’s shipping trade sail through the Suez Canal every year, which connects the Mediterranean with the Red Sea. Only around half as many vessels pass the Panama Canal in a year.

There are several explanations for the less amount of traffic through the Panama Canal, which in contrast to the Suez Canal is not only a shortcut. It is literally also a bottleneck. The Suez Canal has no limitations with regard to width and length of the vessels or how deep they draw – only fully loaded super tankers have to take the detour south of Africa. In contrast, the Panama Canal has presently limitations as the width of the vessels cannot exceed 32 metres, length 294 metres and draught around 12 metres – hence the name Panamax for the largest vessel type to pass the canal.

Canal being extended
With a referendum in 2006, Panama decided to extend the canal so that vessels with a width of up to 49 metres, a length of up to 366 metres and a draught of up to 15 metres can sail through the canal.

The Panama Canal has since it was constructed consisted of 1 lock on the Atlantic side, the Gatun Lake in the middle and 2 locks on the Pacific side. The extension project includes an extra lock with much larger dimensions at both entries to the canal. The official schedule for the completion remains October 2015.

New opportunities for NORDEN
“Like other shipping companies, we are looking forward to the limitations of the passage through the Panama Canal no longer applying. We will be able to increase the cargo intake on our Panamax vessels, but I cannot say how many more passages NORDEN’s dry cargo fleet of around 280 vessels will make through the canal. Following the extension, our fleet of Post-Panamax vessels and to a certain extent Capesize vessels will be able to use the Panama Canal. To what extent they will use the canal depends on their trading patterns,” says head of Operations Jens Christensen from NORDEN’s Dry Cargo Department.

On average, the passage through the Panama Canal takes around a day. The price varies depending on the size of the vessels, but for a typical dry cargo vessel, it exceeds USD 100,000 per passage, which should of course be seen in relation to the significantly reduced distance.
More focus on spot market in Dry Cargo

Along with the expected improvement of the balance between the supply of vessels and the demand for transportation, it will be more profitable to reduce coverage and keep more vessels open for the spot market.

In recent years, NORDEN has had a significant part of its dry cargo fleet capacity covered by cargo contracts. Long-term cargo contracts and a close relationship with the customers will continue to be an integrated part of NORDEN’s dry cargo business. But NORDEN will operate at a lower coverage level in order to make the most of the expected increasing dry cargo rates.

“We have always been and will continue to be long-term players in the dry cargo market. We see NORDEN as a first-grade shipping company that has the strength and ability to provide full services to customers – from a single cargo of less than 30,000 tonnes to long-term cargo contracts with high volumes – i.e. millions of tonnes to be transported year by year, e.g. coal from Svalbard to the European continent. A multiplicity of cargo contracts will always be part of the basis on which NORDEN does business. Our long-standing, long-term and loyal customers will always be of great importance to us,” says head of Dry Cargo, Executive Vice President Ejner Bonderup.

The future dry cargo market

That said, NORDEN also carefully assesses how the dry cargo market will look for the next years. After 5-6 years of crisis with historically low freight rates, it finally looks as though a better balance between the supply of vessels and the demand for transportation is within reach, the head of Dry Cargo points out.

“Currently, we are seeing a clear trend towards improved balance between supply and demand. This means higher utilisation of the world fleet, and all things being equal, this will mean higher freight rates – to begin with in the spot market. It is therefore our assessment that we can increase earnings and profitability by increasing the exposure to the spot market,” says Ejner Bonderup.

The expected improvement in the market means that NORDEN’s Dry Cargo Department had only covered 59% of its 40,709 ship days at the beginning of 2014. Together with the increase in capacity, this means that the Company entered 2014 with nearly twice as many open ship days as in 2013.

The price must be right

In the strategy period recently completed, NORDEN focused on growth in cargo volumes in dry cargo and attained an annual growth rate of 20%. At the same time, the number of new customers went up by 130 in 2013 alone as NORDEN is doing more and more business directly with the customers instead of just chartering out the vessels and being only a tonnage provider. In the coming strategy period, the target of growing cargo volumes will be set at 5-10% per year – naturally with focus on cargoes providing the greatest positioning gain.

“This target reflects that NORDEN wants to maintain the strong focus on customers and cargoes, but at the same time also turn down business which is priced too low,” says Executive Vice President Ejner Bonderup.

He adds: “2013 was basically a year of investment in Dry Cargo. We invested USD 700 million in both owned and long-term chartered vessels, and we did so when the yard prices were attractive. This means that from 2015 and onwards, the fleet will be expanded by a number of new vessels which are both fuel optimised and rightly priced – and this will benefit both customers, the environment and us.”
New strategy to ensure that NORDEN will make the most out of the market

The former and now completed strategy for the years 2011-13 has positioned NORDEN well for the improved market conditions, and the new strategy indicates how NORDEN will move forward.

In 2013, NORDEN completed the strategy period 2011-13 and developed a new strategy to ensure that the Company will get as much as possible out of the upturn.

"The strategy plan Long-term growth in challenging times was implemented satisfactorily and has positioned NORDEN well to create value under the expected better market conditions. The overall goal for NORDEN was to yield a higher return to the shareholders than that of comparable companies, and this goal was reached with a total return of 56% against 13% for comparable shipping companies," says CEO Carsten Mortensen.

Like the former strategy, the new strategy is based on NORDEN’s unchanged, overall business model and continued ambition to deliver a return higher than that of comparable shipping companies.

“The market expectations at the beginning of the strategy period 2011-13 were relatively negative, and this was taken into account in the strategy Long-term growth in challenging times. Outlook is more positive now, and we have therefore named the new strategy Capture value in improving markets – we will make the most out of the expected improved markets. With a better market outlook in both dry cargo and product tankers, we therefore change focus in a number of areas,” says Carsten Mortensen.

The new strategy came into being following an extensive and thorough strategy process during which market conditions and NORDEN’s position, organisation and competences were reviewed and analysed.

“Our ambition is to yield a higher return to the shareholders than that of comparable shipping companies”

CEO Carsten Mortensen

7 points in the new strategy

2011-13 Long-term growth in challenging times

- Protect downside – create upside
- Sell short – buy long
- Overweight Tankers
- Low gearing
- High coverage
- Cargo is king and all cargo is good
- Eco focus – slow steaming

2014 - Capture value in improving markets

- Near-term value – long-term competitiveness
- Buy short – buy long
- Overweight Dry Cargo
- Increased gearing
- Lower coverage
- Cargo is still king, but some cargo is better than other
- Fuel efficiency – right steaming

1. NORDEN will take advantage of the expected upturns in the markets in the short term while improving the Company’s long-term competitive position  
2. NORDEN will continue investing in new tonnage  
3. Investment focus to be directed primarily on Dry Cargo  
4. Higher gearing  
5. Lower level of coverage in Dry Cargo and maintaining the level of coverage in Tankers to benefit from the improved spot rates  
6. Focus on cargoes providing the greatest positioning gain  
7. Right steaming in stead of slow steaming
It is a central part of NORDEN’s work with corporate social responsibility that the Company’s hundreds of suppliers, just like NORDEN itself, comply with the UN’s and various UN organisations’ regulations on human rights, working conditions, environment and anti-corruption.

Therefore, NORDEN has developed a system for responsible supply chain management in cooperation with another Danish shipping company J. Lauritzen and International Marine Purchasing Association (IMPA). The system is called IMPA ACT, and it is a system, which can now be purchased by other companies in the shipping sector. By purchasing the system, companies get access to a shared database with the names of suppliers, who have already been through the approval process and therefore have met the requirements of a supplier code of conduct covering UN regulations.

"As many shipping companies have the same suppliers, this standardised system will reduce bureaucracy. This goes both for the suppliers, who do not have to spend time on complying with numerous different codes of conduct, and for the companies in the shipping industry, who will immediately be able to use other shipping companies’ assessment of shared suppliers,” says Director CSR, Ulla E. Nielsen.

"Our objective is to form the foundation of a global industry standard in this area,” she says.

Policies on the area
Whether the suppliers comply with the UN regulations on human rights or not is defined by UN Guiding Principles (UNGPs), which state that a supplier is in compliance if it has policies on the area and if it has business processes and complaint mechanisms in place, which constantly take care of possible attacks on human rights in the
organisation. The definitions of when a supplier is in compliance with the regulations on working conditions, environment and anti-corruption are based on other internationally acknowledged principles.

**Copenhagen-based company was the first**

It takes time to build up the database of approved suppliers. In 2013, NORDEN has cooperated with 5 of the Company’s suppliers as part of the establishment of the database.

One of these suppliers is the Copenhagen-based company Weilbach, who supplies NORDEN with nautical charts and publications. In order to comply with the requirements in the IMPA ACT system, Weilbach went through all its policies on the area, ensured that they were relevant, translated them into English and put them on the website so that everyone can now read them.

On 22 January, Weilbach signed NORDEN’s Supplier Code of Conduct as the first of the Company’s suppliers, and Weilbach was therefore also the first supplier to comply with the requirements in the IMPA ACT.

“As a supplier, we are often presented with various codes of conduct from our customers. Usually, it is about answering yes or no, signing and then moving on. With IMPA ACT, it is a completely different process, which goes a lot deeper and which encourages to share best practice. We have seen this process as an opportunity to improve our company, and NORDEN helped us initiating this,” says Director Sales & Support, Martin Mikkelsen, Weilbach.

**NORDEN’s owned vessels increased in value**

The improved market conditions have impacted vessel prices. After several years of declining vessel prices, the trend turned in 2013, and the value of NORDEN’s 44 owned vessels and 12 newbuilding orders including joint ventures amounted to USD 1,540 million at the end of 2013. This is USD 92 million above the carrying amounts and an increase of USD 228 million compared to the year before.

The market value of the vessels is based on evaluations from 3 independent shipbrokers.

Since the financial crisis broke out in 2008, ship values have been under pressure throughout the industry, and consequently in May 2012, NORDEN decided to write down its ship values by USD 300 million.

CFO Michael Tønnes Jørgensen states that the increase in ship values has not resulted in NORDEN immediately writing up its values in the accounts.

“This is due to 2 aspects. Partly, there is a gap between the highest and the lowest broker evaluations, and partly, we want to make sure that the trend in vessel prices is a steady one before we would possibly make a revaluation,” says the CFO.

It was especially the developments in the second half-year that contributed to the positive value development in NORDEN’s fleet. An index-based calculation of the vessels’ market value excluding charter parties indicates that the value of NORDEN’s dry cargo fleet has increased by a total of 16% in 2013, while the value of NORDEN’s tanker fleet has gone up by 11%. If you disregard the impact of age on the value of the vessels, fleet values have increased by 21% during the year.

Newbuilding prices in all of NORDEN’s vessel types also increased in 2013 – in the dry cargo segment by 6-16%.

**This standardised system will reduce bureaucracy**

Head of CSR,
Director Ulla E. Nielsen

*Head of CSR, Director Ulla E. Nielsen*
Climate action plan significantly reduces fuel consumption

The cost of fuel for the vessels i.e. the cost of bunker oil is with USD 671 million in 2013 without a doubt NORDEN’s largest expense item. The Company’s climate action plan from 2007 is a central factor in NORDEN’s efforts to reduce the fuel consumption of the Company’s 44 owned vessels and thus also the vessels’ emission of the polluting CO₂.

Fuel is the largest expense
The cost of fuel for NORDEN’s fleet of 44 owned and 242 chartered dry cargo vessels and product tankers is by far the largest expense item. In 2013, NORDEN spent USD 671 million on bunker oil.

For that reason, but also because of the obligations towards the UN Global Compact – the UN’s 10 principles on i.a. environmental protection – fuel savings are of high priority. The climate action plan from 2007 is continuously implemented on the vessels in the fleet which NORDEN not only operates but also has technical influence on, which means NORDEN’s 44 owned vessels.

Clean propeller and smooth hull
The most efficient initiative in the climate action plan is NORDEN’s cleaning of the vessels’ propellers every six months on average. The propeller must have a completely smooth surface in order to meet as little resistance in the water as possible when it spins around to move the vessel forward. If the surface of the propeller is rough, the fuel consumption for making it spin around is significantly increased as the rough surface works as a brake.

Another efficient initiative in the plan is NORDEN’s way of painting the hulls. Today, NORDEN uses an advanced bottom paint so
that it is difficult for algae, mussels, bottom grass, etc. to stick to the part of the hull which is below water. As an important side benefit, the paint is self polishing, just as it gets smoother the more the vessel sails.

These two initiatives alone account for around half of the climate action plan's total contribution to fuel reduction and reduction of CO₂ emissions.

Speed optimisation and eco vessels
In addition to the contributions from the climate action plan, there are the contributions from speed optimisation – known as right steaming – and from the advantages of having a young, modern and fuel efficient fleet, which is continuously further optimised along with the acquisition of eco vessels – 4 vessels were delivered in 2013 and the order book counts additional 37 fuel efficient vessels for delivery in the years 2014-2017.

"The results speak for themselves. They prove that you get results when you work systematically and continuously with a range of targeted, effective and thus relevant initiatives with the aim of reducing fuel consumption. Back in 2007, the climate action plan included 14 initiatives. But the plan is dynamic and is revised every year to ensure that it still consists of the right initiatives – i.e. initiatives which provably contributes to a reduction in fuel consumption and thus the emission of the polluting CO₂," says head of the Technical Department Lars Lundegaard.

**Same data, assumptions and models**
Moreover, NORDEN introduced a new initiative to limit fuel consumption in 2013. The Company set up a Fuel Efficiency Team, who has worked on a project named One Set Of Numbers. The project is to ensure that everyone at NORDEN uses the same data, assumptions and models when describing the vessels' speed and consumption of the expensive bunker oil.

"We focus on the right initiatives for an ongoing improvement of the development. Therefore, I am confident with regard to reaching our target of reducing our total consumption and emission by 25% by 2020. And there will be 2 winners when reaching this target. One is NORDEN's bottom line and the other is the environment – it is two sides of the same coin," says head of the Technical Department Lars Lundegaard.

**"You get results when you work systematically and continuously with a range of targeted, effective and thus relevant initiatives"**

Head of the Technical Department Lars Lundegaard
NORDEN transports dry cargo all over the world, and every year, the Company transports millions of tons of coal, grain, iron ore, cement, etc. Some of the transports are very voluminous and therefore have significant impact on the results of the Company. Other transports are of another nature: Volume-wise they are smaller, but they are still of significant importance for the local markets.

Transportation of logs from New Zealand to markets in the Far East belongs to the latter category.

Since NORDEN established its Handysize division in 2006, NORDEN has continuously increased its presence in this niche market where particularly Handysize dominates. The transportation of New Zealand logs represents a significant part of the Pacific activities in the Handysize division at NORDEN's office in Singapore.

NORDEN has built up considerable experience in transportation of logs from New Zealand. This experience will also be used in other places of the world e.g. in the USA and Canada.

Forestry – a key industry in New Zealand

The annual export of logs from New Zealand is approaching 15 million cubic metres, and as 28,000-34,000 cubic metres are loaded per vessel – cargoes consisting of logs are not measured in tons but in cubic metres – it adds up to approximately 40 shipments per month. The shipments are made from 12-13 different ports with Tauranga on the North Island as the largest port with 5.5 million cubic metres per year.

It is New Zealand’s objective that forestry will be the country’s largest export industry in 2025. This will result in growth in timber cutting of around 60% – and corresponding growth in replanting, which the country has great focus on for financial as well as environmental reasons. Therefore, NORDEN also has certainty that the Company only transports logs from environmentally sustainable forests.

The main consumer of New Zealand logs is – as is also the case for most other commodities – China, annually consuming around 65%. The next 2 countries on the consumer list are South Korea and Japan.

CFO Michael Tønnes Jørgensen

### Strong balance sheet and cash balance

Even though NORDEN invested in 18.5 new vessels in 2013 – 9 owned vessels and 9.5 on long-term charter with purchase option – and in this connection increased its gearing, the Company still has a strong balance sheet and robust financial resources. At the end of the year, NORDEN had cash and securities totaling USD 486 million and undrawn credit facilities of USD 211 million.

“The figures indicate that we are also well positioned going forward to take advantage of the investment opportunities, which may arise,” says CFO Michael Tønnes Jørgensen.

The extensive investment programme has meant a significant increase in gearing expressing NORDEN’s net commitments to booked equity and which has been held low during the years of crisis. Due to the increased net commitments in connection with the newbuilding orders, gearing has increased to 0.70 at the end of 2013 against 0.26 at the end of 2012.

Net commitments increased by USD 683 million amounting to USD 1,126 million at the end of the year against USD 443 million at the end of 2012.

Since the turn of the year, NORDEN has invested in an additional 7.5 vessels – 6.5 owned vessels and 1 on long-term charter with purchase option. This has increased net commitments by further USD 217 million and brought net gearing up to 0.84 measured against equity at the end of 2013.

“Gearing has grown significantly but remains low compared to the business in general and is in all ways manageable,” says the CFO.

In addition to the investments already made in 2014, NORDEN expects to make further investments during the year – without drawing on the credit facilities. With payment of dividends, this will further increase gearing.
Challenging cargoes

It is Senior Chartering Manager Søren Holm Rysgaard, who has been in charge of the build-up of NORDEN’s transportation of logs in the Pacific area. When he was employed by the Company in 2006, part of the experience that he brought with him was precisely related to the transportation of logs.

“Due to their physical structure, transportation of logs differs from transportation of typical commodities, which are much easier to load/pack and secure during transportation. It is therefore not possible to state in advance precisely how many logs can be loaded – this can vary with up to 3-4,000 cubic metres on the same vessel. Then, it is a challenge to secure especially the logs which are on the deck during transportation so that they will not come loose if the wind picks up,” says Søren Holm Rysgaard.

Close cooperation necessary

He says that successful transportation of logs necessitates close cooperation between the vessel’s crew, dock workers and NORDEN’s employees on shore.

“As soon as we have the commercial agreement on a transport in place, we involve the local port captains, who play a central part in connection with loading,” says Søren Holm Rysgaard.

Experience to be used in other places

Head of NORDEN’s Dry Cargo Department, Executive Vice President Ejner Bonderup: “I am very aware of the strong position which the Singapore office has achieved in this market. We would like to use this experience in other places of the world, and here, I am specifically thinking about the export of logs from the US West Coast and Canada. Our objective is for NORDEN to grow in these areas. We have skills, which we must become even better at turning into business all over the world.”

“We have skills, which we must become even better at turning into business all over the world”

Head of Dry Cargo, Executive Vice President Ejner Bonderup

Japanese guests at Bond party

It was the fifth time that NORDEN’s Dry Cargo Department invited a handful of representatives from the European divisions of Japanese trading houses and yards for a cultural exchange day at the head office in Hellerup in December. And none other than James Bond provided the theme for the party. With the head of Dry Cargo, Executive Vice President Ejner Bonderup as host, the event started out with a race as the fast Bond cars had been replaced by nearly as fast-going go-carts, and later on the guests went at it at the gaming tables with both Blackjack and roulette. The first prize was – as you may have guessed – a suitcase-sized casino game. The day also included a dinner giving everyone more time for some face to face interaction with people you normally only talk to on the phone or by email.

The Handysize vessel NORD MELBOURNE loading logs in Tauranga on the North Island of New Zealand – destined for China.

NORDEN calendar

22 April 2014 – 13 May 2014
Silent period until the publication of the interim report for the first quarter 2014

23 April 2014 at 15:00 p.m.
Annual general meeting
Radisson Blu Falconer Hotel & Conference Center
9, Falkoner Allé
DK-2000 Frederiksberg

29 April 2014
Expected payment of dividends

13 May 2014
Publication of the interim report for the first quarter 2014

13 May 2014 – 14 May 2014
Roadshows in connection with the interim report

22 May 2014
Delivery of the Handysize product tanker NORD GERANIUM
GSI, China
2013 was a year of investment in NORDEN

As predicted, 2013 was a challenging year, which in advance had been proclaimed a year of investment – not a year of profit making.

The attractive newbuilding prices at the yards in Asia were taken advantage of during the year by investment in 18.5 fuel efficient vessels, of which 9 are owned vessels and 9.5 are long-term charters with purchase option. The modern vessels will provide NORDEN with long-term commercial competitive advantages and strengthen the Company’s green profile. Today, the order book comprises 37 vessels corresponding to an investment of more than USD 1 billion. NORDEN will continue to actively look for investment opportunities, especially within Dry Cargo.

NORDEN’s earnings before depreciation, etc. (EBITDA) for 2013 amounted to USD 24 million against USD 148 million in 2012.

The bottom line for 2013 constituted a loss of USD 48 million against a loss of USD 279 million in 2012.

A turn for the better

Though 2013 was a financially challenging year, 2013 also marked a turn for the better in several areas both within Dry Cargo and Tankers.

- EBITDA in Dry Cargo amounted to negative USD 14 million for the fourth quarter and negative USD 5 million for the whole year. Dry Cargo delivered earnings which were 17% above the 1-year T/C rates.

- With an EBITDA for the fourth quarter of USD 9 million, EBITDA for 2013 in Tankers amounted to a total of USD 39 million – the best operating profit since 2008. Earnings in Tankers were 7% above the 1-year T/C rates.

- Ship values increased in 2013, and at the end of the year, the market valuation of NORDEN’s fleet was USD 92 million above the carrying amounts. This is an increase of USD 228 million compared to 2012 and an indication of improving market conditions.

Unsatisfactory loss

“We predicted that 2013 would be a year of investment and not a year of profit making, and this prediction came true. Even though we outperformed the market in both Dry Cargo and Tankers, we are not satisfied with the results being a loss. I was especially disappointed with the poor fourth quarter and the fact that we came in below our latest guidance in Dry Cargo. But we have spent the time well investing in more capacity in the long term with both charter agreements and orders for several new fuel efficient vessels. The timing of the orders appears to be good. The ship values have gone up significantly. This also supports our expectations for improved market conditions.

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28,230 open ship days in 2014

59% of the ship days in Dry Cargo and 24% in Tankers were covered at the beginning of 2014 – at the beginning of 2013, coverage was 76% and 27%, respectively. In other words, Dry Cargo entered 2014 with 16,679 open ship days and Tankers with 11,551 – or a total of 28,230 open ship days.

The greater exposure to the spot market is in line with NORDEN’s updated strategy which reflects the opportunities that improving markets are expected to offer. NORDEN expects that the spot rates will typically be higher than those which can be obtained through short or longer term contracts.
NORDEN’s active core fleet: 90 vessels

### Dry Cargo:

#### Capesize
- **Number of vessels:** 4
- **Owned vessels:** 3
- **Chartered vessels with purchase option:** 1
- **Year of construction:** 2001-2007
- **Average age:** 9.3 years
- **Length:** 289 metres
- **Width:** 45 metres
- **Cargo carrying capacity (deadweight):** 171,000-180,000 tons
- **Areas of operation:** The whole world
- **Customers:** Steel works, mining companies and power plants
- **Total number of Capesize vessels in the global fleet:** 1,462
- **Average age of Capesize in the global fleet:** 8 years

#### Post-Panamax
- **Number of vessels:** 8
- **Owned vessels:** 4
- **Chartered vessels with purchase option:** 4
- **Year of construction:** 2010-2012
- **Average age:** 2.9 years
- **Length:** 240-250 metres
- **Width:** 43 metres
- **Cargo carrying capacity (deadweight):** 111,000-120,000 tons
- **Areas of operation:** The whole world
- **Customers:** Steel works, mining companies and power plants
- **Total number of Post-Panamax vessels in the global fleet:** 505
- **Average age of Post-Panamax in the global fleet:** 5 years

#### Panamax
- **Number of vessels:** 13
- **Owned vessels:** 3
- **Chartered vessels with purchase option:** 10
- **Year of construction:** 2002-2013
- **Average age:** 5.8 years
- **Length:** 218-229 metres
- **Width:** 32 metres
- **Cargo carrying capacity (deadweight):** 75,000-84,000 tons
- **Areas of operation:** The whole world
- **Customers:** Steel works, mining companies, power plants, cement producers, grain traders and trading houses
- **Total number of Panamax vessels in the global fleet:** 1,953
- **Average age of Panamax in the global fleet:** 9.3 years

#### Supramax
- **Number of vessels:** 20
- **Owned vessels:** 4
- **Chartered vessels with purchase option:** 16
- **Year of construction:** 2006-2012
- **Average age:** 4.2 years
- **Length:** 190-200 metres
- **Width:** 32 metres
- **Cargo carrying capacity (deadweight):** 54,000-62,000 tons
- **Areas of operation:** The whole world
- **Customers:** Steel works, mining companies, power companies, grain traders, trading houses, producers of cement, sugar and fertiliser
- **Total number of Supramax vessels in the global fleet:** 3,028
- **Average age of Supramax in the global fleet:** 8.9 years

#### Handysize
- **Number of vessels:** 23
- **Owned vessels:** 12
- **Chartered vessels with purchase option:** 11
- **Year of construction:** 2009-2013
- **Average age:** 2.4 years
- **Length:** 169-186 metres
- **Width:** 27-30 metres
- **Cargo carrying capacity (deadweight):** 28,000-38,000 tons
- **Areas of operation:** The whole world
- **Customers:** Steel works, mining companies, power companies, grain traders, trading houses, producers of cement, sugar and fertiliser
- **Total number of Handysize vessels in the global fleet:** 3,077
- **Average age of Handysize in the global fleet:** 12.3 years

#### Handysize
- **Number of vessels:** 11
- **Owned vessels:** 11
- **Chartered vessels with purchase option:** 0
- **Year of construction:** 2005-2009
- **Average age:** 6.4 years
- **Length:** 176-183 metres
- **Width:** 27-31 metres
- **Cargo carrying capacity (deadweight):** 37,000-40,000 tons
- **Areas of operation:** The whole world
- **Customers:** Oil majors and oil traders
- **Total number of Handysize vessels in the global fleet:** 524
- **Average age of Handysize in the global fleet:** 12 years

### Tankers:

#### MR
- **Number of vessels:** 15
- **Owned vessels:** 7
- **Chartered vessels with purchase option:** 8
- **Year of construction:** 2008-2013
- **Average age:** 2.8 years
- **Length:** 180-183 metres
- **Width:** 32 metres
- **Cargo carrying capacity (deadweight):** 45,800-50,500 tons
- **Areas of operation:** The whole world
- **Customers:** Oil majors and oil traders
- **Total number of MR vessels in the global fleet:** 1,057
- **Average age of MR in the global fleet:** 9 years

#### Handysize
- **Number of vessels:** 11
- **Owned vessels:** 11
- **Chartered vessels with purchase option:** 0
- **Year of construction:** 2005-2009
- **Average age:** 6.4 years
- **Length:** 176-183 metres
- **Width:** 27-31 metres
- **Cargo carrying capacity (deadweight):** 37,000-40,000 tons
- **Areas of operation:** The whole world
- **Customers:** Oil majors and oil traders
- **Total number of Handysize vessels in the global fleet:** 524
- **Average age of Handysize in the global fleet:** 12 years

### Notes:
- Global fleet data/Tankers: SSY – at 31 December 2013
- Global fleet data/Dry Cargo: Clarksons – at 31 December 2013
- The fleet list is at 31 December 2013
After 40 years at NORDEN, 30 of which as captain, Egon Christensen (second from the left) is celebrated by head of the Technical Department Lars Lundegaard with a speech while CEO Carsten Mortensen and Egon Christensen’s wife Birgit are listening.

During the many years at sea, Captain Egon Christensen has witnessed the whole development: From 3 owned vessels in NORDEN to almost 100 times as many owned and operated vessels.

"Towards the end of the year, rates suddenly dropped, and they were thus more than halved compared to the best rates in the months of spring. The decrease in global financial activity created uncertainty about potential earnings at the end of the year...” – from NORDEN’s annual report.

No, we are not referring to one of the years following the rise of the financial crisis in September 2008. We are referring to 1974 when the world economy suffered from the consequences of the global oil crisis with explosive increases in oil prices, which also had a devastating impact on the cyclical shipping industry. We are referring to 1974 when NORDEN hired a young man – 22-year-old Egon Christensen – who wanted to go to sea, driven by a sense of adventure after he, as a child, had been looking at the ships in Rudkøbing harbour on the Danish island Langeland and one evening in the same town had watched a sailors’ movie with exotic scenes from the life on the seven seas.

In January this year, Egon Christensen with the rank of captain was celebrated for his 40 years at NORDEN with both lunch and reception at the head office in Hellerup.

That Egon Christensen had flair for and was a talented senior officer was clear at an early stage in his career. After 10 years of employment, he was promoted captain in 1984.

Egon Christensen’s last voyage this time around was with the product tanker NORD SNOW QUEEN, which he signed off from at the Panama Canal straight after New Year.

Witnessed the whole development

During the many years at sea, Egon Christensen has witnessed the whole development: From a NORDEN with a fleet of only 3 dry cargo vessels – 1 with a cargo carrying capacity of 13,000 tonnes and 2 with a capacity of 33,700 tonnes of cargo – to a NORDEN with a fleet of almost 100 times as many vessels of which the largest have a cargo carrying capacity, which is 5-6 times as much as the largest vessels in 1974. From a purely Danish crew on a Danish vessel to a multi-ethnic crew. From astronomical navigation to GPS navigation with accuracy of 10 centimetres. And from a large crew to a smaller crew and consequently more work for the captain.

“What my driving force has been? I have always liked my work. I have always felt a great connection to NORDEN. For many years, I knew every single employee, and I have always been treated well. I have also been given the opportunity to try a lot of things and have had many challenges – newbuildings, dry cargo, tankers and board work. But I have also paid the price of being away from home that much without the possibility of quickly going home when it was necessary. I will never forget when I was lying at the roadstead of Lagos, and I could not get home to my seriously ill daughter,” says Egon Christensen.

4 fishermen in the Pacific

Egon Christensen has no doubt as to what has been his best experience during his many years at sea. It was Good Friday in 1974 – during his first signing on as third officer on NORDTRAMP. In the Pacific – on the way from Tasmania in Australia to Japan – the NORDEN crew rescued 4 fishermen, who had been drifting around with engine failure for 39 days. Other vessels had gone past them without helping as they had misunderstood the gestures of the fishermen – obviously just thinking that they were waving hello.

Even though he is formally retiring now and is looking forward to endlessly more time with the family, he has, however, promised NORDEN that he will be available for a total of 2-3 months per year on one or more voyages.