TRANSCRIPT NORDEN TELECONFERENCE 12 NOVEMBER 2014 CET 15:30

Corporate Participants

KLAUS NYBORG –NORDEN, Interim CEO

MICHAEL TØNNES JØRGENSEN – NORDEN, CFO

MARTIN BADSTED – NORDEN, EVP

Presentation

KLAUS NYBORG:

Welcome to the presentation of NORDEN's third quarter results. My name is Klaus Nyborg and I am the interim CEO. I will be presenting together with our
CFO Michael Tønnes Jørgensen and Executive Vice President Martin Badsted, who is among other things responsible for our Investor Relations.

I trust you have all found time to download the accompanying presentation from our website.

We will refer to the specific slides as we go along.

Please note that this presentation and the following Q&A session will be recorded and made available on our website.

Slide 2, please

KLAUS NYBORG:

The agenda for today will be as follows:

I will start by outlining the highlights of third quarter of 2014

Subsequently, Michael will go over the key financial figures and Martin will then present the market conditions

Finally, I will conclude with our guidance for 2014 and then we will open up for the Q&A session.

Slide 3, please

KLAUS NYBORG:

The third quarter of 2014 was indeed a challenging quarter. EBITDA for the quarter ended at minus 11 million dollars and the Net Result was minus 46 million dollars, which is not satisfactory, but in line with the most recently announced expectations.

The poor result was mostly driven by the disappointing market development in Dry Cargo, while Tanker markets have shown signs of improvement lately

The weakness in the charter markets also had a negative impact on asset values. But the value of NORDENs own fleet including newbuildings is still 24 million dollars above book value.

And now over to Michael for a closer look at the financials.

Slide 4, please

MICHAEL TØNNES JØRGENSEN:

Thank you, Klaus,

As mentioned NORDEN generated group EBITDA of minus 11 million dollars during the quarter distributed with minus 16 million dollars in the Dry Cargo department and positive 8 million dollars in the Tanker department.

The Dry Cargo EBITDA is lower than the same period last year, but earnings in Dry Cargo was 7% higher than the 1 year T/C-rates, and NORDEN also outperformed the average spot rates from the Baltic Exchange by 55%

The result in the Tanker department improved after a very poor second quarter and NORDEN continues to outperform the 1 year T/C-rates

Slide 5, please

MICHAEL TØNNES JØRGENSEN:

NORDENs cash flow from operations was 9 million dollars in the third quarter. This was partly driven by an improvement in our working capital of 25 million dollars.

Furthermore, NORDEN continues to have a solid cash position, with cash and securities of 279 million dollars. After the end of NORDEN has entered into a 5-year credit facility of USD 100 million, and total unused credit facilities is now at 395 million dollars. Correspondingly NORDENS outstanding newbuilding payments currently amounts to 386 million dollars

Slide 6, please

MICHAEL TØNNES JØRGENSEN:

Asset values have naturally been impacted by the disappointing markets especially in Dry Cargo, and the 5 year secondhand prices for all NORDENs vessel types have decreased since the end of the second quarter.

Based on assessments from 3 independent brokers, the market value of NORDEN's owned vessels and newbuilding orders including joint ventures was estimated at 1,6 billion dollars at the end of third quarter, which is 24 million dollar above the carrying amounts and costs.

And over to Martin for a closer look at the markets

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MARTIN BADSTED:

Thank you, Michael

In spite of improvements in the third quarter the dry cargo market continues to disappoint. The poor market developments were driven by a combination of several factors with the lack of coal transport being the main driver. Both Europe and China imported less coal than expected during the quarter due to high inventories and high output of hydropower respectively.

Furthermore, the lack of Indonesian export of unrefined commodities continues to have a negative impact on the market as the volumes of Bauxite and Nickel ore imported to China still are well below the levels from last year.

Finally, we are seeing that while overall Chinease iron ore imports are strong, the long distance imports are losing steam, meaning that the impact on vessel demand is much less than volume growth numbers indicate.

Slide 8 please

MARTIN BADSTED:

Since the end of the quarter Capesize and Panamax rates have shown some improvements, but the upturn is fragile and we do not expect Q4 rates to reach the same level as last year which was supported by extraordinary inventory restocking in China.

Furthermore, the usual seasonal market improvement in Q4 is likely to be constrained by a lack of coal transport – the North American grain season cannot carry the market by it self, even though fleet growth in 2014 is still expected to be low.

During Q3 China has published a couple of restrictions on both import of and use of coal that already have had a negative impact on coal imports to China.

For the rest of 2014 China has announced that they will lower imports by 40% compared to 2013 and introduced an import tax of 3-6%. This is seen as a support to the suffering domestic coal industry, although the import tax will not apply to Indonesia and potentially Australia due to free-trade agreements.

Furthermore, from 2015 China will implement restrictions on ash and sulphur content for both consumption and import of coal. Although in the short term the tendency seems to be that coal imports will be constrained by all these restrictions, the long-term impact could well be positive since an increased focus on cleaner coal could be favourable for increased imports.

Slide 9, please

MARTIN BADSTED:

The rates in the product tanker market improved from the very poor levels seen in the second quarter. The refineries in the US Gulf came back from maintenance which drove up activity and rates in July. The spike was however shortlived as more vessel were positioned in to benefit from the increased activity

Towards the end of the quarter product tanker markets started to pick up significantly and the improvement has continued into the fourth quarter. The increased rates are not isolated to a single region, rather it is broad based and applicable for all product tanker segments. The improvement is driven by among other things increased exports from the new refineries in the Middle East as well as increased transport of gasoline from Europe to the US. The drastic fall in the oil price has also benefitted the activity in the market as it has led to temporary opening of arbitrage opportunities as the market rebalances to the new oil price environment

Slide 10, please

While it is uncertain how the current rates in the product tanker market can be maintanined, we are entering the winter season where rates traditionally peak. The new refineries in the Middle East wil also continue to ramp up in the coming months and into 2015 which should drive increased demand for product tankers

However, we are entering a year with increased deliveries from the yards and overall supply growth will start to increase from the low levels experienced in 2012 to 2014

As experienced in recent years the crude markets can have significant influence on the product tanker markets and the fairly limited fleet growth expected for crude vessels in the coming year could create an upside for product tankers.

And now back to Klaus for a look at the guidance

Next slide please

KLAUS NYBORG:

Thank you, Martin

We maintain our expectations for the full year with EBITDA of minus 60 million dollars to 0. Let me ad in accordance with out announcement the middle of this range is based in forward rates in dry cargo and the 1-year T/C rates in tankers in the beginning of November.

Earnings in Dry Cargo have been and will continue to be highly affected by the very challenging market conditions and thus NORDEN expects an EBITDA of minus 60 million to minus 30 million dollars. The Tanker department earnings are expected to generate an EBITDA of 15-45 million dollars.

Due to a sale of a 2008-build Handysize product tanker at the end of the third quarter with delivery in Q4, CAPEX is expected to be USD 100-120 million for the year.

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KLAUS NYBORG:

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

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KLAUS NYBORG:

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

OPERATOR:

Your first question comes from the line of Frans Hoyer from Jyske Bank. Please ask your question.

FRANS HOYER:

Good afternoon. A question about the congestion and how much this congestion issue is actually tying up of capacity or did tie up of capacity and how much capacity is being released into the market because of the end of congestion? Do you have some numbers or some description of this that could share with us?

MARTIN BADSTED:

You can say Q2 is typically a period with high congestion numbers out of South America and in 2013 we had very long lines of vessels lying waiting outside ports. And this year probably both because of improved logistic on shore but due to lower volumes overall we have been seeing significant reductions in congestion from that region. On the other hand, we have seen this year that in India, actually just recently the coal imports are developing so strongly that we are now seeing significant Panamax congestion building up there. And now we are probably talking some 30 vessels lying outside those ports. I don't have the exact figures in percentage terms but it's certainly something that has had a meaningful impact on the overall market balance this year.

FRANS HOYER:

OK. Also you mentioned the net commitments of debt that you have. It's just around $1.3 billion including payments for new buildings and so on. And I was wondering what your thoughts are on that issue. How to manage that situation going forward given the renewed weakness in the markets that we are now looking at.

MICHAEL TØNNES JØRGENSEN:

Hi Frans, this is Michael speaking. I think the end of second quarter we gave a little bit of guidance saying that the current gearing which is you know around 0.9 was a level that we would maintain for some time. And what we are doing right now is we are actually, we have reduced capacity, T/C commitments a little bit, and we have taken up additional credit facilities. So overall it has been flat I would say from third quarter to second quarter. And of course unless we see a significant improvement in the market, I do not expect that we will take additional exposure in the company.

So I think the level you see here will be more or less the level you will see for the coming period. Unless we see different markets come firm.

FRANS HOYER:

So you are able actually to manage this level and honor that commitment even if business remains roughly as it is now?

MICHAEL TØNNES JØRGENSEN:

Yes, we still have – as you can see we still have assets that we can sell which can release cash. And we have very flexible financing so we will not take more liabilities than necessary.

FRANS HOYER:

OK. Thanks very much.

KLAUS NYBORG:

And just to add, I think we actually have a lot of flexibility and maneuverability with the cash position we have at hand. And with the gearing we have. So we are very, very comfortable with our position. And it offers us a lot of flexibility and maneuverability as mentioned.

FRANS HOYER:

Thanks very much.

OPERATOR:

Your next question comes from the line of Jacob Pedersen. Please ask you question.

JACOB PEDERSEN:

Hi, guys. A couple of questions from my side. Could you further along try to explain what has changed in the market. If we look back in the beginning of 2014, you and other dry bulk carriers were quite optimistic on the market. What is it that changed so profoundly and if it's more kind of extraordinary things, what are the chance that these things will reverse and these factors will reverse when looking into 2015?

KLAUS NYBORG:

Yes, Jacob. It's Klaus. I think, actually first of all in the very early part of 2014, you saw the ban out of Indonesia taking effect for nickel ore and bauxite. And I think actually everyone in the market knew of course that ban were to be introduced, but I think few observers, and few participants expected that would last because in the past it has never last long.

So I think that took the market overall by surprise. And it had a profound impact on the, especially on the Supramax market. In addition and I think that's the overriding story of 2014 you have seen the coal import to China being flat to negative. And that has of course being the second large commodity of course had a huge impact on the market demand overall. And therefore you have seen various analysts in the market including some of the ones that we have sort of very much in agreement with, that we've seen the demand moving from the levels of high expectations for 2014 being in the range of eight percent down to below five percent in the overall demand for the year.

So a substantial reduction. But I think these two factors in combination with that many of the, one-off factors that we typically see in the market this year have unfortunately been to the benefit of ship owners and operators: You have less congestions, you have seen warm weather, you have seen more rain in China leading to more hydropower. You have all these factors not benefitting the owners and operators.

Which in turn means that overall where I think the market overall believe that we could come back to reasonable balance between supply and demand in 2014, that didn't materialize.

And that means we are at this point in time at a weaker starting ground for 2015 as we have indicated.

JACOB PEDERSEN:

OK. That's very helpful. My second question concerns your impairment tests. If you had done the impairment test, without extending the life of your ships, the last time, or your fleet, would that have a resulted in an impairment?

MICHAEL TØNNES JØRGENSEN:

Michael speaking here, as you know we changed the depreciation period from 20 to 25 years. And when we do the value in use test based on these principle, it is a positive value, it's also positive value on step one.

I would say even though that we changed back to say 20 years, it will still be a modest positive figure.

JACOB PEDERSEN:

OK. And a final question, regarding your expectations for, you say yourself 2015 will be weak in the dry bulk market and on the other hand you say that this bring some possibilities for you. Could you elaborate a bit on what possibilities you see in 2015?

KLAUS NYBORG:

Yes, I think it's just a reflection on that actually of course we are in a very good position in the way that we have a strong position financially, balance sheet wise, etcetera. That a weak market in terms of buying assets or spikes award in the market which we will always expect and always will be there can be to the benefit of NORDEN and we should utilize it when we see it.

I don' think that, don't think you will see NORDEN on a big buying spree in 2015, but overall it offers opportunities.

JACOB PEDERSEN:

OK. And this is my very last question. Regarding bunker price and oil price, should we expect any impact in the Q4 on your derivatives position, and the financials from the weakening of bunker price?

MICHAEL TØNNES JØRGENSEN:

This is Michael speaking. If you look at our accounts, we have actually a note where you can see the impact from the bunker hedging and so on. So you can say we have adjusted and we do that every month actually.

We do adjustment to the latest market value of our hedging going forward. So unless we see further declines in oil prices, forward oil prices, we do not expect a significant impact. I think bunker prices have stabilized after the quarter, on the current level. So I don't expect it to be a significant amount. I think currently we have around 150,000 tons on contract for the coming years.

JACOB PEDERSEN:

Good. OK. Thanks very much guys.

OPERATOR:

Your next question comes from the line of Nikolay Dyvik. Please ask your question.

NIKOLAI DYVIK:

Hi, Martin. Just a question on the market. If you were to – do you have actual numbers on the Indian coal imports?

MARTIN BADSTED:

Not good numbers. No. I think we can find several estimates for you but I think even the best statistics are always some five, six months delayed. So I think when we talk about strong imports recently it is based on anecdotal evidence and estimates.

NIKOLAY DYVIK:

They're not something that you would like… if you look at the at least the run rate, (Inaudible) run rate (Inaudible) coal imports implies about mid teen decline year on year. To what extent would you say that India is able to compensate for that?

MARTIN BADSTED:

Import growth in India. As far as I remember, the full year estimates for Indian imports are some 200 million tons on an annualized basis. So I haven't done the exact calculation of how much it would take for the rest of year import into India to fully compensate there for the Chinese lack of import.

NIKOLAY DYVIK:

You said that India is about 200 million tons?

MARTIN BADSTED:

On an annualized basis.

NIKOLAY DYVIK:

OK. Thank you.

OPERATOR:

There are no further questions.

KLAUS NYBORG:

All right. Thanks very much for listening today. And hope to see you soon again. Thanks very much.

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