TORM A/S
Form 20-F
April 30, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

[ ] REPORT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________ to _________________

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _________________

Commission file number 000-49650

TORM A/S
(Exact name of Registrant as specified in its charter)

TORM A/S
(Translation of Registrant's name into English)

Kingdom of Denmark
(Jurisdiction of incorporation or organization)

Tuborg Havnevej 18, DK-2900 Hellerup, Denmark
(Address of principal executive offices)

Roland M. Andersen, 011 45 3917 9396 (facsimile), ACC@TORM.COM (email), Tuborg Havnevej 18, DK-2900 Hellerup, Denmark

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person).

Securities registered or to be registered pursuant to section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
NONE	

Securities registered or to be registered pursuant to section 12(g) of the Act.

Common Shares, par value 0.01 Danish Kroner per share,*
American Depository Shares (as evidenced by American Depository Receipts), each representing ten (10) Common Shares.

(Title of class)

* Not for trading, but only in connection with the registration of American Depository Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2012, the Company had 728,000,000 common shares issued and outstanding, par value 0.01 Danish Kroner per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No X

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No X

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes	X	No	

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See the definitions of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [_] Accelerated filer [_]

Non-accelerated filer [X]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

X International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

The Company "TORM A/S" formerly known as "Aktieselskabet Dampskibsselskabet Torm" is referred to as "TORM" in this Annual Report.

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FORWARD-LOOKING STATEMENTS

Matters discussed in this report may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

TORM 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. This report and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. When used in this report, the words "anticipate," "believe," "expect," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," and similar expressions identify forward-looking statements.

The forward-looking statements in this report 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 we believe 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, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these assumptions and matters discussed elsewhere herein and in the documents incorporated by reference herein, 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 world economies and currencies, general market conditions, including fluctuations in charterhire rates and vessel values, changes in demand in the shipping market, including the effect of changes in the Organization of the Petroleum Exporting Countries', or OPEC's, petroleum production levels and worldwide oil consumption and storage, changes in regulatory requirements affecting vessel operating including requirements for double hull tankers, changes in TORM's operating expenses, including bunker prices, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, changes in the price of our capital investments, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents, political events or acts by terrorists, and other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission, or the SEC.

We undertake no obligation to update or revise any forward-looking statements. These forward looking statements are not guarantees of our future performance, and actual results and future developments may vary materially from those projected in the forward looking statements. Please see our Risk Factors under "ITEM 3" of this annual report for a more complete discussion of these and other risks and uncertainties.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Throughout this report, the "Company, "TORM", "TORM Group", "Group", "we," "us" and "our" all refer to TORM A/S and its subsidiaries. We use the term deadweight ton, or dwt, in describing the size of vessels. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. Unless otherwise indicated, all references to "dollars," "USD" and "$" in this report are to, and amounts are presented in, U.S. dollars and unless otherwise indicated references to "DKK" in this report are to, and amounts are presented in Danish Kroner.

A. Selected Financial Data

The following table sets forth our selected consolidated financial data for each of the periods indicated. The selected consolidated financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and notes thereto, all included elsewhere within this document.

The historical results included below and elsewhere in this document are not necessarily indicative of our future performance.

	For the year ended December 31				
	2008	2009	2010	2011	2012
	(in thousands of USD except for share information)				
IFRS financial data					
Consolidated income statement Data:					
Revenue	1,183,594	862,251	856,075	1,305,208	1,121,215
Port expenses, bunkers and commissions	(264,050)	(217,356)	(298,830)	(675,004)	(665,395)
Freight and bunkers derivatives	(13,586)	(11,952)	3,339	14,105	9,914
Time charter equivalent earnings	905,958	632,943	560,584	644,309	465,734
Charter hire	(193,829)	(220,880)	(228,631)	(398,326)	(389,603)
Operating expenses	(174,333)	(169,556)	(152,207)	(164,949)	(168,903)
Gross profit (Net earnings from shipping activities)	537,796	242,507	179,746	81,034	(92,772)
Profit/(loss) from sale of vessels	82,813	33,145	1,871	(52,538)	(26,048)
Administrative expenses	(89,906)	(78,194)	(78,161)	(71,222)	(67,224)
Other operating income	14,493	7,331	4,788	3,170	951
Share of results of jointly controlled entities	27,122	(2,256)	(11,453)	(4,217)	(9,408)
Impairment losses on jointly controlled entities	0	(20,000)	(35,000)	(13,000)	(41,542)
	(126,068)	(132,775)	(141,410)	(331,826)	(212,461)

Amortization, depreciation and impairment losses					
Operating profit/(loss)	446,250	49,758	(79,619)	(388,599)	(448,505)
Financial income	16,175	6,090	2,663	9,930	11,846
Financial expenses	(102,354)	(74,896)	(59,285)	(72,716)	(142,427)
Profit/(loss) before tax	360,071	(19,048)	(136,241)	(451,385)	(579,085)
Tax (expenses)/benefit	1,279	1,686	982	(1,621)	(1,558)
Net profit/(loss) for the year	361,350	(17,362)	(135,259)	(453,006)	(580,643)
Balance sheet data (as of end of period):					
Total assets	3,317,353	3,227,211	3,286,108	2,779,207	2,355,337
Total non-current liabilities	1,575,450	1,717,901	1,835,687	89,479	1,953,829
Total liabilities	2,038,404	1,980,512	2,170,819	2,135,358	2,087,998
Equity/net assets	1,278,949	1,246,699	1,115,289	643,849	267,339
Common shares	61,098	61,098	61,098	61,098	728,000,000
Common shares outstanding (1)	72,800,000	72,800,000	72,800,000	72,800,000	728,000,000
Other financial data					
Dividends declared per share DKK	4.0	0	0	0	0
Dividends declared per share USD	0.8	0	0	0	0
Extraordinary dividend per share DKK	4.5	0	0	0	0
Earnings per share – basic	5.2	(0.3)	(2.0)	(6.5)	(3.3)
Earnings per share – diluted	5.2	(0.3)	(2.0)	(6.5)	(3.3)

(1) Shares outstanding as of December 31, 2012 include 6,711,792 share that we purchased and hold as treasury shares reflected in shareholders equity. As of December 31, 2011 we held 3,230,432 treasury shares. As of December 31, 2010, 2009 and 2008 we held 3,461,580.

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Capitalization and Indebtedness

Not Applicable.

Reasons for the Offer and Use of Proceeds

Not Applicable.

Risk Factors

Some of the following risks relate principally to TORM's business as well as the industry in which TORM operates. Other risks relate principally to the securities market and ownership of TORM's American Depository Shares, or ADSs. Any of the risk factors could materially and adversely affect TORM's business, financial condition or operating results and the trading price of TORM's common shares and ADSs.

Risks related to TORM's Restructuring, Financial Results and Financial Resources

If the depressed market conditions of 2011 and 2012 continue, TORM may be in breach of certain financial covenants contained in its Financing Agreements.

In connection with the completion of the Restructuring (as defined in "Item 4. Information on the Company—History and Development of the Company") TORM entered into the Financing Agreements (as defined in "Item 4. Information on the Company—History and Development of the Company"), which include restrictions on TORM's financial flexibility. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources" for a more detailed discussion of the Restructuring and TORM's working capital.

Under the Financing Agreements, TORM is required to comply with financial and other covenants, including requirements that TORM maintain (i) minimum liquidity levels; (ii) minimum loan to value ratios; (iii) maximum net leverage ratios; and (iv) minimum interest coverage ratios.

While there has been a modest improvement in the market conditions at the end of 2012 and beginning of 2013, if the difficult market conditions experienced during 2011 and 2012 continue, TORM may not continue to be in compliance with all of the financial covenants contained in both the Super Senior Working Capital Facility (as defined in "Item 4. Information on the Company—History and Development of the Company") and the loan facilities governed by the Framework Agreement (as defined in "Item 4. Information on the Company—History and Development of the Company"). In case a breach of covenants becomes apparent, TORM plans to initiate renegotiations with the Secured Lenders (as defined in "Item 4. Information on the Company—History and Development of the Company") to obtain the necessary waivers and amendments. Such renegotiations, if initiated, may be lengthy and there is no certainty that TORM will obtain the necessary waivers and amendments. Ultimately, if TORM is unable to reach new agreements with the Secured Lenders and other creditors, TORM could be forced to enter into bankruptcy or other insolvency proceedings.

Failure to comply with the financial covenants under the Financing Agreements would constitute an event of default under the Financing Agreements, which would provide the lenders with the right to accelerate the debt thereunder and, if such debt were accelerated, TORM's creditors may decide to exercise their rights in the charged assets. If TORM is unable to honor such accelerated payment obligations, it could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position, and could lead to bankruptcy or other insolvency proceedings. As of December 31, 2012, TORM was in compliance with all of the covenants under the Financing Agreements.

If depressed market conditions prevail, TORM may not be able to meet its ongoing operations and working capital needs and may not be able to obtain additional financing in the future on terms acceptable to the Company or at all.

In connection with completion of the Restructuring, TORM has obtained a Super Senior Working Capital Facility of USD 100 million. USD 58 million of the Super Senior Working Capital Facility was drawn year end 2012.

The Super Senior Working Capital Facility matures on September 30, 2014. If market conditions decline further, the undrawn amount of the Super Senior Working Capital Facility may not be enough to secure TORM's ongoing operations and working capital needs, and, pursuant to the terms of TORM's Financing Agreements, TORM is prohibited from taking on further indebtedness and issuing new capital. In addition, there can be no assurance that TORM will be able to attract the capital required to secure TORM's ongoing operations after the Super Senior Working Capital Facility expires or that such capital can be raised on terms acceptable to TORM.

Furthermore, TORM recognizes that its financial position impacts its risk profile in relation to third parties, including its ability to obtain or renew credit lines from suppliers and its relationships with customers and other stakeholders. The Company may risk that its financial position will be under additional pressure due to potential cuts in credit lines increasing its working capital requirements resulting in higher financial needs. This is particularly important with bunker credit lines.

There can be no assurance that TORM will be able to maintain or obtain required loan financing or meet the additional working capital needs. Failure to do so could have a material adverse effect on TORM's business, results of operations, cash flows and financial position, and could lead to bankruptcy or other insolvency proceedings.

TORM's financial and operational flexibility is restricted as a result of the Restructuring.

In connection with the completion of the Restructuring, TORM entered into the Financing Agreements, which include restrictions on TORM's financial and operational flexibility. Under the Financing Agreements, TORM is required to comply with certain covenants restricting its financial and operational flexibility, including:

- a prohibition on TORM's ability to incur further indebtedness and issue new capital;
- a prohibition on TORM's ability to enter into new derivative transactions other than spot exchange contracts in the ordinary course of business;
- a prohibition on TORM's ability to provide additional collateral as security for its indebtedness;
- restrictions on TORM's ability to dispose of any vessels and other material assets and to acquire of any company, securities or vessels; and
- restrictions on time charters. TORM can only charter-in vessels from third parties for a period no longer than three months and charter-out its vessels for a period of up to 13 months.

Such restrictions may make it necessary for TORM to perform transactions, which are not commercially or financially attractive, or to refrain from performing transactions which are commercially or financially attractive. These restrictions may limit TORM's ability to apply its cash and cash equivalents in discharge of its obligations. Furthermore, the restrictions may reduce TORM's competitiveness and TORM's ability to optimize its fleet and financial structure. Specifically, the prohibition of derivative transactions can expose TORM to negative variations on interest rates, foreign exchange and freight rates.

Failure to comply with the financial and operational restrictions under the Financing Agreements may result in an event of default under the Financing Agreements unless waived by lenders, which would provide the lenders the right to accelerate the outstanding debt thereunder and, in the event of such acceleration, TORM's creditors may decide to exercise their rights in the charged assets. As such, the restrictions on TORM's financial and operational flexibility could have a material adverse effect on TORM's future performance, results of operations, cash flows, and financial position and could lead to bankruptcy or other insolvency proceedings.

Certain of TORM's vessels are subject to option rights, the exercise of which may have an adverse effect on TORM's business and financial results and may impact TORM's ability to comply with the financial covenants under its Financing Agreements.

The Framework Agreement between TORM and its Secured Lenders contains individual option rights for the lenders under three bank facilities having financed thirteen, five and four vessels, respectively, out of TORM's total fleet of 67 owned and finance leased vessels. The options give the lenders under each of the relevant bank facilities a right to require the sale of the vessels being financed by the relevant facilities.

Under the options, the Company is required to propose a sales strategy for the vessels subject to the options. The lenders under each of the bank facilities have the right, until July 31, 2014 with certain possibilities of extension, to exercise their options, which may lead to disposal of the vessels financed by the relevant facility. The lenders under the bank facility financing the five vessels have exercised their option and thus initiated the sales process set out in the Framework Agreement. As of December 31, 2012 these five vessels were classified as non-current assets held for sale, and as such, the carrying amount was impaired by USD 74 million as the carrying amount is measured on the basis of fair value less costs to sell.

The total outstanding debt relating to the bank facility financing the five vessels as of December 31, 2012 was USD 121 million. The book value for the five vessels was USD 134 million as of December 31, 2012, which was equal to the market value based on broker valuations less costs to sell. The average age of the five vessels was two years as of the Restructuring.

The total outstanding debt relating to the bank facilities financing the thirteen vessels was USD 223 million as of the December 31, 2012 and the total outstanding debt relating to the bank facilities financing the four vessels was USD 107 million as of December 31, 2012. As of December 31, 2012, the book value for the thirteen vessels was USD 283 million and the book value for the four vessels was USD 182 million. The market value based on broker valuations was USD 210 million for the thirteen vessels and USD 116 million for the four vessels as of December 31, 2012. The average age of the thirteen vessels was 10 years and the average age of the four vessels was one year as of December 31, 2012.

Should any sale of vessels be effected as a result of the exercise of the options discussed above, the earning capability of the Company may be materially negatively affected.

In addition, any sale of vessels under the options may have an adverse effect on TORM's business and financial results, including TORM's liquidity, outstanding debt, fleet value, consolidated net debt, accrued interest and EBITDA (as defined under the agreement for covenant purposes) and may impact TORM's ability to comply with the financial covenants under its Financing Agreements.

Sale of vessels as a result of exercise of the options may also result in an increase of the average age of TORM's fleet, reduce TORM's competitive scale advantage, further restrict its operational flexibility, expose TORM further to negative development in vessel values, and could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position and could lead to bankruptcy or other insolvency proceedings.

TORM may not be able to meet its debt service requirements with respect to its interest-bearing debt.

TORM must dedicate a large part of its cash flows to the payment of principal and interest on its interest-bearing debt. These payments limit funds available for working capital, capital expenditures and other purposes. TORM's existing bank debt level of USD 1,904 million as of December 31, 2012, compared to an estimated market value (based on broker valuations) of USD 1,284 million of TORM's fleet, excluding finance lease vessels, as of December 31, 2012 makes TORM vulnerable to economic slowdowns and adverse developments in its business.

The Super Senior Working Capital Facility matures on September 30, 2014. If TORM's earnings do not improve, TORM may not be able to repay the principal upon maturity of the loan.

In addition, under the Financing Agreements, the Company is subject to a cash sweep clause of certain aggregate amounts of cash above USD 50 million. Annualized debt repayments of USD 100 million fall due from September 30, 2014 until December 31, 2016. TORM may not be able to service and repay its interest-bearing debt as it falls due and matures, including at the time of expiration of the periods with deferral of installments and fixed annualized debt repayments.

If TORM is not able to service and repay its debt on time, it will result in an event of default under the relevant credit facilities, which could trigger cross-default or cross-acceleration provisions included in other of TORM's credit facilities and would provide the lenders with the right to accelerate the relevant debt and foreclose on all or a portion of TORM's fleet, which would have a material adverse effect on TORM's future performance, results of operations, cash flows, and financial position, and could lead to bankruptcy or other insolvency proceedings.

Transfers of TORM's common shares among the Secured Lenders and Time Charter-in Counterparties may result in a change of control under the Financing Agreements, which would require mandatory prepayment of the outstanding indebtedness under such agreements.

The terms of the Financing Agreements provide for mandatory prepayment of the entire outstanding amount thereunder upon any person or group of persons acting in concert to gain direct or indirect control (which is defined under the Financing Agreements as the acquisition of 25% or more of TORM's common shares or voting rights) of the Company. Transfers of TORM's common shares among the Secured Lenders and Time Charter-in Counterparties (as defined in "Item 4. Information on the Company—History and Development of the Company"), which currently hold an aggregate of approximately 90% of TORM's outstanding common shares, may trigger a mandatory prepayment event under the Financing Agreements. Any mandatory prepayment as a result of a change of control could lead to the foreclosure of all or a portion of TORM's fleet and could have a material adverse effect on TORM's future performance, result of operations, cash flows and financial position, and could lead to bankruptcy or other insolvency proceedings.

The majority of TORM's outstanding common shares are held by a limited number of shareholders, which may create conflicts of interest.

As of December 31, 2012, more than 90% of TORM's outstanding common shares were held by a limited number of shareholders, including but not limited to the Secured Lenders and Time Charter-in Counterparties. The interests of these shareholders may conflict with the interests of the Company's other shareholders. In addition, conflicts of interests may exist or occur between the major shareholders themselves.

A limited number of shareholders may have the ability, either acting alone or together as a group, to influence or determine the outcome of specific matters submitted to the Company's shareholders for approval, including the election and removal of directors, amendments to the Company's articles of association, including changes to the Company's authorized share capital or any merger or acquisition.

TORM is currently prohibited from paying dividends in respect of its common shares.

Following the completion of the Restructuring, TORM must dedicate a large part of its cash flows to reimburse the interest-bearing debt under the Financing Agreements. In addition, the Financing Agreements prohibit TORM from using future earnings to pay dividends to its shareholders. After the restructured credit facilities are reimbursed, TORM may decide to review its dividend policy, however its ability to pay dividends in the future may be limited.

TORM's ability to raise funds in the equity capital markets is restricted, among other things, by the fact that TORM is currently prohibited from issuing additional common shares.

Under the Financing Agreements, TORM is prohibited from issuing additional common shares or other securities. This restriction limits TORM's ability to raise funds in the equity capital markets.

In addition, TORM's shareholders have approved an amendment to TORM's articles of association, pursuant to which future issuances of common shares against the conversion of debt or without pre-emptive rights to existing shareholders will require the consent of shareholders representing 90% of the Company's outstanding share capital and voting rights, which may also limit TORM's ability to raise funds in the equity capital markets. The above restrictions could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM's ability to enter into derivative transactions is limited as a result of the Restructuring, which will limit TORM's ability to hedge their exposure in various transactions.

All of TORM's interest rate and currency swap transactions were closed-out as part of the Restructuring. Existing bunker hedging and Forward Freight Agreements, or FFAs, will remain in place, but TORM will not be able to enter into new derivative transactions.

As a result TORM's entire debt is now uncovered in relation to interest and currency risks, and TORM will not be able to enter into new derivative transactions to hedge its other exposures e.g. in relation to bunkers. Any changes in interest rates, currency rates, bunker prices and other prices to which TORM is exposed could therefore have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Under the Financing Agreements, TORM is required to limit its derivative trading to spot exchange contracts in the ordinary course of business. There will be a risk of loss resulting from the spot hedging TORM engages in and existing bunker hedging and FFAs going forward. TORM may in the future obtain consent to invest in other derivative instruments (e.g. currency or interest rate hedging) and may on that basis decide to recommence its hedging activities in such derivatives and could suffer losses from such positions which could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Decreasing liquidity in the derivative market may limit TORM's ability to conduct spot commodity hedging.

In the past, TORM has taken positions in derivative instruments to hedge the risk on certain parts of TORM's business. Under the Financing Agreements, TORM is only allowed to enter spot commodity hedging arrangements in the ordinary course of business. If liquidity in these derivative markets decreases or disappears it could make it difficult or more expensive for TORM to obtain such hedging, which could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Further impairment losses may lead to negative book equity value and a possible reduction in earnings.

TORM reviews the carrying amounts of assets on a quarterly basis to determine any indication of impairment either due to a significant decline in market value or in the cash flows generated by the vessels. In case of such indication, the recoverable amounts of the assets are estimated at the higher of the fair value less cost to sell and the value in use in accordance with the requirements of the IFRS accounting standards. The value in use is the present value of the future cash flows expected to derive from an asset or cash generating units. For the purpose of assessing fair value less cost to sell, management estimates the market values of the individual vessels, for which the most important parameters are the vessels' tons deadweight, the shipyard they were built at and age. management uses internal as well as external sources of information, including two internationally recognized shipbrokers' valuations.

Based on broker valuations, TORM's fleet excluding product tankers held for sale had a market value of USD 1,159 million as of December 31, 2012. This is USD 790 million less than the book value as of December 31, 2012. The book value of TORM's equity was USD 267 million as of December 31, 2012.

In accordance with the requirements of the IFRS accounting standards TORM estimates the fleet's total long-term earning potential each quarter based on future discounted cash flows. The estimated value for the fleet as of December 31, 2012 supports the book value.

As of December 31, 2012, management performed a review of the recoverable amount of the assets by assessing the recoverable amount for the significant assets within TORM's tanker and bulk divisions and TORM's investment in 50% in the shipping company FR8 Holdings Ptd. Ltd, or FR8, a company currently in liquidation.

Based on the review, management concluded:

- Assets within the Company's bulk division, or the Bulk Division, were not impaired as the net selling price exceeded the carrying amount by USD 3 million;

- Assets within the tanker division, or the Tanker Division, were not further impaired as the value in use was equal to the carrying amount; and

- The carrying amount of the investment in 50% of FR8 was during 2012 impaired by USD 42 million to USD 0 in addition to the impairment losses previously recognized.

In case the market conditions do not improve in order to sustain the current 10-year historic average spot freight rates, the Company may have to make further impairments of the assets. It should be emphasized that in a forced sale the recoverable amount of the vessels would be significantly lower than the carrying amount of the vessels under a going concern assumption.

If the fair value less cost to sell of TORM's vessels or the fleets earning potential decline, it may lead to impairment losses being recognized in the consolidated financial statements. In addition, if TORM sells one or more of its vessels, the selling price may be less than the vessel's carrying value on the financial statements, resulting in a loss and a reduction in earnings. TORM may in the future need to record additional impairment losses, and loss from sale of vessels which could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Variations in incoming cash flows may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Due to the cyclical nature of the shipping industry and volatile freight rates, incoming cash flows may vary significantly from year to year whereas the outgoing cash flows may not be variable to the same extent and at the same time. Significant deviations between ingoing and outgoing cash flows can thus damage the financial position of TORM and could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM's operating results may be subject to seasonal fluctuations, which could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM operates in markets that have historically exhibited seasonal variations in demand and, as a result, in freight rates. This seasonality may result in quarter-to-quarter volatility in operating results. The tanker segment is typically stronger in the fall and winter months in anticipation of increased consumption of oil and petroleum products in the northern hemisphere. As a result, revenues from product tankers may be weaker during the fiscal quarters ending June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ending December 31 and March 31. The drybulk sector is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere. As a result, drybulk revenues may be weaker during the fiscal quarters ending June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ending December 31 and March 31. This seasonality could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Potential new accounting rules with respect to leases may materially affect TORM's balance sheet.

The International Accounting Standards Board is currently working on revising a number of financial reporting standards including IAS 17 Leases. The current exposure draft for a new international financial reporting standard on leases proposes that all leases entered with duration of more than one year shall be recognized as an asset with a corresponding lease liability being recognized under liabilities. It is currently not known if and when the revised standard will be become effective. TORM's balance sheet could be materially impacted by the new standard on leases. This could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Risks Related to TORM's Activities

TORM's revenue is subject to fluctuation as a result of changes in spot freight rates.

TORM employs the majority of its vessels on spot voyage charters or short-term time charters. As of December 31, 2012, TORM generated 89% of its revenues from the spot market. Accordingly, TORM is impacted by any increase or decrease in market rates. If rates were to decrease further or continue at current low levels, it could have a material adverse impact on TORM's future performance, results of operations, cash flows and financial position.

TORM depends upon a few significant customers for a large part of its revenues and the loss of one or more of these customers could adversely affect its financial performance.

TORM's top ten customers accounted for 42% of its consolidated revenues in 2012 (2011:35%).

The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM has a recent history of losses and may not be able to achieve or sustain positive cash flows or profitability in the future.

TORM had net losses of USD 581 million, USD 453 million, USD 135 million and USD 17 million for the years ended December 31, 2012, 2011, 2010 and 2009, respectively. Despite implementation of the Restructuring Agreement and the amendments to its Pre-Restructuring Debt Facilities (as defined in "Item 4 Information on the Company—History and Development of the Company") and Time Charter-in Counterparty contracts, TORM cannot be certain to be able to achieve or sustain positive cash flows or profitability from its operations. Its ability to achieve positive cash flows is subject to financial, regulatory, legal, technical and other factors, many of which are beyond its control.

The age of TORM's current fleet and TORM's inability to replace older vessels with younger ones vessels may adversely affect TORM's competitive position and results of operations.

Under the Financing Agreements, TORM is prohibited from acquiring vessels, including second-hand vessels. As a result of weak markets and rising fuel prices and thereby the implied need to focus on cost-optimizing measures, delivery of new and more fuel efficient vessels into the market could be expected.

The continuing increase of the average age of TORM's fleet, which was 7 years as of December 31, 2012, the sale of young vessels upon the exercise of certain option rights granted to certain of TORM's lenders, the potential entry of more fuel efficient vessels into the market and the limited ability of the Company to renew its fleet could have a material adverse effect on TORM's competitive position, future performance, results of operations, cash flows and financial position.

An increasing cost base may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

General administrative expenses and vessel operating expenses depend on a variety of factors, many of which are beyond TORM's control. Some of these costs, primarily relating to insurance, crewing and enhanced security measures, have been increasing and may increase in the future. An increasing cost base may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM is subject to certain risks with respect to its counterparties, including under its hedging contracts, Contracts of Affreightment, fixed rate time charters and voyage charters, and failure of these counterparties to meet their obligations could cause TORM to suffer losses or otherwise adversely affect its business.

TORM has entered into bunker hedging contracts and employs vessels on Contracts of Affreightment, or COAs, fixed rate time charters and voyage charters. Such contracts expose TORM to counterparty risks. The ability of counterparties to live up to the obligations under a contract with TORM will depend on a number of factors that are beyond TORM's control and may include general economic conditions, the condition of the shipping industry and the overall financial condition of the counterparties. In addition, in depressed market conditions, charterers may no longer need a vessel that is currently under charter or may be able to obtain a comparable vessel at lower rates. As a result, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements, TORM could sustain significant losses which could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM may not have adequate insurance to compensate it if one of its vessels is involved in an accident.

In the course of the fleet's operation, various casualties, accidents and other incidents may occur that may result in financial losses for TORM. For example, national and international rules, regulations and conventions mean that TORM may incur substantial liabilities in the event that a vessel is involved in an oil spill or emission of other environmentally hazardous agents.

In order to reduce the exposure to these risks, the fleet is insured against such risks as deemed appropriate by Management. The total insurance package comprises cover of risk in relation to the operation of vessels and transportation of cargoes, including personal injury, environmental damage and pollution, cargo damage, third-party casualty and liability, hull and engine damage, total loss and war. Incidents may occur where TORM's insurance package will not cover or will not adequately cover costs and/or losses, and insurance cover may not be available for some risks. Furthermore, insurance costs may rise as a consequence of unforeseen incidents, and might be affected by events beyond TORM's control.

Incidents for which TORM has not taken or cannot take out adequate insurance, or events causing the insurance premiums to rise, could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Breakdowns in TORM's information technology may negatively impact TORM's ability to service customers.

TORM's ability to service customers and operate vessels is dependent on the continued operation of its information technology, or IT, systems critical to the business, including a vessel operation system containing information about vessel positions, TORM's agreements with customers and other agreements made in the market, the system recording estimated and actual hire for individual voyages, the vessel maintenance system and the Enterprise Resource Planning system. Any IT breakdowns can have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM may be exposed to fraudulent behavior, which may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

The risk of fraud is inherent in all industries and is not specific to the shipping industry. However, historically, the shipping industry has involved an increased risk of fraud and fraudulent behavior. TORM has established a system of internal controls to prevent fraud and fraudulent behavior, consisting of segregation of duties, authorizations for trading, purchase and approval, codes of ethics and conduct, close monitoring of TORM's financial position and a whistleblower facility. However, TORM cannot be certain that it will not be exposed to fraud or fraudulent behavior, and any such behavior can have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Because TORM is a non-U.S. corporation, you may not have the same rights that a creditor of a U.S. corporation may have and it may be difficult to serve process on or enforce a U.S. judgment against TORM's officers and directors and TORM.

TORM is a Danish company and its executive offices are located outside of the United States. TORM's officers and directors and some of the experts named in this document reside outside of the United States. In addition, substantially all of TORM's assets and the assets of TORM's officers, directors and experts are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons or enforcing any judgments obtained in U.S. courts to the extent assets located in the United States are insufficient to satisfy the judgments. In addition, original actions or actions for the enforcement of judgments of U.S. courts with respect to civil liabilities solely under the federal securities laws of the United States are not enforceable in Denmark.

TORM may have to pay tax on U.S. source income, which would reduce its earnings.

Under the U.S. Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as TORM and its subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code or under the terms of a U.S. income tax treaty.

TORM expects that its Danish subsidiaries will qualify for tax exemption under the income tax treaty between the United States and Denmark. However, TORM's non-Danish subsidiaries may not qualify for exemption under Section 883 of the Code for the 2012 taxable year unless it is able to obtain certain certifications from its shareholders. As of the date of this filing, TORM has not been able to obtain these certifications. If TORM is unable to obtain these certifications, its non-Danish subsidiaries would be subject to U.S. federal income tax on TORM's U.S. source income derived during the 2012 taxable year. TORM can give no assurances on its tax-exempt status or that of any of its subsidiaries.

If TORM or its subsidiaries are not entitled to the exemption under the income tax treaty between the United States and Denmark and/or exemption under Section 883 of the Code for any taxable year, TORM or its subsidiaries would be subject during those years to a 4% U.S. federal income tax on TORM's U.S. source shipping income. The imposition of this taxation could have a negative effect on TORM's business.

U.S. tax authorities could treat TORM as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. shareholders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets during such taxable year produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. Income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to certain reporting obligations and a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on TORM's current and proposed method of operation, it does not believe that it is, has been or will be a PFIC with respect to any taxable year. In this regard, TORM intends to treat the gross income it derives or are deemed to derive from its time chartering activities as services income, rather than rental income. Accordingly, TORM believes that its income from its time chartering activities does not constitute "passive income," and the assets that it owns and operates in connection with the production of that income do not constitute assets that produce or are held for the production of "passive income".

There is, however, no direct legal authority under the PFIC rules addressing TORM's proposed method of operation. TORM believes there is substantial legal authority supporting TORM's position consisting of case law and U.S. Internal Revenue Service, or IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, TORM notes that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept TORM's position, and there is a risk that the IRS or a court of law could determine that TORM is a PFIC. Moreover, no assurance can be given that TORM would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of its operations.

If the IRS were to find that TORM is or has been a PFIC for any taxable year, its U.S. shareholders will face adverse U.S. tax consequences and will incur certain information reporting obligations. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse tax consequences for such shareholders), such shareholders would be subject to U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of TORM's ADSs, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of TORM's ADSs.

Risks Related to the Industry in which TORM Operates

If economic conditions throughout the world do not improve, it will have an adverse impact on TORM's operations and financial results.

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. The world economy is currently facing a number of new challenges, including uncertainty related to the European credit crisis and recent turmoil and hostilities in Korea, the Middle East and other geographic areas and countries. The deterioration in the global economy has had, and may continue to have, a negative effect on the worldwide demand for certain goods and thus shipping.

The continued economic slowdown in the economies of the United States, the European Union and certain Asian countries may further adversely affect economic growth globally.

TORM faces risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Market disruptions and any adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect its business or impair its ability to make any future financial arrangements. TORM cannot predict how long the current market conditions will last. However, these economic and governmental factors, including reform of the financial system, could have a material adverse impact on TORM's future performance, results of operations, cash flows and financial position.

Changes in the economic and political environment in China and policies adopted by the Chinese government to regulate its economy may have a material adverse effect on TORM's business, financial condition and results of operations.

TORM's industry is highly dependent on imports and exports from China and any changes in policies adopted by the Chinese government to regulate its economy may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year state plans are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken; with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform, the level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could have a material adverse impact on TORM's future performance, results of operations, cash flows and financial position.

The product tanker and drybulk vessel sectors are cyclical and volatile, and this may lead to reductions and volatility in TORM's charter rates when it re-charters its vessels, in vessel values and in TORM's results of operations.

The product tanker and drybulk vessel markets are cyclical leading to volatility in freight rates, vessel values and industry profitability.

The freight rates among different types of product tankers and drybulk vessels are highly volatile. For example, tanker freight rates have declined from historical highs reached in mid-2008, and the decline in freight rates for drybulk vessels has been even more pronounced, reaching near historically low levels in 2012.

Factors affecting the supply and growth of product tankers and drybulk vessels are:

- the number of newbuildings on order and being delivered;
- the number of vessels used for floating storage;
- the number of vessels in lay-up;

- the number of vessels scrapped for obsolescence or subject to casualties;
- prevailing and expected future freight and charter hire rates;
- costs of bunkers, fuel oil, and other operating costs;
- the efficiency and age of the world product tanker and global drybulk fleets;
- shipyard capacity;

- port congestion and canal congestion; and
- government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations.

Demand for product tankers and drybulk vessels is primarily determined by the quantity of cargo to be transported and the distance from origin to destination. The demand is affected by a number of external factors including:

- world and regional economic conditions;
- oil demand;
- demand for bulk commodities (e.g., steel, agricultural products and coal);
- oil price curve (influencing the level of floating storage);
- product imbalances (affecting the level of trading activity);
- the regulatory environment;
- environmental issues and concerns;
- developments in international trade;
- climate;
- competition from alternative energy sources;
- armed conflicts; and
- availability of financing and developments with interest rates.

All things being equal assuming there are no changes to our fleet composition, based on our maximum potential earning days for 2013 open as of December 31, 2012 or 24,676 earnings days, a change of USD/day of 1,000 in freight rates will currently impact the profit before tax by approx. USD 25 million. As of December 31, 2012, TORM had covered 8% of the remaining earning days in 2013 in its Tanker Division at USD/day 15,126 and 2% of the remaining earning days in its Bulk Division at USD/day 13,155.

As such, a change in freight rates can have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Delayed recovery in the product tanker and drybulk vessel charter markets may have an adverse effect on TORM's earnings and ability to comply with the covenants contained in its Financing Agreements.

If a sustained freight rate recovery in the product tanker and drybulk vessel markets is not experienced in the near-term, it could lead to breaches of certain financial covenants included in TORM's Financing Agreements. Any such delayed recovery in the product tanker and drybulk vessel charter markets could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position. As of December 31, 2012, TORM was in compliance with all financial covenants under the Financing Agreements.

Because the market value of its vessels may fluctuate significantly, TORM may incur losses when it sells vessels, which may adversely affect its earnings.

The fair value of vessels may increase and decrease depending on, but not limited to, the following factors:

- general economic and market conditions affecting the shipping industry;

- competition from other shipping companies;
- types and sizes of vessels;
- other modes of transportation;
- cost of newbuildings;
- shipyard capacity;
- governmental or other regulations;
- age of vessels;
- prevailing level of charter rates; and
- technological advances.

If we sell any of our product tankers or drybulk vessels at a time when vessel prices have fallen, including upon exercise of the options that have been granted to certain of our lenders as a result of the Restructuring, the sale may be at less than the vessel's carrying amount in our consolidated financial statements, with the result that we will incur a loss. Furthermore, if vessel values fall significantly, we may have to record an impairment adjustment in respect of some of our vessels in our consolidated financial statements, which could adversely affect our financial results. In addition, the fall in vessel values could also impact on the TORM's compliance with debt covenants.

Rising fuel prices may adversely affect TORM's profits.

Fuel is a significant expense for TORM's shipping operations, except when vessels are under time charter, in which case the charterer pays the fuel costs. The price and supply of fuel is unpredictable and fluctuates based on events outside TORM's control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries, or OPEC, and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. As a result, an increase in the price of fuel may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

A shift in consumer demand from oil towards other energy sources may have a material adverse effect on TORM's business.

The majority of TORM's earnings are related to the oil industry. A shift in the consumer demand from oil towards other energy resources such as wind energy, solar energy, or water energy will potentially affect the demand for TORM's product tankers. This could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM is subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

TORM's operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which TORM's vessels operate or are registered, which can significantly affect the ownership and operation of TORM's vessels. These requirements include, but are not limited to:

- the U.S. Oil Pollution Act of 1990, or OPA;
- the U.S. Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA;
- the U.S Clean Air Act;

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- the U.S. Clean Water Act;
- the U.S. Marine Transportation Security Act of 2002;
- the International Maritime Organization, or IMO;
- the International Convention for the Prevention of Pollution from Ships of 1975;
- the International Convention for the Prevention of Marine Pollution of 1973;
- the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended by the Protocol of 1992;
- the IMO International Convention for the Safety of Life at Sea of 1974, including the International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code;
- the International Ship and Port Facilities Securities Code, which became effective in 2004;
- the International Convention on Load Lines of 1966;
- the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk;
- Periodic surveys by classification societies to ensure TORM's vessels are safe and seaworthy; and
- Various fuel or emissions standards applicable to vessels operating near the California coastline; operating off the coasts of Atlantic/Gulf and Pacific coasts of the United States and Canada and the Hawaiian Islands; or in EU ports, respectively.

Additionally, a number of countries and the IMO have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures may include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy.

Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. TORM may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions, including greenhouse gases, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of its ability to address pollution incidents. These costs could have a material adverse effect on TORM's business, results of operations, cash flows and financial condition.

A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of TORM's operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject TORM to liability without regard to whether it was negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. Furthermore, the 2010 explosion of the Deepwater Horizon and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and that may affect TORM's operations or require TORM to incur additional expenses to comply with such regulatory initiatives or statutes. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. TORM is required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although TORM has arranged insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse impact on its business, financial condition and results of operations.

Failure to comply with customer requirements may adversely affect TORM's business and results of operations.

In addition to official laws and regulations set out by governments and industry organizations, TORM will be subject to strict requirements, primarily related to safety procedures and environment protection, set forth by its customers, such as large oil companies. Customers continuously perform inspections of vessels and headquarters (vettings) to ensure compliance with the requirements. Failure to comply with the requirements may disqualify TORM as a carrier of the customer's cargo, which may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Failure of TORM's vessels to pass vessel inspections by classification societies would render the vessels.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. Classification societies are non-governmental, self-regulating organizations and certify that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. A vessel must undergo various surveys. A vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. The Company's vessels are on survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be dry-docked every five years for inspection of the underwater parts of such vessel. In addition, every five years, alternating with the dry-docked inspection, there is a special survey for every vessel allowing an inspection/survey every two and a half years. If any vessel fails any survey the vessel may be unable to trade between ports and, therefore, would be unemployable, which may have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM's vessels may be damaged due to the inherent operational risks of the seaborne transportation industry and TORM may experience unexpected drydocking costs, which may adversely affect its business and financial condition.

The Company's vessels and their cargoes are at risk of being damaged or lost because of events such as marine disasters, bad weather, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to its customer relationships, delay or rerouting. The protection & indemnity, or P&I, insurance coverage that TORM has arranged for its vessels covers the vessel owner's liabilities towards the owner of any damaged cargo, subject to standard international conventions limiting such liability. If its vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. TORM may have to pay drydocking costs that its insurance does not cover in full. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease its earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. The Company may be unable to find space at a suitable drydocking facility or its vessels may be forced to travel to a drydocking facility that is not conveniently located to its vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant drydocking facilities could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Possible amendments to tonnage tax schemes could increase the overall tax liability of TORM, which may adversely affect TORM's business and financial condition.

The Company is currently subject to tonnage tax schemes in a number of countries. If the entities' participation in the Danish tonnage tax scheme is abandoned, or if the entities' level of investment and activity is significantly reduced, a deferred tax liability will become payable.

In the event that tonnage tax schemes are changed in the future, it could increase the overall tax burden of the Company, and could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Acts of piracy on ocean-going vessels could adversely affect TORM's business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean, the West African Coast and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2012 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with drybulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks result in regions in which TORM's vessels are deployed being characterized as "war risk" zones by insurers or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. TORM may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on TORM. In addition, any detention hijacking as a result of an act of piracy against the Company's vessels, or an increase in cost, or unavailability, of insurance for its vessels, could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM's vessels may call on ports located in countries that are subject to restrictions imposed by the U.S. or other governments, which could adversely affect TORM's reputation and the market for its securities.

From time to time, TORM may operate in countries that are subject to sanctions and embargoes imposed by the U. S. government and/or identified by the U.S. government as state sponsors of terrorism, such as Cuba, Iran, Sudan and Syria. The U. S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expanded the application of the prohibitions to additional activities of companies such as TORM's, and introduced limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In 2012, Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions was signed. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the U.S. including conducting business in U.S. dollars. Also in 2012, the Iran Threat Reduction and Syria Human Rights Act of 2012, which created new sanctions and strengthened existing sanctions, was signed into law. Among other things, the act intensifies existing sanctions regarding the provision of goods, services, infrastructure and technology to Iran's petroleum or petrochemical sector. The act also includes a provision that states in part that, if a person is transporting crude oil from Iran or transporting refined petroleum products to Iran, that person's vessels could be barred from landing at U.S. ports for up to two years.

There is a risk that from time to time TORM will not be in compliance with all applicable sanctions and embargo laws and regulations, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact TORM's ability to access U.S capital markets and could result in some investors deciding, or being required, to divest their interest, or not to invest, in TORM. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, TORM's common shares or TORM's ADSs may adversely affect the price at which TORM's securities trade. In addition, TORM's reputation and the market for TORM's securities may be adversely affected if TORM engages in certain other activities, such as entering into contracts with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. Investor perception of the value of TORM's securities may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries. As such TORM's operation in countries that are subject to sanctions and embargoes imposed by the U. S. government and/or identified by the U.S. government as state sponsors of terrorism and any non-compliance with sanctions and embargoes imposed could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Political instability, terrorist attacks and international hostilities can affect the seaborne transportation industry, which could adversely affect TORM's business.

Terrorist attacks such as those in New York on September 11, 2001, in London on July 7, 2005, and in Mumbai on November 26, 2008, as well as the threat of future terrorist attacks around the world, continues to cause uncertainty in the world's financial markets and may affect TORM's business. Continuing conflicts and recent developments in the Middle East, including Syria, and North Africa, and the presence of U.S. and other armed forces in the Middle East, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect the Company's ability to obtain additional financing on terms acceptable to the Company or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden off the coast of Somalia. Any of these occurrences could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Governments could requisition TORM's vessels during a period of war or emergency, resulting in loss of earnings.

A government could requisition for title or seize TORM's vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition TORM's vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated freight rates. Generally, requisitions occur during a period of war or emergency. As of the date of this annual report, none of TORM's vessels have been requisitioned by a government for title or hire; however, government requisition of one or more of TORM's vessels could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Risks Related to TORM's Employees

TORM may be unable to attract and retain qualified, skilled employees or crew necessary to operate its business.

The ability to recruit and retain qualified employees is important to TORM. There can be no assurance that TORM will be able to attract and retain such employees on reasonable terms in the future. TORM's ability to attract and retain employees in the future may be affected by the reduction of TORM's fleet as a result of the Restructuring, TORMs restricted operational flexibility and TORMs financial position.

Furthermore, TORM employs staff in a number of countries and the crew on its vessels, all of which are covered by international rules of employment. Changes are made on an ongoing basis to international rules of employment and this may have a material influence on TORM's liberty to man vessels.

If TORM is not able to attract and retain qualified employees on reasonable terms in the future, and/or if changes are made to international rules of employment, influencing TORM's liberty to man vessels, it could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

TORM may not be able to obtain or maintain adequate insurance to cover liability for industrial injuries that may occur in the ordinary course of TORM's business.

TORM has from time to time been involved in legal proceedings relating to injuries incurred by employees while working for TORM and there is a risk that TORM in the future will be a party to such proceedings. If it is not possible to obtain or maintain adequate insurance coverage for its liabilities related to industrial injuries, including if insurance coverage cannot be obtained on reasonable terms, or if the insurance coverage is insufficient, TORM may incur substantial liabilities and/or costs, and this could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Industrial disputes resulting in work stoppages, strikes and/or work disruptions may adversely affect TORM's business.

TORM has in the past implemented and will potentially continue in the future to implement Restructuring measures including divesting or closing down business activities, reducing its workforce and negotiating collective agreements with trade unions. In particular, Restructurings, but also other factors such as disagreements concerning ordinary or extraordinary collective bargaining, may damage TORM's reputation and the relationship with its employees and lead to labor disputes, including work stoppages, strikes and/or work disruptions, which could have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Risks Related to Currency and Interest Rate Risks

Because TORM generates nearly all of its revenues in U.S. dollars, but incurs some of its expenses in Danish Kroner and other currencies, exchange rate fluctuations could adversely affect TORM's results of operations.

TORM uses U.S. Dollars, or USD, as the functional currency because the majority of the Company's transactions are denominated in USD. Thus the Company's exchange rate risk is related to cash flows not denominated in USD. The primary risk relates to transactions denominated in Danish Kroner, or DKK, Euros, or EUR, Japanese Yen and other major currencies, and relates to administrative and operating expenses.

In 2012, TORM generated nearly all of its revenues in USD but incurred approximately 89% of its expenses in USD, approximately 8% in DKK and the remaining balance in EUR, Japanese Yen and other major currencies. Under the Financing Agreements, TORM is no longer allowed to hedge its foreign currency exposure. A change in exchange rates could have a material adverse impact on TORM's future performance, results of operations, cash flows and financial position.

Interest rate fluctuations, including the recent volatility in LIBOR, may significantly affect TORM's loan payments, which could adversely affect TORM's profitability, earnings and cash flow.

As of December 31, 2012, all of TORM's bank debt of USD 1,904 million bore interest rates fluctuating with LIBOR. Under the Financing Agreements, TORM is not allowed to hedge its interest rate exposure.

If LIBOR were to increase, it would increase the amount of interest payable on the debt, which could a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Risks Related to Litigation

TORM may be subject to litigation that, if not resolved in its favor and not sufficiently insured against, could have a material adverse effect on TORM.

TORM and its activities are subject to both Danish and foreign laws and regulations many of which include legal standards, which are subject to interpretation, and TORM is party to agreements and transactions, including in connection with the Restructuring, involving matters of assessment of interests of various stakeholders and valuation of assets, liabilities and contractual rights and obligations. Furthermore, TORM may be subject to the jurisdiction of courts or arbitration tribunals in many different jurisdictions.

TORM's counterparties and other stakeholders or authorities may dispute the Company's compliance with laws and regulations or contractual undertakings, or the assessments made by the Company in connection with its business and the entry into agreements or transactions. The outcome of any such dispute or legal proceedings is inherently uncertain, and may include payment of substantial amounts in legal fees and damages or that a transaction or agreement is deemed invalid or voidable and such proceedings or decisions could have a material adverse effect on the Company's future performance, results of operations, cash flows and financial position.

TORM is currently involved in a general investigation by the Danish tax authorities which have carried out a control visit relating to the application of withholding taxes in connection with dividend distributions. The control visit was conducted by the Danish tax authorities as part of a wider campaign aimed at Danish companies who have paid dividends to entities in European low tax jurisdictions. No claims have been raised by the Danish tax authorities as of the date of this annual report.

If a claim is raised by the Danish tax authorities as a result of such investigation or other cases or proceedings the Company may be involved in now or in the future is determined to TORM's disadvantage, it may result in fines, default under the Financing Agreements, damages or reputational damage and could have a material adverse effect on the Company's future performance, results of operations, cash flows and financial position.

Maritime claimants could arrest TORM's vessels, which could interrupt TORM's operations, resulting in a loss of earnings.

Crew members, suppliers of goods and services to a vessel, shippers of cargo, Secured Lenders, Time Charter-in counterparties and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions a maritime lien holder may enforce its lien by arresting a vessel and commencing foreclosure proceedings. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in the fleet for claims relating to another of TORM's vessels. The arrest or attachment of one or more of TORM's vessels could interrupt operations and require TORM to pay a substantial sum of money to have the arrest lifted, which could result in a loss of earnings and have a material adverse effect on TORM's future performance, results of operations, cash flows and financial position.

Risks related to TORM's American Depository Shares

TORM's ADSs may be delisted from the Nasdaq Capital Market, which could negatively impact the price of TORM's ADSs.

TORM's ADSs are currently listed on the Nasdaq Capital Market, or Nasdaq. TORM's ability to retain its listing is contingent upon compliance with Nasdaq listing requirements. The listing standards of Nasdaq provide, among other things, that a company may be delisted if the bid price of its stock decreases below $1.00 for a period of 30 consecutive business days and the company is unable to meet the minimum bid requirement within the period provided by Nasdaq.

In December 2011, TORM was notified by Nasdaq that it was no longer in compliance with Nasdaq Listing Rule 5450(a)(1) because the closing bid price of its ADSs for 30 consecutive business days had been below the minimum $1.00 per share bid price requirement for continued listing on Nasdaq. In response, TORM conducted a change in the ratio of its ADSs to its common shares from 1:1 to 1:10, which was effective as of November 2012. TORM regained compliance during December 2012 when, during the applicable grace period, the closing bid price of its common stock was at least $1.00 per share for a minimum of ten consecutive business days. TORM is currently in compliance with all applicable Nasdaq listing standards

Further declines in the trading price of TORM's ADSs may cause it to fail to meet certain of Nasdaq's continuing listing standards in the future, which could result in the delisting of its ADSs.

In addition, at the Company's Annual General Meeting held on April 11, 2013, the Company's shareholders voted to authorize the Company to terminate its American Depositary Receipt program and allow the Company to acquire a limited number of its own shares as well as delist the Company's ADSs from Nasdaq and deregister the Company's securities under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, the result of which would be that there would no longer be an active public market for the ADSs and the Company would no longer be subject to Exchange Act reporting requirements.

If TORM's ADSs cease to be traded on the Nasdaq or on another national securities exchange, you may not have a fully liquid market in which to sell them. Therefore, you may not be able to sell ADSs at the time and at the price you desire.

There may be no active public market for you to resell TORM's ADSs, and to the extent there is, the price of TORM's ADSs may be volatile, and may fluctuate due to factors such as:

- actual or anticipated fluctuations in TORM's financial results;
- mergers and strategic alliances in the shipping industry;
- market conditions in the industry;
- changes in government regulation;
- fluctuations in TORM's quarterly revenues and earnings and those of TORM's publicly held competitors;
- shortfalls in TORM's operating results from levels forecast by securities analysts;
- announcements concerning TORM or its competitors; and

- the general state of the securities market.

Historically, the shipping industry has been highly unpredictable and volatile. The market for ADSs in the shipping industry may be equally volatile. The Copenhagen Stock Exchange is smaller and less liquid than the major securities exchanges or markets in the United States. The trading volume of TORM's common shares on the Copenhagen Stock Exchange has been volatile. It may be hard to predict future trading levels or volatility. Consequently, you may not be able to sell ADSs at the time and at the price you desire.

Holders of TORM's ADSs may experience delays in receiving information and materials not experienced by TORM's common shareholders.

The ADSs are securities that have been issued by a depository with whom TORM has deposited its common shares. The depository is responsible for distributing notices and voting materials to holders of the ADSs. If there is any delay in such distributions on the part of the depository, you may not receive such dividends or materials concurrently with holders of TORM's common shares in Denmark, and may not receive such materials in time for you to instruct the depository to vote.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

TORM is an international carrier of refined oil products and also a participant in the drybulk market. The Company's core business philosophy is to meet customers transport needs with an emphasis on safety, environmental responsibility and customer service. TORM is headquartered in Hellerup, Denmark and conducts business worldwide, with offices in Mumbai, India, Manila, Philippines, Singapore, Stamford, Connecticut and Rio de Janeiro, Brazil.

The Company was founded in 1889 by Captain Ditlev E. Torm and Christian Schmiegelow and TORM celebrated its 120th anniversary in 2009. Within the first 10 years the fleet consisted of four vessels, and in 1905 the Company was listed on the Copenhagen Stock Exchange. In the 1910s the Company began to sail international voyages and expanded its activities with the ordering of its first refrigerated vessel in the 1920s and delivery of its first motorised ship in 1933. During World War II, the Company lost 13 vessels and 41 employees but quickly recovered following the end of the war and increased the number of its sailing routes. During the period of 1950-1990 TORM was an active participant in the consolidation of the product tanker market and continued to secure the Company's status as a leading global product tanker company. In the early 2000s the Company's liner and offshore marine service activities were divested.

During the period from 2006-2008 the Company was focused on increasing the size of its fleet. The Company ordered 19 newbuildings in this period and chartered in 21 vessels on long term contracts. In addition, in 2007 the Company made its largest acquisition ever when acquiring the U.S. shipping company OMI Corporation in collaboration with Teekay Shipping Corporation (NYSE:TK). The Company acquired a total of 26 product tankers including 11 MR tankers, 13 Handysize tankers and two were LR1 tankers.

During 2012, TORM took delivery of two MR newbuildings, TORM Arawa and TORM Anabel, with a total cost of USD 103 million financed via existing bank facilities, and sold two product tankers, TORM Lana and TORM Ugland, for gross sale proceeds of USD 37 million. In addition, TORM cancelled one newbuilding contract with scheduled delivery in 2014 with a total loss of USD 2 million. The sales and cancellations were completed as part of TORM's efforts to generate liquidity and reduce debt while negotiating the Restructuring. As part of the Restructuring, TORM redelivered one finance lease vessel. See "Item 5. Operating and Financial Review and Prospects – D. Property, Plant and Equipment" for a more detailed discussion of the Company's fleet.

In 2008, TORM appointed new executive management, comprised of CEO Jacob Meldgaard and CFO Roland M. Andersen. However, CEO Jacob Meldgaard did not join the Company until April 2010 due to a non-competition clause.

During the financial crisis and the slowdown of the global economy starting in late 2008, which resulted in low freight rates and depressed vessel values, TORM's financial situation gradually deteriorated. As a consequence, TORM initiated a dialogue with its creditors and achieved a temporary standstill agreement with its secured lenders, or the

Secured Lenders, in December 2011, which was extended several times afterwards. In April 2012, TORM announced that it had signed a conditional agreement in principle with its Secured Lenders and certain of its major time charter-in counterparties, or the Time Charter-in Counterparties, regarding a long-term financing solution which formed the basis of a Restructuring that ultimately included a Framework Agreement, Financing Agreements and a Restructuring Agreement reached with the Company's Secured Lenders and Time Charter-in Counterparties, or the Restructuring.

Prior to the completion of the Restructuring, TORM had a number of short and long-term borrowing facilities, or the Pre-Restructuring Debt Facilities. These facilities had different terms, including covenants, maturities, securities and amortization schedules. In addition, the Company had a number of off-balance sheet liabilities, primarily related to time charter agreements, which had a significant negative impact on the Company's earnings and liquidity.

During 2012, TORM reached a Restructuring agreement with its Secured Lenders and Time Charter-in Counterparties, or the Restructuring Agreement, while simultaneously instituting considerable operational improvements. The Restructuring Agreement provided for the deferral of bank debt, new liquidity and substantial savings from the restructured time charter fleet. TORM also secured a new working capital facility of $100 million until September 30, 2014, or the Super Senior Working Capital Facility, and entered into a framework agreement with its Secured Lender, which aligned key terms and conditions as well as financial covenants across all existing debt facilities and all maturities on existing credit facilities were adjusted until December 31, 2016, or the Framework Agreement. We refer to the Framework Agreement and the Super Senior Working Capital Facility as the Financing Agreements. The amount of bank debt was not reduced after the Restructuring. Under the terms of the Framework Agreement, interest on the existing debt will only be paid if the Company has sufficient liquidity or otherwise deferred until at least June 30, 2014 with a potential extension until September 30, 2014. The Company will pay interest on the Super Senior Working Capital Facility. The new Financing Agreements provide a deferral of installments on the existing bank debt until September 30, 2014, if certain conditions are met. During this period, rescheduled principal amortization only falls due if the Company has sufficient liquidity and provided that TORM generates sufficient cash, specific cash sweep mechanisms will apply. Certain specific option rights were agreed upon with three bank groups that may trigger a sales process for up to 22 vessels and repayment of the related debt. Only one bank group has exercised the option on five vessels, and TORM has subsequently accounted for the five vessels as non-current assets as held for sale in the Company's consolidated financial statements, resulting in an impairment loss of USD 74 million.

In January 2013, the Company conducted an Extraordinary General Meeting. At the meeting, shareholders ratified the amendment of the Company's articles of association, including adopting certain minority protection rights, pursuant to which the Company's issuance of shares against conversion of debt or issuance of shares without pre-emptive rights for existing shareholders require consent from shareholders representing 90% of the Company's share capital and voting rights. Furthermore, four new members were elected to the Company's board of directors.

On April 11, 2013 at the Company's annual general meeting, the Board of Directors were authorized to terminate the Company's ADS program and request a delisting of the Company's ADSs from Nasdaq and the deregistration of the Company's securities under the Exchange Act. In addition, the Board of Directors was also authorized to approve the repurchase of the Company's ADSs with a maximum investment of 145,600 Danish Krone subject to a total holding limit of 3% of the total share capital of the Company at a purchase price of the ADSs equal to the reported share price of the Company quoted at the time of the purchase, subject to a 10% deviation.

Business Overview

The Fleet

As of March 31, 2013, our fleet of owned and finance leased vessels consisted of 65 product tankers and 2 dry bulk carriers. The total tonnage of those vessels is approximately 3.8 million dwt. In addition, we chartered-in 11 product tankers and 28 dry bulk carriers and commercially managed approximately 20 vessels for third-party owners and charterers.

For an overview of our fleet please refer to "Item 4D, Information on the Company – Property, Plant and Equipment" and for details of our investment activities please refer to Item 5A.

Our product tanker division is primarily engaged in the transportation of refined oil products such as gasoline, jet fuel, and naphtha and gas oil. We own and operate four sizes of product carriers and, secondarily, a small part of the Tanker Division is engaged in the transportation of crude oil. The largest vessels are Aframax (LR2) tankers of approximately 100,000 to 105,000 dwt that primarily transport naphtha between the Arabian Gulf and Japan and other East Asian countries. The second largest vessels are Panamax tankers, which are tankers of approximately 80,000 to 85,000 dwt. The third largest vessels are Handymax (MR) product tankers of approximately 40,000 to 50,000 dwt. Finally we operate Handysize product tankers of up to 40,000 dwt. Panamax, Handymax and Handysize product tankers operate in the above mentioned areas and in the U.S., Africa, Europe and the Caribbean.

Our dry bulk vessels transport products such as grain, coal and iron ore. We operate dry bulk vessels of the Panamax size only. The Panamax dry bulk vessels, which range between 60,000 and 80,000 dwt, carry iron ore and coal as well as commodities such as grain, bauxite and fertilizer.

Each of our vessel categories generates gross profits (net earnings from shipping activities) by operating owned and chartered-in vessels. Over the last three financial years the contribution to net earnings from shipping activities per division has been as follows:

Division	2010	2011	2012*
Product Tankers	86%	113%	139%
Dry Bulk Vessels	14%	(13)%	(39)%

* Excluding Restructuring effects.

Please refer to "Item 5. Operating and Financial Review and Prospects" for a description of revenue and gross profit per division.

Management of the Fleet

Our vessels are employed primarily in the spot market and 10 of our vessels are managed through a cooperative arrangement with Mærsk A/S under the LR2 pool (described below). The remainder of our vessels, from time to time, are employed on a mix of bareboat charters, time charters and contracts of affreightment. Other than the commercial management services provided by the LR2 pool, we provide the operations, chartering, technical support, shipyard supervision, insurance and financing management services necessary to support our fleet. Our chartering staff, as well as our fleet's management personnel, is mainly located in our head office in Copenhagen and at our office in Singapore. Our staff makes recommendations to our senior management regarding the chartering of our vessels, as well as identifying when opportunities arise to buy or sell a vessel. We also have offices in Manila, Tokyo, Stamford, USA, Rio De Janeiro, Brazil and Mumbai, India, but all decisions relating to the vessels we manage are made or approved in our offices in Copenhagen and Singapore.

Product Tanker Pooling Arrangements

Since 2011, TORM has served as pool manager together with Maersk A/S of the LR2 Pool, as defined below, in which the Company participates with approximately 10 LR2 vessels. As pool manager TORM receives a chartering commission income to cover the expenses associated with this role. The chartering commission income is calculated as a fixed percentage of the freight income from each charter agreement. If the pool does not earn any freight income, TORM will not receive any commission income. The commission income is recognized in the income statement under 'Other operating income' simultaneously with the recognition of the underlying freight income in the pool.

The LR2 Pool

As of December 31, 2012, the LR2 Pool was comprised of 30 double-hull Aframax tankers, including 10 of our vessels, which mainly trade clean petroleum products. TORM has, as pool participant, entered into an LR2 pool agreement with Mærsk A/S as pool participant and with the limited partnership LR2 Management K/S as commercial manager. Long Range 2 A/S is the general partner of LR2 Management K/S. Both LR2 Management K/S and Long Range 2 A/S are owned by TORM and Mærsk A/S in equal shares. Under the LR2 pool agreement, the pool participants place LR2 vessels (large product tankers) in commercial management with LR2 Management K/S. The pool participants may mutually terminate the LR2 pool agreement on December 31 of any year provided a pool board resolution has been made approving such dissolution not less than 6 months earlier. Alternatively, any pool participant may withdraw any or all of their vessels from the pool, provided the vessels' current employment has been completed. If a pool participant withdraws all its vessels, it will cease to be a pool participant. The LR2 pool agreement is governed by English law. The relationship between TORM and Mærsk A/S as joint owners of LR2 Management A/S and Long Range 2 A/S is governed by an agreement containing provisions in respect of, inter alia, unanimity in decision-making, deadlock provisions, re-negotiation rights if a party's number of vessels within the LR2 pool materially decrease and exit provisions, including an obligation to offer the ownership stake to the other party if a party withdraws from the LR2 pool. The agreement is subject to Danish law.

The manager of the Pool has the responsibility for the commercial management of the participating vessels, including the marketing, chartering, operation and bunker (fuel oil) purchase of the vessels. The Pool is administered by a pool board, which is comprised of representatives of each pool participant. The pool boards set the policies and issue directives to the pool managers. The pool participants remain responsible for all other costs including the financing, insurance, manning and technical management of their vessels. The earnings of all of the vessels are aggregated and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available. Please refer to Note 1 to our consolidated financial statements contained herein for further details relating to the treatment of income from pools.

Dry Bulk Vessel Operation

In our Bulk Division, we operate Panamax size vessels, which we manage ourselves.

The Industry – Tankers

Product tanker freight rates continued to be under pressure in 2012 as the markets continued to suffer from tonnage oversupply. Global economic growth indicators were sluggish, which hampered the global oil consumption and subsequently the refined oil product transportation. Asset prices for product tankers declined during 2012.

During the first quarter of 2012, the freight markets for especially the larger segments, such as Long Range tankers, or LRs, continued to experience low freight rates since the end of 2011. This was mainly due to reduced demand for naphtha in the Eastern Hemisphere and a weak Arabian Gulf market impacted by temporary refinery closures and limited arbitrage opportunities. The freight rates for medium-sized vessels, or MRs, were positively influenced by Brazilian imports leading to increasing amounts of ton-miles. However, lower imports and domestic demand of gasoline in the U.S. put the market under pressure.

During the second quarter of 2012, jet oil arbitrage opportunities developed in Europe, increasing the freight rates for LRs in the Eastern Hemisphere. The MR freight rates were negatively affected in the Western Hemisphere by a lack of diesel arbitrage opportunities between the U.S. and Europe as well as closed arbitrage for gasoline from Europe to the U.S. due to weaker U.S. East Coast demand.

During the third quarter of 2012, freight rates continued at low levels, mainly due to mixed global growth signals and a supply overhang of tonnage. The eastern market was stronger, and LRs were supported by the increased long haul fixtures from the Arabian Gulf to Brazil and the naphtha trade in general, together with the distillate arbitrage opportunities from the Middle East to the West. The western market remained weak, and MRs were impacted by planned refinery maintenance in Europe and continued limited diesel trade from the US Gulf to Europe. Rates firmed up following a refinery explosion in Venezuela, leading to increased long haul trades from the US Gulf. MRs were positively impacted by new trades created by the permanent closures of refineries in Australia.

The fourth quarter of 2012 showed a positive development in MR freight rates in the West triggered by hurricane Sandy's effects on the U.S. east coast at the end of October, which had a short-term impact, leading to product supply disruptions through refinery shutdowns and reduced productivity. At the same time, refinery outages on the U.S. west coast positively impacted the ton-miles factor through an increased product flow from the U.S. Gulf and the Far East. The eastern market was positively impacted by continued distillate arbitrage opportunities in Europe, increased naphtha demand, arbitrage opportunities driven by an improved economic outlook in the Far East economies and an increasing demand for ethylene in China.

Tanker - Demand and Supply

Demand

There is a correlation between freight rates, total vessel utilization and GDP growth and global oil demand. TORM's forecasted demand for transportation of refined oil products is based on various additional factors such as an expansion of the refinery capacity dislocated from the consumption areas, changes to transport patterns and port days.

Refinery Capacity and Transportation–- (TON-MILES)

According to industry sources, the net global refinery capacity is estimated to grow by approximately 3.8 million barrels/day during 2013- 2015. The majority of the refinery additions are located in Asia, in particular in China and

India, and in the Middle East. With refinery capacity additions outpacing growth in local demand, a significant part of this new production is expected to be transported in long hauls by product tankers, mainly to Europe, South America and the USA, where demand outpaces local refinery capacity and refineries are being closed. This figure only includes the confirmed closure of refineries. Several U.S. and European-based refineries may also be closed as they are currently held for sale due to unattractive refining margins.

TORM anticipates the following major changes to refined oil product transportation patterns:

- An aggregate decline in gasoline imports but an increase of imports from the Middle East and India to the U.S. east coast;
- An increase in imports of middle distillates to Europe from the U.S. Gulf, the Middle East and India;
- An increase in imports of all products to South America and specifically to Brazil from all continents and especially from the U.S. Gulf;
- A decline in trade from China to the Arabian Gulf (e.g. gasoline); and
- An increase in trade to West Africa from Europe, the Arabian Gulf and South East Asia.

Increase in Oil Demand

According to industry sources, oil demand is expected to increase by approximately 1.0% or 0.9 million barrels/day to 90.8 million barrels/day in 2013. During 2014 and 2015, cumulated oil demand is expected to grow by 1.4% per year. The non-OECD areas, especially China, the Middle East, Russia and Brazil, are expected to be the areas with the strongest growth in oil demand.

The product tanker ton-miles demand is estimated to have a compound annual growth rate of approximately 3% p.a. during 2013-2015.

Swing Factors

A central element in understanding the product tanker market is the swing factors. Swing factors are by definition unpredictable and can create sudden spikes in the product tanker market.

Swing factors are typically major events such as hurricanes, embargoes, wars, political intervention, strikes, blockage of waterways and ports, geographical product shortages and unforeseen disruptions to refinery production. Other known factors include slow steaming and potential substitution of product tanker tonnage between crude and product transport. The use of product tanker vessels for floating storage purposes as seen in 2009 and 2010 is also an example of a swing factor.

Other significant uncertainties are related to newbuilding order activity and potential changes to China's import and/or export requirements.

Supply

According to industry sources, the existing global product tanker fleet at the end of 2011 consisted of a total of 2,492 vessels: 225 LR2 vessels, 330 LR1 vessels, 1,253 MR vessels and 684 Handysize vessels. At the end of 2012, the global product tanker fleet totaled 2,535 vessels, comprising 228 LR2 vessels, 339 LR1 vessels, 1,287 MR vessels and 681 Handysize vessels. This corresponds to an overall fleet growth of 1.8% (2.2% in terms of capacity), ranging from 0.4% for Handysize vessels to 2.7% for LR1 and MR vessels.

These developments are a function of the existing product tanker order book, newbuilding orders, cancellations, postponed deliveries of orders, referred to as slippage, and phasing out of older product tankers.

NEWBUILDING ORDER BOOK

At the end of 2012, the existing order book of product tankers for delivery from 2013 to 2015 amounted to 257 vessels: 15 LR2 vessels, 18 LR1 vessels, 198 MR vessels and 26 Handysize vessels. This corresponds to a gross increase between 2013 and 2015 of between 4% and 15%, depending on the segment, which is one of the lowest order books in the shipping industry.

New contracting in 2012 increased by 125% as a result of newbuilding prices slipping to a nine-year low and new fuel efficient designs becoming available. During 2012, more than 80% of orders placed were in the MR segment.

CANCELLATIONS AND POSTPONEMENTS

Since the global financial downturn that began in 2008, shipyards and shipping companies have cancelled newbuilding orders and generally renegotiated newbuilding contracts. TORM estimates that the cancellation of newbuilding orders has already reduced the original global product tanker order book for 2013-2015 by 10%.

In both 2011 and 2012, approximately 30% of scheduled deliveries did not materialize due to cancellations and delivery slippage. While some slippage is expected in upcoming years, it is unlikely that the rate of slippage will be as high as it has been in recent years.

PHASING OUT OF OLDER AND SINGLE-HULLED VESSELS

International Maritime Organization (IMO) regulations on single-hulled tankers have already resulted in the majority of these older vessels being phased out. In 2012, approximately three quarters of vessels scrapped were double hulls. Older vessels will continuously be phased out, as it is increasingly difficult to trade older tonnage. It is expected that approximately 6% of existing vessels in the global fleet will be phased out or scrapped between 2013 and 2015. Roughly 11% of the Handysize segment is estimated to be phased out between 2013 and 2015.

NEWBUILDINGS

TORM anticipates that there will be limited ordering of new product tankers that can be delivered before the end of 2014. The Company expects that new ordering activity for 2013 and 2014 will be at the same annual level as 2012 (based on capacity).

The product tanker supply is estimated to have a compound annual growth rate of approximately 2% between 2013 and 2015.

The Industry – Dry Bulk Fleet

According to industry sources, the global bulk fleet grew by approximately 10% in 2012, despite many vessels being scrapped. Net supply growth is estimated to have been positively impacted by slow steaming, lay-up and congestion. Growth in trade volumes in 2012 reached approximately 5%, driven in part by increased Chinese iron ore imports. Dry bulk demand measured in ton-miles is estimated to have increased less, in part because Brazil has been losing its market share in the Asian iron ore market.

Bulk asset prices gradually declined during 2012 due to a high number of newbuilding deliveries that exceeded demand growth. For example, industry sources estimate that the price for a five-year-old second-hand Panamax bulk carrier decreased by 30% during 2012.

The dry bulk spot market was volatile during 2012, driven by seasonality and events such as drought in the U.S. grain season, the Indonesian raw material export ban and tropical storms Isaac and Sandy.

Freight rates in the Panamax segment moved between 3,500 and 13,000 USD per day, with an average market level of 7,679 USD per day. According to industry sources, this is approximately 45% below 2011 levels. In addition, the bulk freight market was suffering from general economic unrest, particularly regarding the Eurozone area, and a high influx of new tonnage. As a consequence, the bulk freight market reached the lowest level experienced in the Baltic Dry Index in more than a decade.

In the first quarter of 2012, freight rates were under pressure due to a large number of seasonal newbuilding deliveries. Furthermore, the market was negatively influenced by slower growth in Chinese commodity demand and a delay in the South American grain season.

The second quarter of 2012 began with increased demand as a result of South American grain coming into season. However, general macroeconomic uncertainty and events including the Indonesian export ban led to overall negative movement. Larger segments suffered from high tonnage inflow and a decline in volumes from high iron ore prices and high stock levels in Chinese ports.

In the third quarter of 2012, the bulk market remained under pressure. The Pacific market was impacted by the monsoon season. In the Atlantic, freight rates were adversely affected by logistical disruption caused by the tropical storm Isaac, as well as a drought that lead to the lowest North American grain yield in six years.

The fourth quarter of 2012 was negatively affected by seasonal decline in freights.

Demand

Industry sources indicate that iron ore and coal commodities represent about 60% of total seaborne dry bulk transportation. TORM does not expect major changes in trading patterns for these bulk commodities, but does expect China and other growing Asian economies to continue to be the major importers of dry bulk commodities.

The global seaborne iron ore trade is projected to increase by 6% in 2013, compared to 5% in 2012. According to industry sources, China is the world's largest steel producer and its iron ore consumption is expected to grow by 5% during 2013. In 2012, China sourced about 50% of its iron ore from the import markets. TORM expects this ratio to increase if iron ore prices decline again.

The global seaborne coal trade is projected to grow by approximately 7% in 2013. The largest market for coal is Asia, which accounts for about 65% of the global consumption of both steam coal for electricity generation and coking coal for steel production. China alone accounts for roughly half of the global coal consumption, and it sourced 95% of its needed resources from domestic production in 2012.

Seaborne transportation demand is estimated to increase by approximately 4% in 2013.

TORM expects demand growth to be approximately 4% per annum, to be exceeded by a net fleet growth of 4-6% per annum, even after adjusting for cancellations, slippage and scrapping.

Supply

According to industry sources, the volume of expected newbuilding deliveries in 2013 is estimated to be about 55-65 million dwt, which is 5-10 million dwt less than actual deliveries in 2012. The Panamax segment is predicted to incur the largest net fleet growth of 7-8%.

TORM anticipates that scheduled newbuilding deliveries for 2013 will be partially offset by cancellations and delivery slippage, as was the case in 2011 and 2012, due to limited financing availability and continued pressure on freight rates.

Significantly, weak asset prices combined with strong steel prices will continue to increase incentives for scrapping older vessels. In 2012, a total of 32 million dwt was scrapped, which corresponds to 5% of the existing fleet. Industry sources project that a similar number will be scrapped during 2013.

Adjusted for an expected scrapping of 30-35 million dwt, the net fleet growth from 2012 to 2013 is expected to be around 4-6%.

Chartering of the Fleet

Vessels can be chartered by customers in a variety of ways.

The spot market provides the most frequent source of employment for our vessels. In the spot market, the charterer hires the vessel to carry cargo on a specific voyage. The owner provides the crew and bears all vessel operating costs and voyage costs, including fuel and port costs.

A charterer and owner can also enter into a time charter for a vessel. Time charters involve a charterer hiring a vessel for a fixed period, which may range from a short number of days to several years. Typical time charters are for periods of between six to 36 months. In a time charter, the owner bears operating costs, while the charterer is responsible for the voyage costs, including bunker costs.

A demise charter, also referred to as a bareboat charter, involves the chartering of a vessel for a fixed period of time. However, unlike a time charter, a bareboat charter requires the user to pay for all operating expenses, maintenance of the vessel and voyage costs.

During 2012, part of the tanker fleet operated in pools. Within each pool, a vessel may be time chartered out by the pool manager, but the charterhire is divided among all of the vessels in the pool and therefore does not provide us with the steady income normally associated with time charters. Each pool manager will determine the number of vessels to be time chartered depending on charterhire rates and pool board strategy. Vessels in our pools that are not time chartered generally trade in the spot market. However, the pools do enter into contracts of affreightment, which provide a guaranteed fixed income over a period of time. During 2012, part of the tanker fleet operated in pools.

Seasonality

The demand for product tankers and bulk carriers has historically fluctuated depending on the time of year. Demand for product tankers is influenced by many factors, including general economic conditions, but it is primarily related to demand for petroleum products in the areas of greatest consumption. Accordingly, demand for product tankers generally rises during the winter months and falls during the summer months in the Northern hemisphere. Demand for bulk carriers is not as volatile as that for tankers, but demand does generally increase in the spring months in North America as demand for grain increases and generally falls back during the winter months. More consistent commodities such as coal, however, provide some stability to the bulk vessel trade. Moreover, these are generalized trading patterns that vary from year to year and there is no guarantee that similar patterns will continue in the future.

Customers

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. The majority of our significant customers are companies that operate in the oil industry. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could have a material adverse effect on our business, financial condition and results of operations.

In 2012, TORM's top 10 customers accounted for 42% of its consolidated revenues (2011:35%) and one customer accounted for 8% of its consolidated revenue (2011: 10%, 2010: 11%).

Environmental and Other Regulations

Government regulations and laws significantly affect the ownership and operation of our vessels. We are subject to international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered and compliance with such laws, regulations and other requirements may entail significant expense.

Our vessels are subject to both scheduled and unscheduled inspections by a variety of government, quasi-governmental and private organizations including the local port authorities, national authorities, harbor masters or equivalent, classification societies, flag state administrations (countries of registry) and charterers. Our failure to maintain permits, licenses, certificates or other authorizations required by some of these entities could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards.

We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, additional legislation or regulation applicable to the operation of our vessels that may be implemented in the future, such as in response to a serious marine incident like the 2010 oil spill in the Gulf of Mexico, could negatively affect our profitability.

International Maritime Organization

The United Nations' International Maritime Organization, or the IMO, has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, collectively referred to as MARPOL 73/78 and herein as MARPOL. MARPOL entered into force on October 2, 1983. It has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL sets forth pollution-prevention requirements applicable to drybulk carriers, among other vessels, and is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI was separately adopted by the IMO in September of 1997.

Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil (see below).

The IMO's Maritime Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which were entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI requires that fuel oil contain no more than 3.50% sulfur (from the current cap of 4.50%). By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas," or ECAs. By July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0% (from 1.50%), which is further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. Effective August 1, 2012, certain coastal areas of North America were designated ECAs, as will the applicable areas of the United States Caribbean Sea adjacent to Puerto Rico and the U.S. Virgin Islands, effective January 1, 2014. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for ships. It makes the Energy Efficiency Design Index (EEDI), for new ships, mandatory and the Ship Energy Efficiency Management Plan (SEEMP) apply to all ships.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009. Please see "United States – the U.S. Clean Air Act" below for information on the ECA designated in North America and the Hawaiian Islands. We have obtained International Air Pollution Prevention certificates evidencing compliance with Annex VI requirements for all of our vessels.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. For example, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping tonnage. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory for our vessels. In addition, our vessels would be required to be equipped with a ballast water treatment system that meets mandatory concentration limits not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2014, for vessels with ballast water capacity of 1,500-5,000 cubic meters, or after such date in 2016, for vessels with ballast water capacity of greater than 5,000 cubic meters. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could be significant.

The IMO has also adopted the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended by different Protocol in 1976, 1984, and 1992, and amended in 2000, or the CLC. Under the CLC and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain exceptions. The 1992 Protocol changed certain limits on liability, expressed using the International Monetary Fund currency unit of Special Drawing Rights. The right to limit liability is forfeited under the CLC where the spill is caused by the shipowner's actual fault and under the 1992 Protocol where the spill is caused by the shipowner's intentional or reckless act or omission where the shipowner knew pollution damage would probably result. The CLC requires ships covered by it to maintain insurance covering the liability of the owner in a sum equivalent to an owner's liability for a single incident.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

Liquefied Gases

Severe collisions or strandings involving tankers carrying liquefied gases could result in a variety of hazards, such as cargo tank damage and uncontrolled release of the product. Such release could result in evaporation and dispersion of the product and, in some cases, could cause brittle fracture of the ship's hull.

The IMO adopted the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk, or the IGC Code, to provide an international standard for the safe transport by sea in bulk of liquefied gases and certain other substances, by prescribing the design and construction standards of ships involved in such transport and the equipment they should carry so as to minimize the risk to the ship, its crew and to the environment, having regard to the nature of the products involved. The IGC Code applies to gas carriers constructed on or after July 1, 1986. Gas carriers constructed before such date must comply with the IGC Code or the Code for Existing Ships Carrying Liquefied Gases in Bulk.

Safety Management System Requirements

IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. The Convention on Limitation of Liability for Maritime Claims was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claims and property claims against shipowners.

The operation of our ships is also affected by the requirements set forth in Chapter IX of SOLAS, which sets forth the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires ship owners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. We intend to rely upon the safety management system that our appointed ship managers have developed. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with the ISM Code requirements for a safety management system. No vessel can obtain a safety management certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code.

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner or bareboat charterer to increased liability, lead to decreases in available insurance coverage for affected vessels or result in the denial of access to, or detention in, some ports. As of the date of this report, each of our vessels is ISM Code certified. However, there can be no assurance that such certificate will be maintained.

United States

The U.S. Oil Pollution Act of 1990 and the Comprehensive Environmental Response, Compensation and Liability Act

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States' territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are responsible parties who are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from oil spills from their vessels. OPA limits the liability of responsible parties with respect to tankers over 3,000 gross tons to the greater of $2,000 per gross ton or $17,088,000 per double hull tanker, and with respect to non-tank vessels, the greater of $1,000 per gross ton or $854,400 for any non-tank vessel, respectively. These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of $300 per gross ton or $5.0 million for vessels carrying a hazardous substance as cargo and the greater of $300 per gross ton or $500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee. We have provided such evidence and received certificates of financial responsibility from the U.S. Coast Guard for each of our vessels required to have one.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. For example, on August 15, 2012, the U.S. Bureau of Safety and Environment Enforcement (BSEE) issued a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA and some states have enacted legislation providing for unlimited liability for oil spills. We intend to comply with all applicable state regulations in the ports where our vessels call. We believe that we are in substantial compliance with all applicable existing state requirements. In addition, we intend to comply with all future applicable state regulations in the ports where our vessels call.

The U.S. Clean Water Act

The U.S. Clean Water Act of 1972, or CWA, prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent then U.S. federal law.

The United States Environmental Protection Agency, or EPA, has enacted rules requiring a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. The EPA has issued a 2013 Vessel General Permit that will go into effect, and replace the current Vessel General Permit upon its expiration on December 19, 2013. This permit focuses on authorizing discharges incidental to operations of commercial vessels and the new version contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants. We have submitted NOIs for our vessels where required and do not believe that the costs associated with obtaining and complying with the VGP will have a material impact on our operations.

U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in

U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004.

Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act

The U.S. Clean Air Act of 1970 (including its amendments of 1977 and 1990) (the "CAA") requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans ("SIPs") designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements.

Since July 1, 2009, the State of California requires that both U.S. and foreign flagged vessels, subject to specified exceptions, use reduced sulphur content fuel of 1.5% for marine gas oil or 0.5% for diesel oil when operating within 24 nautical miles of California's coastline. As of August 1, 2012, only marine gas oil with a sulfur content of no more than 1% or marine diesel oil with a sulfur content of no more than .5% is allowed. By January 1, 2014, only marine gas oil and marine diesel oil fuels with 0.1% sulfur will be allowed.

Compliance with these standards may cause us to incur costs to install control equipment on our vessels.

European Union

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

The European Union has adopted several regulations and directives requiring, among other things, more frequent inspections of high-risk ships, as determined by type, age, and flag as well as the number of times the ship has been detained. The European Union also adopted and then extended a ban on substandard ships and enacted a minimum ban period and a definitive ban for repeated offenses. The regulation also provided the European Union with greater authority and control over classification societies, by imposing more requirements on classification societies and providing for fines or penalty payments for organizations that failed to comply.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. However, in July 2011 the MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from ships that entered into force in January 2013. Currently operating ships will be required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile, outlined in the Energy Efficiency Design Index, will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time.

International Labour Organization

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. On August 20, 2012, the required number of countries was met and MLC 2006 was ratified, and is expected to enter into force on August 20, 2013. The ratification of MLC 2006 may require us to develop new procedures to ensure full compliance with its requirements.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001 in the United States, there have been a variety of initiatives intended to enhance vessel security such as the Maritime Transportation Security Act of 2002, or MTSA. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The U.S. Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code, and our fleet is in compliance with applicable security requirements.

Inspection by Classification Societies

Every oceangoing vessel must be "classed" by a classification society. A classification society certifies that a vessel is "in-class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

- Annual Surveys. For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.

- Intermediate Surveys. Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.

- Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a vessel owner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle.

At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also dry-docked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a "recommendation" which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in-class" by a classification society that is a member of the International Association of Classification Societies. The International Association of Classification Societies issued draft harmonized Common Rules, that align with the IMO goal standards, for industry review in 2012, expected to be adopted in winter 2013. All our vessels are certified as being "in-class" by Lloyd's Register or Det Norske Veritas. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memoranda of agreement. If the vessel is not certified on the scheduled date of closing, we have no obligation to take delivery of the vessel.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a precondition to chartering them for voyages. We believe that our well-maintained, high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality.

Risk of Loss and Liability Insurance

General

The operation of any cargo vessel includes risks such as mechanical failure, structural damage to the vessel, collision, personal injuries, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, piracy, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which in certain circumstances imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for shipowners and operators trading in the U.S. market. We carry insurance against loss of hire, which protects against business interruption following a loss under our marine hull and machinery policy and in addition we are also covered under our War Risk Loss of Hire policy for loss of hire following a hi-jacking. The policies do not protect us from business interruptions caused by any other losses. While we believe that our present insurance coverage is adequate, not all risks can be insured against, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull and Machinery Insurance

We have obtained marine hull and machinery and war risk insurance, which include damage to a vessel's hull and machinery, collisions and the risk of actual or constructive total loss, for all of our vessels. The vessels are each covered up to at least fair value. Under regular circumstances, salvage and towing expenses are covered in connection with casualties. We also arranged increased value interests coverage for each vessel. Under this coverage, in the event of total loss or total constructive loss of a vessel, we will be able to recover for amounts not recoverable under the hull and machinery policy.

Protection and Indemnity Insurance

Protection and Indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which cover our third-party liabilities in connection with our shipping activities including other expenses and claims in connection with injury or death of crew, passengers and other third parties, loss or damage to cargo, damage to other third-party property, pollution arising from oil or other substances, wreck removal and related costs. Protection and Indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs."

Our current protection and indemnity insurance coverage for pollution is USD 1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure more than 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. The P&I clubs in the International Group of P&I clubs have bought reinsurance cover up to USD 3.06 billion after which the mutuality in the International Group will cover a claim by way of the overspill pool up to a total amount of app. USD 7 billion, adjustable by world tonnage size. As a member of two P&I Associations, which are members of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group.

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an operator. We conclude our time charters and voyage charters in the spot market through the use of brokers, through whom we negotiate the terms of the charters based on market conditions and experience. We compete primarily with owners of tankers in the Handymax (MR), Panamax (LR1) and Aframax (LR2) class sizes in our Tanker Division. Ownership of tankers is highly fragmented and is divided among major oil companies and independent tanker owners. Our bulk vessels also compete with other vessels of the same type and size.

Organizational Structure

The table below sets forth the Company's principal subsidiaries as of the date of this annual report.

Entity	Country of incorporation	Percentage of share capital/voting rights
TORM Singapore Pte. Ltd.	Singapore	100 %
VesselCo 2 Pte. Ltd.	Singapore	100% through DK Vessel HoldCo K/S
VesselCo 4 Pte. Ltd.	Singapore	100% through DK Vessel HoldCo K/S
VesselCo 6 Pte. Ltd.	Singapore	100% through DK Vessel HoldCo K/S
VesselCo 7 Pte. Ltd.	Singapore	100% through DK Vessel HoldCo K/S
TORM USA LLC	Delaware	100 %
Long Range 1 A/S	Denmark	100 %
Medium Range A/S	Denmark	100 %
LR1 Management K/S	Denmark	100 %

	Country of incorporation	Percentage of share capital/voting rights
MR Management K/S	Denmark	100 %
TT Shipowning K/S	Denmark	100 %
Torghattan & TORM Shipowning ApS	Denmark	100 %
Tiber Shipping LLC	Marshall Islands	100 %
OMI Marine Service Ltd.	Delaware	100 %
OMI Holding Ltd.	Mauritius	100 %
TORM Shipping India Private Limited	India	100 %
OMI Crewing Service Ltd.	Bermuda	100 %
DK Vessel HoldCo K/S	Denmark	100 %
VesselCo 1 K/S	Denmark	100 % through DK Vessel HoldCo K/S
VesselCo 2 K/S	Denmark	100 % through DK Vessel HoldCo K/S
VesselCo 3 K/S	Denmark	100 % through DK Vessel HoldCo K/S
VesselCo 4 K/S	Denmark	100 % through DK Vessel HoldCo K/S
DK Vessel HoldCo GP ApS	Denmark	100 %
VesselCo A ApS	Denmark	100 %
VesselCo B ApS	Denmark	100 %
VesselCo C ApS	Denmark	100 %
VesselCo D ApS	Denmark	100 %
TORM Brasil Consultoria em Transporte Maritimo LTDA.	Brazil	100 %

In addition to the principal subsidiaries and TORM's other subsidiaries, TORM holds a 50% interest in FR8 Holdings Pte. Ltd., a Company currently in liquidation, LR2 Management K/S and a 25% interest in TORM Shipping (PHILS.), Inc, all of which are managed jointly with one or more other enterprises and are under joint control.

Property, Plant and Equipment

Real Property

We do not own any real property other than one small residential property. We lease office space in Copenhagen, Singapore, Stamford (Connecticut, USA), Rio De Janeiro, Brazil and Mumbai, India on contracts expiring in 2014, 2014, 2017, 2017 and 2015, respectively. In addition, we have leased five apartments in Singapore on contracts expiring up until January 2015.

Fleet

The following table lists our entire fleet of owned and finance leased vessels as of March 31, 2013:

Product Tankers	Year Built	Dwt	Ownership	Flag
TORM HELENE	1997	99,999	100%	DIS
TORM KRISTINA	1999	105,001	100%	DIS
TORM GUDRUN	2000	101,122	100%	DIS
TORM INGEBORG	2003	99,999	100%	DIS
TORM VALBORG	2003	99,999	100%	DIS
TORM MARINA	2003	109,672	100%	NIS
TORM MAREN	2007	110,000	100%	DIS
TORM MATHILDE	2008	110,000	100%	DIS

TORM SARA	2008	72,718	100%	Singapore
TORM ESTRID	2003	74,999	100%	DIS
TORM EMILIE	2004	74,999	100%	DIS
TORM ISMINI	2004	74,999	100%	DIS
TORM SIGNE	2004	72,718	100%	Singapore
TORM SOFIA	2005	72,718	100%	Singapore
TORM VENTURE	2007	74,999	100%	NIS
TORM GUNHILD	1999	44,999	100%	DIS
TORM ANNE	1999	44,990	100%	Singapore
TORM NECHES	2000	47,052	100%	Singapore

Product Tankers	Year Built	Dwt	Ownership	Flag
TORM CLARA	2000	45,999	100%	DIS
TORM CECILIE	2001	44,946	100%	DIS
TORM AMAZON	2002	47,275	100%	Panama
TORM SAN JACINTO	2002	47,038	100%	DIS
TORM MARY	2002	45,990	100%	DIS
TORM VITA	2002	45,940	100%	DIS
TORM CAROLINE	2002	44,946	100%	DIS
TORM GERTRUD	2002	45,940	100%	DIS
TORM GERD	2002	45,940	100%	DIS
TORM THYRA	2003	45,990	100%	DIS
TORM FREYA	2003	45,990	100%	DIS
TORM MOSELLE	2003	47,024	100%	DIS
TORM ROSETTA	2003	47,015	100%	DIS
TORM CAMILLA	2003	44,990	100%	DIS
TORM CARINA	2003	44,990	100%	DIS
TORM HORIZON	2004	46,955	100%	DIS
TORM HELVIG	2005	44,990	100%	DIS
TORM RAGNHILD	2005	44,990	100%	DIS
TORM THAMES	2005	47,035	100%	DIS
TORM KANSAS	2006	46,922	100%	DIS
TORM REPUBLICAN	2006	46,893	100%	DIS
TORM PLATTE	2006	46,920	100%	DIS
TORM LAURA	2008	52,000	100%	DIS
TORM LENE	2008	52,000	100%	DIS
TORM LOTTE	2009	52,000	100%	DIS
TORM LOUISE	2009	52,000	100%	DIS
TORM LILLY	2009	52,000	100%	DIS
TORM ALICE *)	2010	50,500	100%	DIS
TORM ALEXANDRA	2010	50,500	100%	DIS
TORM ASLAUG *)	2010	50,500	100%	DIS
TORM AGNETE	2010	50,500	100%	DIS
TORM ALMENA *)	2011	50,500	100%	Singapore
TORM AGNES *)	2011	50,500	100%	Singapore
TORM AMALIE *)	2011	50,500	100%	Singapore
TORM ARAWA	2012	49,999	100%	Singapore
TORM ANABEL	2012	49,999	100%	Singapore
TORM MADISON	2000	35,828	100%	DIS
TORM TRINITY	2000	35,834	100%	DIS
TORM RHONE	2000	35,751	100%	DIS
TORM CHARENTE	2001	35,751	100%	DIS
TORM OHIO	2001	37,274	100%	DIS
TORM LOIRE	2004	37,106	100%	DIS
TORM GARONNE	2004	37,178	100%	DIS
TORM SAONE	2004	37,106	100%	DIS
TORM FOX	2005	37,006	100%	DIS

TORM TEVERE	2005	36,990	100%	DIS
TORM GYDA	2009	37,000	100%	DIS
TORM ANHOLT	2004	74,195	100%	Singapore
TORM BORNHOLM	2004	75,912	100%	Singapore

* Indicates that the vessel is classified as a non-current asset held for sale

Newbuildings

As of the date of this report we have no newbuildings.

Other

We have entered into various IT-related, office equipment and car rental contracts that typically expire after six months and up to three years. We also have contractual obligations relating to vessels chartered-in. Please refer to "Item 5. – F Tabular Disclosure of Contractual Obligations" for further disclosures relating to our contractual obligations.

Please refer to "Item 5. Operating and Financial Review and Prospects" and Notes 18 and 29 to our consolidated financial statements for information relating to our contractual obligations and planned investments.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Operating Results

The financial information included in the discussion below is derived from the Company's consolidated financial statements.

TORM AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
For The Years Ended December 31, 2010, 2011 and 2012
(Expressed in thousands of USD)

	For the year ended December 31		
	2010	2011	2012
	(in thousands of USD except for share information)		
IFRS financial data			
Consolidated income statement Data:			
Revenue	856,075	1,305,208	1,121,215
Port expenses, bunkers and commissions	(298,830)	(675,004)	(665,395)
Freight and bunkers derivatives	3,339	14,105	9,914
Time charter equivalent earnings (1)(3)	560,584	644,309	465,734
Charter hire	(228,631)	(398,326)	(389,603)
Operating expenses	(152,207)	(164,949)	(168,903)
Gross profit (Net earnings from shipping activities)	179,746	81,034	(92,772)
Profit/(loss) from sale of vessels	1,871	(52,538)	(26,048)
Administrative expenses	(78,161)	(71,222)	(67,224)
Other operating income	4,788	3,170	951
Share of results of jointly controlled entities	(11,453)	(4,217)	(9,408)
Impairment losses on jointly controlled entities	(35,000)	(13,000)	(41,542)
Amortization, depreciation and impairment losses	(141,410)	(331,826)	(212,461)
Operating profit/(loss)	(79,619)	(388,599)	(448,504)

Financial income	2,663	9,930	11,846
Financial expenses	(59,285)	(72,716)	(142,427)
Profit/(loss) before tax	(136,241)	(451,385)	(579,085)
Tax (expenses)/benefit	982	(1,621)	(1,558)
Net profit/(loss) for the year	(135,259)	(453,006)	(580,643)
Balance sheet data (as of end of period):			
Total assets	3,286,108	2,779,207	2,355,337
Total non-current liabilities	1,835,687	89,479	1,953,829
Total liabilities	2,170,819	2,135,358	2,087,998
Equity/net assets	1,115,289	643,849	267,339
Common shares	61,098	61,098	728,000,000
No. of shares outstanding	72,800,000	72,800,000	728,000,000
Other financial data			
Dividends declared per share DKK	0	0	0
Dividends declared per share USD	0	0	0
Extraordinary dividend per share DKK	0	0	0
Earnings per share – basic	(2.0)	(6.5)	(3.3)
Earnings per share – diluted	(2.0)	(6.5)	(3.3)
Spot rate (2)(3)	417,601	431,772	384,532

(1) TCE earnings per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. See "-Primary Factors Affecting Results of Operations" below.

(2) Spot rate is the equivalent of TCE for all charters with less than six months' duration which is calculated from the gross freight income less bunker, commissions and port expenses.

(3) The Company reports Time Charter Equivalent earnings, or TCE, and spot rates, both non-IFRS measures, because (i) it believes they provide additional meaningful information in conjunction with revenue, the most directly comparable IFRS measure, (ii) they are standard shipping industry performance measures used primarily to compare period-to-period changes in a shipping company's performance irrespective of changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods, and (iii) it believes that it presents useful information to investors.

Primary Factors affecting Results of Operations

TORM generates revenue by charging customers for the transportation of refined oil products, crude oil and, to a much lesser extent, dry bulk cargoes, using our tanker and dry bulk vessels. The Company's focus is on maintaining a young, high quality fleet and optimizing the mix between chartered-in and owned vessels. The Company actively manages the deployment of the fleet between spot market voyage charters, which generally last from several days to several weeks, and time charters, which can last up to several years. The vast majority of the Company's product tankers are employed in pools, whose revenue is derived from both spot market voyage charters and time charters. The Company's dry bulk vessels are typically employed on time charter.

TORM believes that the important measures for analyzing trends in the results of our operations for both tankers and dry bulk vessels consist of the following:

- Time charter equivalent, or TCE, earnings per available earning day. TCE earnings per available earning day are defined as revenue less voyage expenses divided by the number of available earning days. Voyage expenses primarily consist of port and bunker expenses that are unique to a particular voyage, which would otherwise be paid by a charterer under a time charter, as well as commissions, freight and bunker derivatives. TORM believes that presenting revenue net of voyage expenses neutralizes the variability created by unique costs associated with particular voyages or the deployment of vessels on the spot market and facilitates comparisons between periods on a consistent basis. Under time charter contracts, the charterer pays the voyage expenses, while under voyage charter contracts the shipowner pays these expenses. A charterer has the choice of entering into a time charter (which may be a one-trip time charter) or a voyage charter. TORM is neutral as to the charterer's choice because the Company will primarily base its economic decisions on expected TCE rates rather than on expected revenue. The analysis of revenue is therefore primarily based on developments in TCE earnings. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

- Spot rate is the equivalent of TCE for all charters with less than six months' duration which is calculated from the gross freight income less bunker, commissions and port expenses A spot market voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed freight per ton of cargo or a specified total amount. Under spot market voyage charters, TORM pays voyage expenses such as port, canal and bunker costs. Spot charter rates are volatile and fluctuate on a seasonal and year-to-year basis. Fluctuations derive from imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes. Vessels operating in the spot market generate revenue that is less predictable, but may enable us to capture increased profit margins during periods of improvements in tanker rates. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

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- Time charter rates. A time charter is generally a contract to charter a vessel for a fixed period of time at a set daily or monthly rate. Under time charters, the charterer pays voyage expenses such as port, canal and bunker costs. Vessels operating on time charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot market during periods characterized by favorable market conditions.

- Available earning days. Available earning days are the total number of days in a period when a vessel is ready and available to perform a voyage, meaning the vessel is not off-hire or in dry-dock. For the owned vessels, this is calculated by taking operating days and subtracting off-hire days and days in dry-dock. For the chartered-in vessels, no such calculation is required because charter hire is only paid on earning days and never for off-hire days or days in dry-dock.

- Operating days. Operating days are the total number of available days in a period with respect to the owned vessels, before deducting unavailable days due to off-hire days and days in dry-dock. Operating days is a measurement that is only applicable to the owned vessels, not to the chartered-in vessels.

- Operating expenses per operating day. Operating expenses per operating day are defined as crew wages and related costs, the costs of spares and consumable stores, expenses relating to repairs and maintenance (excluding dry-docking), the cost of insurance and other miscellaneous expenses on a per operating day basis. Operating expenses are only paid for owned vessels. The Company does not pay such costs for the chartered-in vessels, which are borne by the vessel owner and instead factored into the charter hire cost for such chartered-in vessels.

Comparison of the Year Ended December 31, 2012 and the Year Ended December 31, 2011

TORM achieved a net loss of USD 581 million in 2012 compared to a net loss of USD 453 million in 2011, resulting in earnings/(loss) per share, or EPS, of USD (3.3) in 2012. The performance in 2012 was weaker due to lower freight rates and accounting effects of the execution of the Restructuring, vessel sales and impairment charges. As outlined in the table below under "- Restructuring", the effects related to the Restructuring amounted to USD 210 million. In addition, TORM recorded impairment losses of USD 74 million relating to five vessels treated as assets held for sale and USD 42 million relating to the Company's 50% investment in FR8, a company currently in liquidation. Please refer to Note 9 of the Company's consolidated financial statements for a review of the impairment testing performed by Management.

Total revenues in 2012 was USD 1,121 million compared to USD 1,305 million in 2011. TCE earnings in 2012 amounted to USD 466 million compared to USD 644 million in 2011. The decrease in TCE earnings was due to a decrease in the number of available earning days of 16%, corresponding to a reduction in earnings of USD 102 million, and lower freight rates in both the Company's Tanker Division and the Company's Bulk Division corresponding to a reduction in earnings of USD 68 million.

The operating loss increased by USD 60 million to a loss of USD 449 million in 2012 from a loss of USD 389 million in 2011. The increased loss compared to 2011 was primarily due to the accounting effects of the Restructuring of USD 145 million, which was partly offset by a reduction in loss from sale of vessels of USD 36 million and net decrease of USD 84 million in impairment losses on jointly controlled entities and tangible and intangible assets. For 2011, the impairment losses amounted to USD 200 million.

TORM's total assets decreased by USD 424 million in 2012 to USD 2,355 million from USD 2,779 million in 2011, of which the carrying amount of vessels including vessels held for sale, capitalized dry-docking and prepayments on vessels amounted to USD 2,082 million, compared to USD 2,349 million in 2011. The decrease was primarily due to impairment losses of USD 116 million and depreciation of USD 138 million.

Current assets excluding cash increased by USD 73 million. The increase is primarily due to an increase in assets held for sale of USD 113 million compared to 2011, partly offset by a decrease in freight receivables. The decrease in freight receivables was primarily driven by a significant decrease in revenue.

Total equity decreased by USD 377 million in 2012 to USD 267 million from USD 644 million in 2011. The decrease in equity was mainly due to the loss for the year of USD 581 million, hereof USD 210 million relating to the Restructuring. The impact of the loss for the year was partly offset by an increase in capital of USD 200 million by conversion of debt.

TORM's total liabilities decreased by USD 47 million in 2012 to USD 2,088 million from USD 2,135 million in 2011, primarily due to redelivery of one vessel operating under a finance lease contract in connection with the Restructuring of USD 46 million and a decrease in trade payables and other payables of USD 69 million, which is partly offset by drawdowns of USD 58 million on the new working capital facility.

Restructuring

In November 2012, TORM completed the Restructuring with the cooperation of the Company's Secured Lenders and Time Charter-in Partners. The agreement secured TORM deferral of bank debt, new liquidity and substantial savings from the restructured time charter book.

The table below presents the accounting effects of the Restructuring.

ACCOUNTING IMPACT OF THE RESTRUCTURING AGREEMENT
AND CERTAIN RELATED TRANSACTIONS

USD million	Fee to banks (1)	Fee to charterins (operating lease) (2)	Fee to charter ins (finance leases) (3)	New finance lease (4)	Capital decrease (5)	Conversion of debt (6)	Transfer to noncurrent liabilities (7)	Drawdown and payment of interest and fees (8)	Fee to advisors (9)	Net accounting impact
Charter hire	-	(135)	-	-	-	-	-	-	-	(135)
Net profit/(loss) from sale of vessels	-	-	(10)	-	-	-	-	-	-	(10)
Financial expenses	-	-	-	-	-	-	-	-	(65)	(65)
Net profit/(loss)	0	(135)	(10)	0	0	0	0	0	(65)	(210)
Vessels and capitalized dry-docking	-	-	(67)	15	-	-	-	-	-	(52)
Cash and cash equivalents	-	-	-	-	-	-	-	5	(74)	(69)
TOTAL ASSETS	0	0	(67)	15	0	0	0	5	(74)	(121)
Common shares	-	-	-	-	(61)	1	-	-	-	(60)
Special reserve	-	-	-	-	61	-	-	-	-	61
Retained profit	-	(135)	(10)	-	-	199	-	-	(68)	(14)
Total equity	0	(135)	(10)	0	0	200	0	0	(68)	(13)
Mortgage debt and bank loans	-	-	-	-	-	-	1,830	58	(6)	1,882
Finance lease liabilities	-	-	(28)	15	-	-	-	-	-	(13)
Total non-current liabilities	0	0	(28)	15	0	0	1,830	58	(6)	1,869
Mortgage debt and bank loans	-10	-	-	-	-	-	(1,784)	-	-	(1,794)
Finance lease liabilities	-	-	(50)	-	-	-	-	-	-	(50)
Other liabilities	10	135	21	-	-	(200)	(46)	(53)	-	(133)
Total current liabilities	0	135	(29)	0	0	(200)	(1,830)	(53)	0	(1,977)
TOTAL EQUITY AND LIABILITIES	0	0	(67)	15	0	0	0	5	(74)	(121)

(1) A USD 10 million fee to the banks was recognized as transaction costs against mortgage debt and bank loans and as an increase of agreed debt in other liabilities.

(2) A USD 190 million in consideration to time charter-in partners, USD 169 million was for accounting purposes considered to relate to termination and modification of charter-in debt in respect of operating leases. Of the USD 169 million, charter hire of USD 34 million was previously rolled up in accrued charter hire in other liabilities. The net amount of USD 135 million was expensed as termination costs of USD 88 million (terminated contracts) and an expected loss on continuing time charter-ins of USD 47 million (onerous contracts), both in the line item charter hire.

(3) TORM's two finance leases (USD 67 million in vessels) have been terminated as part of the restructuring, one of which was subsequently accounted for as a new finance lease, see footnote note 4 below. USD 21 million of the USD 190 million consideration to time charter-in partners was considered to relate to settlement of terminated charter-in contracts in respect of finance leases. The USD 21 million was added to other liabilities, and the finance lease liabilities and book value of the vessels were removed from the balance sheet resulting in a net loss of USD 10 million in net profit/(loss) from sale of vessels.

(4) One of TORM's two finance leases has re-entered the fleet under new terms and has been accounted for as a new finance lease, cf. note 3 above. The new finance lease results in an addition of USD 15 million to the line item vessels and a corresponding increase in finance lease liabilities.

(5) The capital decrease approved at the Annual General Meeting on April 23, 2012 was completed as part of the completion of the Restructuring by decreasing the nominal amount per share from DKK 5.00 to DKK 0.01. The share capital was reduced by USD 61 million which has been transferred from the line item common shares to the line item special reserve.

(6) The total restructuring fee and agreed debt of USD 200 million was converted into new shares upon completion of the Restructuring. TORM issued 655.2 million new shares of a nominal value of DKK 0.01 each, at a subscription price of DKK 1.79 per new share, corresponding to an increase of the nominal share capital of USD 1 million and an increase in retained profit of USD 199 million.

(7) As of the completion of the restructuring, TORM was no longer in breach of any covenants, and as a result hereof TORM's bank debt was not considered to fall due within a period of 12 months from completion of the restructuring. Consequently, USD 1,784 million in mortgage debt and bank loans have been transferred from current to non-current liabilities. In addition, USD 46 million of swap liabilities have been transferred to non-current liabilities.

(8) At the completion of the Restructuring, TORM made a drawdown of USD 60 million on the Super Senior Working Capital Facility of which USD 2 million was used to pay upfront and agency fees and recognized as transaction costs against mortgage debt and bank loans. In addition, the drawdown was used to finance the payment of rolled-up interest of USD 22 million and other accrued fees and expenses of approximately USD 31 million. As of December 28, 2012, TORM repaid USD 2 million, so that the total drawdown at year end 2012 was USD 58 million.

(9) Fees to advisors of TORM and its creditors related to the work on the Restructuring Agreement.

The information in the table below excludes from certain amounts the effects of the Restructuring. The segment financial information excluding the effects of the Restructuring are considered to be non-IFRS measures and are disclosed to facilitate the analysis of like-for-like movement between 2011 and 2012 so that trends and profitability experienced by the Company in 2012 can be presented to investors in a helpful manner. The presentation of the non-IFRS measures in the segment results table below is reconciled to the most directly comparable IFRS measures.

CONSOLIDATED SEGMENT INFORMATION 2012 - ADJUSTED FOR THE RESTRUCTURING EFFECTS

This table displays the segment results for 2012 excluding restructuring effects to enable a like-for-like comparison with 2011.

	2012									
USD million	Tanker Division without restructuring	Restructuring effects	Tanker Division Total	Bulk Division Without restructuring	Restructuring effects	Bulk Division Total	Divisions without restructuring	Restructuring effects	Not allocated	Total
INCOME STATEMENT										
Revenue	917.1	-	917.1	204.1	-	204.1	1,121.2	0.0	-	1,121.2
Port expenses, bunkers and commissions	(538.1)	-	(538.1)	(127.3)	-	(127.3)	(665.4)	0.0	-	(665.4)
Freight and bunker derivatives	(0.6)	-	(0.6)	10.5	-	10.5	9.9	0.0	-	9.9
Time charter equivalent-earnings	378.4	0.0	378.4	87.3	0.0	87.3	465.7	0.0	0.0	465.7
Charter hire	(153.8)	(74.6)	(228.4)	(100.5)	(60.7)	(161.2)	(254.3)	(135.3)	-	(389.6)
Operating expenses	(165.5)	-	(165.5)	(3.4)	-	(3.4)	(168.9)	0.0	-	(168.9)
Gross profit/(loss) (Net earnings from shipping activities)	59.1	(74.6)	(15.5)	(16.6)	(60.7)	(77.3)	42.5	(135.3)	0.0	(92.8)
Net profit/(loss) from sale of vessels	(16.0)	(10.0)	(26.0)	0.0	-	0.0	(16.0)	(10.0)	-	(26.0)
Administrative expenses	(58.9)	-	(58.9)	(8.3)	-	(8.3)	(67.2)	0.0	-	(67.2)
Other operating income	0.6	-	0.6	0.3	-	0.3	0.9	0.0	-	0.9
Share of results of jointly controlled entities	(5.0)	-	(5.0)	0.0	-	0.0	(5.0)	0.0	(4.4)	(9.4)
Depreciation incl. impairment losses	(209.6)	-	(209.6)	(2.8)	-	(2.8)	(212.4)	0.0	(41.6)	(254.0)
Operating profit/(loss) (Segment result)	(229.8)	(84.6)	(314.4)	(27.4)	(60.7)	(88.1)	(257.2)	(145.3)	(46.0)	(448.5)

Gross Profit (Net Earnings from Shipping Activities)

TORM's revenues are derived from two segments: the Tanker Division and the Bulk Division. The table below, Segment gross profit/loss presents the results of shipping activities by operating segment for the years 2011 and 2012 excluding the Restructuring effects. The gross profit for 2012 in the Tanker Division decreased by USD 33 million and in the Bulk Division by USD 6 million compared to 2011.

Segment gross profit/(Loss)

USD million	Tanker – Division	Bulk Division	Total 2011	Tanker Division	Bulk Division	Total 2012
Revenue	958.7	346.5	1,305.2	917.1	204.1	1,121.2
Port expenses, bunkers and commissions	(510.7)	(164.3)	(675.0)	(538.1)	(127.3)	(665.4)
Freight and bunker derivatives	4.9	9.2	14.1	(0.6)	10.5	9.9
Time charter equivalent earnings	452.9	191.4	644.3	378.4	87.3	465.7
Charter hire*	(199.3)	(199.0)	(398.3)	(153.8)	(100.5)	(254.3)
Operating expenses	(161.8)	(3.2)	(165.0)	(165.5)	(3.4)	(168.9)
Gross profit/(loss) (Net earnings from shipping activities)*	91.8	(10.8)	81.0	59.1	(16.6)	42.5

* 2012 figures exclude the impact from the Restructuring to enable a like-for-like comparison between 2011 and 2012.

Tanker Division

Revenue in the Tanker Division decreased by 4% to USD 917 million in 2012 from USD 959 million in 2011, and time charter equivalent earnings decreased by USD 75 million or 16% to USD 378 million in 2012 from USD 453 million in 2011. The decrease in TCE earnings was primarily due to a decrease in both the number of available earning days of 9% and the weighted average TCE earnings per available earning day of 8% compared to 2011.

In the LR2 fleet, one finance lease was redelivered in 2012 as part of the Restructuring. Combined with the sale of two vessels late in 2011, the number of available earning days in the LR2 fleet decreased by 19% compared to 2011, resulting in a reduction in earnings of USD 12 million. The average freight rates dropped by 21% from 2011 to 2012, resulting in a reduction in earnings of USD 10 million.

In the LR1 fleet, one vessel was sold in 2012 (50% ownership), and the time charter fleet was significantly reduced as part of the Restructuring, leaving the number of available earning days in the LR1 fleet 18% lower compared to 2011. The average freight rates increased by 2% in 2012. In total, earnings were reduced by USD 17 million.

In the MR fleet in 2012, two newbuildings were delivered to the fleet of owned vessels and one vessel was sold. The time charter fleet was reduced as part of the Restructuring, resulting in a decrease in the number of available earning days of 573 days or 3%. In combination with a decrease in freight rates of 12%, this resulted in reduced earnings of USD 36 million.

In the Handysize fleet, the average freight rates were 8% higher in 2012 compared to 2011, resulting in an increase in earnings of USD 4 million.

The table below summarizes the earnings data per quarter for the Tanker Division.

EARNINGS DATA

				2012			%
	2011						Change
USD	Full year	Q1	Q2	Q3	Q4	Full year	full year
TANKER DIVISION							
LR2/Aframax vessels							
Available earning days	4,560	899	854	989	961	3,703	(19)%
- Owned vessels	4,234	808	711	806	781	3,106	
- Time chartered vessels	326	91	143	184	180	598	
Spot rates (1)	11,821	10,814	10,206	13,581	14,383	12,573	6%
TCE per earning day (2)	13,505	7,865	14,157	11,082	10,025	10,735	(21)%
LR1/Panamax vessels							
Available earning days	8,537	2,076	1,879	1,716	1,296	6,967	(18)%
- Owned vessels	2,537	636	606	644	644	2,530	
- Time chartered vessels	6,000	1,440	1,273	1,072	652	4,437	

Spot rates (1)	11,855	12,515	11,237	13,512	11,856	11,953	1%
TCE per earning day (2)	12,017	12,977	11,747	12,723	11,424	12,294	2%
MR vessels							
Available earning days	17,625	4,681	4,362	4,176	3,833	17,052	(3)%
- Owned vessels	13,627	3,549	3,436	3,491	3,486	13,962	
- Time chartered vessels	3,998	1,132	926	685	347	3,090	
Spot rates (1)	13,448	14,363	11,510	10,612	14,165	12,178	(9)%
TCE per earning day (2)	13,718	14,082	11,418	9,843	12,655	12,042	(12)%
Handysize vessels							
Available earning days	3,935	989	981	1,007	1,009	3,986	1%
- Owned vessels	3,935	989	981	1,007	1,009	3,986	
- Time chartered vessels	-	-	-	-	-	-	
Spot rates (1)	10,074	12,823	10,939	11,263	13,211	11,801	17%
TCE per earning day (2)	11,288	13,122	12,189	10,873	12,617	12,196	8%

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(1) Spot rate is the equivalent of TCE for all charters with less than six months' duration which is calculated from the gross freight income less bunker, commissions and port expenses. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

(2) TCE per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

Bulk Division

In the Bulk Division, revenue decreased by 41% to USD 204 million in 2012 from USD 347 million in 2011, and time charter equivalent earnings decreased by 54% or USD 104 million to USD 87 million in 2012 from USD 191 million in 2011. Earnings were negatively affected by an overall decrease of 35% in the number of available earning days combined with a reduction in the weighted average TCE earnings per available earning day of 28% compared to 2011.

In the Panamax fleet, the number of available earning days decreased by 2,772 days in 2012 as compared to 2011 or 31% due to a reduction in the time charter fleet, causing a decrease in earnings of USD 41 million. Freight rates were on average 31% lower in 2012 than in 2011 and reduced earnings by USD 28 million in 2012 as compared to 2011.

In the Handymax fleet, the number of available earning days decreased by 1,791 days to 2,421 days in 2012 compared to 2011 or 43% due to a decrease in the time charter fleet. The decrease in available earning days decreased earnings by USD 23 million, whereas a decrease in average freight rates of 20% resulted in a decrease in earnings of USD 6 million.

The table below summarizes the earnings data per quarter for the Bulk Division.

EARNINGS DATA

USD	2011 Full year	2012 Q1	Q2	Q3	Q4	Full year	% Change full year
BULK DIVISION							
Panamax vessels							
Available earning days	8,998	1,848	1,447	1,205	1,726	6,226	(31)%
- Owned vessels	730	182	174	184	184	724	
- Time chartered vessels	8,268	1,666	1,272	1,021	1,543	5,502	
TCE per earning day (1)	14,783	11,727	11,084	10,857	7,541	10,248	(31)%
Handymax vessels							
Available earning days	4,212	642	260	757	762	2,421	(43)%
- Owned vessels	-	-	-	-	-	-	
- Time chartered vessels	4,212	642	260	757	762	2,421	
	13,065	12,683	4,954	9,916	11,076	10,481	(20)%

TCE per earning
day (1)

(1) TCE earnings per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

Operation of Vessels

As compared to 2011, the charter hire cost in the Tanker Division increased by USD 29 million to USD 228 million in 2012. The Restructuring accounted for a USD 75 million increase in the charter hire cost, whereas a decrease of USD 43 million was primarily caused by a reduction of chartering days due to a large number of redeliveries that were completed in connection with the Restructuring.

As compared to 2011, the charter hire cost in the Bulk Division decreased by USD 38 million to USD 161 million. The Restructuring accounted for a USD 61 million increase in charter hire costs, whereas a decrease of USD 99 million was primarily caused by a reduction of chartering days due to a large number of redeliveries that were completed in connection with the Restructuring and reduced activity.

Operating expenses for the owned vessels increased by USD 4 million to USD 169 million in 2012. During 2012, the cost savings and efficiency programs continued, keeping the cost development under control.

The total fleet of owned vessels had 585 off-hire days, corresponding to 2.3% of the number of operating days in 2012 compared to 373 off-hire days in 2011, corresponding to 1.4% of operating days.

The table below summarizes the development in operating expenses.

Change in Operating expenses

USD million	Tanker Division				Bulk Division		
	Handysize	MR	LR1	LR2	Panamax	Unallocated	Total
Operating expenses 2011	24	91	16	31	3	0	165
Change in operating days	-	2	-	(4)	-	-	(2)
Change in operating expenses per day	-	6	-	-	-	-	6
Operating expenses 2012	24	99	16	27	3	0	169

The table below summarizes the operating data for the Company's fleet of owned and bareboat chartered vessels.

Operating data USD/day	Tanker Division					Bulk Division			
	Handy size	MR	LR1	LR2	Tanker	Handy max	Panamax	Bulk	Total 2012
Operating expenses per operating day in 2011	6,013	6,479	6,403	6,586	6,417	-	4,440	4,440	6,363
Operating expenses per operating day in 2012	6,004	6,921	6,293	6,554	6,649	-	4,637	4,637	6,591
Change in the operating expenses per operating day in %	0 %	7 %	(2)%	0 %	4 %	N/A	4 %	4 %	4 %
Operating days in 2012*)	4,026	14,290	2,562	4,015	24,893	-	732	732	25,625
- Off-hire	40	152	2	86	280	-	8	8	288
- Dry-docking	-	175	30	92	297	-	-	-	297
	-	-	-	(732)	(732)	-	-	-	(732)

+/- Bareboat charters out/in									
+ Vessels chartered in	-	3,090	4,437	598	8,125	2,421	5,502	7,923	16,048
Available earning days	3,986	17,053	6,967	3,703	31,709	2,421	6,226	8,647	40,356

Profit/Loss from Sale

During 2012, TORM incurred a loss from the sale of vessels of $26.0 million compared to a loss of $52.5 million in 2011. During 2012, TORM sold one MR product tanker and one MR product tanker newbuilding was canceled. TORM also sold its shares in a joint venture in which the main asset was a 2007-built LR1 vessel.

Administrative Expenses and Other Operating Income

Total administrative expenses amounted to USD 67 million in 2012, which was a decrease of USD 4 million or 6% compared to the USD 71 million in 2011 and mainly due to a reduction in the number of employees.

Other operating income primarily comprises chartering commissions and service fees. Other operating income amounted to USD 1 million in 2012 and USD 3 million in 2011.

Financial Income and Expenses

Net financial expenses in 2012 were USD 131 million against USD 63 million in 2011, corresponding to an increase of USD 68 million, whereof USD 65 million relates to fees to advisors of the Company and the Company's creditors related to the work on the Restructuring Agreement.

Tax

Tax for the year amounted to an expense of USD 2 million, which was the same level as in 2011.

Comparison of the Year Ended December 31, 2011 and the Year Ended December 31, 2010

TORM incurred a net loss of USD 453 million in 2011 compared to a net loss of USD 135 million in 2010, resulting in a loss per share (EPS) of USD 6.5 in 2011 compared to a loss per share of USD 2.0 in 2010. The performance was weaker than expected due to lower than expected freight rates in 2011 and unplanned vessel sales during the year which resulted in a loss of USD 47 million. In addition, TORM recorded impairment losses of USD 200 million relating to the Tanker Division and to the Company's 50% investment in FR8.

The 50% investment in FR8 was the last major investment made by TORM within the product tanker market, and the carrying amount of the investment was based on a higher average vessel cost price compared to similar vessel types in TORM's own fleet. Consequently, it was more vulnerable to impairment, and based on management's review of the recoverable amount of assets at December 31, 2011, the 50% investment in FR8 was impaired by USD 13 million in addition to the USD 35 million impairment loss recorded in 2010.

Revenue in 2011 was USD 1,305 million compared to USD 856 million in the previous year. TCE earnings in 2011 were USD 644 million compared to USD 561 million in 2010. The increase in TCE earnings was primarily due to a significant increase of 30% in the number of available earning days, particularly in the Bulk Division. This increase was partly offset by significantly lower freight rates in both the Tanker Division, particularly in the Handysize, LR1 and LR2 business areas, and the Bulk Panamax business area. The achieved weighted average TCE earnings per available earning day in 2011 was down 10% in the Tanker Division as compared to 2010 and down 28% in the Bulk Division as compared to 2010.

Operating loss increased by USD 309 million to a loss of USD 389 million in 2011 as compared to a loss of USD 80 million in 2010. The higher loss compared to 2010 was primarily due to a net loss of USD 53 million from the sale of vessels and impairment losses of USD 200 million relating to the Tanker Division and FR8 as compared to a net profit from sale of vessels of $2 million and impairment losses of USD 35 million relating to FR8 in 2010. Significantly lower freight rates and higher charter hire expenses, primarily due to the higher activity level in the Bulk Division, also contributed negatively to TORM's operations.

TORM's total assets decreased by USD 507 million to USD 2,779 million in 2011 from USD 3,286 million in 2010, of which the carrying amount of vessels including vessels held for sale, capitalized dry-docking and prepayments on vessels amounted to USD 2,349 million in 2011 as compared to USD 2,787 million in 2010. Although current assets in 2011, excluding cash, increased by USD 80 million, net working capital decreased by USD 2 million. The increase in current assets is primarily due to the larger fleet of time chartered vessels in the Bulk Division compared to 2010. At December 31, 2011, the fleet of owned vessels consisted of 65.5 product tankers and two dry bulk vessels. In addition, TORM chartered 30 product tankers and 39 dry bulk vessels on time charter agreements and commercially managed approximately 22 vessels for third-party owners and charterers.

Total equity decreased by USD 471 million in 2011 to USD 644 million from USD 1,115 million in 2010. The decrease in equity was mainly due to the loss for the year of USD 453 million and fair value adjustment on hedging instruments of USD 21 million. TORM's total liabilities decreased by USD 36 million in 2011 to USD 2,135 million from USD 2,171 million in 2010, primarily due to a decrease in mortgage debt and bank loans of USD 167 million partly offset by an increase in finance lease liabilities of USD 45 million and an increase in trade payables and other payables of USD 82 million.

Gross Profit (Net Earnings from Shipping Activities)

The table below presents net earnings from shipping activities by segment for the years ended December 31, 2010 and 2011:

USD million

	Tanker	Bulk	Total 2010	Tanker	Bulk	Total 2011
Revenue	762.9	93.2	856.1	958.7	346.5	1,305.2
Port expenses, bunkers and commissions	(293.7)	(5.1)	(298.8)	(510.7)	(164.3)	(675.0)
Freight and bunkers derivatives	3.5	(0.2)	3.3	4.9	9.2	14.1
Time charter equivalent earnings (1)	472.7	87.9	560.6	452.9	191.4	644.3
Charter hire	(168.9)	(59.7)	(228.6)	(199.3)	(199.0)	(398.3)
Operating expenses	(148.4)	(3.8)	(152.2)	(161.8)	(3.2)	(165.0)
Gross profit/(loss) (Net earnings from shipping activities)	155.4	24.4	179.8	91.8	(10.8)	81.0

TORM's revenue derives from two segments: The Tanker Division and the Bulk Division. The above table presents the results of shipping activities by operating segment for the years 2010 and 2011.

(1) TCE earnings per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

Tanker Division

Revenue in the Tanker Division increased by 26% to USD 959 million from USD 763 million in 2010, whereas time charter equivalent earnings decreased by USD 20 million or 4% to USD 453 million in 2011 from USD 473 million in the previous year. The overall increase in the number of available earning days of 7% was more than offset by the reduction in the weighted average TCE earnings per available earning day of 10% compared to 2010.

In the LR2 business area, two vessels were sold and leased back midyear and two additional vessels were sold late in the year, leaving the number of available earning days in the LR2 business area almost unchanged compared to 2010. The average freight rates dropped by 23% from 2010, resulting in a reduction in earnings of USD 17 million.

In the LR1 business area, the relatively expensive additions to the time charter fleet in 2010 had full effect, and the Company took delivery of two and redelivered two chartered in vessels during the year, increasing the number of available earning days by 723 days or 9% and increasing earnings by USD 10 million. Average freight rates decreased by 18% from the previous year, reducing earnings by USD 22 million.

In the MR business area, two newbuildings were delivered to the fleet of owned vessels and two older vessels were sold. Three vessels were delivered to the fleet of time chartered vessels and with the deliveries in 2010, which had full effect in 2011, this was the main reason for the increase in the number of available earning days of 1,689 days or 11%, which improved earnings by USD 22 million. Average freight rates increased by 3% from the previous year, increasing earnings by USD 7 million.

In the Handysize business area, the fleet remained unchanged, whereas a decrease in the average freight rates of 25% from the previous year reduced earnings by USD 16 million.

Earnings for the Tanker Division USD million	SR	MR	LR1	LR2	Un-allocated	Total
Time charter equivalent earnings 2010	60	213	114	79	7	473
Change in number of earning days	0	22	10	0	-	32
Change in freight rates	(16)	7	(22)	(17)	-	(48)
Other	-	-	-	-	(4)	(4)
Time charter equivalent earnings 2011	44	242	102	62	3	453

Unallocated earnings comprise fair value adjustment of freight and bunkers derivatives, which are not designated as hedges, and gains and losses on freight and bunkers derivatives, which are not entered for hedge purposes.

The table below summarizes the earnings data per quarter for the Tanker Division.

Earnings data for the Tanker Division

In 2011, we changed the method of calculating daily earnings from "TCE per earning day from Pool" to "Spot rate" to take into account the diminishing use of pools during 2011. Therefore the rates for 2010 have been adjusted according to "Spot Rate". In previous years comparisons have been retained using "TCE per earning day from Pool.

USD/Day	2010		2011			2011	% Change
	Full year	Q1	Q2	Q3	Q4	Full year	2010-2011
LR2/Aframax vessels							
Available earning days for: *							
- Owned vessels	4,418	1,157	1,135	979	963	4,234	
- Time chartered vessels	158	0	18	179	129	326	
Spot rates 1	16,869	10,890	10,612	10,836	11,959	11,821	(30%)
TCE per earning day **	17,573	13,524	12,542	12,423	15,647	13,505	(23%)
LR1/Panamax vessels							
Available earning days for: *							
- Owned vessels	2,510	628	631	639	639	2,537	
- Time chartered vessels	5,304	1,457	1,532	1,569	1,442	6,000	
Spot rates (1)	13,407	14,435	15,174	9,841	7,678	11,855	(12%)
TCE per earning day (2)	14,599	14,654	14,962	9,467	9,020	12,017	(18%)
MR vessels							
Available earning days for: *							
- Owned vessels	12,671	3,376	3,374	3,434	3,443	13,627	
- Time chartered vessels	3,265	887	999	1,077	1,035	3,998	
Spot rates 1	11,903	12,760	15,315	11,749	14,080	13,448	(13%)
TCE per earning day **	13,326	12,768	15,867	12,910	13,335	13,718	(3%)
SR vessels							
Available earning days for: *							
- Owned vessels	3,927	969	996	992	978	3,935	
	13	0	0	0	0	0	

- Time chartered vessels							
Spot rates (1)	11,665	10,410	13,403	10,582	9,483	10,074	(14%)
TCE per earning day (2)	15,024	11,319	11,983	12,020	9,809	11,288	(25%)

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(1) Spot rate is the equivalent of TCE for all charters with less than six months' duration which is calculated from the gross freight income less bunker, commissions and port expenses. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

(2) TCE earnings per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. For a reconciliation of TCE earnings, please see the table above under "Item 5. Operating and Financial Review and Prospects – Operating Results".

* Earning days are the total number of days in the period, where the vessel is ready and available to perform a voyage, i.e. is not in drydock, etc.

Bulk Division

In the Bulk Division, revenue increased in 2011 by 272% to USD 347 million from USD 93 million in the previous year, and time charter equivalent earnings increased in 2011 by 118% or USD 103 million to USD 191 million from USD 88 million in 2010.

The overall increase in the number of available earning days of 188% was partly offset by the reduction in the weighted average TCE earnings per available earning day of 28% compared to 2010. Whereas the operations in the Bulk Division in previous years were based on a fleet comprised of owned vessels and vessels chartered in on long time charter contracts, the operations during 2011 were to a large extent based on vessels charted in on short time charters. In total, 105 vessels were taken in on time charter for periods from single trip to several months compared to six vessels in the previous year. This was a part of the Bulk Division transformation from a tonnage provider to an integrated freight service provider to primarily industrial customers.

In the Panamax business area, the number of available earning days increased in 2011 by 4,437 days or 97%, causing an increase in earnings by USD 85 million. Freight rates were on average 25% lower than in 2010, reducing earnings by USD 43 million. In the Handymax business area, the number of available earning days increased by 4,182 days to 4,212 days as a response to customer demands. The increase in available earning days increased earnings by USD 50 million, whereas an increase in average freight rates of 6% resulted in an increase in earnings of USD 3 million.

The change in the time charter equivalent earnings in the Bulk Division can be summarized as illustrated in the table below.

Earnings for the Bulk division USD million	Handymax	Panamax	Total Bulk
Time charter equivalent earnings 2010 (1)	0	88	88
Change in number of earning days	50	85	135
Change in freight rates	3	(43)	(40)
Other (2)	0	0	8
Time charter equivalent earnings 2011(1)	53	130	191

(1) TCE earnings per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. For a reconciliation of TCE earnings, please see the table above under "Item 5. operating and Financial Review and Prospects – Operating Results".

(2)

Unallocated earnings comprise fair value adjustment of freight and bunker derivatives, which are not designated as hedges, and gains and losses on freight and bunker derivatives, which are not entered for hedge purposes.

The table below summarizes the earnings data per quarter for the Bulk Division.

Earnings data for the Bulk division

USD/Day	2010	2011				2011	% Change
	Full year	Q1	Q2	Q3	Q4	Full year	2010-2011
Panamax vessels							
Available earning days for: *							
- Owned vessels	$853	180	182	184	184	730	(14)%
- Time chartered vessels	3,707	1,344	1,886	2,095	2,943	8,268	123%
TCE per earning days **	19,184	15,461	16,015	12,140	14,357	14,364	(25)%
Handymax vessels							
Available earning days for: *							
- Owned vessels	0	0	0	0	0	0	n/a
- Time chartered vessels	30	566	1,133	1,152	1,361	4,212	13,940%
TCE per earning days **	11,919	11,154	12,554	12,510	13,403	12,628	6%

* Earning days are the total number of days in the period, where the vessels is ready and available to perform a voyage, i.e. is not in drydock, etc.

** TCE earnings per available earning day are calculated by taking revenue less voyage expenses divided by the number of available earning days. For a reconciliation of TCE earnings, please see the table above under "Item 5. operating and Financial Review and Prospects – Operating Results".

Operation of Vessels

As compared to 2010, charter hire paid in the Tanker Division increased by USD 30 million to USD 199 million in 2011, whereas charter hire paid in the Bulk Division increased by USD 139 million to USD 199 million. The increase in the Tanker Division of 18% and in the Bulk Division of 233% was primarily caused by an increase in the number of available earning days from vessels chartered in compared to 2010.

Operating expenses for the owned vessels increased by USD 13 million to USD 165 million in 2011 primarily due to an increase in the number of operating days of 6%, which raised operating expenses by USD 10 million.

The movement in the operating expenses can be summarized as illustrated in the table below.

Operating expenses	Tanker Divison						
USD million	SR	MR	LR1	LR2	Panamax	Bulk Division unallocated	Total

Operating expenses 2010	23	77	17	30	4	1	152
Change in the number of operating days	0	12	(2)	1	(1)	0	10
Change in expenses per operating day	1	2	1	0	0	0	4
Other						(1)	(1)
Operating expenses 2011	24	91	16	31	3	0	165

The table below summarizes the operating data for our fleet of owned and bareboat chartered vessels.

Operating data

	Tanker Division						
	SR	MR	LR1	LR2	Tanker Division	Bulk Division	Total
Operating expenses per operating day in 2010	5,804	6,386	5,834	6,598	6,259	4,517	6,197
Operating expenses per operating day in 2011	6,013	6,479	6,403	6,586	6,417	4,440	6,363
Change in the operating expenses per operating day in %	4 %	1 %	10 %	0 %	3 %	(2 %)	3 %
Operating days in 2011	4,015	13,953	2,555	4,670	25,193	730	25,923
- Off-hire days	(15)	(301)	(18)	(39)	(373)	0	(373)
- Days in dry dock	(65)	(101)	0	(35)	(201)	0	(201)
+/- Bareboat out/in	0	76	0	(362)	(286)	0	(286)
+ Earning days for vessels chartered-in	0	3,998	6,000	326	10,324	12,480	22,804
Earning days in 2011	3,935	17,625	8,537	4,560	34,657	13,210	47,867

During 2011, TORM managed to sustain the cost savings achieved in the cost savings and efficiency programs implemented over the last few years despite continued pressure on seafarer wages and general inflationary pressure. Average operating expenses per day ended at USD 6,363 compared to USD 6,197 in 2010, reflecting a slight increase of 3% due to recalibration of certain cost categories.

The total fleet of owned vessels had 373 off-hire days, corresponding to one per thousand of the number of operating days in 2011 compared to 373 off-hire days, corresponding to seven per thousand of the number of operating days in 2010

Profit/Loss from Sale of Vessels

During 2011, TORM incurred a loss from the sale of vessels of $52.5m compared to a profit of $1.8 million for 2010. During 2011 Torm sold two MR vessels and two LR2 vessels and entered into agreements to sell and leaseback two LR2 vessels. In addition, TORM entered into an agreement to cancel one MR product tanker and sold two Kamsarmax bulk carrier newbuilding contracts.

Administrative Expenses and Other Operating Income

Total administrative expenses amounted to USD 71 million, which was a decrease of USD 7 million or 9% compared to the USD 78 million in 2010. Administrative expenses for 2010 were impacted by one-time expenses of USD 14 million relating to changes in TORM's management whereas 2011 was impacted by one-off expenses of USD 2 million relating to the reduction in land-based personnel in November 2011. The net impact from one-time expenses was thus reduced by USD 12 million. Salaries increased by USD 4 million, expenses relating to incentive schemes increased by USD 3 million and other administrative expenses decreased by USD 2 million.

Other operating income primarily comprises chartering commissions received by TORM in connection with the management of the three tanker pools. Other operating income amounted to USD 3 million in 2011, against USD 5 million in 2010. The decrease was primarily related to a reduction in pool management commissions as a result of the lower freight rates and fewer pool vessels compared to 2010 and the closure of two tanker pools during 2011.

Financial Income and Expenses

Net financial expenses in 2011 were USD 63 million against USD 57 million in 2010, corresponding to an increase of USD 6 million. The most significant reason for this change was an increase in interest expenses of USD 8 million.

Tax

Tax for the year amounted to an expense of USD 2 million compared to an income of USD 1 million in 2010. Tax for 2011 comprises a current tax expense for the year of USD 3 million, compared to USD 1 million in the previous year, and income of USD 1 million due to an adjustment to the estimated tax liabilities for the previous years, against income of USD 2 million in 2010. The deferred tax liability at December 31, 2011 was USD 54 million which is unchanged compared to 2010.

All of our significant Danish entities entered into the tonnage tax scheme with effect from 2001. The assessment of the Company's tax returns for 2008 through 2010 is still pending, and the recognized current tax liabilities are to some extent based on the judgment of the Company's management. TORM paid USD 2 million in corporation tax in 2011 regarding the Danish entities included in the tonnage tax scheme.

BALANCE SHEET

Vessels and drydocking

The decrease in tangible fixed assets of USD 382 million to USD 1,956 million in 2012 is attributable to the disposal of vessels, impairment losses for the year, reclassification to assets held for sale and depreciation for the year.

One LR2 tanker was redelivered and one MR tanker representing a total carrying amount of USD 74 million was sold. In addition, two MR newbuildings were delivered amounting to USD 103 million.

Transfer to assets held for sale amounted to USD 134 million in 2012 against USD 62 million in 2011. Depreciation regar−ding tangible fixed assets amounted to USD 138 million in 2012, against USD 145 million in 2011, and an impairment loss of USD 74 million relating to the five MR vessels classified as held for sale was recorded in 2012, whereas the impairment loss relating to the tanker fleet in 2011 was USD 98 million.

Investments in entities, including jointly controlled entities (FR8)

The carrying amount of the investment in and loans to jointly controlled entities was USD 1 million at 31 December 2012, compared to USD 58 million at 31 December 2011. The carrying amount was primarily reduced by an impairment loss of USD 42 million relating to TORM's 50% investment in FR8 compared to an impairment loss of USD 13 million in 2011, also relating to FR8. The 50% ownership of one vessel was sold, reducing the carrying value in investments in jointly controlled entities and loans by USD 15 million. The share of results of jointly controlled entities in 2012 was a loss of USD 9 million, of which a loss of USD 4 million derived from FR8, against a loss of USD 4 million in 2011, of which a loss of USD 12 million derived from FR8.

Assessment of Impairment of Assets

During 2012, TORM continued to observe indications of −potential impairment of the Company's assets in the form of a downward trend in freight rates and vessel prices. As a consequence, management followed its usual practice of performing an impairment review every quarter and presenting the outcome to the Audit Committee. The Audit Committee evaluates the impairment review and prepares a recommendation to the Board. The recoverable amount of the assets is reviewed by assessing the net selling price and the value in use for the significant assets within the two cash generating units: the Tanker Division and the Bulk Division.

In the assessment of the net selling price, Management included a review of market values derived as the average of two internationally recognized shipbrokers' valuations. The shipbrokers' primary input is deadweight tonnage, yard and age of the vessel. The assessment of the value in use was based on the net present value of the expected future cash flows. The key assumptions are considered to be related to future developments in freight rates and operating expenses and to the weighted average cost of capital, or WACC, applied as discounting factor in the calculations.

The impairment assessment, which is made under the −assumption that TORM will continue to operate its fleet in the current set-up, is highly sensitive in particular to changes in the freight rates.

The underlying assumptions and sensitivities for the discounted cash flow calculations are presented in Note 9 of our consolidated financial statements.

The lenders under one of the Company's bank facilities have exercised their option to initiate a sales process of the five MR vessels financed by that facility. At December 31, 2012, management expects that these five vessels will be sold within 12 months, and the vessels have been reclassified from non-current assets to assets held for sale. An impairment loss of USD 74 million equal to the difference between the expected sales price and the book value was recognized as a result hereof. In addition, impairment losses from the 50% investment in FR8 accounted for USD 42 million in 2012 compared to USD 13 million in 2011.

The Tanker Division and the Bulk Division were not impaired further in 2012, whereas impairment losses of USD 187 million in 2011 related to the Tanker Division.

The Company will continue to monitor developments on a quarterly basis for indications of impairment..

FOREIGN CURRENCY EFFECTS

We are exposed to market risk from changes in foreign exchange rates, which can affect results from operations and financial condition. To minimize the risk, we manage our exposure to changes in foreign currency rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments, primarily cross-currency contracts and forward exchange contracts.

All of TORM's currency swap transactions were closed out as part of the restructuring, and TORM will not be able to enter into new derivative transactions. As a result, TORM's entire debt is now uncovered in relation to foreign exchange risk primarily related to non-USD denominated administrative and operating expenses which is now left unhedged.

Please refer to Item 11 for information regarding our hedging strategy.

EFFECTS OF INFLATION

Inflation generally affects us by increasing the interest expense of floating rate indebtedness and by increasing the cost of labor, drydocking costs and other operating expenses. We do not believe inflation has had or will have a material impact on our operations. Inflationary pressures on bunker costs are not expected to have a material effect on our future operations because freight rates for voyage charters are generally sensitive to the price of a ship's fuel. A sharp rise in bunker prices tends to have only a temporary negative effect on results since freights generally adjust after prices settle at a higher level.

B. Liquidity and capital resources

TORM's primary application of cash funds relates to operating expenses, financial expenses (interest payment and debt repayment), and investments in ships. Payment of amounts outstanding under loan agreements, along with payment of charter hire for chartered-in vessels and all other commitments that TORM has entered into is made from the cash available to the Company from time to time.

The Company's primary sources of cash funds are cash flows from operations, bank loans and other debt or equity financing. As of December 31, 2012, the Company had cash and cash equivalents of approximately USD 28 million and available borrowings under its credit facilities of approximately USD 42 million and total outstanding indebtedness under its credit facilities of USD 1,904 million.

In 2012, the invested capital decreased by USD 297 million to USD 2,128 million at December 31, 2012, from USD 2,425 million at December 31, 2011. The decrease can primarily be explained by the disposal of vessels, impairment loss for the year, reclassification to assets held for sale and depreciation for the year.

Cash Flows

The Company's operations generated a cash outflow of USD 100 million in 2012, of which fees of USD 65 million were paid to the Company's advisors and creditors in connection with the Restructuring Agreement. In 2011, the cash outflow from operations was USD 75 million. In addition, the Company invested USD 59 million in tangible fixed assets during 2012, primarily comprising the deliveries under the newbuilding program, against USD 118 million in 2011. In 2012, the Company generated USD 50 million in cash flow from the sale of non-current assets, primarily vessels, compared to USD 284 million in 2011.

The total cash inflow from financing activities amounted to USD 42 million, compared to a cash outflow of USD 128 million in 2011. Additional borrowings generated an inflow of USD 82 million, hereof USD 58 million relating to the Super Senior Working Capital Facility. Repayment on mortgage debt and bank loans amounted to USD 35 million.

TORM did not pay any dividends to our shareholders during 2012.

The Restructuring (long-term debt obligations and credit arrangements)

Prior to the completion of the Restructuring, TORM had a number of short- and long-term borrowing facilities. These facilities had different terms, including covenants, maturities, securities and amortization schedules. In addition, the Company had a number of off-balance sheet liabilities, primarily related to time charter agreements, which had a significant negative impact on the Company's earnings and liquidity.

The Restructuring Agreement was entered into between TORM and its Secured Lenders and certain of its major Time Charter-in Counterparties and facilitated the Restructuring through a complex of agreements. These agreements and the Restructuring Agreement aligned the terms of TORM's time charter and bareboat agreements with the Time Charter-in Counterparties to market rates as per March 2012 or allowed for termination of the time charter and bareboat agreements and thereby resulted in a significant reduction in off-balance sheet liabilities. Further, TORM and its Secured Lenders entered into a Framework Agreement which aligned the key terms of all of the Company's Pre-Restructuring Debt Facilities and a Super Senior Working Capital Facility with certain of the Secured Lenders which provided for a new revolving facility of USD 100 million to be used for working capital purposes (the Framework Agreement and the Super Senior Working Capital Facility together the "Financing Agreements"). In addition, as part of the Restructuring, a new shareholder structure of the Company was implemented where the Pre-Restructuring Shareholders retained 10% ownership of TORM, the Secured Lenders (or their assignees) obtained 72.8% ownership, and the Time Charter-in Counterparties (or their assignees) obtained 17.2% ownership through the private placement (described below), or the Private Placement.

The Restructuring contains the following key elements:

- New debt financing (working capital) from certain Secured Lenders
- Restructuring of the Pre-Restructuring Debt Facilities
- Restructuring of charter-in contracts
- Private Placement

New debt financing (working capital) from Secured Lenders - Super Senior Working Capital Facility

Pursuant to the terms of the Restructuring Agreement, the Company received new debt financing from its Secured Lenders and entered into a new USD 100 million revolving working capital facility, or the Super Senior Working Capital Facility, to be used for working capital purposes. USD 60 million of the Super Senior Working Capital Facility was drawn in connection with completion of the Restructuring to cover, inter alia, accrued interest under the Pre-Restructuring Debt Facilities and costs incurred in connection with the Restructuring. The Super Senior Working Capital Facility is available until and matures on September 30, 2014. The Super Senior Working Capital Facility bears interest at LIBOR + 6.5% with a LIBOR floor of 1.5% and without fixed amortization. Under the Super Senior Working Capital Facility the Company will be subject to a cash sweep of 75% of any aggregate amount of cash (after payment of interest) above USD 50 million and 100% of any aggregate amount of cash (after payment of interest) above USD 100 million. The Super Senior Working Capital Facility will generally have first priority repayment preference ahead of all Pre-Restructuring Debt Facilities.

The Super Senior Working Capital Facility is subject to English law and any dispute arising out of or relating to the Framework Agreement is subject to the jurisdiction of the courts of England.

Restructuring of the Pre-Restructuring Debt Facilities - The Framework Agreement

The Framework Agreement dated November 1, 2012 between TORM and its Secured Lenders aligns all key terms of the Company's Pre-Restructuring Debt Facilities, including maturity, information undertakings, representations and warranties, events of default and covenants, and provides for a retranching of the debt under the Pre-Restructuring Debt Facilities of USD 1,846 million as of November 5, 2012 based on the loan to vessel value ratio into a senior debt tranche (LTV up to 70%), a junior debt tranche (LTV 70%-110%) and a subordinated debt tranche (sub-divided into subordinated debt tranches 1 and 2) (LTV above 110%). Swap liabilities of USD 46 million was also capitalized as per the date of completion of the Restructuring and added to the junior and subordinated debt tranches (as applicable).

In addition, the Framework Agreement provides a deferral of all on the entire bank debt until September 30, 2014 subject to a cash sweep of 75% of any aggregate amount of cash (after payment of interest and only if the Super Senior Working Capital Facility has been fully repaid) above USD 50 million and 100% of any aggregate amount of cash (after payment of interest and only if the Super Senior Working Capital Facility has been fully repaid) above USD 100 million. The Company will be required to repay USD 50 million in the second half of 2014 and USD 100 million annually in the years 2015 and 2016. All Pre-Restructuring Debt Facilities will mature on December 31, 2016.

The Framework Agreement aligns pricing in respect of all Pre-Restructuring Debt Facilities with an average interest margin of approximately 240 basis points across the existing bank debt. Until June 30, 2014 with a possibility of extension to September 30, 2014, interest on the senior debt tranche and the junior debt tranche will only fall due if the Company has sufficient liquidity. If the Company does not have sufficient liquidity, such interest will be rolled up during the period. Interest on subordinated debt tranches will be rolled up in the period until September 30, 2014.

The Framework Agreement contains the following main covenants:

- Minimum liquidity requirements: Cash plus available part of the USD 100 million working capital facility must at all times exceed USD 50 million to be tested from December 31, 2012. This will later adjust to a cash requirement of USD 30 million from September 30, 2014 and USD 40 million from March 31, 2015;

- Maximum loan to value ratio: The outstanding debt under the senior debt tranche (currently USD 1,020 million) as a percentage of the Company's fleet value (excl. financial lease vessels) shall be equal to or below 85% at all times to be tested from June 30, 2013. This will gradually step down to 80% from March 31, 2014, 75% from March 31, 2015, 70% from December 31, 2015 and 65% from June 30, 2016;

- Maximum consolidated net debt to EBITDA (as both defined under the agreement for covenant purposes): Initial required ratio of maximum 30:1 to be tested on June 30, 2013 and onwards on a quarterly basis. This ratio will gradually step down to a 6:1 ratio by June 30, 2016; and

- Minimum interest cover ratio: EBITDA (as defined under the agreement for covenant purposes) to aggregate accrued interest and similar payments may not exceed a ratio of initially minimum 1.4x to be tested on June 30, 2014 and onwards on a quarterly basis. This ratio will gradually step up to 2.5x by December 31, 2015.

The Framework Agreements aligns all general and operational covenants and restrictions, and the covenants and restrictions on TORM now include:

- restrictions on TORM's incurrence of further indebtedness and issuing new capital;
- prohibition on paying dividends;
- prohibition on the entering into of new derivative transactions other than spot exchange contracts in the ordinary course of business;
- negative pledge provisions prohibiting TORM from providing further security;
- prohibition on acquiring any company, securities or vessels;
- prohibition on disposing any vessels and other material assets except as part of the option rights; and
-

restrictions on time charter in from third parties for more than three months and charter out for more than 13 months.

In addition, the debt facilities include standard event of default provisions, including payment default, breach of covenant, insolvency/insolvency proceedings and cross default (subject to a USD 5 million threshold). Change of control will trigger repayment of all debt facilities made available under the Financing Agreements. Control is defined as more than 25% of the ownership interest in the Company and the clause may be triggered by transfers between the Secured Lenders and Time Charter-in Counterparties.

The Framework Agreement contains individual option rights for the lenders under three bank facilities to request the divestment of vessels being financed by such bank facilities. The options relate to bank facilities financing thirteen, five and four vessels respectively. Under the options, the Company will be required to propose a sales strategy to be agreed with the relevant lenders for the vessels comprised by the option. The lenders under each of the bank facilities have a right, until July 31, 2014 with certain possibilities of extension, to exercise their option relating to the vessels financed by the relevant facility made available by such bank syndicate. If exercised, the option will comprise all vessels in a given facility and any sale of vessels may happen in one or more blocks. If an option is exercised but the relevant vessels are not sold by the Company pursuant to the sales strategy within a specific period, the relevant option holder will have an irrevocable and unfettered right to dispose of the relevant vessels. The lenders under the facility financing five vessels have exercised their option and thus initiated the sales process set out in the Framework Agreement in relation to these five vessels. In case of any sale the remaining outstanding exposure under the relevant facility relating to the vessels sold is to be written off by the Secured Lenders proportionally in accordance with certain agreed principles. To the extent that any vessels are sold under the options, TORM will seek to maintain the vessels' association with the Company.