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**MOGENS HUGO'S REPORT AT  
NORDEN's ANNUAL GENERAL MEETING HELD ON 23 APRIL 2008**

**INTRODUCTION**

NORDEN is both a contributor and a beneficiary of the growth in world trade we have been witnessing over the past few years. China and a number of other countries are building their infrastructures, expanding their production and playing a part in international trade, giving their populations access to the growing prosperity.

In order to generate economic growth, these countries require raw materials that are not found locally and which must therefore be transported by ship. We are talking about huge volumes of raw materials, and transport capacity for these raw materials is a scarce resource. That is to our advantage at NORDEN. Transport prices are rising, and there are good opportunities for doing business for providers of top quality services, efficient operations and flexible capacity. And, frankly, we believe that those qualities match what we have to offer at NORDEN.

**HIGHLIGHTS FOR 2007**

This is the background for the very excellent year NORDEN had in 2007.

We expanded our active fleet, bringing the number of ship days to about 67,400, a new record high and an increase of more than 40%.

We employed the bulk of this capacity in the historically-strong dry cargo market, capitalising on the strong markets through our substantial flexibility and active management of our portfolio. Tankers also performed extremely well, while operating in less attractive markets.

That is the background for the financial statements I am presenting to you today: we generated an operating profit before profits from the sale of vessels (EBITDA) of USD 538 million and a net profit of USD 703 million. These are clearly the best results in our Company's long history, and we expect to improve even more in 2008 and to increase our earnings.

I will come back to that, and I will also revert to the opportunities NORDEN's business model provides going forward. First, let me review the background for last year's results and tell you about the work constantly being done to strengthen NORDEN's business platform.

The Dry Cargo Department started out in 2007 with high capacity coverage: employment at very attractive rates for 70% of the known ship days, and that provided a solid earnings foundation right from the start.



The department anticipated an increase both in demand and in rates, so we took in a lot of ships on short-term charter. In the Panamax segment, for example, we doubled our capacity. As you know, the essence of our business model is our ability to constantly adapt to changes in the markets and in economic trends. During periods of rising market rates, we take vessels on short-term charters in order to capitalise on the momentum without having to tie up too much capital in owned vessels. This is the flexibility the department so skilfully capitalised on last year. It also allows us to return the vessels and reduce our exposure when markets change.

We also increased our capacity in our new segment, Handysize. In fact, we tripled it, and we made a great effort to optimise capacity in all segments.

Our dry cargo people read the markets correctly. Freight rates rose almost incessantly in all markets through to November. On average for the year as a whole, the Baltic Dry Index was 122% higher than it was in 2006, and the market was driven by strong demand for transports of iron ore, coal, bauxite and grain. Steel products and cement were also high on the chart, and like last year, the market was driven especially by China.

Global demand rose by 13%; 7 percentage points was due to greater volumes carried, while 6 points was from longer transport distances and increased waiting times in ports.

In our Dry Cargo Department, the combination of higher freight rates and more ship days lifted our revenue to above the USD 2.7 billion-mark, a 148% increase.

EBITDA quadrupled to almost USD 500 million and profits from the sale of vessels were slightly higher than last year at almost USD 60 million, bringing our operating profit before financial items to USD 548 million. A very impressive result, indeed.

The Tanker Department operated in more difficult markets. In the second half of the year, demand for crude oil turned stagnant, and a drain on global oil stocks began. That pushed freight rates down to the lowest levels in five years, before the winter season set in and they recovered slightly. For the year as a whole, market rates for product tankers was 12% lower on average than in 2006.

Although faced with tougher conditions, the Tanker Department performed very well, and our tanker people managed to increase earnings per ship day by 5%-6% even in a market of falling rates. In popular terms, we had our vessels in the right places at the right time, making the best use of the critical mass available in the Norient Product Pool, which we operate together with Interorient. At the end of the year, the pool employed 44 product tankers and had 33 vessels on order. The pool managed, and continues to manage, this capacity very efficiently.



The Tanker Department also had more ship days to work with, lifting revenue by more than 44% to USD 191 million.

Tanker earnings (EBITDA) did not increase at the same rate, because the department had more vessels on charter and fewer owned vessels than the year before. On the other hand, an operating profit of USD 53 million and an operating margin of almost 28% is certainly acceptable.

We completed the change of strategy in Aframax, selling the last two of our crude oil tankers. Overall, we had profits from the sale of vessels of more than USD 100 million and that helped the department report an operating profit (EBIT) of almost USD 150 million.

Speaking of Aframax, we still have a presence in that segment, but only as an operator of chartered vessels. We believe that over the long term, we will get the best risk-return ratio in the product tanker market. That is why we are investing in owned vessels within that segment.

The aggregate performances of dry cargo and tanker produced these financial and operational highlights for NORDEN:

Revenue was up by USD 1.7 billion to more than USD 2.9 billion.

Operating profit (EBITDA) more than tripled to USD 537 million. Profits from the sale of vessels amounted to USD 163 million and contributed to an operating profit before financial items (EBIT) of USD 683 million.

Profit after adjustment for hedging instruments, financial items and tax was USD 703 million, meaning that our bottom line increased exactly four-fold relative to 2006. At last year's exchange rates, the profit amounts to DKK 3.8 billion.

The profit equals a return on equity of 70%, and the return on invested capital was 80%. I would call that a reasonable return on the funds available to us.

There is also a good alignment between our cash flows and our financial results. Cash flows from operating activities were USD 467 million and inclusive of investing and financing activities, cash and cash equivalents were up by USD 286 million.

NORDEN's assets also increased: Our equity rose to just over USD 1.3 billion, equal to a book value per share of DKK 159.

To that we should add our off-balance sheet added values on our fleet. According to independent brokers, the market value of our vessels and newbuildings exceeded the carrying amount by just over USD 1 billion. That equals DKK 132 per share, lifting our net asset value to DKK 291 per share.



And add to that the value of options to acquire vessels or extend charter periods. NORDEN is perhaps the shipping company in the western hemisphere with the most options and the value of these options was USD 2.7 billion at the turn of the year. When distributing the USD 2.7 billion on our shares, we increase the off-balance sheet value by an additional DKK 323 per share.

Overall, we have a theoretical net asset value of DKK 614 per share. That value has doubled in 12 months and it has continued to rise since the turn of the year. That clearly shows that NORDEN continues to create value year after year by expanding the fleet with owned vessels and newbuildings, and by systematically exercising purchase options. And this is not all birds-on-the-roof talk. 41% of the value of these purchase options relates to vessels which we have options to buy within two years.

Last year, we sold 16 vessels, which may sound like a lot, but taking profit when we have an opportunity to make a good deal is, after all, an integral part of our business. And even though we were frequent sellers, we contracted vessels even more frequently. In the first quarter alone, we ordered 11 newbuildings and entered into six long-term charters with purchase options. The timing was excellent, because prices on newbuildings and secondhand tonnage continued to rise during the rest of the year. For the year as a whole, we ordered 18 newbuildings and 9 long-term charters, adding 27 new vessels to our core fleet.

Our active fleet consisted of 216 vessels. Adding the 94 vessels we have on order, our gross fleet comprised 310 units.

## **VALUE CREATION AND SHAREHOLDER INFORMATION**

Apart from our earnings and value creation, we had many other highlights during the year.

In April, Torm sold its shares, something I commented on at last year's annual general meeting, increasing the free float in NORDEN to one-half of the shares. That triggered strong interest in the share, not least from international investors, and the number of shareholders as well as the turnover in the share rose sharply. In December, the share became a component of the OMXC20 index of the most traded shares on the OMX Nordic Exchange Copenhagen.

Our share price ended the year at DKK 564, a 135% increase that made NORDEN one of the top three performing shares on the exchange. As you know, this is something we have tried before. Adding last year's dividend to the share price appreciation brought the return for 2007 to 138%.

The full picture of the return to shareholders also includes the fact that NORDEN acquired 3% of the shares sold by Torm. Subsequently, we reduced the share capital by 3% by cancelling shares for a nominal value of DKK 1,475,000, as a result of which, NORDEN's assets became distributed on fewer shareholders on balance or, if you prefer, on a smaller share capital.



Your Board aims to continue to provide reasonable, long-term returns to shareholders through an appreciating share price, dividends and occasional share buy-backs. When things are going really well for NORDEN, our shareholders should of course also benefit, but it is important that we constantly balance dividends with NORDEN's obligations, investment opportunities and market conditions. We must also be able to make investments when markets become more turbulent, because that is a prerequisite for creating long-term returns for our shareholders.

I believe we have struck that balance in our proposal of a dividend of DKK 35 per share. That would mean total dividends of DKK 1.5 billion and a pay-out ratio of 44%. In terms of cash, it would be our largest dividend payment ever.

## ORGANISATION

Over the last 12 months or so, we have strengthened our management and realigned our organisation with a view to managing growth. We have sharpened our control systems, streamlined our processes, added more power to inter-company functions and we have clarified management's responsibility and roles, all without rendering our organisation more complex or bureaucratic.

Last year, we appointed Ivar Hansson Myklebust as our new CFO and to our Board of Management. Ivar joined our Company from the financial group Nordea's Oslo offices, where he headed up the Corporate Finance department in Norway and was in charge of Nordea's shipping-related activities in the Nordic region. Ivar's areas of responsibility in NORDEN are finance, risk management, insurance and IT.

Effective 1 April, we appointed Jacob Meldgaard executive vice president. Jacob has skilfully managed our Dry Cargo Department, and he will continue in that position, but now he is also in charge of overseas offices, strategy coordination, business development and more. Jacob has become a member of our Executive Management, which also includes the two members of our Board of Management, Ivar and our CEO, Carsten Mortensen.

We have appointed Martin Badsted senior vice president and head of a new secretariat that has consolidated all our Company's planning and support functions. We have also promoted Vibeke Schneidermann as senior vice president and manager of Human Resources to emphasise how important it is for NORDEN to recruit, retain and train highly qualified employees.

Ivar, Jacob, Martin and Vibeke join a number of more well-known faces on our senior management: CEO Carsten Mortensen; Lars Bagge Christensen, Head of the Tanker Department; Lars Lundegaard, Head of the Technical Department; and Kristian Wærness, Head of the Finance and Accounting Department. This is a senior management in their prime. The average age is 41-42, so the team's past due date should be a long way off. If we look at the wider management team, i.e. the 15 people in the Group Management, the average age is even lower.



Our HR and crewing people in Copenhagen and Manila are constantly working to find seamen, engineers, officers, apprentices, accounting staff, operations and chartering managers, financial staff and trainees. In order to recruit people, we need to step up our marketing and include advertising and branding of NORDEN as a workplace.

That requires, and will continue to require, a substantial effort, because we continue to create new jobs. At the start of the year, we had 522 employees and our headcount has almost doubled over the last three years. We had around 200 people working ashore and just over 300 on our owned vessels, not to mention the couple of thousand seamen working on our chartered vessels.

In our onshore operations, we welcomed an average of one new employee every week of the year, and we will have a similar intake of new people this year. We are able to attract the experienced people we need, both from the shipping world and from other industries, but it is becoming more and more difficult to attract young people that we can train ourselves. We usually take in from six to eight trainees each year and we have 30 apprentice officers and around a dozen engineer apprentices training at sea. So, we will look for new ways to attract young people. In addition to branding NORDEN, we grant scholarships to students in maritime training programmes in the Philippines, and we have begun to take in trainees in Singapore and Annapolis just as we are already doing in Copenhagen and Shanghai.

Our continued growth means that we require more space. Soon we will be moving to our new and very exciting headquarters with lots of room and better facilities. The builders are working at full speed on the project and the old Brewhouse in Hellerup, north of Copenhagen is really beginning to take shape. Our move is planned to start in June, and I think it would be obvious to invite our shareholders to come and inspect our new premises for themselves at least by our next annual general meeting.

Internally, we sometimes call NORDEN a software company. This is not out of pure smartness; it is a way of saying that it's the people – our managers and employees – that really make all the difference. They are the ones that differentiate us from other shipping companies and through them we can continue to produce excellent results.

As chairman of the Company, I've known NORDEN for the past 13 years, so I can vouch for the fact that the level of training and education in our Company is higher today than ever before. We have a lot of highly-trained specialists and many of our past shipping trainees have acquired new knowledge from management schools or other further training programmes. We encourage that and we seek to strengthen and future-proof our skills and competences.

Last year, we provided systematic training of 35 managers in subjects such as coaching, communication, people development as well as personal and commercial leadership. The departments organised workshops to improve customer dialogue and negotiation techniques as well as teambuilding activities themed around NORDEN's vision, mission and values. Many of our employees attended supplementary training and further education programmes and we committed a fair amount of funds in our collaboration with educational institutions in Denmark, Shanghai, Singapore and the



Philippines. This is of course a way of helping to help ourselves, because it will give us access to young potential employees. However, it is also a way of repaying the local communities that NORDEN is a part of.

Skills and career development is a very important part of our offering to current and future employees, and, obviously, so is the remuneration we offer.

## REMUNERATION

In reality, NORDEN is competing for employees with international shipping companies. If we want to attract good people, we have to match what the others are offering. That's just the way things are in a global trade. We want to attract the good people, because having them is absolutely essential if we are to maximise the return on our investment.

For that reason, our pay levels need to be in line with the market. We don't intend to lead the market in that category, but our salaries must be consistent with market levels. Secondly, we have to offer incentive-based remuneration, because that is standard in our industry. The most important incentives are bonuses, employee shares and share options.

First the bonuses: In 2007, we paid a collective bonus to all staff and we've also rewarded those employees who have made an extra effort. Overall, we gave bonuses worth USD 18.6 million. That was almost double the amount of the previous year, and for good reason. First of all, our net profit has quadrupled during the period and a bonus is of course a reward to the employees when they deliver extraordinary results, and I dare say that a four-fold increase of the bottom line is extraordinary. Second, a lot more people are now eligible for our bonus scheme. In 2007, all seamen and officers were paid a bonus, which we haven't done before, and our general headcount has increased by a large margin.

Total bonus payments correspond to about 3% of our net profit. We've paid a 3% bonus before, with the exception of last year, and going forward, 3% of the net profit will also be the guideline for our overall bonus payments.

Again in January, we awarded employee shares to our staff in order to align their interests with those of our shareholders. We awarded a total of 11,713 shares from our holding of treasury shares for a total value of almost USD 1 million.

In addition, in March, we granted share options to 50 employees. We did so for the third straight year and once again the award programme equalled 1% of the share capital. These options will only be in the money for the employees if the share price appreciates by at least 8% per year from the date of award until the date of exercise. This is our way of ensuring that shareholders will get a return on their investment before our managers and employees get their award. We have also introduced a new requirement for our senior managers: they must reinvest 25% of any gain on their options for NORDEN shares.



These are the tools we apply. Basically, it's about having systems that promote value creation for the benefit of our shareholders, and considering our performance of the last couple of years, I think it's fair to say that they work – and amply at that. Also, our systems must ensure that we are able to recruit and retain key employees who are essential for the development of our Company. And on that point our system also works. NORDEN has not lost key employees to any great extent.

Just like we need good employees and executives, we also need to have the right skills on our Board. For that reason, we recommend that Mr. Karsten Knudsen be elected to our Board today.

Karsten has worked broadly in finance and investment for 30 years. He is currently Group Managing Director of the financial group Nykredit in charge of banking and credit operations, among other things. However, Karsten actually started out in the shipping business; back in 1978, he was in charge of cash management and securities investment with A.P. Møller. In the meantime, he has also served as a member of the executive board of Danske Bank in charge of corporate finance and securities trading.

There will be a presentation of Karsten a little later on and you have all received his CV along with the agenda for today's meeting. I hope you will agree that this brief introduction shows that Karsten will be bringing some important financial skills and insight into managing risk and investments to our Board. We believe that this will fill the gap that arose last year when Erik G. Hansen retired from the Board.

The Board of Directors held nine meetings last year, including two strategy meetings. We also visited our Singapore office and held eight telephone conferences as well as a number of informal consultations by telephone. So a total of 17 meetings plus. We hold a telephone conference when we have a minor item on the agenda, such as contracting or selling vessels and the like.

The Deputy Chairman, Einar Fredvik and myself make up the Board's Remuneration Committee, and we had three meetings during the year. This year, we will also set up an audit committee, because that is now required by law.

We recommend that the Board's remuneration for 2007 be increased to just over USD 1 million. Why? Well, the short answer is that the remuneration has not adequately reflected the work effort, because the work on the Board is becoming more and more demanding. We held 17 meetings that we also needed to prepare for, ongoing discussions between meetings, reports and other material to be read, the general efforts needed to understand and be on top of developments in an ever growing and increasingly complex business organisation, and new assignments are being added: The Remuneration Committee, the Audit Committee and, in my own case, board work for the Norient Product Pool, which last year required four meetings, two of them overseas.

In addition to the work required, we also have to look at the responsibility involved and on what the standard remuneration is. We believe that this adjustment will bring us on a par with other major international shipping companies. Also, I might add for the record that the Board members do not share in NORDEN's value creation by way of share options of other incentives.



## CORPORATE SOCIAL RESPONSIBILITY

One of the issues that are the subject of a lot of attention at NORDEN and which we have discussed on the Board, is environmental and social sustainability. In fact, everything that can be included under Corporate Social Responsibility (CSR).

We have been focused on occupational health and safety at NORDEN for quite some time. Our Technical Department is working extremely hard together with our officers and seamen to prevent industrial accidents as well as any environmental impact from groundings, collisions or spills. Our vessels are some of the safest and most modern, so we are not in uncharted waters in this respect. What *is* new, however, is the fact that we are taking a more systematic approach, because we have a responsibility and we stand by it.

We have taken inspiration from the UN Global Compact, i.e. its ten recognised principles on the environment, human rights, labour standards and anti-corruption, and from the work of the International Labor Organisation (ILO) and the UN's shipping organisation, the IMO. We have defined a set of views and selected some specific focus areas. In 2008, our special focus will be on the environment.

Shipping is undoubtedly the most environmentally-friendly means of transportation. Our dry cargo vessels emit 3 grams of CO<sub>2</sub> for each kilometre a ton of cargo is transported, while a lorry, for example, emits 50 grams and an aircraft emits more than 500 grams of CO<sub>2</sub>. That edge, however, does not release the shipping industry from having a responsibility for helping to reduce emissions of CO<sub>2</sub> and other greenhouse gases. At NORDEN, we would welcome a resolution at the Climate Summit to be held in Copenhagen in 2009 that defined binding targets for the shipping industry, but these targets must be for everyone. A global industry requires global rules. If Denmark or the EU introduce tougher standards unilaterally, we risk getting a distorted market and vessels being re-flagged. Fortunately, progress is being made. Earlier this month, the Environmental Committee of the IMO (the UN shipping organisation) adopted nine principles for global regulation, and through the Danish Shipowners' Association, we support the continuing work of the IMO and other forums in preparation for the 2009 Climate Summit.

However, we can't just sit back and wait for the Climate Summit. We need to make a contribution ourselves, so we have launched a 14-point plan to reduce CO<sub>2</sub> emissions from our vessels. I won't discuss these initiatives in detail, but they aim to achieve more efficient combustion and to reduce vessel propulsion resistance. That helps us to save fuel and reduce CO<sub>2</sub> emissions; by 2% this year. In addition to these initiatives, NORDEN also supports research in the field.



## OUTLOOK FOR 2008

Now, in this final part of my report today, allow me to look ahead – firstly to 2008.

We expect the dry cargo market to remain strong. In fact, we anticipate that the market will be better than it was in 2007, due to the very strong demand for raw materials and thus for transports of raw materials. There may be fluctuations, like we saw at the beginning of this year, when prolonged negotiations about the price of iron ore resulted in transports of iron ore from Brazil to China being cancelled. At the same time, mines in Australia were closed due to flooding, and these two factors caused rates to drop dramatically. However, rates recovered as soon as the first price agreements on iron ore had been signed.

The tanker market will be more of a challenge this year. Product tanker market rates have been under pressure for some months, but they are set to rise again now that the Americans are preparing for the summer driving season. We have also seen China lower its tax on oil imports, because of its shortage of oil. Generally, we expect positive demand, but there will also be a lot of new vessels on the market, so rates are set to fall relative to 2007. Having said that, however, I would also note that 2007 was a better year than a lot of people had expected.

Considering the markets and the coverage we have secured, we expect a lot from 2008:

Dry cargo's Q1 operations will be slightly impacted by the severe rate falls seen from November to February that I mentioned just a moment ago. For the full year, however, we project that the department's operating profit (EBITDA) will increase from almost USD 500 million last year to USD 625–695 million. The improvement will be driven by the strong market and our capacity coverage at very attractive levels. On the other hand, we expect a slight drop in the Tanker Department's lower operating profit at USD 30–40 million.

Combined, that means an EBITDA for NORDEN of USD 635–715 million, which would be a satisfactory improvement over last year.

Profits from the sale of vessels will increase. When we presented the annual report, our books reflected some sales, but since then we have sold three more bulkcarriers. We now have profits from the sale of dry cargo vessels of USD 229 million. The sale of tankers adds USD 36 million, bringing the total figure for NORDEN to USD 265 million. This figure reflects the profits from agreements already concluded. If we sell more vessels, the profits will increase accordingly.

Inclusive of the profits, we project an operating profit before financial items (EBIT) of USD 840–920 million in dry cargo, of USD 60–70 million in tanker, for a total of USD 880–960 million and a 40% improvement in the Company's overall operating profit.



From this amount should be subtracted value adjustments of hedging instruments, expected to be a loss of USD 21 million, which will be charged to the income statement.

This produces a projected net profit of USD 870–950 million. The projected EBITDA, EBIT and net profit figures all imply new record highs for NORDEN.

## **STRATEGY AND BUSINESS MODEL**

But what about the future? Will we be able to keep our momentum over the long term?

I can't give you financial guidance beyond 2008, but I can give you a few facts and tell you about the steps we are taking – more so than most other shipping companies – to try and become masters of our own earnings. Shipping is a volatile business, and we can't change that. However, we can take a long-term approach to creating reasonable earnings and cash flows, so that our earnings don't just blindly follow the ups and downs of the Baltic Dry Index.

Having a presence in both the dry cargo and the tanker segments gives us a good platform. While these two markets do not necessarily track one another, this is a matter of swings and roundabouts. In other words: risk diversification, even though both the dry cargo and the tanker business have in fact been producing very good earnings in current years.

There are many advantages of working in both dry cargo and the tanker market: Both departments have ships built at the same yards and they have a number of customers in common. Our business partners in Japan, who have delivered tonnage to NORDEN for a number of years, operate in both markets. The training requirements for the shipping staff are the same, and we achieve critical mass by having an efficient technical department. To some extent, we can also apply the same business model and the same risk management model.

In both dry cargo and tankers we expand our operations in the individual segments until we achieve critical mass, and we also move into new segments. In dry cargo, we added the Handysize segment in 2006, in 2009 we will position ourselves in the Post-Panamax segment, and in tankers, we recently moved into the LR1 segment. We do not expand for the sake of expansion. We do it, because we see an actual demand from our customers. We control our expansion to the effect that we can quickly ease the pressure on the accelerator or, if need be, put our foot on the brake. The important thing is that our growth is profitable.

We are often asked whether we intend to expand through acquisitions. That has not been on our agenda in recent years, but we will be ready to go that road the day organic growth is no longer the most profitable approach. Until that happens, our growth will be organic, and if we can't create economies of scale ourselves, we will do it through pooling. As recently as last month, we extended our collaboration with Interiorient from product tankers to also include the Handysize and Post-Panamax segments.



The core feature of our business model is, on the one hand, our highly flexible fleet and, on the other, the tools we apply to employ the fleet and to ensure that we have earnings and cash flow stability. We divide our fleet in four groups:

The first group consists of a small, but growing number of owned vessels. At the end of March, it was made up of 18 units, a couple of which have since been sold for subsequent delivery. Operating owned vessels gives us an opportunity to take profits by selling them and to maintain our technical skills.

The second group is vessels with purchase options. At the end of March, we had 32 active vessels with purchase options as well as a total of 71 options. These options give us substantial flexibility and are a buffer for our operations. Flexibility, because we can opt not to extend a charter period or not to buy a vessel if we believe the markets are headed for a downturn. A buffer for our operations, because we have the vessels at our disposal for periods of five to seven years, giving us the necessary capacity. At the same time, part of the profits we have made on the sale of vessels in recent years have materialised because we have exercised options, subsequently selling some of the vessels at a profit.

The third group is vessels on long-term charters, which we contract for more than three years and on reasonable terms in order to maintain capacity. In March, we had 31 vessels on long-term charters. Including vessels for delivery, the number was 49.

The fourth group is vessels on short-term charter. In March, we have 131 of them, and they make up more than half of our active fleet. These vessels provide us with economies of scale and broad geographical coverage, so we can operate them close to where our customers and cargoes are. That allows us to optimise our earnings by switching between different types of vessel, depending on the situation.

The essence of all this is that we don't have to tie up capital in operating a large fleet of owned vessels in order to achieve economies of scale. We have critical mass, but we can scale our fleet up or down as required, depending on economic trends and the market situation.

In employing our fleet, we use COAs, contracts of affreightment that specify cargoes at a fixed price per transported ton. We use COAs to consolidate long-term customer relationships and to gain logistical advantages, because through them we can optimise the use of our fleet. In a recent example, we have concluded COAs with two customers for transporting bauxite from Australia to southern Europe. The contracts involved a lot of lifts in 2008 and 2009 and revenue of USD 120 million over two years. It's a long way from Australia to Italy or from the east coast of the United States to India, for that matter, a route on which we have contracts to carry coal. Previously, India normally got its coal from Australia and that shows how trading patterns change and that the distances commodities are being transported over are growing ever longer.



We also charter out vessels on between two- and five-year time charters. For example, we have closed five-year deals for four Capesize and Panamax vessels at fixed daily rates of USD 65,000 and USD 35,000, respectively. In today's market, we could make more money by operating the vessels in the spot market, but we are taking a long-term approach. It is more important for us to generate stable earnings and cash flows by keeping our vessels employed over a number of years. On the four vessels alone, we generate aggregate earnings of about USD 270 million over a five-year period. In round numbers, that equals almost DKK 1.4 billion.

We can also use FFAs (freight forward agreements) to cover our capacity requirements. Using our own department to do that is fast and convenient. Finally, we can employ our vessels in the spot market when that is the most appropriate solution.

The prerequisite for all of this is having good people, and we do! We must have a brand that signals quality and reliability. We must have the right systems and effective risk management, and we must ensure proximity to our customers and business partners. We want to have lasting and committed business partnerships, even though we could easily make a quick profit in a booming market by doing business elsewhere. However, that is not a viable long-term approach.

This is the business model we apply in the dry cargo market to gain protection against volatility and to make our earnings more stable and predictable.

Such coverage opportunities are not available in the tanker market, but with that reservation, we take largely the same approach to the tanker market.

Over the past few years, we have built a cost-efficient core fleet of owned vessels and long-term charters with or without purchase options. We have a core fleet that is flexible and adaptable, because we can opt not to exercise options and return vessels, or we can sell vessels. Also, we can even step up our flexibility by adding short-term charters to our fleet.

Let me show you how cost-effective our known core fleet is, by using the information set out in our annual report. This year, the cost of operating a dry cargo vessel averages about USD 31,000 per ship day, because we have a number of short-term and expensive charters. From next year, however, that will change substantially. The costs of an average vessel in our core fleet will drop to about USD 15,000 per day in 2009 and to almost USD 13,000 per day from 2011 onwards. With costs this low, NORDEN is resistant to drastic rate falls, even though in the current situation, this is not what we expect to happen. To put the amounts into perspective, I can tell you that in today's market we can employ a Handymax vessel in the spot market at about USD 50,000 per day.

We aim to cover our ship days in a long-term approach. We have almost reached our target for this year and have currently covered 88% of the known ship days at very attractive rates. For 2009, we have covered 42% of the known ship days and 17% for 2010; also at very attractive rates.



Deducting our costs from our earnings from such coverage, we are making almost USD 18,000 per ship day this year. Next year, our earnings per covered ship day will grow to a net amount of USD 24,000 and for 2010 we will be at just over USD 29,000. You cannot use these numbers as a guideline for our financial performance, because they only reflect a part of our capacity, meaning the covered ship days of our core fleet. On the other hand, the numbers show that our core fleet is cost effective and that gives us a strong and robust platform. Last year, our average earnings per ship day were about USD 8,000.

The Tanker Department is also reporting good performance in core fleet costs, especially on the part of our core fleet held on long-term charter, and we have attractive earnings from our coverage. However, we don't have the same opportunities for coverage as we do in dry cargo. We have covered 31% of our known capacity this year and 11% next year.

As regards the market conditions for dry cargo, we anticipate good fundamental demand on transports, because China, India and other growth regions continue to require commodities to sustain their economic growth. At the same time, transports cover, as I said previously, longer and longer distances, and of course that takes up more vessels.

By itself, the recession in the United States does not give us cause for concern, because the US market makes up a small part of the global dry cargo market. The US downturn will only have an effect if it spreads to Asia, but so far there are no indications of that happening. As regards the financial crisis, it has been easy for the shipping industry to raise funds in the equity or the bond markets and, perhaps especially from the banks. That has changed dramatically over the past few months, which could impact on financially-not-so-strong shipping companies, shipping being the capital-intensive business that it is. We are not invulnerable at NORDEN. The financial crisis could inhibit economic growth globally and that would impact our business. Having said that, however, we are looking more at the opportunities that arise from potential uncertainty. Having cash funds of USD 600 million and an extremely strong balance sheet, makes NORDEN very sturdy, and we have the necessary funds to exploit any opportunities that may arise.

The joker in dry cargo is supply, i.e. the addition of new tonnage. In 2008-2009, supply looks not too challenging but a lot of new vessels have been ordered for delivery in 2010 and 2011, and the added tonnage has been expected to push down rates. Lately, however, we have seen newbuilding orders being cancelled. Prices of steel and other components have risen to record levels, making it more expensive to build new vessels and, accordingly, previously concluded orders have become unprofitable for the shipyards. In addition, borrowing for newbuildings has also become more expensive. All along, some scepticism has been voiced about the brand new shipyards and their ability to build and deliver ships when really put to the test.

It is probably too early to draw firm conclusions. We have to reach safer ground before we and others can lower our forecast for growth in demand. But let me tell you that we are no less confident now than we were before. Even if supply were to grow sharply in 2010-2011, NORDEN would be well positioned with long-term coverage and a cost-efficient core fleet. Also, it could be that the addition of new tonnage would lead to the many older vessels currently in service being scrapped,



so we might get a better correlation of supply and tonnage disposals. Some 30% of the world's dry cargo fleet is currently more than 20 years old and, of course, by 2010 the global fleet will be even older.

In the tanker market, we have certain strengths that we need to capitalise on in the more challenging markets. We are becoming a major operator of ice-class tankers and are strongly positioned in terms of winter service in the Baltic, the White Sea, Russia and Canada. Outside of icy waters, we are also strongly positioned in the Mediterranean and the Black Sea, and our new LR1 operations will strengthen our position on long-distance transports.

The tanker market will be challenging with the large addition of new tonnage. However, growth in supply will subside after 2009 while demand will be healthy because of the longer distances between refineries and the major consumption areas. Refinery capacity will be expanded in the Middle East and the Far East, in particular, while North America and Western Europe will still be the consumption areas. In other words, transport activity from Asia and the Middle East to North America and Europe will grow, and that is why we retain our fundamental, long-term confidence in the product tanker market.

This year's report has become more forward-looking than is usually the case. However, I believe that it is important for our shareholders to understand the way we think and what we do to ensure that NORDEN can keep the momentum. When you're in peak position, you have a duty to try and stay there for as long as possible. We are ready to fulfil that obligation using our special business model as our platform.

I would like to thank my colleagues on the Board as well as our managers and employees for all their hard work. And thank you all for your attention.