Board of Directors’ report at TORM A/S’ Extraordinary General Meeting on 16 September 2014

In connection with TORM A/S’ Extraordinary 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 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 TORM 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, TORM cannot guarantee that it will achieve or accomplish these expectations, beliefs or projections.

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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 Flemming Ipsen

Ladies and gentlemen, dear TORM shareholders

On behalf of the Board of Directors and the Executive Management, I am pleased to welcome you all to this Extraordinary General Meeting of TORM. I also want to take the opportunity to thank our shareholders for your attendance and for your support of the Company in the recent period.

In connection with the report by the Board of Directors at the Annual General Meeting held on 3 April 2014, I reported on behalf of the Board of Directors on the Company's financial position in accordance with the capital loss rules in section 119 of the Danish Companies Act. The report was also released as company announcement no. 6 of the same date. Now, six months later, we have called this Extraordinary General Meeting because it is important to the Board of Directors to maintain an open, transparent dialogue with the Company's shareholders and other stakeholders. The Board of Directors will today report on the ongoing efforts to establish a long-term capital structure as well as on the Company's current financial position, although the final recapitalization cannot yet be presented.

Negative equity and report in accordance with the capital loss rules in section 119 of the Danish Companies Act at the Annual General Meeting

At the Annual General Meeting in April 2014, TORM's Board of Directors informed the shareholders that at the end of the first quarter of 2014 the Company had suffered a capital loss. The specific event that triggered the negative equity was a USD 192m impairment charge related to vessel sales as an indirect consequence of the Restructuring Agreement from November 2012.

According to section 119 of the Danish Companies Act, when a company recognizes a capital loss, it is the Board of Directors' responsibility to report the capital loss to the Company's shareholders and to pressure test whether the foundation for the Company's operation as a going concern is sufficiently solid to continue operations while the possibilities of a recapitalization are explored and implemented.

At the time of the Annual General Meeting, TORM's Board of Directors assessed that it was completely justifiable to continue TORM's operations in the intermediate period. The argument for this was that the Restructuring Agreement from 2012 provided a financial safety net, which TORM continues to benefit from. With the available liquidity and positive operating cash flows, the Board assessed that TORM had the financial maneuverability and the support from its lenders required to continue the efforts to secure a long-term capital structure. At the Annual General Meeting, the Board of Directors also outlined the status of the ongoing process involving advisers and a number of external stakeholders.

I want to make it clear that the Board of Directors assesses that it is still in the best interest of all stakeholders to continue the Company's operations while we work to secure a recapitalization. I will now explain the grounds for this assessment, including the most significant events since the last meeting.

Significant events since the Annual General Meeting

Financial performance for the first half of 2014

Since the Annual General Meeting, TORM has announced both first and second quarter financial results. In the product tanker market, freight rates have generally been weaker than expected in the first half of 2014 due to limited arbitrage and a change in the transport pattern and distance for US oil exports.

A brief look at the most important financial ratios shows that TORM realized a positive EBITDA (earnings before interest, tax, depreciation and amortization) of USD 34m for the first half of 2014. TORM recognized extraordinary impairment charges on the fleet of USD 192m and depreciation and amortization of USD 51m in the same period, resulting in a negative EBIT of USD -210m. TORM posted a loss before tax – which is after impairments, depreciation and financial items – of USD 246m for the first two quarters of 2014.

Turning our attention to the Company's balance sheet items, the Group's net interest-bearing debt since the beginning of the year has been reduced by USD 348m to USD 1,367m, mainly due to the repayment of debt in connection with vessel sales of USD 343m.

The Company's equity at 30 June 2014 was negative at USD 125m.

The book value of the fleet was just over USD 1.2bn at 30 June 2014. Based on broker valuations, TORM's fleet had a market value of USD 931m at 30 June 2014. In accordance with the International Financial Reporting Standards (IFRS), TORM estimates the product tanker fleet’s total long-term earning potential each quarter based on discounted future cash flow. The estimated value of the fleet as of 30 June 2014 supports the carrying amount.

TORM's cash flow from operating activities after interest payments of USD 23m was USD 24m for the first half of 2014. It is encouraging to note that the Company generated a net cash inflow from operating activities, even after full interest payments to the banks and despite the weaker-than-expected freight rates.

Cash flow from investing activities for the same period was a net inflow of USD 332m, driven by vessel sales.

TORM's cash flow from financing activities was a net outflow of USD 343m. The change was mainly due to instalments on vessel financing in connection with vessel sales.

Significant structural changes to lender group
At the beginning of 2014, TORM's vessel financing amounted to USD 1.7bn, provided by 12 banks. During the period March to May 2014, a number of banks decided to sell their receivables, representing 39% of the total financing, in the international debt market. As a result of these transactions, TORM has some 40 new lenders.
TORM's Management has made a great and time-consuming effort to introduce the new lenders to the Company's operating platform and business plans and inform them of the status of the efforts to establish the Company's capital structure.

Continued support from lenders
The lenders have taken active part in the recapitalization process and on several occasions through their actions have manifested their support of TORM. An example illustrating this support was the waiver of the financial covenant regarding minimum interest cover when this was to be tested at 30 June 2014.

Most recently, in company announcement no. 13 dated 29 August 2014, TORM was able to announce that all lenders – that is roughly 40 lenders – supported the agreement to extend the existing Super Senior Working Capital Facility by six months until 31 March 2015 to facilitate the completion of the recapitalization process. Given the current limited draw, the extended facility will be reduced from USD 100m to USD 50m at TORM's request. The extension is effective from 30 September 2014 and is subject to continued progress in the recapitalization process.

The Board of Directors considers this a strong sign of support of TORM and the efforts to recapitalize the Company. The aim is to reach a long-term solution to the capital structure within the timeframe of the extension of the working capital facility.

Status of the work to secure a long-term capital structure
TORM and its advisers have gone through a long process in close dialogue with a number of external stakeholders to recapitalize the Company.

In January 2014, TORM began a structured process involving a number of external stakeholders in order to further explore the possibilities of a strategic transaction (see company announcement no. 2 dated 20 January 2014). In connection with this process, TORM used significant resources in investigating various types of constructions and transactions that might safeguard the interests of the parties.

However, the mentioned change in the composition of the investor group in March and April meant a break of the structured process, which has subsequently led to a new process involving the new lenders. For this purpose, the lenders have elected to establish a so-called "co-ordination committee" to facilitate the recapitalization discussions.

Despite our progress, we are not yet ready to present a concrete proposal for a long-term solution to the Company's financial situation. It is clear, however, that every scenario and construction is likely to involve some form of debt reduction to ensure a sustainable balance between TORM's debt and its assets. A likely construction may involve a write-off of debt, possibly combined with a conversion of some of the debt to equity. It is therefore to be expected that the existing shareholders will be diluted.

The status of the process towards a long-term capital structure is that a constructive dialogue is in progress with creditors and investors.

Continued operation as a going concern is in the best interest of all stakeholders
When a company recognizes a capital loss, it is the Board of Directors' responsibility to pressure test whether the foundation for the Company's operation as a going concern is sufficiently solid to continue operations while the possibilities of a recapitalization are explored and implemented.

In its section 119 report at the Annual General Meeting on 3 April 2014, the Board of Directors assessed that it was completely justifiable to continue TORM's operations in the intermediate period. Since that meeting, this assessment has been confirmed by i) the Company's liquidity, ii) TORM's operating platform and iii) the lenders' support.

i) TORM's liquidity position
It is the assessment of the Board of Directors that TORM's available liquidity subject to the existing assumptions ensures that TORM has the required financial maneuverability until at least 31 March 2015. It should be noted that, despite the challenging market conditions in the first half of 2014, TORM generated a net cash inflow from operations of USD 24m after full interest payments of USD 23m.

At 30 June 2014, TORM had cash and cash equivalents in the amount of USD 43m, of which USD 10m was drawn on the existing working capital facility.

Under the mentioned extension of the working capital, TORM will have drawing rights of USD 50m until 31 March 2015.

ii) One TORM – the operating platform

The Board of Directors continuously evaluates TORM's operating results and compare these to the market and peer companies. In 2014, TORM has produced very competitive results, including positive cash flows in a challenging market. The interest shown by the external investors who have been part of the Company's process is a clear indication that the operating platform is sound. This is something that the organization can be proud of!

The Board of Directors is confident that the Company's organization, brand and customer portfolio hold value. TORM has a unique operating platform in the market.

iii) Support from lenders
A key prerequisite for the Company's continued operation is the support of lenders to continue the efforts to secure a long-term capital structure. The Board of Directors is very pleased with and grateful for our constructive collaboration with the lenders' co-ordination committee and the tangible support in the form of the extension of our working capital facility.

So the Board of Directors remains confident that there is a basis for continuing operation as a going concern while our recapitalization negotiations are completed and implemented. It is the Board of Directors' opinion that the Company's situation must be finally resolved before the extended working capital facility expires on 31 March 2015.

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Naturally, TORM will provide further information as and when significant progress is made in the process of securing a future-proof capital base.

TORM is still going through what is probably one of the most difficult periods in the Company's 125-year history. The Board of Directors wishes to express a special word of appreciation for TORM's entire organization for its extraordinary efforts. TORM would also like to thank all stakeholders for their continued support.

Thank you for attending.