Board of Directors' report at TORM A/S' Annual General Meeting on 26 March 2015

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 80 modern vessels with a strong commitment to safety, environmental responsibility and customer service.

TORM was founded in 1889. 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

Ladies and gentlemen, dear TORM shareholders

On behalf of the Company, I would like to begin by acknowledging the support and encouragements that have come TORM's way - it means a lot to the entire organization.

The Board of Directors and Management are committed to maintaining an open, transparent dialogue with the Company's shareholders and other stakeholders. Last April at the Annual General Meeting, the Board of Directors gave the mandatory report on TORM's negative equity position in accordance with the capital loss rules in section 119 of the Danish Companies Act. In September 2014, or six months ago, TORM convened an Extraordinary General Meeting to provide an update on the Company's financial position. At both meetings, the Board of Directors has assessed that the conditions for the continued operations were present for a period, while the possibilities for a recapitalization are investigated and implemented.

Today, the Board of Directors will first report on financial results for 2014 and the Company's financial position. Secondly, the Board will give a comprehensive update on the ongoing restructuring efforts to establish a long-term capital structure where TORM has completed negotiations with a group of its lenders and Oaktree Capital Management (Oaktree) to secure the required lender support to implement a comprehensive restructuring. Thirdly, the Board of Directors will explain the motivation behind the rather far-reaching proposals on the agenda today.

1. <u>TORM's financial results for 2014 and the Company's financial position</u>

125th anniversary

TORM is going through what is probably one of the most difficult periods in the Company's history. Nevertheless, 2014 was also an occasion to commemorate 125 years of TORM history. Such a long history is both a source of motivation and a great asset for TORM in the daily business. It has been a privilege to mark the anniversary at different customer events throughout 2014. Furthermore, TORM paid tribute to the Company's approx. 3,000 employees worldwide – at sea and ashore – as well as the many customers, investors, authorities and many others who have influenced the development of TORM through the years.

Let us turn to the more recent history - 2014. TORM has this morning published an updated Annual Report for 2014 that reflects the recent events including today's announcement on forbearance. The updates will be reviewed during agenda item 2. There are no changes to the financial results.

Operations in 2014

TORM realized a positive EBITDA of USD 77m and a loss before tax of USD 283m in 2014. The performance is in line with the revised forecasts of 6 November 2014. TORM's product tanker fleet realized average spot TCE earnings of USD/day 15,858 or up 7% year-on-year driven by a strong market towards the end of the year. When TORM then reports a decline in EBITDA of USD 19m, it is mainly because the Company had approximately 12,000 fewer earning days.

The unsatisfactory loss before tax of USD 283m (2013: USD -166m) included impairment charges of USD 192m related to vessel sales (USD 60m). This result was also in line with the latest guidance from 6 November 2014.

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

Tanker segment

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 volatility and the anticipated 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 still an upside potential in the market.

In the first part of 2014, the product tanker freight rates were under pressure especially from low European demand, limited arbitrage trades and lower ton-mile on US exports. As a result, the freight rates were lower than in the same period of 2013.

The second part of the year saw a significant increase in freight rates in the LR segment, which spilled over into the other segments leading to the highest freight rates experienced since 2008. The main drivers were open arbitrage trades, new refinery capacity in the Middle East and lower oil prices.

In 2014, the global product tanker fleet grew by 3.8% in terms of capacity and 3.4% in terms of number of vessels. This was the highest growth since 2011, but the figure covers considerable differences in the individual segments. The growth was ranging from 0.2% for the LR1 segment to 5.8% for MR vessels, and while all other segments have seen an increasing growth trend in recent years, the LR1 segment stands out as growth has stagnated.

Global oil demand growth in 2014 fell short of expectations due to lower-than-expected economic growth in the Eurozone, China and most of the emerging economies. Yet, global macroeconomic momentum is set to gather strength in 2015. The demand for tonnage adjusted for transport distances – the so-called ton-mile effect – increased by an estimated 5% in 2014, driven by increased naphtha arbitrage from West to East in especially the second half of the year, increased product exports from Europe in especially the fourth quarter amid improved refinery margins. This led to higher gasoline flows from Europe and increased Latin American imports towards the end of the year due to unplanned refinery outages. In addition, the ramp-up of new refinery capacity in the Middle East had a positive effect on the market, benefitting mainly LRs in the second half of 2014.

Whereas much of the oil demand weakness in 2014 was due to lower demand for gasoil/diesel in the non-OECD countries, this type of demand is anticipated to become the largest contributor to accelerating oil demand in 2015 with a product switch in the bunker fuel market from heavier fuel oil to marine gasoil as one of the key contributors. Nevertheless, there is an upside to the oil demand growth, if the low crude oil prices continue. The non-OECD areas, especially China and the Middle East, followed by Africa and Latin America, are expected to drive growth in global oil demand. The demand in the OECD economies as a group is expected to continue to slide despite stronger-than-expected demand from the US in 2014.

After a surge in product tanker rates at the end of 2014 to a 6-year high, rates have remained at very healthy levels in the first months of 2015, underpinned by record cold weather in the US East Coast which - combined with weather-related disruptions and the biggest refinery strike in 35 years - has led to an increase in gasoil imports from Europe. In addition, the market has been positively affected by the fact that several refineries in Latin America have continued to be affected by outages, increased import demand in West Africa, refinery outages on the US West Coast as well as increased export cargoes from the new refineries in the Middle East.

I will now pinpoint some of TORM's actions in the product tanker segment during 2014.

TORM relocated its office from Stamford to Houston in order to be closer to the customers, as Houston, Texas, is increasingly becoming a hub for shipping customers in the US.

During the year, TORM focused on optimizing processes and simplifying the One TORM platform. Furthermore, TORM and Maersk Tankers dissolved the LR2 Pool cooperation which has enabled TORM to take full strategic and commercial control of the Company's LR2 vessels. This is a further step towards simplifying the set-up of the One TORM platform. TORM can now cross-sell all vessel segments and offer customers a full range of services from the four product tanker segments.

The gross profit for the Tanker Division was USD 123m, which was a decline of USD 49m year-on-year. This is primarily caused by 22% fewer earning days and higher OPEX, and only partly offset by higher freight rates.

In the volatile market, TORM's Tanker Division outperformed commercial spot benchmarks by 47% for MRs and 17% for LR1s, whereas TORM's LR2 spot rates were 8% below spot benchmarks.

At year-end, TORM operated a total of 72 product tankers, of which 43 are owned, seven are chartered-in and 22 are under commercial management. There were no newbuildings on order.

Bulk segment

The dry bulk market was at historically low levels during 2014. The average spot freight rates in the Panamax segment were approx. 67% below the 10-year historical average. A declining spot market during the first half of the year led the period market to gradually erode and the second-hand asset market to decline.

In line with the general market expectations, the global bulk fleet grew by approx. 4.4% in 2014 net after scrapping. Trade volumes increased by approx. 4.2%, which was less than market expectations and partly explained by slowing demand for coal from China.

Since the summer of 2013, TORM has gradually scaled down the Company's bulk activities due to a cautious view on the dry bulk market in the short to medium term. Instead, TORM wants to focus all available resources on its scale and operational platform in the product tanker segment.

Therefore, the Company has minimized market risk by redelivering vessels and maintaining a high coverage for 2015, primarily from period activity. As of 31 December 2014, TORM's bulk fleet counted two owned vessels and five time charter vessels with expiry over the coming years.

The gross profit for the Company's bulk activities was USD 0m despite freight and charter rates at historically low levels compared to a loss of USD 22 in the same period last year. In the Panamax segment, TORM achieved average earnings of USD/day 10,477, which was 31% higher than in the same period last year and 36% above the average spot market. Again, the improvement is a result of the Company's high coverage policy.

Financial statements

Next, I am going to review the financial statements for 2014.

Income statement

TORM's revenue for 2014 was USD 624m compared to USD 992m in 2013. The lower revenue is explained by a reduction of USD 190m from the scale down of bulk activities and USD 178m from fewer earning days in the tanker segment.

Earnings at the so-called TCE (time charter equivalent) level were USD 326m in 2014, against USD 443m in 2013. The decrease in TCE earnings was primarily attributable to a decrease of 35% in the number of available earning days, corresponding to a reduction in earnings of USD 141m, which was partly offset by higher freight rates.

Total administrative expenses amounted to USD 51m in 2014, which was a decrease of USD 6m or 10% (2013: USD 57m). This was mainly driven by a reduction in staff-related expenses and audit, consultancy costs and the appreciation of USD. TORM now has very competitive administrative cost compared to the relevant peer group.

EBITDA, i.e. earnings before interest, depreciation, amortization and tax, was USD 77m, which is in line with the latest guidance of an EBITDA of USD 70-80m of 6 November 2014.

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 in March 2014.

The operating loss increased by USD 120m to a loss of USD 211m in 2014 (2013: USD 91m). This increase was primarily due to a decrease in gross profit (net earnings from shipping activities) of USD 27m and an increase of USD 132m in impairment losses on vessels. This was partly offset by decreases in administrative expenses of USD 6m and amortizations and depreciations on tangible and intangible assets of USD 31m.

The loss before tax for 2014 was USD 283m, which is also in line with the latest guidance of a loss before tax of USD 280-290m. The results for 2014 include special items of USD 192m from recognized impairment charges on vessel sales.

TORM incurred negative earnings per share (EPS) of USD 0.4 in 2014, against negative EPS of USD 0.2 in 2013. As mentioned above, the net loss for 2014 is clearly unsatisfactory.

Balance sheet and cash flows

TORM's total assets decreased by USD 624m in 2014 to USD 1,384m compared to USD 2,008m in 2013. The carrying amount of vessels including vessels held-for-sale and capitalized dry-docking amounted to USD 1,215m compared to USD 1,812m in 2013. The decrease was primarily attributable to sale of vessels of USD 385m, impairment losses of USD 192m and depreciation of USD 96m.

The Company's recorded equity decreased by USD 282m to USD -164m calculated according to a going concern assumption. The decrease was mainly relating to the loss for the year of USD 284m. The impact of the loss for the year was partly offset by a reversal of a hedging reserve of USD 5m. The equity at 31 December 2014 gave TORM an equity ratio of -12%.

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 2014 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 356m at year-end 2014 – than under the going concern assumption, as stated in the annual report.

The Group's net interest-bearing debt for 2014 was USD 1,394m, down 19% relative to 2013, when it stood at USD 1,718m. This change was primarily attributable to repayment of bank loans in connection with the sale and delivery of 17 vessels of USD 329m. This was partly offset by additional net drawdowns of USD 8m on the Working Capital Facility.

TORM's operating activities in 2014 generated a net cash inflow of USD 27m after interest payments of USD 35m and payment of USD 12m to advisors related to the ongoing restructuring efforts. Last year, the operational cash flow was positive with USD 68m. Cash flow from investing activities amounted to USD 313m, compared to USD 93m in 2013, and was affected by USD 355m from sales of vessels. Cash flow from financing activities was a net cash outflow of USD 324m in 2014, against USD 161m in 2013. The change was mainly due to repayment of vessel financing in connection with vessel sales.

Independent Auditor's report

As can be seen in the correction leaf to the 2014 annual report, it was provided with an unqualified auditor's report with regard to the consolidated financial statements and parent financial statements. It does, however, contain an emphasis of matter regarding the proposed financial restructuring. We will go more into detail on this during agenda item 2.

Share price development

The average daily trading volumes of TORM shares were in 2014 approx. 1.1m on NASDAQ OMX. The share price declined from DKK 1.35 per share at the beginning of 2014 to DKK 0.31 per share at the end of 2014. As of yesterday at closing, the share traded at DKK 0.48/share.

Dividend

The Board of Directors proposes that no dividend be distributed for the financial year 2014.

TORM's outlook for 2015

The financial results for 2015 are subject to considerable uncertainty related to the completion of the Restructuring Agreement. Consequently, TORM has decided not to provide earnings guidance for 2015.

As 16,669 earning days are uncovered at year-end 2014, a change in freight rates of USD/day 1,000 would impact the financial results by USD 17m.

As of 31 December 2014, the Tanker Division had covered 4% of the total earning days in 2015 at an average rate of USD/day 23,140.

As of 31 December 2014, the bulk activities had covered 64% of the total earning days in 2015 at an average rate of USD/day 8,454.

During 2015-2017, the product tanker fleet capacity is estimated to grow by a compound annual rate of approx. 6%. However, taking expected vessel migration between dirty and clean segments into account, the total product tanker supply available for transportation of clean products is estimated to increase by an annual rate of approx. 5% during the same period.

The product tanker ton-mile demand is estimated to grow by a compound annual rate of around 6% during 2015-2017, exceeding growth in tonnage supply and subsequently contributing to a positive development in the product tanker fleet utilization during that period.

2. TORM's ongoing restructuring efforts

I will now provide an update on the ongoing restructuring efforts.

TORM's operational platform is performing well, but the Company is hampered by an overleveraged capital structure and negative equity. As of year-end 2014, TORM's debt amounted to USD 1,427m, whereas TORM's fleet had a market value of USD 859m based on broker valuations. In essence, this gap of USD 568m is the core of TORM's financial issues.

As the Board of Directors reported at the Extraordinary General Meeting on 16 September 2014, TORM has had the financial flexibility and the necessary support from its lenders required to continue the efforts to secure a long-term capital structure.

With reference to company announcement no. 16 of 27 October 2014, TORM has previously entered into a Restructuring Agreement with a group of its Lenders representing approximately 61% of its ship financing and Oaktree regarding a possible restructuring of TORM's debt. This agreement expires according to its terms on 31 March 2015. The parties have reached an agreement that will secure the lender support to implement a restructuring. The terms are set out in the New Restructuring Agreement.

On 31 March 2015, TORM is scheduled to commence amortizations on its existing loan facilities, which could lead to an event of default under TORM's financing arrangements.

In order to avoid any doubt about TORM's financial position whilst the complex restructuring process are concluded, TORM has obtained forbearance from a sufficient number of its lenders on potential events of default until the earlier to occur of the finalization of a New Restructuring Agreement and 23 April 2015. This will allow a limited amount of further time to obtain signatures to the New Restructuring Agreement.

Once this New Restructuring Agreement is finalized, TORM will seek the support of all of its lenders in order to complete the restructuring as quickly as possible. The Board of Directors is confident that TORM will reach the minimum required lender support (75% by value and 50% by number) to be able to implement the proposed agreement.

There are three distinct key steps stipulated in the New Restructuring Agreement:

Firstly, the lenders are required to write down the debt to the current asset values. As indicated above, this corresponds to a write-down of more than USD 0.5bn and will give TORM a loan to value of ~100%. The lenders will receive warrants representing 7.5% of the share capital of TORM in exchange for the debt write-down.

Secondly, the lenders may elect to convert part of the remaining debt into new equity in the Company. This step is voluntary and each lender may decide in its own discretion whether to convert further debt into equity. Broadly speaking, TORM's ship financing is owned by either traditional banks or funds. The working hypothesis is that the banks will equitize ~5% of their debt, whereas the Funds will choose to equitize ~100% of their debt. In aggregate, it is expected that the lenders will elect to equitize ~35% of the outstanding debt.

Thirdly, Oaktree will contribute 31 product tanker vessels. There composition is 22 MR and three LR2 vessels on water and six MR newbuildings with delivery in 2015-2016. The vessels carry limited debt leverage. Oaktree will in exchange for the vessel contributions obtain a controlling equity stake in the combined Company.

Following the restructuring, TORM will have a fleet valued at USD ~1.6bn and an equity ratio of USD ~50%.

The agreement also contains a new Working Capital Facility of USD 75m as a replacement of the current facility.

As a consequence of the proposed restructuring and the contemplated dilution through issuance of new shares in connection with steps 1 and 2 above, it is anticipated that the current non-lender shareholders will retain approx. 2% of the primary equity pre-merger with the Oaktree fleet (after step 2). This is equivalent to approx. 0.8% of the pro-forma diluted equity following Oaktree's asset contribution (after step 3) on the basis of the current assumptions regarding the debt for equity swap.

The proposed transaction will strengthen TORM's position as one of the largest product tanker companies in terms of vessels under ownership and management with a pipeline of newbuildings in the near term.

The Board of Directors has explored an extensive series of options over the last 18 months and believes that the proposed restructuring is the only viable solution for TORM. Post-restructuring, TORM will remain a going concern and operate as a listed company to the benefit of shareholders. In the event that authorizations on today's Annual General Meeting are not approved by the requisite number of shareholders, the alternative would likely be an insolvency process occurring in either Denmark or another jurisdiction or a transfer of assets and liabilities to another entity as described in more detail below.

This leads us to the proposals for this Annual General Meeting.

3. <u>Proposals at the Annual General Meeting</u>

To implement the Restructuring Agreement, the Board of Directors must obtain the authorizations to a capital increase through the three distinct steps mentioned above. The proposed authorizations in items 6.c - 6.n are linked to the contemplated implementation steps and are designed to accommodate the outcome of the final negotiations with the relevant parties involved.

It is important for the present Board of Directors to state that the authorizations are intended for implementing the Restructuring Agreement as sketched out above. The use of such authorizations will only occur with due consideration of the Board of Directors' fiduciary duties, i.e. its continued duties to safeguard the interests of all stakeholders. The Company has engaged an independent audit firm, PWC, to provide a fairness opinion on the capital increase associated with the Restructuring Agreement. This work is finalized. PWC concludes that the terms of the proposed restructuring as a whole are fair and reasonable for the shareholders of TORM.

Proposal 6.a is motivated by the Danish Recommendations on Corporate Governance and sets to keep the remuneration to the Board of Directors unchanged from what was approved by the shareholders last year.

Proposal 6.b is of a more technical character, as the Danish Minister for Business and Growth is considering the repeal of the possibility of issuing new bearer shares. The legislative change will potentially enter into force in 2015. Therefore, the Board of Directors has pre-emptively proposed to change from bearer shares to registered shares to enable future capital increases.

Proposal 6.m is of a special nature, as it is an authorization to complete a possible transaction involving a transfer on fair market terms of all or part of the Company's assets and liabilities to another entity in consideration for equity, cash or such other fair consideration as may be agreed upon in connection with the implementation of a restructuring of the Company and its activities. This is not the preferred route for the Board of Directors, but serves as a contingency plan, in the event that the authorizations regarding capital increase are not approved. In these circumstances, it is expected that TORM's equity stake in the other entity will result in an indirect dilution of TORM's existing shareholders with a more significant negative impact than if the restructuring was carried out at the level of TORM A/S.

The Board of Directors recommends to the shareholders in the general meeting that they adopt the proposed authorizations to the Board of Directors set out in proposals 6.c to 6.n.

That was the review of the proposals for this Annual General Meeting. I also wish to mention that the Company has been in a constructive dialogue with a shareholder, Mr. Kjeld Beyer, about how TORM best can serve the information requirements of its shareholders. Spurred by these conversations, the Board of Directors has decided to complement the notice for the 2016 Annual General Meeting with a table containing the five-year key financial figures and information regarding share compensation.

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On behalf of the Board of Directors, I would like to conclude by thanking all our stakeholders for their cooperation through this highly challenging period for the Company. 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 very long history.