



**CHAIRMAN'S REPORT BY CHAIRMAN MOGENS HUGO,
NORDEN'S ANNUAL GENERAL MEETING, 11 APRIL 2012**

INTRODUCTION

Last year when we met at the annual general meeting, I said that 2011 would become a very challenging year. There is no doubt that this prediction proved correct.

Natural disasters, debt crisis, turbulent financial markets, political changes in North Africa and the Middle East, weakened global growth, lower global trade and piracy – these were the challenges which we were up against. And if that was not enough, there was a record high addition of dry cargo vessels to the global fleet, which disturbed the balance between supply and demand, while we continue to struggle with weak demand in product tankers even though there was a slight improvement in this area.

I am pleased to establish that NORDEN was able to handle these difficult and murky conditions. In dry cargo, we truly outperformed the market – NORDEN's business grew more than the market, and our daily earnings were 30% above spot rates. Also in product tankers, our daily earnings were again above market rates. Today, we can therefore present you with financial statements, which are better than expected.

KEY FIGURES FOR 2011

Operating earnings before depreciation – what is called EBITDA – was USD 186 million, approximately DKK 1 billion. This is a good deal more than we expected when we entered the year, and it is also above the estimates which were announced in November.

We delivered, and then some, in a difficult market, and to put things into perspective, I can tell you that if we calculate operating earnings *excluding* non-recurring income – which in the nature of things only occur once – we actually succeeded in improving NORDEN's core earnings from USD 162 million to USD 172 million. The improvement came from Tankers, whereas Dry Cargo almost maintained its earnings, which was a strong performance in a year where the dry cargo rates in the Baltic Dry Index otherwise decreased by 44%.

We did not have any profits from the sale of vessels, whereas we earned USD 28 million on selling vessels and, in addition, had profits from joint ventures the previous year. This decrease was expected, and it is well-founded. Considering the low vessel prices, it has become significantly less attractive for NORDEN to sell vessels, and on the contrary, we use the low vessel prices to acquire or contract new vessels.

Depreciation increased to USD 81 million, an increase of 64%. We have to get used to higher depreciation as NORDEN obtains more owned vessels in these years. At the turn of the year, we owned 44 vessels, the highest number ever, and according to the known plans, we will own 50 vessels at the end of 2012. We depreciate the vessels over 20 years, whereas the industry practice is 25 years. I am not mentioning this fact because we want to change principles, it is only to em-



phasise that it makes a certain – and increasing – difference in our books that we depreciate over 20 years.

The operating profit (EBIT) was USD 104 million, which was also better than our estimates from March and November. Fair value adjustments of certain hedging instruments were negative, whereas they contributed with a larger positive amount the previous year, and after these value adjustments, net financials and tax, we have USD 88 million on the bottom line, approximately half a billion DKK.

Based on these results, an analyst called NORDEN the Danish champ of shipping. This is of course nice to hear. Reality is that 2011 was a very challenging year indeed – a year, which saw several reconstructions, foreclosures and a few bankruptcies. This puts our results into relief, and I would like to thank the employees for the great efforts, which led to this solid performance.

SHAREHOLDER RETURN

In contrast, solid is not the right word for last year's share price. The share opened the year at DKK 203.5 and ended the year DKK 69 lower. This corresponds to a drop of 34%.

If the shareholder return is calculated as the sum of both share price *and* dividend, NORDEN's shareholder return amounted to negative 32%. This is obviously not satisfactory but still substantially better than the return of negative 59% generated by 11 directly comparable dry cargo and product tanker companies to their shareholders. The figures clearly show how difficult 2011 was for the whole industry, but the figures also show that we can reach our goal of generating a better return than our competitors by means of our business model and market approach.

It is always unfortunate when share prices drop, but it is downright precarious if the share price drops due to poor performance or due to distrust in the company. Neither is the case in NORDEN. As mentioned, our performance was solid, and when it comes to trust in management, reporting and announcements, then let me just mention two matters: in the autumn, NORDEN again received a prize for its annual report, this time the new C20 prize as the company, which best describes value creation, long-term goals and risks. Right at the beginning of the year, we also received the Information Prize from the Danish Society of Financial Analysts, and it was the second time in just a few years that we received this distinction from investors, analysts and other people in finance.

The trust in NORDEN is thus intact, and hopefully, the share price will also rebound. This year, the share price has improved at any rate, and since the turn of the year, it has increased by 17%.

Today, the Board of Directors proposes a dividend of DKK 4 per share. There have been years with higher dividends, but in those years, the bottom line was larger. If the dividend is calculated as a share of the profit – the so-called payout ratio – the proposed dividend corresponds to 35% of the profit, which is above the average of recent years.



With the proposed dividend, NORDEN will pay out DKK 165 million to the shareholders, excluding treasury shares to which no dividend is paid. NORDEN will thus have distributed almost DKK 3.7 billion to the shareholders during the last 6 years through dividends and buy-back of shares. Thus, the shareholders have received a continuous reasonable cash return, and NORDEN has maintained its financial strength so that we have some really good opportunities today to take a more offensive approach.

FLEET VALUES

Let me finish the review of the key figures with fleet values.

According to independent brokers, the market value of NORDEN's 55 owned vessels and newbuilding orders amounted to approximately USD 1.55 billion at the end of the year – with 60% in Dry Cargo and 40% in Tankers. The market values are USD 217 million lower than the book values of the vessels and newbuildings, which is due to the significant decrease in market prices for newbuildings and secondhand vessels in dry cargo throughout the year, while prices for tanker vessels were more resistant.

Because of the difference of USD 217 million, we have – as you are required to – carried out a test where we compared the carrying amounts and costs to estimated cash flows for the remaining useful economic lives of the vessels. On the basis of this, the fleet values were not found to be impaired. We still expect that the investments in vessels in both segments will contribute to the value creation in NORDEN in the long term.

If we look at the value of NORDEN as a whole, Net Asset Value – equity less negative added value of the fleet – is USD 1.77 billion or DKK 248 per share. Adding USD 74 million from the estimated values of our many purchase and extension options, the total theoretical Net Asset Value is estimated at more than USD 1.85 billion or DKK 258 per share. Still a good deal above the actual share price.

THE WORK AND REMUNERATION OF THE BOARD OF DIRECTORS

In keeping with tradition, I will also say a few words about the work of the Board of Directors today.

Last year, we held 13 meetings, and on 4 of the meetings, we handled the tasks which the Board undertakes as audit committee. In addition, we have appointed a more narrow remuneration committee, which held 3 meetings, and there were also a number of meetings between chairmanship and management, and I myself am member of the Board of the Directors of Norient Product Pool.

The work of the Board of Directors is based on an annual calendar. At the beginning of the year, the main topics are the annual report, CSR report, auditors' records, option programmes and annual general meeting. At least once during the year, we also revisit systems, policies, rules, procedures, corporate governance, procedures for financial reporting, etc. – all the things that make up the en-



gine room at NORDEN. At the same time, we continuously discuss market, results and investments as well as follow up on the strategy. And at the end of the year, in November-December, we determine a new strategy and budget for the coming year.

The Board of Directors also try to arrange a field trip once a year in order to see the business up close. In August, we went to the Norwegian polar island Svalbard where we literally went underground in the world's most northern coal mine. The occasion was that NORDEN entered into a major 5-year COA with the national Norwegian mining company Store Norske. We were chosen on the basis of an overall assessment of price, our position on CSR and ability to handle the environmental aspects of sailing in the vulnerable eco systems at Svalbard.

It adds an extra perspective to the work of the Board of Directors when we ourselves experience NORDEN's value chain and have a direct dialogue with an important contractual partner. And let me add that the first year under the contract with Store Norske went really well. The transports were a bit behind schedule though due to large amounts of drift ice all the way to August, but from August and to 14 November, we had vessels on regular service between Svalbard and ports in Denmark, England and the rest of Northern Europe.

Board remuneration is part of the annual report, which is presented today. Our proposal is that the total remuneration for 2011 remains unchanged at USD 1 million for the 8 members.

Regarding the remuneration for 2012, it is our immediate opinion that the base fee for each member should not be changed – and this will be the fifth consecutive year with an unchanged fee. But as we propose to extend the Board of Directors today with 1 new member, total remuneration will slightly increase from USD 1 million to approximately USD 1.1 million.

These are our thoughts on remuneration for 2012 today – as usual in NORDEN, we will come back with a final proposal at next year's annual general meeting in the light of actual work load, demands, market level, etc.

COMPOSITION OF THE BOARD OF DIRECTORS

In the Board of Directors, we continuously evaluate our work, composition and cooperation with the Board of Management: is there anything we can do better, do we have the right competences, and what challenges do we see in the horizon? These are questions which every Board of Directors should ask itself on a regular basis.

Last year, we chose to handle this self-evaluation in a new way, i.e. with assistance from an external independent consultant: the consultant drew up an extensive questionnaire, which the Board of Directors and Executive Management completed, and afterwards, we were interviewed individually before the consultant presented his conclusions and recommendations to the whole Board of Directors.



In this way, the Board of Directors' state of health was systematically checked, just as a seaman has to get his health checked every second year in order to get his discharge book renewed. The self-evaluation showed that the Board of Directors has a high level of commitment and is ready to do the job. We get things done, and we have good internal interaction in the Board of Directors, just as we work well with the Board of Management. Naturally, there are a couple of things which can be improved, and we are taking care of those. E.g. in some areas, we need to sharpen our pen and make the division of labour between the Board of Management and the Board of Directors more clear. We also need to formalise the ongoing work with *successor planning* so that we – based on 3 clear criteria – have an overview of possible candidates who could join the Board of Management and Board of Directors at all times.

Hopefully, there will be no need for replacements to the Board of Management any time soon, but within the Board of Directors, there will be changes in the coming years. We take a step today with the proposal for new election of Klaus Nyborg, who has both first-hand knowledge in dry cargo and product tankers, valuable international experience and the right age – a more detailed presentation of Klaus Nyborg follows under item D. Changes within the Board of Directors will continue in the coming years at a pace where we both ensure continuity and bring the right competences to the Board of Directors.

2012

Let me now turn to 2012, where we still expect solid demand in dry cargo, which has actually been the case most of the time since the financial crisis began in the autumn of 2008. I think that most industries will be envious of the underlying growth of approximately 9%, which the demand for transports is expected to increase by this year – a growth rate at almost the same level as last year.

China is still the main engine of the market. Since 2008, China has doubled the import in round figures of iron ore, coal, soya beans, minerals, fertiliser, grain and other dry cargoes, and China's appetite for commodities is expected to remain strong – driven by urbanisation, industrialisation, infrastructure projects and the need for food. We are not so nervous about China's engine beginning to stutter, even though the country is taking action to prevent overheating. Controlled development can only be an advantage.

China's import of 687 million tonnes of iron ore takes up a lot of vessels in itself, but there are also significant changes in trade patterns these years, which increase the demand for transports. China gets more ore from Australia and Brazil on the expense of India, and it goes without saying that when an ore vessel is 38 days en route from Brazil to China, whereas the trip from India to China only takes 16 days, then higher export levels from Brazil will occupy even more vessels.

If we look a bit further, all of the world's largest mining companies are expanding capacity in the mines. Export oriented mines in South America, Africa and Australia are expected to increase capacity by 11% a year until 2015, and this may have a significant impact on the dry cargo market



when the large extra quantities of ore are to be transported by ship to China and other Asian countries. If other mining projects are started, growth can increase to as much as 18% a year.

We also see a strong outlook for transport of coal to India, China and other Asian emerging economies, and therefore, we have a rather confident view on future demand.

But the problem is supply. And especially supply here in 2012. This year as well, the market must digest a considerable addition of new vessels. Most likely, we will see history repeating where cancellations and postponements of newbuilding orders as well as scrapping have taken the edge of growth. However, the global fleet is still expected to increase by approximately 11% net this year. It looks worst at the beginning of the year, but then deliveries start to slow down, and from 2013, we can look forward to a more normal fleet growth.

But this year, the sky-high fleet growth creates an imbalance in the market. The market rates in the Baltic Dry Index hit a historical low in February and even though rates have improved since then, they have been considerably below recent years' average in this first quarter.

In Tankers, the problem is not supply. Additions of MR and Handysize vessels peaked in 2009, and since then, only few vessels have been ordered. In total, the global fleet in Handysize and MR only increased by 4% last year, and for the next 3 years, the fleet is expected only to grow by an annual average of 2.5%. This is after all manageable.

The challenge on the other hand is demand. Low economic growth in Europe and North America is affecting demand negatively, and thus, it has been difficult for the market to absorb the many new vessels at sea up until 2009. It has, however, improved. Rates have increased for the last 3 years, though they are not profitable at EBIT level. But rates will improve, and Norient Product Pool – which operates NORDEN's product tankers – has persistently outperformed the market.

If we look past the current problems, we are confirmed in our market belief, and this is highly due to changes in the refinery sector. For the last 10 years, the share of oil products transported at sea has increased from 15% to 20%, and there is great potential for further growth at sea. Refineries in Europe and on the east coast of the USA are closing down or being phased out, whereas refineries in Asia and the Middle East are being expanded and modernised. As environmental requirements at the same time are being tightened, Europe and the USA must obtain more products from the modern refineries in the Middle East and Asia, while the older refineries in Europe and the USA will sell more products overseas.

There will therefore be more seaborne transports of refined products, and transports at sea are thus expected to grow more than the global oil consumption. Possibly 3-5 times more as the pattern has been for the past 10 years.



Thus, the product tanker market will also improve, but – as in dry cargo – this market must first go through a challenging 2012. We at NORDEN cannot change the markets, regardless of how much we would like to do so. But we are able to influence other aspects, and we have made several adjustments to ensure that NORDEN is fully competitive and prepared for what the markets offer us this year.

A very important adjustment or parameter is of course to show moderation and exercise tight cost management. This was also evident in the allotment of bonuses to the employees for 2011, which will be payable with the salary for April.

In total, we allotted bonuses of USD 2.6 million – the lowest amount in several years. No collective bonus was awarded, and the individual bonuses were also considerably lowered – smaller amounts for a reduced number of employees – just as the Board of Management did not receive a bonus for 2011. The allotted bonus equals 2.5% of the operating profit for 2011, where the limit in NORDEN's remuneration policy is 3%. And when I use the word "allotted" bonus, it is because the payment of part of the bonus for selected managers is subject to continued employment with NORDEN in 2014.

We also showed restraint on fixed salaries for 2012. Only moderate adjustments have been made, typically in connection with promotions. We are grateful that the employees have accepted that the difficult market conditions require extra restraint.

Therefore, the Board of Directors was even more pleased that we were able to give something back when we in January once again could allot employee shares, which are tax-exempt for employees in Denmark. All employees with at least one year's seniority received 161 shares. Unfortunately, the new government has abolished this scheme, but we came under some transitional rules. We are left with the fact that this was the last time we were able to grant these employee shares, which we have considered a great instrument for turning employees into co-owners – and thereby ensuring common interests between employees and owners.

The same line of thought lies behind the allotment of options. Last month, we granted 350,000 share options to 68 employees – the number of options is unchanged, but more employees have entered the scheme, where it is still the objective that NORDEN's share must increase by 20% before the employees will profit from the options.

In other areas than salary, we will again this year continue to tightly control costs and maintain high efficiency. Last year we increased our business scope by 19% measured in number of ship days – and more if third party vessels operated in pools managed by NORDEN are included. In comparison, administrative expenses and the workforce grew by only 7% and 11%, respectively.

We will build on these results. We have launched saving and simplification initiatives at our offices, and it has been a good exercise which many people have engaged in with good suggestions. This



year, administrative expenses must be kept down to the extent possible. Only a small number of new employees will be hired, and these recruitments will be directly linked to growth. At the same time, we will upgrade a number of critical systems in order for the employees' workday to become easier and the business to remain scalable.

In the fleet, it has unfortunately been necessary to adopt more drastic measures to ensure profitability in the weak markets. We have recently had to dismiss 10 Danish senior officers and change the conditions for Danish junior officers. I would like to stress that NORDEN will still live up to its social responsibility and train Danish junior officers, but we cannot guarantee that they will be offered a job on graduation.

After the change, the majority of the officers on board NORDEN's DIS-registered vessels will still be Danish. However, it is necessary to reduce the vessels' operating costs, and since we wish to be in charge of the technical management and crewing of NORDEN's product tankers – both DIS-registered and Singapore-registered – it is also necessary that we have a pool of competent Indian senior officers and Philippine junior officers who will be able to obtain the required experience.

Efficient – which also means cost efficient – operation of the fleet is a decisive competitive parameter. Our officers, seamen and employees in the Technical Department work hard on keeping costs in check without compromising quality, and the expected daily costs in the known fleet will also decrease from 2012 to 2016 by 14% in Dry Cargo and 15% in Tankers. The drop is due to more owned vessels and lower expenses related to chartered vessels.

Another focus area is fuel efficiency. Our vessels must simply sail longer per litre. It is good for the environment, and it is good for our bottom line.

We took the most wide-ranging step so far, when we contracted 4 new product tankers from a Korean yard. All of NORDEN's accumulated knowledge within fuel efficiency was brought into play. The vessels were equipped with an electronic main engine and lots of equipment and systems which together will enable the vessels to consume 4 tonnes less fuel every day at regular speed. With the current fuel prices, this means that we will have daily savings of approximately USD 3,000 at sea, and this will really have an impact with rates of USD 15-16,000 per day.

We have also adjusted the design of a couple of newly built Handysize vessels by means of which we have reduced fuel consumption by 18% and thereby also reduced the amount of CO₂ emissions. We continue the work according to NORDEN's climate action plan with a number of initiatives which are introduced to the fleet on an ongoing basis, and there is broad focus among our operators on right steaming: that is planning routes efficiently and following closely up on the vessels' speed and consumption.

We are also in a good dialogue with Japanese yards and owners on this subject. Last year, NORDEN took in 4 Panamax ECO vessels on long-term charter, and last month we entered into a



contract for another fuel efficient Panamax ECO vessel, which is expected to consume 4 tonnes less fuel than some of NORDEN's owned Panamax vessels. Fuel efficiency is turning into a keyword in shipping and is growing in importance – fortunately, NORDEN is up to speed.

In the challenging dry cargo market, NORDEN's first priority this year remains: cargo. Last year, we transported 40% more cargo whereas the market grew by 6% in terms of volume. Thus, we gained market shares among the solid, global mining and commodity companies, energy companies, industries and construction groups, and these are also the customers who we will primarily pursue this year. These customers value stability and security when they enter into multi-year cargo contracts, and in this connection, NORDEN has an advantage in terms of our financial strength, transparency, fleet quality and size, competences and responsibility. And precisely when the market is down and several shipping companies have problems, this is only the more reason for us to do business directly with the cargo owners and cargo buyers.

At the turn of the year, we had future contracts of 90 million tonnes of dry cargo, chiefly coal, wood/biomass and salt. This was 15 million tonnes more compared to the same period last year. The aim remains to increase the contractually secured cargo volumes by 15% annually and, at the same time, to increase the transported volumes by 15% annually up to and including 2013. Naturally, we will also be active as operators, develop projects for customers and enter into joint ventures, but the first priority is cargo – profitable cargo.

In Tankers, the aim this year is again to generate daily earnings above market rates. Norient Product Pool has an impressive and consistent history of outperforming the market. In the most important vessel type, MR, NORDEN has generated daily earnings which have been 17% above the 1-year T/C rates on average for the last 10 years. The pool must continue outperforming the market. The means to do so include e.g. cultivation of new business and new markets, solid craftsmanship in operations and chartering as well as ongoing efficiency improvement and optimisation.

Oil companies are constantly tightening requirements with regards to the shipowners' safety and quality standards, and this is a very positive trend to which we position ourselves by continuing to focus on quality, safety and the prevention of incidents, which could have an adverse impact on the internal or external environment. We believe that a 'zero incidents' culture is best promoted on board owned vessels, and more owned vessels also provide economies of scale. We therefore work towards the aim of NORDEN owning at least 25 product tankers in 2013 – we currently own 21 of which 17 are at sea.

OUTLOOK FOR 2012

Though we have done much and are doing much to handle the difficult market situation in 2012, the market conditions will affect NORDEN's business and earnings.

The high fleet growth in dry cargo is expected to squeeze the rates to an extent that the spot rates are likely to be lower compared to last year. High coverage protects us far down the line against



market turbulence, and we therefore expect lower but still reasonable operating earnings of USD 85-125 million in NORDEN's Dry Cargo Department.

The Tanker Department is expected to increase its operating earnings to USD 25-45 million based on somewhat higher market rates, more ship days and lower costs. In total, NORDEN is expected to generate EBITDA of USD 110-150 million.

We have not budgeted with any earnings from the sale of vessels and are expanding the owned fleet. As I have touched upon, more owned vessels produce higher depreciation – depreciation is expected to increase to USD 100-105 million, and our estimated profit from operations (EBIT) is therefore USD 10-50 million.

Cash flows from operations are expected to be on par with operating earnings, i.e. USD 110-150 million, and NORDEN's known investments (CAPEX) are expected to amount to USD 140-160 million.

As is tradition in NORDEN, we base the estimates on the number of ship days and the coverage we had mid-February. We assume that open ship days in Dry Cargo can be employed at average rates on par with the forward rates at mid-February, and in Tankers, we assume that open ship days can generate earnings at daily rates between USD 14,000 and USD 15,600. In addition, we presuppose that no write-downs on fleet values will be necessary.

CONCLUSION

Shipping is cyclical. We had a long period of prosperity from 2003 and far into 2008, which provided NORDEN with some great results, and since then, we have experienced some slack or directly poor years where NORDEN has still managed to generate solid earnings.

I would have liked to be able to stand here today with a promise to you shareholders that we would soon see an end to the slack times. But that would be saying too much. There are still problems with massive public deficits and debt in Europe and the USA. A number of emerging countries are struggling with inflationary pressure, which may force them to tighten monetary policies that could slow down growth. There is lack of financing in shipping. Fleet growth in dry cargo is expected to be very high, and in product tankers, demand has not geared up.

Therefore, I cannot promise you that 2012 will be the end of the hard times, but I dare say that we are nearing the beginning of the end of the hard times. Keep in mind that the dry cargo market may regain balance from 2013 and that the expected growth rate in demand in product tankers may also pull up rates in this segment. Thus, we are active in the 2 right segments – both have growth potential.



Today, newbuilding prices for e.g. Panamax dry cargo vessels and MR product tankers are nearing the same level as in 1999 adjusted for steel price and exchange rates. And it looks as though the yard industry is facing much needed consolidation as the yards are squeezed in terms of earnings.

In a cyclical business, the important thing is to invest when asset prices are low and there are prospects that basic demand is picking up. In NORDEN, we have acquired and contracted product tankers for USD 300 million within the last couple of years, whereas we have been more cautious in Dry Cargo, even though we have still taken 5 fuel efficient dry cargo vessels on long-term charter within the last year. But the way the world and our markets are expected to develop, we are drawing closer to the moment when it would be reasonable to take an acquisitive approach in Dry Cargo by buying, contracting or the like.

We have the resources for investing in both Tankers and Dry Cargo. Though NORDEN has invested greatly in fleet renewal on an ongoing basis, our financial resources remain substantial. At the turn of the year, we had cash and securities of more than USD 400 million. We had undrawn credit facilities of USD 150 million. We had attractive external funding of approximately USD 160 million for newbuildings, we have a considerable loan potential in the fleet, and operations are generating new liquidity on an ongoing basis.

The money is not burning a hole in our pocket, and NORDEN must still retain a significant buffer because we are in a capital intensive and cyclical industry and because we do not want to deposit our freedom of action in any bank. But we have the opportunity to act at the right time and place, and we are thoroughly analysing when will be the perfect time to act.

With these words, I hope that I have expressed that just as engaged as we are in handling the challenges of 2012 and getting through the year in the best possible manner, just as focused are we on NORDEN's long-term development: on realising the strategy and on positioning ourselves best possibly so that we can release NORDEN's potential to the benefit of shareholders and all stakeholders.

Thank you for listening.