Board of Directors’ report at TORM A/S’ Annual General Meeting on 3 April 2014

In connection with TORM A/S’ Annual General Meeting today, the Board of Directors’ report is hereby made public.

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About TORM
TORM is one of the world’s leading carriers of refined oil products as well as a player in the dry bulk market. The Company operates a fleet of approximately 100 modern vessels with a strong commitment to safety, environmental responsibility and customer service.

TORM was founded in 1889 and celebrated its 125 year anniversary earlier this year. The Company conducts business worldwide and is headquartered in Copenhagen, Denmark. TORM’s shares are listed on NASDAQ OMX Copenhagen (ticker: TORM). For further information, please visit www.torm.com.

Safe Harbor statements as to the future
Matters discussed in this release may constitute forward-looking statements. Forward-looking statements reflect our current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and statements other than statements of historical facts. The Company desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. The words “believe,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “plan,” “potential,” “may,” “should,” “expect,” “pending” and similar expressions identify forward-looking statements.

Forward-looking statements in this company announcement reflect our current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and statements other than statements of historical facts. The forward-looking statements in this release are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although the Company believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, the Company cannot guarantee that it will achieve or accomplish these expectations, beliefs or projections.

Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward- looking statements include the strength of the world economy and currencies, changes in charter hire rates and vessel values, changes in demand for “tonne miles” of oil carried by oil tankers, the effect of changes in OPEC’s petroleum production levels and worldwide oil consumption and storage, changes in demand that may affect attitudes of time charterers to scheduled and unscheduled dry-docking, changes in TORM’s operating expenses, including bunker prices, dry-docking and insurance costs, changes in the regulation of shipping operations, including requirements for double hull tankers or actions taken by regulatory authorities, potential liability from pending or future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents and political events or acts by terrorists.

Forward-looking statements are based on management’s current evaluation, and TORM is only under an obligation to update and change the listed expectations to the extent required by law.

BOARD OF DIRECTORS' REPORT BY THE CHAIRMAN OF THE BOARD FLEMMING IPSEN

125th anniversary

TORM was founded in 1889 by Captain Ditlev E. TORM and Christian Schmiegelow, and TORM's first vessel was ordered that same year. And so, on 14 January 2014 the Company celebrated its 125th anniversary.

Since the beginning, successions of crews have navigated the Company through changing times and the inherent cyclical nature of the industry. TORM achieved remarkable results which have made the Company what it is today - one of the world's leading product tanker companies with a strong operational platform.

In this report by the Board of Directors I will focus on TORM's results of operations in 2013, but I will also, naturally, report on the Company's financial position in accordance with the capital loss rules in section 119 of the Danish Companies Act as well as TORM's serious financial situation and our efforts to establish a new, long-term capital structure.

Operations in 2013

TORM reported a positive EBITDA of USD 96m for 2013, which is an improvement of USD 291m compared with 2012. The unsatisfactory loss before tax of USD 166m was in line with the revised forecast of 29 November 2013 and constituted an improvement of USD 413m compared with 2012. The profit before tax includes impairment charges of USD 60m related to vessel sales.

Let me take a little time to elaborate on the trends in the product tanker market in particular, but also in the bulk market, in order to put TORM's performance and situation into perspective.

Tanker Division

As you know, TORM's greatest exposure is to the product tanker market, and TORM's business model aims at maintaining a continued presence in the spot market – i.e. without long-term coverage – in order to be able to take advantage of the anticipated volatility and gradual market recovery. Short term, TORM will not seek higher coverage than the current levels, as the Company is of the opinion that there is an upside potential in the market.

In 2013, product tanker freight rates were strengthened in all segments compared with 2012, driven by a greater balance between fleet growth and growth in demand.

The global net product tanker fleet grew by 59 vessels, equaling a nominal growth rate of 2.4%. This was significantly below the historical 10-year average. Naturally, there were variations between vessel sizes, Handysize vessels seeing a net reduction of 1.6% due to scrappings while TORM's largest segment, MR, saw a net growth of 4.6%.

The demand for product tankers was driven by stronger global economic growth and longer transport distances as a result of the changing trade patterns for refined oil products. In terms of the demand effect adjusted for transport distances – the so-called ton-mile effect – this was approximately 5.6% in 2013. This was driven by a number of positive effects from areas such as the USA, Europe and Asia that benefited the product tanker market.

In the USA, shale oil discoveries spurred significant economic growth and major structural changes in the US energy sector, with the USA going from being a net importer to a net exporter of refined oil products. US exports of refined oil products were up 11% in 2013 compared with 2012. A portion of these exports was transported to West Africa, which has traditionally imported from European refineries, and this resulted in a greater ton-mile effect. Overall, US exports to West Africa rose by 63% during 2013, albeit from a relatively low level.

The European refinery sector has been under pressure from unattractive refinery margins, leading to a 5% decline in production in 2013, whereas the underlying demand from European consumers was down 1%. This combination contributed to an increase in European diesel imports of approximately 17% during 2013.

The Asia/Pacific region also saw considerable structural changes. For example, Australian imports of refined oil products rose by 17% in 2013 as a result of increasing consumer demand and closure of unprofitable refinery capacity.

These factors combined meant that freight rates in all of TORM's relevant product segments were between 5% and 30% higher in 2013 than in 2012. TORM's largest segment, MR, achieved average time charter equivalent earnings of USD/day 15,682, up by 30% compared with 2012. The comparatives for the other segments were +24% for LR2, +22% for LR1 and +5% for Handysize. TORM's organization also performed well relative to external benchmarks and peers.

During 2013, TORM focused on strengthening the fully integrated operational platform to ensure flexible commercial trading and subsequent higher contribution margin. TORM was well-positioned to take advantage of the more robust market and leveraged the Company's strong operational platform to outperform the commercial benchmarks. The positive effects of TORM's operational platform were also reflected in the 2013 customer satisfaction survey, which showed a high overall satisfaction score – well above pre-financial crisis levels.

During 2013, TORM entered into agreements to sell a total of nine MR product tankers to entities controlled by Oaktree Capital Management (Oaktree) as a result of specific option rights granted in connection with the Restructuring Agreement from 2012. According to the sale agreements, Oaktree will place these plus an additional three vessels under TORM's commercial management in a revenue sharing scheme and utilize TORM's integrated operating platform for technical management of the vessels. Under the agreement, TORM will retain an upside potential through a profit split mechanism if Oaktree generates a return above a specified threshold. The sales resulted in impairment charges of a total of USD 60m during 2013.

The Tanker Division generated a positive EBITDA for 2013 of USD 126m, against a negative EBITDA of USD 20m in 2012 adjusted for the effects of the restructuring, that is an improvement of USD 146m. Due to depreciation and impairment charges, EBIT for 2013 was a loss of USD 58m compared with an EBIT of USD -230m the previous year. Despite the improvement, this performance is unsatisfactory.

In 2013, the market conditions had a positive impact on both product tanker newbuilding prices and resale values. In TORM's largest segment, MR, the estimated value of a five-year-old second-hand vessel rose by 16% during 2013.

Bulk Division

The dry bulk market continued to operate with historically low freight rates in the first half of 2013. However, in the second half of 2013 the main bulk segments improved, mainly driven by increasing Chinese steel production and restocking of iron ore inventories as well as grain exports from the US Gulf and the Black Sea.

The freight rates in the Panamax segment fluctuated between USD/day 5,000 and 17,000 with an average market level of approximately USD/day 9,472, or some 23% above 2012 levels. However, the improvement should be considered in light of the fact that in 2012 bulk market freight rates were at the lowest level since 1986 according to the Baltic Dry Index.

As a result of TORM's wish to focus the available resources on the Company's size and operational platform in the product tanker segment, TORM took the decision in 2013 to limit its bulk activities to operating the existing core fleet of approximately ten vessels. Going forward, TORM will seek to employ its core fleet on time charter contracts.

TORM achieved average earnings of USD/day 8,019 in Panamax. In the Handymax segment, TORM achieved average earnings of USD/day 9,880.

The EBITDA for the Bulk Division for 2013 was a loss of USD 30m against a loss of USD 25m (excluding restructuring effects) in 2012. This is highly unsatisfactory and is primarily due to the low bulk spot market level.

Piracy

Unfortunately, international shipping is still faced with the challenge of piracy. TORM's response to piracy is founded in the Best Management Practice (BMP) developed by the International Chamber of Shipping, the International Shipping Federation and national navy forces. During 2013, TORM experienced one failed hijacking attempt. The Company will continue to monitor the risk situation and preempt hijacking by following Company security procedures, which currently means engaging armed guards on all vessels passing through High Risk Areas. During 2013, TORM did 302 voyages with armed guards.

The international campaign against piracy is paying off, as is evidenced by the decline in the number of attempted hijackings in the Gulf of Aden area, down from 75 in 2012 to 13 in 2013.

Financial statements

Next, I am going to go over the financial statements for 2013.

Income statement

TORM's revenue for 2013 was USD 992m compared to USD 1,121m in 2012. The weaker performance was primarily due to a 15% drop in the number of available earning days.

Earnings at the so-called TCE (time charter equivalent) level were USD 443m in 2013, against USD 466m in 2012. The mentioned decrease in available earning days corresponded to a reduction in TCE earnings of USD 74m, which was partially offset by higher freight rates, however. Accordingly, the total reduction in TCE earnings was USD 23m.

EBITDA, i.e. earnings before interest, depreciation, amortization and tax, was USD 96m, an improvement of USD 291m compared with the restructuring year 2012. The significant improvement was driven by three important factors: First, the financial results for 2013 were not impacted by the restructuring. Secondly, 2013 freight rates in the product tanker segments were between 5% and 30% above the 2012 levels – depending on the segment. Thirdly, TORM achieved positive results from its cost program, including the strong focus on fuel consumption.

Total administrative expenses amounted to USD 57m, which was a decrease of USD 10m or 16% compared to the USD 67m in 2012. This meant that, despite a significantly larger fleet and the inflationary pressure, TORM achieved the lowest administrative expenses since 2006.

TORM incurred a loss before tax of USD 166m in 2013 compared with a loss of USD 579m in 2012. This is in line with the revised forecast as of 29 November 2013. The results for 2013 include special items of USD 60m from recognized impairment charges on vessel sales and assets-held-for sale. Special items amounted to USD -326m in 2012, so this was a significant improvement.

TORM incurred a loss after tax of USD 162m, compared with a loss of USD 581m in 2012, resulting in negative earnings per share (EPS) of USD 0.2 in 2013, against negative EPS of USD 3.3 in 2012. As mentioned above, the net loss for 2013 is clearly unsatisfactory.

Balance sheet and cash flows

TORM's total assets decreased by USD 347m to USD 2,008m from USD 2,355m in 2012. The decrease was primarily due to impairment charges of USD 60m, vessel sales of USD 129m, depreciation of USD 127m and a change in working capital.

The Company's recorded equity decreased by USD 150m to USD 118m calculated according to a going concern assumption. The decrease in equity was mainly due to the loss for the year of USD 162m, which was reduced, however, by USD 12m due to fair value adjustment of hedging instruments. The equity at 31 December 2013 gave TORM an equity ratio of 6%.

TORM estimates the fleet's total long-term earning potential each quarter based on discounted future cash flow, in accordance with IFRS requirements. The estimated value of the fleet as of 31 December 2013 supports the carrying amount. It should be emphasized that, in case of a forced sale or bankruptcy proceedings, the recoverable amount of the fleet will be significantly lower – USD 555m at year end 2013 – than under the going concern assumption, as stated in the annual report. In a few minutes I will give an account of vessel sales in 2014 and the financial consequences of these.

The Group's net interest-bearing debt for 2013 was USD 1,718m, down 8% relative to 2012, when it stood at USD 1,868m. This change was mainly due to installments on the new working capital facility of USD 36m and repayment of vessel financing of USD 121m after vessel sales.

TORM’s operating activities in 2013 generated a net cash inflow of USD 66m after interest payments of USD 55m as compared to a net cash outflow of USD 100m in 2012. The improvement was due to higher freight rates and the effects of TORM's cost reductions, including the restructured time charter portfolio. Cash flow from investing activities amounted to USD 93m, compared with a net cash flow of USD 0m in 2012, affected by USD 135m from sales of vessels. Cash flow from financing activities was a net cash outflow of USD 160m in 2013, against a net cash inflow of USD 42m in 2012. The change was mainly due to installments on vessel financing in connection with vessel sales.

As can be seen in the 2013 annual report, it was provided with an unqualified auditors' report without emphasis of matter.

Share price development

The average daily trading volumes in 2013 were approximately 1.1m on NASDAQ OMX, against 0.1m shares in 2012. The share price declined from DKK 1.75 per share at the beginning of 2013 to DKK 1.35 per share at the end of 2013.

At the Annual General Meeting held on 11 April 2013, TORM's shareholders authorized the Board of Directors to terminate the Company's American Depository Receipt (“ADR”) program due to its limited size and the costs involved with a listing on NASDAQ and the reporting and filing obligations under the U.S. Securities Exchange Act. The delisting from NASDAQ Capital Market took effect in July 2013 and the Company's reporting obligations under the Securities Exchange Act were suspended in January 2014.

Dividend

The Board of Directors proposes that no dividend be distributed for the financial year 2013.

Market developments in 2014

In the product tanker segment the first quarter of 2014 remains at the same level as the fourth quarter of 2013. Going forward, TORM expects increasing oil consumption and increased ton-mile effects from relocation of refinery capacity to increase demand. The supply side is still affected by the tonnage influx in 2008-2012, while 2013 saw a limited fleet growth of 2%. Although the current order book is affected by a number of newbuilding orders in 2013, scrapping of existing tonnage and possible postponement of newbuildings will reduce the increase in supply. Overall, TORM expects the coming years' fleet growth to be exceeded by an increase in the demand for refined oil product transport, and this will have a favorable effect on freight rates. Freight rates are expected to be volatile in the coming years, but with a gradually upward curve.

In the bulk segment, the first quarter of 2014 actually began on a stronger note than the first quarter of 2013, although it was below the level seen in the fourth quarter of 2013. TORM remains cautious about the prospects for the dry bulk market in 2014 due to the high level of newbuilding deliveries in the past year.

TORM's outlook for 2014

TORM expects a positive EBITDA of USD 70-110m and a loss before tax of USD 230-280m for 2014. This includes an impairment loss in the order of USD 150-200m from the sale of 13 vessels, see company announcement no. 4 of 7 March 2014. The outlook is excluding any further vessel sales and impairment losses. TORM expects a positive cash flow from operating activities after interest payments. Uncertainties and sensitivities with respect to freight rates and vessel prices may affect the Company's compliance with the financial covenants. As 21,238 earning days for 2014 were uncovered at year-end 2013, a change in freight rates of USD/day 1,000 impacts profit before tax by USD 21m.

One TORM

Since the beginning of 2013, TORM has pursued a strategic platform, One TORM, chartering the course for TORM as a leading global player in the product tanker segment focusing on the spot market. TORM has launched a number of initiatives to support the Company's strong integrated commercial and technical platform. The objective is to optimize gross profit by striking a balance between earnings, costs and quality, thus ensuring the greatest value creation possible for all stakeholders.

After the implementation of One TORM, the performance of the Company's organization has improved with, among other things, closer customer relations, ongoing quality improvement, the highest safety, environment and CSR standards combined with cost-efficient operations.

The overall objective is to operationally position TORM as the most well-operated company. One TORM also serves as a performance tool through which the Company regularly follows up on progress on a number of key performance indicators (KPIs). These KPIs are cascaded in the organization and have enabled the employees to deliver positive results on for instance:

- Product tanker rates, which are highly competitive compared with available benchmarks and peers
- Record high oil major approval rate (also called tradability) with OPEX/day below peer average
- A record high level of customer satisfaction – actually at an unprecedented level
- High safety standards, with no work-related fatalities in this millennium
- Cost-efficient operations, as the Company's cost program delivered savings of USD 37m in 2013, including USD 17m from fuel savings initiatives. TORM is well on the way to delivering on the cost program with USD 100m in accumulated savings between 2012 and 2014
- The lowest administrative expenses since 2006 despite a larger fleet and the underlying inflation pressure

TORM has now created a financial and operational platform for the coming years which will support TORM’s long-term foundations.

Mandatory report on capital loss pursuant to section 119 of the Danish Companies Act

This concludes the part of the Board of Directors' report focusing on 2013. There have been a number of so-called "subsequent events" in 2014, on which the Board of Directors would like to elaborate.

Amendment of repayment schedule for TORM's debt

On 28 February 2014, TORM and the Company's lenders signed an agreement to amend the existing loan agreement and postpone the minimum amortizations for 2014 for six months. For the financial year 2014 this means that the planned installments of USD 32m in September 2014 and USD 12m in December 2014 have been pushed to 2015. The amendments also include an easing of the terms of the loan agreement to the effect that the required cash resources are reduced from USD 30m to USD 20m during the period 30 September 2014 to 30 March 2015. TORM's USD 100m Working Capital Facility still matures on 30 September 2014.

Sale of 13 vessels to Oaktree

As part of the Restructuring Agreement, three bank facilities were given certain specific option rights until 31 July 2014 that could trigger a sales process for up to 22 vessels and repayment of the debt secured by mortgages thereon.

Of the original three bank facilities with option rights, the third and final option holder, Danish Ship Finance, announced on 7 March 2014 that it wished to exercise its option rights, leading to a sale of ten MR and three LR2 product tankers financed by this facility.

Consequently, TORM has concluded an agreement with certain conditions to sell the 13 product tankers to entities controlled by Oaktree Capital Management (Oaktree). According to the agreement, Oaktree will place the 13 vessels under TORM's commercial control and utilize TORM's integrated operating platform for technical management.

TORM has taken note of Danish Ship Finance's wish to exercise its sales option before it expires in July and thereby trigger a sales process. In this light, the Board of Directors is very pleased that TORM's strong operational performance is recognized by a strategic investor in the product tanker market, which enables us to maintain all 13 vessels under TORM's commercial control and technical management and continue to benefit from a number of economies of scale.

After the sale, TORM's fleet of owned vessels will comprise 43 product tankers and two bulk carriers.

Financial effects of the vessel sale

With the exercised option rights and the sales agreement, TORM revises the 2014 EBITDA guidance to USD 70-110m. Upon completion of the transaction, the vessel financing secured by mortgage will be fully repaid, reducing the Company's debt by USD 223m to approximately USD 1.5bn.

TORM's liquidity position is expected to remain largely unaffected, currently at USD 110m consisting of USD 22m in cash and USD 88m in undrawn credit facilities.

The sales agreement is expected to lead to an impairment charge of USD 150-200m, which will be recognized in the income statement in the first quarter of 2014. Therefore, TORM revises the forecasted loss before tax for 2014 to USD 230-280m.

As at 31 December 2013, TORM's equity amounted to USD 118m, which means that the expected impairment charge will result in negative equity in the first quarter of 2014.

When a company recognizes a capital loss, it is the Board of Directors' task to pressure test whether the justification for the company's operations as a going concern is sufficiently solid, while the possibilities for a recapitalization is investigated and implemented. TORM's Board of Directors assesses that it is completely justifiable to continue TORM's operations in an intermediate period despite the financial effects of the vessel sales. The Restructuring Agreement from 2012 provided a financial safety net, which TORM continues to benefit from. With the current liquidity of more than USD 100m and positive operating cash flows, TORM has the financial maneuverability and the support from the lenders to continue the efforts to secure a long-term capital structure. This will also apply after the planned repayment of the drawn part of the Working Capital Facility of USD 100m as it falls due in September 2014.

Future work on long-term capital structure

As previously mentioned, TORM has initiated a process to address the Company's long-term capital structure and has engaged a financial advisor. This structured process has now reached a stage among others involving a number of external stakeholders to further explore the possibilities for a strategic transaction or a capital market transaction during 2014. The Company and its lenders are in dialogue with interested parties on various types of transaction structures.

The Board of Directors is confident that the Company's organization, brand and customer portfolio hold great value. TORM has a unique operational platform in the market and the Company is therefore well-positioned to benefit from the expected recovery in the tanker segment.

In conclusion, I wish to emphasize that it is the firm assessment of the Board of Directors that the conditions for the continued operations are present for a period, while the possibilities for a recapitalization is investigated and implemented. The assessment is supported by the current capital structure process and the Company's positive liquidity.

With these words, I will conclude the Board's report on the Company's financial position. Of course, TORM will provide further information if and when major progress, which is in accordance with the capital loss rules in section 119 of the Danish Companies Act.

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The Board of Directors wishes to express a special word of appreciation for TORM's entire organization for its extraordinary efforts during a difficult period of the Company's 125-year history. TORM would like to thank all stakeholders for their continued support.