

TORM A/S  
Form 20-F  
June 25, 2009

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

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

For the fiscal year ended December 31, 2008

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

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(Exact name of Registrant as specified in its charter)

TORM A/S

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(Translation of Registrant's name into English)

Kingdom of Denmark

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(Jurisdiction of incorporation or organization)

Tuborg Havnevej 18, DK-2900 Hellerup, Denmark

Address of principal executive offices)

Jesper Holmark, 011 45 3917 9396 (facsimile), 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 on which registered	Name of each exchange
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NONE
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Securities registered or to be registered pursuant to section 12(g) of the Act.

Common Shares, par value 5 Danish Kroner per share,\*  
American Depository Shares (as evidenced by American Depository Receipts), each representing one (1) Common Share.

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(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

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(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.

72,800,000 common shares, par value 5 Danish Kroner per share.

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

Yes  No

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

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  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



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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

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

U.S. GAAP  
 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

(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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## CAUTIONARY STATEMENT REGARDING 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 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, dry-docking 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.

## PART I

## ITEMIDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

1.

Not Applicable.

## ITEMOFFER STATISTICS AND EXPECTED TIMETABLE

2.

Not Applicable.

## ITEMKEY INFORMATION

3.

Please note: Throughout this report, the "Company," "we," "us" and "our" all refer to TORM 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.

## 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 "Operating and Financial Review and Prospects" and the consolidated financial statements and notes thereto, all included elsewhere within this document.

Effective January 1, 2005, we adopted International Financial Reporting Standards or IFRS and changed our reporting currency from DKK to USD. We had previously presented our financial statements under Danish GAAP.

	For the year ended December 31 (in thousands of USD except for per share information)				
	2004(5)	2005(6)	2006(5)	2007(5)	2008
IFRS financial data					
Consolidated income statement Data:					
Revenue	442,600	586,611	603,717	773,612	1,183,594
Port expenses, bunkers and commissions	(83,769)	(124,968)	(150,364)	(172,182)	(264,050)
Freight and bunkers derivatives	(9,280)	3,194	620	2,894	(13,586)
Time charter equivalent earnings	349,551	463,837	453,973	604,324	905,958
Charter hire	(59,592)	(82,139)	(106,329)	(154,852)	(193,829)
Operating expenses	(49,791)	(66,744)	(77,624)	(115,547)	(174,333)
	240,168	314,954	270,020	333,925	537,796

Gross profit (Net earnings from shipping activities)					
Profit from sale of vessels					
	0	54,731	54,362	0	82,813
Administrative expenses	(38,637)	(29,596)	(34,470)	(54,960)	(89,906)
Other operating income	13,139	9,809	10,013	15,167	14,493
Share of results of jointly controlled entities					
	0	1,199	1,199	(6,058)	27,122
Depreciation and impairment losses					
	(35,181)	(47,866)	(58,914)	(89,083)	(126,068)
Operating profit	179,489	303,231	242,210	198,991	446,250
Financial income	42,788	25,946	39,339	681,088	16,175
Financial expenses					
	(16,949)	(29,813)	(40,514)	(75,871)	(102,354)
Profit before tax	205,328	299,364	241,035	804,208	360,071
Tax expenses					
	(18,715)	(1)	(6,523)	(12,531)	1,279
Net profit for the year	186,613	299,363	234,512	791,677	361,350
Balance sheet data (as of end of period):					
Total assets (2)	1,239,562	1,809,289	2,089,012	2,958,854	3,317,353
Non-current liabilities	406,545	783,648	701,852	986,463	1,575,450
Equity/net assets	715,407	904,651	1,280,846	1,081,230	1,278,949
Common shares	61,098	61,098	61,098	61,098	61,098
No. of shares outstanding (1)					
(3)	72,800,000	72,800,000	72,800,000	72,800,000	72,800,000
Other financial data (1)					
Dividends declared per share DKK					
	7.5	11.5	5.8	4.5	4.0
Dividends declared per share USD (4)					
	1.4	1.8	1.0	0.9	0.8
Extraordinary dividend per share DKK					
	0	0	0	27.5	4.5
Earnings per share – basic					
	2.7	4.3	3.4	11.4	5.2
Earnings per share – diluted					
	2.6	4.3	3.4	11.4	5.2

1. In May 2007 we made a 2:1 stock split of the Company's ordinary shares, nominal value DKK 10 into ordinary shares of nominal value DKK 5. The stock split was carried out on the Copenhagen Stock Exchange on May 23, 2007, and the split was carried out on NASDAQ on May 23, 2007 in relation to the Company's American Depository Shares with a record date of May 23, 2007 and a distribution date of May 31, 2007. After the stock split the Company's common shares consist of 72.8 million shares in denomination of DKK 5 per share. The comparative figures are restated to reflect the stock split.
2. Total assets for each period include bonds that serve as collateral for certain of our borrowings. This amount was USD 0 million as of December 31, 2008; USD 0 million as of December 31, 2007; USD 0 million as of December 31, 2006; USD 0 million as of December 31, 2005; and USD 10 million as of December 31, 2004.
3. Shares outstanding as of December 31, 2008 include 3,556,364 shares that we purchased and hold as own shares, reflected in shareholders' equity. As of December 31, 2007 we held 3,556,364 own shares; as of December 31, 2006 we held 3,556,364 own shares; as of December 31, 2005 we held 3,116,944 own shares; and as of December 31, 2004 we held 3,133,224 own shares. Comparative figures have been restated in accordance with the stock split in May 2007.
4. Dividends are converted to U.S. dollars based on the historical exchange rate at year-end for the year in question.
5. Effective January 1, 2008, we have changed the accounting policies regarding the recognition of investments in joint ventures so that these are recognized according to the equity method. Previously, joint ventures were recognized on a pro rata basis. The change in accounting policy is due to the fact that the Company finds it inappropriate to aggregate the items of joint ventures with items of entities that form an integral part of the Company's activities. The policy change has no effect on the income statement or on equity, but the profit for the year of joint ventures and the investment in these are presented in a single line item in the income statement and the balance sheet, respectively. Financial figures have been represented in accordance to reflect this change in accounting policy.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our American Depository Shares or ADSs. Any of the risk factors could materially and adversely affect our business, financial condition or operating results and the trading price of our ADSs.

Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, liquidity or results of operation.



### Industry Specific Risk Factors

The product tanker and dry bulk carrier sectors are cyclical and volatile, and this may lead to reductions and volatility in our charter rates when we re-charter our vessels, vessel values and results of operations

The dry bulk carrier and product tanker sectors are cyclical with volatility in charterhire rates and industry profitability. The degree of charterhire rate volatility among different types of dry bulk carriers and product tankers has varied widely. After reaching historical highs in mid-2008, charter hire rates for Panamax and Capesize dry bulk carriers have reached near historically low levels. Tanker charter hire rates have also declined from historical highs reached in mid-2008, although the decline has been less than in the dry bulk sector. If we enter into a charter when charterhire rates are low, our revenues and earnings will be adversely affected. In addition, a decline in charterhire rates likely will cause the value of our vessels to decline. We cannot assure you that we will be able to successfully charter our vessels in the future or renew our existing charters at rates sufficient to allow us to operate our business profitably, meet our obligations or pay dividends to our shareholders. The factors affecting the supply and demand for dry bulk carriers and product tankers are outside of our control and are unpredictable. The nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for seaborne transportation of cargo include:

- demand for and production of dry bulk products, crude oil and refined petroleum products;
  - the distance cargo is to be moved by sea;
  - changes in oil production and refining capacity;
  - global and regional economic and political conditions;
  - environmental and other regulatory developments; and
- changes in seaborne and other transportation patterns, including changes in the distances over which cargo is transported due to geographic changes in where commodities are produced, oil is refined and cargoes are used.

The factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
  - vessel casualties;
  - price of steel;
- number of vessels that are out of service;
- changes in environmental and other regulations that may limit the useful life of vessels; and
  - port or canal congestion.

We anticipate that the future demand for our vessels will be dependent upon continued economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the world's dry bulk carrier and product tanker fleets, and the sources and supply of cargo to be transported by sea. If the global vessel capacity increases in the shipping sectors in which we operate, but the demand for vessel capacity in these sectors does not increase or increases at a slower rate, the charter rates paid for our vessels could materially decline. Adverse economic, political, social or other developments could have a material adverse effect on our business, financial condition, results of operations and ability to pay dividends.

The downturns in the dry bulk carrier and tanker charter markets may have an adverse effect on our earnings, affect compliance with our loan covenants, require us to raise additional capital in order to comply with our loan covenants, and affect our ability to pay dividends.

The BDI, a daily average of charter rates in 26 shipping routes measured on a time charter and voyage basis covering Supramax, Panamax and Capesize drybulk carriers, declined from a high of 11,793 in May 2008 to a low of 2,332 in May 2009, which represents a decline of 80%. The BDI fell over 78% during the months of October through November of 2008 alone. The decline in charter rates is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China which has resulted in falling iron ore prices. The decline in charter rates in the drybulk market also affects the value of our drybulk vessels, which follow the trends of drybulk charter rates, and earnings on our charters, and similarly, affects our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

In the second half of 2008, the slowdown in global economic growth led to a significant decline in oil prices from a high of \$145 per barrel in July 2008 to \$42 per barrel in January 2009 after reaching a low of \$39 in December 31, 2008. OPEC has responded to this decrease in oil price by reducing oil supply significantly.

The recent rapid decline in global oil prices has negatively impacted tanker charter rates as well as the value of our tanker vessels. According to industry sources, the average spot market rate for a Suezmax tanker for the benchmark Suezmax tanker route loading in West Africa and discharging in the U.S. Atlantic Coast declined from a high of \$138,943 per day in July 2008 to a low of \$35,018 per day in November 2008, which represents a decline of 75%. The average spot market rate for this benchmark route was \$56,574 per day on December 31, 2008, which represents a decline of 59% from the high reached in July 2008. Although this decline has not been as severe as the decline in the drybulk market, it has a commensurate decline in our tanker vessel values affecting our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

If these trends continue, in order to remain viable, we may have to suspend or reduce dividend payments, sell vessels in our fleet and/or seek to raise additional capital in the equity markets.

Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings

The fair market 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;



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- governmental or other regulations;
- age of vessels;
- prevailing level of charter rates; and
- technological advances.

If we sell any of our tankers or dry bulk carriers at a time when vessel prices have fallen, the sale may be at less than the vessel's carrying amount on our financial statements, with the result that we shall incur a loss and a reduction in earnings.

The market values of our vessels may decrease, which could limit the amount of funds that we can borrow or trigger certain financial covenants under our current or future credit facilities

Our loan agreements do not contain any vessel minimum value clauses and our rights and obligations under the loan agreements will not be affected by a decrease of the market values of our vessels. However, should the market values of our vessels decrease, it would limit the amount of new funds available under our available credit facilities and under future loan facilities.

The fair market values of our vessels have generally experienced high volatility. The market prices for secondhand dry bulk carriers are near historically low levels and prices for tanker vessels have dropped dramatically as well. The market value of our vessels fluctuate depending on general economic and market conditions affecting the shipping industry, prevailing charter hire rates, competition from other shipping companies and other modes of transportation, types, sizes and age of vessels, applicable governmental regulations and the cost of constructing newbuildings. The market value of our fleet may decline as a result of a downswing in the historically cyclical shipping industry. In addition, as vessels grow older, they generally decline in value.

If the fair market value of our vessels decline, that may lead to an impairment adjustment to our consolidated financial statements and ultimately have an adverse effect on our ability to meet certain financial covenants in our loan agreements. In addition, if we sell one or more of our vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our consolidated financial statements, the sale price may be less than the vessel's carrying value on our consolidated financial statements, resulting in a loss and a reduction in earnings. Furthermore, if vessel values fall significantly, we may have to record an impairment adjustment in our financial statements, which could adversely affect our financial results.

If the book value of the vessels in a cash-generating unit (the Tanker or the Bulk division) is impaired due to unfavorable market conditions or the vessels are sold at a price below the book value, we would incur a loss that could adversely affect our operating results.

An over-supply of drybulk carrier and tanker capacity may lead to reductions in charter hire rates and profitability

The market supply of drybulk carriers has been increasing, and the number of drybulk carriers on order is near historic highs. Newbuildings were delivered in significant numbers starting at the beginning of 2006 and continuing through 2008. As of December 2008, newbuilding orders had been placed for an aggregate of more than 72% of the existing global dry bulk fleet, with deliveries expected during the next 36 months. The market supply of tankers is affected by a number of factors such as demand for energy resources, oil, and petroleum products, waiting days in ports, as well as strong overall economic growth in parts of the world economy. Furthermore, the extension of refinery capacity in India and the Middle East up to 2011 will exceed the immediate consumption in these areas, and an increase in exports of refined oil products is expected as a result. Factors that tend to decrease tanker supply include the conversion of tankers to non-tanker purposes and the phasing out of single-hull tankers due to legislation and environmental concerns. We believe shipyards are expected to operate more or less at full capacity with their present orderbooks for both drybulk carriers and tankers. An over-supply of drybulk carrier or tanker capacity may result in a reduction of charter hire rates. If a reduction occurs, upon the expiration or termination of our vessels' current charters, we may only be able to recharter our vessels at reduced or unprofitable rates or we may not be able to charter these vessels at all.



Our operating results from our fleet are subject to seasonal fluctuations, which may adversely affect our operating results in a given financial period

Our fleet consists of dry bulk carriers and product tankers. We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The dry bulk 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 during the winter months. As a result, we expect our dry bulk revenues to be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, we expect our revenues to be stronger in fiscal quarters ended December 31 and March 31. The tanker sector is typically stronger in the fall and winter months in anticipation of increased consumption of oil and petroleum products in the northern hemisphere during the winter months. As a result, our revenues from our tankers may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ended December 31 and March 31. This seasonality could materially affect our operating results and cash available for dividends in a given financial period.

World events could adversely affect our results of operations and financial condition

Terrorist attacks such as the attacks on the United States on September 11, 2001, the bombings in Spain on March 11, 2004, and in London on July 7, 2005, and the attacks in Mumbai on November 26, 2008, and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere, continue to cause uncertainty in the world's financial markets and may affect our business, operating results and financial condition. The continuing presence of the United States and other armed forces in Iraq and Afghanistan 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 our ability to obtain any additional financing or, if we are able to obtain additional financing, to do so on terms favorable to us. 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 impact on our business, financial condition, results of operations and ability to pay dividends.

Our vessels may be damaged due to the inherent operational risks of the seaborne transportation industry and we may experience unexpected dry-docking costs, which may adversely affect our business and financial condition

Our vessels and their cargoes will be 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 our customer relationships, delay or rerouting. If our vessels suffer damage, they may need to be repaired at a dry-docking facility. The costs of dry-dock repairs are unpredictable and may be substantial. We may have to pay dry-docking costs that our 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 our earnings. In addition, space at dry-docking facilities is sometimes limited and not all dry-docking facilities are conveniently located. We may be unable to find space at a suitable dry-docking facility or our vessels may be forced to travel to a dry-docking facility that is not conveniently located to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant dry-docking facilities would decrease our earnings.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Throughout 2008 and early 2009, the frequency of piracy incidents has increased significantly, particularly in the Gulf of Aden off the coast of Somalia. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones, as the Gulf of Aden temporarily was in May 2008, 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. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common stock to further decline

The United States and other parts of the world are exhibiting deteriorating economic trends and have been in a recession. For example, the credit markets in the United States have experienced significant contraction, deleveraging and reduced liquidity, and the United States federal government and state governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

Recently, a number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide. As of December 31, 2008, we have total outstanding indebtedness of USD 1,723 million under our credit facilities.

We face 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. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, which may have a material adverse effect on our results of operations, financial condition or cash flows, has caused the price of our ADS's on the Nasdaq Global Select Market and our common shares on the Copenhagen Stock Exchange to decline and could cause the price of our securities to decline further.

The dry bulk carrier and tanker operations involve certain unique operational risks

The operation of drybulk carriers has certain unique operational risks. With a drybulk carrier, the cargo itself and its interaction with the ship can be a risk factor. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold), and small bulldozers. This treatment may cause damage to the drybulk carrier. Drybulk carriers damaged due to treatment during unloading procedures may be more susceptible to a breach to the sea. Hull breaches in drybulk carriers may lead to the flooding of their holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the drybulk carrier's bulkheads leading to the loss of the drybulk carrier.

The operation of tankers has unique operational risks associated with the transportation of oil. An oil spill may cause significant environmental damage, and a catastrophic spill could exceed the insurance coverage available. Compared to other types of vessels, tankers are exposed to a higher risk of damage and loss by fire, whether ignited by a terrorist attack, collision, or other cause, due to the high flammability and high volume of the oil transported in tankers.

If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, results of operations and ability to pay dividends. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

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

Our 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 our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to:

- the U.S. Oil Pollution Act of 1990, or OPA;
- the U.S Clean Air Act;
- the U.S. Clean Water Act;

- the International Convention on Civil Liability for Oil Pollution Damage of 1969;
- the International Convention for the Prevention of Pollution from Ships;

- the International Maritime Organization, or IMO, International Convention for the Prevention of Marine Pollution of 1973;
- the IMO International Convention for the Safety of Life at Sea of 1974;
- the International Convention on Load Lines of 1966; and
- the U.S. Marine Transportation Security Act of 2002.

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. We 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, the management of ballast waters, maintenance and inspection, elimination of tin-based paint, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were 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. An oil spill could result in significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have 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 effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends.

We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports

The operation of our vessels is affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners, ship managers 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. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of the date of this annual report, each of our vessels is ISM code-certified.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies 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. Our vessels are currently enrolled with the American Bureau of Shipping, Lloyd's Register of Shipping or Det Norske Veritas, each of which is a member of the International Association of Classification Societies.



A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of the underwater parts of such vessel.

If any vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable, which would negatively impact our revenues.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business

International shipping is subject to various security and customs inspections and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of contents of our vessels, delays in the loading, offloading or delivery and the levying of customs, duties, fines and other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo impractical. Any such changes or developments may have a material adverse effect on our business, financial condition, results of operations and our ability to pay dividends.

#### Company Specific Risk Factors

Servicing our debt limits funds available for other purposes and, if we cannot service our debt, we may lose some or all of our vessels, restricting our ability to conduct our business

We must dedicate a large part of our cash flow to paying principal and interest on our indebtedness. These payments limit funds available for working capital, capital expenditures and other purposes. Our debt level also makes us vulnerable to economic downturns and adverse developments in our business. If we expand our fleet, we will need to take on additional debt, which would increase our ratio of debt to equity. Our inability to service debt could also lead to acceleration of our debt and the foreclosure of all or a portion of our fleet.

Certain of our loan agreements contain restrictive covenants, which may limit our liquidity and corporate activities and prevent proper service of debt, which could result in the loss of our vessels

Some loan agreements impose operating and financial restrictions upon us. These restrictions may limit our ability to:

- change the management of our vessels without the lenders' consent (which they are not entitled to unreasonably withhold); and
- enter into mergers or corporate restructurings, or effect material divestments, if such would be materially adverse to the company.

Our lenders' interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may prevent us from taking actions that are in our best interest.

We are subject to certain risks with respect to our counterparties on contracts and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business

We enter into forward freight agreements (FFAs), forward currency exchange contracts, bunker and interest rate hedging contracts and employ our vessels on Contracts of Affreightment (COAs), fixed rate time charters and voyage charters. Our FFAs, forward currency exchange contracts, bunker and interest rate hedging contracts, COAs and vessel charters subject us to counterparty risks. The ability of each of our counterparties to perform its obligations

under a contract with us will depend on a number of factors that are beyond our control and may include general economic conditions, the condition of the shipping industry, the overall financial condition of the counterparty, the charter rates received for specific types of vessels and various expenses. In addition, in depressed market conditions, our 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 with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition and results of operations.

Our earnings may be adversely affected if we do not successfully employ our vessels on time charters, in pools or take advantage of the current spot market

We employ the majority of our vessels on spot voyage charters or short-term time charters. Our operating results will therefore depend on the prevailing charter rates in a given time period. Charter rates are based in part on supply and demand and are extremely competitive. Significant fluctuations in charter rates will result in significant fluctuations in the utilization of our vessels and our profitability. Although we charter out some of our vessels on long-term time charters when we want to lock in favorable charter rates and generate predictable revenue streams, our vessels that are committed to time charters may not be available for spot voyages during an upswing in the shipping industry, when spot voyages might be more profitable. We are impacted by any increase or decrease in market rates. If rates were to decrease significantly, we may not utilize our fleet fully and our earnings could be adversely impacted.

We may be unable to attract and retain key management personnel and other employees in the bulk and tanker industries, which may negatively affect the effectiveness of our management and our results of operations

Our management personnel make key decisions to maximize our revenue and earnings in this highly volatile and cyclical industry. Our success will depend, in part, on our ability to hire and retain key members of our management team. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining qualified personnel could adversely affect our results of operations. We do not maintain "key man" life insurance on any of our officers.

Purchasing and operating previously owned, or secondhand, vessels may result in increased operating costs and vessels off-hire, which could adversely affect our earnings

We own both vessels constructed for us directly by builders and previously owned, or secondhand, vessels purchased from other owners. While we inspect secondhand vessels prior to purchase, this does not normally provide us with the same knowledge about their condition and cost of any required (or anticipated) repairs that we would have had if these vessels had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties from the builders if we buy vessels older than one year.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. As of December 31, 2008, our fleet of owned vessels included 4 vessels more than 10 years of age. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine and hull technology. After vessels reach 15 years of age, the majority of charterers and oil companies may impose restrictions on vessels that make it more difficult to trade the vessels with optimal flexibility. In addition, these older vessels must meet certain hull thickness tests. Furthermore, cargo insurance rates increase for vessels over 15 years of age, making them less desirable to charterers. We, however, consider a useful lifetime of 25 years to be the best estimate of the economic lifetime of a vessel.

Governmental regulations, safety or other equipment standards related to the age of a vessel may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which the vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify such expenditures or enable us to operate them profitably for the remainder of their useful life.

Rising fuel prices may adversely affect our profits

Fuel is a significant, if not the largest, operating expense for many of our shipping operations when our vessels are not under period charter. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by 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 adversely affect our profitability. Further, fuel may become much more expensive in future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

We may not have adequate insurance to compensate us if one of our vessels is involved in an accident

We procure insurance for our fleet against those risks that we believe the shipping industry commonly insures against. These insurances include hull and machinery insurance, protection and indemnity insurance, including environmental damage and pollution insurance coverage, and war risk insurance. We carry insurance against loss of hire as well. We can give no assurance that we are adequately insured against all risks. We may not be able to obtain adequate insurance coverage at reasonable rates for our fleet in the future. The insurers may not pay particular claims. Our insurance policies contain deductibles for which we will be responsible, limitations and exclusions, which although we believe are standard in the shipping industry, may nevertheless increase our costs or lower our revenue.

Maritime claimants could arrest our vessels, which could interrupt our cash flow

Crew members, suppliers of goods and services to a vessel, shippers of cargo 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. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay a substantial sum of money to have the arrest lifted.

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 our fleet for claims relating to another of our vessels.

Governments could requisition our vessels during a period of war or emergency, resulting in loss of earnings

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels may negatively impact our business, financial condition, results of operations and ability to pay dividends.

Our operations expose us to global risks that may interfere with the operation of our vessels

We are an international company and conduct our operations globally. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered affect us. In the past, political conflicts, particularly in the Arabian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and West Africa. Terrorist attacks such as the attacks on the United States on September 11, 2001 and the United States' continuing response to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world commercial markets, including the energy markets. The conflict in Iraq may lead to additional acts of terrorism, armed conflict and civil disturbance around the world, which may contribute to further instability, including in the oil markets. The likelihood of acts of terrorism in the Middle East region and Southeast Asia may increase as shown by the attempted attacks on the Basra Oil Terminal in April 2004 and the attacks on employees of Exxon in Yanbu, Saudi Arabia, in early May 2004, and our vessels trading in those areas may face a higher risk of being attacked. Future hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations and performance.



A further economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations

We anticipate a significant number of the port calls made by our vessels will continue to involve the loading or discharging of commodities in ports in the Asia Pacific region. As a result, negative changes in economic conditions in any Asia Pacific country, particularly in China, may exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects. In recent years, China has been one of the world's fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. Through the end of the third quarter of 2008, China's gross domestic product was approximately 2.3% lower than it was during the same period in 2007, and it is likely that China and other countries in the Asia Pacific region will continue to experience slowed or even negative economic growth in the near future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our business, financial condition and results of operations, as well as our future prospects, will likely be materially and adversely affected by a further economic downturn in any of these countries.

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

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments 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 adversely affect our business, operating results and financial condition.

Because we generate nearly all of our revenues in U.S. dollars, but incur some of our expenses in Danish Kroner and other currencies, exchange rate fluctuations could hurt our results of operations

In 2008, we generated nearly all of our revenues in U.S. dollars but incurred approximately 85% of our expenses in U.S. dollars and approximately 12% was incurred in Danish Kroner. A change in exchange rates could lead to fluctuations in our reported net income.



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

As of December 31, 2008, 91% of our loans bore interest at floating rates. Increases in prevailing rates could increase the amounts that we would have to pay to our lenders. LIBOR has recently been volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Because the interest rates borne by much of our outstanding indebtedness fluctuates with changes in LIBOR, if this volatility were to continue, it would affect the amount of interest payable on our debt, which in turn, could have an adverse effect on our profitability, earnings and cash flow. As of December 31, 2008, we had entered into interest swap agreements expiring between 2009 and 2013 for approximately 36% of the then outstanding principal amounts of our loans, that may mitigate some of our exposure to the risk of rising interest rates. However, increases in interest rates will increase our payments under loans not covered by caps of the interest rates of our loans and swap agreements and may negatively affect our earnings and cash flow.

Because we are a non-U.S. corporation, you may not have the same rights that a creditor of a U.S. corporation may have

Our investors may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling stockholders than would stockholders of a corporation incorporated in a United States jurisdiction. In addition, the executive officers and administrative activities and assets of the Company are located outside the United States. As a result, it may be more difficult for investors to effect service of process within the United States upon the Company, or to enforce both in the United States and outside the United States judgments against the Company in any action, including actions predicated upon the civil liability provisions of the federal securities laws of the United States.

It may be difficult to serve process on or enforce a United States judgment against our officers, our directors and us

We are a Danish company and our executive offices are located outside of the United States. Our officers and directors and some of the experts named in this annual report reside outside of the United States. In addition, substantially all of our assets and the assets of our 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, there is uncertainty as to whether the courts of Denmark would (1) enforce judgments of United States courts obtained against us or our officers and directors predicated on the civil liability provisions of the United States federal or state securities laws, or (2) entertain original actions brought in Danish courts against us or our officers and directors predicated on United States federal or state securities laws. As a result, it may be difficult for you to enforce judgments obtained in United States courts against our directors, officers and non-U.S. experts.

There may be no active public market for you to resell our ADSs

The price of our ADSs may be volatile, and may fluctuate due to factors such as:

- actual or anticipated fluctuations in our financial results;
- mergers and strategic alliances in the shipping industry;
- market conditions in the industry;

- changes in government regulation;
- fluctuations in our quarterly revenues and earnings and those of our publicly held competitors;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our 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 our 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 ADSs may experience delays in receiving information and materials not experienced by our common shareholders

The ADSs are securities that have been issued by a depository with whom we have deposited our 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 our common shares in Denmark, and may not receive such materials in time for you to instruct the depository to vote.

You may receive a smaller dividend than what you expected to receive when the dividend was approved

Under Danish law, the board of directors proposes dividends and the shareholders vote whether to accept the proposal or to lower the dividend. We will pay any dividends in Danish Kroner to our depository agent for the ADSs, and our depository agent will convert the amounts into U.S. dollars at the relevant exchange rate and distribute the dividend to you. If the Danish Kroner depreciates against the U.S. dollar before our depository agent distributes the dividend, you may receive a smaller dividend than what you expected to receive at the time the dividend was approved by shareholders.

We may have to pay tax on United States source income, which would reduce our earnings

Under the United States Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not begin and end, in the United States is characterized as United States source shipping income and such income is subject to a 4% United States 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 tax-treaty with the United States.

We expect that our Danish subsidiaries will qualify for tax exemption under the tax treaty between the United States and Denmark. However, our non-Danish subsidiaries may not qualify for exemption under Section 883 for the 2008 taxable year unless we are able to obtain certain certifications from our shareholders. As of the date of this filing, we have not been able to obtain these certifications, although we intend to continue our efforts. If we are unable to obtain these certifications, our non-Danish subsidiaries would be subject to United States federal income tax on our United States source income derived during our 2008 taxable year. We can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% United States federal income tax on our U.S. source shipping income. The imposition of this taxation could have a negative effect on our business.

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

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 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. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a

PFIC are subject to 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 our current and proposed method of operation, we do not believe that we are, have been or will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute "passive income," and the assets that we own and operate in connection with the production of that income do not constitute passive assets.

There is, however, no direct legal authority under the PFIC rules addressing our proposed method of operation. We believe there is substantial legal authority supporting our position consisting of case law and United States 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, we note 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 our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be liable to pay 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 our ADSs, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our ADSs.

#### ITEM INFORMATION ON THE COMPANY

4.

##### A. History and Development of the Company

We are TORM, a Danish shipping company founded in 1889 under the Danish Companies Act that is engaged primarily in the ownership and operation of product tankers and dry bulk carriers. We have also provided liner and offshore marine service vessels, but ceased these services in September 2002 and December 2003, respectively. Our product tankers primarily carry refined products such as naphtha, gasoline, gas oil, jet fuel, and diesel oil. Our dry bulk vessels carry commodities such as coal, iron ore and grain. Our vessels trade worldwide. Our registered office and principal place of business is at Tuborg Havnevej 18, DK-2900 Hellerup, Denmark. Our telephone number is +45 39179200. All the financial information presented in Item 4 is in accordance with IFRS.

We provide transportation services by utilizing a fleet of vessels that we own, charter in on short and long-term time charters, or commercially manage as the manager of a pool or through contracts with third-party owners. We charter in tankers and bulk vessels as are needed by the pools we manage.

Our primary capital expenditures are in connection with the acquisitions of vessels. The book value of vessels as of December 31, 2008 amounts to 78% (2007: 82%) of the total assets. We are renewing the fleet on continuous basis. The average age of the entire fleet as of December 31, 2008 is 4.9 years.

In April 2007, TORM acquired the U.S. shipping company OMI Corporation located in Stamford, Connecticut in collaboration with Teekay Shipping Corporation. TORM took over a total of 26 product tankers, 11 of which are MR tankers, 13 Handysize tankers and two are LR1 tankers.

In March 2008, TORM acquired a 50% stake in the shipping company FR8 Holdings Pte. Ltd. (FR8) from FR8 Limited, a subsidiary of the international oil trader Projector. FR8 Limited continues to own its 50% equity interest in

FR8. FR8 operates independently from TORM. Projector went into liquidation in the second half of 2008, and TORM is now working on finding a solution which ensures the same strategic opportunities.

## Subsequent events

In April 2009, following our annual general meeting, we changed our name from "Aktieselskabet Dampskibsselskabet Torm" to TORM A/S.

## B. Business Overview

### The Fleet

As of December 31, 2008, our fleet of owned vessels consisted of 59.5 product tankers and six dry bulk carriers. The total tonnage of those vessels is approximately 4,077,874 dwt. In addition, we chartered 21.5 product tankers and seven dry bulk carriers and commercially managed approximately 33.5 vessels for third-party owners and charterers.

For an overview of our fleet please refer to Item 4D 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, 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 tankers of approximately 100,000 to 105,000 dwt, that primarily transport naphtha between the Arabian Gulf and Japan and other East Asiatic 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 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	2006	2007	2008
Product Tankers	84%	82%	68%
Dry Bulk Vessels	16%	18%	32%

Please refer to Item 5A for a description of revenue and gross profit per division.

### Product Tanker Pooling Arrangements

We employ a significant part (approx. 70%) of our owned and chartered product tankers in three pooling arrangements, the LR2 Pool, the LR1 Pool and the MR Pool, along with vessels from several other shipping companies. The manager of each 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. Each pool is administered by a pool board, which is comprised of representatives of each pool participant. The pool boards set the

pools' 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.



### The LR2 Pool

As of December 31, 2008, the LR2 Pool was comprised of 33 Aframax tankers that are all double-hull and mainly trade clean petroleum products. The commercial management is carried out via the limited partnership LR2 Management K/S, in which Long Range 2 A/S, a Danish corporation, is the general partner. We own 50% of all issued and outstanding voting stock of Long Range 2 A/S and a 50% interest in LR 2 Management K/S. Maersk Tankers, one of the pool participants, also owns a 50% interest in both entities. The other participants in this pool are Primorsk Shipping Corporation and Rederi AB Gotland. Thirteen of our owned and chartered vessels participated in this pool. The LR2 pool has also time chartered in one vessel, the charter of which is expected to end in 2010. If a participant wants to sell one of its vessels in the pool, it must give notice to the pool board two months in advance of such sale, and six months' notice is required for a participant to withdraw all of its vessels from the pool. No such notice has been given from any partner from January 1, 2008 to April 30, 2009.

### The LR1 Pool

As of December 31, 2008, the LR1 Pool consisted of 28 Panamax tankers, and we serve as the sole manager of the pool. The other participants in this pool are Marininvest Shipping AB, Nordan Tankers 4 Inc., Reederei "Nord" Klaus E. Oldendorff Ltd., and Rederiaktiebolaget Gotland. As of December 31, 2008, 17 of our owned and chartered vessels participated in this pool. If a participant wants to sell one of its vessels or withdraw all of them from the pool, it must give three months' advance notice to the pool board. Waterfront Shipping AS, Nordic Tankers A/S and Mitsui O.S.K Lines Ltd withdraw their 18 vessels in the LR 1 pool during 2008.

### The MR Pool

The MR Pool is a pooling arrangement we have entered into with Primorsk Shipping Corporation, Sanmar Shipping Ltd. and Rederiaktiebolaget Gotland for the pooling of 33 Handymax product tankers as of December 31, 2008. We serve as the sole manager of the MR Pool. As of December 31, 2008, 25 of our vessels participated in this pool. If a participant wants to sell one of its vessels in the pool, it must give notice to the pool board three months in advance of such sale, and six months' notice is required for a participant to withdraw all of its vessels from the pool. No such notice has been given from any partner from January 1, 2008 to April 30, 2009.

### Dry Bulk Vessel Operation

We operate Panamax size vessels in our Bulk Division. We operate our Panamax vessels ourselves. The disposal of the investment in Dampskibsselskabet Norden A/S ("NORDEN")

In the summer of 2002, TORM acquired a share holding in NORDEN and subsequently launched a public offer on the Copenhagen Stock Exchange for the remainder of NORDEN's shares. After the offer, TORM owned 727,803 shares representing 33% - excluding NORDEN's own shares - acquired at a price of DKK 361 per share for a total investment of DKK 263 million. In 2005 and 2006 we acquired a small portion of additional shares. As of December 31, 2006, we were NORDEN's single largest shareholder with 34.7% of NORDEN's outstanding shares, excluding own shares.

TORM disposed of the shareholding in NORDEN on 31 March 2007. The shares were sold through a book-building offer at a total price of DKK 3,940 million (USD 704 million). TORM's gain on the investment in NORDEN was DKK 3,599 million (USD 643 million), while the total return of the investment including dividends has been DKK 4,079 million (USD 725 million). The appreciation in the value of the investment since December 31, 2006 is DKK 354 million (USD 71 million).



## The Industry - Tankers

The international product tanker industry provides seaborne transportation of crude and refined petroleum products for the oil market. According to industry sources, tankers transported an amount of such products corresponding to 2,970 million tons in 2008, which is an increase of 4.4% from 2007. Refined oil products constituted approximately 797 million tons in 2008 showing a 1.4% increase as compared to 2007. The two main types of operators that provide transportation services in the tanker market are:

- major oil companies; and
- independent shipowners.

They provide transportation services for end users such as:

- oil companies;
- oil traders;
- petrochemical companies;
- government agencies; and
- power plants.

According to industry sources, the world tanker fleet above 10,000 dwt consisted of approximately 4,082 vessels totaling 379 million dwt or 5.9% higher as of January 1, 2009 as compared to the year before. Oil companies own, or control through long-term time charters, approximately one third of the current world tanker capacity. Independent shipowners own or control the other two thirds. Oil companies use their fleets not only to transport their own oil products, but also to compete with the independent shipowners to transport oil products for others.

We believe the quality of tanker vessels and operations has improved over the past several years, as charterers and regulators increasingly focus on safety and protection of the environment. National authorities and international conventions have historically regulated the oil transportation industry. Since 1990, the emphasis on environmental protection has increased. Legislation, regulations and regulatory organizations such as the OPA, the IMO, protocols and classification society procedures demand higher-quality tanker construction, maintenance, repair and operations. Charterers of all types, including oil companies, terminal operators, shippers and receivers are becoming increasingly selective in their acceptance of tankers and are inspecting and vetting both vessels and companies on a periodic basis. As these changes have imposed costs and potential liabilities on tanker owners and operators, they have also raised barriers to entry and favored shipowners with quality fleets and operations. Limitations imposed by port states and the IMO on trading of older single-hull vessels should accelerate the commercial obsolescence of older, poor-quality tankers.

The industry identifies tankers as either product tankers or crude oil tankers on the basis of various factors including technical specifications and trading histories. Crude oil tankers carry crude oil and so-called "dirty" products such as fuel oils. Product tankers carry refined petroleum products such as gasoline, jet fuel, kerosene, naphtha and gas oil, which are often referred to as "clean" products.

Product tankers are tankers that typically have cargo handling systems that are designed to transport several different refined products simultaneously, such as gasoline, jet fuel, kerosene, naphtha and heating oil, from refineries to the

ultimate consumer. Product tankers generally have coated cargo tanks that make it easier to clean the tanks between voyages involving different cargoes. This coating also protects the steel in the tanks from corrosive cargoes. Product tankers generally range in size from 10,000 dwt to 110,000 dwt.

Although product tankers are designed to carry dirty as well as clean products, they generally do not switch between clean and dirty cargoes. A vessel carrying dirty cargo must undergo a cleaning process prior to loading clean cargo and many charterers want to eliminate any risk of contamination. In addition, specified design, outfitting and technical factors tend to make some vessels better suited to handling the physical properties of distinct cargoes.

Our vessels primarily transport clean products. Our product tankers are all double-hull and range in size from 44,000 dwt to 105,000 dwt. They compete with tankers of similar size and quality. The rates that we are able to obtain for our vessels are subject to the supply and demand dynamics described below.

### Supply and Demand for Tankers

The supply of, and demand for, tanker capacity strongly influences tanker charter rates and vessel values for all tankers. Supply and demand has historically caused fluctuations in tanker charter rates and secondhand values.

Demand for oil tankers is related to the demand for oil and oil products and the distance between points of production and points of consumption. Demand for refined petroleum products is, in turn, affected by, among other things:

- general economic conditions, which include increases and decreases in industrial production and transportation;
  - oil prices;
  - environmental issues or concerns;
  - climate;
  - competition from alternative energy sources; and
  - regulatory environment.

The supply of tanker capacity is a function of the number of tankers delivered to the fleet relative to the number of tankers permanently taken from service when they become technically or economically obsolete. Currently, it takes approximately 36 to 48 months from the time a building contract is entered into before a newbuilding is delivered. The average age of tankers removed from service currently ranges between 21 and 25 years. Other factors affecting the supply of tankers include:

- the number of combined carriers, or vessels capable of carrying oil or dry bulk cargoes, carrying oil cargoes;
  - the number of newbuildings on order and being delivered;
- the number of tankers in lay-up, which refers to vessels that are in storage, dry-docked, awaiting repairs or otherwise not available or out of commission; and
  - the number of tankers scrapped for obsolescence or subject to casualties;
    - prevailing and expected future charterhire rates;
    - costs of bunkers, fuel oil, and other operating costs;
    - the efficiency and age of the world tanker fleet;
    - current shipyard capacity; and
- government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations.

Environmental laws and regulations are imposing requirements on vessels when they reach 25 years of age that reduce the amount of cargo they can carry or require that the vessel be configured in a different way. These requirements tend to impose costs on those older vessels and make operating them less economical.

## The Industry – Dry Bulk Fleet

### Overview

The dry bulk carrier industry is highly fragmented with many owners and operators of vessels, including proprietary owners who are large shippers of dry bulk cargo, state-controlled shipping companies and independent operators.

Dry bulk cargo consists of the major bulk commodities, which are coal, iron ore and grain, and the minor bulk commodities, which include steel products, forest products, agricultural products, bauxite and alumina, phosphates, petcoke, cement, sugar, salt, minerals, scrap metal and pig iron. Dry bulk carriers are generally single deck ships, which transport unpacked cargo, which is poured, tipped or placed through hatchways into the hold of the ships.

Historically, charter rates for dry bulk carriers have been influenced by the demand for, and the supply of, vessel tonnage. The demand for vessel tonnage is largely a function of the level of worldwide economic activity and the distance between major trade areas. Supply is primarily driven by the size of the existing worldwide dry bulk carrier fleet, scrapping and newbuilding activity. Charter rates and vessel values are determined in a highly competitive global market and have been characterized by fluctuations since the mid-1980s.

According to industry sources, the world bulk carrier fleet consists of approximately 6,954 vessels as of January 1, 2009.

### Vessel Types

Vessels utilized in the carriage of major bulk cargoes are generally classified into three categories, based on carrying capacity:

- Handysize dry bulk carriers (20,000 to 30,000 dwt). Unlike most larger dry bulk carriers, Handysize dry bulk carriers are equipped with cargo gear such as cranes. This type of vessel is well suited for transporting both major and minor bulk commodities to ports around the world that may have draft restrictions or are not equipped with gear for loading or discharging of cargo.
- Panamax dry bulk carriers (60,000 to 80,000 dwt). Panamax dry bulk carriers are designed with the maximum width, length and draft that will allow them to transit fully laden through the Panama Canal. Panamax vessels are primarily used in the transport of major bulks such as grain and coal, along with some minor bulks like phosphate, petcoke and salt.
- Capesize dry bulk carriers (100,000 dwt or above). Capesize dry bulk carriers primarily transit from the Atlantic to the Pacific Ocean via Cape Horn or the Cape of Good Hope, hence their name. Capesize vessels are typically used for long voyages in the coal and iron ore trades.

In addition to the three standard vessel types, the world bulk carrier fleet also includes combination carriers. These vessels are typically large, capable of carrying either crude oil or dry bulk cargoes and compete with both Capesize and Panamax bulk carriers. The role of combination carriers has been decreasing since 1990 because such vessels, which were not built primarily for the dry cargo market but rather for the oil tanker market, have come to be considered less desirable by charterers of oil tankers, since their oil carrying capacity may be limited and they are not strictly specialized for the carriage of oil.

Set forth below are some of the characteristics of the principal cargoes carried by dry bulk carriers.

- Coal. The two categories comprising this segment are steam (or thermal) coal, which is used by power utilities, and coking (or metallurgical) coal, which is used by steelmakers. Steam coal is primarily transported from Australia, South Africa and the United States to Europe and Japan. Coking coal is primarily transported from Australia, the United States and Canada to Europe and Japan.



- Iron Ore. Iron ore is primarily transported from Brazil and Australia to China, Europe and Japan. The majority of iron ore shipments is carried by Capesize dry bulk carriers.
- Grain. The grain trade includes wheat, wheat flour, coarse grains (corn and barley), soybeans and soybean meal. Although the annual volume of the grain trade is subject to political factors and weather conditions, shipments have remained relatively stable over the past five years. Grain is primarily transported from the United States, Canada, Europe, Australia and Argentina to the Far East, Latin America and Africa. Handymax and Panamax vessels carry approximately 90% of the international seaborne bulk trade while Capesize vessels transport the remainder.

Our dry bulk vessels transport cargoes such as grain, coal and iron ore. We operate Panamax dry bulk vessels only. The rates that we can achieve for our vessels depend on the supply and demand dynamics described below.

#### Demand for Dry Bulk Vessels

Due to the variety of cargo carried by dry bulk carriers, demand for such vessels is dependent on a number of factors, including world and regional economic and political conditions, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, crop yields, armed conflicts, port congestion, canal closures and other diversions of trade. Generally, since larger ships carry fewer types of cargoes, demand for larger vessels is affected by trade patterns in a small number of commodities. Demand for smaller vessels is more diversified and is determined by trade in a larger number of commodities. As a result, charter rates for smaller dry bulk carriers, such as Handysize dry bulk carriers, have tended to be relatively more stable than charter rates for larger dry bulk carriers.

#### Supply of Dry Bulk Carriers

The size of the world's dry bulk carrier fleet changes as a result of newbuildings and scrapping or loss of vessels. The general trend in the development of the bulk market has always been closely linked to the state of the world economy. The economic downturn in Asia in the late 1990's led to sharp falls in cargo volumes, and therefore rates, whereas the subsequent recovery has likewise acted to boost the sector with rates recovering to above those prevailing prior to the crisis. In the period 2003 to 2008 the dry bulk market reached historically high levels and the charter rates, although volatile, have remained very high compared to the historical averages due, among other, factors, to a strong demand from China for iron ore and congestion in load ports, coupled with a relatively low level of newbuilding deliveries given the high market rates over a longer period - however the global drybulk newbuilding order book have during 2008 increased to record high levels although the ordering of newbuildings stopped in connection with the financial crisis and the total collapse of the drybulk market in September/October 2008. China imported huge quantities of iron ore prior to the Olympics in August and built up record high stocks. The high stockbuilding coupled with the financial crisis and the following reduced demand on all commodities as well as problems for buyers of goods in obtaining letter of credit from banks lead to a total collapse of the drybulk freight market in October 2008. The level of expected newbuildings in the dry bulk sector in the forthcoming years remains at a historical high level due to the record high order book which was build up during especially 2007 and major part of 2008. The finance crisis , coupled with the collapse in the drybulk freight market, is expected to lead to problems of finance of many new buildings as well as cancellations and further delayed deliveries from yards - especially Chinese yards - but the extend of such cancellations and delays are highly uncertain..

#### 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.

Most of our tanker vessels operate 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.

#### Management of the Fleet

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, Kristiansand in Norway, Stamford, USA and Mumbai, India, but all decisions relating to the vessels we manage are made or approved in our offices in Copenhagen and Singapore.

#### 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.

#### Environmental and Other Regulations

Government regulations and laws significantly affect the ownership and operation of our vessels, which consist of both tankers and dry bulk carriers. We are subject to various international conventions, laws and regulations in force in the countries in which our vessels may operate or are registered. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating

procedures.

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A variety of government, quasi-governmental and private organizations subject our vessels to both scheduled and unscheduled inspections. These organizations include the local port authorities, national authorities, harbor masters or equivalent, classification societies, relevant flag state and charterers, particularly terminal operators and oil companies. Some of these entities require us to obtain permits, licenses and certificates for the operation of our vessels. Our failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet.

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 the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with applicable local, national and international environmental laws and regulations. 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, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

Our vessels are subject to both scheduled and unscheduled inspections by a variety of governmental and private entities, each of which may have unique requirements. These entities include the local port authorities (U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry) and charterers, particularly terminal operators and oil companies. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

#### International Maritime Organization

The International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of pollution by ships), has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, which has been updated through various amendments, or the MARPOL Convention. The MARPOL Convention implements environmental standards including oil leakage or spilling, garbage management, as well as the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. Under IMO regulations, in order for a tanker to trade in ports of IMO member nations, a tanker must be of double-hull construction or a mid-deck design with double-sided construction or be of another approved design ensuring the same level of protection against oil pollution if the tanker:

- is the subject of a contract for a major conversion or original construction on or after July 6, 1993;
  - commences a major conversion or has its keel laid on or after January 6, 1994; or
  - completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

Since the enactment of these regulations, the IMO has accelerated the timetable for the phase-out of single-hull oil tankers. We do not currently own any single-hull vessels.

In December 2003, the Marine Environmental Protection Committee of the IMO, or MEPC, adopted an amendment to the MARPOL Convention, which became effective in April 2005. The amendment revised an existing regulation 13G

accelerating the phase-out of single-hull oil tankers and adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil. Under the revised regulation, single-hull oil tankers were required to be phased out no later than April 5, 2005 or the anniversary of the date of delivery of the ship on the date or in the year specified in the following table:

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Category of Oil Tankers	Date or Year
Category 1 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks	April 5, 2005 for ships delivered on April 5, 1982 or earlier; or 2005 for ships delivered after April 5, 1982
Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements	April 5, 2005 for ships delivered on April 5, 1977 or earlier 2005 for ships delivered after April 5, 1977 but before January 1, 1978 2006 for ships delivered in 1978 and 1979 2007 for ships delivered in 1980 and 1981 2008 for ships delivered in 1982 2009 for ships delivered in 1983 2010 for ships delivered in 1984 or later

and

Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.

Under the revised regulations, a flag state may permit continued operation of certain Category 2 or 3 tankers beyond the phase-out date set forth in the above schedule. Under regulation 13G, the flag state may allow for some newer single-hull oil tankers registered in its country that conform to certain technical specifications to continue operating until the earlier of the anniversary of the date of delivery of the vessel in 2015 or the 25th anniversary of their delivery. Under regulations 13G and 13H, as described below, certain Category 2 and 3 tankers fitted only with double bottoms or double sides may be allowed by the flag state to continue operations until their 25th anniversary of delivery. Any port state, however, may deny entry of those single-hull oil tankers that are allowed to operate under any of the flag state exemptions. These regulations have been adopted by over 150 nations, including many of the jurisdictions in which our tankers operate.

In October 2004, the MEPC adopted a unified interpretation of regulation 13G that clarified the delivery date for converted tankers. Under the interpretation, where an oil tanker has undergone a major conversion that has resulted in the replacement of the fore-body, including the entire cargo carrying section, the major conversion completion date shall be deemed to be the date of delivery of the ship, provided that:

- the oil tanker conversion was completed before July 6, 1996;
- the conversion included the replacement of the entire cargo section and fore-body and the tanker complies with all the relevant provisions of MARPOL Convention applicable at the date of completion of the major conversion; and

- the original delivery date of the oil tanker will apply when considering the 15 years of age threshold relating to the first technical specifications survey to be completed in accordance with MARPOL Convention.

In December 2003, the MEPC adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil, or HGO, which includes most of the grades of marine fuel. The new regulation bans the carriage of HGO in single-hull oil tankers of 5,000 dwt and above after April 5, 2005, and in single-hull oil tankers of 600 dwt and above but less than 5,000 dwt, no later than the anniversary of their delivery in 2008.



Under regulation 13H, HGO means any of the following:

- crude oils having a density at 15°C higher than 900 kg/m<sup>3</sup>;
- fuel oils having either a density at 15°C higher than 900 kg/m<sup>3</sup> or a kinematic viscosity at 50°C higher than 180 mm<sup>2</sup>/s; or
- bitumen, tar and their emulsions.

Under the regulation 13H, the flag state may allow continued operation of oil tankers of 5,000 dwt and above, carrying crude oil with a density at 15°C higher than 900 kg/m<sup>3</sup> but lower than 945 kg/m<sup>3</sup>, that conform to certain technical specifications and, in the opinion of such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship and provided that the continued operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery. The flag state may also allow continued operation of a single-hull oil tanker of 600 dwt and above but less than 5,000 dwt, carrying HGO as cargo, if, in the opinion of such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship, provided that the operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery.

The flag state may also exempt an oil tanker of 600 dwt and above carrying HGO as cargo if the ship is either engaged in voyages exclusively within an area under its jurisdiction, or is engaged in voyages exclusively within an area under the jurisdiction of another party, provided the party within whose jurisdiction the ship will be operating agrees. The same applies to vessels operating as floating storage units of HGO.

Any port state, however, can deny entry of single-hull tankers carrying HGO that have been allowed to continue operation under the exemptions mentioned above into the ports or offshore terminals under its jurisdiction, or deny ship-to-ship transfer of HGO in areas under its jurisdiction except when this is necessary for the purpose of securing the safety of a ship or saving life at sea.

Revised Annex I to the MARPOL Convention entered into force in January 2007. Revised Annex I incorporates various amendments adopted since the MARPOL Convention entered into force in 1983, including the amendments to regulation 13G (regulation 20 in the revised Annex) and regulation 13H (regulation 21 in the revised Annex). Revised Annex I also imposes construction requirements for oil tankers delivered on or after January 1, 2010. A further amendment to revised Annex I includes an amendment to the definition of heavy grade oil that will broaden the scope of regulation 21. On August 1, 2007, regulation 12A (an amendment to Annex I) came into force requiring oil fuel tanks to be located inside the double-hull in all ships with an aggregate oil fuel capacity of 600 m<sup>3</sup> and above, which are delivered on or after August 1, 2010 including ships for which the building contract is entered into on or after August 1, 2007 or, in the absence of a contract, which keel is laid on or after February 1, 2008.

#### Air Emissions

In September 1997, the IMO adopted Annex VI to the MARPOL Convention to address air pollution from ships. Effective in May 2005, Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from all commercial vessel exhausts and prohibits deliberate emissions of ozone depleting substances, (such as halons and chlorofluorocarbons), emissions of volatile compounds from cargo tanks, and the shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. We believe that all our vessels are currently compliant in all material respects with these regulations. Additional or new conventions, laws and regulations may be adopted that could require the installation of expensive emission control systems and that could adversely affect our business,

cash flows, results of operations and financial condition.

In October 2008, the IMO adopted amendments to Annex VI regarding particulate matter, nitrogen oxide and sulfur oxide emission standards which are expected to enter into force on July 1, 2010. The amended Annex VI would reduce air pollution from vessels by, among other things, (i) implementing a progressive reduction of sulfur oxide, emissions from ships, with the global sulfur cap reduced initially to 3.50% (from the current cap of 4.50%), effective from January 1, 2012, then progressively to 0.50%, effective from January 1, 2020, subject to a feasibility review to be completed no later than 2018; and (ii) establishing new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. Once these amendments become effective, we may incur costs to comply with these revised standards.

#### Safety Requirements

The IMO has also adopted the International Convention for the Safety of Life at Sea, or SOLAS Convention, and the International Convention on Load Lines, 1966, or LL Convention, which impose a variety of standards to regulate design and operational features of ships. SOLAS Convention and LL Convention standards are revised periodically. We believe that all our vessels are in substantial compliance with SOLAS Convention and LL Convention standards.

Under Chapter IX of SOLAS, the requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO, also affect our operations. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies.

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 code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We have obtained documents of compliance for our offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. As required we renew these documents of compliance and safety management certificates annually.

Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in U.S. and European Union ports, as the case may be.

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. Additional or new conventions, laws and regulations may be adopted that could limit our ability to do business and that could have a material adverse effect on our business and results of operations.

#### Ballast Water Requirements

The IMO adopted an 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 (beginning in 2009), 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.



## Oil Pollution Liability

Although the United States is not a party to these conventions, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended in 2000, or the CLC. Under this convention 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 complete defenses. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights, or SDR. Under an amendment to the 1992 Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability will be limited to approximately 4.51 million SDR plus 631 SDR for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability will be limited to 89.77 million SDR. The exchange rate between SDRs and U.S. dollars was 0.654219 SDR per U.S. dollar on June 8, 2009. The right to limit liability is forfeited under the International Convention on Civil Liability for Oil Pollution Damage where the spill is caused by the owner's actual fault and under the 1992 Protocol where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the International Convention on Civil Liability for Oil Pollution Damage has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our P&I insurance will cover the liability under the plan adopted by the IMO.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

## United States Restrictions

In 1990, the United States Congress enacted OPA to establish an extensive regulatory and liability regime for environmental protection and cleanup of oil spills. OPA affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, imposes liability for clean-up and natural resource damage from the release of hazardous substances (other than oil) whether on land or at sea. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners, operators and bareboat charterers 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. These other damages are defined broadly to include:

- natural resource damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, profits or earnings capacity;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.



Under amendments to OPA that became effective on July 11, 2006, the liability of responsible parties is limited, with respect to tanker vessels, to the greater of \$1,900 per gross ton or \$16.0 million per vessel that is over 3,000 gross tons, and with respect to non-tanker vessels, to the greater of \$950 per gross ton or \$0.8 million per vessel (subject to periodic adjustment for inflation). On September 24, 2008, the U.S. Coast Guard proposed adjustments to the limits of liability that would increase the limits for tank vessels to the greater of \$2,000 per gross ton or \$17.0 million per vessel that is over 3,000 gross tons and for non-tank vessels to the greater of \$1,000 per gross ton or \$848,000 and establish a procedure for adjusting the limits for inflation every three years. The comment period for the proposed rule closed on November 24, 2008. The act specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states that have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for clean-up, removal and natural resource damages. 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 \$0.5 million for any other vessel.

These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. These limits do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. We believe that we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our vessels call.

OPA also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the act. On October 17, 2008, the U.S. Coast Guard regulatory requirements under OPA and CERCLA were amended to require evidence of financial responsibility in amounts that reflect the higher limits of liability imposed by the July 2006 amendments to OPA, as described above. The increased amounts became effective on January 15, 2009. U.S. Coast Guard regulations currently require evidence of financial responsibility in the amount of \$2,200 per gross ton for tankers, coupling the current OPA limitation on liability of \$1,900 per gross ton with the CERCLA liability limit of \$300 per gross ton. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA regulations, an owner or operator of more than one tanker is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum strict liability under OPA and CERCLA. 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.

We insure each of our vessels with pollution liability insurance in the maximum commercially available amount of \$1.0 billion. A catastrophic spill could exceed the insurance coverage available, which could have a material adverse effect on our business.

Under OPA, with certain limited exceptions, all newly-built or converted vessels operating in U.S. waters must be built with double-hulls, and existing vessels that do not comply with the double-hull requirement will be prohibited from trading in U.S. waters over a 20-year period (1995-2015) based on size, age and place of discharge, unless retrofitted with double-hulls.

OPA also amended the Federal Water Pollution Control Act to require owners or operators of tankers operating in the waters of the United States to file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. These response plans must, among other things:

- address a worst-case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst-case discharge;
  - describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.



We have obtained vessel response plans approved by the U.S. Coast Guard for our vessels operating in the waters of the United States. In addition, the U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

In addition, the United States Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in United States navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for 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, discussed above.

The United States Environmental Protection Agency, or EPA has enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. Under the new rules, which took effect February 6, 2009, commercial vessels 79 feet in length or longer (other than commercial fishing vessels), or Regulated Vessels, are required to obtain a CWA permit regulating and authorizing such normal discharges. This permit, which the EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP, incorporates the current U.S. Coast Guard requirements for ballast water management as well as supplemental ballast water requirements, and includes limits applicable to specific discharge streams.

Although the VGP became effective on February 6, 2009, the VGP application procedure, known as the Notice of Intent, or NOI, has yet to be finalized. Accordingly, Regulated Vessels will effectively be covered under the VGP from February 6, 2009 until June 19, 2009, at which time the "eNOI" electronic filing interface will become operational. Thereafter, owners and operators of Regulated Vessels must file their NOIs prior to September 19 2009, or the Deadline. Any Regulated Vessel that does not file an NOI by the Deadline will not be allowed to discharge into U.S. navigable waters until it has obtained a VGP. Our fleet is composed entirely of Regulated Vessels, and we intend to submit NOIs for each vessel in our fleet as soon after June 19, 2009 as practicable.

Owners and operators of vessels visiting U.S. waters will be required to comply with this VGP program or face penalties. This could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters. In addition, the CWA requires each state to certify federal discharge permits such as the VGP. Certain states have enacted more stringent discharge standards as conditions to their certification of the VGP.

The VGP and its state-specific regulations and any similar restrictions enacted in the future will increase the costs of operating in the relevant waters.

The U.S. National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. NISA established a ballast water management program for ships entering U.S. waters. Under NISA, mid-ocean ballast water exchange is voluntary, except for ships heading to the Great Lakes or Hudson River, or vessels engaged in the foreign export of Alaskan North Slope crude oil. However, NISA's reporting and record-keeping requirements are mandatory for vessels bound for any port in the United States. Although ballast water exchange is the primary means of compliance with the act's guidelines, compliance can also be achieved through the retention of ballast water on board the ship, or the use of environmentally sound alternative ballast water management methods approved by the U.S. Coast Guard. If the mid-ocean ballast exchange is made mandatory throughout the United States, or if water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on the drybulk shipping industry. In April 2008 the U.S. House of Representatives passed a bill that amends NISA by prohibiting the discharge of ballast water unless it has been treated with specified methods or acceptable alternatives. Similar bills have been introduced in the U.S. Senate, but we cannot predict which bill, if any, will be enacted into law. In the absence of federal standards, states have enacted legislation or regulations to address invasive species through ballast water and hull cleaning management and permitting requirements. For instance, the state of California has recently enacted legislation extending its ballast water management program to regulate the management of "hull fouling" organisms attached to vessels and adopted regulations limiting the number of organisms in ballast water discharges. Michigan's ballast water management legislation mandating the use of various techniques for ballast water treatment was upheld by the federal courts. Other states may proceed with the enactment of similar requirements that could increase the costs of operating in state waters.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our tanker 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 tanker 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, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our tanker vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these requirements. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase our costs, based on the regulations that have been proposed to date, we believe that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required.

On October 9, 2008, the United States ratified the amended Annex VI to the IMO's MARPOL Convention, addressing air pollution from ships, which went into effect on January 8, 2009. The EPA and the state of California, however, have each proposed more stringent regulations of air emissions from ocean-going vessels. On July 24, 2008, the California Air Resources Board of the State of California, or CARB, approved clean-fuel regulations applicable to all vessels sailing within 24 miles of the California coastline whose itineraries call for them to enter any California ports, terminal facilities, or internal or estuarine waters. The new CARB regulations require such vessels to use low sulfur marine fuels rather than bunker fuel. By July 1, 2009, such vessels are required to switch either to marine gas oil with a sulfur content of no more than 1.5% or marine diesel oil with a sulfur content of no more than 0.5%. By 2012, only marine gas oil and marine diesel oil fuels with 0.1% sulfur will be allowed. CARB unilaterally approved the new regulations in spite of legal defeats at both the district and appellate court levels, but more legal challenges are expected to follow. If CARB prevails and the new regulations go into effect as scheduled on July 1, 2009, in the event our vessels were to travel within such waters, these new regulations would require significant expenditures on low-sulfur fuel and would increase our operating costs. Finally, although the more stringent CARB regime was

technically superseded when the United States ratified and implemented the amended Annex VI, the possible declaration of various U.S. coastal waters as Emissions Control Areas may in turn bring U.S. emissions standards into line with the new CARB regulations, which would cause us to incur further costs.

Several of our vessels currently carry cargoes to U.S. waters regularly and we believe that all of our vessels are suitable to meet OPA and other U.S. environmental requirements and that they would also qualify for trade if chartered to serve U.S. ports.

#### European Union Restrictions

In July 2003, in response to the m.t. Prestige oil spill in November 2002, the European Union adopted legislation, which was amended in October 2003, that prohibits all single-hull tankers from entering into its ports or offshore terminals by 2010 or earlier, depending on their age. The European Union has also already banned all single-hull tankers carrying heavy grades of oil from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in 2005, certain single-hull tankers above 15 years of age will also be restricted from entering or leaving European Union ports or offshore terminals and anchoring in areas under European Union jurisdiction.

The European Union is also considering legislation that would: (1) ban manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six-month period) from European waters and create an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment and (2) provide the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. It is impossible to predict what legislation or additional regulations, if any, may be promulgated by the European Union or any other country or authority.

In 2005, the European Union adopted a directive on ship-source pollution, imposing criminal sanctions for intentional, reckless or negligent pollution discharges by ships. The directive could result in criminal liability for pollution from vessels in waters of EU countries that adopt implementing legislation. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

#### Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which we refer to as the Kyoto Protocol, entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which are suspected of contributing to global warming. Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol. However, 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 vessels. In the U.S., the EPA has begun the process of declaring greenhouse gases to be dangerous pollutants, which may be followed by future federal regulation of greenhouse gases. Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, the U.S. or other countries where we operate that restrict emissions of greenhouse gases could require us to make significant financial expenditures we cannot predict with certainty at this time.

#### Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or MTSA, came into effect. 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. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate (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 on-board showing a vessel's history including name of the ship and of 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.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by 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, at intervals of 12 months from 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 may be carried out on 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 shipowner 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 that must be rectified by the shipowner 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. 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 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 hull and machinery policy. This policy does 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, 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 market value. Under regular circumstances, salvage and towing expenses are covered in connection with casualties. We also arranged increased value and freight 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." Subject to the "capping" discussed below, our coverage, except for pollution, is unlimited.

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. Each P&I Association has capped its exposure to this pooling agreement at USD 5.45 billion. 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, Panamax and Aframax 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.

## Legal Proceedings

We are party, as plaintiff or defendant, to a variety of lawsuits for damages arising principally from personal injury and property casualty claims. Most claims are covered by insurance, subject to customary deductibles. We believe that these claims will not, either individually or in the aggregate, have a material adverse effect on us, our financial condition or results of operations. From time to time in the future we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury, property casualty claims and contract disputes. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We have not been involved in any legal proceedings that may have or have had a significant effect on our financial position, nor are we aware of any proceedings that are pending or threatened that may have a significant effect on our financial position, results of operations or cash flows.

## C. Organizational Structure

The following table sets forth our significant entities as of December 31, 2008.

Entity	Country of Incorporation	Activities
TORM A/S	Denmark	This is the parent company. The company owned 51 product tankers and 1 bulk carrier. This company employs most of the employees providing commercial and technical management for TORM vessels and pool vessels.
Torm Singapore (Pte) Ltd.	Singapore	100% owned subsidiary. The company owned 8 product tankers and 5 bulk carriers. The company also provides some commercial and technical management.
LR2 Management K/S	Denmark	50% owned limited partnership. Maersk Tankers owns the other 50%. The partnership acts as pool manager for the LR2 pool.
LR1 Management K/S	Denmark	100% owned limited partnership. The partnership acts as pool manager for the LR1 pool.

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MR Management K/S	Denmark	100% owned limited partnership. The partnership acts as pool manager for the MR pool.
TT Shipowning K/S	Denmark	50% owned limited partnership. Torghatten Trafikkselskap ASA owns the other 50%. The partnership owns a LR2 vessel.
UT Shipowning K/S	Denmark	50% owned limited partnership. J.B. Ugland Shipping Singapore Pte. Ltd. owns the other 50%. The partnership owns a LR1 vessel.
Torm Shipping India Pte. Ltd. (former Orinoco Marine Consultancy India private Limited (OMCI))	India	100% owned subsidiary. The company primarily handles the manning of TORM vessels in India.
OMI Corporation	United States of America	50% owned joint venture with Teekay Corporation.
Torm USA LLC	Delaware	100% owned subsidiary. The company provides administration services towards other entities.
FR8 Holdings Pte. Ltd.	Singapore	50% owned joint venture with Projector S.A.

## D. 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, USA and India on contracts expiring in 2014, 2010, 2017 and 2011, respectively. Furthermore, we have leased five apartments in Singapore on contracts expiring up until November 2009 along with a lease of a guest house in India on a contract expiring in the beginning of 2010.

## Fleet

The following table lists our entire fleet of owned vessels as of December 31, 2008:

Product Tankers	Year Built	Dwt	Ownership	Flag (1)
TORM Ingeborg	2003	99,999	D/S TORM	NIS
TORM Valborg	2003	99,999	D/S TORM	DIS
TORM Helene	1997	99,999	D/S TORM	DIS
TORM Signe	2005	72,718	Torm Singapore	Singapore
TORM Sofia	2005	72,718	Torm Singapore	Singapore
TORM Estrid	2004	74,999	D/S TORM	DIS
TORM Ismini	2004	74,999	D/S TORM	DIS
TORM Emilie	2004	74,999	D/S TORM	DIS
TORM Sara	2003	72,718	Torm Singapore	Singapore
TORM Helvig	2005	44,990	D/S TORM	DIS
TORM Ragnhild	2005	44,990	D/S TORM	DIS
TORM Freya	2003	45,990	D/S TORM	DIS
TORM Thyra	2003	45,990	D/S TORM	DIS
TORM Camilla	2003	44,990	D/S TORM	DIS
TORM Carina	2003	44,990	D/S TORM	DIS
TORM Mary	2002	45,990	D/S TORM	DIS
TORM Vita	2002	45,940	D/S TORM	DIS
TORM Gertrud	2002	45,940	D/S TORM	DIS
TORM Gerd	2002	45,940	D/S TORM	DIS
TORM Caroline	2002	44,946	D/S TORM	DIS
TORM Cecilie	2001	44,946	D/S TORM	NIS
TORM Clara	2000	45,999	D/S TORM	DIS
Potrero Del LLano II	1999	47,165	Torm Singapore	Mexican
TORM Gunhild	1999	44,999	D/S TORM	DIS
TORM Anne	1999	44,990	Torm Singapore	Singapore
Faja De Oro II	1995	44,999	Torm Singapore	Mexican
TORM Margrethe	2006	109,672	D/S TORM	DIS
TORM Marie	2006	109,672	D/S TORM	DIS
TORM Gudrun	2000	101,122	D/S TORM	NIS
TORM Kristina	1999	105,001	D/S TORM	NIS
TORM Margit	2007	109,672	D/S TORM	NIS
TORM Mette	2007	109,672	D/S TORM	NIS
TORM Marina	2007	109,672	TT Shipowning K/S	NIS
TORM Ugland	2007	74,999	UT Shipowning K/S	NIS

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TORM Venture	2007	74,999	D/S TORM	NIS
TORM Neches	2000	47,052	Torm Singapore	Singapore
TORM Amazon	2002	47,275	Torm Singapore	Singapore
TORM San Jacinto	2002	47,038	D/S TORM	DIS
TORM Moselle	2003	47,024	D/S TORM	DIS
TORM Rosetta	2003	47,015	D/S TORM	DIS
TORM Horizon	2004	46,955	D/S TORM	DIS
TORM Thames	2005	47,035	D/S TORM	DIS
TORM Kansas	2006	46,922	D/S TORM	DIS
TORM Republican	2006	46,893	D/S TORM	DIS
TORM Platte	2006	46,920	D/S TORM	DIS
TORM Madison	2000	35,828	D/S TORM	DIS
TORM Trinity	2000	35,834	D/S TORM	DIS
TORM Rhone	2000	35,751	D/S TORM	DIS
TORM Charente	2001	35,751	D/S TORM	DIS
TORM Ohio	2001	37,274	D/S TORM	DIS
TORM Loire	2004	37,106	D/S TORM	DIS
TORM Garonne	2004	37,178	D/S TORM	DIS
TORM Saone	2004	37,106	D/S TORM	DIS
TORM Fox	2005	37,006	D/S TORM	DIS
TORM Tevere	2005	36,990	D/S TORM	DIS
TORM Marianne	2008	110,000	D/S TORM	DIS
TORM Maren	2008	110,000	D/S TORM	DIS
TORM Mathilde	2008	110,000	D/S TORM	DIS
TORM Laura	2008	52,000	D/S TORM	DIS
TORM Lene	2008	52,000	D/S TORM	DIS

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Bulk Carriers	Year Built	Dwt	Ownership	Flag (1)
TORM Rotna	2001	75,971	Torm Singapore	Singapore
TORM Tina	2001	75,966	Torm Singapore	Singapore
TORM Marta	1997	69,638	D/S TORM	NIS
TORM Baltic	1997	69,614	Torm Singapore	Singapore
TORM Bornholm	2004	75,950	Torm Singapore	Singapore
TORM Anholt	2004	74,195	Torm Singapore	Singapore

(1)DIS stands for the Danish International Shipping Registry and NIS stands for the Norwegian International Shipping Registry.

Newbuildings

The following table lists our entire fleet of owned vessels as of December 31, 2008:

Product Tankers	Expected Delivery Dwt	
TORM Lotte	Q1 2009	52,000
TORM Louise	Q2 2009	52,000
TORM Lana	Q3 2009	52,000
TORM Lilly	Q3 2009	52,000
TORM Alice	Q1 2010	50,500
TORM Aslaug	Q1 2010	50,500
TORM Alexandra	Q1 2010	50,500
TORM Almena	Q2 2010	50,500
TORM Agnes	Q3 2010	50,500
TORM Agnete	Q2 2010	50,500
TORM Amalie	Q4 2010	50,500
TBN – NB Guangzhou 08130005	Q4 2011	52,300
TBN – NB Guangzhou 08130006	Q2 2012	52,300
TBN – NB Guangzhou 08130007	Q3 2012	52,300
TBN – NB Guangzhou 08130008	Q4 2012	52,300
Torm Gyda	Q1 2009	37,000
Bulk Carriers	Expected Delivery Dwt	
NB Tsuneishi Zhoushan – SS063Q4 2010		82,100
NB Tsuneishi Zhoushan – SS064Q1 2011		82,100
NB Tsuneishi Zhoushan – SS065Q2 2011		82,100
NB Tsuneishi Zhoushan – SS066Q2 2011		82,100

Other

We have entered into various IT-related, office equipment and car rental contracts that typically expire after 0.5-3 years. We also have contractual obligations relating to vessels chartered in. Please refer to Item 5F for further disclosures relating to our contractual obligations.

Please refer to Item 5A 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 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.

## A. Operating Results

The financial information included in the discussion below is derived from our consolidated financial statements.

**CONSOLIDATED INCOME STATEMENTS**  
For the Years Ended December 31, 2006, 2007 and 2008  
(IN THOUSANDS OF USD)

	2006	2007	2008
Revenue	603,717	773,612	1,183,594
Port expenses, bunkers and commissions	(150,364)	(172,182)	(264,050)
Freight and bunkers derivatives	620	2,894	(13,586)
Time charter equivalent earnings	453,973	604,324	905,958
Charterhire	(106,329)	(154,852)	(193,829)
Operating expenses	(77,624)	(115,547)	(174,333)
Gross profit (Net earnings from shipping activities)	270,020	333,925	537,796
Profit from sale of vessels	54,362	0	82,813
Administrative expenses	(34,470)	(54,960)	(89,906)
Other operating income	10,013	15,167	14,493
Share of results of jointly controlled entities	1,199	(6,058)	27,122
Depreciation and impairment losses	(58,914)	(89,083)	(126,068)
Operating profit	242,210	198,991	446,250
Financial income	39,339	681,088	16,175
Financial expenses	(40,514)	(75,871)	(102,354)
Profit before tax	241,035	804,208	360,071
Tax expenses	(6,523)	(12,531)	1,279
Net profit for the year	234,512	791,677	361,350





## COMPARISON OF THE YEAR ENDED DECEMBER 31, 2008 AND THE YEAR ENDED DECEMBER 31, 2007

Net profit for the year decreased by 54% to USD 361 million in 2008 from USD 792 million in 2007 resulting in earnings per share (EPS) of USD 5.2 in 2008 against USD 11.4 in 2007. The profit was historically high not taking into account a significant one-off gain on the sale of the shares in Norden of USD 643 million in 2007.

The profit before tax for the year was USD 360 million. The profit was negatively affected by substantial fair value adjustments of derivative financial instruments regarding interest rate and currency exchange rate of USD 32 million. The profit before tax expected according to the latest announcement was USD 355-370 million and the achieved profit was in line with expectations. Operating profit in 2008 increased by 124% to USD 446 million in 2008 from USD 199 million in 2007. The increased profit compared to 2007 was primarily due to profit from sale of vessels of USD 83 million, a significant increase in earning days in the Tanker Division and higher freight rates in the LR2 tanker business area and the Panamax bulk business area, less increased expenses and depreciation per earning day due to the expansion and renewal of the fleet of owned and chartered vessels.

The acquisition of the US tanker shipping company OMI Corporation (OMI) in a 50/50 joint venture with Teekay in June 2007 had full effect on the financial statements in 2008 and is the single most important factor in explaining the increase in earning days as well as the increases in expenses from 2007 to 2008.

TORM 's total assets increased by USD 358 million in 2008 to USD 3,317 million from USD 2,959 million in 2007. The most significant developments behind this increase were a net increase in the carrying amount of vessels, capitalized dry-docking and prepayments on vessels of USD 169 million and an increase in investment in jointly controlled entities of USD 130 million mainly due to the acquisition of a 50% stake in the shipping company FR8.

Total equity increased by USD 198 million in 2008 to USD 1,279 million from USD 1,081 million in 2007. The increase in equity was mainly due to the profit for the year of USD 361 million, less fair value adjustment of derivative financial instruments treated as hedging instruments of USD 41 million, and less dividend paid out of USD 124 million. TORM 's total liabilities increased by USD 161 million in 2008 to USD 2,038 million from USD 1,877 million in 2007 primarily due to an increase in mortgage debt and bank loans of USD 64 million and an increase in other liabilities of USD 136 million mainly due to a significant decrease of USD 101 mill. in the fair value of derivative financial instruments.

Gross profit (Net earnings from shipping activities)

The table below presents net earnings from shipping activities on segment level for the years ended December 31, 2007 and 2008:

USD million

	Tanker	Bulk	Not allocated	Total 2007	Tanker	Bulk	Not allocated	Total 2008
Revenue	639.3	134.3	0.0	773.6	923.2	260.4	0.0	1,183.6
Port expenses, bunkers and commissions	(165.9)	(6.3)	0.0	(172.2)	(252.2)	(11.9)	0.0	(264.1)
Freight and bunkers derivatives	2.9	0.0	0.0	2.9	(13.6)	0.0	0.0	(13.6)
Time charter equivalent earnings	476.3	128.0	0.0	604.3	657.4	248.5	0.0	905.9
Charter hire	(95.9)	(59.0)	0.0	(154.9)	(133.8)	(60.0)	0.0	(193.8)
Operating expenses	(105.1)	(10.4)	0.0	(115.5)	(160.0)	(14.3)	0.0	(174.3)

Gross profit (Net earnings from shipping activities)	275.3	58.6	0.0	333.9	363.6	174.2	0.0	537.8
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TORM 's total revenue in 2008 was USD 1,184 million as compared to USD 774 million in the previous year. TORM 's revenue derives from two segments: The Tanker Division and the Bulk Division. In the markets in which these divisions operate, the time charter equivalent (TCE) rates, defined as revenue less voyage expenses divided by the number of available earning days (days available for service), are used to compare freight rates. Under time charter contracts the charterer pays for the voyage expenses, whereas the shipowner pays for the voyage expenses under voyage charter contracts. A charterer basically has the choice of entering into either a time charter (which may be a one-trip time charter) or a voyage charter, and TORM is neutral to the charterer's choice, because the Company will base its economic decisions primarily upon the expected TCE rates rather than on expected net revenues. The analysis of revenue is therefore primarily based on the development in time charter equivalent earnings. TORM 's time charter equivalent earnings in 2008 were USD 906 million compared to USD 604 million in 2007. The increase in the TCE rates was primarily due to the increase in earning days in the Tanker Division, mainly as a result of the acquisition of OMI in 2007, and significantly higher freight rates in the Panamax bulk business area and the LR2 tanker business area.

#### Tanker Division

Revenue in the Tanker Division increased by 44% to USD 923 million from USD 640 million in 2007, whereas the time charter equivalent earnings increased by USD 181 million or 38% to USD 657 million in 2008 from USD 476 million in the previous year.

Despite the downturn of the global economy, the Company's product tanker earnings for 2008 proved considerably better than was expected at the beginning of the year, and the operating profit of USD 215 million is highly satisfactory.

In the first quarter, earnings were below expectations. This was mainly due to increasing fuel costs and weaker demand, owing to a mild winter on the east coast of the USA with a resulting decline in fuel consumption for heating. In the second quarter, the demand for tonnage was higher, and freight rates therefore rose more than expected. The enhanced market conditions could mainly be ascribed to a strong crude oil transport market and increased demand for naphtha in the Far East for the benefit of the Company's LR2 vessels. At the beginning of the third quarter, freight rates for the large LR1 and LR2 vessels rose further, mainly as a result of increased demand for gas oil and diesel fuel in Europe. This led to more cargoes from Japan and South Korea, which meant increasing transport distances for the large LR1 and LR2 vessels. Rates for the smaller MR and SR vessels remained at the high level seen in the second quarter. In the fourth quarter, the product tanker market felt the decline in the global economy as demand for refined oil products dropped. The demand for naphtha, a raw material used in plastics production, dropped considerably in the second half of 2008. This reduced the transport requirements, causing product tanker rates to decline. Earnings in 2008 were significantly higher for the large LR1 and LR2 vessels than for the smaller MR and SR vessels.

As the oil price rose to record highs of just under USD 150 per barrel in the second and third quarters, fuel prices followed. As a result, TORM and other shipping companies reduced the speed of their vessels, thereby reducing fuel consumption as well as the supply of tonnage available globally, which in turn helped push up rates. At the end of 2008, rates fell back as a result of lower demand, but as fuel prices also fell in line with the declining oil price, the overall impact of the lower rates on earnings was limited.

In 2008, the delivery of three newbuildings in the LR2 business area was the primary reason for the increase in the number of available earning days by 615 days or 19%, resulting in an increase in earnings of USD 15 million. Freight rates peaked during the third quarter averaging USD/day 48,421 in the quarter which contributed to freight rates in 2008 that were on average 44% higher than in the previous year resulting in an increase in earnings by USD 43 million.

In the LR1 business area, the Company did not add any vessels during 2008, but the additions in 2007 had full effect in 2008 increasing the number of available earning days by 1,533 days or 26% from the previous year, resulting in an increase in earnings of USD 43 million. The average freight rates decreased by 15% from the previous year reducing earnings by USD 30 million.

In the MR business area, two newbuildings were delivered and two vessels were sold during the year. The Company also took delivery of five chartered-in newbuildings and together with the addition of 11 vessels from the former OMI fleet in 2007, which had full effect in 2008, this was the main reason for the number of available earning days to increase by 2,361 days or 29%, which increased earnings by USD 57 million. The average freight rates remained at a level slightly below the previous year reducing earnings by USD 2 million.

In the SR business area, the Company did not add any vessels during 2008, but the additions in 2007 from the former OMI fleet had full effect in 2008 increasing the number of available earning days by 2,546 days or 139% from the previous year, resulting in an increase in earnings of USD 42 million. The average freight rates increased by 26% from the previous year increasing earnings by USD 19 million.

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

Earnings for the Tanker division USD million	SR	MR	LR1	LR2	Un-allocated	Total
Time charter equivalent earnings 2007	31	195	166	80	4	476
Change in number of earning days	42	57	43	15	-	157
Change in freight rates	19	(2)	(30)	43	-	30
Other	-	-	-	-	(6)	(6)
Time charter equivalent earnings 2008	92	250	179	138	(2)	657

Un-allocated 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 USD/Day	2007 Full year	2008 Q1	Q2	Q3	Q4	2008 Full year	% Change 2007-2008
LR2/Aframax vessels Available earning days for: *)							
- Owned vessels	2,955	818	836	880	1,012	3,546	20%
- Time chartered vessels	338	90	90	90	92	362	7%
TCE per earning day **)	24,407	28,538	32,084	48,421	31,862	35,243	44%
LR1/Panamax vessels Available earning days for: *)							
- Owned vessels	2,291	768	759	768	939	3,234	41%
- Time chartered vessels	3,575	1,054	1,005	1,036	1,070	4,165	17%
TCE per earning day **)	28,313	23,533	27,036	23,648	23,217	24,204	(15%)
MR vessels Available earning days for: *)							
- Owned vessels	7,998	2,288	2,381	2,385	2,476	9,530	19%
- Time chartered vessels	171	202	195	283	320	1,000	485%

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TCE per earning day **)	23,949	22,716	23,158	26,458	22,298	23,721	(1%)
<b>SR vessels</b>							
Available earning days for: *)							
- Owned vessels	1,530	908	910	916	918	3,652	139%
- Time chartered vessels	306	180	182	184	184	730	139%
TCE per earning day **)	16,726	21,034	21,036	20,078	22,338	21,135	26%

\*) 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 dry-dock, etc.

\*\*\*) TCE = Time Charter Equivalent Earnings = Gross freight income less port expenses, bunkers and commissions (including freight and bunkers derivatives).

## Bulk Division

In the Bulk Division, revenue increased sharply by 94% to USD 260 million from USD 134 million in the previous year, and the time charter equivalent earnings increased similarly by 94% or USD 121 million to USD 249 million from USD 128 million in 2007.

In 2008, the bulk market was characterized by highly volatile freight rates reaching both a historical high and the lowest level in ten years. In the first half, a strong demand for transportation of iron ore and coal pushed up freight rates, whereas in the second half the slowdown of the global economy contributed to a dramatic collapse of rates.

From February until June, freight rates rose significantly, principally as a result of China's strong demand for iron ore and coal for the rebuilding of the Sichuan province, which was hit by a violent earthquake earlier in the year, and the completion of the Olympic infrastructure. Increased coal imports to Japan and India and an increasing number of waiting days, primarily in Australian coal ports, also contributed to the rising freight rates. During this period, the benchmark Panamax market rose from approximately USD/day 45,000 to approximately USD/day 90,000.

At the beginning of the second half of 2008, the bulk market suffered from the reduction in Chinese steel production. During the autumn months, the bulk market collapsed completely as a consequence of the downturn of the global economy, a strengthened US dollar and plunging commodity prices. Chinese imports of iron ore dropped dramatically in a short period of time, and the unwillingness of many banks to grant credit and bank guarantees further pushed down freight rates. That a collapse was a reality was evident from Panamax freight rates, which fell from approximately USD/day 90,000 to approximately USD/day 4,000 in December.

As TORM, in accordance with the existing strategy, had obtained coverage for a major part of the bulk fleet at very attractive freight rates, the dramatic decline in the second half of 2008 had relatively limited impact on the overall profit for the year.

Freight rates in the Panamax business area were on average 71% higher than in 2007, increasing earnings by USD 103 million. In this business area, the Company added a vessel, which was already chartered in and therefore did not affect the number of available earning days, and sold a vessel leaving the fleet of owned vessels at status quo. In addition, the Company took delivery of six chartered-in newbuildings, redelivered two older chartered-in vessels, and this was the primary reason for the number of available earning days increasing by 676 days or 14%, which increased earnings by USD 18 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	Panamax
Time charter equivalent earnings 2007	128
Change in number of earning days	18
Change in freight rates	103
Time charter equivalent earnings 2008	249





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

Earnings data for the Bulk division

USD/Day	2007 Full year	2008 Q1	Q2	Q3	Q4	2008 Full year	% Change 2007-2008
Panamax vessels							
Available earning days for: *)							
- Owned vessels	1,962	566	590	558	545	2,259	15%
- Time chartered vessels	3,010	828	777	863	921	3,389	13%
TCE per earning days **)	25,762	36,909	50,568	49,888	38,958	44,012	71%

\*) 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 dry-dock, etc.

\*\*) TCE = Time Charter Equivalent Earnings = Gross freight income less port expenses, bunkers and commissions (including freight and bunkers derivatives).

Operation of vessels

Vessels chartered in on time charters do not give rise to operating expenses for TORM, but only to charter hire payments. As compared to 2007, charter hire in the Tanker Division increased by USD 38 million to USD 134 million in 2008, whereas charter hire paid in the Bulk Division increased by USD 1 million to USD 60 million. The increase in the Tanker Division was primarily caused by an increase in the number of available earning days from vessels chartered in of 30% compared to 2007.

The operating expenses for the owned vessels increased by USD 59 million or 51% to USD 174 million in 2008. The most significant factor behind this development was the increase in the number of operating days of 5,842 days or 35%, which caused an increase in the operating expenses of USD 37 million. The increase in the number of operating days was primarily caused by the addition of vessels in the SR and MR business areas from the acquisition of OMI in 2007 having full effect in 2008 and the addition of newbuildings in the MR and LR2 business areas during 2008.

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

Operating expenses

USD million	SR	Tanker Division			Bulk Division	Unallocated	Total	
		MR	LR1	LR2	Panamax			
Operating expenses 2007		10	54	16	21	11	4	116
Change in the number of operating days		10	15	6	5	1		37
Change in expenses per operating day		4	8	4	4	3		23
Other							-2	-2

Operating expenses 2008	24	77	26	30	15	2	174
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The table below summarizes the operating data for the Company's fleet of owned and bareboat chartered vessels.

Operating data

	Tanker Division				Bulk Division		Total
	SR	MR	LR1	LR2	Panamax		
Operating days in 2007	1,836	7,523	2,385	3,014	2,047	16,805	
Operating expenses per operating day in 2007	5,524	7,098	6,834	7,001	5,135	6,632	
Operating expenses per operating day in 2008	6,548	7,918	7,891	8,211	6,371	7,583	
Change in the operating expenses per operating day in %	19%	12%	15%	17%	24%	14%	
Operating days in 2008	3,660	9,691	3,294	3,700	2,302	22,647	
- Off-hire days	-8	-63	-5	-65	-29	-170	
- Days in dry dock	0	-98	-55	-89	-14	-256	
+ Earning days for vessels chartered in	730	1,000	4,165	362	3,389	9,646	
Earning days in 2008	4,382	10,530	7,399	3,908	5,648	31,867	

Operating expenses per day of USD 7,583 and USD 6,632 in 2008 and 2007, respectively, can be distributed on types of costs as illustrated in the table below.

Expense type	2007		2008		Change %
	Expense/day	%	Expense/day	%	
Crew	3,384	51%	4,160	55%	12%
Consumables	1,205	18%	1,262	17%	12%
Maintenance	702	11%	839	11%	3%
Insurance	775	12%	689	9%	24%
Other	566	8%	633	8%	35%
Total	6,632	100%	7,583	100%	14%

Operating expenses per operating day increased by 14% for the whole owned fleet in the two segments, which caused an increase in the operating expenses of USD 23 million. Operating expenses are primarily incurred in USD, DKK and EUR. The share of the expenses incurred in DKK and EUR was 23% in 2008 and the increase in the average DKK/USD and EUR/USD exchange rates compared to 2007 of 6% caused an increase in the operating expenses of USD 3 million.

The total fleet of owned vessels had 170 off-hire days in 2008 corresponding to eight per thousand of the number of operating days compared to 145 off-hire days in 2007 corresponding to nine per thousand of the number of operating days. Of these off-hire days, three specific incidents relating to main engine problems requiring the vessels to undergo major repairs accounted for 84 days. Apart from these incidents, the Company considers the level of off-hire days to be satisfactory.

The average operating expenses per operating day increased by USD 951 or 14% compared to 2007. The increase was primarily caused by an increase in crew costs per operating day of USD 775 to USD 4,161, corresponding to 12 percentage points of the total increase. The wage increase overall for crew on TORM vessels was 15% in 2008. Danish seafarers received a wage increase in 2008 with effect from April 2007 and seafarer wages in India, Croatia and especially the Philippines were under pressure during 2008 which has not only affected TORM but all other shipping companies as well. Maintenance expenses increased by USD 137 to USD 839 per day corresponding to two percentage points of the total increase. Maintenance expenses were affected by general price increases on spare parts and other materials not least due to sharp increases in steel prices during 2008.

#### Administrative expenses and other operating income

The total administrative expenses increased from 2007 to 2008 by USD 35 million to USD 90 million. Of this increase, one-time expenses relating to the change of CEO accounted for USD 6 million, expenses relating to the incentive scheme USD 10 million and approximately USD 9 million is attributable to the acquired activities in OMI having full effect in 2008 and the change in the average DKK/USD exchange rate caused an increase of USD 3 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 14 million in 2008 compared to USD 15 million in 2007. The decrease was related to a reduction in commissions from technical management of third-party vessels. In connection with the split of the OMI activities between TORM and Teekay, TORM performed technical management for a number of Teekay vessels for a short period of time during 2007.

#### Financial income and expenses

Net financial income and expenses in 2008 were USD -86 million compared to USD 605 million in 2007. The most significant reason for the change was a gain from the sale of the NORDEN shares of USD 643 million in 2007, a negative impact from fair value adjustment of derivative financial instruments of USD 32 million in 2008 compared to a negative impact of USD 5 million in 2007 and an increase in net interest expenses of USD 23 million to USD 76 million in 2008.

Please refer to Note 9 to our consolidated financial statements for a breakdown of financial income and expenses in the income statement and to Note 15 for an overview of mortgage debt and bank loans.

#### Tax

Tax for the year amounted to an income of USD 1 million compared to an expense of USD 13 million in 2007. The tax expenses for 2008 comprise current tax for the year of USD 3 million compared to USD 16 million in the previous year, a reduction of deferred tax of USD 1 million compared to a reduction of USD 7 million in 2007 and an income of USD 3 million due to an adjustment to the estimated tax liabilities for the previous years compared to an expense of USD 4 million in 2007. The deferred tax liability as at 31 December 2008 was USD 55 million compared to USD 56 million in the previous year.

All significant Danish entities in the TORM Group entered into the tonnage taxation scheme with effect from 2001 and have filed tax returns for 2001 through 2007. The Company has filed a complaint regarding the assessments by the tax authorities of the tax returns for the years 2001 to 2004, and the assessments for 2005 to 2007 have not been completed. The recognized current tax liabilities are therefore to a great extent based on Management's judgement regarding the outcome of the complaint and the assessment. TORM paid USD 3 million in corporation tax on account in 2008 regarding these entities.

Please refer to Item 10E and Notes 2 and 12 to our consolidated financial statements for further information.

## Vessels and dry-docking

The increase in tangible fixed assets of USD 172 million to USD 2,612 million in 2008 is attributable to the change in vessels and capitalized dry-docking and in prepayments on vessels. The carrying value of vessels and capitalized dry-docking increased by USD 156 million to USD 2,326 million. The addition of new tonnage amounted to a total acquisition cost of USD 336 million resulting from three LR2 tanker newbuildings, two MR tanker newbuildings and a Panamax bulk carrier built in 2004.

Two MR tankers built in 1995 and 2006, respectively and one Panamax bulk carrier built in 1997 representing a total carrying amount of USD 83 million were sold during the year. Prepayments on vessels increased by USD 13 million to USD 273 million due to additional costs relating to vessels under construction of USD 248 million less the above-mentioned newbuilding deliveries of USD 235 million.

Total depreciation amounted to USD 126 million in 2008 as compared to USD 89 million in 2007, an increase of USD 37 million. The increase is due to the expansion and renewal of the fleet during 2007 and 2008 and the amortisation of assets acquired in the OMI acquisition having full effect in 2008.

As at 31 December 2008, TORM 's newbuilding programme comprised 16 tanker vessels and four bulk carriers to be delivered during 2009 to 2012, and the contractual liabilities under the programme amounted to USD 951 million.

The market value of the fleet and investment programme (15 MR tanker newbuildings, one SR tanker newbuilding and four Panamax bulk carrier newbuildings) exceeded the carrying value of the fleet including newbuilding contracts by USD 367 million at year-end. This valuation is based on the average of three internationally acknowledged shipbrokers' valuations.

## Investment in entities including jointly controlled entities (FR8)

In March 2008, TORM acquired a 50% equity stake in the shipping company FR8 Holdings Pte. Ltd. (FR8) from FR8 Limited, a subsidiary of the international oil trader Projector. FR8 Limited continues to own its 50% equity interest in FR8. The purchase price for the 50% equity stake in FR8 amounted to USD 125 million, which reflected the value of similar shipping companies, less certain purchase price adjustments which are not yet finally agreed. The carrying value of the investment in FR8 was USD 135 million as at 31 December 2008.

The Company holds investments in other entities and jointly controlled entities with an aggregate carrying amount of USD 1 million as at 31 December 2008 of which USD 3 million concerns unlisted entities, which is unchanged from the previous year. The carrying amount of the unlisted shares constitutes the estimated fair value based on available information.

The share of results of jointly controlled entities was an income of USD 27 million in 2008, of which USD 27 million in profit and acquisition cost adjustment derive from FR8, compared to an expense of USD 6 million in 2007.

## Impairment test

TORM has performed a review of the market values and value in use for the significant assets within the two cash generating units: The Tanker Division and the Bulk Division. The review was based on market values derived as the average of three internationally acknowledged shipbrokers' valuations and value in use derived from discounted cash flow calculations. The underlying assumptions for the discounted cash flow calculations are presented in note 7 to our consolidated financial statements.





Values have dropped significantly from last year which is clearly illustrated by the change from USD 1,578 million at the end of 2007 to USD 367 million as at 31 December 2008 in the amount by which the market value of the Company's fleet including newbuildings exceeded the carrying amount of the assets. However, based on the review, Management maintains the position that the assets are not impaired.

Vessel values have continued to be under pressure in the beginning of 2009, and the Company will monitor the development closely for indications of impairment.

#### COMPARISON OF THE YEAR ENDED DECEMBER 31, 2007 AND THE YEAR ENDED DECEMBER 31, 2006

Net profit for the year increased by 238% to USD 792 million in 2007 from USD 235 million in 2006 resulting in earnings per share (EPS) of USD 11.4 in 2007 against USD 3.4 in 2006.

In June 2007, TORM acquired the U.S. tanker shipping company OMI Corporation in a 50/50 joint venture with Teekay, and the income from this investment was recognized in TORM's consolidated financial statements with effect from 1 June 2007. The financial statements for OMI are included in the consolidated financial statements in proportion to the ownership share by combining items of a uniform nature. The vast majority of the activities were transferred to TORM and Teekay, respectively, with effect from 1 August 2007. The net profit for the period 1 June to 31 July 2007 has not been allocated to TORM's reportable segments and the net profit for the few remaining activities in OMI after 31 July 2007 has also not been allocated to the segments. The activities that were transferred to TORM at 1 August 2007 are recognized fully in the tanker division as from this date.

The profit before tax for the year was USD 804 million. The profit before tax expected according to the latest announcement was USD 795-805 million when taking restructuring costs in relation to the acquisition of OMI into account. The achieved profit was in line with expectations. Restructuring costs primarily comprise retention bonuses to employees and severance payments to the former management in OMI.

The Net profit for 2007 includes a gain on the sale of shares in Dampskibsselskabet Norden A/S of USD 643 million; such gain is included within Financial income Operating profit in 2007 decreased by 15% to USD 205 million in 2007 from USD 242 million in 2006. The lower profit compared to 2006 despite a significant increase in earning days was primarily due to lower freight rates in the LR2 and MR business areas, increased expenses and depreciation per earning day due to the expansion and renewal of the fleet of owned and chartered vessels, primarily through the acquisition of OMI as well as restructuring costs relating to this acquisition.

TORM's total assets increased by USD 870 million in 2007 to USD 2,959 million from USD 2,089 million in 2006. The most significant developments behind this increase were the addition of USD 88 million in goodwill and a net increase in the carrying amount of vessels, capitalized dry-docking and prepayments on vessels of USD 1,124 million mainly due to the acquisition of OMI, a decrease in other investments due to the sale of the shares in NORDEN of USD 633 million and an increase in cash and cash equivalents of USD 73 million.

Total equity decreased by USD 200 million in 2007 to USD 1,081 million from USD 1,281 million in 2006. The significant decrease in equity was mainly due to the profit for the year of USD 792 million, less the value adjustment of the shares in NORDEN relating to prior years of USD 572 million and less an extraordinarily high dividend paid out of USD 424 million. TORM's total liabilities increased by USD 1,070 million in 2007 to USD 1,878 million from USD 808 million in 2006 primarily due to the acquisition of OMI.



## Gross profit (Net earnings from shipping activities)

The table below presents net earnings from shipping activities on segment level for the years ended December 31, 2006 and 2007:

USD million

	Tanker	Bulk	Total 2006	Tanker	Bulk	Total 2007
Revenue	494.0	109.7	603.7	639.3	134.3	773.6
Port expenses, bunkers and commissions	(145.3)	(5.1)	(150.4)	(165.9)	(6.3)	(172.2)
Freight and bunkers derivatives	0.6	0.0	0.6	2.9	0.0	2.9
Time charter equivalent earnings	349.3	104.6	453.9	476.3	128.0	604.3
Charterhire	(58.5)	(47.8)	(106.3)	(95.9)	(59.0)	(154.9)
Operating expenses	(64.6)	(13.1)	(77.7)	(105.1)	(10.4)	(115.5)
Gross profit (Net earnings from shipping activities)	226.2	43.7	269.9	275.3	58.6	333.9

TORM's total revenue in 2007 was USD 774 million as compared to USD 604 million in the previous year. TORM's revenue derives from two segments: the tanker division and the bulk division. In the markets in which these divisions operate, the time charter equivalent (TCE) rates, defined as revenue less voyage expenses divided by the number of available earning days (days available for service), are used to compare freight rates. Under time charter contracts the charterer pays for the voyage expenses, whereas the shipowner pays for the voyage expenses under voyage charter contracts. A charterer basically has the choice of entering into either a time charter (which may be a one-trip time charter) or a voyage charter, and TORM is neutral to the charterer's choice, because the Company will base its economic decisions primarily upon the expected TCE rates rather than on expected net revenues. The analysis of revenue is, therefore, primarily based on the development in time charter equivalent earnings. TORM's time charter equivalent earnings in 2007 were USD 604 million compared to USD 454 million in 2006. The increase in the TCE was primarily due to the increase in earning days in the tanker division mainly as a result of the acquisition of OMI.

## Tanker Division

Revenue in the Tanker Division increased by 30% to USD 640 million from USD 494 million in 2006, whereas the time charter equivalent earnings increased by USD 127 million or 36% to USD 476 million in 2007 from USD 349 million in the previous year.

In 2007, the Tanker Division was affected by highly fluctuating freight rates and, not least, by the acquisition of OMI in June and the subsequent transfer of the majority of assets and liabilities in August completed jointly by Teekay and TORM. With these transactions, the Company took over a very modern and homogenous fleet of 22 owned vessels, including one newbuilding for delivery in 2009, and four chartered vessels. The takeover of OMI's vessels almost doubled the number of owned vessels and added more than 100 land-based staff and 1,500 seafarers.

The market for TORM's product tankers was characterized by two very different periods in 2007. In the first half of 2007, the market in the Western Hemisphere performed better than expected, while rates were lower than expected up to the end of the fourth quarter. In the Eastern Hemisphere, rates were low in the first half, but stabilized in the second half and started rising toward the end of the year.



2007 was also marked by highly unstable and rising oil prices that, combined with rising U.S. gasoline consumption in the first half, prompted the Company's customers to favor the smaller, more flexible MR tankers. This unexpected greater demand meant that TORM's MR tankers performed far better than expected in 2007.

For TORM's largest vessels, the LR2 tankers, however, earnings were lower than expected in 2007. This was due to the fact that the vessels primarily transported naphtha from the Middle East to the Far East, where demand was lower than expected. Due to the size of the vessels, they are not very flexible, and therefore their earnings options are limited in certain situations.

Earnings for TORM's medium-sized vessels, the LR1 tankers, were as expected, which meant that total earnings for the three vessel types were as expected.

The rising crude oil prices caused an increase in fuel costs, which put pressure on earnings for 2007. Bunker costs averaged USD 371 per ton in 2007 against USD 321 per ton in 2006, an increase of 16%, which corresponds to an average additional expense of approximately USD 2,000 per day of operation.

In 2007, the delivery of 2 newbuildings in the LR2 business area was the primary reason for the increase in the number of available earning days by 892 days or 37%, resulting in an increase in earnings of USD 26 million. Freight rates that were on average 13% lower than in the previous year decreased earnings by USD 12 million.

In the LR1 business area, the Company added 4 vessels, hereof 2 vessels from the former OMI fleet, and took delivery of 1 newbuildings. These were the most important factors behind the increase in the number of available earning days by 1,507 days or 35% from the previous year, resulting in an increase in earnings of USD 45 million. The average freight rates remained at a level slightly above the previous year increasing earnings positively by USD 1 million.

In the MR business area, the addition of 11 vessels from the former OMI fleet during 2007 caused the number of available earning days to increase by 1,670 days or 26%, which increased earnings by USD 41 million. The average freight rates were 3% lower than in the previous year, which affected earnings negatively by USD 6 million.

During 2007, TORM took over 11 Handysize product tanker vessels from the former OMI fleet. During the period from takeover on 1 August to 31 December 2007, this area showed 1,836 available earning days and achieved USD 31 million in earnings.

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

Earnings for the Tanker division USD million	Handy	MR	LR1	LR2	Un-allocated	Total
Time charter equivalent earnings 2006	-	160	120	69	-	349
Change in number of earning days	31	41	45	26	-	143
Change in freight rates	-	(6)	1	(12)	-	(17)
Other	-	-	-	(3)	4	1
Time charter equivalent earnings 2007	31	195	166	80	4	476

Un-allocated 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.

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

Earnings data for the Tanker division

USD/Day	2006 Full year	Q1	Q2	Q3	Q4	2007 Full year	% Change 2006-2007
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LR2/Aframax vessels

Available earning days for: \*)

- Owned vessels	2,038	627	684	814	811	2,936	45%
- Time chartered vessels	363	90	83	92	92	357	(2%)
TCE per earning days (**)	28,641	26,838	29,073	21,841	23,227	24,407	(13%)

LR1/Panamax vessels

Available earning days

for: \*)

- Owned vessels	2,273	540	538	572	641	2,291	7%
- Time chartered vessels	2,086	728	781	1,005	1,061	3,575	71%
TCE per earning days (**)	27,497	27,816	29,108	27,407	26,517	28,313	0%

MR vessels

Available earning days

for: \*)

- Owned vessels	6,499	1,609	1,606	2,238	2,544	7,997	23%
- Time chartered vessels	0	34	46	46	46	172	N/A
TCE per earning days (**)	24,627	24,676	28,143	22,941	21,702	23,949	(3%)

Handy vessels

Available earning days for:

\*)

- Owned vessels	-	-	-	732	1,104	1,836	N/A
- Time chartered vessels	-	-	-	0	0	0	N/A
TCE per earning days (**)	-	-	-	16,129	17,121	16,726	N/A

\*) 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 dry-dock etc.

\*\*\*) TCE = Time Charter Equivalent Earnings = Gross freight income less port expenses, bunkers and commissions (including freight and bunkers derivatives).

## Bulk Division

In the Bulk Division, revenue increased by 22% to USD 134 million from USD 110 million in the previous year, whereas the time charter equivalent earnings increased by USD 23 million or 22% to USD 128 million from USD 105 million in 2006.

Freight rates for bulk carriers were at a historical high and continued their almost unbroken rise throughout 2007. The bulk market is driven by major growth in the transportation of iron ore, coal and grain, which increased pressure on infrastructure and required additional vessel capacity.

To the surprise of TORM and the market in general, freight rates took a sharp upward turn in the first ten months of the year as a result of greatly increasing demand for mainly iron ore, coal and grain. This caused long waits in ports, principally in Australia. For transportation of iron ore, the waiting days in Australian ports have led to increased transport distances as the iron ore is transported from Brazil to China and to a lesser degree from Australia to China when the wait is too long.

In the last two months of the year, rates suddenly dropped after having reached USD/day 95,000 at the end of October. At the end of the year, Panamax rates stood at USD/day 67,000, which was still very high.

In the Bulk Division, TORM continues the strategy of covering earnings by chartering out vessels on contracts of one to two years' duration. The majority of the long-term contracts were entered into in the fourth quarter of 2006 and the first quarter of 2007, and earnings in 2007 therefore did not see the full effect of the rising rates during the year.

Freight rates in the Panamax business area were on average 33% higher than in 2006, increasing earnings by USD 32 million. In this business area, the Company added a vessel to the fleet of owned vessel, which was already chartered in and therefore did not affect the number of available earning days. The net reduction in the number of available earning days from other chartered in vessels was 4% or 224 days from the previous year. As a result, the time charter equivalent earnings in this segment decreased by USD 5 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	Handysize	Panamax	Total
Time charter equivalent earnings			
2006	4	101	105
Change in number of earning days	(4)	(5)	(9)
Change in freight rates	0	32	32
Time charter equivalent earnings			
2007	0	128	128

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

Earnings data for the Tanker division

USD/Day	2006 Full year	2007				2007 Full year	% Change 2006-2007
		Q1	Q2	Q3	Q4		
Panamax vessels							
Available earning days							
for: *)							
- Owned vessels	2,499	416	460	535	551	1,962	(21%)
- Time chartered vessels	2,697	789	762	723	736	3,010	12%
TCE per earning days (**))	19,325	22,955	25,467	27,019	27,443	25,762	33%

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

\*\*\*) TCE = Time Charter Equivalent Earnings = Gross freight income less port expenses, bunkers and commissions (including freight and bunkers derivatives).

Operation of vessels

Vessels chartered in on time charters do not give rise to operating expenses for TORM but only to charter hire payments. As compared to 2006, charter hire in the tanker division increased by USD 33 million to USD 92 million in 2007, whereas charter hire paid in the bulk division increased by USD 11 million to USD 59 million. The increase in the tanker division was primarily caused by a significant increase in the number of vessels chartered in, primarily due to the acquisition of OMI, whereas the development in the bulk division was caused by a combination of an increase in the available earning days and higher time charter rates compared to 2006.

The operating expenses for the owned vessels increased by USD 49 million or 64% to USD 127 million in 2007. The most significant factor behind this development was the increase in the number of operating days of 3,985 days or 31%, which caused an increase in the operating expenses of USD 26 million. The increase in the number of operating days was primarily caused by the addition of vessels in the MR and LR1 business areas from the acquisition of OMI and the addition of newbuildings in the LR2 business area.

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

Operating expenses

USD million	Tanker Division				Bulk Division			Total
	Handy	MR	LR1	LR2	Panamax	Handy	Unallocated	
Operating expenses 2006	-	38.1	12.3	11.9	11.9	1.2	2.3	77.7
Change in the number of operating days	11.9	11.0	1.3	5.5	-2.1	-1.2		26.4
Change in expenses per operating day	-	4.3	1.7	3.7	0.7	-		10.4
Other							12.6	12.6



Operating expenses 2007	11.9	53.4	15.3	21.1	10.5	-	14.9	127.1
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The total unallocated operating expenses amounted to USD 15 million in 2007, of which USD 4 million related to the tanker division. The remaining USD 11 million related to the vessels in OMI prior to their transfer to either TORM or Teekay.

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

## Operating data

	Tanker Division				Bulk Division		Total
	Handy	MR	LR1	LR2	Panamax	Handy	
Operating days in 2006	-	5,835	2,298	2,067	2,474	306	12,980
Operating expenses per operating day in 2006	-	6,525	5,365	5,748	4,802	3,847	5,804
Operating expenses per operating day in 2007	6,467	7,098	6,071	6,976	5,135	-	6,618
Change in the operating expenses per operating day in %	n.a.	9%	13%	21%	7%	n.a.	14%
Operating days in 2007	1,836	7,523	2,532	3,027	2,047	-	16,965
- Off-hire days	-0	-82	-10	-43	-10	-	-145
- Days in dry dock	-0	-173	-84	-16	-77	-	-350
+ Earning days for vessels chartered in	0	901	3,575	338	3,012	-	7,826
Earning days in 2007	1,836	8,169	6,013	3,306	4,972	-	24,296

Operating expenses per day of USD 6,618 and USD 5,804 in 2007 and 2006, respectively, can be distributed on types of costs as illustrated in the table below.

Expense type	2006		2007		Change %	
	Expense/day	%	Expense/day	%		
Crew	3,016	52%	3,380	51%	12%	
Consumables	1,068	18%	1,200	18%	12%	
Maintenance	675	12%	698	11%	3%	
Insurance	625	11%	773	12%	24%	
Other	420	7%	567	8%	35%	
Total	5,804	100%	6,618	100%	14%	

Operating expenses per operating day increased by 14% for the whole owned fleet in the two segments, which caused an increase in the operating expenses of USD 10 million. Operating expenses are primarily incurred in USD and DKK. The share of the expenses incurred in DKK was 23% in 2007 and the increase in the average DKK/USD exchange rate compared to 2006 of 8% caused an increase in the operating expenses of USD 2 million.

The total fleet of owned vessels had 145 off-hire days in 2007 corresponding to nine per thousand of the number of operating days compared to 69 off-hire days in 2006 corresponding to five per thousand of the number of operating days. Of this increase in off-hire days, two specific incidents account for 26 days. The MR tanker TORM Gertrud was involved in a collision and the LR1 tanker TORM Signe was grounded, and both vessels had to undergo major repairs. Apart from these two incidents, the Company considers the level of off-hire days to be satisfactory.

The average operating expenses per operating day increased by USD 814 or 14% compared to 2006. The increase was primarily caused by an increase in wages costs per operating day of USD 364 to USD 3,380, corresponding to six percentage points of the total increase. The increase was mainly due to the addition of tonnage in the LR2 segment being registered in the Danish ship's register and sailing with Danish officers who on average receive higher wages than the remaining officers. The hourly wages to officers showed a general increase of 16% during 2007 calculated as a weighted average, which has also affected the total wages costs negatively just as it has affected all other shipping companies. In addition, the luboil costs increased by USD 139 per operating day to USD 339 per operating day corresponding to two percentage points of the total increase of 14% as a consequence of the rising oil prices. Insurance costs increased by USD 148 to USD 773 per operating day corresponding to three percentage points of the total increase. The increase relates to loss of hire and is attributable to the two incidents with TORM Gertrud and TORM Signe.

#### Administrative expenses and other operating income

The total administrative expenses increased from 2006 to 2007 by USD 34 million to USD 69 million. Of this increase, restructuring expenses relating to the acquisition of OMI accounted for USD 15 million, expenses relating to the new incentive scheme accounted for USD 3 million, expenses to consultants and advisors in connection with the payment of extraordinary dividend and evaluation of several investment projects accounted for USD 3 million and the change in the DKK/USD exchange rate caused an increase of USD 4 million. The majority of the remaining part of the increase is attributable to the acquired activities in OMI.

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 15 million in 2007 compared to USD 10 million in 2006. The increase was primarily related to commissions from technical management of third-party vessels. In connection with the split of the OMI activities between TORM and Teekay, TORM performed technical management for a number of Teekay vessels for a short period of time.

#### Financial income and expenses

Net financial income and expenses in 2007 were USD 599 million compared to USD -1 million in 2006. The most significant reason for the change is the gain from the sale of the NORDEN shares of USD 643 million compared to a dividend from NORDEN of USD 25 million in 2006 and an increase in net interest expenses of USD 17 million to USD 53 million in 2007 due to the increase in net interest bearing debt of USD 874 million during the year to USD 1,536 million from USD 662 million in 2006.

Please refer to Note 9 to our consolidated financial statements for a breakdown of financial income and expenses in the income statement and to Note 14 for an overview of mortgage debt and bank loans.

#### Tax

Tax expenses for the year amounted to USD 13 million compared to USD 7 million in 2006. The tax expenses for 2007 comprise current tax for the year of USD 16 million compared to USD 5 million in the previous year, a reduction of deferred tax of USD 7 million compared to an increase of USD 8 million in 2006 and an expense of USD 4 million due to an adjustment to the estimated tax liabilities for the previous years compared to an income of USD 6 million in 2006. The deferred tax liability as at 31 December 2007 was USD 56 million compared to USD 63 million in the previous year.

All significant Danish entities in the TORM group entered into the tonnage taxation scheme with effect from 2001 and have filed tax returns for 2001 through to 2006. The Company has filed a complaint regarding the assessments by the tax authorities of the tax returns for the years 2001 to 2004 and the assessments for 2005 and 2006 have not been completed. The recognized current tax liabilities are therefore to a great extent based on management's judgment regarding the outcome of the complaint and the assessment. TORM paid USD 10 million in corporation tax on account in 2007 regarding these entities.

Please refer to Item 10E and Notes 2 and 11 to our consolidated financial statements for further information.

#### Vessels and dry-docking

The increase in tangible fixed assets of USD 1,130 million to USD 2,439 million in 2007 is attributable to the change in vessels and capitalized dry-docking and in prepayments on vessels, primarily as a consequence of the acquisition of OMI. The carrying value of vessels and capitalized dry-docking increased by USD 1,034 million to USD 2,170

million. The addition of new tonnage amounted to a total acquisition cost of USD 1,115 million resulting from 11 MR tankers and 2 LR1 tankers transferred from OMI, 2.5 LR1 tankers, 2 LR2 tanker newbuildings, 1 LR1 tanker newbuilding and a Panamax bulk carrier built in 2004. In addition, two MR tankers are still owned by OMI, which TORM owns jointly with Teekay.

No vessels were sold during 2007. Prepayments on vessels increased by USD 90 million to USD 259 million due to additional costs relating to vessels under construction of USD 208 million less the above-mentioned newbuilding deliveries of USD 118 million.

Total depreciation amounted to USD 89 million in 2007 as compared to USD 59 million in 2006, an increase of USD 30 million. The increase is due to the expansion and renewal of the fleet during 2006 and 2007 and the amortisation of assets acquired in the OMI acquisition.

As at 31 December 2007, TORM's newbuilding programme comprised 16 tanker vessels and four bulk carriers to be delivered during 2008 to 2011, and the contractual liabilities under the programme amounted to USD 956 million.

The market value of the fleet and investment programme (three LR2 tanker newbuildings, 13 MR tanker newbuildings and four Panamax bulk carrier newbuildings) exceeded the carrying value of the fleet including newbuilding contracts by USD 1,547 million at year-end. This valuation is based on the average of three internationally acknowledged shipbrokers' valuations.

#### Other investments (NORDEN)

In March 2007, TORM sold its entire investment in approximately 33% of the shares in NORDEN for a sum of USD 704 million whereby the Company achieved a gain of USD 643 million. For further information refer to Item 4B.

The Company holds investments in other entities with an aggregate carrying amount of USD 11 million as at 31 December 2007, of which USD 3 million concerns unlisted entities, which is unchanged from the previous year. The carrying amount of the unlisted shares constitutes the estimated fair value based on available information.

#### B. Liquidity and capital resources

The invested capital, as defined in item 17, increased by USD 204 million to USD 2,822 million as at 31 December 2008, from USD 2,618 million as at 31 December 2007 and USD 1,300 million as at December 31, 2006. The increase can primarily be explained by the net addition of tonnage and the acquisition of a 50% stake in the shipping company FR8 at March 10, 2008.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. To manage its capital structure and make adjustments to it, in light of changes in economic conditions, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the capital management objectives, policies or processes during the years ended December 31, 2006, December 31, 2007 and December 31, 2008.

The Company monitors the capital using gearing ratios, primarily the equity ratio, as defined in item 17, which is equity divided by total assets. The Company's policy is to maintain the equity ratio above 30% both when executing short-term business activities and when considering strategic initiatives and planning long-term investments. As at December 31, 2008, the equity ratio was 39% compared to 37% as at December 31, 2007 and 61% as at December 31, 2006.

Equity increased by USD 198 million in 2008 to USD 1,279 million as at 31 December 2008 from USD 1,081 million in 2007. The increase in equity is mainly due to the net profit for the year of USD 361 million less fair value

adjustments of derivative financial instruments treated as hedging instruments of USD 41 million, and less dividend paid out of USD 124 million. Equity decreased by USD 200 million in 2007 to USD 1,081 million as at December 31, 2007 from USD 1,281 million in 2006. The considerable reduction in equity was mainly due to the net profit for the year of USD 792 million less the value adjustment of the Company's investment in Norden attributable to previous years of USD 572 million and extraordinarily high dividends paid out during the year of USD 424 million.

The payment of the Company's obligations under loan agreements, along with the payment of charter hire for chartered-in vessels and all other commitments that TORM has entered into, are paid out of the cash generated by the Company. Total cash and cash equivalents amounted to USD 168 million at the end of 2008 vs. USD 105 million at the end of 2007 and USD 32 million at the end of 2006, resulting in a net increase in cash and cash equivalents for the year of USD 63 million compared to a net increase of USD 73 million in 2007 and a net decrease of USD 125 million in 2006. The primary sources of the cash flow were cash flow from operating activities, proceeds from the sale of vessels and additional borrowing, which contributed a total of USD 1,574 million in cash.

The cash flows were primarily used to finance the acquisition of further additions to the fleet and a 50% stake in FR8, to repay mortgage debt and bank loans and to pay dividend to shareholders during the year, which required a total of USD 1,572 million in cash.

The Company's operations generated a cash inflow of USD 385 million in 2008 compared to an inflow of USD 188 million in 2007 and a cash inflow of USD 232 million in 2006. USD 115 million was invested in the acquisition of a 50% stake in the shipping company FR8, whereas USD 810 million was invested in the acquisition of OMI during 2007. In addition, the Company invested USD 378 million in tangible fixed assets during the 2008, primarily comprising the extension of the fleet, compared to USD 252 million in 2007 and USD 246 million in 2006. The Company generated USD 169 million in cash flow from the sale of non-current assets, primarily vessels, in 2008, whereas the Company did not generate any significant cash flows from the sale of non-current assets in 2007 and the total cash inflow from the sale of vessels was USD 145 million in 2006. The Company generated a cash inflow of USD 17 million from the sale of equity interests and securities during 2008 compared to USD 737 million in 2007, of which USD 704 million related to the sale of the shares in NORDEN, whereas the Company did not generate any significant cash flows from the sale of equity interests and securities in 2006.

The total cash outflow from financing activities amounted to USD 59 million compared to a cash inflow of USD 242 million in 2007 and a cash outflow of USD 239 million in 2006. Additional borrowing generated inflow of USD 1,021 million which was primarily used for the repayment of bridge financing of the acquisition of OMI in 2007, repayment on mortgage debt and bank loans amounting to USD 956 million in 2008, and for the financing of the newbuilding program, the purchase of second-hand vessels, and the acquisition of 50% of FR8. Dividend payments to TORM's shareholders, which in 2008 amounted to USD 124 million, also affected cash flow from financing activities.

As at 31 December 2008, TORM had entered into credit agreements with leading banks with a total commitment of USD 2,220 million compared to a commitment in 2007 at USD 1,964 million and a commitment in 2006 at USD 1,514 million, of which USD 1,723 million was drawn compared to a draw in 2007 of USD 1,657 million and a draw in 2006 of USD 698 million. Of the total borrowings of USD 1,723 million, USD 1,573 million compared to USD 1,532 million in 2007 and USD 634 million in 2006 was bearing variable interest. The credit agreements are dedicated to the financing of new tonnage and to the ongoing financing of some of the existing vessels.

For all 20 vessels in the newbuilding programme compared to 21 vessels in 2007 and 17 vessels in 2006, payments corresponding to approximately 28% compared to 26% in 2007 and 23% in 2006 of the aggregate contract price have been made. The total outstanding contractual commitment under the newbuilding programme amounted to USD 686 million as at 31 December 2008 compared to USD 745 million and USD 594 million in 2006. In addition, the Company had a liability of USD 22 million relating to a second hand Panamax drybulk vessel for delivery in January 2009, which the Company bought by utilising a purchase option in 2008.

TORM believes that based on available cash and loan facilities, planned investments and projected operating cash flows in the next 12 months, the Company has sufficient cash flow to meet the operating requirements, cash flow obligations and other strategic initiatives.





For further disclosure and discussion of our contractual obligations please refer to Item 10C and Notes 15 and 19 to the consolidated financial statements.

#### 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.

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, dry-docking 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.

C. Research and development, patents and licenses, etc.

Not Applicable.

D. Trend information

#### EXPECTATIONS FOR 2009

The forecast profit before tax for 2009 as at April 30, 2009 is USD 100-140 million. TORM's financial results primarily depend on the number of earning days and developments in freight rates. As of April 30, 2009, 46% of the remaining earning days in the Tanker Division for 2009 had been covered at an average rate of USD/day 20,586 vs. 49% at an average of USD/day 21,828 at the same time in 2008. As of April 30, 2009, 18% of the remaining earning days in the bulk division for 2009 had been covered at an average rate of USD/day 12,932 vs. 80% at an average rate of USD/day 48,400 at the same time in 2008.

This forecast is subject to a degree of uncertainty in as much as a number of factors could significantly impact freight rates and consequently the earnings of both the product tankers and the bulk carriers.

For 2009, the external factors considered to have the greatest influence on TORM 's earnings are:

- Global economic trends.
- A potential financial collapse of major business partners.
- Global capital market.
- Oil trader activity and the development of ton/mile.

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- Consumption of refined oil products.
- Transport of commodities, mainly to Asia, in particular iron ore, coal and grain.
  - The US economy.
  - Additions and scrapping of vessels.

- One-off events such as strikes, political instability in the oil-exporting countries, weather conditions, shut-down of refineries, etc.
- Potential national or international interventions against shipping companies' energy consumption or CO2 emissions.

#### Tanker Division

TORM expects the Company's product tanker rates to be 10-25% lower in 2009 than in 2008. The lower estimation is primarily the result of the global recession which is also affecting the oil consumption and there is considerable uncertainty about the rate development. Seasonal fluctuations mean that the first and the fourth quarters are traditionally the strongest due to the winter season. This also assumes that the market is not affected by one-off events during the year.

The following factors will affect developments:

#### Tonnage Supply

The global product tanker fleet will be expanded as a result of a record newbuilding order book for delivery in 2009. An addition of approximately 18%, or 321 product tankers, is expected in the business areas in which TORM operates according to industry resources.

The phase-out of vessels in 2009 is expected to be limited. On the other hand, a significant number of vessels are expected to be re-cycled in 2010, when all single-hulled vessels must be phased out.

The global recession has made it difficult to finance newbuildings and, as a result, shipyards as well as shipping companies have cancelled newbuilding orders. In TORM's assessment, the cancellation of newbuildings will reduce the product tanker order book by some 10-15% for the period to 2011. This assessment is subject to considerable uncertainty, however.

#### Tonnage Demand

Energy Information Administration (EIA) expects a decrease in global oil consumption of approximately 1.4% in 2009, relative to an increase of 0.1% in 2008.

Transport of refined oil products by sea is expected to drop by 1.7% in 2009 according to industry sources. By comparison, transport of such products rose by 1.3% in 2008. Total transport of oil by sea (crude and refined oil products) rose by 4.4% in 2008, but is expected to drop by 2.7% in 2009.

US gasoline consumption is expected to decline by approximately 1.0% in 2009, against a decline of approximately 3.4% in 2008 according to industry sources.

The increase in refinery capacity in India and the Middle East up to 2012 will significantly exceed the immediate consumption in these areas, and as a result a sharp increase in exports of refined oil products is expected. This will have a positive impact on the product tanker market.

Increased transport of different qualities of the same type of refined oil products, e.g. imports in Europe of refined oil products with a low sulphur content and exports of refined oil products with a high sulphur content from Europe.

Bulk Division

As a result of the collapse of the freight market and in order to minimize the Company's counterparty risk, TORM has negotiated to have four Panamax bulk carriers prematurely re-delivered to TORM from long-term contracts. In compensation for the re-deliveries, TORM has received USD 26 million, which are recognised as income in the first quarter of 2009.

The collapse in bulk carrier freight rates has caused TORM to intensify the risk assessment of potential customers' ability to meet their contractual obligations. Subject to the individual assessments and the state of the freight market in general, TORM maintains its strategy of hedging a significant part of its exposure by chartering out vessels on long-term contracts of typically one to two years' duration. The bulk market will remain dependent on global economic trends. However, freight rates will depend particularly on economic growth in China, and thus the Chinese consumption of steel and coal.

As a result of the global economic downturn, bulk transportation is expected to decline by 4% from 2008 to 2009 according to industry sources. Moreover, freight rates will be affected by the net increase in the global fleet in 2009, when newbuildings as well as re-cyclings are expected to rise sharply. A net 13% addition of bulk carriers in 2009 compared to 2008 is expected according to industry sources.

E. Off-balance sheet arrangements

We do not have any off-balance sheet arrangements.

F. Tabular disclosure of contractual obligations

We have various contractual obligations and commercial commitments to make future payments including debt agreements, lease obligations and purchase commitments. The following table summarizes our future obligations under these contracts due by period as of December 31, 2008 (in USD million):

USD million	2009	2010	2011	2012	2013	There-after	Total
Long-Term Debt (1)	212.4	129.7	173.2	168.3	452.8	581.8	1,718.2
Interest payments fixed by interest rate swaps (3)	30.9	25.6	20.1	12.0	3.0	0.0	91.6
Estimated variable interest payments (4)	35.7	33.6	33.0	33.0	28.2	42.7	206.2
Chartered-in Vessels (incl. vessels not delivered) (Operating leases)	230.5	230.3	205.3	184.4	167.0	351.3	1,368.8
Newbuilding installments (Purchase Obligations) (2)	277.6	261.0	111.1	58.6	0.0	0.0	708.3
Other operating leases	6.8	7.7	7.6	7.4	7.6	8.8	45.9
<b>Total</b>	<b>793.9</b>	<b>687.9</b>	<b>550.3</b>	<b>463.7</b>	<b>658.6</b>	<b>984.6</b>	<b>4,139.0</b>

(1)Debt payments could be accelerated upon violation of debt covenants. We are in compliance at December 31, 2008 and we believe the likelihood of a debt covenant violation is remote.

(2)Debt financing will provide an estimated 70%-80% of the newbuilding installments.

(3)Actual fixed rates according to interest rate swaps are used for the covered interest payments. Please refer to Item 11 for further information.

(4)Variable interest payments are estimated based on a 6% net interest rate including margin.



## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are affected by the way TORM applies its accounting policies. An accounting estimate is considered critical if: the estimate requires Management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate that would have a material impact on the Group's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and the resulting balances are reasonable. However, actual results could differ from the original estimates requiring adjustments to these balances in future periods.

Management believes that the following are the significant accounting estimates and judgments used in the preparation of the consolidated financial statements.

### Carrying amounts of vessels

The Group evaluates the carrying amounts of the vessels to determine if events have occurred that would require a modification of their carrying amounts. The valuation of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. In assessing the recoverability of the vessels, the Group reviews certain indicators of potential impairment such as reported sale and purchase prices, market demand and general market conditions. Market valuations from leading, independent and internationally acknowledged shipbroking companies are obtained on a semi-annual basis as part of the review for potential impairment indicators. If an indication of impairment is identified, the need for recognizing an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the net selling price and the discounted future cash flows.

The review for potential impairment indicators and projection of future undiscounted and discounted cash flows related to the vessels is complex and requires the Group to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile.

The carrying amounts of TORM's vessels may not represent their fair market value at any point in time as market prices of secondhand vessels to a degree tend to fluctuate with changes in charter rates and the cost of newbuildings. However, if the estimated future cash flow or related assumptions in the future experience change, an impairment of vessels may be required.

There were no indicators of impairments of vessels in 2006 and 2007 and there were no impairments of vessels 2008.

### Tax

All significant Danish entities within the Group entered the Danish tonnage taxation scheme, which went into effect on January 1, 2001, and have filed tax returns for 2001 to 2007. The assessment of the tax returns by the tax authorities has not yet been completed for 2005 to 2007, and we have filed a complaint regarding the assessments for 2001, 2002, 2003 and 2004. The tax regulations are highly complex, and while the Group aims to ensure the estimates of tax assets and liabilities that it records are accurate, there may be instances where the process of agreeing the tax liabilities with the tax authorities could require adjustments to be made to estimates previously recorded.



It is the Group's assessment that there is significant uncertainty as to the estimate of taxes payable as of December 31, 2008 due to the lack of precedents that have interpreted the tonnage tax regulation. The estimate is based on scenario analyses and discussions with the tax authorities, tax advisors and industry organizations, and the uncertainty primarily relates to the division of the activities between income and expenses from shipping-related activities, which are taxed under the tonnage tax scheme, and income and expenses from other activities, which are not taxed under the tonnage tax scheme.

## CHANGES IN ACCOUNTING POLICIES

TORM has implemented the following standards, changes to standards and interpretations in the annual report for 2008:

- Amendment to IFRS 2 "Share-based payment: Vesting conditions and cancellations." The amendment clarifies the treatment regarding vesting conditions and cancellation of granted equity instruments. TORM's treatment is in line with the clarifications and the change has therefore not affected the accounting policies.
- Amendment to IAS 39 and IFRS 7: "Reclassification of financial instruments." The change is not relevant for TORM.
- Interpretation guideline to IAS 19, IFRIC 14 "The limit on a defined benefit asset, minimum funding requirement and their interaction." The interpretation is not relevant for TORM.

The Company has changed its accounting policy for the recognition of investments in joint ventures so that these are recognized according to the equity method. Previously, joint ventures were recognized on a pro rata basis. The change in accounting policy is due to the fact that the Company finds it inappropriate to aggregate the items of joint ventures with items of entities that form an integral part of the Company's activities. The policy change has no effect on the income statement or on equity, but the profit for the year of joint ventures and the investment in these are presented in a single line item in the income statement and the balance sheet, respectively.

As a result of the change in accounting policy the operating profit and net cash flows for 2007 were reduced by USD 5.9 million and USD 11.6 million, respectively, and invested capital as defined in Item 17 at 31 December 2007 was increased by USD 12.5 million.

Accounting standards and interpretations not yet adopted

IASB has issued the following changes to standards and interpretations which have not yet been adopted:

- Amendment to IAS 1 "Presentation of Financial Statements." The most notable changes in comparison to the current version of IAS 1 are:
  - A requirement that "comprehensive income" is presented either in a single statement or in two statements (an income statement and a statement of comprehensive income, in which net profit for the year is included in one line). The statement of changes in equity can no longer include elements of comprehensive income, but only the total of this statement.
  - When changes in accounting policies or restatements have occurred, a statement of financial position (balance sheet) at the beginning of the comparative period is presented (i.e. two years' comparative figures).
    - A requirement for information regarding the tax effect of each item in "other comprehensive income."
  - A requirement of disclosure of amounts, which are reclassified from other comprehensive income to net profit for the year ("recycling").
    - The terminology regarding the financial statements in accordance with IFRS is changed.
  -

Amendment to IAS 23 "Borrowing Costs." The changes to IAS 23 will not significantly affect the financial statements.

- IFRIC 13 "Customer Loyalty programmes." The interpretation is not relevant for TORM .
- Amendment to IAS 39 "Financial Instruments: Recognition and measurement". The changes will not significantly affect the financial statements.

- Amendment to IFRIC 9 "Reassessment of Embedded Derivatives". The changes will not significantly affect the financial statements.
- In addition, IASB has issued a number of smaller changes and clarifications during 2008 as part of the improvement project, including changes to IFRS 5, IAS 18, IAS 20 and IAS 40. The changes are not expected to have any significant impact on the financial statements.
- In addition, IASB has issued a number of smaller changes and clarifications during 2008 as part of the improvement project, including changes to IFRS 5, IAS 18, IAS 20 and IAS 40. The changes are not expected to have any significant impact on the financial statements.

TORM will implement these changes and interpretations when they become effective in 2009. The implementation of IAS 1 will change the presentation of the financial statements.

Furthermore, IASB has issued the following standards, changes to standards and interpretations which become effective on or after 1 January 2009 but have not yet been adopted by the EU:

- Revised IFRS 1 "First time adoption,"
- Revised IFRS 3 "Business Combinations,"
- Amendment to IAS 27 "Consolidated and separate financial statements,"
- Amendment to IAS 39 "Financial instruments: Recognition and measurement": "Eligible hedged items" and "Reclassification of financial assets: Effective date and transition,"
- IFRIC 12 "Service concession arrangements,"
- IFRIC 15 "Agreements for the construction of real estate,"
- IFRIC 16 "Hedges of a net investment in a foreign operation,"
- IFRIC 17 "Distributions of non-cash assets to owners"
- IFRIC 18 "Transfer of assets from customers"

TORM expects that the implementation of these standards, changes to standards and interpretations will not materially affect the Company's financial statements.

## RECENT DEVELOPMENTS

### Sale of two bulk vessels

In May 2009, TORM entered into an agreement to sell the two Panamax bulk carriers TORM Baltic (built in 1997) and TORM Marta (built in 1997). The vessels were sold for a total consideration of USD 43 million and are expected to be delivered in July 2009.

In June 2009, TORM entered into an agreement to sell the Panamax bulk carrier TORM Tina (built in 2001). The vessel was sold for a total consideration of USD 30 million and is expected to be delivered in July 2009.

G. Safe harbor

Forward-looking information discussed in this Item 5 includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as "forward-looking statements." We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements" in this Report.

## ITEM DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.

## A. Directors and senior management

Set forth below are the names, ages and positions of our directors and executive officers.

Name	Age	Position
Board of Directors:		
Niels Erik Nielsen	61	Chairman of the Board
Christian Frigast	57	Deputy Chairman of the Board
Lennart Arnold Johan Arrias	60	Director
Margrethe Bligaard	41	Director
Bo Jagd	66	Director
Jesper Jarlbæk	53	Director, joined in April 2009
Niels Peter Abildgaard Nielsen	44	Director
Gabriel Panayotides	54	Director
Angelos Papoulias	54	Director, joined in April 2009
E. Michael Steimler	61	Director
Stefanos-Niko Zouvelos	53	Director

## Management:

Roland M. Andersen	41	Chief Financial Officer
Mikael Skov	45	Chief Executive Officer and Chief Operating Officer

Biographical information with respect to each of our directors and executives is set forth below.

Niels Erik Nielsen has been Chairman of our Board of Directors since April 25, 2002. Prior to that Mr. Nielsen was the Deputy Chairman of our Board of Directors from September 26, 2000. Mr. Nielsen is also a partner with the Danish law firm, Bech-Bruun, which provides certain legal services to us. He is a member of TORM's remuneration committee and a member of the board of directors of several Danish companies, including Amagerbanken Aktieselskab, Ambu A/S, Charles Christensen A/S, Cimber Air Holding A/S, Danica-Elektronik A/S, Gammelrand Skærvefabrik A/S, GPV Industri A/S, InterMail A/S, Mezzanin Kapital A/S, Pele Holding A/S, P.O.A. Ejendomme A/S, Satair A/S, SCF-Technologies A/S and Weibel Scientific A/S. Mr. Nielsen holds a Master's of Law degree from the University of Copenhagen.

Christian Frigast has been a director of the Company since September 26, 2000 and Deputy Chairman since April 25, 2002. He is a member of TORM's audit committee and remuneration committee. Mr. Frigast is the managing director of Axcel A/S, a Danish investment company. He also serves as a member of the board of directors of numerous companies including Noa Noa A/S and Royal Scandinavia A/S. Mr. Frigast holds a Master's of Science degree in Economy from the University of Copenhagen.

Lennart Arnold Johan Arrias has been a director of the Company since 2003. Mr. Arrias is employed by TORM as a Captain and has been with the Company since 1992. He has been elected by the employees of TORM to our Board of Directors.

Margrethe Bligaard has been a director of the Company since April 2007. Ms. Bligaard is employed by TORM as General Manager in the Tanker Division with responsibility for performance development and has been with TORM since 1989. She has been elected by the employees of TORM to our Board of Directors.

Bo Jagd has been a director of TORM since April 2008. Mr. Jagd was Managing Director and CEO of Danish Ship Finance A/S from 1992 to April 2008. Prior to that he held senior positions in banking in Denmark, UK and Singapore. Mr. Jagd holds a degree in Business Finance from Copenhagen Business School and is a member of TORM's Audit Committee. Special competencies: finance, risk management, financial analysis, general management, corporate governance.

Jesper Jarlbaek has been a director of the Company since April 2009. Mr Jarlbaek is CEO of Earlbrook Holdings LTD. A/S. He also serves as a member of the board of directors of numerous companies including Ascendi A/S and TK Development A/S. Mr Jarlbaek is a State Authorized Public Accountant and holds a B.Sc. in accounting from Copenhagen Business School.

Niels Peter Abildgaard Nielsen has been a director of the Company since April 2007. Mr. Abildgaard is employed by TORM as General Manager for Quality and Vetting and has been with TORM since 1987. He has been elected by the employees of TORM to our Board of Directors.

Gabriel Panayotides has been a director of the Company since September 2000. Since February 1998, Mr. Panayotides has also been Chairman of the Board of Excel Maritime Carriers Ltd., a publicly-traded shipping company with shares traded on the New York Stock Exchange. Mr. Panayotides has been engaged in the ownership and management of ocean going vessels since 1978. He sits on the Greek Committee of Classification Society Bureau Veritas and Lloyd's Register of Shipping. He holds a Bachelors degree from the Piraeus University of Economics.

Angelos Papoulias has been a director of the Company since April 2009. Mr. Papoulias has served as a director of Investments & Finance Ltd since 1989. He holds a degree of B.Sc. in mathematics/economics and a Master's degree in International Management.

E. Michael Steimler has been a director of TORM since April 2008. Mr. Steimler was Chief Executive Officer of Tankers (UK) Agencies Ltd between 2000 and 2008 and is now Chairman/Consultant. His directorships of both publicly listed and private companies include Euronav NV in Belgium and Beacon Shipping Holdings Ltd. in Singapore. He graduated from the Norwegian School of Business Management with a degree in Economics and Marketing in 1973 and has over 30 years experience in the shipping industry.

Stefanos-Niko Zouvelos has been a director of TORM since April 2006. Mr. Zouvelos is General Manager of Beltest Shipping Company Ltd. in Cyprus, an investment holding company specializing in the shipping sector and the largest shareholder of TORM. Prior to that, Mr. Zouvelos served as a Financial Manager of Good Faith Shipping Co. from 2000 to 2004. He holds a Master of Science degree in Quantitative Economics from the University of Stirling, Scotland, and has been engaged in the shipping industry since 1984.

Roland M. Andersen has been appointed our Chief Financial Officer as of May 26, 2008. Before this Mr. Andersen, served as CFO for Danish mobile and broadband player Sonofon | Cybercity. During 2000-2005 Roland M. Andersen was CFO for private equity owned Cybercity. Prior to this he held positions with A.P. Møller-Maersk, the latest one as CFO for A.P. Møller-Maersk Singapore. Mr. Andersen holds a M.Sc. in Corporate Finance and Marketing and has attended the Executive Programme at London Business School.

Mikael Skov has been our Chief Operating Officer since April 1, 2007. In September 2008, Mr. Skov was also appointed Chief Executive Officer of the Company. Mr. Skov has worked for TORM since 1984. From 2000 to 2007 he served as Executive Vice President for TORM's Tanker Division.

## B. Compensation



In 2008, we incurred compensation expense of USD 0.8 million for the Board of Directors and USD 8.0 million for our executives including the value of expensed share-based compensation. We have not set aside any amounts to provide pension, retirement or similar benefits to our directors and executive officers. For a description of our stock option plan please refer to "Incentive scheme" below. The members of Management are, in the event of termination by the Company, entitled to a severance payment of up to 24 months' salary. The pension age for members of Management is 62.

C. Board Practices

The members of our Board of Directors are elected for four-year terms. At the end of each term, they are eligible for re-election. The current Board members were elected at the annual general meeting in April 2007, except for Mr. Zouvelos who was elected at the annual general meeting in April 2006, Bo Jagd and Einar Michael Steimler who were elected in April 2008, and Jesper Jarlbæk and Angelos Papoulias who were elected in April 2009. Our Board members will be eligible for re-election in 2011, except for Mr. Zouvelos who will be eligible for re-election in 2010, Bo Jagd and Einar Michael Steimler who will be eligible for re-election in 2012, and Jesper Jarlbæk and Angelos Papoulias who will be eligible for re-election in 2013. There are no service contracts between us and any of our directors providing for benefits upon termination of a director's election.

Committees of the Board of Directors

On July 31, 2005, we established an audit committee, which adopted an audit committee charter in compliance with Nasdaq's corporate governance rules, except for the exemptions noted below. Our audit committee is comprised of two independent members of our Board of Directors, and is responsible for reviewing our accounting controls and recommending to the Board of Directors the engagement of our outside auditors. The members of the audit committee are Messrs. Christian Frigast and Bo Jagd. In May 2009, the Board decided to expand the audit committee to comprise three independent members and Mr. Jesper Jarlbæk was elected. In addition, we have established a remuneration committee that is comprised of two independent members of our Board of Directors which are responsible for establishing executive officers' compensation and benefits. The members of our compensation committee are Messrs. Niels Erik Nielsen and Christian Frigast. In May 2009, the Board decided to expand the remuneration committee to comprise three independent members and Mr. Gabriel Panayotides was elected.

D. Employees

The numbers of employees we employed, on average, for the previous three fiscal years, are as follows:

	2006	2007	2008
Land-based employees			
Denmark	112	125	148
Other	26	75	147
Total	138	200	295
Seafarers (officers)	215	239	262
Total employees	353	439	557

In 2006 approximately 33 of our employees were employed in administrative positions; this figure rose to 33 in 2007 and to 98 in 2008. The majority of the staff on vessels owned by our subsidiaries and associated companies are not employed by us.

E. Share ownership

The following table sets forth information as of April 30, 2009 regarding the total amount of capital stock owned by our officers and directors on an individual basis:



Name	Position	Shares (Nom. Hold.)	Share options (Nom. Hold.)
Niels Erik Nielsen	Chairman of the Board	*	0
Christian Frigast	Deputy Chairman of the Board	*	0
Lennart Arnold Johan Arrias	Director	*	*
Margrethe Bligaard	Director	*	*
Stefanos-Niko Zouvelos	Director	*	0
Niels Peter Abildgaard Nielsen	Director	*	*
Gabriel Panayotides	Director	*	0
Bo Jagd	Director	*	0
Einar Michael Steimler	Director	*	0
Mikael Skov	CEO and COO	*	*
Roland M. Andersen	Chief Financial Officer	*	0

\* The person beneficially owns shares/holds share options less than one percent of our common shares.

#### Incentive scheme

In 2007, we created an incentive scheme for Management, all land-based employees and officers employed on permanent contracts (apart from trainees, apprentices and cadets) that are directly employed in TORM A/S. The Board of Directors is not included in the programme. The programme covers the financial years of 2007, 2008 and 2009. The participants have been granted a bonus as well as options to purchase shares in the Company with no cash settlement option.

The bonus will be awarded based on TORM achieving a calculated ROIC (Return on Invested Capital) in each financial year compared to each year's budgeted ROIC. 75% of the achieved bonus will be paid in cash and 25% in shares, which the employees will own provided that they are still employed by the Company after a period of two years (restricted shares). The number of restricted shares granted to the employee will depend on the market price for the TORM shares when TORM's annual report for the grant year is published. The individual employee's share of the bonus will be based partly on the individual's salary and partly on the evaluation of the individual's performance.

Of the share options, 50% are granted with a fixed exercise price (standard options) and 50% are granted with an exercise price that is determined ultimately with the publication of TORM's annual report after a three-year period, i.e. for the grant for 2007, in March 2010. The exercise price is determined by the relative development in TORM's share price in relation to a defined peer group (peer group options). If the TORM share develops relatively better than the

peer group, the share options will have a value.

Please refer to Note 4 to the consolidated Financial Statements for further information.

ITEM MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.

A. Major shareholders.

Our capital stock is comprised of common shares, par value DKK 5 per share. Shareholders holding 5% or more of the total number of our outstanding shares are required to file information with the Copenhagen Stock Exchange. The following table sets forth information regarding the owners of 5% or more of our common shares as of April 30, 2008 according to announcements made to the Copenhagen Stock Exchange in accordance with Section 29 of the Danish Securities Trading Act. None of the shareholders have any special voting rights.

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Name	Number of Shares	Percentage of Class
Beltest Shipping Company Ltd.	23,409,100	32.2%
Menfield Navigation Company Limited	14,564,704	20.0%
A/S Dampskibsselskabet TORM's Understøttelsesfond, Denmark	4,556,880	6.3%

Beltest and its parent company, Ryder Holdings Inc., have filed a Schedule 13D with the SEC. Menfield Navigation Company Limited acquired 14,564,704 shares, or 20.0% of our outstanding shares during 2003, 2004 and 2005. A/S Dampskibsselskabet TORM's Understøttelsesfond's has filed a Schedule 13G with the SEC and its shareholding in TORM has not changed over the last four years.

Beltest Shipping Company Ltd., A/S Dampskibsselskabet TORM's Understøttelsesfond and Menfield Navigation Company Limited have given notices of their shareholdings to the Copenhagen Stock Exchange.

**B. Related party transactions.**

The members of the Company's Board of Directors and Management, close members of the family to these persons and companies where these persons have control or exercise significant influence are considered as related parties with significant influence.

TORM has during the financial year paid USD 5.3 million to an entity owned by Beltest Shipping Company Limited under a time charter agreement. Furthermore, TORM has during the financial year paid USD 0.2 million for legal assistance to the law firm Bech-Bruun in which Mr. Niels Erik Nielsen, Chairman of the Board of Directors, is a practicing partner.

Management remuneration is disclosed in Note 4 to our consolidated financial statements.

**C. Interests of experts and counsel.**

Not Applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

See Item 17.

**DIVIDEND DISTRIBUTION POLICY**

Under Danish law, we are permitted to distribute dividends from our surplus capital. Any decision to distribute dividends will be at the discretion of the Board of Directors and must be approved by the shareholders at our annual general meeting. Our shareholders approved a dividend of DKK 4.0 corresponding to USD 0.8 for every DKK 5 share at the annual general meeting in 2009.

There are no restrictions in our existing financing arrangements on our ability to pay dividends to our shareholders.

B. Significant Changes.

Not Applicable.

ITEM THE OFFER AND LISTING

9.

A. Offer and Listing Details.

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Our common shares currently trade on the Copenhagen Stock Exchange. The tables below sets forth, for the periods indicated, the high and low closing sale price in Danish Kroner and the average daily trading volume for our shares on the Copenhagen Stock Exchange. Although we have provided the average daily trading volume of our shares for the periods indicated, the trading volume of our shares on the Copenhagen Stock Exchange is extremely volatile and daily trading ranges from none to several thousand shares.

The average daily trading volume may not be indicative of actual trading volumes and liquidity. Please also refer to "Risk Factors - There may be no active public market for you to resell our ADSs." For the previous five full years:

DKK	2004	2005	2006	2007	2008
Low	48.44	110.99	116.50	172.00	55.00
High	124.55	180.77	201.75	239.75	183.00
Average Daily Volume	162,702	302,890	327,508	306,668	223,943

The offer and listing details are adjusted in accordance with the stock split as of May 23, 2007.

For the previous two full years and subsequent periods, by quarter:

2007	1st quarter	2nd quarter	3rd quarter	4th quarter
Low	176.50	191.25	187.25	172.00
High	195.75	219.25	236.50	239.75
Average Daily Volume	243,606	349,349	350,098	285,625

2008	1st quarter	2nd quarter	3rd quarter	4th quarter
Low	130.50	137.50	125.50	55.00
High	183.00	177.50	177.50	131.00
Average Daily Volume	252,369	258,748	172,080	216,942

For the previous six months:

	November 2008	December 2008	January 2009	February 2009	March 2009	April 2009
Low	61.00	55.00	57.00	52.50	42.80	42.70
High	98.00	66.00	71.00	72.00	54.00	56.00
Average Daily Volume	142,518	161,713	156,024	176,571	154,349	230,685

## B. Plan of Distribution

Not Applicable.

## C. Markets.





Our common shares are currently trading on the Copenhagen Stock Exchange. Our ADSs, each representing one common share, are listed on the Nasdaq National Market under the abbreviation "TRMD." The tables below sets forth, for the periods indicated, the high and low closing sale price in U.S. Dollars and the average daily trading volume for our shares on the Nasdaq National Market. Trading on the Nasdaq National Market commenced on April 16, 2002. Although we have provided the average daily trading volume of our shares for the periods indicated, the trading volume of our shares on the Nasdaq National Market is extremely volatile and daily trading ranges from none to several thousand shares.

USD	2004 (*)	2005	2006	2007	2008
Low	8.56	19.34	19.34	30.98	9.73
High	22.45	29.79	36.20	45.65	37.25
Average Daily Volume	29,678	28,426	6,274	14,506	31,699

The offer and listing details are adjusted in accordance with the share stock in May 2007.

For the previous two full years and subsequent periods, by quarter:

2007	1st quarter	2nd quarter	3rd quarter	4th quarter
Low	30.98	34.64	33.47	34.43
High	34.75	40.00	42.89	45.65
Average Daily Volume	8,357	5,323	16,528	27,712

2008	1st quarter	2nd quarter	3rd quarter	4th quarter
Low	27.52	29.09	23.79	9.73
High	35.47	37.25	34.67	24.80
Average Daily Volume	36,103	33,400	25,266	32,599

For each of the previous six months:

	November 2008	December 2008	January 2009	February 2009	March 2009	April 2009
Low	9.73	10.06	9.96	8.95	7.75	7.79
High	17.37	12.51	12.87	12.55	9.34	9.99
Average Daily Volume	23,908	21,481	15,117	10,692	11,069	25,051

#### D. Selling Shareholders

Not Applicable.

#### E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

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ITEM ADDITIONAL INFORMATION

10.

A. Share capital.

Not Applicable.

B. Memorandum and Articles of Association.

This section summarizes the material provisions of our Articles of Association, including rights of holders of our shares. The description is only a summary and does not describe everything that our Articles of Association contain. A copy of our Articles of Association was filed with the Securities and Exchange Commission on a Form 6-K filed on April 27, 2008 as Exhibit 1.

Our Articles of Association provide that our principal objectives are

- to carry out business within shipping, chartering and other transport services;
- to make investments, including in real estate; and
- to carry on such other business as determined by the Board of Directors to be consistent with such objectives.

The Rules of Procedure that govern our Board of Directors prohibit a director from participating in the consideration of business regarding agreements in which the director is a participant or in which the director has a material interest. Any agreements between us and a director or between us and a third party in which a director has an interest must be approved by the Board of Directors. The Rules of Procedure also provide that a director shall retire at the first general meeting following the director's 70th birthday.

Our Articles of Association also contain the following provisions:

- our Board of Directors shall receive a fixed stipend, which shall be set by the Board of Directors and approved by the shareholders during the annual general meeting;
  - any dividend payable to a shareholder which remains unclaimed after five years shall accrue to us;
  - each common share shall have the right to one vote;
  - directors are elected for four-year terms, after which they are entitled to be re-elected;
  - there are no redemption rights; and
- generally, proposals to amend our Articles of Association or to dissolve or merge with another company require the approval of at least 2/3 of all votes cast at a meeting at which 3/5 of the outstanding share capital is present, unless the resolution was proposed by the Board of Directors, in which case a simple majority of the votes cast at a meeting at which a quorum consisting of 1/3 of the outstanding shares is present is required.

With regard to general and special meetings, the Articles of Association provide that:

- special meetings can be convened by the Board of Directors and the auditors at any time on at least eight days notice but cannot be more than four weeks in advance;
  - holders of at least 10% of our share capital can request special meetings by submitting a written request to the Board of Directors, which then has 14 days to convene a meeting;
- shareholders desiring to attend the general meeting must obtain an admission card from us at least four days prior to the meeting;

- admission cards will be issued to registered holders, and holders of unregistered shares who have obtained a deposit receipt issued by the depository bank (or Danish Securities Center) and a written declaration that the shares will not be transferred until after the general meeting;
- shares acquired from another shareholder will not have any voting rights unless the shares are registered or unless the holder has filed and provided proof of ownership at least one day prior to the announcement of the general meeting; and
- proposals by shareholders must be submitted in writing to the Board of Directors before February 15th in order to be considered at the annual general meeting.

## DANISH LAW CONSIDERATIONS

Under Danish law, shareholders are not permitted to approve corporate matters by written consent in lieu of general or special meetings. All shareholders have access to corporate records filed by each company with the Danish Commerce and Companies Agency. These corporate records include the articles of association and the annual accounts/financial statements. Each company is also required to keep a share register, but shareholders do not have access to it.

Danish law permits companies to adopt cumulative voting provisions and staggered terms for our board of directors, but we have not adopted such provisions. Danish law also prohibits companies from adopting "poison pill" measures that could prevent a takeover attempt by discriminating against a shareholder or a group of shareholders.

### C. Material contracts.

The following is a summary of our material contracts. This summary is qualified in its entirety by reference to the full text of the actual documents, which govern the transactions we describe.

## NEWBUILDING CONTRACTS

As per April 30, 2009, We have entered into four contracts with Tsuneishi Zhoushan Shipyard, China, each for the construction of a Kamsarmax 82,100 dwt bulk carrier. Delivery of the bulk carriers is scheduled between December 2010 and May 2011. We have entered into 14 contracts with Guangzhou Shipyard, China, each for the construction of a Handymax 50,500 to 52,500 dwt product tanker, which are scheduled for delivery between June 2009 and September 2012.

## LOAN AGREEMENTS AND CREDIT FACILITIES

On December 10, 2004, the Company has entered into a USD 570.0 million revolving credit facility with Danske Bank A/S and Danish Ship Finance to assist in the financing of 20 vessels in the TORM fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted to Danske Bank and Danish Ship Finance a first priority mortgage, registered over and against the 20 vessels. The loan is due to be repaid in 2014. Since April 2008 Danish Ship Finance has been the single mortgagee of this credit facility.

On March 1, 2005, the Company entered into a USD 161.3 million revolving credit facility with Import Export Bank of China to assist in the financing of five newbuildings. The interest rate is fixed based upon CIRR-rate. As security for our obligations under the debt instrument, we have granted to Nordea Bank Denmark and DVB Bank, who act as guarantors towards Import Export Bank of China for us, a first priority mortgage, registered over and against the five vessels. The loan is due to be repaid in 2013.

On December 23, 2005, TORM Singapore Pte. Ltd., a company wholly owned by TORM, entered into a USD 237.0 million loan agreement with The Hong Kong And Shanghai Banking Corporation Limited to assist in the financing of seven vessels in the TORM fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted to The Hong Kong And Shanghai Banking Corporation Limited a first priority mortgage, registered over and against the seven vessels. The loan is due to be repaid in 2015.

On April 20, 2006, the Company entered into a USD 99.2 million revolving credit facility with Danske Bank A/S to assist in the financing of 2 vessels in the TORM fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted to Danske Bank a first priority mortgage, registered over and against the 2 vessels. The loan has been repaid in May 2009.

On December 22, 2006, the Company entered into a USD 500.0 million revolving credit facility with Nordea Bank Danmark A/S, Deutsche Bank AG, HSH Nordbank AG and Handelsbanken to assist in the financing of future vessels. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted a first priority mortgage, registered over and against the relevant vessels. The loan is due to be repaid in 2016.

On April 17, 2007, the Company entered into a USD 700.0 million credit agreement with Danske Bank A/S and HSH Nordbank AG to enable the Company to jointly acquire OMI Corporation, a tanker corporation, in collaboration with Teekay Shipping Corporation. This credit agreement was repaid at April 25, 2008.

On April 8, 2008, TORM Singapore Pte. Ltd., a company wholly owned by TORM, entered into a USD 150.0 million loan agreement with DBS Bank Ltd and Bayerische Hypo- und Vereinsbank AG to assist in the financing of three vessels in the TORM fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted a first priority mortgage, registered over and against the three vessels. The loan is due to be repaid in 2013.

On April 14, 2008, the Company entered into a USD 900.0 million revolving credit facility with Danske Bank A/S, HSH Nordbank AG, BNP Paribas and Skandinaviska Enskilda Banken AB to assist in the financing of vessels previously owned by OMI and of future vessels. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted a first priority mortgage, registered over and against the relevant vessels. The loan is due to be repaid in 2013.

D. Exchange controls.

None.

E. Taxation.

The following discussion is a summary of the material Danish and U.S. federal income tax considerations relevant to an investment decision by a U.S. Holder and a Non-U.S. Holder, as defined below, in our American Depository Shares, or ADSs, as evidenced by American Depository Receipts, or ADRs. This discussion does not purport to deal with the tax consequences of owning ADSs to all categories of investors, some of which, such as dealers in securities and investors whose functional currency is not the U.S. dollar, may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of ADSs.

#### DANISH TAX CONSIDERATIONS

Under Danish law, dividends paid in respect of shares are subject to Danish withholding tax at the rate of 28%, without regard to the residency of the shareholders. Non-residents of Denmark do not have to pay additional Danish income tax on the dividends, unless their shares are held in connection with a trade or business conducted from a permanent establishment in Denmark.



Non-resident shareholders may be eligible for a refund of part of the withholding tax where the shareholders are entitled to, and comply with procedures for claiming benefits under an income tax convention. Eligible shareholders who comply with certain certification procedures may claim a refund from the Danish tax authorities, which will reduce the effective withholding tax rate, normally to 15%. The claim for a refund must be certified by the holder's local tax authorities on forms prepared by the Danish tax authorities, which are then submitted to the Danish tax authorities.

No withholding tax is levied on dividends paid to a corporation which holds at least 10% of a company's shares, provided that the shareholder company (i) has held those shares for a minimum of one year during the time in which the dividends were paid (the one-year period could be met retrospectively) and (ii) is a resident in another EU country or in a country with which Denmark has entered into a taxation treaty which eliminates or reduces the withholding tax on dividends. However, according to Danish anti-avoidance rules, withholding tax may apply where Danish corporate shareholders have an intermediate company to avoid withholding tax.

Under the current income tax convention between Denmark and the United States, dividends on shares beneficially owned by U.S. holders who are eligible for treaty benefits are subject to an effective Danish withholding tax at the rate of 15%. The withholding tax rate is, according to Danish law, reduced to 0% if the beneficial owner of the dividends is a U.S. company, which holds directly at least 10% of the share capital of the company paying the dividends in a consecutive period of one year, during which the dividend is declared.

Denmark has entered into tax conventions reducing the withholding tax to the applicable convention rate for individual residents of the United States, Canada, Germany, Belgium, Luxembourg, Norway, Sweden, Ireland, Switzerland, Greece, The Netherlands and the United Kingdom. The regime does not entitle the investor to a lower withholding tax rate than the rate applicable according to the double taxation treaty, but reduces the withholding tax rate from the normal rate of 25% to the withholding tax rate that applies according to the relevant double taxation treaty.

In order to receive benefits under the regime mentioned in the preceding paragraph, a U.S. investor must deposit his shares with a Danish bank. An agreement on the deposit of shares must be made with the Danish bank in question.

Further, the U.S. investor must obtain a certificate of residential address and tax liability from the tax authorities in the U.S. and file it with the Danish account holding bank through which the U.S. investor holds his shares.

#### Danish Tonnage Taxation Scheme

On February 6, 2002, the Danish Government proposed a bill regarding Tonnage Taxation, which was enacted on April 18, 2002. According to the new Tonnage Taxation Act, taxable income will no longer be calculated as the difference between taxable income and deductible expenses as under the normal corporate taxation. Instead, taxable income is calculated with reference to the tonnage used by the Company during the year. The legislation was implemented retroactively from January 1, 2001 and in connection with the submission of tax return for 2001 the Company decided to enter the tonnage taxation scheme with effect from January 1, 2001.

The election is binding for a ten-year period and, accordingly, we will be covered by the tonnage tax system until 2010. A re-election of a new tonnage tax period (2011 – 2021) shall be made no later than 31 December 2010. If the tonnage tax regime is not re-elected it will not be possible to elect the tonnage tax regime before 2022.

Taxable income under the tonnage tax system is calculated using fixed rates per 100 net tons per day for the vessels. When calculating taxable income according to the tonnage tax system, no deductions or depreciation charges are allowed.

It is no longer uncertain whether activities in relation to management of pools of vessels owned by other shipping companies can or cannot be taxed according to the tonnage tax system, as EU has not approved that fees received for pool management are eligible for tonnage taxation. Such activities will be taxed in accordance with the ordinary Danish corporate tax legislation. Special rules apply in relation to the treatment of financial income/expenses.



The taxable income for a Company for a given period is calculated as the sum of the taxable income under the tonnage tax system and the taxable income made up in accordance with to the ordinary Danish corporate tax system. The taxable income is taxed at the normal corporate tax rate (presently 25%). The taxable income may be offset by tax losses carried forward following the normal Danish Tax rules.

Capital gains in connection with the sale of vessels – calculated for each vessel as the difference between the sales price and the acquisition price plus expenses incurred for improvement of the vessel – are tax exempt. Capital gains in connection with the sale of vessels acquired prior to January 1, 2007 are taxed in accordance with the normal tax legislation.

Generally, recaptured depreciation should be taken into income. However, such taxation may be deferred if new vessels are contracted within certain time limits.

In this respect, when converting to the tonnage tax system, the existing vessels are transferred to a transition account at their tax value. Any costs relating to improvements of these vessels are added to this account. Vessels acquired after transferring (January 1, 2001) to the tonnage tax system are booked on a special netting account. Costs relating to improvement of these vessels are added to the netting account. If a vessel is sold, the smaller amount of the sales price and the actual acquisition price plus expenses for improvements shall reduce the transition account (if the ships were acquired prior to entering the tonnage tax system) or netting account (if the ships were acquired after entering the tonnage tax system).

The transition and netting accounts are reduced annually by a depreciation rate of 12%. If the transition account is negative and at the same time the netting account is positive, the reduction is made on the basis of the net amount.

If the shipping company's transition account becomes negative, the negative amount shall be included in the taxable income unless the negative amount is fully or partially neutralized by a positive amount on the netting account plus contracted newbuild tonnage which shall be delivered within a maximum of three years.

In accordance with Danish accounting principles, the provision for deferred tax that existed at the date of enactment was released to income in 2002, which was in accordance with shipping industry practice in Denmark. However, TORM changed its accounting policies in 2005 to comply with IFRS and in order to align the accounting under IFRS deferred tax assets and liabilities are recorded in the balance sheet. As at December 31, 2008, the Company carried a deferred tax liability of USD 55.1 million in the balance sheet. In 2008, the Company paid income taxes, including tonnage tax, of USD 4.2 million. The tonnage tax legislation is relatively new, and the guidance from the authorities is not detailed in every aspect. Accordingly, in connection with the preparation of our tax returns for 2001 to 2007, we made interpretations of the new tonnage tax legislation some of which have been challenged by the tax authorities. We agree in part to some of the alternative interpretations presented by the tax authorities whereas we do not agree to other of the alternative interpretations presented. The differences in interpretation primarily relate to whether certain income and expense items are taxable under the tonnage taxation scheme or the ordinary Danish corporate tax legislation. The tax authorities have concluded their assessment of the tax returns for 2001 to 2004 and proposed changes to the tax return for 2005. The assessments for 2006 to 2007 have not been completed. However, we have filed a complaint regarding the assessments for 2001 to 2004.

## U.S. FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Seward & Kissel LLP, our U.S. counsel, the following are the material U.S. federal income tax consequences to us and to U.S. Holders and Non-U.S. Holders, each as defined below, regarding our ADSs. The following discussion of U.S. federal income tax matters is based on the Internal Revenue Code of 1986, as amended, which we refer to as the "Code," judicial decisions, administrative pronouncements, and existing and proposed

regulations issued by the U.S. Department of the Treasury, all as they exist on the date hereof and all of which are subject to change, possibly with retroactive effect. In addition, the discussion is based, in part, on the description of our business as described above and assumes that we conduct our business as described in that section.

References in the following discussion to "we," "us" and "our" are to TORM A/S ("TORM") and its subsidiaries on a consolidated basis. For purposes of the discussion below, the U.S. Holders and Non-U.S. Holders of ADSs generally will be treated as the owners of the common stock of TORM represented by the ADSs. In the following discussion, the United States Internal Revenue Service is referred to as the "IRS."

#### United States Taxation Of Our Company

We anticipate that substantially all of our gross income will be derived from the use and operation of vessels in international commerce and that this income will principally consist of freights from the transportation of cargoes, hire or lease income from voyage, time or bareboat charters and the performance of services directly related thereto, which we refer to as "shipping income." Unless exempt from U.S. taxation under Section 883 of the Code or under Article 8 of the United States-Denmark Income Tax Treaty, we will be subject to U.S. federal income taxation, in the manner discussed below, to the extent our shipping income is considered for U.S. federal income tax purposes to be derived from sources within the United States.

Shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be considered for such tax purposes to be 50% derived from sources within the United States. Shipping income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. We are not permitted by law to engage in transportation that gives rise to 100% U.S. source income.

Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to any U.S. federal income tax.

#### Code Section 883 Exemption

Under Code Section 883 and the final regulations promulgated thereunder, TORM and each subsidiary that derives U.S. source shipping income will qualify for exemption from U.S. federal income tax under Section 883 in respect of such shipping income if, in relevant part:

- TORM and each subsidiary is organized in a qualified foreign country which, as defined, is a foreign country that grants an equivalent exemption from tax to corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883, which we refer to as the "country of organization requirement"; and
- more than 50% of the value of the stock of TORM and each subsidiary is treated as owned, directly or indirectly, by individuals who are "residents" of qualified foreign countries, which we refer to as the "ownership requirement."

Since the U.S. Treasury Department has recognized Denmark, the country of incorporation of TORM, and each of the countries of incorporation of TORM's subsidiaries as a qualified foreign country in respect of the shipping income for which exemption is being claimed under Section 883, TORM and each subsidiary satisfy the country of organization requirement.

In respect of the ownership requirement, Section 883 provides a special publicly-traded rule applicable to both TORM and its subsidiaries. In the case of TORM, it will be exempted from having to satisfy the ownership requirement if its stock is considered to be "primarily and regularly traded on an established securities market" located in its country of organization, Denmark, in another qualified foreign country or in the United States, which we refer to as the "publicly-traded test." Furthermore, if TORM satisfies the publicly traded test, the stock of TORM's subsidiaries will

be deemed to be owned by individual residents of Denmark and each of the subsidiaries will satisfy the ownership requirement.

The final regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be "primarily traded" on an established securities market if the number of shares that are traded during any taxable year on that market exceeds the number of shares traded during that year on any other established securities market.

At present, the sole class of TORM's stock that is issued and outstanding is its common stock, which is listed on the Copenhagen Stock Exchange, an established securities market in Denmark. TORM's common stock as represented by its ADSs (each representing one share of common stock) is also listed on the NASDAQ National Market (NASDAQ), which is an established securities market in the United States. However, since TORM's common stock as represented by ADSs began trading on the NASDAQ on April 17, 2002, the trading activity has represented less than 10% of the common shares traded on the Copenhagen Stock Exchange. For the foreseeable future, TORM has no reason to expect that more common shares will not continue to be traded on the Copenhagen Stock Exchange than on the NASDAQ and therefore, the analysis below proceeds on the premise that its common shares are "primarily traded" on the Copenhagen Stock Exchange.

Under the final regulations, TORM's common stock further provide that stock will be considered to be "regularly traded" on an established securities market if (i) more than 50% of the common stock is listed on such market and is traded on such market, other than in de minimis quantities, on at least 60 days during the taxable year and (ii) the aggregate number of shares of such stock traded on such market is at least 10% of the average number of shares of such stock outstanding during such year.

For 2008, TORM's common stock satisfied these "regularly-traded" tests. Furthermore, TORM has no reason to believe that this will not continue to be the case notwithstanding the ADS listing on the NASDAQ.

Notwithstanding the foregoing, the final regulations provide, in pertinent part, that TORM's common stock will not be considered to be regularly traded on an established securities market for any taxable year in which 50% or more of the outstanding shares of such stock are owned, within the meaning of the final regulations, on more than half the days during such taxable year by persons who each own 5% or more of the outstanding shares of such stock, which we refer to as the "5% override rule."

In the event the 5% override rule is triggered based on its "more than half the days" standard, the final regulations provide that the 5% override rule will not apply for such year if we can establish that among the closely-held group of 5% shareholders, which we refer to as the "5% closely-held group," there are sufficient 5% shareholders that are considered to be qualified shareholders for purposes of Section 883 to preclude non-qualified 5% shareholders in the 5% closely-held group from owning 50% or more of our stock for more than half the number of days during such year, which we refer to as the "5% closely-held group exception."

Based on its shareholdings during 2008, TORM believed it was subject to the 5% override rule of the final regulations. However, to the extent the override rule applies TORM intends to obtain from one of its 5% shareholders, and from each entity in the chain of ownership between such shareholder and TORM, ownership statements required by the final regulations to support such shareholder's status as a qualified shareholder for more than half the days of the calendar year 2008. If this ownership statement is obtained, TORM will be able to establish that the percentage ownership of TORM common shares owned by such 5% qualified shareholder for such period is such that the common share percentage owned by the remaining shareholders in the 5% closely-held group for such period falls below the 50% ownership threshold. As a result, TORM would therefore qualify for the 5% closely-held exception. However, as of the date of this filing, TORM has not obtained this ownership statement and there is no certainty that TORM will be able to do so.

If the above ownership statement is obtained, both TORM and each subsidiary will be eligible to claim exemption from tax under Section 883 on their U.S. source shipping income earned during 2008. However, if TORM is unable to obtain ownership statements from its 5% shareholders to establish that TORM and each subsidiary are not subject to the 5% override rule for 2008, then TORM and certain of its subsidiaries may not qualify for exemption under Section 883 and could be subject to United States federal income tax on their U.S. source shipping income unless they qualify for the benefits of the Treaty as described in more detail below.



The United States-Denmark Income Tax Treaty Exemption

Without regard to Section 883, we believe that TORM and each Danish subsidiary would qualify for exemption from U.S. federal income tax under Article 8 of the United States-Denmark Income Tax Treaty, which we refer to as the "Treaty." TORM's non-Danish subsidiaries that earn U.S. source shipping income do not qualify for the benefits of the Treaty. Torm Singapore executed an election to be treated as a disregarded entity in United States effective January 1, 2008, and is not filing any income tax return in United States.

Under Article 8 of the Treaty, TORM and each of its Danish subsidiaries and each of its non-Danish subsidiaries that is treated as a "resident" of Denmark within the meaning of the Treaty (collectively, "Danish subsidiaries") is exempt from U.S. federal income tax on the profits derived from the operation of ships in international traffic. As defined, profits from the "operation of ships" include profits derived from (i) time or voyage charters, (ii) the inland transport of property within the United States undertaken as part of international traffic, (iii) bareboat charters if the lessee operates the vessel in international traffic and (iv) the use, maintenance or rental of containers used in international traffic. All of the U.S. source shipping income of TORM and its Danish subsidiaries falls within the scope of the exemption provided by Article 8.

The Treaty conditions the eligibility of TORM and its Danish subsidiaries to claim exemption under Article 8 upon, among other things, TORM satisfying the publicly traded rule of the "treaty shopping" provisions of Article 22 (Limitation Of Benefits) of the Treaty.

The publicly traded rule provides that a Danish corporation such as TORM, as well as its Danish subsidiaries, will be entitled to the benefits of the Treaty if all of TORM's shares in the class or classes of stock representing more than 50% of the vote and value of its stock, which we refer to as the "50% vote/value test," are listed on a "recognized stock exchange" and are "substantially and regularly traded" on one or more recognized stock exchanges, which we refer to as the "substantially and regularly traded test." The term "recognized stock exchange" includes the Copenhagen Stock Exchange and the NASDAQ. The shares in a class of stock are considered to be "substantially and regularly traded" if (i) trades in such class are effected on one or more recognized stock exchanges other than in de minimis quantities during every quarter, and (ii) the aggregate number of shares of that class traded during the previous taxable year is at least 6% of the average number of shares outstanding in that class during that taxable year.

TORM's common stock is currently listed on a recognized stock exchange within the meaning of the Treaty (the Copenhagen Stock Exchange). Since the common stock is TORM's sole class of stock, the 50% vote/value test is satisfied. Based on their recent trading history on the Copenhagen Stock Exchange over the past two years, the common shares of TORM also satisfy the substantially and regularly traded test of the Treaty and therefore TORM currently satisfies the publicly traded rule of Article 22 of the Treaty. Although we cannot give any assurances, we have every expectation that the trading volume and trading frequency of TORM's common shares on the Copenhagen Stock Exchange will continue to match or exceed the recent trading history of TORM's common shares on the Copenhagen Stock Exchange.

#### Taxation in Absence of Internal Revenue Code Section 883 Exemption or Treaty Exemption

**4% Gross Basis Tax Regime.** To the extent the benefits of Section 883 or the Treaty are unavailable, the U.S. source shipping income of TORM and its subsidiaries which is not considered to be "effectively connected" with the conduct of a U.S. trade or business as discussed below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without benefit of deductions. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as derived from U.S. sources, the maximum effective rate of U.S. federal income tax on our shipping income should never exceed 2% under the 4% gross basis tax regime.

**Net Basis and Branch Tax Regime.** To the extent the benefits of the Section 883 exemption or the Treaty are unavailable and the U.S. source shipping income of TORM and its subsidiaries is considered to be "effectively connected" with the conduct of a U.S. trade or business, as discussed below, any such "effectively connected" U.S. source shipping income, net of applicable deductions, would be subject to the U.S. federal corporate income tax currently imposed at graduated rates of up to 35%. In addition, TORM and its subsidiaries may be subject to the 30% "branch-level" taxes (or such lesser tax as provided by an applicable income tax treaty) on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of their U.S. trade or business.

The U.S. source shipping income of TORM or any subsidiary will be considered "effectively connected" with the conduct of a U.S. trade or business only if:

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- TORM or such subsidiary has, or is considered to have, a fixed place of business in the United States involved in the earning of shipping income; and
- substantially all of the U.S. source shipping income of TORM or such subsidiary is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

We do not intend to have, or permit circumstances that would result in having, substantially all of the U.S. source shipping income of TORM or its subsidiaries attributable to regularly scheduled transportation. Based on the foregoing and on the expected mode of our shipping operations, we believe that none of the U.S. source shipping income of TORM or any subsidiary will be "effectively connected" with the conduct of a U.S. trade or business.

**Gain on Sale of Vessels.** To the extent any of our vessels makes more than an occasional voyage to U.S. ports, TORM or its subsidiaries may be considered for United States federal income tax purposes to be engaged in the conduct of a United States trade or business. As a result, except to the extent the gain on the sale of a vessel is incidental to the Shipping Income of TORM or its subsidiaries that is exempt under either Section 883 or the Treaty, any U.S. source gain derived by TORM or its subsidiaries on the sale of a vessel may be partly or wholly subject to United States federal income tax as "effectively connected" income (determined under rules different from those discussed above) under the net basis and branch tax regime described above. However, we intend to structure sales of our vessels in such a manner, including effecting the sale and delivery of vessels outside of the United States, so as to not give rise to U.S. source gain.

**State and Local Taxation.** TORM, because of its presence in United States in the State of Connecticut, has filed a Connecticut state income tax return for the year 2007 and paid a tax of USD 1,292.

#### Taxation of U.S. Holders

As used herein, the term "U.S. Holder" means a beneficial owner of an ADS that (i) is a U.S. citizen or resident, a United States corporation or other United States entity taxable as a corporation, an estate, the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust and (ii) owns the ADSs as a capital asset, generally, for investment purposes.

If a partnership holds our ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our ADSs, you are encouraged to consult your own tax advisor on this issue.

**Distributions.** Subject to the discussion of passive foreign investment companies below, any distributions made by the ADS depository agent, or depository, with respect to our ADSs to a U.S. Holder will generally constitute dividends to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

Dividends paid with respect to our ADSs to a non-corporate U.S. Holder (a "U.S. Individual Holder") may be eligible for preferential U.S. federal income tax rates (through 2010) provided that (1) we are a "qualified foreign corporation," (2) the U.S. Individual Holder has owned our stock for more than 60 days in the 121-day period beginning 60 days before the date on which our stock becomes ex-dividend and (3) we are not a passive foreign investment company for the taxable year of the dividend or the immediately preceding taxable year (which we do not believe we are, have been or will be). The preferential tax rates apply only to U.S. Holders that are individuals, trusts or estates.

We will be treated as a "qualified foreign corporation" if either (1) our ADSs are readily tradable on an established securities market in the United States or (2) we are eligible for the benefits of a satisfactory (in the judgment of the U.S. Treasury Secretary) comprehensive income tax treaty between the United States and a foreign country which includes an exchange of information program.

Our ADSs will qualify as readily tradable on an established securities market because they are listed on the NASDAQ national market, which has been designated by the IRS as so qualifying. Alternatively, as discussed above, we are eligible for the benefits of the Treaty and the IRS has issued guidance that the Treaty is satisfactory for this purpose. Therefore, we believe that any dividends paid by us on our ADSs should be eligible for these preferential rates in the hands of a U.S. Individual Holder. However, certain limitations may apply to any "extraordinary dividends" paid by us. Any dividends paid by us which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Holder.

Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in his ADSs on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividend received deduction with respect to any distributions they receive from us. Dividends paid with respect to the underlying common stock of each ADS will generally be treated as "passive category income" or, in the case of certain types of U.S. Holders, "general category income," for purposes of computing allowable foreign tax credits for U.S. foreign tax credit purposes.

Sale, Exchange or other Disposition of ADSs. Subject to the discussion of passive foreign investment companies below, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our ADSs in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's adjusted tax basis in the ADSs. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period in the ADSs is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S.-source income or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

#### Passive Foreign Investment Company Status and Significant Tax Consequences

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company for U.S. federal income tax purposes. In general, we will be treated as a passive foreign investment company with respect to a U.S. Holder of our ADSs if, for any taxable year in which such holder held our ADSs, either:

- at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), or
- at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, passive income.

Based on our current operations and future projections, we do not believe that we are, nor do we expect to become, a passive foreign investment company with respect to any taxable year. Although there is no legal authority directly on point, our belief is based principally on the position that, for purposes of determining whether we are a passive foreign investment company, the gross income we derive or are deemed to derive from the time chartering and voyage chartering activities of our wholly-owned subsidiaries should constitute active income from the performance of services rather than passive, rental income. Correspondingly, such income should not constitute passive income, and the assets that we or our wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, should not constitute passive assets for purposes of determining whether we were a passive foreign investment company. We believe there is substantial legal authority supporting our position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. In the absence of any legal

authority specifically relating to the statutory provisions governing passive foreign investment companies, the IRS or a court could disagree with our position. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a passive foreign investment company with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a passive foreign investment company for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a "Qualified Electing Fund," which election we refer to as a QEF election. As an alternative to making a QEF election, a U.S. Holder should be able to make a "mark-to-market" election with respect to our ADSs, as discussed below.

If we were to be treated as a passive foreign investment company for any taxable year, a U.S. Holder would also be subject to special U.S. federal income tax rules in respect of such U.S. Holder's indirect interest in any of our subsidiaries that are also treated as passive foreign investment companies. Such a U.S. Holder would be permitted to make a QEF election in respect of any such subsidiary, so long as we timely provided the information necessary to such election, which we currently intend to do in such circumstances, but such a U.S. Holder would not be permitted to make a mark-to-market election in respect of such U.S. Holder's indirect interest in any such subsidiary. The application of the passive foreign investment company rules is complicated and U.S. Holders are encouraged to consult with their tax advisors regarding the application of such rules in their circumstances.

#### Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF election, which U.S. Holder we refer to as an Electing Holder, the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder's adjusted tax basis in the ADSs will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the ADSs and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our ADSs. A U.S. Holder would make a QEF election with respect to any year that our company is a passive foreign investment company by filing Internal Revenue Service Form 8621 with his U.S. federal income tax return. If we were aware that we were to be treated as a passive foreign investment company for any taxable year, we would provide each U.S. Holder with all necessary information in order to make the QEF election described above. A U.S. Holder who is treated as constructively owning shares in any of our subsidiaries which are treated as passive foreign investment companies would be required to make a separate QEF election with respect to each such subsidiary.

#### Taxation of U.S. Holders Making a "Mark-to-Market" Election

Alternatively, if we were to be treated as a passive foreign investment company for any taxable year and our ADSs is treated as "marketable stock," as we believe is the case, a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our ADSs, provided the U.S. Holder completes and files Internal Revenue Service Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the ADSs at the end of the taxable year over such holder's adjusted tax basis in the ADSs. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the ADSs over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in his ADSs would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our ADSs would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the ADSs would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder. A mark-to-market election would likely not be available for any of our subsidiaries that are treated as passive foreign investment companies.

#### Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election

Finally, if we were to be treated as a passive foreign investment company for any taxable year, a U.S. Holder who does not make either a QEF election or a "mark-to-market" election for that year, whom we refer to as a Non-Electing Holder, would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our ADSs in a taxable year in excess of 125% of the average



annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the ADSs), and (2) any gain realized on the sale, exchange or other disposition of our ADSs. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holders' aggregate holding period for the ADSs;
- the amount allocated to the current taxable year and any taxable year before we became a passive foreign investment company would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our ADSs. If a Non-Electing Holder who is an individual dies while owning our ADSs, such holder's successor generally would not receive a step-up in tax basis with respect to such stock.

#### U.S. Taxation of "Non-U.S. Holders"

A beneficial owner of an ADS that is not a U.S. Holder is referred to herein as a "Non-U.S. Holder."

**Distributions.** Non-U.S. Holders generally will not be subject to U.S. federal income tax or withholding tax on dividends received from us with respect to our ADSs, unless the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States or, if the Non-U.S. Holder is entitled to the benefits of an income tax treaty with respect to those dividends, those dividends are attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States.

**Sale, Exchange or Other Disposition of ADSs.** Non-U.S. Holders generally will not be subject to U.S. federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our ADSs unless: (i) the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States or, if the Non-U.S. Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or (ii) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-U.S. Holder is engaged in a U.S. trade or business for U.S. federal income tax purposes, the income from the ADSs, including dividends on the underlying common stock and the gain from the sale, exchange or other disposition of such stock that is effectively connected with the conduct of that trade or business, will generally be subject to regular U.S. federal income tax in the same manner as discussed in the previous section relating to the taxation of U.S. Holders. In addition, if you are a corporate Non-U.S. Holder, your earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate specified by an applicable income tax treaty.

#### Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements. In addition, such payments will be subject to "backup withholding" if you are a non-corporate U.S. Holder and you:

- fail to provide an accurate taxpayer identification number;

- are notified by the IRS that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or
  - in certain circumstances, fail to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If you sell your ADSs to or through a U.S. office or broker, the payment of the proceeds is subject to both U.S. backup withholding and information reporting unless you certify that you are a non-U.S. person, under penalties of perjury, or you otherwise establish an exemption. If you sell your ADSs through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States then information reporting and backup withholding generally will not apply to that payment. However, U.S. information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, including a payment made to you outside the United States, if you sell your ADSs through a non-U.S. office of a broker that is a U.S. person or has some other contacts with the United States.

Backup withholding is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

F. Dividends and paying agents.

Not Applicable.

G. Statement by experts.

Not Applicable.

H. Documents on display.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements we file and submit reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of these materials can also be obtained upon written request from the Public Reference Section of the SEC at its principal office in Washington, D.C. 20549, at prescribed rates or from the SEC's website on the Internet at <http://www.sec.gov>, free of charge. Please call the SEC at 1-800-SEC-0330 for further information on public reference rooms. In addition, documents referred to in this annual report may be inspected at our headquarters at 18 Tuborg Havnevej, DK-2900 Hellerup, Denmark.

I. Subsidiary Information

Not Applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from foreign currency fluctuations, changes in interest rates, changes in the prices of fuel oil and changes in freight rates. The Company sets up all bunker hedging, and indeed any other form of hedging, entirely on the basis of the specific market hedging requirements. In general, hedge accounting is applied systematically and is based upon policies.

The sensitivity analyses in Note 24 in our consolidated financial statements shows the profit and loss impact for hypothetical changes in, respectively, foreign currency exchange rate, interest rates, bunker prices and freight rates. This method of analysis should not be considered a projection of likely future events and profits or losses. Actual results and market conditions in the future may be materially different from those projected and changes in the

instruments held and in the financial and commercial markets in which we operate could cause losses to exceed the amounts projected.

On a limited scale and within the boundaries set out by the Board of Directors, the Company from time to time enters into FFA and bunker contracts as a supplement to the physical position in vessels.

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The sensitivity analyses presented in Note 24 in our consolidated financial statements do not consider the effects that such adverse change may have on overall economic activity, nor do they consider additional actions management may take to mitigate its exposure to such changes. Actual results may differ. For an overview of the fair value of the derivative financial instruments please refer to Note 23.

#### Foreign Exchange Rate Risk

As TORM uses USD as presentational currency and most of the Company's transactions are denominated in USD, TORM only has limited transaction risk, which primarily relates to costs in DKK.

Exchange rate risks are assessed in relation to the USD, and the Company's policy is to minimize the impact of exchange rate fluctuations on the financial statements and on the financial position of the Company, typically by entering into forward contracts.

The expected cash flow in relation to the payment of technical expenses in non-USD related currencies, salaries, wages and other administrative expenses and dividends are typically hedged for a period of up to twelve months ahead.

In order to manage this risk, we enter into forward contracts and currency options. Please refer to Note 24 in our consolidated financial statements for information relating to contracts entered into.

#### Interest Rate Risk

TORM's interest rate risk generally relates to its interest-bearing mortgage debt. All the Company's loans for financing vessels are denominated in USD, and most carry variable interest.

In certain cases, the Company utilizes financial instruments to manage the effects of interest rate changes on earnings and cash resources. The Company typically uses interest rate swaps, which are entered into for periods of up to five years, although typically for two to three years when acceptable interest rate levels can be obtained. For shorter interest rate hedging, the Company from time to time uses FRAs.

The profile of the instruments always matches the profile of the particular loan in question. When assessing interest rate risk hedging for its loan portfolio, TORM takes into consideration expected interest rate developments and future changes to the composition of the fleet in order to meet ongoing and future market expectations and requirements.

Please refer to Note 24 in our consolidated financial statements for information relating to contracts entered into.

#### Bunker Price Risk

The Company's operating result is affected by movement in the price of fuel oil consumed by the vessels – known in the industry as bunkers. To cover this risk, the Company hedges the price of part of its bunker requirements for a period of up to 12 months forward. TORM has during 2006 started to apply hedge accounting to certain bunker hedges.

In light of the Company's pool arrangements, bunker requirements of tankers are not hedged individually in respect of cargo contracts or other forms of bunker hedging. Instead, bunker hedging is planned taking into account the specific pool's total estimated bunker requirements. Nonetheless, where a contract of affreightment covering several voyages has been fixed, the pool may hedge bunker requirements specifically for such a contract.

For bulk carriers, the bunker requirements are similarly hedged to match cargo contract commitments, but the requirements are generally less, given that a larger part of earnings derive from vessels chartered out on time charter, where the charterer is responsible for the payment of bunkers.

Please refer to Note 24 in our consolidated financial statements for information relating to contracts entered into.

#### Freight Rate Risk

The majority of our tanker vessels are operated on spot voyage charters through our pools. To manage our exposure to fluctuations in the freight rates we may place certain of the pool's vessels on time charter or enter into Contracts of Affreightment (COA) or freight derivatives (FFA, synthetic T/C, profit split etc.). Our bulk vessels are primarily placed on time charters.

Please refer to Note 24 in our consolidated financial statements for information relating to contracts entered into.

#### ITEM DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.

Not Applicable.

### Part II

#### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Neither we nor any of our subsidiaries have been subject to a material default in the payment of principal, interest, a sinking fund or purchase fund installment or any other material default that was not cured within 30 days. In addition, the payment of our dividends are not, and have not been, in arrears or have not been subject to a material delinquency that was not cured within 30 days.

#### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF ROCEEDS

None.

#### ITEM 15. CONTROLS AND PROCEDURES

##### a) Disclosure Controls and Procedures.

As of December 31, 2008, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the report it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC rules and forms, and to ensure that information required to be disclosed by the Company in the report it files or submits under the Exchange Act is accumulated and communicated to the Company's management including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

##### b) Report of TORM Management on Internal Control Over Financial Reporting



TORM's Management is responsible for establishing and maintaining adequate internal control over financial reporting. The TORM Group's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements.

All internal control systems no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TORM's Management assessed the effectiveness of the Group's internal control over financial reporting as of December 31, 2008. In making this assessment, they used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and criteria, Management has concluded that, as of December 31, 2008, TORM Group's internal control over financial reporting is effective based on those criteria.

The effectiveness of internal control over financial reporting as of December 31, 2008 has been audited by Deloitte, Statsautoriseret Revisionsaktieselskab, Denmark, an independent registered public accounting firm, as stated in their report which is included in exhibit F2.

(c) Attestation report of the registered public accounting firm.

Report of the independent registered public accounting firm

To the shareholders of TORM A/S

We have audited the internal control over financial reporting of TORM A/S and subsidiaries (the "Company") as at 31 December 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December, 2008, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended 31 December, 2008 of the Company and our report dated 25 June 2009 expressed an unqualified opinion on those consolidated financial statements.

Deloitte Statsautoriseret Revisionsaktieselskab

Copenhagen, Denmark

June 25, 2009

Deloitte Statsautoriseret Revisionsaktieselskab

d) Changes in internal control over financial reporting.

There have been no significant changes in our internal controls or in other factors that could have significantly affected those controls in the current period, including any corrective actions with regard to significant deficiencies and material weaknesses.

#### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

We have established an audit committee of the board of directors comprised of two independent members. In May 2009, the Board decided to expand the audit committee to comprise three independent members. The Board of directors has determined that Mr. Jesper Jarlbæk, an individual serving on the audit committee of our Board of directors since 18 May 2009, is an audit committee financial expert and is independent as defined in Item 16A of Form 20-F under the Securities Exchange Act of 1934, as amended.

#### ITEM 16B. CODE OF ETHICS

During 2008 TORM established a Code of Ethics, or the Code, that applies to all of the Company's executive officers, including principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of our code of ethics has been filed as an exhibit to this report.

The Code will be revised and updated as needed, reflecting changes in personnel policies, business and regulations.

#### ITEM 16C. PRINCIPAL ACCOUNTING FEES AND SERVICES

Deloitte Statsautoriseret Revisionsaktieselskab, Copenhagen, Denmark is the independent accounting firm that audits the financial statements of the Company and its subsidiaries and is the principal accountant for the audit of the Company.

The aggregate fee for audit and audit services provided by Deloitte to the Company in 2008 and 2007 were:

(in USD million)	2008	2007
Audit Fees	0.6	0.6
Audit-Related Fees	0.2	0.2
Tax Fees	0.2	0.0
All Other Fees	0.3	0.1
Total	1.3	0.9

Audit Fees consist of fees for the audit of our financial statements, consents, and review of documents in connection with filings with the SEC and other statutory or regulatory filings. Audit-Related Fees consist of fees, other than Audit Fees, for assurances and related services that are reasonably related to the performance of the audit and review of our financial statements. Tax Fees consist of fees for services rendered for tax compliance, tax advice and tax planning. All Other Fees consist of fees for all services other than audit, audit-related or tax-related services.

Our Audit Committee pre-approves all audit, audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees prior to the engagement of the independent auditor with respect to such services.

#### ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

#### ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

None.

#### ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

#### ITEM 16G. CORPORATE GOVERNANCE

Pursuant to an exemption for foreign private issuers, we are not required to comply with all of the corporate governance requirements of the Nasdaq Global Select Market, or Nasdaq, that are applicable to U.S. listed companies. As our corporate governance practices are in compliance with, and are not prohibited by, the laws of the Kingdom of Denmark, we are exempt from many of Nasdaq's corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, notification of material non-compliance with Nasdaq corporate governance practices and the establishment of an audit committee and a formal written audit committee charter. The practices that we follow in lieu of Nasdaq's corporate governance rules are described below.

- In lieu of a nomination committee comprised of independent directors, our Board of Directors will be responsible for identifying and recommending potential candidates to become board members and recommending directors for

appointment to board committees. Shareholders may also identify and recommend potential candidates to become board members in writing. Also, under Danish law, three of our nine directors are elected by our employees. No formal written charter has been prepared or adopted because this process is outlined in our Articles of Association and in the laws of the Kingdom of Denmark.

- In accordance with Danish law, we will not be required to obtain an independent review of related party transactions for potential conflicts of interests. Our Board of Directors, however, is contemplating adopting a policy that would require any director who has a potential conflict of interest to identify and declare the nature of the conflict to our Board of Directors at the next meeting of the Board of Directors. Such policy would additionally require that related party transactions must be approved by disinterested directors.

- As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to Nasdaq pursuant to Nasdaq corporate governance rules or Danish law. Consistent with laws of the Kingdom of Denmark and as provided in our Articles of Association, we will notify our shareholders of meetings between 14 days and four weeks before the general meeting, which is to be held every year before the end of April. This notification will contain, among other things, information regarding business to be transacted at the meeting. In addition, our Articles of Association provide that shareholders must give us advance notice to properly introduce any business at a general meeting of the shareholders no later than February 15 before such general meeting. Our Articles of Association also provide that shareholders may designate a proxy to act on their behalf.

Other than as noted above, we are in full compliance with all other applicable Nasdaq corporate governance standards. Information about our corporate governance practices may also be found on our website, <http://www.torm.com>, under "Investor Relations/Corporate Governance."

### Part III

#### ITEM 17. FINANCIAL STATEMENTS

We specifically incorporate by reference in response to this item the report of the independent auditors, the consolidated audited financial statements and the accompanying notes, appearing on pages F-1 through F-58.

##### Non-GAAP measures

In this document we use the measures: equity ratio, net interest-bearing debt and invested capital. Although not GAAP measures, they are all commonly used financial measures according to the Danish Society of Financial Analysts.

##### Net interest-bearing debt

Net interest-bearing debt measures the net capital resources, which cause net interest expenditure and interest rate risk and which together with the equity are used to finance our investments. As such we believe that net interest-bearing debt is a relevant measure, which management uses to measure the overall development of our use of financing other than equity. Net interest-bearing debt is calculated as follows:

(in USD million)	2006	2007	2008
Mortgage debt and bank loans	694.9	1,653.5	1,718.2
Less Cash and cash equivalents	(33.0)	(104.9)	(168.3)
Equals Net interest-bearing debt	661.9	1,548.6	1,549.9

##### Invested capital

Invested capital measures the net investments used to achieve our operating profit. We believe that invested capital is a relevant measure that management uses to measure the overall development of the assets and liabilities generating our net profit. Invested capital is calculated as follows:





	2006	2007	2008
Intangible assets	0.0	96.7	91.6
Plus Tangible fixed assets	1,307.7	2,439.3	2,611.5
Plus Investments in jointly controlled entities	2.9	0.0	130.5
Plus Loans to jointly controlled entities	14.8	109.9	42.2
Plus Other financial assets	0.0	46.0	41.7
Plus Inventories	12.1	19.7	18.3
Plus Accounts receivable	75.5	131.1	206.9
Plus Non-current assets held for sale	0.0	0.0	0.0
Less Deferred tax	(62.8)	(55.6)	(55.1)
Less Acquired liabilities related to options on vessels	0.0	(31.6)	(10.7)
Less Acquired time charter contracts	0.0	(32.0)	(15.0)
Less Trade accounts payable	(18.7)	(42.6)	(48.9)
Less Current tax liabilities	(4.6)	(14.5)	(9.7)
Less Other liabilities	(26.0)	(44.1)	(179.8)
Less Deferred income	(1.1)	(3.9)	(0.9)
Equals Invested capital	1,299.8	2,618.4	2,822.6

## ITEM 18. FINANCIAL STATEMENTS

Not Applicable.

TORM AND SUBSIDIARIES  
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS OF  
TORM A/S

We have audited the accompanying consolidated balance sheets of Torm A/S and subsidiaries (the "Company") as at 31 December 2008 and 2007 and the related consolidated income statements, consolidated statements of changes in equity, and consolidated cash flow statements for each of the three years in the period ended 31 December 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Torm A/S as at 31 December 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2008, in conformity with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and IFRS as issued by the International Accounting Standards Board ("IASB").

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as at 31 December 2008, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 25 June 2009 expressed, an unqualified opinion on the Company's internal control over financial reporting.

June 25, 2009

Deloitte Statsautoriseret Revisionsaktieselskab  
Copenhagen, Denmark

TORM AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENTS  
For The Years Ended December 31, 2006, 2007 and 2008  
(EXPRESSED IN THOUSANDS OF USD)

	Note	2006	2007	2008
Revenue		603,717	773,612	1,183,594
Port expenses, bunkers and commissions		(150,364)	(172,182)	(264,050)
Freight and bunkers derivatives		620	2,894	(13,586)
Time charter equivalent earnings		453,973	604,324	905,958
Charter hire		(106,329)	(154,852)	(193,829)
Operating expenses	4	(77,624)	(115,547)	(174,333)
Gross profit (Net earnings from shipping activities)	3	270,020	333,925	537,796
Profit from sale of vessels		54,362	0	82,813
Administrative expenses	4, 5	(34,470)	(54,960)	(89,906)
Other operating income		10,013	15,167	14,493
Share of results of jointly controlled entities	27	1,199	(6,058)	27,122
Depreciation and impairment losses	7,8	(58,914)	(89,083)	(126,068)
Operating profit		242,210	198,991	446,250
Financial income	9	39,339	681,088	16,175
Financial expenses	9	(40,514)	(75,871)	(102,354)
Profit before tax		241,035	804,208	360,071
Tax expenses	12	(6,523)	(12,531)	1,279
Net profit for the year		234,512	791,677	361,350
	Note	2006	2007	2008
Earnings per share (USD) *)	28	3.4	11.4	5.2
Earnings per share (DKK) **)		20.1	62.3	26.6
Diluted earnings per share (USD)	28	3.4	11.4	5.2
Diluted earnings per share (DKK)		20.1	62.1	26.5

\*\*)

\*) The comparative figures are restated to reflect the change in the denomination of the Company's shares from DKK 10 per share to DKK 5 in May 2007.

\*\*\*) Calculated from USD to DKK at the average USD/DKK exchange rate for the relevant period.

The accompanying notes are an integrated part of these financial statements.

TORM AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
As of December 31, 2007 and 2008  
(Expressed in thousands of USD)

	Note	2007	2008
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets			
Goodwill		89,184	89,184
Other intangible assets		7,481	2,451
	7	96,665	91,635
Tangible fixed assets			
Land and buildings		4,169	3,713
Vessels and capitalized dry-docking	17	2,169,832	2,325,863
Prepayments on vessels		259,454	272,731
Other plant and operating equipment		5,884	9,214
	8	2,439,339	2,611,521
Financial fixed assets			
Investments in jointly controlled entities	27	0	130,468
Loans to jointly controlled entities		109,974	42,158
Other investments	6	11,029	6,387
Other financial assets	23	46,000	31,002
		167,003	210,015
<b>Total non-current assets</b>		<b>2,703,007</b>	<b>2,913,171</b>
<b>CURRENT ASSETS</b>			
Inventories of bunkers		19,726	18,302
Freight receivables, etc.	10	89,932	120,166
Other receivables	11	36,966	72,013
Other financial assets	23	0	10,700
Prepayments		4,240	14,684
Cash and cash equivalent		104,983	168,317
<b>Total current assets</b>		<b>255,847</b>	<b>404,182</b>
<b>TOTAL ASSETS</b>		<b>2,958,854</b>	<b>3,317,353</b>

The accompanying notes are an integrated part of these financial statements.



TORM AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (continued)  
As of December 31, 2007 and 2008  
(EXPRESSED IN THOUSANDS OF USD)

	Note	2007	2008
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	13	61,098	61,098
Treasury shares	13	(18,118)	(18,118)
Revaluation reserves		7,268	(106)
Retained profit		953,656	1,209,540
Proposed dividend		64,548	55,100
Hedging reserves		8,664	(32,637)
Translation reserves		4,114	4,072
<b>Total shareholders' equity</b>		<b>1,081,230</b>	<b>1,278,949</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liability	12	55,588	55,117
Mortgage debt and bank loans	15,17	884,579	1,505,797
Acquired liabilities related to options on vessels	23	31,642	10,672
Acquired time charter contracts	22	14,654	3,864
<b>Total non-current liabilities</b>		<b>986,463</b>	<b>1,575,450</b>
<b>Current liabilities</b>			
Mortgage debt and bank loans	15,17	768,759	212,368
Trade payables		42,591	48,960
Current tax liabilities		14,471	9,709
Other liabilities	16	44,073	179,823
Acquired time charter contracts	22	17,378	11,150
Deferred income	14	3,889	944
<b>Total current liabilities</b>		<b>891,161</b>	<b>462,954</b>
<b>Total liabilities</b>		<b>1,877,624</b>	<b>2,038,404</b>
<b>Total shareholders' equity and liabilities</b>		<b>2,958,854</b>	<b>3,317,353</b>
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The accompanying notes are an integrated part of these financial statements.

**TORM AND SUBSIDIARIES**  
Consolidated statements of changes in shareholders' equity  
As of December 31, 2006, 2007 and 2008  
(Expressed in millions of USD)

	Common shares	Treasury Shares	Retained profit	Proposed dividends	Gains/losses recognized directly in equity			Total
					Revaluation reserve	Hedging reserves	Trans-lation reserves	
<b>SHAREHOLDERS' EQUITY</b>								
Balance at January 1, 2006	61.1	(7.7)	415.3	132.4	296.4	3.3	3.9	904.7
<b>Changes in equity 2006:</b>								
Exchange rate adjustment arising on translation of entities using a measurement currency different from USD							0.1	0.1
Reversal of deferred gain/loss on hedge instruments at the beginning of the year						(3.3)		(3.3)
Deferred gain/loss on hedge instruments at year-end						5.6		5.6
Reversal of fair value adjustment on available for sale investments at the beginning of the year					(296.4)			(296.4)
Fair value adjustment on available for sale investments at year-end					579.8			579.4
Net gains/losses recognized directly in equity	0.0	0.0	0.0	0.0	283.4	2.3	0.1	285.8
Profit for the year			234.5					234.5
Total recognized income/(expenses) for the year	0.0	0.0	234.5	0.0	283.4	2.3	0.1	520.3
Purchase of treasury shares, cost		(10.4)						(10.4)
Disposal of treasury shares, cost		0.0						0.0
Dividends paid				(140.1)				(140.1)
			5.9					5.9

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Dividends paid on treasury shares								
Exchange rate adjustment on dividends paid			(7.7)	7.7				0.0
Exercise of share options			0.4					0.4
Proposed dividend for the financial year			(73.9)	73.9				0.0
Total changes in equity 2006	0.0	(10.4)	159.2	(58.5)	283.4	2.3	0.1	376.1
Equity at December 31, 2006	61.1	(18.1)	574.5	73.9	579.8	5.6	4.0	1,280.8
Changes in equity 2007:								
Exchange rate adjustment arising on translation of entities using a measurement currency different from USD							0.1	0.1
Reversal of deferred gain/loss on hedge instruments at the beginning of the year						(5.6)		(5.6)
Deferred gain/loss on hedge instruments at year-end						8.7		8.7
Fair value adjustment on available for sale investments					70.8			70.8
Transfer to profit or loss on sale of available for sale investments					(643.3)			(643.3)
Net gains/losses recognized directly in equity	0.0	0.0	0.0	0.0	(572.5)	3.1	0.1	(569.3)
Profit for the year			791.7					791.7
Total recognized income/(expenses) for the year	0.0	0.0	791.7	0.0	(572.5)	3.1	0.1	222.4
Extraordinary dividends paid			(369.3)					(369.3)
Extraordinary dividends paid on treasury shares			18.0					18.0
Dividends paid				(76.4)				(76.4)
Dividends paid on treasury shares			3.7					3.7
Exchange rate adjustment on dividends paid			(2.5)	2.5				0.0
Share-based compensation			2.0					2.0
Proposed dividend for the financial year			(64.5)	64.5				0.0

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Total changes in equity 2007	0.0	0.0	379.1	(9.4)	(572.5)	3.1	0.1	(199.6)
Equity at December 31, 2007	61.1	(18.1)	953.6	64.5	7.3	8.7	4.1	1,081.2
Changes in equity 2008:								
Exchange rate adjustment arising on translation of entities using a measurement currency different from USD							0.0	0.0
Reversal of deferred gain/loss on hedge instruments at the beginning of the year						(8.7)		(8.7)
Deferred gain/loss on hedge instruments at year-end						(32.7)		(32.7)
Fair value adjustment on available for sale investments					(4.8)			(4.8)
Transfer to profit or loss on sale of available for sale investments					(2.6)			(2.6)
Net gains/losses recognized directly in equity	0.0	0.0	0.0	0.0	(7.4)	(41.4)	0.0	(48.8)
Profit for the year			361.4					361.4
Total recognized income/(expenses) for the year	0.0	0.0	361.4	0.0	(7.4)	(41.4)	0.0	312.6
Extraordinary dividends paid			(61.5)					(61.5)
Extraordinary dividends paid on treasury shares			3.0					3.0
Dividends paid				(68.6)				(68.6)
Dividends paid on treasury shares			3.3					3.3
Exchange rate adjustment on dividends paid			(4.1)	4.1				0.0
Share-based compensation			8.9					8.9
Proposed dividend for the financial year			(55.1)	55.1				0.0
Total changes in equity 2008	0.0	0.0	255.9	(9.4)	(7.4)	(41.4)	0.0	(197.7)
Equity at December 31, 2008	61.1	(18.1)	1,209.5	55.1	(0.1)	(32.7)	4.1	1,278.9

The accompanying notes are an integrated part of these financial statements.

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TORM AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
(Expressed in thousands of USD)

	Note	2006	2007	2008
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net profit for the year		234,512	791,677	361,350
Reversal tax expenses		(6,547)	12,531	(1,279)
Reversal of financial income and expenses		1,047	(605,217)	86,179
Reversal of profit from sale of vessels		(54,362)	0	(82,813)
Reversal of depreciation and impairment losses		58,915	89,083	126,067
Reversal of share of results of jointly controlled entities		(1,199)	6,057	(27,122)
Reversal of other non-cash movements	30	6,235	2,888	(7,786)
Dividends received		26,401	1,317	1,337
Dividends received		0	2,600	3,930
Interest received and exchange rate gains		9,964	19,852	13,439
Interest paid		(40,729)	(70,833)	(84,332)
Income taxes paid		(3,018)	(9,539)	(4,199)
Change in bunkers, accounts receivables and payables		(13,022)	(52,456)	(78)
Net cash inflow/(outflow) from operating activities		231,396	187,960	384,693
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment in tangible fixed assets		(246,348)	(252,233)	(377,786)
Investment in equity interests and securities		(550)	0	(133,917)
Loans to jointly controlled entities		(15,823)	(31,271)	69,589
Payments of liability related to options on vessels		0	0	(6,719)
Acquisition of enterprises and activities	31	0	(810,159)	0
Sale of equity interests and securities		241	736,686	17,365
Sale of non-current assets		144,550	194	169,067

Net cash outflow from investing activities	(117,930)	(356,783)	(262,401)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Borrowing, mortgage debt and other financial liabilities	162,096	1,807,911	1,020,699
Repayment/redemption, mortgage debt	(256,143)	(1,141,753)	(955,872)
Dividends paid	(134,140)	(423,950)	(123,785)
Purchase/disposal of treasury shares	(10,410)	0	0
Cash inflow/(outflow) from financing activities	(238,597)	242,208	(58,958)
Net cash inflow/(outflow) from operating, investing and financing activities	(125,131)	73,385	63,334
Cash and cash equivalents, at January 1	156,728	31,598	104,983
Cash and cash equivalents, at December 31	31,597	104,983	168,317
Of which used as collateral	0	0	0
	31,597	104,983	168,317

The accompanying notes are an integrated part of these financial statements.

TORM AND SUBSIDIARIES - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

NOTE 1

ACCOUNTING POLICIES

The annual report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and the disclosure requirements for Danish listed companies' financial reporting.

The annual report also complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements are prepared in accordance with the historical cost convention except where fair value accounting is specifically required by IFRS.

The functional currency in all major entities is USD, and the Company applies USD as presentation currency in the preparation of financial statements.

CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

TORM has implemented the following standards, changes to standards and interpretations in the annual report for 2008:

- Amendment to IFRS 2 "Share-based payment: Vesting conditions and cancellations." The amendment clarifies the treatment regarding vesting conditions and cancellation of granted equity instruments. TORM's treatment is in line with the clarifications and the change has therefore not affected the accounting policies.
- Amendment to IAS 39 and IFRS 7: "Reclassification of financial instruments." The change is not relevant for TORM.
- Interpretation guideline to IAS 19, IFRIC 14 "The limit on a defined benefit asset, minimum funding requirement and their interaction." The interpretation is not relevant for TORM.

The Company has changed its accounting policy for the recognition of investments in joint ventures so that these are recognized according to the equity method. Previously, joint ventures were recognized on a pro rata basis. The change in accounting policy is due to the fact that the Company finds it inappropriate to aggregate the items of joint ventures with items of entities that form an integral part of the Company's activities. The policy change has no effect on the income statement or on equity, but the profit for the year of joint ventures and the investment in these are presented in a single line item in the income statement and the balance sheet, respectively.

As a result of the change in accounting policy the operating profit and net cash flows for 2007 were reduced by USD 5.9 million and USD 11.6 million, respectively, and invested capital as defined in Item 17 at 31 December 2007 was increased by USD 12.5 million.



## ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IASB has issued the following changes to standards and interpretations which have not yet been adopted:

- Amendment to IAS 1 "Presentation of Financial Statements." The most notable changes in comparison to the current version of IAS 1 are:
  - A requirement that "comprehensive income" is presented either in a single statement or in two statements (an income statement and a statement of comprehensive income, in which net profit for the year is included in one line). The statement of changes in equity can no longer include elements of comprehensive income, but only the total of this statement.
  - When changes in accounting policies or restatements have occurred, a statement of financial position (balance sheet) at the beginning of the comparative period is presented (i.e. two years' comparative figures).
    - A requirement for information regarding the tax effect of each item in "other comprehensive income."
    - A requirement of disclosure of amounts, which are reclassified from other comprehensive income to net profit for the year ("recycling").
  - The terminology regarding the financial statements in accordance with IFRS is changed.
- Amendment to IAS 23 "Borrowing Costs." The changes to IAS 23 will not significantly affect the financial statements.
- IFRIC 13 "Customer Loyalty programmes." The interpretation is not relevant for TORM.
- Amendment to IFRS 7 "Financial Instruments: Disclosures" The changes will not significantly affect the financial statements.
- Amendment to IAS 39 "Financial Instruments: Recognition and measurement". The changes will not significantly affect the financial statements.
- Amendment to IFRIC 9 "Reassessment of Embedded Derivatives". The changes will not significantly affect the financial statements.
- In addition, IASB has issued a number of smaller changes and clarifications during 2008 as part of the improvement project, including changes to IFRS 5, IAS 18, IAS 20 and IAS 40. The changes are not expected to have any significant impact on the financial statements.

TORM will implement these changes and interpretations when they become effective in 2009. The implementation of IAS 1 will change the presentation of the financial statements.

Furthermore, IASB has issued the following standards, changes to standards and interpretations which become effective on or after 1 January 2009 but have not yet been adopted by the EU:

- Revised IFRS 1 "First time adoption,"
- Revised IFRS 3 "Business Combinations,"
- Amendment to IAS 27 "Consolidated and separate financial statements,"
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Amendment to IAS 39 "Financial instruments: Recognition and measurement." "Eligible hedged items" and "Reclassification of financial assets: Effective date and transition,"

- IFRIC 12 "Service concession arrangements," adopted March 25, 2009
- IFRIC 15 "Agreements for the construction of real estate,"
- IFRIC 16 "Hedges of a net investment in a foreign operation,"
- IFRIC 17 "Distributions of non-cash assets to owners"
- IFRIC 18 "Transfer of assets from customers"

TORM expects that the implementation of these standards, changes to standards and interpretations will not materially affect the Company's financial statements.

#### KEY ACCOUNTING POLICIES

The Management considers the following to be the most important accounting policies for the TORM Group.

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### Participation in pools

TORM generates its revenue from shipping activities, which to a large extent are conducted through pools. Total pool revenue is generated from each vessel participating in the pools in which the Group participates and is based on either voyage or time charter parties. The pool measures net revenues based on the contractual rates and the duration of each voyage, and net revenue is recognized upon delivery of service in accordance with the terms and conditions of the charter parties.

The pools are regarded as jointly controlled operations, and the Company's share of the income statement and balance sheet in the respective pools is accounted for by recognizing a proportional share, based on participation in the pool, combining items of uniform nature. The Company's share of the revenues in the pools is primarily dependent on the number of days the Company's vessels have been available for the pools in relation to the total available pool earning days during the period.

TORM acts as pool manager for three pools in which the Company is participating with a significant number of 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.

### Cross-over voyages

Revenue is recognized upon delivery of service in accordance with the terms and conditions of the charter parties. For cross-over voyages (voyages in progress at the end of a reporting period) the uncertainty and the dependence on estimates are greater than for concluded voyages. The Company recognizes a percentage of the estimated revenue for the voyage equal to the percentage of the estimated duration of the voyage completed on the balance sheet date. The estimate of revenue is based on the expected duration and destination of the voyage. Voyage expenses are recognized as incurred. When recognizing net revenue, there is a risk that the actual number of days it takes to complete the voyage will differ from the estimate, and for time charter parties a lower day rate may have been agreed for additional days. The contract for a single voyage may state several alternative destination ports. The destination port may change during the voyage, and the rate may vary depending on the destination port. Changes to the estimated duration of the voyage as well as changing destinations and weather conditions will affect the voyage expenses.

### Demurrage revenues

Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, TORM is compensated for the additional time incurred in the form of a demurrage revenue. Demurrage revenues are recognized upon delivery of service in accordance with the terms and conditions of the charter parties. Upon completion of the voyage, the Company assesses the time spent in port, and a demurrage claim based on the relevant contractual conditions is submitted to the charterers. The claim will often be met by counterclaims due to differences in the interpretation of the agreement compared to the actual circumstances of the additional time used. Based on previous experience, 95% of the demurrage claim submitted is recognized as demurrage revenue. The Company receives the demurrage payment upon reaching final agreement of the amount, which on average is approximately 100 days after the original demurrage claim was submitted. If the Group accepts a reduction of more than 5% of the original claim, or if the charterer is not able to pay, demurrage revenue will be affected.

Vessels

Vessels are measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises acquisition cost and costs directly related to the acquisition up until the time when the asset is ready for use including interest expenses incurred during the period of construction, based on the loans obtained for the vessels. All major components of vessels except for dry-docking costs are depreciated on a straight-line basis to the estimated residual value over their estimated useful lives, which TORM estimates to

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be 25 years. The Company considers that a 25-year depreciable life is consistent with that used by other shipowners with comparable tonnage. Depreciation is based on cost less the estimated residual value. Residual value is estimated as the lightweight tonnage of each vessel multiplied by scrap value per ton. The useful life and the residual value of the vessels are reviewed at least at each financial year-end based on market conditions, regulatory requirements and the Company's business plans. The Company also evaluates the carrying amounts to determine if events have occurred that indicate impairment and would require a modification of their carrying amounts. Prepayment on vessels is measured at costs incurred.

#### Dry-docking

The vessels are required to undergo planned dry-dockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating, approximately every 30 and 60 months depending on the nature of work and external requirements. These dry-docking costs are capitalized and depreciated on a straight-line basis over the estimated period until the next dry-docking. The residual value of such components is estimated at nil. The useful life of the dry-docking costs are reviewed at least at each financial year-end based on market conditions, regulatory requirements and TORM 's business plans.

A portion of the cost of acquiring a new vessel is allocated to the components expected to be replaced or refurbished at the next dry-docking. Depreciation hereof is carried over the period until the next dry-docking. For newbuildings, the initial dry-docking asset is estimated based on the expected costs related to the first-coming dry-docking, which is again based on experience and past history of similar vessels. For second-hand vessels, a dry-docking asset is also segregated and capitalized separately, however, taking into account the normal docking intervals in the Company.

At subsequent dry-dockings the costs comprise the actual costs incurred at the dry-docking yard. Dry docking costs may include the cost of hiring crews to effect replacements and repairs and the cost of parts and materials used, cost of travel, lodging and supervision of Company personnel and the cost of hiring third-party personnel to oversee a dry-docking. Dry-docking activities include, but are not limited to, the inspection, service on turbocharger, replacement of shaft seals, service on boiler, replacement of hull anodes, applying of antifouling and hull paint, steel repairs and refurbishment and replacement of other parts of the vessel.

#### Deferred tax

All significant Danish entities within the Group entered the Danish tonnage taxation scheme for a binding 10-year period with effect from 1 January 2001 and have filed tax returns for the fiscal years 2001 to 2007. Under the Danish tonnage taxation scheme, taxable income is not calculated on the basis of income and expenses as under the normal corporate taxation. Instead, taxable income is calculated with reference to the tonnage used during the year. The taxable income for a company for a given period is calculated as the sum of the taxable income under the tonnage taxation scheme and the taxable income from the activities that are not covered by the tonnage taxation scheme made up in accordance with the ordinary Danish corporate tax system.

If the entities' participation in the Danish tonnage taxation scheme is abandoned, or if the entities' level of investment and activity is significantly reduced, a deferred tax liability will become payable. A deferred tax liability is recognized in the balance sheet at each period end and is accounted for using the balance sheet liability method. The deferred tax liability relating to the vessels is measured on the basis of the difference between the tax value of the vessels at the date of entry into the tonnage taxation scheme and the lower of the cost and the realized or realizable sales value of the vessels.

#### OTHER ACCOUNTING POLICIES

##### Consolidation principles

The consolidated financial statements comprise the financial statements of the Parent Company TORM A/S and its subsidiaries, i.e. the entities in which the Parent Company, directly or indirectly, holds the majority of the votes or otherwise has a controlling interest.

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Entities in which the Group exercises significant but not controlling influence are regarded as associated companies and are recognized using the equity method.

Companies which are by agreement managed jointly with one or more other companies and therefore subject to joint control (jointly controlled entities) are accounted for using the equity method.

The consolidated financial statements are prepared on the basis of the financial statements of the Parent Company, its subsidiaries and proportionately consolidated activities by combining items of a uniform nature and eliminating inter-company transactions, balances and shareholdings as well as realized and unrealized gains and losses on transaction between the consolidated companies. The financial statements used for consolidation purposes are prepared in accordance with the Company's accounting policies.

#### Business combinations

Newly acquired or formed entities are recognized in the consolidated financial statements from the date of acquisition or formation. The date of acquisition is the date on which control over the entity is effectively transferred. Sold or unwound entities are recognized in the consolidated financial statements until the date of the sale or the unwinding. The date of sale or unwinding is the date when control is effectively transferred to third parties.

Business combinations are accounted for by applying the purchase method, whereby the acquired entities' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Restructuring costs are only recognized in the acquisition balance sheet to the extent that they constitute an obligation for the acquired entity. The tax effect of the revaluation activities is also taken into account. The cost of a business combination is measured as the fair value of the consideration paid and the costs directly attributable to the business combination.

The excess (goodwill) of the cost of the business combination over the fair value of the acquired assets, liabilities and contingent liabilities is recognized as an asset under intangible assets and is tested for impairment at least once every year. If the carrying amount of the asset exceeds the recoverable amount of the asset, it should be reduced to the lower recoverable amount.

If the fair value of the acquired assets, liabilities and contingent liabilities exceeds the cost of the business combination, the identification of assets and liabilities and the processes of measuring the fair value of the assets and liabilities and the cost of the business combination are reassessed. If the fair value of the business combination continues to exceed the cost, the resulting gain is recognized in the income statement.

#### Foreign currencies

The functional currency of all significant entities including subsidiaries and associated companies is USD, because the Company's vessels operate in international shipping markets, in which revenues and expenses are settled in USD, and the Company's most significant assets and liabilities in the form of vessels and related financial liabilities are in USD. Transactions in currencies other than the functional currency are translated into the functional currency at the date of the transactions. Cash, accounts receivable and payable and other monetary items denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the balance sheet date. Gains or losses due to differences between the exchange rate at the transaction date and the exchange rate at the settlement date or the balance sheet date are recognized in the income statement under "Financial income and expenses."

An exchange rate gain or loss relating to a non-monetary item carried at fair value is recognized in the same line as the fair value adjustment. The reporting currency of the Company is USD. Upon recognition of entities with

functional currencies other than USD, the financial statements are translated into USD. Items in the income statement are translated into USD at the average exchange rates for the period, whereas balance sheet items are translated at the exchange rates as at the balance sheet date. Exchange differences arising from the translation of financial statements into USD are recognized as a separate component of equity. On the disposal of an entity, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that entity shall be transferred to the income statement as part of the gain or loss on disposal.



#### Fair values

All fair values of financial assets, liabilities and derivative financial instruments are based on quoted market prices or standard pricing models using observable market data.

#### Derivative financial instruments

Derivative financial instruments, primarily interest rate swaps, forward currency exchange contracts, forward freight agreements and forward contracts regarding bunker purchases, are entered to hedge future committed or anticipated transactions. TORM applies hedge accounting under the specific rules for cash flow hedges when allowed and appropriate. In addition, TORM takes limited positions in forward freight agreements as a supplement to the Company's physical positions in vessels, which are not entered for hedge purposes.

Derivative financial instruments are initially recognized in the balance sheet at cost and are subsequently measured at their fair value as other receivables or other liabilities respectively.

Changes in fair value of derivative financial instruments, which are designated as cash flow hedges and deemed to be effective, are recognized directly in equity under "Hedging reserves." When the hedged transaction is recognized in the income statement, the cumulative value adjustment recognized in equity is transferred to the income statement and included in the same line as the hedged transaction. Changes in fair value of a portion of a hedge deemed to be ineffective are recognized in the income statement.

Changes in fair value of derivative financial instruments that are not designated as hedges are recognized in the income statement. While effectively reducing cash flow risk in accordance with the risk management policy of the Company, interest rate swaps with cap features and certain forward freight agreements and forward contracts regarding bunker purchases do not qualify for hedge accounting. Changes in fair value of these derivative financial instruments are therefore recognized in the income statement under "Financial expenses" for interest rate swaps with cap features and under "Freight and bunkers derivatives" for forward freight agreements and forward bunker contracts. Changes in fair value of forward freight agreements, which are not entered for hedge purposes, are also recognized under "Freight and bunkers derivatives."

#### Segment information

TORM consists of two business segments: Tanker and Bulk. This segmentation is based on the Group's internal management and reporting structure in addition to evaluation of risk and earnings. Transactions between segments are based on market-related prices and are eliminated at Group level. The Group only has one geographical segment, because the Company considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world.

The segment income statement comprises revenues directly attributable to the segment and expenses, which are directly or indirectly attributable to the segment. Indirect allocation of expenses is based on distribution keys reflecting the segment's use of shared resources.

The segment non-current assets consist of the non-current assets used directly for segment operations.

Current assets are allocated to segments to the extent that they are directly attributable to segment operations, including inventories, outstanding freight, other receivables and prepayments.

Segment liabilities comprise segment operating liabilities including trade payables and other liabilities.

Not-allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Company's administrative functions and investment activities, including cash and bank balances, interest-bearing debt, income tax, deferred tax, etc.

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#### Employee benefits

Wages, salaries, social security contributions, paid holiday and sick leave, bonuses and other monetary and non-monetary benefits are accrued in the year in which the employees render the associated services.

#### Pension plans

The Group has entered into defined contribution plans only. Pension costs related to defined contribution plans are recorded in the income statement in the year to which they relate.

#### Share-based compensation

The Management and all land-based employees and officers employed on permanent contracts (apart from trainees, apprentices and cadets) that are directly employed by A/S Dampskibsselskabet TORM participate in an incentive scheme, which includes grant of shares and share options. The scheme does not provide the choices of cash settlement instead of shares. The fair value of the shares and share options granted under the scheme is measured at the grant date and is recognized in the income statement as a personnel expense under administrative expenses and operating costs over the vesting period. The counter item is recognized in equity. The fair value is measured based on the Black-Scholes and the Monte Carlo models.

#### Leases

Agreements to charter in vessels and to lease other property, plant and equipment, where TORM has substantially all the risks and rewards of ownership, are recognized in the balance sheet as finance leases. Lease assets are measured at the lower of fair value and the present value of minimum lease payments determined in the agreements.

For the purpose of calculating the present value, the interest rate implicit in the lease or an incremental borrowing rate is used as discount factor. The lease assets are depreciated and written down under the same accounting policy as the vessels owned by the Company or over the lease period depending on the lease terms.

The corresponding lease obligation is recognized as a liability in the balance sheet, and the interest element of the lease payment is charged to the income statement as incurred.

Other charter agreements concerning vessels and other leases are classified as operating leases, and lease payments are charged to the income statement on a straight-line basis over the lease term. The obligation for the remaining lease period is disclosed in the notes to the financial statement.

Agreements to charter out vessels, where substantially all the risks and rewards of ownership are transferred to the lessee, are classified as finance leases, and an amount equal to the net investment in the lease is recognized and presented in the balance sheet as a receivable. The carrying amount of the vessel is de-recognized and any gain or loss on disposal is recognized in the income statement.

Other agreements to charter out vessels are classified as operating leases and lease income is recognized in the income statement on a straight-line basis over the lease term.

#### Sale and leaseback transactions

A gain or loss related to a sale and leaseback transaction resulting in a finance lease is deferred and amortized in proportion to the gross rental on the time charter over the lease term.

A gain related to a sale and leaseback transaction resulting in an operating lease is recognized in the income statement immediately, provided the transaction is agreed on market terms or the sales price is lower than the fair value. If the sales price exceeds the fair value, the difference between the sales price and the fair value is deferred and amortized in proportion to the lease payments over the life of the lease. A loss related to a sale and leaseback transaction resulting in an operating lease is recognized in the income statement at the date of transaction except if the loss is compensated by future lease payments below fair value, it is deferred and amortized in proportion to the lease payments over the life of the lease.

## INCOME STATEMENT

### Revenue

Income, including revenue, is recognized in the income statement when:

- the income-creating activities have been carried out on the basis of a binding agreement,
- the income can be measured reliably,
  - it is probable that the economic benefits associated with the transaction will flow to the Company, and
- costs relating to the transaction can be measured reliably.

Revenue comprises freight, charter hire and demurrage revenues from the vessels and gains and losses from forward freight agreements designated as hedges. Revenue is recognized when it meets the general criteria mentioned above and the stage of completion can be measured reliably. Accordingly, freight, charter hire and demurrage revenue are recognized at selling price upon delivery of service in accordance with the charter parties concluded.

### Port expenses, bunkers and commissions

Port expenses, bunker fuel consumption and commissions are recognized as incurred. Gains and losses from forward bunker contracts designated as hedges are included in this line.

### Freight and bunkers derivatives

Freight and bunkers derivatives include fair value adjustments and gains and losses on forward freight agreements, forward bunker contracts and other derivative financial instruments directly relating to shipping activities which are not designated as hedges.

### Charter hire

Charter hire includes the expenses related to the chartering in of vessels incurred in order to achieve the net revenue for the period.

### Operating expenses

Operating expenses, which comprise crew expenses, repair and maintenance expenses and tonnage duty, are expensed as incurred.

### Profit from sale of vessels

Profit or loss from sale of vessels is recognized when the significant risks and rewards of ownership have been transferred to the buyer, and it is measured as the difference between the sales price less sales costs and the carrying amount of the asset.

### Administrative expenses

Administrative expenses, which comprise administrative staff costs, management costs, office expenses and other expenses relating to administration, are expensed as incurred.

### Other operating income

Other operating income primarily comprises chartering commissions, management fees and profits and losses deriving from the disposal of other plant and operating equipment.

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### Depreciation and impairment losses

Depreciation and impairment losses comprise depreciation of fixed assets for the period as well as the reduction in the value of assets by the amount by which the carrying amount of the asset exceeds its recoverable amount. In the event of indication of impairment of value, the carrying amount is assessed and the value of the asset is reduced to its recoverable amount equal to the higher of value in use based on net present value of future earnings from the assets and its net selling price. The recoverable amount of goodwill is assessed every year.

### Financial income

Financial income comprise interest income, realized and unrealized exchange rate gains relating to transactions in currencies other than the functional currency, realized gains from other investments and securities, unrealized gains from securities, dividends received and other financial income including value adjustments of certain financial instruments not accounted for as hedging instruments. Interest is recognized in accordance with the accrual basis of accounting taking into account the effective interest rate. Dividends from other investments are recognized when the right to receive payment has been decided, which is typically when the dividend has been declared and can be received without conditions.

### Financial expenses

Financial expenses comprise interest expense, financing costs of finance leases, realized and unrealized exchange rate losses relating to transactions in currencies other than the functional currency, realized losses from other investments and securities, unrealized losses from securities and other financial expenses including value adjustments of certain financial instruments not accounted for as hedging instruments. Interest is recognized in accordance with the accrual basis of accounting taking into account the effective interest rate.

### Tax

In Denmark, TORM A/S is jointly taxed with its Danish subsidiaries. The Parent Company provides for and pays the aggregate Danish tax of the taxable income of these companies, but recovers the relevant portion of the taxes paid from the subsidiaries based on each entity's portion of the aggregate taxable income. Tax expenses include the expected tax including tonnage tax of the taxable income for the year for the Group, adjustments relating to previous years and the change in deferred tax for the year. However, tax relating to items posted in equity is posted directly in equity.

## BALANCE SHEET

### Goodwill

Goodwill is measured as the excess of the cost of the business combination over the fair value of the acquired assets, liabilities and contingent liabilities and is recognized as an asset under intangible assets. Goodwill is not amortized, but is tested at least once every year for impairment. If the carrying amount of the asset exceeds its recoverable amount, the assets carrying amount is reduced to the lower recoverable amount. Goodwill is for impairment testing purposes allocated to those cash-generating units, to which it relates.

### Other intangible assets

Other intangible assets were acquired in connection with the acquisition of OMI and are amortized over their useful lives, which vary from one to 15 years.

### Other plant and equipment

Land is measured at cost.

Buildings are measured at cost less accumulated depreciation and accumulated impairment losses. Buildings are depreciated on a straight-line basis over 50 years.

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Operating equipment is measured at cost less accumulated depreciation. Computer equipment is depreciated on a straight-line basis over three years, and other operating equipment is depreciated on a straight-line basis over five years.

Leasehold improvements are measured at cost less accumulated amortization and impairment losses, and leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease and the estimated useful life. Cost comprises acquisition cost and costs directly related to the acquisition up until the time when the asset is ready for use.

#### Investments in jointly controlled entities

Investments in jointly controlled entities comprise investments in companies which are by agreement managed jointly with one or more other companies and therefore subject to joint control and are measured at equity value.

#### Financial assets

Financial assets are initially recognized on settlement date at fair value plus transaction costs, except for financial assets at fair value through profit or loss, which are recognized at fair value. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred. Financial assets are classified as:

- Financial assets at fair value through profit or loss.
- Held-to-maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

#### Other investments

Other investments comprise shares in other companies and are classified as available-for-sale. Listed shares are measured at the market value at the balance sheet date, and unlisted shares are measured at estimated fair value. Unrealized gains and losses resulting from changes in fair value of shares are recognized in equity. Realized gains and losses resulting from sales of shares are recognized as financial income and expenses in the income statement. The cumulative value adjustment recognized in equity is transferred to the income statement when the shares are sold. Dividends on shares in other companies are recognized as income in the period in which they are declared.

Other investments are presented as non-current unless Management intends to dispose of the investments within 12 months of the balance sheet date.

#### Other financial assets

Other financial assets comprise TORM's rights to a share of the gain on purchase options on vessels, which were acquired as part of the acquisition of OMI and are classified as derivative financial instruments. The rights are measured and recognized at fair value and the change for the period is recognized in the income statement under financial income or expenses.

#### Receivables

Outstanding freight receivables and other receivables that are of a current nature, expected to be realized within 12 months from the balance sheet date, are classified as loans and receivables and presented as current assets.

Receivables are measured at the lower of amortized cost and net realizable values, which corresponds to nominal value less provision for bad debts. Derivative financial instruments included in other receivables are measured at fair value.

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#### Impairment of assets

Non-current assets are reviewed to determine any indication of impairment. In case of such indication, the recoverable amount of the asset is estimated as the higher of the asset's net selling price and its value in use. If this amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount. The impairment loss is recognized immediately in the income statement.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). For vessels, the two cash-generating units of the Company are the Tanker Division and the Bulk Division.

#### Bunkers

Bunkers and lubricants are stated at the lower of cost and net realizable value. The cost is determined by the FIFO method and includes expenditures incurred in acquiring the bunkers and lubricants and delivery cost less discounts.

#### Treasury shares

Treasury shares are recognized as a separate component of equity at cost. Upon subsequent disposal of treasury shares, any consideration is also recognized directly in equity.

#### Dividend

Dividend is recognized as a liability at the time of declaration at the Annual General Meeting. Dividend proposed for the year is moved from "Retained profit" and presented as a separate component of equity.

#### Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that it will lead to an outflow of resources that can be reliably estimated. Provisions are measured at the estimated ultimate liability that is expected to arise, taking into account the time value of money.

#### Acquired liabilities related to options on vessel

As part of the acquisition of OMI, the Company acquired certain option obligations relating to vessels chartered out on time charter contracts. The option obligations are classified as derivative financial instruments and are recognized at fair value. The change for the period is recognized in the income statement under financial income or expenses.

#### Acquired time charter contracts

As part of the acquisition of OMI, the Company acquired certain time charter contracts which have terms that are less favorable than the market terms prevailing at the time of the acquisition. The Company has recognized a liability based on the estimated fair value of these contracts and is amortizing this liability over the remaining term of the contracts. The change for the period is recognized in the income statement under revenue.

#### Other liabilities

Liabilities are generally measured at amortized cost. Mortgage debt and bank loans relating to the financing of vessels are initially measured at nominal amounts less premiums and costs incurred in the loan arrangement and subsequently

at amortized cost with the difference between the loan proceeds and the nominal value being recognized in the income statement over the term of the loan. Derivative financial instruments included in other liabilities are measured at fair value.

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#### Cash flow statement

The cash flow statement shows the Company's cash flows and cash and cash equivalents at the beginning and the end of the period.

Cash flow from operating activities is presented indirectly and is based on net profit for the year adjusted for tax expenses, financial income and expenses, profit from sale of vessels, non-cash operating items, changes in working capital, income tax paid, dividends received and interest paid/received.

Cash flow from investing activities comprises dividends received and the purchase and sale of tangible fixed assets and financial fixed assets.

Cash flow from financing activities comprises changes in long-term debt, bank loans, purchases or sales of treasury shares and dividend paid to shareholders.

Cash and cash equivalents comprise cash at bank and in hand and highly liquid bonds with a term to maturity not exceeding three months. Other bonds and other investments are classified as investment activities.

#### Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss available to common shareholders by the weighted average number of common shares outstanding during the period. Treasury shares are not included in the calculation. Purchases and sales of treasury shares during the period are weighted based on the remaining period.

Diluted earnings per share are calculated by adjusting the consolidated profit or loss available to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive shares. Such potentially dilutive common shares are excluded when the effect would be to increase earnings per share or reduce a loss per share.

#### NOTE 2

##### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are affected by the way TORM applies its accounting policies. An accounting estimate is considered critical if the estimate requires Management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate that would have a material impact on the Company's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable. However, actual results could differ from the original estimates requiring adjustments to these balances in future periods.

Management believes that the following are the significant accounting estimates and judgments used in the preparation of the consolidated financial statement:

Carrying amounts of vessels

The Company evaluates the carrying amounts of the vessels to determine if events have occurred that would require a modification of their carrying amounts. The valuation of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. In assessing the recoverability of the vessels, the Company reviews certain indicators of potential impairment such as reported sale and purchase prices, market demand and general market conditions. Furthermore, market valuations from leading, independent and internationally recognized shipbroking companies are obtained on a semi-annual basis as part of the review for potential impairment indicators. If an indication of impairment is identified, the need for recognizing an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the fair value less cost to sell and the value in use.

The review for potential impairment indicators and projection of future undiscounted and discounted cash flows related to the vessels is complex and requires the Company to make various estimates including future freight rates, earnings from the vessels and discount rates. All of these items have been historically volatile.

The carrying amounts of TORM's vessels may not represent their fair market value at any point in time as market prices of second-hand vessels to a certain degree tend to fluctuate with changes in charter rates and the cost of newbuildings. However, if the estimated future cash flow or related assumptions in the future experience change, an impairment of vessels may be required.

There were no indicators of impairments of vessels in 2006 and 2007 and there were no impairments of vessels in 2008.

#### Tax

All significant Danish entities within the Group entered the Danish tonnage taxation scheme with effect from 1 January 2001 and have filed tax returns for 2001 to 2007. The assessment of the tax returns by the tax authorities has not yet been completed for 2005 to 2007 and TORM has filed a complaint regarding the assessments for the years 2001 to 2004. The tax regulations are highly complex, and while the Group aims to ensure the estimates of tax assets and liabilities that it records are accurate, there may be instances where the process of agreeing the tax liabilities with the tax authorities could require adjustments to be made to estimates previously recorded.

It is the Group's assessment that there is uncertainty as to the estimate of taxes payable as of 31 December 2008 due to the lack of precedents that have interpreted the tonnage tax regulation. The estimate is based on scenario analyses and discussions with the tax authorities, tax advisors and industry organizations, and the uncertainty primarily relates to the split of the activities between income and expenses from shipping related activities, which are taxed under the tonnage tax scheme, and income and expenses from other activities, which are not taxed under the tonnage tax scheme.

#### NOTE 3 - NET EARNINGS FROM SHIPPING ACTIVITIES (in USD million)

	For the year ended December 31, 2006			
	Tanker	Bulk	Not allocated	Total
<b>CONSOLIDATED SEGMENT INFORMATION</b>				
<b>INCOME STATEMENT</b>				
Revenue	494.0	109.7	0.0	603.7
Port expenses, bunkers and commissions	(145.3)	(5.1)	0.0	(150.4)
Freight and bunkers derivatives	0.6	0.0	0.0	0.6
Time Charter Equivalent Earnings	349.3	104.6	0.0	453.9

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Charter hire	(58.5)	(47.8)	0.0	(106.3)
Operating expenses	(64.6)	(13.1)	0.0	(77.7)
Gross profit/(loss) (Net earnings from shipping activities)	226.2	43.7	0.0	269.9
Profit/(loss) from sale of vessels	3.1	51.3	0.0	54.4
Administrative expenses	(29.0)	(5.5)	0.0	(34.5)
Other operating income	9.9	0.1	0.0	10.0
Share of results of jointly controlled entities	1.2	0.0	0.0	1.2
Depreciation and impairment losses	(50.8)	(8.1)	0.0	(58.9)
Operating profit	160.6	81.5	0.0	242.1
Financial income and expenses			(1.1)	(1.1)
Profit/(loss) before tax			(1.2)	241.0
Tax expenses			(6.5)	(6.5)
Net profit/(loss) for the year			(7.7)	234.5

BALANCE

			As of December 31, 2006	
Total non-current assets	1,234.9	88.8	644.4	1,968.1
Total assets	1,309.6	91.8	687.6	2,089.0
Total liabilities	36.9	2.3	769.0	808.2

OTHER INFORMATION

Additions to tangible fixed assets	206.4	1.9	0.0	262.3
Impairment losses recognized in the income statement	0.0	0.0	0.0	0.0
Reversal of impairment losses recognized in the income statement	0.0	0.0	0.0	0.0

During the year there have been no transactions between the Tanker and the Bulk segments, and therefore all the revenue derives from external customers.

	For the year ended December 31, 2007			
	Tanker	Bulk	Not allocated	Total
CONSOLIDATED SEGMENT INFORMATION				
INCOME STATEMENT				
Revenue	639.3	134.3	0.0	773.6
Port expenses, bunkers and commissions	(165.9)	(6.3)	0.0	(172.2)
Freight and bunkers derivatives	2.9	0.0	0.0	2.9
Time Charter Equivalent Earnings	476.3	128.0	0.0	604.3





Charter hire	(95.9)	(59.0)	0.0	(154.9)
Operating expenses	(105.1)	(10.4)	0.0	(115.5)
Gross profit/(loss) (Net earnings from shipping activities)	275.3	58.6	0.0	333.9
Profit/(loss) from sale of vessels	0.0	0.0	0.0	0.0
Administrative expenses	(47.8)	(7.2)	0.0	(55.0)
Other operating income	15.2	0.0	0.0	15.2
Share of results of jointly controlled entities	3.4	0.0	(9.4)	(6.0)
Depreciation and impairment losses	(82.6)	(6.5)	0.0	(89.1)
Operating profit	163.5	44.9	(9.4)	199.0
Financial income and expenses			605.2	605.2
Profit/(loss) before tax			595.8	804.2
Tax expenses			(12.5)	(12.5)
Net profit/(loss) for the year			583.3	791.7

## BALANCE

			As of December 31, 2007	
Total non-current assets	2,431.8	154.3	116.9	2,703.0
Total assets	2,560.7	155.7	242.0	2,958.9
Total liabilities	136.7	3.5	1,737.4	1,877.6

## OTHER INFORMATION

Additions to intangible assets and tangible fixed assets	1,243.5	72.2	0.0	1,315.7
Impairment losses recognized in the income statement	0.0	0.0	0.0	0.0
Reversal of impairment losses recognized in the income statement	0.0	0.0	0.0	0.0
Investments in jointly controlled entities	3.9	0.0	(7.4)	(3.5)

The activity that TORM owns in a 50/50 joint venture with Teekay is included in "Not allocated."

During the year there have been no transactions between the Tanker and the Bulk segments, and therefore all the revenue derives from external customers.

		For the year ended December 31, 2008		
			Not	
	Tanker	Bulk	allocated	Total
CONSOLIDATED SEGMENT INFORMATION				
INCOME STATEMENT				
Revenue	923.2	260.4	0.0	1,183.6
Port expenses, bunkers and commissions	(252.2)	(11.9)	0.0	(264.1)
Freight and bunkers derivatives	(13.6)	0.0	0.0	(13.6)

Time Charter Equivalent Earnings	657.4	248.5	0.0	905.9
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Charter hire	(133.8)	(60.0)	0.0	(193.8)
Operating expenses	(160.0)	(14.3)	0.0	(174.3)
Gross profit/(loss) (Net earnings from shipping activities)	363.6	174.2	0.0	537.8
Profit/(loss) from sale of vessels	30.6	52.2	0.0	82.8
Administrative expenses	(82.6)	(7.3)	0.0	(89.9)
Other operating income	14.4	0.1	0.0	14.5
Share of results of jointly controlled entities	8.0	0.0	19.1	27.1
Depreciation and impairment losses	(118.7)	(7.3)	0.0	(126.0)
Operating profit	215.3	211.9	19.1	446.3
Financial income and expenses			(86.2)	(86.2)
Profit/(loss) before tax			(67.1)	360.1
Tax expenses			1.3	1.3
Net profit/(loss) for the year			(65.8)	361.4

## BALANCE

			As of December 31, 2008	
Total non-current assets	2,542.9	199.0	171.3	2,913.2
Total assets	2,762.1	209.2	346.1	3,317.4
Total liabilities	177.0	7.8	1,853.6	2,038.4

## OTHER INFORMATION

Additions to intangible assets and tangible fixed assets	309.1	68.7	0.0	377.8
Impairment losses recognized in the income statement	0.0	0.0	0.0	0.0
Reversal of impairment losses recognized in the income statement	0.0	0.0	0.0	0.0
Investments in jointly controlled entities	7.8	0.0	122.7	130.5

The activity that TORM owns in a 50/50 joint venture with Teekay and the 50% ownership of FR8 Holding Pte. Ltd. is included in "Not allocated."

During the year there have been no transactions between the Tanker and the Bulk segments, and therefore all the revenue derives from external customers.

## NOTE 4 - STAFF COSTS (in USD million)

	For the years ended December 31		
	2006	2007	2008
Total staff costs			
Staff costs included in operating expenses	13.6	15.2	22.2
Staff costs included in administrative expenses	22.7	39.0	59.1
<b>Total</b>	<b>36.3</b>	<b>54.2</b>	<b>81.3</b>
Staff costs comprise the following			
Wages and salaries	33.2	47.7	66.7
Share-based compensation	0.0	2.3	8.9
Pension costs	2.9	3.3	4.5
Other social security costs	0.2	0.9	1.2
<b>Total</b>	<b>36.3</b>	<b>54.2</b>	<b>81.3</b>
Hereof remuneration to the Board of Directors and salaries to the Management			
Wages and salaries	4.0	5.7	7.1
Share-based compensation	0.0	0.5	1.5
Pension and social security costs	0.1	0.1	0.2
<b>Total</b>	<b>4.1</b>	<b>6.3</b>	<b>8.8</b>
Hereof remuneration to the Board of directors	0.5	0.6	0.9
Hereof salaries to the Management	3.6	5.7	7.9
<b>Total</b>	<b>4.1</b>	<b>6.3</b>	<b>8.8</b>

Hereof remuneration to the Board of Directors and salaries to the Management  
(in USD thousands)

2006	Board remuneration	Committee remuneration	Total short-term benefits
Niels-Erik Nielsen	126	0	126
Christian Frigast	84	0	84
Lennart Arrias	50	0	50

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Ditlev Engel	50	0	50
Rex Harrington (resigned on April 19 2006)	15	0	15
Peder Mouridsen	50	0	50
Gabriel Panayotides	50	0	50
Stefanos-Niko Zouvelos (appointed on April 19 2006)	35	0	35
Total for 2006	460	0	460

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2006	Short-term benefits			Share-based compensation	Total
	Salaries	Bonus	Pension		
Klaus Kjærulff	718	2,347	69	0	3,134
Klaus Nyborg	373	0	36	0	409
Total for 2006	1,585	2,347	105	0	3,543

Hereof remuneration to the  
Board of Directors and salaries  
to the Management  
(in USD thousands)

2007	Board remuneration	Committee remuneration	Total short-term benefits
Niels-Erik Nielsen	138	18	156
Christian Frigast	92	18	110
Peter Abildgaard (appointed on 17 April 2007)	39	0	39
Lennart Arrias	55	0	55
Margrethe Bligaard (appointed on 17 April 2007)	39	0	39
Ditlev Engel (resigned on 17 April 2007)16	28	0	28
Peder Mouridsen (resigned on 17 April 2007)	16	0	16
Gabriel Panayotides	55	0	55
Stefanos-Niko Zouvelos	55	0	55
Total for 2007	517	36	553

2007	Short-term benefits			Share-based compensation	Total
	Salaries	Bonus	Pension		
Klaus Kjærulff	1,036	2,341	100	326	3,803
Mikael Skov	549	1,217	53	210	2,029
Total for 2007	1,585	3,558	153	536	5,832





Hereof remuneration to the  
Board of Directors and salaries  
to the Management  
2008

	Board remuneration	Committee remuneration	Total short-term benefits
Niels-Erik Nielsen	196	10	206
Christian Frigast	128	20	148
Peter Abildgaard	79	0	79
Lennart Arrias	79	0	79
Margrethe Bligaard	79	0	79
Bo Jagd (appointed on 22 April 2008)	54	7	61
Gabriel Panayotides	79	0	79
E. Michael Steimler (appointed on 22 April 2008)	54	0	54
Stefanos-Niko Zouvelos	79	7	86
<b>Total for 2008</b>	<b>827</b>	<b>44</b>	<b>871</b>

2008	Short-term benefits				Total
	Salaries	Bonus	Pension	Share-based compensation	
Klaus Kjærulff (1 January – 30 September 2008)	914	2,356	88	948	4,306
Mikael Skov	904	1,325	88	581	2,898
Roland M. Andersen (started on 26 May 2008)	430	293	40	9	772
<b>Total for 2008</b>	<b>2,248</b>	<b>3,974</b>	<b>216</b>	<b>1,538</b>	<b>7,976</b>

#### Employee information

The average number of staff in the group in the financial year was 557 (2007: 439. 2006: 353). The majority of the staff on vessels is not employed by TORM.

The members of Management are, in the event of termination by the Company, entitled to a severance payment of up to 24 months' salary. The pension age for members of Management is 62.

In September 2008, Klaus Kjærulff entered into an agreement to terminate his employment as CEO with TORM, and in this connection a provision for termination benefit of USD 4.9 million has been recognized and expensed in the income statement.

#### INCENTIVE SCHEME FOR MANAGEMENT AND EMPLOYEES

In 2007, an Incentive Scheme was established for all land-based employees and officers employed on permanent contracts (apart from trainees, apprentices and cadets) that are directly employed in A/S Dampskibsselskabet TORM.

The Board of Directors is not included in the programme. The Programme covers the financial years of 2007, 2008 and 2009. The programme consists of both bonuses and share options.

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## Bonus

The bonus will be awarded based on TORM achieving a calculated RoIC (Return on Invested Capital) in each financial year compared to each year's budgeted RoIC. 75% of the achieved bonus will be paid in cash and 25% in shares, which the employee will own provided that the employee is still employed by the Company after a period of two years. The number of shares granted to the employee will depend on the market price for the TORM share when TORM's annual report for the grant year is published. The individual employee's share of the bonus will be based partly on the individual's salary and partly on the evaluation of the individual's performance. The employee will receive the bonus after the publication of TORM's annual report. For the financial year 2008, the total value of the bonus under this programme amounts to USD 18.7 million (2007: USD 10.5 million), of which USD 14.6 million (2007: USD 8.2 million) has been recognized as an expense in the income statement in 2008. Of the USD 14.6 million (2007: USD 8.2 million) USD 0.6 million (2007: USD 0.3 million) relates to shares and USD 14.0 million (2007: USD 7.9 million) relates to cash bonus. The remaining part of the total value of the bonus will be amortized and expensed over the period 2009-2011. From the total value of the bonus programme for 2008 USD 4.7 million (2007: USD 2.5 million) relates to shares. The number of granted shares for 2007 amounts to 106,622 shares of which 3,179 are forfeited. An expense of USD 1.0 million relating to the amortization of shares for 2007 has furthermore been recognized in the income statement for 2008.

## Share options

The number of share options granted during the financial year 2008 is 1,087,362 (2007: 1,087,362 share options) of which 24,952 are forfeited. In 2008, 40,267 (2007: 4,706 share options) of the share options granted in 2007 are forfeited. Each share option gives the employee the right to acquire one TORM share of a nominal value of DKK 5. It is presumed that an equivalent total of share options will be issued in 2009. The share options can only be settled in shares. The Company's holding of treasury shares covers the share option programme.

The share options consist of 2 elements:

50% of the share options are granted with a fixed exercise price (standard options). For the share options granted in 2007, the price is DKK 151.5 per share, and for the following years, DKK 162.5 and DKK 173.5 respectively after adjustment for the extraordinary dividend paid out in September 2007.

50% of the share options are granted with an exercise price that is determined ultimately with the publication of TORM's annual report after a three-year period, i.e. for the grant for 2008, in March 2011. The exercise price is determined by the relative development in TORM's share price in relation to a defined peer group (peer group options). If the TORM share develops relatively better than the peer group, the share options will have a value.

All share options can be exercised after three years from grant and should be at the latest exercised three years later, however observing the rules about insider trading. For the 2008 grant, share options can be exercised after the publication of the annual report for 2010, in March 2011, and shall be exercised by March 2014 at the latest, whereas the options granted in 2007 can be exercised after the publication of the annual report for 2009 in March 2010 and shall be exercised by March 2013 at the latest. The share options will be in accordance with Danish law and continued employment in the Company until the share options have vested is a condition. In 2008, an expense of USD 7.3 million (2007: USD 2.0 million) has been recognized in the income statement regarding share options, of which USD 2.6 million (2007: USD 0.0 million) relates to share options granted in 2008 and USD 4.7 million (2007: USD 2.0 million) relates to share options granted in 2007.

The market value of the share options granted in 2008 is based on the Black-Scholes and Monte Carlo models and calculated at USD 6.3 million (2007: USD 10.9 million) as per the grant date.

The key assumptions for the calculation of the market value based on the Black-Scholes and Monte Carlo models are:

- The share price at the measurement date is estimated at DKK 140.0 per share (2007 grant: DKK 202.25) based on the share price at OMX The Nordic Exchange as per 31 March 2008 (2007 grant: 9 August 2007).
- The exercise price (before adjustment for extraordinary dividends) is DKK 190 per share (2007 grant: DKK 179).

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The exercise price will be adjusted for extraordinary TORM dividends. In 2007, an extraordinary dividend of DKK 27.5 per share was paid.

- The expected dividend rate is estimated at 3% (2007 grant: 3%) of the equity per annum.
- The volatility on the TORM share is estimated based on the Company's historical volatility and was estimated at 34.9% (2007: 36%) and for the peer group at 26% (2007 grant: 22%).
- The risk-free interest rate based upon expiry of the options is 3.80% (2007 grant: 4.46%).
- The options are on average held for a period of 4.46 year (2007 grant: 4,1 year).

The correlation rate between peer group and TORM is 92.5% (2007 grant: 92.5%), based on the correlation on the yearly return for the historical share prices during the last ten years.

Changes in outstanding share options are as follows:

	Options allocation per year		
	Total options 2008	2008	2007
Share option programme – 2007 to 2009			
Management			
Granted	528,358	200,009	328,349
Transferred to resigned employees	(400,018)	(200,009)	(200,009)
Exercised	0	0	0
Forfeited/expired 2007	0	0	0
Forfeited/expired 2008	0	0	0
Not exercised at 31 December 2008	128,340	0	128,340
Other employees			
Granted	1,606,776	847,763	759,013
Transferred to resigned employees	(109,220)	(54,552)	(54,668)
Exercised	0	0	0
Forfeited/expired 2007	(4,706)	0	(4,706)
Forfeited/expired 2008	(65,219)	(24,952)	(40,267)
Not exercised at 31 December 2008	1,427,631	768,259	659,372
Resigned employees			
Granted	39,590	39,590	0
Transferred from management and other employees	509,238	254,561	254,677
Exercised	0	0	0
Forfeited/expired 2007	0	0	0
Forfeited/expired 2008	0	0	0
Not exercised at 31 December 2008	548,828	294,151	254,677
Total number of not exercised at 31 December 2008	2,104,799	1,062,410	1,042,389

Hereof:

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Share options with a fixed exercise price	933,342	471,115	462,227
Share options with an exercise price based on peer group	1,171,457	591,295	580,162
Total number of not exercised at 31 December 2007	1,081,533		1,081,533
Total number of share options that can be exercised at 31 December 2008	0	0	0
Total number of share options that can be exercised at 31 December 2007	0	0	0

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## NOTE 5 - ADMINISTRATIVE EXPENSES (in USD million)

For the year ended December 31

Remuneration to the auditors  
appointed at the Annual  
General Meeting

	2006	2007	2008
Deloitte			
Audit fees	0.8	0.6	0.6
Audit-related fees	0.0	0.2	0.2
Tax fees	0.1	0.0	0.2
Fees other services	0.0	0.1	0.3
Total fees	0.9	0.9	1.3

## NOTE 6 - OTHER INVESTMENTS (in USD million)

	2007	2008
Other investments		
Cost:		
Balance at January 1	64.5	3.7
Additions	0.1	17.7
Disposals	(60.9)	(14.9)
Balance at December 31	3.7	6.5
Value adjustment:		
Balance at January 1	579.9	7.3
Exchange rate adjustment	2.4	(0.3)
Value adjustment for the year	68.3	(4.5)
Disposal	(643.3)	(2.6)
Balance as of December 31	7.3	(0.1)
Carrying amount at December 31:	11.0	6.4
Hereof listed	7.8	3.5
Hereof unlisted	3.2	2.9

## NOTE 7 - INTANGIBLE ASSETS (in USD million)

	Goodwill	Other intangible assets	Total
Cost:			
Balance at 1 January 2007	0.0	0.0	0.0
Exchange rate adjustment	0.0	0.0	0.0
Additions	0.0	0.0	0.0
Additions through business combination	89.2	13.4	102.6
Disposals	0.0	0.0	0.0
Transferred to/from other items	0.0	0.0	0.0
Balance at 31 December 2007	89.2	13.4	102.6
Depreciation and impairment losses:			
Balance at 1 January 2007	0.0	0.0	0.0
Exchange rate adjustment	0.0	0.0	0.0
Disposal	0.0	0.0	0.0
Reversal of impairment losses	0.0	0.0	0.0
Depreciation and impairment losses for the year	0.0	5.9	5.9
Balance at 31 December 2007	0.0	5.9	5.9
Carrying amount at 31 December 2007	89.2	7.5	96.7

	Goodwill	Other intangible assets	Total
Cost:			
Balance at 1 January 2008	89.2	13.4	102.6
Exchange rate adjustment	0.0	0.0	0.0
Additions	0.0	0.0	0.0
Additions through business combination	0.0	0.0	0.0
Disposals	0.0	(10.7)	-10.7
Transferred to/from other items	0.0	0.0	0.0
Balance at 31 December 2008	89.2	2.7	91.9
Depreciation and impairment losses:			
Balance at 1 January 2008	0.0	5.9	5.9
Exchange rate adjustment	0.0	0.0	0.0
Disposal	0.0	(10.7)	(10.7)



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Reversal of impairment losses	0.0	0.0	0.0
Depreciation and impairment losses for the year	0.0	5.1	5.1
Balance at 31 December 2008	0.0	0.3	0.3
Carrying amount at 31 December 2008	89.2	2.4	91.6

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## IMPAIRMENT TESTING OF GOODWILL

Goodwill with a carrying amount of USD 89.2 million was acquired in the acquisition of OMI in 2007 and has been allocated to the Tanker Division.

As at 31 December 2008, the Company assessed the recoverable amount of the Tanker Division and determined that the Tanker Division and the allocated goodwill was not impaired.

The recoverable amount of the Tanker Division was determined based on a value in use calculation over the life of the vessels which uses 5-year cash flow projections based on financial budgets approved by the Board of Directors and a discount rate of 9.0% per annum.

The recoverable amount of the Tanker Division is almost entirely dependent on the development in the freight rates in the product tanker market which are very volatile. Management believes that even significant short-term, i.e. one to two years, reductions in freight rates would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Tanker Division. However, should a permanent downwards shift in the freight rate levels in excess of 6-10% occur, the aggregate carrying amount might exceed the aggregate recoverable amount of the Tanker Division and impairment of goodwill might become relevant.

The key assumptions used in the value at use calculation are as follows:

- The cash flows are based on known tonnage in the budget period only. Additions or sales of tonnage are not factored in as the timing and effect of such transactions is highly uncertain. However, additions will only be made if Management expects to achieve a return in excess of the discount rate applied in the impairment test and sales would improve the cash flows.
- The product tankers are expected to generate normal income for at least 25 years. Given the current age profile of the tanker fleet, the remaining life would be at least 20 years.
- Freight rate estimates are based on the extensive experience and knowledge of the market embedded in the Tanker Division. From 2012 onwards the freight rates are expected to increase by 1.5% per year.
- Operating expenses and administrative expenses are estimated based on experience and knowledge of the market as well as plans and initiatives outlined in the operating budgets and are thereafter expected to increase by 3% per year.

Management believes these key assumptions to be reasonably probable.

## NOTE 8 - TANGIBLE FIXED ASSETS (in USD million)

	Land and buildings	Vessels and capitalized dry-docking	Prepayment on vessels	Other plant and operating equipment	Total
Cost:					
Balance at January 1, 2006	1.3	1,230.0	97.4	6.1	1,334.8
Exchange rate adjustment	0.0	0.0	0.0	0.0	0.0
Additions	0.0	93.3	152.2	2.7	262.3
Disposals	(0.8)	(119.6)	0.0	(0.5)	(120.9)
Transferred to/from other items	0.0	80.4	(80.4)	0.0	0.0
Transferred to non-current assets held for sale	0.0	0.0	0.0	0.0	0.0
Balance at December 31, 2006	0.5	1,284.1	169.2	8.3	1,476.2
Depreciation and impairment losses:					
Balance at January 1, 2006	0.4	163.6	0.0	3.8	167.8
Exchange rate adjustment	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.0	0.0	0.0
Disposals	(0.3)	(73.6)	0.0	(0.3)	(74.2)
Reversal of impairment losses	0.0	0.0	0.0	0.0	0.0
Depreciation for the year	0.0	57.7	0.0	1.2	58.9
Balance at December 31, 2006	0.1	147.7	0.0	4.7	152.5

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Carrying amount at December 31, 2006	0.4	1,136.4	169.2	3.6	1,323.7
Hereof finance leases	0.0	0.0	0.0	0.0	0.0
Hereof financial expenses included in cost	0.0	1.2	0.8	0.0	2.0
Cost:					
Balance at January 1, 2007	0.5	1,284.1	169.2	8.3	1,462.1
Exchange rate adjustment	0.0	0.0	0.0	0.0	0.0
Additions	1.7				