

**CHAIRMAN'S REPORT BY CHAIRMAN KLAUS NYBORG,  
NORDEN'S ANNUAL GENERAL MEETING, 7 APRIL 2016**

Thank you.

I started by saying that even though we are in new surroundings there are some things that remain the same. Now this can be both good and bad. Thus, we can celebrate that the tanker market continued the positive notes/ throughout 2015, and that NORDEN's tanker activities generated record-high operating results. But on the other hand, we also have to acknowledge that the dry cargo market was poor to such an extent that the year turned out historically bad.

Therefore, it was required that NORDEN delivered on one of our core values of flexibility and adjusted to the very different markets. And we did:

Through active business acumen, we have adjusted the core fleet. A total of 25 vessel transactions – that is purchase, sale, contracting and chartering – have taken place. 9 of the transactions were sale of vessels – and this corresponds to a disposal of 15% of the vessels which we owned at the beginning of 2015.

At the same time, we have determinedly pursued increasing our coverage – that is to sell ship days – and combined with the sale of vessels, this has resulted in a reduction in our dry cargo market exposure in 2016 and 2017 by a total of 24%. In other words, we have prepared for continued difficult markets in dry cargo.

An important element in these preparations is i.a. to ensure that NORDEN continues to be financially solid. In this connection, 3 key figures in particular are important to note.

Firstly, NORDEN has managed to generate USD 77 million from operations. This corresponds to more than DKK 0.5 billion, and thus, NORDEN managed to generate earnings from operations in spite of the historically poor dry cargo market.

Secondly throughout 2015, we have provided NORDEN with a stronger financial buffer and increased cash and securities by USD 127 million to a total of USD 366 million. To this can be added undrawn credit facilities of USD 297 million. Thus, NORDEN has financial resources totalling USD 663 million – corresponding to nearly DKK 4.5 billion – at the beginning of 2016.

And thirdly, we have made newbuilding payments and reduced expenses for time charter vessels in the fleet without increasing net debt. In total, we have reduced our net liabilities by 21% during the year, and in doing so, we have strengthened the Company's manoeuvrability.

Manoeuvrability has also been in focus organisationally. With the new strategy Focus & Simplicity, which Jan will go into more detail about later on, we have increased flexibility and streamlined a number of working procedures making NORDEN more agile and capable of reacting quickly to market fluctuations and opportunities.

At the same time, we have continued the cost saving programme which was introduced at the end of 2014. The goal is to reduce vessel operating costs and voyage costs such as pilot and port fees by USD 20 million annually. And we have come a long way. Status at the beginning of March this year is that savings have been identified and conducted reducing costs by USD 10.5 million annually.

So NORDEN has acted in – and navigated through – the markets of 2015. But even though we can pull a number of different levers, none of these are unfortunately enough to fully absorb the poor conditions in the dry cargo market during the year.

We have operated in a historically poor market, and together with the prospects of continued challenging markets, this put the ship values in dry cargo under renewed pressure. It is a good and sound principle that the values in the books are on a level with those in the real world. Therefore, we also reacted when dry cargo ship values saw yet another significant drop in the fourth quarter of 2015. In only a few weeks, the value of e.g. a 5-year-old Panamax vessel dropped by 20%. On this basis, NORDEN decided to write down the value of the dry cargo fleet and make a provision for onerous time charter contracts.

The total of USD 340 million for the write-down and provision naturally had a very large and negative impact on the results for the year.

## KEY FIGURES

The results for the year were a loss of USD 285 million or approximately DKK 2 billion. This is naturally not satisfactory.

However, one little bright spot among the figures is EBITDA – that is earnings before depreciation etc. – being back in the black with more than USD 20 million. And as mentioned, we can also be satisfied with the fact that we have been able to generate USD 77 million in cash flows from operating activities.

As can be seen, total revenue dropped by 19% to USD 1.6 billion. The drop results from dry cargo in which revenue decreased by more than USD 400 million – partly due to the very low freight rates and partly due to lower activity in the form of more than 7,000 fewer ship days. Again evidence of how NORDEN is adjusting to the markets.

But regardless of how much we adjust, it is more than difficult to eliminate the impact of a USD 180 million write-down and a USD 160 million provision – the total of USD 340 million. As some of you may remember, this unfortunately is not the first year that we have had to write down and make provisions for fleet values. For the past 4 years, NORDEN has written down the value of owned vessels by a total of USD 480 million and made provisions of USD 390 million for onerous time charter contracts. This is a total of USD 870 million – a huge amount, and an amount which signifies how heavy the downturn in dry cargo has been.

It is never pleasant having to write down and make provisions for contracts of previous times. But on a positive note, the carrying amounts of NORDEN's fleet are on a level with the market values at the end of 2015. The estimated market value of NORDEN's 48 owned vessels and 11.5 newbuilding orders was thus at that time only USD 23 million below the carrying amounts. It should, however, be added that there is currently great uncertainty as to the market values.

The results for the year also leave a mark on the balance sheet. But even though it has decreased by nearly 10% to USD 1.6 billion, it is still a strong balance sheet, which together with our solid financial position provide NORDEN with a strong financial buffer.

## SHAREHOLDER RETURN

NORDEN's total return measured as the total value of dividend payments and share price development decreased during the year by 18.5%.

In spite of the negative results, the total return is still better than that of our peer group of dry cargo and tanker shipping companies. They had a negative return of 30.8%. The total return of the dry cargo companies was a negative 56.1% whereas the companies operating within product tankers only provided a positive total return of 7%.

Based on the results for the year, the Board of Directors proposes that no dividend be paid.

## DRY CARGO

I will now direct focus to the two segments in which NORDEN operates; Dry cargo and product tankers.

If we start by taking a look at the dry cargo market, 2015 was as already mentioned a historically poor year. This was not least due to the fact that the slowdown in the Chinese economy took its toll on the market. For the past two years, imports of coal into China have e.g. dropped by more than 117 million tons – a drop of 40%. This corresponds to a reduction of 2-3% in demand for the total dry cargo fleet.

At the same time, China's appetite for iron ore has also weakened. And this is likely not a temporary condition but rather evidence of a structural change in the Chinese economy. Where China since the turn of the millennium has been focused sharply on building and expanding infrastructure, heavy industry and property with a resulting significant oversupply, the great country is now transitioning into a more service-oriented economy. This means less demand for iron ore, which is typically transported on the large Capesize vessels.

The Baltic Dry Index, which provides a good idea of how the dry cargo market is doing, clearly demonstrated just how tough the market was in 2015.

The average Baltic Dry Index for the year ended at the lowest level in 25 years. If we look at the vessel types of which NORDEN operates the most within dry cargo, Panamax and Supramax, the level was nearly 30% down from 2014. This made it difficult to secure reasonable earnings in the dry cargo market.

NORDEN's dry cargo activities generated an EBIT constituting a loss of USD 386 million. USD 340 million of this was write-down and provision, and to this comes loss on vessel sales of USD 38 million. So without these items, results constituted a loss of USD 8 million, which besides former provisions is due to the fact that by applying good business acumen NORDEN's dry cargo activities managed to generate earnings 62% above the spot market and 37% above the 1-year T/C rates.

Because even though coal transports in particular were heavily affected in 2015, other cargo types saw significant growth. This was the case with e.g. soybean, steel and bauxite. All commodities which are transported on medium-sized vessel types such as Panamax and Supramax in which NORDEN is strong.

## TANKERS 2015/2016

Fortunately, we also operate within product tankers – which is the transport of refined oil products. In its 10 years, Norient Product Pool, which NORDEN established in 2005 with the Cypriot shipping company Interorient Navigation Company, has developed into one of the world's largest and best reputed players within its field. So there was every reason to celebrate the 10-year anniversary in 2015.

But it was not only the anniversary which inspired to celebrate in Tankers during the year. The market did as well. The continued low oil price provided good activity at the refineries, and demand for inexpensive gasoline increased especially in the USA, India and China. This meant increased demand for transportation, and our fleet of modern tanker vessels was well positioned to benefit from this. We had entered the year with low coverage and were therefore ready to profit from the strong tanker market.

Through good positioning and great workmanship, NORDEN's tanker vessels generated earnings 27% above the 1-year T/C rates. This was actually the ninth consecutive year that NORDEN had earnings outperforming the market, and the results also did not fail to appear: 2015 had the best tanker results in NORDEN's history.

The operating profit amounted to USD 117 million, and so the importance of NORDEN being active within both Tankers and Dry Cargo was thus once more underlined. And though the good results in Tankers cannot cancel out the conditions in Dry Cargo, they certainly help.

## BOARD WORK

The annual general meeting is also a great opportunity to report on the work of the Board of Directors. Our work is based on an annual calendar to ensure that all relevant topics are covered. 2015 was the first whole year with the new committee structure according to which the more specific tasks are carried out by the audit committee, the remuneration committee and the nomination committee, respectively. It has worked well and provided the opportunity to go into more detailed discussions of relevant topics.

An indirect consequence of the changed structure with more committee work is also a somewhat changed remuneration structure. All board members receive a base fee, and in addition, committee members receive a supplement fee for their committee work. As a consequence of fewer board members among other things, total yearly board remuneration is decreasing from USD 0.8 million to USD 0.7 million, and the Board of Directors proposes unchanged remuneration for 2016.

Given that Mogens Hugo's seat on the Board of Directors was not refilled, we increased the number of women on the board from 16% to 20% in one stroke – that is 1 out of 5. The Board of Directors continues to aim at maintaining representation of general meeting elected women on the board of a minimum of 16% and is seeking to increase this number to 33% before 2017. When the nomination committee discusses proposals for potential candidates, it is a natural part to include gender. But let me also stress that the decisive factor is qualifications – not gender – and that goes for any position at NORDEN. But we are happy that the seat left by Alison Riegels, who has not wished to stand for re-election, will be refilled by another woman, Johanne Riegels Østergård, provided that the general meeting agrees.

As I mentioned at the beginning of the general meeting, I am flanked by Jan Rindbo, who took up the position as CEO on 30 April last year. And along with the rest of the Executive Management, Jan rolled up his sleeves, went to work and has taken a number of initiatives.

An important part of this work has been that Jan and the rest of the management team in consultation with the Board of Directors have formulated NORDEN's new strategy, Focus & Simplicity. This has been a thorough and comprehensive job based on NORDEN's strengths. I will now give the word to Jan, who will go into more detail about the new strategy.

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## STRATEGY – JAN RINDBO

Thank you for giving me the word, and thank you for the opportunity to both greet the shareholders and to tell them about the thoughts we have made in NORDEN to ensure that also in future NORDEN will continue to be a strong market player.

As Klaus touched upon, we are currently seeing historically poor market conditions in dry cargo whereas the tanker market is continuing the positive notes. If NORDEN is to benefit best possibly from these conditions – and we plan to – it will require focus and simplicity. And our new strategy is therefore called just that; Focus & Simplicity.

The idea is simple: We must focus energy and investments where we can create most shareholder value by having a skilful and global organisation close to the customers.

We have gone through a thorough strategy process during which we have also analysed exactly within which vessel types NORDEN stands particularly strong and historically has delivered the best results. The analysis established that within dry cargo these vessel types are Supramax and Panamax. Within these, by having a significant network of local offices, in-depth market knowledge and a great reputation, we have delivered the best results, and within these, we can enhance our already strong position best possibly.

In addition to the Supramax and Panamax business areas, NORDEN will maintain the activities as an operator within the smaller Handysize vessels since there is significant overlap and therefore synergies with Supramax in relation to expertise and customers.

The aim in the dry cargo segment is to make NORDEN the global industry leader within Supramax and Panamax. By focusing energy and investments, NORDEN will be able to offer more flexibility and reliability to the customers through greater customer focus and a larger fleet. We must ensure that there is always a suited NORDEN vessel available close to the cargoes. This reduces downtime and optimises voyages. At the same time, it offers the customer reliability – a valued commodity when the markets are uncertain.

Focus will continue to be on long-term relations. NORDEN should not only be first choice for the customers within Supramax and Panamax but also the operator which you want to see perform the task when all comes to all – first choice, last refusal.

Within tankers, it will continue to be the vessel types Handysize and MR, which will be in focus, and the ambition is also here to be first choice. Operations of NORDEN's fleet of product tankers will continue to take place within Norient Product Pool.

Ownership and operations of Panamax, Supramax and the tanker vessel types MR and Handysize will be NORDEN's primary area of business supplemented by the operator activities within the dry cargo vessel type Handysize.

Conversely, this means that we will no longer be investing in other vessel types. First step towards this streamlining of our business has already been taken as we have disposed of our Capesize vessels. These are the large vessels which typically transport iron ore and which have been affected greatly by the slowdown in China.

We prefer to a greater extent to be at the helm ourselves and be able to optimise the pairing of cargoes and vessels. Therefore, we focus energy on the medium-sized vessel types in which we have also seen solid growth in different cargo types such as bauxite, soybean and steel. In addition, there are more customers for these vessel types, and together with the variation of cargo types and a greater geographic spread, it is especially within Panamax and Supramax that we can bring our global organisation into play to optimise the pairing of vessels and cargoes.

Even though we will no longer invest in other vessel types within dry cargo than Supramax and Panamax going forward, we will not be having a fire sale of our Post-Panamax vessels and owned Handysize vessels. These will be sold when it makes sense. For instance, this may entail that we sell a Post-Panamax vessel to invest thereafter in Panamax and Supramax vessels and in that way benefit from the low prices.

## ORGANISATION

No strategy is better than the organisation who is to carry it out. It has therefore been important to us that the many talented employees at NORDEN are given the opportunity to bring all their talents into play in their job performance.

Therefore, we focus on streamlining processes and working procedures to ensure that time is spent on creating most value for the customers, NORDEN and the shareholders.

We have concentrated efforts in a number of areas:

Firstly, we have streamlined the Executive Management and consolidated some functions. All vessel investments are now managed by the new function Asset Management in stead of being divided between Tankers and Dry Cargo. At the same time, we have consolidated the functions of finance, analysis and investor relations under CFO Martin Badsted. These changes have smoothened a number of processes and created a more level basis for e.g. investments.

Secondly, we have ensured that processes are optimised and that we work with programmes which provide the best support for efficient customer service. NORDEN has always focused on optimisation but now we are raising the level of ambition. Business Application and Process Excellence is the name of the function which will analyse and ensure that the many processes involved in transporting a cargo from one port to another are planned and prepared in a way that provides the customer with efficient and flexible service.

This is what the customers are paying for, and this is what NORDEN can deliver. Because the customer is key. We must make sure that we can live up to the high expectations one can rightly have of a shipping company like NORDEN.

Thirdly, we have opened 2 new offices in the past year. One in Melbourne, Australia, and one in Santiago, Chile. Both offices are headed by young NORDEN employees who started their shipping career as trainees in the Company. With the set-up of the new offices, we are now present on 5 continents and have moved even closer to the customers. This means that we can have better access to cargoes and greater insight into the market which is helpful when combining cargoes and vessels best possibly – something we are already seeing the value of.

This also provides flexibility and reliability to the customer, who at the same time can be certain that NORDEN will perform the task in the proper way. We have finished the work with the first strategy for corporate social responsibility and are now taking the next step within this area. By focusing on projects and fields which benefit customers, NORDEN and society alike, we are continuing and strengthening the work within reliability, logistic assistance and anti-corruption. We tie the initiatives closely to the business and ensure that we assist where we as a shipping company can bring our own expertise into play for the benefit of customers and society.

With the new strategy and a skilled organisation, I am convinced that NORDEN is well equipped for future challenges as well.

Thank you for listening.

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#### KLAUS: OUTLOOK/EXPECTATIONS

Thank you, Jan, for this run-through of the strategy and organisation. I completely agree with Jan: NORDEN is well equipped for the challenges ahead – also the ones we are facing here in 2016.

In general, it can be said that we are facing two critical questions within our business segments: When will things improve in Dry Cargo and could a correction in Tankers be coming?

The dry cargo market is still very poor. There is still a major oversupply of vessels compared to demand, and this has kept rates at a very low level in the first months of the year – though a small improvement has been seen lately but still at unsatisfactory levels. Sure enough, scrapping has been record-high. A total of 12.5 million tonnes deadweight was scrapped in the first quarter of 2016 corresponding to an annual scrapping percentage of 6.5%, and this is certainly positive. But not even record-high vessel scrapping has been enough to absorb the many new vessels which were delivered in the first quarter during which nearly 16 million tonnes deadweight was delivered – most of this in January.

It is quite normal that many vessel deliveries are pushed into the new year – it is after all a better deal to have a 2016 vessel from January than a 2015 vessel from December when the time for reselling is there. But the deliveries are evidence that there is still some way to go before balance between supply and demand is restored in dry cargo.

We therefore expect that 2016 will see ongoing challenging market conditions in dry cargo. China's transition continues and curbs growth in demand, but we do expect that e.g. the volume of transported coal will increase again following the steep drop we saw in 2015.



As I mentioned at the beginning, NORDEN has already reduced the market exposure in 2016 and 2017 significantly, and at the same time, we have actively sought higher coverage. By mid-February, 57% of the days in the dry cargo fleet had been sold, most of them for the first half of the year.

As tradition has it, we operate with lower coverage in Tankers. By mid-February, we had covered 24% of the ship days in 2016, and we have therefore again this year been in a position to benefit from the continued strong markets. We would like to take more long-term coverage but currently, it is difficult to obtain good coverage running longer than 12 months. We expect that the strong markets will continue for some time yet, but as more tanker vessels are delivered during the year, we predict lower rate levels in the second half-year.

In total, we expect that NORDEN will obtain adjusted results for the year in the range of USD minus 60 million and plus 30 million distributed with USD minus 85 to minus 25 million in Dry Cargo and USD 25 to 55 million in Tankers.

This is miles apart from previous times' record-high results of up to USD 700 million. These are the terms in a cyclical business. But the players who manage reasonably through today's challenging markets are the ones who will be the winners of tomorrow. And NORDEN is going to be among these.

Thank you for listening.