

Interim Report – 1st half of 2012
Transcript of audiocast
15 August 2012

Carsten Mortensen Welcome to the presentation of NORDEN's interim report for the second quarter of 2012. My name is Carsten Mortensen and I am the CEO. I will be presenting together with our CFO Michael Tønnes Jørgensen and Executive Vice President Martin Badsted, who is responsible for our Investor Relations. I trust you have all found time to download the accompanying PowerPoint slides from our website. We will refer to the specific slides as we go along. Please note, that this presentation and the following Q&A session will be recorded and made available on our website. Turn to slide 2, please

The agenda for today will be as follows:
I will start by outlining the highlights of the second quarter.
Subsequently, Michael will go over the key financial figures and strategy update.
Then Martin will present the market conditions in Dry Cargo and Tankers and I will finish with our current expectations for 2012.
After the presentation we open our Q&A session. Slide 3, please

Group EBITDA for the second quarter was 31 million dollars compared to 40 million dollars in the same period last year. Excluding non-recurring items, EBITDA for the first half of the year was 5% higher than last year, which was mainly due to strong performance in the first quarter.

Despite difficult market conditions in both segments, our financial position remains strong. With cash and securities of 386 million dollars and undrawn credit facilities of 150 million dollars, we are in an excellent position to take advantage of attractive investment opportunities that may arise in these challenging times.

In fact, after the end of the quarter we contracted two Handysize product tanker newbuildings from the GSI yard. The vessels have a significantly lower fuel consumption than comparable vessels in the market and thus support our strategic focus on fuel efficiency.

We maintain our financial guidance for 2012, where we expect an EBITDA of 110-150 million dollars.

Now over to Michael who will take us through the financial highlights.
Slide 4, please.

Michael T. Jørgensen Thank you Carsten.

Out of the Group EBITDA of 31 million dollars, the Dry Cargo department generated 30 million dollars while 4 million dollars were generated by our tanker business.

The performance in Dry Cargo was in line with expectations as high coverage, especially in Panamax and Handymax, provided a solid protection in a depressed spot market. The Tanker performance was slightly lower than expected, primarily due to lower spot market earnings.

Strict focus on overhead and administration cost showed a clear effect in the second quarter. Compared to first quarter O/A was down 10% and compared to the second quarter last year O/A was down by 16%. In spite of a growing owned

fleet, depreciation fell in the second quarter. This was due to lower book value of the fleet after the write-down incurred in the first quarter. Results for the second quarter were a net loss of 32 million dollars, negatively affected by fair value adjustments of hedging instruments of 40 million dollars. The adjustments are primarily due to declining bunker prices in the second quarter, and reflect a reversal of positive adjustments in previous periods. Cash flows from operations were 32 million dollars in the quarter.

Slide 5 please

Total theoretical NAV at the end of the quarter was 1.6 billion dollars or 228 DKK per share – down 9 DKK from 237 DKK per share at the end of the first quarter.

The decrease is a result of continued drop in the value of the fleet and charter parties with purchase and extension option. As usual, the fleet was assessed by 3 independent shipbrokers, and on a comparable basis the value of our Dry Cargo fleet decreased by 5% during the quarter, while our tanker vessels decreased in value by 4%.

The total market value of vessels in operation and newbuildings is approximately 1.3 billion dollars and remaining capex incl. JV's is 154 million dollars, which will fall due in 2012 and first half of 2013.

The vessel values were 104 million dollars lower than book values at the end of the quarter. Consequently, an impairment test was carried out, and based on this, there was no indication of impairment and thus no need for write-downs.

Slide 6 please

In the 2011 to 2013 strategy plan called Long-term Growth in Challenging Times, NORDEN aims to increase cargo volumes in Dry Cargo by 15% per annum on average over the period, create added value as an operator in Dry Cargo, outperform market rates in Tankers and increase the number of owned tanker vessels to 25 units. In 2012, a special focus on tight cost control on shore and at sea has been added.

After a high growth in cargo volumes in Dry Cargo in 2011, the development was weaker in the first half of 2012. Since the beginning of the strategy period, average annual growth of transported cargo volumes and long-term cargo contracts has been 32% and 7%, respectively. The lower growth rates in the first half year of 2012, were mainly due to market development, which resulted in cargo contracts being priced at rate levels, which are deemed unattractive.

Although market conditions in Dry Cargo have been difficult so far this year, the Dry Cargo department is on track to realize the goal of creating positive operator profits.

The Tanker department is close to the goal of increased ownership as NORDEN's owned fleet now consists of 17 active vessels and 6 newbuildings on order.

As part of tighter cost control on shore, administrative expenses have been reduced by 9% in the first half-year 2012 compared to the same period last year.

Despite historically challenging markets, we have come a long way in achieving the goals in the strategy plan 2011-2013. We will continue to focus on long-term growth and higher returns to shareholders than our peers.

Slide 7 please and now over to Martin

Martin Badsted

Thank you Michael. Overall, Dry bulk demand remained strong, and depressed freight rates are mainly a reflection of too strong a fleet growth. Even though there have been some mixed economic signals from China in recent months, demand for seaborne commodities has been strong. In the first half of 2012, China's coal imports increased by 60% compared to same period last year. This is mainly due to a combination of low freight and fob coal prices that undercut Chinese producers, as well as, domestic infrastructure constraints. In the first six months of the year Chinese steel production grew only by 1%, while iron ore imports grew by 10%. Going forward, iron ore imports are expected to continue growing considerably faster than steel production as a larger share of China's iron ore consumption will be imported, mainly due to poor quality of domestic iron ore and high production costs facing many Chinese iron ore producers.

An important factor in the dry cargo market in the coming quarters is how the worst drought in decades in the USA will impact exports of grains and soybeans. The outlook for the upcoming US harvest has deteriorated significantly in recent weeks and the latest forecast from the US department of agriculture indicates the lowest corn production since the 2006/2007 season. If this happens it will have a negative impact on the dry cargo market as US export volumes are expected to be badly hit.

Supply growth remains high. Shipyards delivered close to plan in Q2 with 63 million dwt delivered and despite over 16 million dwt. being scrapped in H1, the net fleet increased 7% since the beginning of the year. For the full year, the dry cargo fleet is expected to grow by 13-14% net, while ton-mile demand is expected to increase by 8%.

Slide 8 please.

Product tanker freight rates unexpectedly collapsed in the second quarter.

After a very slow start to the year, US gasoline consumption improved in the second quarter and in April and May consumption figures were up by 1.5% on average. However due to a high level of domestic oil production and inventory draw, oil product import decreased by 28% in the second quarter for 2012 compared to last year.

During 2012, US light product inventories have swung from a surplus of 7 million barrels in mid-march to a deficit of 29 million barrels. This abnormally large inventory decline was driven by improving domestic demand and good export, especially to Latin America.

In the first half of 2012, US export was up by more than 100% to an average of 477 kb/d. In the second quarter, as domestic consumption began to pick up, export decreased, however maintaining a level well above the same period last year.

Low fleet growth is still the trend in the product tanker market, where Handysize and MR together is expected to have a net fleet growth of approximately 2% in 2012.

Next slide pls and over to Carsten.

Carsten Mortensen

Thank you Martin. We maintain our expectations for full year EBITDA of 110-150

million dollars. After a good first half-year earnings-wise, EBITDA is expected to be somewhat lower in the second half, mainly due to lower earnings in Dry Cargo. The sale of the two Handysize dry cargo vessels after the end of the second quarter does not affect the result for 2012. It does, however, impact cash flow and the cash flow from net investments (CAPEX) is now expected to be 80-100 million dollars

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

This concludes our presentation. Now, we open our Q&A session. Please await the conference host's instructions.

Operator: *If you have a question press star then one on your touch tone phone. The first question comes from Noah Parquette from Global Hunter Securities.*

Noah Parquette: Hi guys. I just wanted to talk about firstly the Panamax exposure that you have. I mean your fixed 135% for the rest of the year. **How do you think about getting the tonnage to meet the rest of those needs? Is there going to be a short-term charter basis, or are you looking at something more permanent? And just talk about your thoughts there.**

Martin Badsted: Yeah, hi Noah, it's Martin here. Yes we are over covered in the Panamax segment, and I think it is an accurate description of the way that we manage the three currently that we - - it has a very short-term duration. I think if you actually looked at the committed capacity for Panamax's going into the second quarter, for the rest of the year we had I think 8,500 ship days committed for the three quarters, and we actually used 6,700 days just in the second quarter. And this really indicates that the capacity we have is on a very short-term basis. So at the moment it is possible for us to charter in short-term vessels in the market at a substantial margin compared to the levels that we can make through the cargo contracts. So that's quite positive. If we feel, of course, that there could be an upside going forward, or that we could get some cheap optionality on the extension options, for instance, it could be that you would also see us going a little bit further out the curve, but for now most of it is actually short-term business.

Noah Parquette: **So you guys just go out and just take a ship for one charter, or something like that. The charter rates are so low for 6 to 12 months, that - - you guys are still a little hesitant to go longer?**

Martin Badsted: We have done so on a couple of occasions, also in some of the other segments where perhaps we could do six months, option six, or one year, option one. So it is something that we are doing, but so far we have actually not done it on a significant scale, but of course we hope there will be opportunities to do so going forward.

Noah Parquette: **When you guys talk to owners, do they have a willingness to go beyond one year at these low levels, or do they seem hesitant to do that?**

Carsten Mortensen: This is Carsten. Hi Noah. You have seen the forward curve coming down quite dramatically, and of course that is also reflected in the longer term charters that you can do. I would add one thing to what Martin just said, is what we're reporting on the 135% is on the basis of minimum committed period. So there's a lot of optionality being built into the books so in case the freight rates all of a sudden increase, automatically a lot of the short-term ships will be extended, but the forward curves have come down and we are able to now actually go longer at pretty decent levels. But the current spot level - and that is what we're evaluating whenever we have cargo to be fixed - the spot levels are down significantly in the last couple of months, so if we go just a little bit out the curve then we would have to pay a premium to what we can do spot wise. But there is no doubt that we are sitting with a very challenged dry cargo market, and we're sitting with owners that are being told to secure cash flow, and it's - - we feel that it's flight to safety for owners, and we feel that we are being offered interesting opportunities also for the medium term, not only for long-term deals with purchase option, but also for one-two year deals. We have in the past quarter's reported also done three-year deal with extension options attached to it and purchase option. I think I can safely say that it is one of the best purchase option deals that we have done in dry cargo for the past ten years. We have actually done in the second quarter, so we are seeing opportunities now.

Noah Parquette: That's really good Carsten, thank you. Just moving out to the handysize is the sale-lease pack. **Can you talk about how long those terms were, and why you thought that was the right thing to do there?**

Michael Tønnes Jørgensen: This is Michael speaking. I can confirm that the period is five years, and we have an option, a purchase option, at the end of five years which we can declare if we wish, and it's a favourable one.

Noah Parquette: Okay. **And just finally, on the handysize, the product tankers, the eagle class vessels, what sort of rate savings do you see with these new types of vessels, I mean in terms of per vessel day?**

Martin Badsted: Are you talking about the difference in the earnings potential due to the fuel efficiency?

Noah Parquette: Exactly.

Martin Badsted: You know these ships are probably the most efficient ones that we have ordered so far. It was a good design being offered to us by the yard and we have worked with them to optimize it further with our technical department. So probably now it is around 25% better than similar vessels that we have had from the same yards previously, and based on today's stronger prices and depending a little bit on how fast you go and so forth, it's probably in the region of \$3,000 per day in difference in earnings potential, time charter earnings potential.

Noah Parquette: Okay, great. Okay, thank you very much.

Operator: *Our next question comes from Frans Høyer from Jyske Bank.*

Frans Høyer: Good afternoon. Just - - I'm quite impressed with the ability to reduce opex, i. e., not the travel costs, but those below, and I was wondering if you can give me an idea of how much can be done on these items. It seems there is significant flexibility.

Male Speaker: Are you talking about the running cost on the ships or our overhead and administration costs?

Frans Høyer: No, I'm talking about the ship costs but not the running costs, not the port call costs, not all of those but the rest of the costs.

Carsten Mortensen: Obviously it's a matter of building a culture internally where people spend money very, very wisely. We have been changing our crewing strategy in the beginning of this year. It's always very, very fine balance between quality and price. So if you save too much - - it's like if you have an old car and you don't maintain. If you have a car, you can have a perfectly well maintained ten-year-old car, but you can also have a very modern car that is not being maintained that will give you problems. With ships, what you spend on the ships, it is a very, very fine balance between quality and price. We want to be best in class. We want to have the best safety culture in the business, and we are approved for time charter business by the major oil companies, and we wish to be there. We are flying Danish flag and Singapore flag - - flags on our tanker ships and on our bulk carriers, and we wish to be recognized as a quality owner. There are limits to how much you can push it. A large part of the daily running costs on a ship is crewing expenses, and in spite of the market being very poor for the time being, the merchant fleets are still growing. So there's a pressure on crewing salaries from certain countries like the Philippines and India, but I'm sure that is actually coming down now with the current environment. So we have saved, but there are also limits as to how much we wish to save in the short run, because then we may have to save a dime and pay a dollar later on.

Frans Høyer: So - - but is the reductions we've seen - - I mean they are quite striking...

Carsten Mortensen: But we are not announcing those specifically, so what are you referring to exactly?

Frans Høyer: Well, I'm looking at the operation cost for instance for the second quarter. The total for the group was \$233 million operating costs for ships. They are not the travel costs. They are the costs that you pay as owners of the ship.

Carsten Mortensen: Yeah, but I'm sure that includes the - - could you just specifically refer to what page are you on?

Frans Høyer: I'm on page six in the top table, second quarter 2012...

Several Speakers: ..it's 233.

Martin Badsted: You have to be careful there, because these costs also depend on volume. So if we had had exactly the same amount of vessel days in exactly the same segments then you could compare them, but otherwise a decline in this can be a reflection of declining spot rates, which means cheaper sourcing in of trip charters.

- Frans Høyer:** So if I divide by the number of ship days, I should have - - I'm not looking at - - so I'm adjusting for the fact that the ship days are down.
- Martin Badsted:** Yes, and then you have the mix effect that it could be that we have taken in cheap handysizes as opposed to expensive MR's or something.
- Carsten Mortensen:** So in other words this also includes time charter costs.
- Frans Høyer:** Understood, understood. That seems to be probably a big factor. Okay, all right, sorry. Thank you very much.
- Operator:** *Once again, if you have a question, please press star then one on your touchtone phone. We have no further questions at this time. Thank you.*
- Carsten Mortensen:** So that concludes today's presentation. Thank you very much for listening in. If you have any further questions, do not hesitate to contact the IR department of the company. Have a nice afternoon. Thank you very much. Bye-bye.