TORM

ANNUAL REPORT 2011

as of 23 April 2012



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CHAIRMAN AND CEO STATEMENT

TORM A/S is in a very difficult situation at the release of the 2011 Annual Report, as the deterioration in the global economy and excess tonnage capacity severely impact the product tanker freight market for the third year running. Therefore, TORM A/S is pursuing a long-term comprehensive financing solution that will enable the Company to operate efficiently through the global crisis and restore profitability. On 4 April 2012, TORM announced a conditional framework agreement in principle with the bank coordination committee and its major time charter partners regarding a comprehensive financing and restructuring plan. The plan will significantly change the ownership structure of TORM and we expect that TORM and the important stakeholders will be able to finalize the financing and restructing plan. The Annual Report for 2011 is prepared under the assumption that the conditional framework agreement in principle will be successfully finalized, says Chairman of the Board N. E. Nielsen.

LONG-TERM COMPREHENSIVE FINANCING SOLUTION

During 2011, TORM's main focus was to improve its liquidity position and strengthen its balance sheet. In April 2011, TORM announced plans to raise approximately USD 100 million of new share capital through a fully underwritten rights issue. Furthermore, TORM agreed in June an amendment to a revolving credit facility agreement that matures in 2013 with a bullet payment of USD 630 million.

However, the renewed global economic uncertainty accelerated into the second half of 2011, and TORM decided that the planned rights issue and the bank agreement alone were insufficient and thereby not responsible to complete. Instead TORM decided to pursue a more comprehensive financing solution that is planned to consist of five main levers:

First, TORM initiated negotiations with its banks for an amended and extended repayment schedule of all its debt, as a result of which TORM on 4 April 2012 announced a conditional framework agreement in principle with the bank coordination committee and its major time charter partners regarding a comprehensive financing and restructuring plan. The banks will defer all installments and repayments of loans until December 2016 with simultaneous for rolling up interest the first two years, as well as provide a USD 100 million revolving credit facility to cover working capital requirements. The banks and the time charter partners will according to the conditional framework agreement in principle receive an ownership interest of 92.5% in TORM A/S, while the existing shareholders will retain an ownership interest of 7.5%. Furthermore, a temporary deferral of installments and covenants standstill has been agreed and latest extended until 30 April 2012. The Annual Report for 2011 is prepared under the assumption that the conditional framework agreement in principle will be successfully finalized.

Second, TORM has over the last couple of years reduced administrative costs by 21% and OPEX per day by 16% despite underlying inflationary pressure. TORM will continue its ongoing efficiency program with further cost and cash improving initiatives with an expected cumulative impact of a minimum of USD 100 million over the next three years.

Third, as part of the plan TORM has eliminated the newbuilding program in order to preserve liquidity and reduce debt. In the fourth quarter of 2011, TORM cancelled one MR newbuilding scheduled for delivery in 2013 and sold the last two dry bulk newbuilding contracts. Three fully financed MR vessels, remained in the order book at 31 December 2011, two of which have subsequently been delivered and one cancelled.

Fourth, TORM addressed the issue that it had entered into a number of charter-in agreements during the cyclical high markets of 2007-2008. This time charter portfolio is significantly misaligned with the current market level, and TORM and its banks are in negotiations with the time charter partners aimed at amending the charter-in rates and agreements. The vast majority of the time charter partners have agreed to align the charter-in rates to the current market level until 30 April 2012, and to participate in the financing and restructuring plan outlined in the conditional framework agreement in principle. This will align the charter-in rates to the current market level throughout the duration of the charter periods.

Fifth, TORM is working on creating the foundation for an equity issue, which will be included in the long-term comprehensive financing solution.

With the current freight rate level and the fact that USD 1.9 billion of debt that is payable on demand and accordingly classified as current liabilities, TORM is required to conclude the long-term comprehensive financing solution to ensure the Company's operations and liquidity for 2012. The statement by management on the annual report reflects the uncertainty regarding the completion of the voluntary long-term comprehensive solution outlined in the conditional framework agreement in principle.



One of TORM's product tankers.

The financial result for 2012 is subject to considerable uncertainty given TORM's situation and the changes to the Company's business model that may follow. Consequently, TORM has decided not to provide any earnings guidance for 2012 until a clarification is in place.

The Company expects that the continued cooperation of all major stakeholders will provide a solution to the current difficulties.

2011

TORM incurred a loss before tax and impairment losses of USD 251 million in 2011. The performance is in line with the revised forecast of 23 December 2011. The result includes negative vessel sale adjustments of USD 53 million that were completed to bolster liquidity and reduce debt (net proceeds of USD 281 million excl. sale of bulk newbuilding contracts). TORM recognized impairment losses of USD 200 million related to tanker fleet values (USD 187 million) and the investment in FR8 (USD 13 million) as of 31 December 2011. This resulted in a total loss before tax of USD 451 million for 2011.

This result is clearly unsatisfactory and mainly driven by the prevailing adverse market conditions in the product tanker segments as well as related impairment losses. Freight rates, particularly in the larger segments, LR2 and LR1, suffered from the global economic downturn and the oversupply of vessels. Nevertheless, by leveraging strong customer relationships and scale benefits TORM continued to achieve high fleet utilization as well as earnings above spot market benchmarks.

The dry bulk market also suffered from high freight rate volatility throughout 2011. Freight rates were generally at a lower level than experienced in 2010. However, TORM succeeded in concluding a number of COAs with large industrial clients and commodity traders. The conclusion of these contracts forms part of TORM's transformation from a tonnage provider to an integrated freight service provider in the dry bulk segment.

During the year, TORM took delivery of two MR newbuildings and reduced its owned fleet by six product tankers. Two older MR product tankers were sold as part of TORM's strategy to own and operate a modern fleet. In addition, the Company entered into sale and leaseback agreements for two LR2 vessels and sold two other LR2 vessels.

TORM continued to trim the daily operations throughout 2011, despite the uncertainty surrounding the Company's financial position. A dedicated effort from the entire organization drove improvements on the Company's commercial, cost and quality performance. This is described in more detail on the following pages of TORM's Annual Report 2011.

TORM would like to thank all stakeholders for their continued support.

N. E. Nielsen,
Chairman of the Board

Jacob Meldgaard,
CEO

FIVE-YEAR KEY FIGURES

USD million	**2011**	2010	2009	2008	2007
INCOME STATEMENT					
Revenue	1,305	856	862	1,184	774
Time charter equivalent earnings (TCE)	644	561	633	906	604
Gross profit	81	180	243	538	334
EBITDA	-44	97	203	572	288
Operating profit/(loss) (EBIT)	-389	-80	50	446	199
Financial items	-63	-57	-69	-86	605
Profit/(loss) before tax	-451	-136	-19	360	804
Net profit/(loss) for the year	-453	-135	-17	361	792
Net profit/(loss) for the year excl. impairment charge	-253	-100	3	361	792
BALANCE SHEET					
Non-current assets	2,410	2,984	2,944	2,913	2,703
Total assets	2,779	3,286	3,227	3,317	2,959
Equity	644	1,115	1,247	1,279	1,081
Total liabilities	2,135	2,171	1,981	2,038	1,878
Invested capital	2,425	2,987	2,926	2,822	2,618
Net interest bearing debt	1,787	1,875	1,683	1,550	1,548
Cash and cash equivalents	86	120	122	168	105
CASH FLOW					
From operating activities	-75	-1	116	385	188
From investing activities	168	-187	-199	-262	-357
thereof investment in tangible fixed assets	-118	-254	-289	-378	-252
From financing activities	-128	186	37	-59	242
Total net cash flow	-34	-2	-46	63	73
KEY FINANCIAL FIGURES *)					
Gross margins:					
TCE	49.4%	65.5%	73.4%	76.5%	78.0%
Gross profit	6.2%	21.0%	28.2%	45.4%	43.2%
EBITDA	-3.4%	11.3%	23.5%	48.3%	37.2%
Operating profit	-29.8%	-9.3%	5.8%	37.7%	25.7%
Return on Equity (RoE)	-51.5%	-11.4%	-1.3%	30.6%	67.1%
Return on Invested Capital (RoIC) **)	-14.4%	-2.7%	1.7%	16.4%	10.2%
Equity ratio	23.2%	33.9%	38.6%	38.6%	36.5%
Exchange rate DKK/USD, end of period	5.75	5.61	5.19	5.28	5.08
Exchange rate DKK/USD, average	5.36	5.62	5.36	5.09	5.44
SHARE RELATED KEY FIGURES *)					
Earnings/(loss) per share, EPS (USD)	-6.5	-2.0	-0.3	5.2	11.4
Diluted earnings/(loss) per share, EPS (USD)	-6.5	-2.0	-0.3	5.2	11.4
Cash flow per share, CFPS (USD)	-1.1	0.0	1.7	5.6	2.7
Proposed dividend per share (USD) ***)	0.00	0.00	0.00	0.76	0.89
Proposed dividend per share (DKK)	0.00	0.00	0.00	4.00	4.50
Extraordinary dividend per share (DKK)	0.00	0.00	0.00	4.50	27.50
Share price in DKK, end of period (per share of DKK 5 each)	3.7	39.7	50.7	55.5	178.2
Number of shares, end of period (million)	72.8	72.8	72.8	72.8	72.8
Number of shares (excl. treasury shares), average (million)	69.6	69.3	69.2	69.2	69.2

*) Key figures are calculated in accordance with recommendations from the Danish Society of Financial Analysts. 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.

**) Return on Invested Capital. Defined as: Operating profit divided by average Invested capital, defined as average of beginning and ending balances of (equity plus Net interest bearing debt less Non-operating assets).

***) Proposed dividend per share has been translated to USD using the USD/DKK exchange rate at year end for the year in question.

2011 HIGHLIGHTS

TORM A/S is in a very difficult situation at the release of the 2011 Annual Report, as the deterioration in the global economy and excess tonnage capacity severely impact the product tanker freight market for the third year running. Therefore, TORM A/S is pursuing a long-term comprehensive financing solution that will enable the Company to operate efficiently through the global crisis and restore profitability. On 4 April 2012, TORM announced a conditional framework agreement in principle with the bank coordination committee and its major time charter partners regarding a comprehensive financing and restructuring plan. The plan will significantly change the ownership structure of TORM and we expect that TORM and the important stakeholders will be able to finalize the financing and restructing plan. The Annual Report for 2011 is prepared under the assumption that the conditional framework agreement in principle will be successfully finalized, says Chairman of the Board N. E. Nielsen.

- In 2011, the Company incurred a loss before tax of USD 451 million. The result is unsatisfactory and impacted by an impairment loss of USD 200 million and a net loss from sale of vessels of USD 53 million.
- Throughout 2011, the Tanker Division's earnings were negatively impacted by low freight rates. The global product tanker market was marked by the continued tonnage influx in 2011. Demand growth was affected by global economic uncertainty affecting the refined product consumption negatively, a general absence of arbitrage opportunities and events occurring in among others Japan and the Arab countries.
- The dry bulk freight rates were under pressure, and volatility prevailed during 2011 driven by seasonality and the adverse effects of the Japanese earthquake and Australian floodings. Moreover, the net growth of the global bulk fleet reached an unprecedented level in 2011, which negated the growth in demand.
- The Company's 2011 performance was negatively impacted by a USD 53 million net loss from the sale of vessels. This amount consists of a net loss of USD 12 million from the sale of six product tankers sold during 2011 and the cancellation of one product tanker plus a total loss of USD 41 million from sale of two bulk newbuilding contracts.
- As stated in company announcement no 14 dated 4 April 2012, TORM reached a conditional framework agreement in principle with the bank coordination committee and its major time charter partners regarding a comprehensive financing and restructuring plan. The banks will defer all installments and repayments of loans until December 2016 with simultaneous possibility for rolling up interest the first two years, as well as provide a USD 100 million revolving credit facility to cover working capital requirements, while the Company's time charter portfolio will be aligned to the current market level. The banks and the time charter partners will according to the conditional framework agreement in principle receive an ownership interest of 92.5% in TORM A/S, while the existing shareholders will retain an ownership interest of 7.5%. In addition TORM and the bank group agreed on a temporary deferral of installments and covenant standstill, which most recently has been extended until 30 April 2012. The Annual Report for 2011 is prepared under the assumption that the conditional framework agreement in principle will be successfully finalized.
- As of 31 December 2011, cash and cash equivalents amounted to USD 86 million and undrawn credit facilities restricted to the newbuilding program amounted to USD 53 million.
- As of 31 December 2011, outstanding CAPEX relating to the order book amounted to USD 82 million.
- In accordance with IFRS, TORM has tested the carrying amount of its assets to determine if there is any impairment as of 31 December 2011. As a consequence, TORM has recognized an impairment loss of USD 200 million, which is related to tanker fleet values (USD 187 million) and the investment in FR8 (USD 13 million). Based on brokers' valuations, TORM's fleet including the order book had a market value of USD 1,797 million as of 31 December 2011. This is USD 608 million less than the impaired book value.
- As of 31 December 2011, equity amounted to USD 644 million (DKK 3,703 million), corresponding to USD 9 per share (DKK 53) excluding treasury shares, giving TORM an equity ratio of 23%. Thereby, the Company was in breach on its financial covenant relating to an equity ratio of minimum 25% as of 31 December 2011. Accordingly, the Company's mortgage debt and bank loans have been reclassified as current liabilities.
- With the current freight rate level and the fact that the debt is payable on demand, TORM is required to conclude the long-term comprehensive financing solution outlined in the conditional framework agreement in principle to ensure the Company's operations and liquidity throughout 2012. The statement by management on the annual report reflects the uncertainty regarding the completion of the voluntary long-term comprehensive solution.
- As a consequence of events that have taken place from 1 March 2012 to 23 April 2012, the independent auditors have replaced the disclaimer of opinion included in the annual report made public on 1 March 2012 by an unqualified auditors' report with emphasises of matter.
- As of 31 December 2011, 14% of the total earning days in the Tanker Division for 2012 had been covered at USD/day 15,002 and 87% of the total earning days in the Bulk Division at a rate of USD/day 13,906.
- The financial result for 2012 is subject to considerable uncertainty given TORM's situation and the changes to the Company's business model that may follow. Consequently, TORM has decided not to provide earnings guidance for 2012 before a long-term comprehensive financing solution is in place.
- The Board of Directors proposes that no dividend be distributed for 2011.

OUTLOOK 2012

- No earnings guidance provided for 2012, until a long-term comprehensive financing solution is in place
- Given the number of open earning days, profit before tax will change by USD 30 million in case of a freight rate change of USD/day 1,000

EARNINGS AND COVERAGE FOR 2012

The financial guidance for 2012 is subject to considerable uncertainty given TORM's situation and the changes to the Company's business model that may follow. Consequently, TORM does not provide any earnings guidance for 2012 before a long-term comprehensive financing solution is in place. Please refer to note 2 in the financial statements on page 57 for more information on the liquidity and capital resources.

The most important factors for TORM's earnings in 2012 are:

- Outcome of negotiations regarding TORM's long-term comprehensive financing solution
- TORM's profile as a counterpart
- Global economic growth
- Consumption of refined oil products
- Oil trading activity and developments in ton-mile
- Commodities transport, in particular iron ore and coal
- Fleet growth from addition of vessels, scrapping of vessels and delays to deliveries from the order book
- One-off market shaping events such as strikes, embargoes, political instability, weather conditions, etc.
- Potential difficulties of major business partners

As of 31 December 2011, the Tanker Division had covered 14% of the total earning days in 2012 at an average rate of USD/day 15,002 against 16% at an average of USD/day 16,103 at the same time in 2010.

As of 31 December 2011, the Bulk Division had covered 87% of the total earning days in 2012 at an average rate of USD/day 13,906 against 73% at an average of USD/day 16,896 at the same time in 2010.

The table on this page shows the effect that variations in the expected freight rates for product tankers and bulk carriers respectively will have on the result before tax for 2012. A change in freight rates of USD/day 1,000 would impact the result before tax by USD 30 million. This is due to the fact that 74% of the 2012 earning days, equal to 30,332 days, were unfixed as of 31 December 2011.

As of 31 December 2011, the interest-bearing debt totalled USD 1,787 million of which 71% had been fixed for 2012 at an average fixed interest rate of 3.2% including the margin.

OUTLOOK FOR THE TANKER DIVISION

The product tanker market is expected to face a challenging year in 2012, as the market is still recovering from the tonnage influx in 2008-2011, which resulted in ample tonnage supply. Going forward, TORM expects increasing oil consumption, increased ton-mile effects from relocation of refinery capacity and reduced tonnage additions to gradually improve market conditions.

Scrapping of existing tonnage and possible postponement of newbuildings may impact rates positively. TORM expects freight rates to recover gradually during 2012.

TORM does not publish its freight rate forecast, but instead provides market expectations as of 28 February 2012 on page 10.

OUTLOOK FOR THE BULK DIVISION

TORM remains cautious about the prospects for the dry bulk market in 2012 due to the expected high level of newbuilding deliveries across all segments and particularly in the Capesize and Panamax segments. Freight rates are expected to remain volatile due to the oversupply of tonnage and the market's significant dependence on China coupled with seasonal demand fluctuations.

TORM does not publish its freight rate forecast, but instead provides market expectations as of 28 February 2012 on page 10.

2012 NET PROFIT SENSITIVITY TO CHANGE IN FREIGHT RATES

	Change in freight rates (USD/day)			
USD million	-2,000	-1,000	1,000	2,000
LR2	-7.1	-3.5	3.5	7.1
LR1	-12.7	-6.3	6.3	13
MR	-32.6	-16.3	16.3	32.6
Handysize	-6.7	-3.3	3.3	6.7
Tanker Division	**-59.0**	**-29.5**	**29.5**	**59.0**
Panamax	-3.3	-1.7	1.7	3.3
Handymax	1.7	0.9	-0.9	-1.7
Bulk Division	**-1.6**	**-0.8**	**0.8**	**1.6**
Total	**-60.7**	**-30.3**	**30.3**	**60.7**

COVERED AND CHARTERED-IN EARNING DAYS IN TORM AS OF 31 DECEMBER 2011

	2012	2013	2014	2012	2013	2014
	Owned days					
LR2	3,268	3,179	3,267			
LR1	2,550	2,510	2,511			
MR	14,496	14,360	14,421			
Handysize	4,004	3,975	3,944			
Tanker Division	24,318	24,023	24,143			
Panamax	769	1,423	1,460			
Handymax	0	0	0			
Bulk Division	769	1,423	1,460			
Total	**25,087**	**25,446**	**25,603**			

	T/C-in days			T/C-in costs (USD/day)		
LR2	732	730	726	20,718	20,738	20,918
LR1	5,112	2,979	2,201	22,015	23,881	24,005
MR	4,186	3,940	3,267	14,189	14,150	14,135
Handysize	0	0	0	0	0	0
Tanker Division	10,030	7,649	6,194	18,654	18,568	18,437
Panamax	4,860	4,148	4,524	15,904	16,143	16,096
Handymax	938	363	365	15,325	15,995	15,995
Bulk Division	5,798	4,511	4,889	15,810	16,131	16,089
Total	**15,828**	**12,160**	**11,083**	**17,612**	**17,664**	**17,401**

	Total physical days			Covered days		
LR2	4,000	3,909	3,993	451	138	121
LR1	7,662	5,489	4,712	1,317	365	175
MR	18,682	18,300	17,688	2,406	640	0
Handysize	4,004	3,975	3,944	666	0	0
Tanker Division	34,348	31,672	30,337	4,840	1,144	296
Panamax	5,629	5,571	5,984	3,955	47	0
Handymax	938	363	365	1,788	916	893
Bulk Division	6,567	5,934	6,349	5,743	963	893
Total	**40,915**	**37,606**	**36,686**	**10,583**	**2,107**	**1,189**

	Covered %			Coverage rates (USD/day)		
LR2	11%	4%	3%	15,085	17,900	17,900
LR1	17%	7%	4%	16,049	15,666	15,666
MR	13%	3%	0%	14,765	13,750	0
Handysize	17%	0%	0%	13,730	0	0
Tanker Division	14%	4%	1%	15,002	14,864	16,578
Panamax	70%	1%	0%	13,791	13,206	0
Handymax	191%	252%	245%	14,160	16,360	16,617
Bulk Division	87%	16%	14%	13,906	16,206	16,617
Total	**26%**	**6%**	**3%**	**14,407**	**15,477**	**16,607**

Fair value of freight rate derivatives that are mark-to-market in the income statement (USD million):

Contracts not included above	0.0
Contracts included above	3.3

Notes

Actual no. of days can vary from projected no. of days primarily due to vessel sales and delays of vessel deliveries. T/C-in costs do not include potential extra payments from profit split arrangements. The table includes two bulk newbuildings currently held for sale.

TCE RATES IN THE FORWARD CONTRACT MARKET FOR THE PRODUCT TANKER AND THE BULK SEGMENTS AS OF 27 FEBRUARY 2012

	2011	2012			
USD/day	Realized	March	Q2	Q3	Q4
Product tanker					
LR2	13,505	-	-	-	-
LR1	12,017	5,100	7,500	9,300	10,500
MR	13,718	14,250	14,000	12,000	12,000
Handysize	11,228	-	-	-	-
Dry Bulk					
Panamax	14,364	9,850	10,850	10,000	10,650
Handymax	12,628	8,875	10,100	9,800	10,000

There is no active forward derivatives market for LR2 and SR vessels. Source: IMAREX, Fuel Forward swaps

Earnings represent a roundtrip voyage, i.e. including a ballast back to the load port. Actual income will increase significantly when optimizing trading of vessels. Typically TORM has outperformed the forward contract market for product tankers.

SAFE HARBOR STATEMENT

Matters discussed in this release may constitute forward-looking statements. Forward-looking statements reflect our current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

The forward-looking statements in this release are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, Management's examination of historical operating trends, data contained in our records and other data available from third parties.

Although TORM believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, TORM cannot assure you that it will achieve or accomplish these expectations, beliefs or projections.

Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the conclusion of definitive waiver documents with our lenders, the strength of world economies and currencies, changes in charter hire rates and vessel values, changes in demand for "tonne miles" of crude oil carried by oil tankers, the effect of changes in OPEC's petroleum production levels and worldwide oil consumption and storage, changes in demand that may affect attitudes of time charterers to scheduled and unscheduled dry-docking, changes in TORM's operating expenses, including bunker prices, dry-docking and insurance costs, changes in governmental rules and regulations including requirements for double hull tankers or actions taken by regulatory authorities, potential liability from pending or future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents and political events or acts by terrorists.

Risks and uncertainties are further described in reports filed by TORM with the US Securities and Exchange Commission, including the TORM Annual Report on Form 20-F and its reports on Form 6-K. See page 30 in the Annual Report.

STRATEGY – CHANGING TRIM

- Maintain upside potential for the product tanker fleet
- Continue transformation to an integrated freight service provider in bulk

In 2010, TORM reviewed the business model and developed a new strategic platform named Changing Trim that sets the course for resilience and new profitability. The platform is focused on balancing TORM's business optimally and structuring the Company to cope with and adapt to the cyclical nature of the markets in which the Company operates.

The strategy update performed in 2011 is a continuation of the Changing Trim framework with the four strategic cornerstones: Customers, Leadership, Resilience and Sophistication.

The strategy update is made under the assumption that TORM will successfully complete the ongoing negotiations regarding a financial solution. Please refer to note 2 in the financial statements on page 57 for further information.

PRODUCT TANKER SEGMENT

TORM is positioned to benefit from a market recovery in the product tanker segment. TORM's business model in this segment centers on its continued presence in the spot market. This will allow the Company to take advantage of the anticipated volatility. In the short term, TORM will not seek higher coverage than the current levels, as the Company is of the opinion that there is an upside potential in the market during 2012 and onwards. However, TORM will seek to take coverage if market conditions provide rate levels at which profits can be locked in.

TORM will continue to strengthen the service offered to customers around quality, flexibility and proximity. For instance, TORM strives to be a carrier approved by all oil majors at all times, thus securing optimal trading flexibility and profitability. During 2011, TORM improved its performance on this objective by five percentage points and thereby reached its internal target.

In the short term, TORM will maintain an owned tanker fleet of 65.5 vessels as of 31 December 2011.

BULK SEGMENT

TORM will continue its strategy of becoming an integrated freight service provider to primarily industrial customers. During 2011, TORM built a scalable and flexible organization offering improved services, which already created a number of new and strong customer relations.

Going forward, TORM holds a cautious view on the dry bulk markets. Therefore, the Company will minimize market risk by maintaining a high coverage for 2012 and intends to gradually increase cover for 2013. The coverage will be achieved by reletting the time chartered-in fleet, concluding contracts of affreightment (COAs) and forward freight agreements (FFAs).

TORM intends to maintain an owned bulk fleet of two vessels, as the remaining part of the bulk order book was sold in December 2011. In addition, in 2012 TORM will operate a long-term time chartered-in fleet of approximately 14 vessels, which will be complemented by a number of vessels for spot voyages to optimize the COA program.

TANKER DIVISION

- Continued global economic uncertainty affected freight rates adversely
- Operating loss of USD 294 million following the impairment losses, however, TORM outperformed commercial benchmarks again in 2011
- The LR1 and MR Pools closed down during 2011

The first half of 2011 showed signs of economic recovery which, combined with increasing demand from South America, positively impacted the freight markets. However, the combination of the European debt crisis, high oil prices and the effects of the Arab Spring negatively impacted freight rates in the second half of the year. The delivery of new tonnage continued throughout 2011.

For the larger vessels (LRs), the weak freight rates from 2010 continued into the first quarter of 2011. This was primarily due to the oversupply of vessels. For the medium-sized vessels (MRs), western market rates were steady. This was due to the cold winter in the Northern Hemisphere and the resulting increased demand for heating oil.

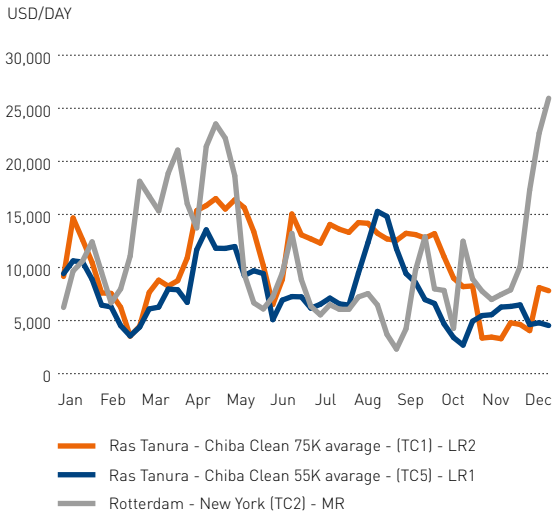
In the second quarter of 2011, the earthquake in Japan, the Mississippi flooding in the USA and an increase in South American demand led to a surge in transportation demand in the West. TORM was well positioned to capitalize on the market increase, and the Company reached its highest MR spot rates since the first quarter of 2009. However, the Libyan revolution had a negative effect on the LR2 market. In the eastern market, the earthquake in Japan also negatively impacted naphtha demand and imports in Asia decreased, leaving the LR markets weak.

In the third quarter of 2011, tanker freight rates dropped due to a combination of higher bunker costs and the European debt crisis. Naphtha demand in Asia remained weak as did US gasoline demand. The earnings on the largest vessels (LRs) were increasingly affected by uncoated newbuilding vessels entering the gasoil market.

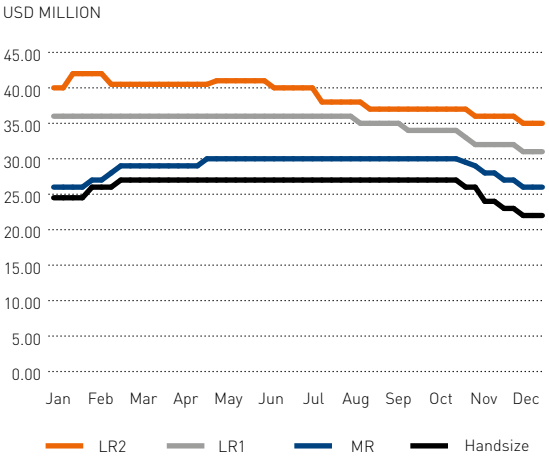
During the fourth quarter of 2011, naphtha demand in Asia decreased further and the LR markets remained at a low level in the East. In the West, the increasing demand in South America assisted the product tanker market throughout the quarter and the usual end of year exports from the USA resulted in relatively high freight rates.

In 2011, once again TORM outperformed the commercial spot benchmarks by 7%, 52% and 28% for LR2, LR1 and MR respectively (source: Clarksons benchmarks on TC1, TC2, TC5). This was due to TORM's strong customer relations and the Company's scale effects. Nevertheless, TORM's earnings ended significantly lower than in 2010, leading to an operating loss for the year of USD 107 million before impairment losses of USD 187 million.

TANKER - FREIGHT RATES 2011
Source: Clarksons



TANKER - ASSET PRICES ON FIVE-YEAR-OLD SECOND-HAND PRODUCT TANKERS IN 2011
Source: Clarksons





The LR1 product tanker TORM Sara was built in 2003.

In 2011, TORM opened a commercial office in Brazil to strengthen its global footprint and to further develop the customer relationships in the South American region. In accordance with the overall strategy announced in 2010, TORM closed the LR1 and MR Pools during 2011, while the strategic partnership with A. P. Moeller-Maersk was maintained in the LR2 Pool.

As part of TORM's overall plan to preserve cash and de-lever the balance sheet, TORM entered into agreements to sell two MR and four LR2 product tankers during 2011.

In November 2011, TORM cancelled one MR newbuilding scheduled for delivery in March 2013.

At year end 2011, TORM owned 65.5 product tankers including the 50% stake in TORM Ugland. In addition, the Company had chartered-in 30 vessels. Furthermore, TORM operates 22 vessels in commercial management and the LR2 Pool.

TANKER DIVISION

	2010	2011				2011
USD million	Total	Q1	Q2	Q3	Q4	Total
INCOME STATEMENT						
Revenue	762.9	219.2	259.2	243.2	237.1	958.7
Port expenses, bunkers and commissions	-293.7	-108.5	-129.8	-138.7	-133.7	-510.7
Freight and bunker derivatives	3.5	-0.3	0.6	3.8	0.8	4.9
Time charter equivalent earnings	**472.7**	**110.4**	**130.0**	**108.3**	**104.2**	**452.9**
Charter hire	-168.9	-45.7	-49.1	-53.3	-51.2	-199.3
Operating expenses	-148.4	-42.2	-39.4	-41.4	-38.8	-161.8
Gross profit/(loss) (Net earnings from shipping activities)	**155.4**	**22.5**	**41.5**	**13.6**	**14.2**	**91.8**
Net profit from sale of vessels	0.0	-5.4	7.2	0.0	-13.4	-11.6
Administrative expenses	-70.0	-14.6	-14.3	-13.3	-15.8	-58.0
Other operating income	4.8	0.2	2.2	0.4	-0.1	2.7
Share of results of jointly controlled entities	1.4	0.9	0.5	0.7	7.6	9.7
EBITDA	**91.6**	**3.6**	**37.1**	**1.4**	**-7.5**	**34.6**
Depreciation incl. impairment losses	-138.7	-35.9	-35.6	-35.3	-221.8	-328.6
Operating profit/(loss) (EBIT)	**-47.1**	**-32.3**	**1.5**	**-33.9**	**-229.3**	**-294.0**

TANKER DIVISION – DEMAND AND SUPPLY

- Gradual improvement of demand and supply balance
- Demand mainly driven by relocation of refineries (higher ton-mile factor) and increase in port days
- Manageable order book for product tankers

TORM's demand and supply model is a marginal model taking the main factors into consideration. The model describes the market for LR2, LR1 and MR tonnage, whereas the Handysize tonnage is not included. The model calculates all tonnage in terms of MR equivalents.

DEMAND

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

REFINERY CAPACITY AND TRANSPORTATION

The net global refinery capacity is estimated to grow by approximately 5.5 million barrels/day until 2014 (source: JBC Energy). The majority of the refinery additions are located in Asia, including India and the Middle East. A significant part of this production is expected to be transported by product tankers, mainly to the USA, Europe and South America, where demand outpaces local refinery capacity or refineries are being closed. This figure only includes the confirmed closure of refineries. Several US- and European-based refineries may also be closed as they are currently held for sale due to unattractive refining margins.

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

- An increase of gasoline imports to the US East Coast from the Middle East and India and a small reduction of imports from Europe
- An increase in imports of middle distillates to Europe from the US Gulf, the Middle East and India
- An increase in imports of all products to South America and specifically Brazil from all continents
- A decline in trade from China to the Arabian Gulf (e.g. gasoline)
- An increase in trade to West Africa from Europe, the Arabian Gulf and South East Asia

INCREASE IN OIL DEMAND

Oil demand is expected to increase by approximately 1.0% or 0.9 million barrels/day to 89.9 million barrels/day in 2012 (source: EIA February 2012). In the following years, 2013 to 2015, cumulated oil demand is expected to grow by 1.6% per year. The non-OECD areas, especially China, the Middle East and Brazil, are expected to be the areas with the strongest growth in oil demand.

INCREASING PORT DAYS

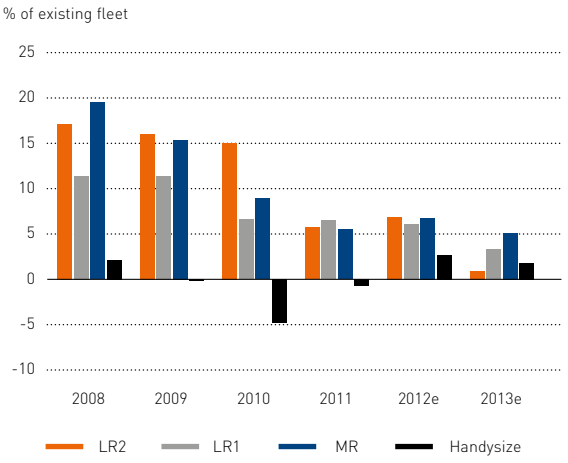
Operating data for TORM's fleet indicate an increase in the number of vessel days spent in port. The increase is due to the global fleet outgrowing port capacity. Going forward TORM anticipates that the port days will increase in line with increasing oil demand.

ARBITRAGE

Arbitrage exploits the price difference of refined oil products between loading and discharge port and is an important demand factor for product tankers. TORM believes that arbitrage trading will increase over the coming years due to the continued modernization and specialization of oil refineries.

YEARLY NET FLEET GROWTH (based on no of vessels)

Source: SSY



The product tanker ton-mile demand is estimated to have a compound annual growth rate of approximately 5% until 2015 (source: TORM research and SSY).

SUPPLY

The existing global product tanker fleet at the end of 2011 consisted of a total of 2,060 vessels: 203 LR2 vessels, 345 LR1 vessels, 958 MR and 554 Handysize vessels (source: SSY).

The forecasted supply situation is mainly a function of the existing product tanker order book, expected newbuilding orders, anticipated cancellations, postponed deliveries of orders (slippage) and phasing out of older product tankers.

NEWBUILDING ORDER BOOK

At the end of 2011, the existing order book of product tankers for delivery in 2012-2014 came to 199 vessels: 16 LR2 vessels, 33 LR1 vessels, 120 MR vessels and 30 Handysize vessels (source: SSY). This corresponds to a gross increase in the period of between 5 and 12% depending on the segment, which relatively is one of the lowest order books in the shipping industry.

2011 saw limited newbuilding orders, as the freight rates continued to be under pressure and financing was constrained.

CANCELLATIONS AND POSTPONEMENTS

Since the global financial downturn began in 2009, shipyards and shipping companies have cancelled newbuilding orders and generally renegotiated newbuilding contracts. TORM estimates that the cancellation of newbuilding orders will reduce the current global product tanker order book by 10% over the period up to 2013. This assessment is subject to uncertainty. TORM expects that postponement of vessel deliveries or slippage of approximately 30% annually will continue to exist in the short term, but limited slippage is expected beyond 2013.

PHASING OUT OF OLDER AND SINGLE-HULLED VESSELS

International Maritime Organization (IMO) regulations on single-hulled tankers have implied that the majority of these older vessels have already been phased out. Older vessels will continuously be phased out, as it is increasingly difficult to trade older tonnage. It is expected that approximately 4% of the existing vessels in the global fleet will be phased out or scrapped in the 2012-2014 period. The Handysize segment is estimated to see a phase out of approximately 50 vessels or approximately 9% of the fleet during 2011 (source: SSY).

NEWBUILDINGS

TORM anticipates that there will be continued ordering of new product tankers, which will be delivered before the end of 2014. The Company expects the new ordering activity for 2014 will be at the same annual level as was the case in 2011.

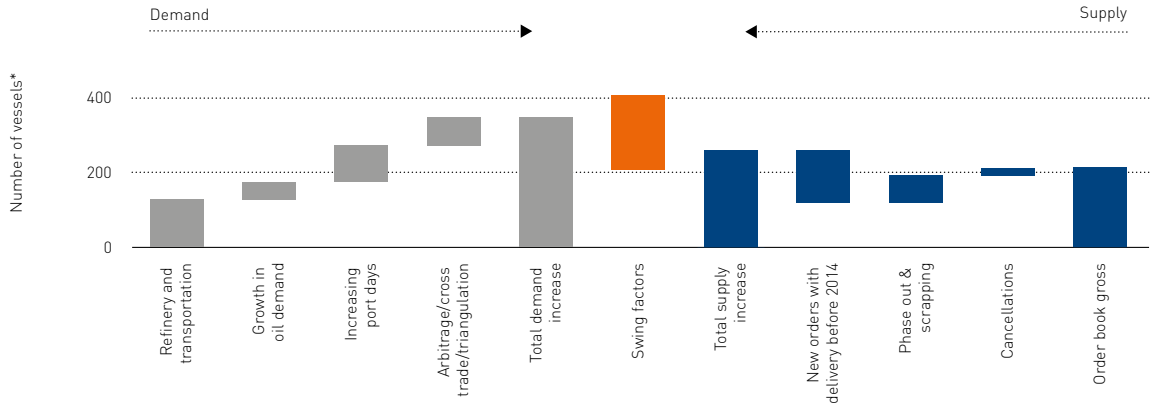
SWING FACTORS

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

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

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

DEMAND AND SUPPLY 2011-2013
Source: TORM



* Converted into standard MR units

BULK DIVISION

- High level of newbuilding deliveries, but continued strong demand, especially from China
- Volatile spot market in the dry bulk segment
- Operating loss of USD 68 million of which loss from vessel sales accounted for USD 41 million

The global bulk fleet grew by approximately 15% in 2011 despite considerable scrapping. The dry bulk demand measured in ton-mile is estimated to have increased by 10% with increased Chinese iron ore and coal imports as the primary market drivers (source: RS Platou).

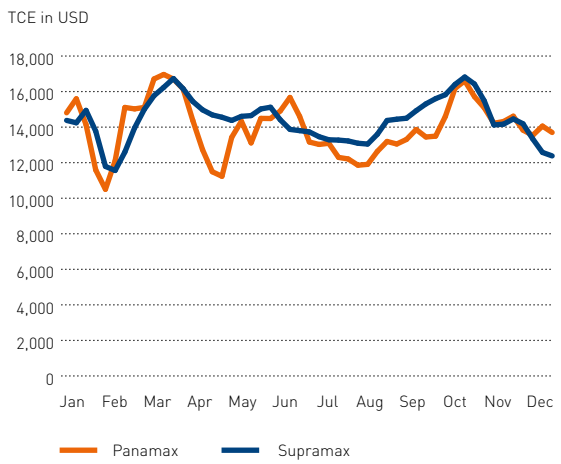
The dry bulk spot market was volatile during 2011 driven by seasonality and events surrounding the Japanese earthquake and floodings in Australia. The freight rates in the Panamax segment moved between USD/day 10,500 and 17,000 with an average market level of approximately USD/day 14,000, or 44% below 2010 levels. Similarly, the Handymax spot freight rates experienced an average earnings decrease of 36% compared to 2010. The one-year time charter rates softened for both segments during the course of 2011.

In the first quarter of 2011, the freight rates were under pressure due to a large number of newbuilding deliveries and weaker demand. TORM built up Panamax tonnage during the quarter in expectation of a stronger market in the second quarter.

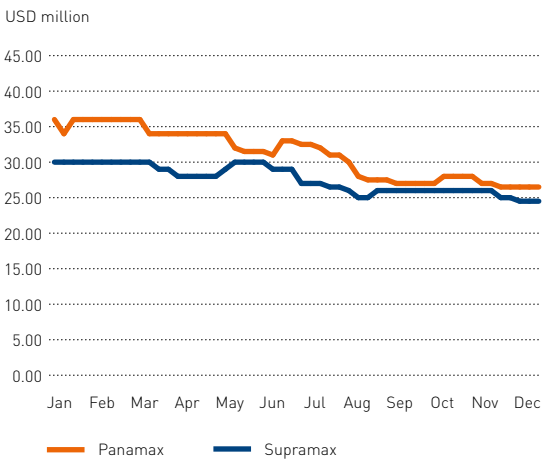
The second quarter of 2011 did not meet the expectations of a firmer market. The Panamax market was hit by the floods in Queensland, Australia, and the earthquake and the tsunami in Japan. It affected the global production cycle and led to a fall in the Baltic Panamax Index by approximately 35% during April, which primarily put the Pacific market under pressure.

In the third quarter of 2011, the bulk market continued to be under pressure from a typical summer market and spillover effects from the previous quarter. Later, freight rates improved due to grain exports from the USA, sugar

BULK FREIGHT RATES 2011
Source: Clarksons



BULK – ASSET PRICES ON FIVE-YEAR-OLD SECOND-HAND PANAMAX DRY BULK CARRIERS IN 2011
Source: Clarksons



exports from Brazil and a continued appetite for iron ore and coal in China. TORM positioned a large part of the fleet in the Atlantic in anticipation of a stronger fronthaul market during the fourth quarter.

In the fourth quarter of 2011, the bulk market in the Atlantic was balanced, and in the Pacific freight rates were steady despite the largest-ever Chinese production of iron ore and continued high commodity stock levels in Chinese ports.

The Bulk Division delivered an operating loss (EBIT) of USD 68 million (Operating profit of USD 15 million in 2010). This includes a net loss of USD 41 million from the sale of two Kamsarmax newbuildings. Operationally, TORM achieved average earnings of USD/day 14,364 in the Panamax segment and average daily earnings of USD/day 12,628 in the Handymax segment.

In 2011, TORM concluded a number of COAs with large industrial clients and commodity traders. The contracts include the first-ever ice-trading contract for TORM, dedicating one vessel to this specific transport. The Bulk Division also concluded a lifetime contract tied to service exports to China from a specific iron ore mine in Western Australia, which is estimated to be effective for at least 15 years. Overall, the engaged cargo contracts represent a geographically balanced cargo portfolio and high cover in 2012.

Bulk asset prices gradually declined during 2011 due to newbuilding deliveries outgrowing demand. TORM has for some time had a cautious view on the dry bulk market. This combined with the Company's general plan to preserve liquidity and reduce debt led TORM to sell two Kamsarmax newbuilding orders at a price of USD 32 million each with scheduled delivery in 2012 and 2013. In addition, in January 2011 TORM delivered two Kamsarmax newbuildings sold in November 2010 for a consideration of USD 45 million each.

At year end 2011, TORM owned two bulk carriers and had chartered-in 14 vessels on long-term charter agreements (three year or longer) of which 13 had purchase options. There are no bulk vessels in the order book. In addition, there are existing agreements to take delivery of five time charter-in vessels over the coming years, of which four have purchase options.

BULK DIVISION

	2010	2011				2011
USD million	Total	Q1	Q2	Q3	Q4	Total
INCOME STATEMENT						
Revenue	93.2	51.2	76.5	88.6	130.2	346.5
Port expenses, bunkers and commissions	-5.1	-21.3	-30.1	-44.1	-68.8	-164.3
Freight and bunker derivatives	-0.2	7.2	2.4	-4.7	4.3	9.2
Time charter equivalent earnings	**87.9**	**37.1**	**48.8**	**39.8**	**65.7**	**191.4**
Charter hire	-59.7	-30.9	-50.5	-50.2	-67.4	-199.0
Operating expenses	-3.8	-0.9	-0.7	-0.9	-0.7	-3.2
Gross profit/(loss) (Net earnings from shipping activities)	**24.4**	**5.3**	**-2.4**	**-11.3**	**-2.4**	**-10.8**
Net profit from sale of vessels	1.9	-0.3	-0.1	0.0	-40.5	-40.9
Administrative expenses	-8.2	-2.5	-3.4	-3.5	-3.8	-13.2
Other operating income	0.0	0.0	0.1	0.0	0.3	0.4
Share of results of jointly controlled entities	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**18.1**	**2.5**	**-5.8**	**-14.8**	**-46.4**	**-64.5**
Depreciation incl. impairment losses	-2.7	-0.7	-0.9	-0.8	-0.8	-3.2
Operating profit/(loss) (EBIT)	**15.4**	**1.8**	**-6.7**	**-15.6**	**-47.2**	**-67.7**

BULK DIVISION – DEMAND AND SUPPLY

- Continued demand growth, but at a slower pace
- Expected newbuilding deliveries likely to outpace demand growth

TORM expects the dry bulk freight market to remain under pressure in the coming years due to the high number of newbuildings, particularly in 2012, which is expected to outpace demand.

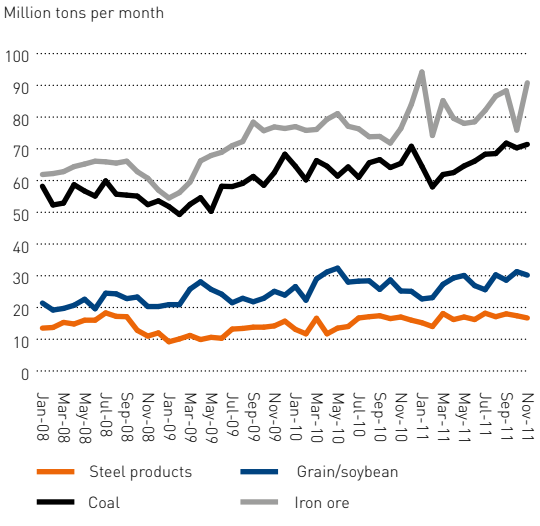
DEMAND

Seaborne transportation demand is estimated to increase by approximately 9% in 2012 compared to 2011 (source: RS Platou). The major commodities, iron ore and coal, represent about 62% of the total seaborne dry bulk transportation. TORM does not expect major changes in the trading patterns for the major bulk commodities, but expects the dependency on China as the major importer of dry bulk commodities to continue.

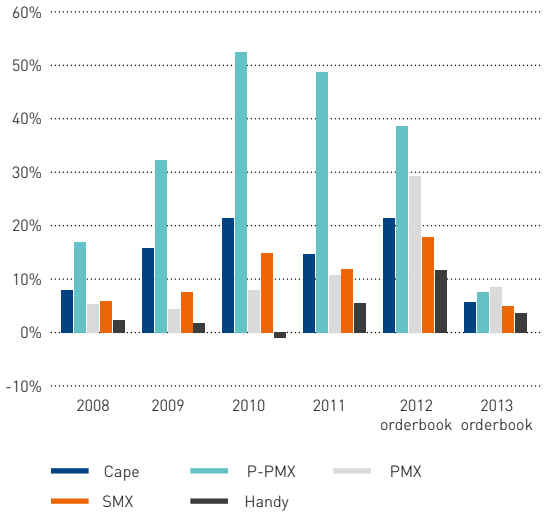
Global seaborne iron ore trade is projected to increase by 7% in 2012 compared to 9% in 2011. China is the world's largest steel producer and its iron ore consumption is expected to grow by 6% during 2012. In 2011, China sourced about 50% of its iron ore from the import markets. TORM expects this ratio to increase if iron ore prices continue to decline.

Global seaborne coal trade is projected to grow by approximately 10% in 2012. The largest market for coal is Asia, which accounts for over 65% of global consumption of both steam coal for electricity generation and coking coal for steel production. China alone accounts for roughly 46% of global demand, but sourced 95% from domestic production in 2011. China is anticipated to expand its sourcing from the international market as domestic production is running at a short- to medium-term maximum capacity.

SEABORNE EXPORTS OF MAJOR COMMODITIES
Source: Clarksons



BULK - ORDER BOOK AS PERCENT OF EXISTING FLEET
Source: TORM





The bulk carrier TORM Rotna discharging grain in Surabaya.

Port congestion continued in 2011, although at lower levels than in 2009 and 2010. TORM foresees that port congestion will persist offsetting part of the tonnage influx.

SUPPLY

The expected newbuilding deliveries in 2012 are estimated to be in the region of 90-100 million dwt, which is the highest level recorded. Adjusted for an expected scrapping of 30-35 million dwt, the net fleet growth in 2012 will be around 11-12% calculated on a year avarage basis (source: RS Platou). TORM forecasts a further annual increase of approximately 7% in 2013. The Capesize and Panamax segments are predicted to have the largest net fleet growth in 2012 with 13% and 14% respectively.

As in 2011, TORM anticipates that the newbuilding deliveries for 2012 will be partially offset by a high number of cancellations and significant slippage. This is a result of the tighter financing sources and freight rates being under continued pressure.

Simultaneously, falling asset prices combined with strong steel prices have increased the incentive for scrapping older vessels. In 2011, a total of 24 million dwt was scrapped and it is projected that a total of 30-35 million dwt will be scrapped during 2012 (source: RS Platou).

TORM expects the fleet growth to exceed the demand growth in 2012 even after correcting for cancellations, slippage and scrapping.

PEOPLE

- TORM Leadership Philosophy introduced in 2011
- Reduction of Danish officers
- Armed guards to protect TORM vessels in high-risk area

PERFORMANCE CULTURE AND LEADERSHIP PHILOSOPHY

The collective strength of the people working on board the vessels and in the offices positions TORM as a strong and reliable brand.

Over the past years, TORM has built a company-wide performance culture. The alignment between the shore and onboard organizations on strategic challenges and opportunities enables TORM to perfect the service delivery to all customers in a cost-efficient manner.

Ashore, the building of a performance culture involves cascading the corporate strategy through the organization and setting clear objectives for each employee. Rewards and incentives are linked to performance and adherence to the TORM values. Feedback on individual performance has been systematized in regular feedback sessions between leaders and employees.

For seafarers, TORM implemented a global system for briefing and de-briefing the onboard management of all vessels in 2011. This system allows for effective communication and follow-up across a range of critical performance metrics.

Officers at sea are encouraged to include a shore career as part of their career development, thereby bridging the understanding between vessel and shore. Especially the Technical Division attracts experienced personnel from the vessels.

In 2011, TORM also introduced a new leadership philosophy which outlines the desired behavior related to Performance, Relations and Personal Leadership. The philosophy was created to give direction and inspiration to all TORM employees. It will be integrated into the People Performance Management System in 2012.

NEW OPERATIONAL MARINE HR PLATFORM

In 2011, TORM introduced a new operational marine HR platform used for seafarer scheduling, development and payroll. The strategic aim is to drive a global, uniform and cost-efficient manning of the vessels and training of seafarers. The new system will ensure that crew requirements for on-time relief and long-term planning are met by 2012.

ORGANIZATIONAL CHANGES

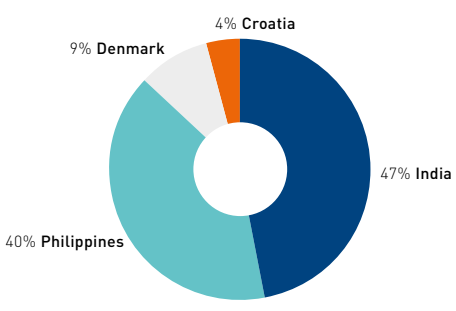
During 2011, TORM reduced the number of Danish officers by 70 and hereby saved approximately USD 5 million a year. The affected officers were offered an outplacement service, and the majority of the officers achieved new employment positions shortly after.

TORM also reviewed the land-based organization in January 2011 in order to create renewed focus on customers, cooperation, cost and quality.

In November 2011, TORM closed 48 positions worldwide, making 26 employees redundant. Everyone has been offered outplacement service.

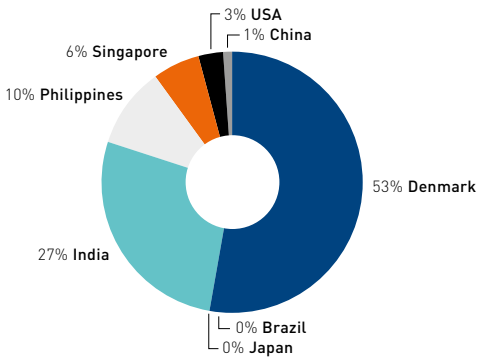
GEOGRAPHICAL DISTRIBUTION OF SEAFARES IN %

100% = 2,861 seafarers ultimo 2011 incl. contracted crew



GEOGRAPHICAL DISTRIBUTION OF LAND-BASED EMPLOYEES IN %

100% = 325 Employees ultimo 2011





Having armed guards on board vessels is a relief for seafarers and their families.

> As seafarers we are not trained for hostility, and not being preoccupied with worries has made it easier for me to motivate my people on board.
>
> Captain Ajit Narain

ARMED GUARDS ON TORM VESSELS IN HIGH-RISK AREA

In 2011, TORM became the first Danish shipowner to place armed guards on board all its vessels trading in the High Risk Area (HRA) in the Indian Ocean.

The decision was first and foremost made to ensure the safety of seafarers and to address concerns raised by crew members and their families. The decision followed three unsuccessful attacks on TORM vessels in 2010 and 2011 and was based on intelligence showing that, to date, no arm guarded vessel has been hijacked.

Armed guards is an efficient measure in the overall security plan for vessels. This was clearly demonstrated when "TORM Republican" was attacked in September 2011. Pirates were kept at a distance of 500 meters from the vessel, which demonstrated a high level of vigilance and professionalism by the crew and the guards. The feedback from seafarers on board vessels carrying armed guards has been highly positive.



TORM Leadership Philosophy outlines TORM's values related to Performance, Relations and Personal Leadership.

CORPORATE SOCIAL RESPONSIBILITY

- Continued positive trend in safety performance
- New investments in bunker efficiency programs to reduce CO_2 emissions and cost
- Business principles revised to better reflect TORM's commitment to the UN Global Compact

Responsible behavior is central to TORM's business and is explicitly demanded by the customers. The Company operates in an industry which is highly regulated in regard to safety and environmental protection, hence some areas traditionally considered Corporate Social Responsibility are in fact compliance issues for the Company. TORM believes that accountability is an important part of being the preferred carrier in the industry.

TORM'S CSR POLICIES

TORM's CSR policies have the following overall objectives:

- Comply with statutory rules and regulations in order to ensure that all employees are able to execute their work under safe, healthy and proper working conditions
- Strive to eliminate all known risks that may result in accidents, injuries, illness, damage to property or to the environment
- Integrate sustainability into TORM's business operations
- Avoid any form of corruption and bribery
- Make TORM's CSR performance transparent to its stakeholders

The policies reflect TORM's commitment to the UN Global Compact, and the Company will continue to communicate about TORM's progress.

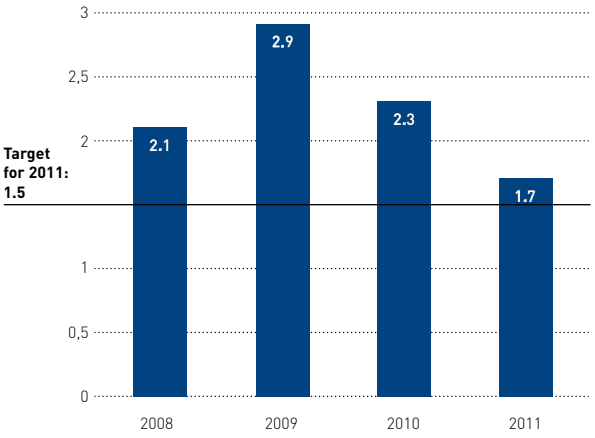
On average, each product tanker is subject to nine inspections a year. Inspections are carried out by charterers, terminals, internal auditors, ports and classification societies. TORM is committed to outperforming and meeting the increasingly high standards set both internally and by charterers. As a new practice, each vessel had one extra visit by the Safety, Quality and Environment (SQ&E) team to further drive performance. In 2011, TORM introduced a sophisticated management dashboard reporting system highlighting quality and safety KPIs. Reports are shared and reviewed with vessels and across the organization on a monthly basis.

ENVIRONMENT

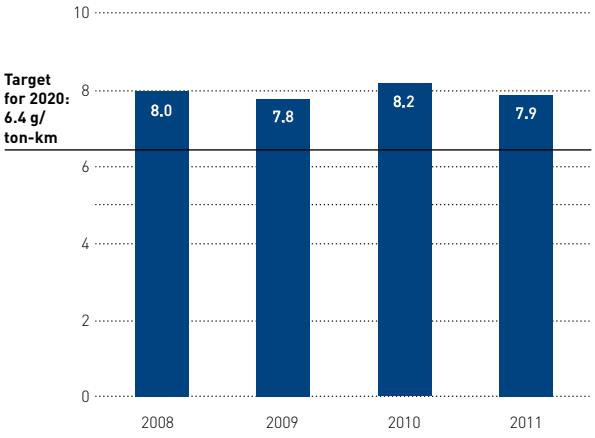
Marine pollution constitutes the largest environmental risk for TORM. By exercising constant care in operations, TORM is continually minimizing the risk of an oil spill, as stated in the Company's environmental policy.

LOST TIME ACCIDENT FREQUENCY (LTAF)
Source: TORM

LTAF = work-related personal injuries that result in more than one day off work per million hours of work



CO_2 EMISSION PER VESSEL PER TON-km(g)
Source: TORM





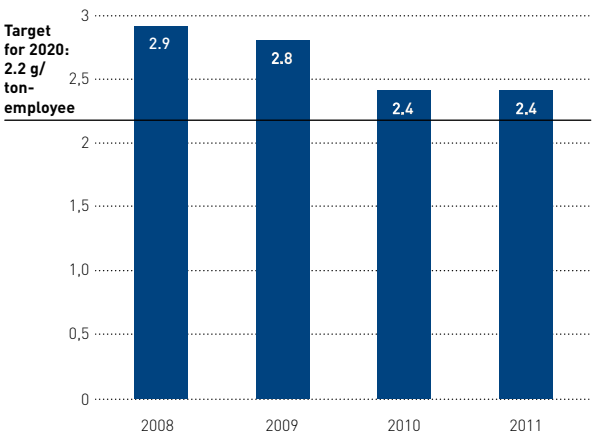
One of TORM's SQ&E officers visits "TORM Fox" as part of TORM's continued focus on increasing safety awareness through training and by sharing best safety practices.

OIL SPILLS

In 2011, TORM suffered one event of an oil spill of 30 m^3 waste-water contaminated by engine room oil due to a suction line leakage. Another oil spill occurred when decanting washing water after a tank cleaning operation. Due to equipment failure, 3.9 m^3 oil was spilled. The subsequent internal report required a revision of decant operations.

Additionally, TORM had six minor oil spills amounting to less than a barrel of oil in total. All incidents were investigated and revisions made to procedures, where necessary.

CO_2 EMISSION PER OFFICE EMPLOYEE IN TON
Source: TORM



CLIMATE PERFORMANCE

TORM saw a decrease in CO_2 emissions in 2011 from 8.2 to 7.9 g/ton/km equivalent to a 4% reduction, which was primarily driven by better cargo utilization and lower speed.

In 2011, TORM made three investments in vessel technology to ensure a total 5% reduction in CO_2 emissions.

CO_2 emissions from offices were down by 10% compared to the 2008 baseline.

SAFETY

Safe, healthy and secure working conditions are key priorities for TORM and ensured through a safety and quality policy based on the rules and regulations issued by the Danish Maritime Occupational Health Service. In 2011, TORM continued to focus on increasing safety awareness and creating a stronger sense of responsibility among employees through training and by sharing best safety practices among vessels.

Lost Time Accident Frequency (LTAF) is an indicator of work-related personal injuries. TORM saw a decrease in LTAF from 2.3 in 2010 to 1.7 in 2011 which is satisfactory.

The positive trend of increase in near-miss reports continued in 2011 from 2.0 to 5.3 due to performance dialogues and further training. Near-miss reports provide an opportunity to analyze incidents that might have led to accidents, which ultimately contributes to the prevention of accidents.

BUSINESS ETHICS

TORM's CSR commitment is not limited to own business practices, as a real impact often requires industry collaboration. TORM is part of the Danish Shipowners' Association's CSR work group. Additionally, in 2011 the Company became involved in two industry initiatives aimed at promoting more responsible industry business practice in the fields of anti-corruption and supplier dialogue.

ANTI-CORRUPTION

Shipping faces a number of challenges related to facilitation payments in certain parts of the world. TORM co-founded the Maritime Anti-Corruption Network (MACN) in 2011 to take a joint stand against the challenge of facilitation payments. Apart from the sharing of best practices and alignment of approaches, the network seeks support among government bodies and international organizations to eliminate the root causes of corruption.

TORM carried out a mapping of high-risk locations and the financial magnitude during 2011. The Company is devising a new procedure for tracking and monitoring payments to ensure transparency and progress.

SUPPLIER DIALOGUE

TORM promotes responsible practices within the Company's sphere of influence and carried out audits among two high-risk suppliers in India and the Philippines in 2011. As part of TORM's new business principles, the Company has revised the tender procedure to include a CSR assessment. TORM was one of the drivers behind a proposal for cooperation among major Danish shipowners with regard to CSR audits of repair yards, a project to be carried out in 2012.

OUTLOOK 2012

- Strengthen system to ensure trend-spotting and stakeholder dialogue as part of materiality assessment
- Further enhance process for monitoring facilitation payments
- Roll out new business principles throughout the organization
- Improve system for management of work-rest hours on board vessels
- Implement new system to determine hull and propeller cleaning intervals to reduce fuel consumption

This section constitutes TORM's reporting according to the requirements of The Danish Financial Statements Act on CSR.

For further information on TORM's CSR work and to see additional data, please visit **www.torm.com/csr**

TORM reports according to the Carbon Disclosure Project. To see the report, please visit **http://carbondisclosureproject.net**

RISK MANAGEMENT

- Market risks have increased, but TORM has implemented mitigating actions
- Operational risks are still well-managed

TORM believes that a strong risk management framework is vital to protect the inherent values of the Company and to ensure that the Company is well-positioned in key markets in anticipation of changing conditions. The objective remains a balance of risk and reward that generates the most value for shareholders.

Active management of operational and compliance risks within TORM's risk tolerance limits is a prerequisite for active management of industry and market-related risks.

Risks are defined as all events or developments that could significantly reduce TORM's ability to sustain the long-term value of the Company.

The risk management approach is based on ISO 31000 'Risk management – Principles and guidelines'. It emphasizes management accountability and broad organizational anchoring of risk management and mitigation activities. The approach is based on a combination of overall risk management tools such as scenario and sensitivity analyses, semiannual update of the risk profile and specific policies governing the risk management in all key areas.

Risks are identified and reported through a systematic process, including record keeping and maintenance of a central risk register. Consolidation, analysis and evaluation take place with senior stakeholders of the organization.

Management is responsible for the final calibration of risks and review of mitigating actions. Management and the Board of Directors discuss and decide on the risk tolerance for the most significant risks.

The approach focuses on the key risks associated with TORM's activities, which can broadly be divided into the four main categories described in the figure below.

RISK TOLERANCE

The Company's Board of Directors stipulates risk tolerance levels for the overall risk types as well as for the individual risks. TORM's overall risk tolerance for each of the four risk types is elaborated below.

Risk monitoring and risk mitigating activities are equally important for all risk types, and these activities are tailored to the individual risk.

LONG-TERM STRATEGIC RISKS ("RISK-SEEKING")

Risks and opportunities beyond the immediate strategy window are monitored by management and incorporated in updates of corporate strategy. Industry-changing risks, such as the substitution of oil for other energy sources and radical changes in transportation patterns, are considered to have a relatively high potential impact, but are considered as long-term risks.

RISKS ASSOCIATED WITH TORM'S ACTIVITIES IN 2011

LONG-TERM STRATEGIC RISKS	INDUSTRY AND MARKET-RELATED RISKS	OPERATIONAL AND COMPLIANCE RISKS	FINANCIAL RISK
• Political risks • Substitution of oil	• Macroeconomic development • Freight rate volatility • Sales and purchase price fluctuations	• Compliance with relevant maritime regimes • Vessel utilization • Counterparty risk • Safe operation of vessels • Terrorism and piracy • Availability of experienced seafarers and staff • Compliance with environmental regulations • Stability of IT systems • Fraud • Insurance coverage	• Funding risk • Interest rate risk • Currency risk

INDUSTRY AND MARKET-RELATED RISKS ("RISK-SEEKING")

TORM's business is very sensitive to changes in market-related risks such as changes in the global economic situation and changes in freight rates, particularly in the product tanker market. It continues to be a cornerstone of the Company's strategy to actively pursue this type of risk by taking positions to benefit from fluctuations in freight rates and vessel prices.

However, the prolonged period of depressed freight rates has highlighted the need for maintaining the resilience to absorb these fluctuations. A desire to limit the Company's exposure to the dry bulk market in 2012 has caused TORM to lower its risk tolerance with regard to its dry bulk business to "risk-averse". Once the market outlook improves, the Company expects to revert to "risk-seeking" risk tolerance within the dry bulk market.

OPERATIONAL AND COMPLIANCE RISKS ("RISK-AVERSE")

TORM aims at maintaining its position as a quality operator with high focus on operating safe and reliable vessels. Consequently, commercial operations are an important part of TORM's business model. The area involves potentially severe risks with respect to environment, health, safety and compliance. TORM constantly focuses on reducing these risks through rigorous procedures and standardized controls carried out by well-trained employees. The quality-enhancing measures initiated in 2010 progressed as planned during 2011.

FINANCIAL RISKS ("RISK-NEUTRAL")

Management believes that a prudent, conservative approach to financial risks, including funding, benefits the Company the most. Management will pursue a risk-neutral risk tolerance level to the widest extent possible given the current situation.

RISK MANAGEMENT INITIATIVES IN 2011

TORM completed the rollout of the risk management business process with semi-annual reporting to the Board of Directors as well as ad hoc reporting to relevant stakeholders.

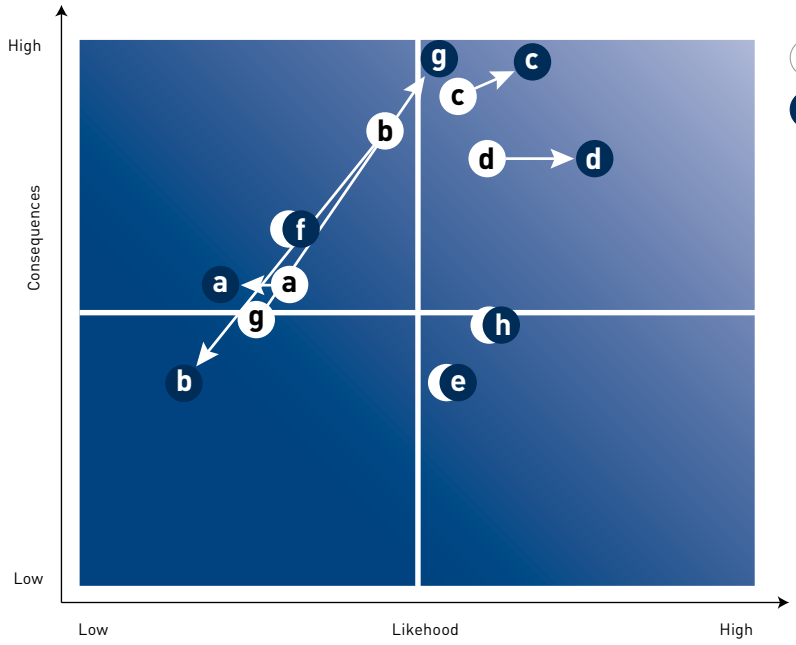
The risk management business process defines clear responsibilities for the Board of Directors as well as management. The Board of Directors is responsible for:

- Approval of the TORM Risk Policy, including risk tolerance levels
- Review and approval of TORM's top risk scenarios
- Review of the current level of mitigation of TORM's top risks
- Proposals for additional mitigation, if required
- Verification of the adequacy of TORM's risk management infrastructure

Management is directly responsible for management and mitigation of key risks as well as for the maintenance of a robust risk management business process, including the reporting cycle.

During 2011, management actively managed several key risks directly, while monitoring progress on risk-mitigating activities for all critical risks. Additionally, analyses were conducted to determine the effect of risk mitigation on the residual risk faced by the Company.

TORM TOP RISK MAP (RISK EVALUATION INCLUDES EFFECT OF CURRENTLY DEPLOYED MITIGATION)



TORM'S CURRENT RISK PROFILE

TORM updated its consolidated risk profile as of year-end 2011 according to its risk management business process. The most significant changes are described below.

- Market risks such as freight rates and vessel values are under pressure. The sustained low freight rates, particularly within the product tanker market (due to the amount of open days and corollary exposure to the volatility of the market and declining vessel values) have increased the negative financial consequences of those risks.

- The risk concerning funding of the Company's capital requirements has increased. This is caused by an increased likelihood of realization of the risk, but also the increased direct costs of funding in the most likely scenarios. Please refer to note 2 in the financial statements on page 57 for further information.

- Risks within the Company's immediate sphere of control, including compliance with quality requirements and counterparty default, have remained stable due to the implemented mitigating controls.

TORM's top risks and changes compared to 2010 are described below. For a more in-depth description of the various risks and TORM's management thereof as well as sensitivity analyses, please see note 24 on page 78.

#	RISK	DESCRIPTION	SEVERITY	CHANGE 2010-2011
a	Oil major approval	The risk of a partial ban of the TORM tanker fleet by oil majors.	Medium	TORM's operational quality-enhancing initiatives have resulted in lower likelihood of risk occurring.
b	Bulk freight rates	Sustained depressed freight rates and risk of not accurately predicting rate development to optimize revenue of the Bulk Division.	Low	Risk significantly reduced due to the current high coverage.
c	Tanker freight rates	Sustained depressed freight rates and risk of not accurately predicting rate development to optimize revenue of the Tanker Division.	High	Rates remain depressed, and no substantial rate increases are expected in 2012.
d	Timing of sale and purchase of vessels	TORM not acquiring and disposing of vessels in due time with respect to market development.	High	Market values have decreased due to lowered future rate expectations and constrained global funding availability for shipping.
e	Environmental regulations	The risk of violation of environmental regulations.	Medium	No significant change. A monitoring and compliance infrastructure is in place.
f	Severe vessel accidents	The risk of a severe vessel accident.	Medium	No significant change. Systemic procedures for mitigation are in place.
g	Funding	The risk that necessary credit facilities are not available when required.	High	Alternative funding strategies have become costlier and viability considerations have emerged. Also, the negative consequences of unresolved funding issues have multiplied.
h	Bunker price	The risk of unexpected bunker price increases in 2012 not covered by corresponding freight rate increases.	Medium	No significant change. Internal mitigation has been implemented, but from a macro perspective the bunker price remains volatile, and supply ruptures usually lead to bunker price increases that are not necessarily absorbed by rate increases.

CORPORATE GOVERNANCE

- In compliance with the revised Danish Corporate Governance Recommendations
- Comprehensive system for internal control and risk management in place due to the Sarbanes-Oxley compliance program

TORM's Board of Directors and Executive Management are committed to maintaining high standards of corporate governance and consider it important to maintain business integrity and sustain all stakeholders' trust in the Company.

For TORM, good corporate governance represents the framework and guideline for business management. This includes the overall principles and structures that regulate the interaction between the Company's management bodies. The aim is to ensure that the Company is managed in a proper and orderly manner consistent with applicable legislation and codes.

CORPORATE GOVERNANCE RECOMMENDATIONS

In line with the 'comply or explain' principle, the Board of Directors considered the revised Corporate Governance Recommendations that form part of the disclosure obligations for companies listed on NASDAQ OMX Copenhagen. During 2011, TORM adjusted the governance setup, so that the Company complies with the revised recommendations provided that the Annual General Meeting accepts a proposed change to the Articles of Associations regarding retirement age.

TORM complies with the new recommendation regarding diversity at management levels. Along with other major Danish shipowners, TORM has signed the Charter for more Women on Boards. In 2012, the Company will focus its diversity efforts on encouraging and developing female talent through interactive workshops, coaching, facilitated peer groups and mentoring. Based on feedback from the 2012 rollout in Denmark, the diversity-enhancing measures will be expanded globally.

In terms of gender diversity, females as of December 2011 constituted 39% of land-based employees (defined as non-managerial individual performers) globally, 28% of middle management and 15% of top management (Vice Presidents and above). With the enforcement of TORM's Leadership Philosophy and the planned sustained investments in diversity-enhancing measures, TORM expects, all things equal, that diversity will be improved throughout the Company in the coming years.

This corporate governance section together with TORM's position on the individual recommendations are available at the website and constitute TORM's mandatory corporate governance report in accordance with Section 107b of the Danish Financial Statements Act.

As of 31 of December 2011, TORM complied with the US Sarbanes-Oxley Act as it applies to foreign private issuers.

BOARD OF DIRECTORS

In accordance with Danish company legislation, TORM exercises a two-tier management structure. The Board of Directors lays out clear policies and directives, which the Executive Management in turn implements in its day-to-day operations. The Board of Directors acts as a partner as well as a supervisory body for the Executive Management. No member of the Executive Management is a member of the Board of Directors, but the Executive Management ordinarily attends Board meetings.

The primary responsibilities of the Board of Directors are to safeguard the interests of shareholders and ensure that the Company is properly managed in accordance with the Articles of Association, laws and regulations and to pursue the commercial objectives as well as the strategic development of the Company.

At the end of 2011, the Board of Directors consisted of nine members, of whom six were elected at the Annual General Meeting. Four of these members are independent, while Stefanos-Niko Zouvelos and Gabriel Panayotides are dependent as a result of their relation to the Company's largest shareholder Beltest Shipping Company Ltd. Angelos Papoulias is proposed by Menfield Navigation Company Ltd. but not employed by this company. The remaining three members were elected by the employees. The Board members elected by the employees have the same rights, duties and responsibilities as the Board members elected at the Annual General Meeting.

The Board of Directors has laid down clear management guidelines and a Code of Ethics and Conduct in order to ensure that the Company is managed and its business activities carried out in accordance with principles based on integrity and ethics. These principles are fundamental to the Company as a vital part of running a responsible business and creating value.

TORM's Board of Directors and Executive Management continually work to improve the management of the

Company. The Board of Directors meets at least five times a year in accordance with the Rules of Procedure. In 2011, 38 Board meetings were held.

The Board of Directors regularly evaluates the work, results and the composition of the Board of Directors and Executive Management.

THE AUDIT COMMITTEE

The Audit Committee meets at least four times a year, and both the Executive Management and the independent auditors attend the meetings. In 2011, seven meetings were held. The Audit Committee has three members, all elected by the Board of Directors among its members.

The members of the committee are considered independent, and they possess the qualifications relevant for the Audit Committee to perform its tasks.

The Audit Committee performs its duties under a charter approved by the Board of Directors on a yearly basis and assists the Board of Directors with the oversight of financial reporting, risk management processes, internal controls and auditing matters as well as the organization of work and complaints handling in relation to such matters.

The Audit Committee provides a report on the Committee's activities to the Board of Directors no later than at the first Board meeting following an Audit Committee meeting.

REMUNERATION COMMITTEE AND REMUNERATION POLICIES

The Remuneration Committee meets at least twice a year, and three meetings were held in 2011. The Remuneration Committee has four members, all elected by the Board of Directors among its members. The Remuneration Committee assists the Board of Directors in reviewing Management's performance and remuneration as well as the Company's general remuneration policies.

In order to attract, retain and motivate qualified managers, remuneration is based on the nature and quality of work, value creation to the Company and remuneration at comparable businesses. The amounts and components of remuneration to the individual members of the Board and Executive Management are disclosed in note 4 to the financial statements.

EXECUTIVE MANAGEMENT

The Executive Management is responsible for the day-to-day operation of TORM and for ongoing optimization and follow-up. As of 31 December 2011, the Executive Management consisted of two members: CEO Jacob Meldgaard and CFO Roland M. Andersen.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors has overall responsibility for the Company's internal control and the assessment and management of risk. Management carries out the identification of risks, the operation of an effective internal control system and the implementation of risk management. Management is also responsible for periodical reporting on major risks and changes to such risks to the Audit Committee and Board of Directors. The Board of Directors reviews the major risks and discusses risk developments with the Executive Management as deemed appropriate and at least once a year. Major risks include geopolitical, environmental, macroeconomic, financial and operational issues.

As a consequence of its listing on NASDAQ in the USA, TORM has since 2006 been obliged to comply with a number of standards, rules and regulations aimed at good corporate governance under the Sarbanes-Oxley Act, applicable to foreign private issuers. The most important parts of the requirements are listed in Section 404, which requires Management and the independent auditors to report on the adequacy of the Company's internal control of financial reporting.

MEETINGS ATTENDED/HELD

Members	Board of Directors	Audit Committee	Remuneration Committee
Niels Erik Nielsen (2)	38/38		3/3
Christian Frigast (1), (2)	29/38	7/7	3/3
Peter Abildgaard	36/38		
Lennart Arrias (3)	3/6		
Margrethe Bligaard (3)	6/6		
Bo Jagd (1) (3)	5/6	2/2	
Kari Millum Gardarnar (4)	21/32		
Rasmus J. Skaun Hoffmann (4)	31/32		
Jesper Jarlbæk (1)	35/38	7/7	
Gabriel Panayotides (2)	36/38		3/3
Angelos Papoulias (1)	30/38	4/4	
Stefanos-Niko Zouvelos (2)	35/38		3/3

(1): Member of Audit Committee (2): Member of Remuneration Committee
(3): Member until 14 April 2011 (4): Member from 14 April 2011

TORM's Sarbanes-Oxley compliance program and system for internal control and risk management for financial reporting are executed and monitored in the Internal Control and Administration System (INCA). INCA is consistent with the recognized framework established by the Committee of Sponsoring Organizations (COSO) and provides a clear audit trail of changes in risk assessments, a design of controls as well as of the results of tests of internal controls. TORM's process for financial reporting and the INCA system consist of the following elements performed throughout the financial year:

- Overall scoping: Based on earlier years' experience, budgets and actual figures for the financial year and the knowledge of significant changes affecting TORM, it is assessed whether changes should be made to the scoping.
- Risk assessment: TORM performs a risk assessment with the purpose of identifying the Company's financial reporting risks, i.e. risks of misstatement that could (individually or in combination with others) result in a material misstatement of the financial statements. For this assessment, TORM uses a top-down risk-based approach. The process starts with identification and assessment of the risks related to financial reporting, including possible changes to those risks compared to last year. In the process of identifying and assessing risks, knowledge and understanding of the business, the organization, operations and process have been taken into consideration as well as the size, complexity and organizational structure and financial reporting environment. Further, as part of the assessment of risk, the entity-wide controls and the general IT controls are considered. The potential likelihood of the risk occurring as well as the financial impact or consequence are also taken into consideration.
- Mapping: The material risks identified in the risk assessment are mapped to the financial statements and to the existing internal controls to ensure that gaps between material risks and internal controls have not materialized.
- Monitoring: Based on information from TORM's subsidiaries and the parent company's financial data, an internal financial report to Management is prepared every month. The financial reporting and supporting documentation are verified on an ongoing basis. At the end of each quarter, external financial statements are prepared, and additional controls and analyses are performed compared to the monthly financial report. At the end of the year, additional controls and analyses are performed compared to the quarterly financial reports, primarily to ensure a correct and complete presentation in the annual report of the Company.
- Testing: TORM ensures at least annually, by testing, that there are no material weaknesses in the internal controls which could potentially lead to a material misstatement of the financial reporting.
- Conclusion: At the end of each financial year, TORM concludes whether any material weaknesses have been found in the internal controls covering the financial reporting. In the FORM 20-F for 2010, filed with the US Securities and Exchange Commission (SEC) on 23 June 2011, Management as well as the auditors concluded that there were no material weaknesses or areas of concern as of 31 December 2010.
- Management's conclusion and the auditors' evaluation of the internal controls and the testing performed by Management regarding 2011 are expected to be filed with the SEC in April 2012.

Due to TORM's Sarbanes-Oxley compliance program and comprehensive system for internal control and risk management for financial reporting as well as the size of the Company, the Board of Directors has not yet found it relevant to establish an internal audit function. The Board of Directors also acknowledges the already intensified internal controlling across all offices and geographies. The Board of Directors continues to evaluate the need for an internal audit function annually.

In addition to ensuring compliance with the relevant legislation, TORM believes that the increased focus on internal controls and risk management contributes positively to improving the effectiveness of the Company's business procedures and processes, and hence earnings both in the short and the long term.

WHISTLEBLOWER FACILITY

As part of the internal control system since 2006, the Board of Directors has a whistleblower facility, handling filing of complaints to an independent lawyer's office concerning violations of laws, regulations and good business conduct by TORM representatives. In 2011, there was one enquiry to the whistleblower facility.

The whistleblower facility is registered and approved by the Danish Data Protection Agency.

For further information on the whistleblower facility, please visit TORM's website **www.torm.com/whistleblower** and the Company's intranet.

For TORM's overall guidelines for incentive schemes for members of the Board of Directors and the Management board, please visit **www.torm.com/ir/incentiveprogramme**

For further information on TORM's position on the individual corporate governance reccomendations, please visit TORM's website **www.torm.com/ir/corporategovernance/report2011**

BOARD OF DIRECTORS

NIELS ERIK NIELSEN / Born: 14-03-48 / TORM shares: 5,360



N. E. Nielsen became Chairman of TORM in April 2002 and has been a member of the Board since September 2000. N. E. Nielsen holds a law degree from the University of Copenhagen.
N. E. Nielsen is a member of TORM's Remuneration Committee and a board member of the following companies:

- Ambu A/S
- Charles Christensen A/S
- Danica-Elektronik A/S
- Gammelrand Holding A/S
- InterMail A/S
- MK of 2010 A/S
- Pele Holding A/S
- P.O.A. Ejendomme A/S
- Weibel Scientific A/S

with subsidiary companies

Special competencies:

- General management as chairman of other listed companies with global activities
- Specialist in company law

CHRISTIAN FRIGAST / Born: 23-11-51 / TORM shares: 5,704



A member of the Board since September 2000. Mr. Frigast became Deputy Chairman in April 2002. He is the Managing Director of Axcel A/S and holds a Master degree (Econ) from the University of Copenhagen. Mr. Frigast is member of TORM's Audit Committee and Remuneration Committee and a board member of the following companies:

- Axcel Management A/S
- Junckers Holding A/S
- Esko-Graphics A/S
- Management Inveco A/S
- Pandora A/S
- Royal Scandinavia A/S
- TCM Invest A/S

with subsidiary companies

Special competencies:

- General management as chairman
- Board member of primarily non-listed Danish and international companies
- Financing
- Mergers and acquisition

PETER ABILDGAARD / Born: 21-04-65 / TORM shares: 168



A member of the Board since April 2007, representing the employees of TORM on the Board.
Mr. Abildgaard is employed by TORM as Vice President for Global Operations Tankers and has been with the Company since 1987.

Special competencies:

- Member of Intertanko's Vetting Committee
- Currently studying for an MBA in Shipping and Logistics

RASMUS J. SKAUN HOFFMANN / Born: 10-04-77 / TORM shares: 1,675



A member of the Board since April 2011, representing the employees of TORM on the Board. Mr. Hoffmann is employed by TORM as Chief Engineer and has been with the Company since 2003.

Special competencies:
- 18 years of sailing experience on various vessel types

KARI MILLUM GARDARNAR / Born: 05-05-51 / TORM shares: 2,388



A member of the Board since April 2011, representing the employees of TORM on the Board. Mr. Gardarnar is employed by TORM as Captain and has been with the Company since 1975.

Special competencies:
Worldwide sea services since 1975 with experience from general, refrigerated, container and project cargos as well as dry bulk and tanker cargo

JESPER JARLBÆK / Born: 09-03-56 / TORM shares: 11,750



A member of the Board since April 2009. Mr. Jarlbæk is a member of TORM's Audit Committee and a board member of the following Danish companies:
- Advis A/S
- Altius Invest A/S
- Basico A/S
- Bang & Olufsen A/S
- Cimber Sterling Group A/S
- Earlbrook Holding Ltd. A/S
- Groupcare Holding A/S
- Julie Sandlau China ApS
- Københavns Privathospital A/S
- Polaris III Invest Fonden
- Prospect A/S
- Timpco ApS
- TK Development A/S
- Valuemaker A/S
  with subsidiary companies

Special competencies:
- General management as chairman
- Board member of primarily non-listed Danish and international companies
- Risk assessment and management
- Financial management and reporting

GABRIEL PANAYOTIDES / Born: 14-01-55 / TORM shares: 48,864



A member of the Board since September 2000. Mr. Panayotides has been engaged in the ownership and operation of vessels since 1978. He holds a Bachelor dregree from the Pireaus University of Economics. Mr. Panayotides is a member of TORM's Remuneration Committee and a Board member of the following companies:
- Excel Maritime (listed on NYSE)
- Bureau Veritas and Lloyds Register of Shipping classification society
- Greek Committee

Special competencies:
- Board experience from other listed companies
- Vessel managment – shipowning.

ANGELOS PAPOULIAS / Born: 28-06-54 / TORM shares: 500



A member of the Board since April 2009. Mr. Papoulias is a partner of Investments & Finance Ltd, a corporate finance advisory firm specialized in the maritime industry, and has worked as a finance director of Eletson Corporation and as a ship finance officer for Chase Manhattan Bank. He holds a Master degree in International Management (Finance and International Relations) from the American Graduate School of International Management in Phoenix, Arizona.

Special Competencies:
- Organisation of startup shipping ventures
- Credit Risk Assessment
- Risk Management
- Finance

STEFANOS-NIKO ZOUVELOS / Born: 20-07-55 / TORM shares: 100



A member of the Board since April 2006. General Manager of Beltest Shipping Company Ltd. Mr. Zouvelos holds a Master degree in Quantitative Economics from the University of Stirling, Scotland.

Special competencies:
- Financial management in shipping
- Over 25 years in shipping

EXECUTIVE MANAGEMENT

JACOB MELDGAARD / Born: 24-06-68 / TORM shares: 100,000



Jacob Meldgaard has been Chief Executive Officer since 1 April 2010. Before this, Mr. Meldgaard served as Executive Vice President of Dampskibsselskabet NORDEN A/S. Mr. Meldgaard holds a Bachelor degree in International Trade from Copenhagen Business School, Denmark and has attended the Advanced Management Program at Wharton Business School and Harvard Business School in the USA.

ROLAND M. ANDERSEN / Born: 22-03-68 / TORM shares: 10,449



Chief Financial Officer since May 2008. From 2005 to 2008, Roland M. Andersen was CFO of the Danish mobile and broadband operator Sonofon/Cybercity. From 2000 to 2005, he was CFO of the private equity-owned Cybercity. Prior to this, Roland M. Andersen held positions with A.P. Moller-Maersk, most recently as CFO of A.P. Moller-Maersk Singapore. Complementing his professional experience, Roland M. Andersen holds a M.Sc. and has attended the Executive Program at London Business School.

INVESTOR INFORMATION

- Continuous and consistent dialogue with investors and analysts
- Share price dropped during 2011

MODES OF COMMUNICATION TO THE INVESTORS

TORM seeks to provide relevant and consistent information to the equity market about TORM's financial and operating performance. To ensure consistent communication to all investors, quarterly and annual financial statements and other stock exchange announcements are the main vehicles of communication. In 2011, TORM issued 23 announcements to the stock exchange, which are accessible in both Danish and English versions from www.torm.com/ir.

Other communication channels include regular capital market contact through analyst and industry presentations, investor meetings and teleconferences. Road shows are primarily held in Copenhagen and in the major European and US financial centers.

For a three-week period prior to publication of quarterly and annual financial statements, communication with investors, analysts and the press is limited to issues of a general nature and no individual investor meetings are held.

SHARE CAPITAL

TORM's share capital consists of 72.8 million shares of DKK 5 each. The shares are issued to bearer and listed on NASDAQ OMX Copenhagen and on NASDAQ in New York in the form of American Depositary Receipts (ADRs). TORM has one class of shares, and each share carries one vote with no restrictions on voting rights or ownership.

The average daily trading volumes were approx. 130,000 on NASDAQ OMX. The share price deteriorated from DKK 40 per share at the beginning of 2011 to DKK 4 per share at the end of 2011. Generally, the publicly traded tanker companies have experienced a declining market capitalization, as freight rates and asset prices have been under pressure for the third consecutive year.

NASDAQ has informed TORM that the Company's American Depository Shares did not meet minimum threshold of USD 1.00 per share that is required to continue the listing on NASDAQ. TORM has been granted until 26 June 2012 to regain compliance.

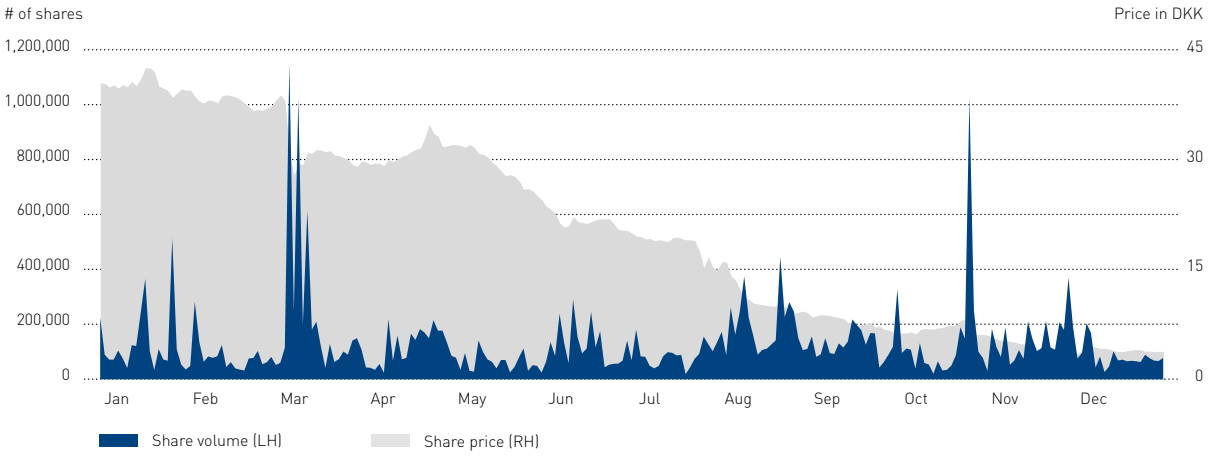
SHAREHOLDERS

As of 31 December 2011, TORM had approximately 15,300 registered shareholders representing 92% of the share capital. At the end of the year, about 3.7% of the total shares had been converted into ADRs - up 0.7 percentage point from 2010. In compliance with section 29 of the Danish Securities Trading Act, the following shareholders have reported to TORM that they own more than 5% of the shares as of 31 December 2011:

- Beltest Shipping Company Ltd. (Cyprus) 32.2% (related to Alpha Trust and its trustee First Link Management)

STOCK EXCHANGE	NASDAQ OMX Copenhagen A/S	NASDAQ New York
Ratio (ODR:ADR)	–	1:1
ISIN Code	DK0060082915	US8910721005
Ticker symbol	TORM	TRMD

TORM SHARES PRICE PERFORMANCE AND TURNOVER, COPENHAGEN



- Menfield Navigation Company Limited (Cyprus) 20.0% (related to Alpha Trust and its trustee First Link Management)
- A/S Dampskibsselskabet TORM's Understøttelsesfond 6.3%

Additionally, TORM A/S held 4.4% treasury shares. At the end of 2011, the members of the Board of Directors held a total of 76,509 shares, equivalent to a total market capitalization of DKK 0.3 million (USD 0.1 million). The members of the Executive Management held a total of 110,449 shares, equivalent to a market capitalization of DKK 0.4 million (USD 0.1 million). The Board of Directors and all employees are limited to trading shares during a four-week period after the publication of financial reports.

TORM's company's registrar is VP Securities, Weidekampsgade 14, P.O. Box 4040, DK-2300 Copenhagen S, Denmark.

DIVIDEND

TORM's dividend policy states that up to 50% of the net profit for the year may be distributed as dividend. Furthermore, dividend distribution should always be considered in light of TORM's capital structure, strategic developments, future obligations, market trends and shareholder interest.

The Board of Directors recommends that no dividend be paid for 2011.

For further information about investor relations, please visit **www.torm.com/investor-relations**

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FINANCIAL CALENDAR 2012

1 March 2012	Annual Report 2011
12 March 2012	Deadline for shareholder submissions to the Annual General Meeting
23 April 2012	Annual General Meeting
10 May 2012	First quarter 2012 results
21 August 2012	First half 2012 results
7 November 2012	Nine months 2012 results

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Captain Ajit Narain on board an LR2 product tanker at the quay in Copenhagen.

FINANCIAL REVIEW 2011

FINANCIAL PERFORMANCE OVERVIEW

TORM achieved an unsatisfactory net loss of USD 453 million in 2011 compared to a net loss of USD 135 million in 2010, resulting in earnings per share (EPS) of USD -6.5 in 2011 against USD -2.0 in 2010. The performance was weaker than expected at the beginning of the year due to lower than expected freight rates in 2011 and unplanned vessel sales during the year accounting for a loss of USD 47 million. In addition, TORM recorded impairment losses of USD 200 million relating to the Tanker Division and to the Company's 50% investment in FR8. Please refer to page 67 and note 9 for a discussion of the impairment testing performed by Management.

The loss before tax for the year was USD 451 million and, apart from the impairment losses of USD 200 million, in line with the latest guidance of a loss before tax of approximately USD 230-250 million.

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

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

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

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

SEGMENT RESULTS

TORM's revenue derives from two segments: The Tanker Division and the Bulk Division. The table Segment Results on page 39 presents the results of shipping activities by operating segment for the years 2010 and 2011.

Tanker Division

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

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

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

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

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

Bulk Division

In the Bulk Division, revenue increased by 272% to USD 347 million from USD 93 million in the previous year, and time charter equivalent earnings increased by 118% or USD 103 million to USD 191 million from USD 88 million in 2010. The overall increase in the number of available earning days of 188% was partly offset by the reduction in the weighted aver-

SEGMENT GROSS PROFIT/(LOSS)

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

CHANGE IN TIME CHARTER EQUIVALENT EARNINGS

USD million	Handy-size	MR	LR1	LR2	Un-allo-cated	**Tanker Division Total**	Handy-max	Pana-max	Un-allo-cated	**Bulk Division Total**	**Total**
Time charter equivalent earnings 2010	60	213	114	79	7	473	0	88	0	88	561
Change in number of earning days	0	22	10	0		32	50	85	0	135	167
Change in freight rates	-16	7	-22	-17		-48	3	-43	0	-40	-88
Other					-4	-4			8	8	4
Time charter equivalent earnings 2011	**44**	**242**	**102**	**62**	**3**	**453**	**53**	**130**	**8**	**191**	**644**

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

age TCE earnings per available earning day of 28% compared to 2010.

Whereas the operations in the Bulk Division in previous years were based on a fleet comprised of owned vessels and vessels chartered in on long time charter contracts, the operations during 2011 were to a large extent based on vessels charted in on short time charters. In total, 105 vessels were taken in on time charter for periods from single trip to several months compared to six vessels in the previous year. This was a part of the Bulk Division transformation from a tonnage provider to an integrated freight service provider to primarily industrial customers.

In the Panamax business area, the number of available earning days increased by 4,437 days or 97%, causing an increase in earnings by USD 85 million. Freight rates were on average 25% lower than in 2010, reducing earnings by USD 43 million.

In the Handymax business area, the number of available earning days increased by 4,182 days to 4,212 days as a response to customer demands. The increase in available earning days increased earnings by USD 50 million, whereas an increase in average freight rates of 6% resulted in an increase in earnings of USD 3 million.

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

The table on page 40 summarizes earnings data per quarter.

OPERATION OF VESSELS

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

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

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

Developments in operating expenses can be summarized as illustrated in the table on page 41. The table also summarizes the operating data for the Company's fleet of owned and bareboat chartered vessels.

The total fleet of owned vessels had 373 off-hire days, corresponding to 1.4% of the number of operating days in 2011 compared to 178 off-hire days, corresponding to 0.7% of operating days in 2010. The increase relates to extraordinary repairs on two specific vessels returning from long bareboat arrangements.

ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME

Total administrative expenses amounted to USD 71 million, which was a decrease of USD 7 million or 9% compared to the USD 78 million in 2010. Administrative expenses for 2010 were impacted by one-time expenses of USD 14 million relating to changes in Management whereas 2011 was impacted by one-off expenses of USD 2 million relating to the reduction in

EARNINGS DATA

USD million	2010 Full year	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2011 **Full year**	% Change full year
TANKER DIVISION							
LR2/Aframax vessels							
Available earning days	4,576	1,157	1,153	1,158	1,092	4,560	0%
Owned	4,418	1,157	1,135	979	963	4,234	
T/C	158	0	18	179	129	326	
Spot rates 1)	16,869	10,890	10,612	10,836	11,959	11,821	-30%
TCE per earning day 2)	17,573	13,524	12,542	12,423	15,647	13,505	-23%
LR1/Panamax vessels							
Available earning days	7,814	2,085	2,164	2,208	2,081	8,537	9%
Owned	2,510	628	631	639	639	2,537	
T/C	5,304	1,457	1,532	1,569	1,442	6,000	
Spot rates 1)	13,407	14,435	15,174	9,841	7,678	11,855	-12%
TCE per earning day 2)	14,599	14,654	14,962	9,467	9,020	12,017	-18%
MR vessels							
Available earning days	15,936	4,263	4,373	4,511	4,477	17,625	11%
Owned	12,671	3,376	3,374	3,434	3,443	13,627	
T/C	3,265	887	999	1,077	1,035	3,998	
Spot rates 1)	11,903	12,760	15,315	11,749	14,080	13,448	13%
TCE per earning day 2)	13,326	12,768	15,867	12,910	13,335	13,718	3%
Handysize vessels							
Available earning days	3,940	969	996	992	978	3,935	0%
Owned	3,927	969	996	992	978	3,935	
T/C	13	0	0	0	0	0	
Spot rates 1)	11,665	10,410	13,403	10,582	9,483	10,074	-14%
TCE per earning day 2)	15,024	11,319	11,983	12,020	9,809	11,288	-25%
BULK DIVISION							
Panamax vessels							
Available earning days	4,561	1,524	2,068	2,279	3,127	8,998	97%
Owned	853	180	182	184	184	730	
T/C	3,707	1,344	1,886	2,095	2,943	8,268	
TCE per earning day 2)	19,184	15,461	16,015	12,140	14,357	14,364	-25%
Handymax vessels							
Available earning days	30	566	1,133	1,152	1,361	4,212	13,956%
Owned	0	0	0	0	0	0	
T/C	30	566	1,133	1,152	1,361	4,212	
TCE per earning day 2)	11,919	11,154	12,554	12,510	13,403	12,628	6%

1) Spot rates = Time Charter Equivalent Earnings for all charters with less than six months duration = Gross freight income less bunker, commissions and port expenses.

2) TCE = Time Charter Equivalent Earnings = Gross freight income less bunker, commissions and port expenses.

land-based personnel in November 2011. The net impact from one-time expenses was thus reduced by USD 12 million. Salaries increased by USD 4 million, expenses relating to incentive schemes increased by USD 3 million and other administrative expenses decreased by USD 2 million.

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

FINANCIAL INCOME AND EXPENSES

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

TAX

Tax for the year amounted to an expense of USD 2 million compared to an income of USD 1 million in 2010. Tax for 2011

CHANGE IN OPERATING EXPENSES

USD million	Tanker Division				Bulk Division		
	Handysize	MR	LR1	LR2	Panamax	Unallocated	**Total**
Operating expenses 2010	23	77	17	30	4	1	152
Change in operating days		12	-2	1	-1		10
Change in operating expenses per day	1	2	1				4
Other						-1	-1
Operating expenses 2011	**24**	**91**	**16**	**31**	**3**	**0**	**165**

OPERATING DATA

USD/day	Tanker Division					Bulk Division			**2011**
	Handysize	MR	LR1	LR2	**Tanker**	Handymax	Panamax	**Bulk**	Total
Operating expenses per operating day in 2010	5,804	6,386	5,834	6,598	6,259		4,517	4,517	6,197
Operating expenses per operating day in 2011	6,013	6,479	6,403	6,586	6,417		4,440	4,440	6,363
Change in operating expenses per operating day in %	4%	1%	10%	0%	3%	N/A	-2%	-2%	3%
Operating days in 2011*	4,015	13,953	2,555	4,670	25,193	0	730	730	25,923
- Off-hire	15	301	18	39	373	0	0	0	373
- Dry-docking	65	101	0	35	201	0	0	0	201
+/- Bareboat charters out/in	0	76	0	-362	-286	0	0	0	-286
+ Vessels chartered in	0	3,998	6,000	326	10,324	4,212	8,268	12,480	22,804
Available earning days	**3,935**	**17,625**	**8,537**	**4,560**	**34,657**	**4,212**	**8,998**	**13,210**	**47,867**

*: including bareboat in.

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

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

VESSELS AND DRY-DOCKING

The decrease in tangible fixed assets of USD 462 million to USD 2,338 million in 2011 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 decreased by USD 301 million to USD 2,259 million. The addition of new tonnage amounted to a total carrying amount of USD 183 million, consisting of two MR newbuildings and two Panamax newbuildings.

Four LR2 and two MR tankers and two Panamax bulk vessels representing a total carrying amount of USD 263 million were sold during the year. Prepayments on vessels decreased by USD 158 million to USD 69 million due to additional costs relating to vessels under construction of USD 95 million less the above-mentioned newbuilding deliveries of USD 183 million and loss from sale and transfer to non-current assets held for sale of USD 70 million. Depreciation regarding tangible fixed assets amounted to USD 145 million in 2011, against USD 141 million in 2010, and an impairment loss relating to the tanker fleet of USD 98 million was recorded in 2011, whereas no impairment of the fleet was recorded in 2010.

At 31 December 2011, TORM's newbuilding program comprised three MR tankers and two Panamax bulk carriers to be delivered during 2012 to 2014. The newbuilding contracts regarding the two bulk carriers were held for sale as at 31 December 2011 and transferred to the new owners in 2012. For the three remaining vessels, payments corresponding to approximately 45% of the aggregate contract price of USD 148 million have been made. Following these payments, the total outstanding contractual commitment under the newbuilding program amounted to USD 82 million at 31 December 2011.

INVESTMENTS IN ENTITIES, INCLUDING JOINTLY CONTROLLED ENTITIES (FR8)

The carrying value of the investment in and loans to jointly controlled entities was USD 58 million at 31 December 2011, compared to USD 83 million at 31 December 2010. The carrying amount was reduced by an impairment loss of USD 13 million relating to the 50% investment in FR8 compared to an impairment loss of USD 35 million in 2010, also relating to FR8. The share of results of jointly controlled entities in 2011 was a loss of USD 4 million, of which a loss of USD 12 million

derived from FR8, against a loss of USD 11 million in 2010, of which a loss of USD 13 million derived from FR8.

The Company holds minority investments in unlisted entities with an aggregate carrying amount of USD 12 million at 31 December 2011 compared to USD 3 million in the previous year. The change of USD 9 million is due to revaluation of one of our investments as efforts to divest the investment have indicated a higher value than the previously recorded amount. The carrying amount of the unlisted shares is based on the estimated fair value computed and prepared using available information.

ASSESSMENT OF IMPAIRMENT OF ASSETS

During 2011, TORM continued to observe indications of potential impairment of the Company's assets in the form of a downward trend in freight rates and vessel prices. As a consequence, Management followed its usual practice of performing an impairment review every quarter and presenting the outcome to the Audit Committee. The Audit Committee evaluates the impairment review and prepares a recommendation to the Board of Directors. The recoverable amount of the assets is reviewed by assessing the net selling price and the value in use for the significant assets within the two cash generating units, the Tanker Division and the Bulk Division, and for the 50% investment in FR8.

At 31 December 2011, Management concluded due to weak market fundamentals, which have led to a more cautious view on the short to mid-term freight rates, that the carrying amount of goodwill and vessels in the Tanker Division was impaired. Consequently, TORM recorded impairment losses of USD 98 million relating to the tanker fleet and USD 89 million relating to goodwill. In addition, the carrying amount of the 50% investment in FR8 was reduced by an impairment loss of USD 13 million to the recoverable amount of USD 42 million. Assets in the Bulk Division were not impaired.

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

The impairment assessment, which is made under the assumption that TORM will continue to operate its fleet in the current set-up is highly sensitive in particular to changes in the freight rates. It should also be emphasized that in a forced sale the recoverable amount of the vessels will be significantly lower than the current carrying amounts.

The underlying assumptions and sensitivities for the discounted cash flow calculations are presented in note 9 on page 67.

Vessel values in the product tanker market remained under pressure at the beginning of 2012, and the Company will continue to monitor developments on a quarterly basis for indications of impairment.

LIQUIDITY AND CASH FLOW

The invested capital decreased by USD 583 million to USD 2,404 million at 31 December 2011, from USD 2,987 million at 31 December 2010. The decrease can primarily be explained by the net reduction in tonnage during the year and impairment losses recorded at the end of the year.

Payment of the Company's obligations under loan agreements, along with payment of charter hire for chartered in vessels and all other commitments that TORM has entered into, is made from the cash generated by the Company. Total cash and cash equivalents amounted to USD 86 million at the end of 2011 against USD 120 million at the end of 2010, resulting in a net decrease in cash and cash equivalents for the year of USD 34 million, compared to a net decrease of USD 2 million in 2010.

The primary sources of the cash flow were proceeds from the sale of vessels and additional borrowings, which contributed total cash of USD 418 million.

The cash flows were primarily used to finance the negative cash flow from operations, the acquisition of further additions to the fleet and to repay mortgage debt and bank loans, which required total cash of USD 447 million.

The Company's operations generated a cash outflow of USD 75 million in 2011, compared to an outflow of USD 1 million in 2010. In addition, the Company invested USD 118 million in tangible fixed assets during 2011, primarily comprising the deliveries under the newbuilding program, against USD 254 million in 2010. In 2011, the Company generated USD 284 million in cash flow from the sale of non-current assets, primarily vessels, compared to USD 64 million in 2010.

The total cash outflow from financing activities amounted to USD 128 million, compared to a cash inflow of USD 186 million in 2010. Additional borrowings generated an inflow of USD 134 million while repayment on mortgage debt and bank loans amounted to USD 254 million. As part of a temporary standstill agreement with TORM's banks, installments of USD 33 million ordinarily due in December 2011 have been deferred to 2012. TORM did not pay any dividends to its shareholders during 2011.

At 31 December 2011, TORM had entered into credit agreements with leading banks with a total commitment of USD 1,856 million, of which USD 1,804 million carrying variable interest was drawn. The credit agreements are dedicated to the financing of new tonnage and to the ongoing financing of some of the existing vessels.

With the current freight rate levels, and as further described in note 2 to the financial statements, TORM will not have sufficient liquidity to continue its operations for the remainder of 2012, unless a financing solution is reached shortly with the Company's banks and other stakeholders.

PRIMARY FACTORS AFFECTING RESULTS OF OPERATIONS

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

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

- Time charter equivalent (TCE) earnings per available earning day. TCE earnings per available earning day are defined as revenue less voyage expenses divided by the number of available earning days. Voyage expenses primarily consist of port and bunker expenses that are unique to a particular voyage, which would otherwise be paid by a charterer under a time charter, as well as commissions, freight and bunker derivatives. TORM believes that presenting revenue net of voyage expenses neutralizes the variability created by unique costs associated with particular voyages or the deployment of vessels on the spot market and facilitates comparisons between periods on a consistent basis. Under time charter contracts, the charterer pays the voyage expenses, while under voyage charter contracts the shipowner pays these expenses. A charterer has the choice of entering into a time charter (which may be a one-trip time charter) or a voyage charter. TORM is neutral as to the charterer's choice because the Company will primarily base its economic decisions on expected TCE rates rather than on expected revenue. The analysis of revenue is therefore primarily based on developments in TCE earnings.
- Spot charter rates. A spot market voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed freight per ton of cargo or a specified total amount. Under spot market voyage charters, TORM pays voyage expenses such as port, canal and bunker costs. Spot charter rates are volatile and fluctuate on a seasonal and year-to-year basis. Fluctuations derive from imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes. Vessels operating in the spot market generate revenue that is less predictable, but may enable us to capture increased profit margins during periods of improvements in tanker rates.
- Time charter rates. A time charter is generally a contract to charter a vessel for a fixed period of time at a set daily or monthly rate. Under time charters, the charterer pays voyage expenses such as port, canal and bunker costs. Vessels operating on time charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot market during periods characterized by favorable market conditions.
- Available earning days. Available earning days are the total number of days in a period when a vessel is ready and available to perform a voyage, meaning the vessel is not off-hire or in dry-dock. For the owned vessels, this is calculated by taking operating days and subtracting off-hire days and days in dry-dock. For the chartered in vessels, no such calculation is required because charter hire is only paid on earning days and never for off-hire days or days in dry-dock.
- Operating days. Operating days are the total number of available days in a period with respect to the owned vessels, before deducting unavailable days due to off-hire days and days in dry-dock. Operating days are a measurement that is only applicable to the owned vessels, not to the chartered in vessels.
- Operating expenses per operating day. Operating expenses per operating day are defined as crew wages and related costs, the costs of spares and consumable stores, expenses relating to repairs and maintenance (excluding capitalized dry-docking), the cost of insurance and other miscellaneous expenses on a per operating day basis. Operating expenses are only paid for owned vessels. The Company does not pay such costs for the chartered in vessels, which are borne by the vessel owner and instead factored into the charter hire cost for such chartered in vessels.

CONSOLIDATED INCOME STATEMENT
1 JANUARY - 31 DECEMBER

USD '000	Note	**2011**	2010
Revenue		1,305,208	856,075
Port expenses, bunkers and commissions		-675,004	-298,830
Freight and bunkers derivatives		14,105	3,339
Time charter equivalent earnings		**644,309**	**560,584**
Charter hire		-398,326	-228,631
Operating expenses	4	-164,949	-152,207
Gross profit (Net earnings from shipping activities)	3	**81,034**	**179,746**
Net profit/(loss) from sale of vessels	27	-52,538	1,871
Administrative expenses	4, 5	-71,222	-78,161
Other operating income		3,170	4,788
Share of results of jointly controlled entities	29	-4,217	-11,453
EBITDA		**-43,773**	**96,791**
Impairment losses on jointly controlled entities	9	-13.000	-35,000
Impairment losses on tangible and intangible assets	7, 8, 9	-187.000	0
Amortization and depreciation	7, 8	-144,826	-141,410
Operating profit/(loss) (EBIT)		**-388,599**	**-79,619**
Financial income	10	9,930	2,663
Financial expenses	10	-72,716	-59,285
Profit/(loss) before tax		**-451,385**	**-136,241**
Tax	13	-1,621	982
Net profit/(loss) for the year		**-453,006**	**-135,259**

EARNINGS/(LOSS) PER SHARE

		2011	2010
Earnings/(loss) per share (USD)	30	-6.5	-2.0
Earnings/(loss) per share (DKK)*		-34.9	-11.0
Diluted earnings/(loss) per share (USD)	30	-6.5	-2.0
Diluted earnings/(loss) per share (DKK)*		-34.9	-11.0

* 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
1 JANUARY - 31 DECEMBER

USD '000	**2011**	2010
Net profit/(loss) for the year	**-453,006**	**-135,259**
Other comprehensive income:		
Exchange rate adjustment arising on translation of entities using a measurement currency different from USD	-399	-13
Fair value adjustment on hedging instruments	-29,668	-4,948
Value adjustment on hedging instruments transferred to income statement	1,700	6,361
Fair value adjustment on other investments available for sale	8,651	-229
Other comprehensive income after tax	**-19,716**	**1,171**
Total comprehensive income for the year	**-472,722**	**-134,088**

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

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER

USD '000	Note	**2011**	2010
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill		0	89,184
Other intangible assets		1,903	2,086
Total intangible assets	7, 9	**1,903**	**91,270**
Tangible fixed assets			
Land and buildings		1,976	3,626
Vessels and capitalized dry-docking	18	2,258,550	2,560,079
Prepayments on vessels		69,250	227,062
Other plant and operating equipment		8,176	9,504
Total tangible fixed assets	8, 9	**2,337,952**	**2,800,271**
Financial assets			
Investments in jointly controlled entities	9, 29	50,259	72,929
Loans to jointly controlled entities		8,198	10,298
Other investments	6	11,614	2,960
Other financial assets	25	0	6,000
Total financial assets		**70,071**	**92,187**
Total non-current assets		**2,409,926**	**2,983,728**
CURRENT ASSETS			
Bunkers		84,552	41,089
Freight receivables	11	140,177	108,207
Other receivables	12	26,037	12,728
Prepayments		11,731	20,385
Cash and cash equivalents		85,548	119,971
		348,045	**302,380**
Non-current assets held for sale	27	21,236	0
Total current assets		**369,281**	**302,380**
TOTAL ASSETS		**2,779,207**	**3,286,108**

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

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER

USD '000	Note	2011	2010
EQUITY AND LIABILITIES			
EQUITY			
Common shares	14	61,098	61,098
Treasury shares	14	-17,309	-17,883
Revaluation reserves		6,180	-2,471
Retained profit		620,032	1,072,330
Proposed dividends		0	0
Hedging reserves		-29,813	-1,845
Currency translation reserves		3,661	4,060
Total equity		**643,849**	**1,115,289**
LIABILITIES			
Non-current liabilities			
Deferred tax liability	13	53,711	54,339
Mortgage debt and bank loans	2, 17, 18, 20	0	1,750,371
Finance lease liabilities	21	29,361	30,977
Deferred income	15	6,407	0
Total non-current liabilities		**89,479**	**1,835,687**
Current liabilities			
Mortgage debt and bank loans	2, 17, 18, 20	1,794,644	211,334
Finance lease liabilities	21	48,296	1,986
Trade payables		115,552	47,976
Current tax liabilities		1,216	1,740
Other liabilities	16	84,904	70,211
Acquired liabilities related to options on vessels	25	84	1,885
Deferred income	15	1,183	0
Total current liabilities		**2,045,879**	**335,132**
Total liabilities		**2,135,358**	**2,170,819**
TOTAL EQUITY AND LIABILITIES		**2,779,207**	**3,286,108**

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

USD '000	Common shares	Treasury shares	Retained profit	Proposed dividends	Revaluation reserves	Hedging reserves	Translation reserves	**Total**
EQUITY								
Equity at 1 January 2010	**61,098**	**-18,118**	**1,205,146**	**0**	**-2,242**	**-3,258**	**4,073**	**1,246,699**
Comprehensive income for the year:								
Net profit/(loss) for the year			-135,259					-135,259
Other comprehensive income for the year					-229	1,413	-13	1,171
Total comprehensive income for the year	**0**	**0**	**-135,259**	**0**	**-229**	**1,413**	**-13**	**-134,088**
Disposal treasury shares, cost		235						235
Loss from disposal of treasury shares			-235					-235
Share-based compensation			2,678					2,678
Total changes in equity 2010	**0**	**235**	**-132,816**	**0**	**-229**	**1,413**	**-13**	**-131,410**
Equity at 31 December 2010	**61,098**	**-17,883**	**1,072,330**	**0**	**-2,471**	**-1,845**	**4,060**	**1,115,289**
USD '000								
Comprehensive income for the year:								
Net profit/(loss) for the year			-453,006					-453,006
Other comprehensive income for the year					8,651	-27,968	-399	-19,716
Total comprehensive income for the year	**0**	**0**	**-453,006**	**0**	**8,651**	**-27,968**	**-399**	**-472,722**
Disposal treasury shares, cost		574						574
Loss from disposal of treasury shares			-574					-574
Share-based compensation			1,282					1,282
Total changes in equity 2011	**0**	**574**	**-452,298**	**0**	**8,651**	**-27,968**	**-399**	**-471,440**
Equity at 31 December 2011	**61,098**	**-17,309**	**620,032**	**0**	**6,180**	**-29,813**	**3,661**	**643,849**

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

CONSOLIDATED CASH FLOW STATEMENT
1 JANUARY - 31 DECEMBER

USD '000	Note	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit/(loss)		-388,599	-79,619
Adjustments:			
Reversal of net profit/(loss) from sale of vessels		52,538	-1,871
Reversal of amortization and depreciation		144,826	141,410
Reversal of impairment of jointly controlled entities		13,000	35,000
Reversal of impairment of tangible and intangible assets		187,000	0
Reversal of share of results of jointly controlled entities		4,217	11,453
Reversal of other non-cash movements	28	-6,796	-8,009
Dividends received		1	1
Dividends received from jointly controlled entities		1,360	1,690
Interest received and exchange gains		4,983	496
Interest paid and exchange losses		-66,951	-54,368
Income taxes paid/repaid		-2,671	-3,565
Change in bunkers, receivables and payables	28	-17,687	-43,193
Net cash flow from operating activities		**-74,779**	**-575**
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in tangible fixed assets		-118,455	-253,945
Investment in equity interests and securities		0	-13
Loans to jointly controlled entities		2,100	3,300
Sale of non-current assets		284,475	63,751
Net cash flow from investing activities		**168,120**	**-186,907**
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowing, mortgage debt		87,043	344,693
Borrowing, finance lease liabilities		46,765	0
Repayment/redemption, mortgage debt		-254,104	-153,759
Repayment/redemption, finance lease liabilities		-7,468	-5,305
Cash flow from financing activities		**-127,764**	**185,629**
Net cash flow from operating, investing and financing activities		**-34,423**	**-1,853**
Cash and cash equivalents at 1 January		**119,971**	**121,824**
Cash and cash equivalents at 31 December		**85,548**	**119,971**
Of which restricted cash and cash equivalents		0	0
		85,548	**119,971**

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

NOTE 1

ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 issued by OMX Nordic Exchange.

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 the annual report.

CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

TORM has implemented the following interpretation and changes to standards and interpretations in the annual report for 2011:

- Amendment to IAS 24 "Related Party Disclosures" revising the definition of related parties.
- Amendment to IAS 32 "Financial Instruments: Presentation".
- Amendment to IFRIC 14 "Prepayments of a minimum Funding Requirement".
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".

In addition, TORM has implemented a number of smaller changes and clarifications issued by IASB during 2010 as part of the improvement project, including changes to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27 and IAS 34.

The implementation of the new and amended standards and interpretations did not affect TORM's accounting policies.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IASB has issued an amendment to IFRS 7 "Financial Instruments: Disclosures" requiring additional disclosures about transfers of financial assets. TORM will implement this amendment, which is not expected to affect measurement and recognition in TORM, when it becomes effective in 2012.

Furthermore, IASB has issued the following standards and changes to standards which become effective on or after 1 January 2012 which have not yet been adopted by the EU:

- Amendment to IFRS 7 "Financial Instruments – Disclosures" relating to offsetting financial assets and financial liabilities.
- IFRS 9 "Financial Instruments - Classification and Measurement" and subsequent amendments. The standard is the first phase in the replacement of IAS 39.
- IFRS 10 "Consolidated Financial Statements".
- IFRS 11 "Joint Arrangements".
- IFRS 12 "Disclosures of Interests in Other Entities".
- IFRS 13 "Fair Value Measurement".
- Amendment to IAS 1 "Presentation of Financial Statements" revising the presentation of other comprehensive income.
- Amendment to IAS 12 "Income Taxes": "Deferred Tax: Recovery of Underlying Assets".
- Amendments to IAS 19 "Employee Benefits".
- IAS 27 "Separate Financial Statements".
- IAS 28 "Investments in Associates and Joint Ventures".
- Amendment to IAS 32 "Financial Instruments: Presentation" relating to offsetting financial assets and financial liabilities.

The impact of IFRS 9 "Financial Instruments", on the consolidated financial statements has not yet been determined on a sufficiently reliable basis. Based on current analyses of the other standards and interpretations, TORM expects no material impact on its financial position, results of operations and cash flows; however, more extensive reporting is required for some areas.

KEY ACCOUNTING POLICIES

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

Participation in pools

TORM generates its revenue from shipping activities, which to some 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 services 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 a 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.

In 2011, TORM acted as pool manager of 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 services 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 finalized 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 at 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 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.

NOTE 1 – CONTINUED

Demurrage revenue
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 demurrage revenue. Demurrage revenue is recognized upon delivery of services 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 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
Approximately every 30 and 60 months depending on the nature of work and external requirements, 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. 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 again is based on experience and past history of similar vessels. For second-hand vessels, a dry-docking asset is also segregated and capitalized separately, taking into account the normal docking intervals of 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 into the Danish tonnage tax scheme for a binding 10-year period with effect from 1 January 2001. As a consequence of the acquisition of 50% of OMI in 2007, however, a new 10-year binding period commenced with effect from 1 January 2008. Under the Danish tonnage tax 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 of a company for a given period is calculated as the sum of the taxable income under the tonnage tax scheme and the taxable income from the activities that are not covered by the tonnage tax scheme computed in accordance with the ordinary Danish corporate tax rules.

If the entities' participation in the Danish tonnage tax scheme is abandoned, or if the entities' level of investment and activity is significantly reduced, a deferred tax liability will become payable. A deferred tax liability is recognized in the balance sheet at each period end calculated 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 base of the vessels at the date of entry into the tonnage tax scheme and the lower of 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 voting rights or otherwise exercises control. 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 companies and therefore are subject to joint control (jointly controlled entities) are accounted for using the equity method.

NOTE 1 – CONTINUED

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 intercompany transactions, balances and shareholdings as well as realized and unrealized gains and losses on transactions 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 is effectively obtained. Entities sold or wound up are recognized in the consolidated financial statements until the date of the sale or the winding up. The date of sale or winding up is the date when control is effectively obtained by a third party. The comparative figures are not restated for entities acquired, disposed of or wound up.

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. 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 agreed upon. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination if the event is probable and the adjustment can be measured reliably. Costs of issuing debt or equity instruments in connection with a business combination are accounted for together with the debt or equity issuance. All other costs associated with the acquisition are expensed in the income statement.

The excess of the cost of the business combination over the fair value of the acquired assets, liabilities and contingent liabilities is recognized as goodwill under intangible assets and is tested for impairment at least once every year. Upon acquisition, goodwill is allocated to the relevant cash generating units, which subsequently form the basis for impairment testing.

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 Companies' most significant assets and liabilities in the form of vessels and related liabilities are denominated in USD. Transactions in currencies other than the functional currency are translated into the functional currency at the transaction date. Cash, receivables and payables and other monetary items denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate 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. Income statement items 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 recognized in the separate component of equity relating to that entity is transferred to the income statement as part of the gain or loss on disposal.

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 on 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 into for hedging purposes.

Derivative financial instruments are initially recognized in the balance sheet at fair value at the date when the derivative contract is entered into and are subsequently measured at their fair value as other receivables or other liabilities, respectively.

Changes in the fair value of derivative financial instruments, which are designated as cash flow hedges and deemed to be effective, are recognized directly in Other comprehensive income. When the hedged transaction is recognized in the income statement, the cumulative value adjustment recognized in Other comprehensive income is transferred to the income statement and included in the same line as the hedged transaction. However, when the hedged transaction results in the recognition of a fixed asset, the gains and losses previously accumulated in Other comprehensive income are transferred from Other comprehensive income and included in the initial measurement of the cost of the fixed asset. Changes in the fair value of a portion of a hedge deemed to be ineffective are recognized in the income statement.

Changes in the 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 derivate financial instruments are therefore recognized in the income statement under Financial income or 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: The Tanker Division and the Bulk Division. This segmentation is based on the Group's internal management and reporting structure. In the tanker segment, the services provided primarily comprise transport of refined oil products such as gasoline, jet fuel and naphtha, and in the bulk segment the services provided comprise transport of dry cargo – typically commodities such as coal, grain, iron ore, etc. 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

NOTE 1 – CONTINUED

to specific parts of the world. Furthermore, the internal management reporting does not provide such information. Consequently, it is not possible to provide geographical segment information on revenue from external customers or non-current segment assets.

The accounting policies applied for the segments regarding recognition and measurement are consistent with the policies for TORM as described in this note.

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's 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 or 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.

Employee benefits
Wages, salaries, social security contributions, paid holiday and sick leave, bonuses and other monetary and non-monetary benefits are recognized 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 payment
For the period 2007-2009, the Management and all land-based employees and officers employed on permanent contracts (apart from trainees, apprentices and cadets) that were directly employed by TORM A/S participated in an incentive scheme, which included grants of shares and share options. In 2010 and 2011, a new incentive scheme comprising share options has been established for Management and certain key employees. The schemes do not provide the choice of cash settlement instead of shares. The value of the services received as consideration for the shares and share options granted under the schemes is measured at the fair value of the granted shares and share options. The fair value is measured at the grant date and is recognized in the income statement as staff costs under administrative expenses and operating expenses over the vesting period. The counter item is recognized in equity. The fair value is measured based on the Black-Scholes and Monte Carlo models.

Leases
Agreements to charter in vessels and to lease other plant and operating 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 leases.

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 term is disclosed in the notes to the financial statements.

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 derecognized 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 established at fair value 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 term 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 the transaction except if the loss is compensated by future lease payments below fair value, the loss is deferred and amortized in proportion to the lease payments over the term of the lease.

INCOME STATEMENT

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

- The income generating 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
- Costs relating to the transaction can be measured reliably

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

NOTE 1 – CONTINUED

Port expenses, bunkers and commissions
Port expenses, bunker fuel consumption and commissions are recognized as incurred. Gains and losses on forward bunker contracts designated as hedges and write-down and provisions for losses on freight receivables are included in this line.

Freight and bunkers derivatives
Freight and bunkers derivatives comprise 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 comprises 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.

Net profit/(loss) from sale of vessels
Net profit/(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. Net profit/(loss) from sale of vessels also includes onerous contracts related to sale of vessels and losses from cancellation of newbuilding contracts.

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.

Impairment losses on jointly controlled entities
Impairment losses on jointly controlled entities comprise the reduction in the value of the equity investment in jointly controlled entities by the amount by which the carrying amount of the investment exceeds its recoverable amount. In the event of indication of impairment, the carrying amount is assessed, and the value of the asset is written down to its recoverable amount equal to the higher of the value in use based on net present value of future earnings from the assets and its net selling price.

Amortizations, depreciation and impairment losses
Amortizations, depreciation and impairment losses comprise amortization of other intangible assets and depreciation of tangible fixed assets for the period as well as the write-down of 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, the carrying amount is assessed, and the value of the asset is written down 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.

Financial income
Financial income comprises interest income, realized and unrealized exchange rate gains relating to transactions in currencies other than the functional currency, realized gains from other equity investments and securities, unrealized gains from securities, dividends received and other financial income including value adjustments of certain financial instruments not accounted for as hedges of future transactions.

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 expenses, 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 equity investments and securities, unrealized losses from securities and other financial expenses including value adjustments of certain financial instruments not accounted for as hedges of future transactions.

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 on 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 comprise 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 equity items 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 the recoverable amount of goodwill is assessed every quarter. For impairment testing purposes, goodwill is on initial recognition 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 operating 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.

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.

NOTE 1 – CONTINUED

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 companies and therefore subject to joint control and are measured at equity value.

Financial assets
Financial assets are initially recognized at the 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 Other comprehensive income. Realized gains and losses resulting from sales of shares are recognized as financial items in the income statement. The cumulative value adjustment recognized in Other comprehensive income is transferred to the income statement when the shares are sold. Dividends on shares in other companies are recognized as financial 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 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.

Impairment of assets
Non-current assets are reviewed quarterly to determine any indication of impairment due to a significant decline in either the assets' market value or in the cash flows generated by the assets. 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. The value in use is the present value of the future cash flows expected to derive from an asset. If the recoverable 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 including goodwill and time charter and bareboat contracts are grouped at the lowest levels at which goodwill is monitored for internal management purposes. The two cash generating units of the Company are the Tanker Division and the Bulk Division.

Bunkers
Bunkers and luboil are stated at the lower of cost and net realizable value. Cost is determined using the FIFO method and includes expenditures incurred in acquiring the bunkers and luboil 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 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.

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.

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.

NOTE 1 – CONTINUED

Cash flow from operating activities is presented using the indirect method and is based on net profit for the year adjusted for tax, financial income and expenses, net 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 the purchase and sale of tangible fixed assets and non-current financial assets.

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

Cash and cash equivalents comprise cash at bank and in hand including restricted cash and cash equivalents. Other investments are classified as investment activities.

Earnings per share
Basic earnings per share is calculated by dividing the consolidated net profit or loss for the year 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 of including them would be to increase earnings per share or reduce a loss per share.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
The preparation of financial statements in accordance 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 subject to significant uncertainty, if different estimates could reasonably have been used or if changes in the estimate that would have a material impact on the Company's financial position or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates applied 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 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 quarterly 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 of future freight rates, earnings from the vessels and discount rates. All of these factors 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 write-down of vessels may be required.

NOTE 2

LIQUIDITY, CAPITAL RESOURCES, GOING CONCERN AND SUBSEQUENT EVENTS

Liquidity and capital resources
In June 2011, TORM entered an agreement to amend its USD 900 million revolving credit facility agreement that matures with a bullet payment of USD 630 million in June 2013. The agreement was contingent upon completing a rights issue of approximately USD 100 million no later than 16 December 2011. As the rights issue was not completed, the original maturity schedule was not changed.

The continued weak freight markets and the continued uncertainty surrounding the global economy have put TORM's liquidity under significant pressure, and consequently the Company's ability to continue as a going concern is dependent on negotiating a comprehensive financing and restructuring plan with its banks and other stakeholders, which will secure the liquidity throughout 2012 and a long-term, sustainable capital structure.

In December 2011, TORM and the majority of its banks entered installment and covenant standstill agreements valid until 15 January 2012. Subsequently the standstill agreements have been extended latest until 30 April 2012. As of 23 April 2012, installments of USD 67 million have been deferred, and the Company is scheduled to make further loan repayments of USD 132 million during the remainder of 2012.

As of 31 December 2011, TORM's equity ratio was 23.2%, after impairment losses of USD 200 million, resulting in a breach of its financial covenants under the existing loan agreements, and due to this TORM no longer has the unconditional right to defer payments on the loans for more than 12 months. As of 31 December 2011, TORM's mortgage debt and bank loans of USD 1.9 billion were therefore in principle payable on demand and accordingly classified as current liabilities in the balance sheet. In January 2012, TORM also breached the USD 60 million cash covenant. TORM's standstill agreements with its banks do not waive these breaches, but provide for a period of time during which the banks will not

NOTE 2 – CONTINUED

take action against TORM in relation to the breaches. As of 23 April 2012, except for the temporary standstill agreements, none of these defaults have been remediated.

TORM entered into a number of charter-in agreements during the cyclical high markets of 2007-2008. The time charter portfolio is significantly misaligned with the current market levels, and consequently TORM and its banks have initiated negotiations with its time charter partners aimed at amending the charter-in rates and agreements. Such a restructuring is a necessary step to reach a financial solution that will ensure financial flexibility and create the resilience needed. The vast majority of the time charter partners have agreed to align the charter-in rates to the current market level until 30 April 2012.

Furthermore, TORM has taken comprehensive measures to address the cost base over the last couple of years, thereby significantly reducing administrative costs by 21% and vessel OPEX per day by 16%. This has been achieved despite underlying inflationary pressure. As part of the plan, TORM will continue its ongoing efficiency program with the target of achieving cumulative cost and cash flow improvements of USD 100 million over the next three years.

To improve the short-term liquidity and reduce the debt, TORM has also eliminated the newbuilding program by cancelling one MR newbuilding and selling two dry bulk newbuilding contracts in 2011. Furthermore, TORM took delivery of one MR newbuilding in January 2012 and one MR newbuilding in March 2012. On 16 March 2012, TORM entered into an agreement to cancel the last MR newbuilding order, which was scheduled for delivery in the second quarter of 2014. TORM does hereafter not have any newbuildings on order.

Despite the efforts to minimize costs and eliminate the newbuilding program, TORM must reach a positive solution with the banks and other important stakeholders as TORM with the current financial position and continuing low freight rates, levels does not have sufficient liquidity to continue its operations throughout 2012.

On 4 April 2012, TORM announced that it has reached a conditional framework agreement in principle with the bank coordination committee and its major time charter partners regarding a financing and restructuring plan. The plan encompasses the following key elements:

- The change in ownership will be implemented through a reduction of the nominal share capital from DKK 5 per share to DKK 0.01 per share and a subsequent capital increase by the banks and time charter partners through conversion of debt and payables.
- The banks will make available a revolving credit facility of USD 100 million to cover working capital requirements. The facility will mature in two years.
- The banks will defer all installments and repayments of loans until December 2016 with simultaneous possibility for rolling up interest the first two years. Should TORM before December 2016 generate liquidity in excess of a pre-defined minimum liquidity threshold, the banks will be entitled to such excess liquidity.
- It is a prerequisite that all time charter partners either align the time charter rates to the market level for the remaining contract periods or agree to cancel the time charters.

In exchange for the above the banks and the time charter partners will according to the conditional framework agreement in principle receive an ownership interest of 92.5% in TORM A/S, while the existing shareholders will retain an ownership interest of 7.5% after the implementation of the plan.

The solution outlined in the conditional framework agreement in principle will provide TORM with financing and the required liquidity to continue as a going concern at least until the end of 2012.

The majority of the banks support the conditional framework agreement in principle, and acceptance to the agreement has been obtained from the vast majority of the time charter partners.

At the Annual General Meeting on 23 April 2012, TORMs shareholders will need to authorize the Board of Directors to carry out the above-mentioned capital reduction and subsequent capital increase. The Company has received notification from the necessary amount of shareholders registered for the Annual General Meeting on 23 April 2012 that they will vote in favor of the proposed authorizations.

The implementation roadmap for the plan is outlined, but it is still subject to:

- finalization of the contractual agreements
- shareholder approval of the authorizations to the Board of Directors as outlined above
- the final approval by the Board of Directors, the banks and time charter partners

The Company expects that the remaining contractual agreements and approvals will be finalized, and accordingly the Annual Report for 2011 is prepared under the assumption that the conditional framework agreement in principle will be successfully finalized.

Going concern

On the basis of the above the consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities or any other adjustments that might occur in the event the Company is unable to continue as a going concern, except for the current classification of debt discussed in note 17.

If the above plan is not implemented or if the efforts to otherwise reach a comprehensive financing and restructuring plan result in TORM not being able to continue in a substantially unchanged form, the current TORM A/S might not be a going concern. In such a scenario or in a forced sale, the net value of the Company's assets, liabilities and off balance sheet items would be significantly lower than the current carrying amounts as at 31 December 2011, and consequently the financial position of the Company could be impacted (see note 9 for further information).

Subsequent events

As described above and in note 17, loan covenants have been breached in 2011 and 2012. As the breaches have not been waived or otherwise remediated, the mortgage debt and bank loans of USD 1,579.4 million are reclassified as current liabilities, until new arrangements have been agreed upon with the banks.

As outlined above, a comprehensive financing and restructuring plan is under implementation and the standstill agreements with the banks have in 2012 been extended until 30 April 2012.

NOTE 3

USD million	2011 Tanker Division	2011 Bulk Division	2011 Not allocated	2011 **Total**	2010 Tanker Division	2010 Bulk Division	2010 Not allocated	2010 **Total**
CONSOLIDATED SEGMENT INFORMATION								
INCOME STATEMENT								
Revenue	958.7	346.5	0.0	1,305.2	762.9	93.2	0.0	856.1
Port expenses, bunkers and commissions	-510.7	-164.3	0.0	-675.0	-293.7	-5.1	0.0	-298.8
Freight and bunker derivatives	4.9	9.2	0.0	14.1	3.5	-0.2	0.0	3.3
Time charter equivalent earnings	**452.9**	**191.4**	**0.0**	**644.3**	**472.7**	**87.9**	**0.0**	**560.6**
Charter hire	-199.3	-199.0	0.0	-398.3	-168.9	-59.7	0.0	-228.6
Operating expenses	-161.8	-3.2	0.0	-165.0	-148.4	-3.8	0.0	-152.2
Gross profit/(loss) (Net earnings from shipping activities)	**91.8**	**-10.8**	**0.0**	**81.0**	**155.4**	**24.4**	**0.0**	**179.8**
Net profit/(loss) from sale of vessels	-11.6	-40.9	0.0	-52.5	0.0	1.9	0.0	1.9
Administrative expenses	-58.0	-13.2	0.0	-71.2	-70.0	-8.2	0.0	-78.2
Other operating income	2.7	0.4	0.0	3.1	4.8	0.0	0.0	4.8
Share of results of jointly controlled entities	9.7	0.0	-13.9	-4.2	1.4	0.0	-12.9	-11.5
EBITDA	**34.6**	**-64.5**	**-13.9**	**-43.8**	**91.6**	**18.1**	**-12.9**	**96.8**
Impairment losses on jointly controlled entities	0.0	0.0	-13.0	-13.0	0.0	0.0	-35.0	-35.0
Impairment losses on tangible and intangible assets	-187.0	0.0	0.0	-187.0	0.0	0.0	0.0	0.0
Amortization and depreciation	-141.6	-3.2	0.0	-144.8	-138.7	-2.7	0.0	-141.4
Operating profit/(loss) (EBIT) (Segment result)	**-294.0**	**-67.7**	**-26.9**	**-388.6**	**-47.1**	**15.4**	**-47.9**	**-79.6**
Financial income			9.9	9.9			2.7	2.7
Financial expenses			-72.7	-72.7			-59.3	-59.3
Profit/(loss) before tax			**-89.7**	**-451.4**			**-104.5**	**-136.2**
Tax			-1.6	-1.6			1.0	1.0
Net profit/(loss) for the year			**-91.3**	**-453.0**			**-103.5**	**-135.2**
BALANCE SHEET								
Total non-current assets	2,307.7	39.9	62.3	2,409.9	2,781.4	157.3	45.0	2,983.7
Total liabilities	96.3	49.8	1,989.2	2,135.3	105.9	4.8	2,060.1	2,170.8
OTHER INFORMATION								
Additions to intangible assets and tangible fixed assets	83.4	35.1	0.0	118.5	236.9	44.6	0.0	281.5
Impairment losses recognised in the income statement	-187.0	0.0	-13.0	-200.0	0.0	0.0	-35.0	-35.0
Investments in jointly controlled entities	8.0	0.0	42.3	50.3	6.1	0.0	66.8	72.9

The activity in TORM's 50% ownership of FR8 Holding Pte. Ltd. is included in "Not allocated".

TORM consists of two business segments: Tanker and Bulk. This segmentation is based on the Group's internal management and reporting structure.

During the year, there have been no transactions between the Tanker and the Bulk segments, and therefore all revenue derives from external customers.

The Group has only 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.

In the Tanker Division, a major portion of the Company's freight revenue is concentrated on a small group of customers. In 2011, one customer in the Tanker Division accounted for 10% (2010: 11%) of the total freight revenue of the Company.

Please also refer to the section Segment information in note 1.

NOTE 4

USD million	2011	2010
STAFF COSTS		
Total staff costs		
Staff costs included in operating expenses	18.0	20.9
Staff costs included in administrative expenses	46.7	49.6
Total	**64.7**	**70.5**
Staff costs comprise the following		
Wages and salaries	58.1	62.8
Share-based compensation	1.2	2.3
Pension costs	5.0	4.7
Other social security costs	0.4	0.7
Total	**64.7**	**70.5**

USD '000

Of which remuneration to the Board of Directors and salaries to the Executive Management:

	2011			2010		
Board of Directors	Board remuneration	Committee remuneration	Total short-term benefits	Board remuneration	Committee remuneration	Total short-term benefits
Niels Erik Nielsen	187	9	196	176	9	185
Christian Frigast	121	19	140	115	17	132
Peter Abildgaard	75	0	75	71	0	71
Lennart Arrias (resigned on 14 April 2011)	21	0	21	71	0	71
Margrethe Bligaard (resigned on 14 April 2011)	21	0	21	71	0	71
Kari Millum Gardarnar (appointed on 14 April 2011)	53	0	53	0	0	0
Rasmus J. Skaun Hoffmann (appointed on 14 April 2011)	53	0	53	0	0	0
Bo Jagd (resigned on 14 April 2011)	21	3	24	71	8	79
Jesper Jarlbæk	75	9	84	71	8	79
Gabriel Panayotides	75	9	84	71	8	79
Angelos Papoulias	75	15	90	71	0	71
Stefanos-Niko Zouvelos	75	9	84	71	8	79
Total for the year	**852**	**73**	**925**	**859**	**58**	**917**

	Short-term benefits			Share-based compen-	
Executive Management 2011	Salaries	Bonus	Pension	sation	Total
Jacob Meldgaard	1,003	0	0	227	1,230
Roland M. Andersen	722	0	22	231	975
Total for 2011	**1,725**	**0**	**22**	**458**	**2,205**

NOTE 4 – CONTINUED

Executive Management 2010	Short-term benefits			Share-based compen-sation	One-time compen-sation	
	Salaries	Bonus	Pension			Total
Jacob Meldgaard (started on 1 April 2010)	705	0	0	14	11,654	12,373
Roland M. Andersen	682	378	21	278	0	1,359
Mikael Skov (1 January - 11 March 2010)	356	0	21	312	2,670	3,359
Total for 2010	**1,743**	**378**	**42**	**604**	**14,324**	**17,091**

One-off compensation for Mikael Skov is compensation for taking the position as CEO in the interim period until Jacob Meldgaard joined as new CEO.
One-off compensation for Jacob Meldgaard constituting a provision of USD 11,7 million covers the Company's obligation to compensate Jacob Meldgaard for the loss he may incur on granted share options, bonus, etc. that he forfeited due to his resignation from his previous employment. The amount is conclusively settled and paid in 2012.
Bonus for Roland M. Andersen was guaranteed as part of the employment contract from 2008.

Employee information
The average number of permanently employed staff in the Group in the financial year was 332 (2010: 308) land-based employees and 212 (2010: 225) seafarers.
The majority of the staff on vessels are not employed by TORM.
The average number of employees is calculated as a full-time equivalent (FTE).
The members of Management are, in the event of termination by the Company, entitled to a severance payment of up to 24 months' salary.

INCENTIVE SCHEME FOR MANAGEMENT AND CERTAIN EMPLOYEES FOR 2010-2012

In 2010 a share option-based incentive scheme was established for certain employees including the Executive Management, members of the management group and certain key employees. The Board of Directors is not included in the scheme. 35 persons were comprised by the 2010 grant and 40 persons by the 2011 grant. The scheme comprises share options only and aims at incentivizing the participants to seek to boost the share price to the mutual benefit of themselves and the shareholders of TORM.

The share options may be granted in 2010, 2011 and 2012 and each year, grants are made at the discretion of the Board of Directors in accordance with criteria determined by the Board of Directors. The share options vest in connection with the publication of the annual report in the third calendar year after the grant. Vested share options may be exercised from the vesting date until the publication of the annual report in the sixth year from grant.

The total number of share options granted under the scheme in the financial year 2011 was 1,065,736 (2010: 935,736). Each share option gives the employee the right to acquire one TORM share of a nominal value of DKK 5. The share options can only be settled in shares.

For grants made in 2010, the exercise price is DKK 49.23 calculated as the average of the quoted closing price on NASDAQ OMX Copenhagen A/S for the day of the publication of the interim financial report for the third quarter of 2010 and the following four business days plus a hurdle rate of 12% per annum calculated from grant until the vesting date.

For grants made in 2011, the exercise price is DKK 39.87 calculated as the average of the quoted closing price on NASDAQ OMX Copenhagen A/S for the day of the publication of the annual report for 2010 and the following four business days plus a hurdle rate of 12% per annum calculated from grant until the vesting date.

For grants made in 2012, the exercise price will be determined as the average of the quoted closing price of the NASDAQ OMX Copenhagen A/S for the day of the publication of the annual report for 2011 and the following four business days plus a hurdle rate of 12% per annum calculated from grant until the vesting date.

The scheme is subject to Danish law and includes certain adjustment provisions, exercise conditions and other terms customary for share option schemes of this nature.

In 2011, an expense of USD 0.7 million has been recognized in the income statement regarding share options granted in 2010 and USD 0.5 regarding share options granted in 2011.

The fair value of the share options granted in 2010 and 2011 is based on the Black-Scholes model and as at the grant date calculated at USD 1.6 million for the 2010 grant and USD 2.0 million for the 2011 grant.

The key assumptions for the calculation of the fair value based on the Black-Scholes model are:
- The share price at the time of grant was estimated at DKK 34.70 per share for the 2010 grant and DKK 29.40 per share for the 2011 grant based on the closing price on NASDAQ OMX Copenhagen A/S as at 24 November 2010 for the 2010 grant and as at 16 March 2011 for the 2011 grant.
- The exercise price is adjusted for TORM dividends.
- The expected dividend rate at grant date is 0%.
- The volatility on the TORM share is estimated based on the Company's historical volatility and was estimated at 47.76% for the 2010 grant and 49.95% for the 2011 grant.
- The risk-free interest rate based upon expiry of the options is 1.81% for the 2010 grant and 2.37% for the 2011 grant.
- The options are on average held for a period of 3.8 years for the 2010 grant and 4.5 years for the 2011 grant.

NOTE 4 – CONTINUED

Changes in outstanding share options are as follows:

Number of share options	Total options **2011**	Options allocation per year 2011	2010
Share option program - 2010 to 2012			
Executive Management			
Granted	608,262	304,131	304,131
Transferred to resigned employees	0	0	0
Exercised	0	0	0
Forfeited/expired in 2010-2011	0	0	0
Not exercised at 31 December 2011	**608,262**	**304,131**	**304,131**
Other employees			
Granted	1,393,210	761,605	631,605
Transferred to resigned employees	-10,000	0	-10,000
Exercised	0	0	0
Forfeited/expired in 2010-2011	-65,000	-30,000	-35,000
Not exercised at 31 December 2011	**1,318,210**	**731,605**	**586,605**
Resigned employees			
Granted	0	0	0
Transferred from management and other employees	10,000	0	10,000
Exercised	0	0	0
Forfeited/expired in 2010-2011	0	0	0
Not exercised at 31 December 2011	**10,000**	**0**	**10,000**
Total number of share options not exercised at 31 December 2011	**1,936,472**	**1,035,736**	**900,736**
Total number of share options not exercised at 31 December 2010	**935,736**	**0**	**935,736**
Total number of share options that could be exercised at 31 December 2011	**0**	**0**	**0**
Total number of share options that could be exercised at 31 December 2010	**0**	**0**	**0**

NOTE 4 – CONTINUED

INCENTIVE SCHEME FOR MANAGEMENT AND CERTAIN EMPLOYEES FOR 2007-2009

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 were directly employed in TORM A/S. The Board of Directors was not included in the scheme. The scheme covers the financial years of 2007, 2008 and 2009. The scheme consists of both bonuses and share options.

Bonus

The bonus was awarded based on TORM achieving a calculated RoIC (Return on Invested Capital) in each financial year compared to each year's budgeted RoIC. If the RoIC was higher or lower, the amount available for bonuses was adjusted accordingly. 75% of the achieved bonus was paid in cash and 25% in shares, which the employee would own provided that they were still employed by the Company after a period of two years. The number of shares granted to the employee depended on the market price of the TORM share when TORM's annual report for the grant year was published. In addition to the RoIC-based bonus, a discretionary bonus could be awarded. In 2009, the RoIC target was not achieved and consequently only the discretionary bonus was awarded. The individual employee's share of the bonus was based partly on the individual's salary and partly on the evaluation of the individual's performance. The employee received the bonus after the publication of TORM's annual report. For the financial year 2010 and 2011, no bonus has been awarded under this program as it only covers the financial years 2007-2009.

The number of granted shares for 2008 amounted to 400,214 shares of which 169,066 were forfeited. In March 2011, the vesting period for the shares granted in 2008 expired, and consequently 231,148 shares have been transferred to the employees in the financial year 2011. No shares were granted in 2009.

An income of USD 0.3 million (2010: an expense of USD 0.8 million) relating to the amortization of shares for 2007-2008 has been recognized in the income statement for 2011.

Please refer to the annual reports for 2007-2009 for further information on bonuses under this scheme in 2007-2009.

Share options

No share options have been granted under this scheme for the financial years 2010 or 2011. In 2011, 116,538 (2010: 199,324) of the share options granted in 2009, 8,190 (2010: 199,607) of the share options granted in 2008 and 2,119 (2010: 1,358) of the share options granted in 2007 were forfeited. Each share option gives the employee the right to acquire one TORM share of a nominal value of DKK 5. The share options can only be settled in shares. The Company's holding of treasury shares covers the share option program.

The share options consist of 2 elements:
Approximately 50% of the share options were granted with a fixed exercise price (standard options). For the share options granted in 2007, the price is DKK 148.3 per share, and for the following years DKK 159.7 and DKK 171.0 respectively after adjustment for the interim dividend paid out in September 2007 and December 2008.

Approximately 50% of the share options were granted with an exercise price finally determined at the publication of TORM's annual report after a three year period, i.e. for the grant for 2009 in March 2012. The exercise price is determined by the relative performance of TORM's share price relative to a defined peer group (peer group options). If the TORM share performs relatively better than the peer group, the share options will have a value. For the share options granted in 2007, the exercise price is DKK 106.0 per share, and for the share options granted in 2008, the exercise price is DKK 80.0 per share.

All share options can be exercised after three years from grant and must be exercised three years later at the latest, however observing the rules on insider trading. For the 2009 grant, share options can be exercised after the publication of the Annual Report for 2011, in March 2012, and must be exercised by March 2015 at the latest, and for the 2008 grant, share options can be exercised after the publication of the Annual Report for 2010, in March 2011, and must be exercised by March 2014 at the latest. Finally, for the 2007 grant, share options could be exercised after the publication of the Annual Report for 2009, in March 2010, and must be exercised by March 2013 at the latest. The share options are subject to Danish law and their exercise is conditional on continued employment in the Company until the share options have vested. In 2011 a total expense of USD 0.4 million (2010: USD 1.4 million) has been recognized in the income statement regarding share options, of which USD 0.2 million (2010: USD 0.4 million) relates to share options granted in 2009, USD 0.2 million (2010: USD 0.5 million) relates to share options granted in 2008 and USD 0.0 million (2009: USD 0.5 million) relates to share options granted in 2007.

The fair value of the share options granted in 2009, 2008 and 2007 was based on the Black-Scholes and Monte Carlo models and calculated at USD 1.4 million for the 2009 grant, USD 6.3 million for the 2008 grant and USD 10.9 million for the 2007 grant as at the grant date.

The key assumptions for the calculation of the fair value based on the Black-Scholes and Monte Carlo models are:

- The share price at the measurement date was estimated at DKK 48.6 per share for the 2009 grant, DKK 140.0 for the 2008 grant and DKK 202.25 for the 2007 grant based on the share price on NASDAQ OMX Copenhagen A/S as at 10 July 2009 for the 2009 grant, 31 March 2008 for the 2008 grant and 9 August 2007 for the 2007 grant.
- The exercise price (before adjustng for interim dividends) is DKK 201 per share for the 2009 grant, DKK 190 for the 2008 grant and DKK 179 for the 2007 grant.
- The exercise price will be adjusted for interim TORM dividends amounting to an adjustment of DKK 30.0 per share for the 2009 grant, DKK 30.3 per share for the 2008 grant and DKK 30.7 per share for the 2007 grant.
- The expected dividend rate at the grant date is estimated at 3% for the 2009 grant, 3% for the 2008 grant and 3% for the 2007 grant of the equity per annum.
- The volatility of the TORM share is estimated based on the Company's historical volatility at 39.2% for the 2009 grant, 34.9% for the 2008 grant, 36% for the 2007 grant, and for the peer group at 30.8% for the 2009 grant, 26% for the 2008 grant and 22% for the 2007 grant.

NOTE 4 – CONTINUED

- The risk-free interest rate based upon expiry of the options is 2.68% for the 2009 grant, 3.80% for the 2008 grant and 4.46% for the 2007 grant.
- The options are on average held for a period of 4.2 years for the 2009 grant, 4.46 years for the 2008 grant and 4.1 years for the 2007 grant.
- The correlation rate between peer group and TORM is 92.5% for the 2009 grant, 92.5% for the 2008 grant and 92.5% for the 2007 grant, based on the correlation on the 12-month return for the historical share prices during the last ten years.

Changes in outstanding share options are as follows:

Number of share options	Total options 2011	Options allocation per year 2009	2008	2007
Share option program - 2007 to 2009				
Executive Management				
Granted	752,119	223,761	200,009	328,349
Transferred to resigned employees	-528,358	0	-200,009	-328,349
Exercised	0	0	0	0
Forfeited/expired in 2007-2010	0	0	0	0
Forfeited/expired in 2011	0	0	0	0
Not exercised at 31 December 2011	**223,761**	**223,761**	**0**	**0**
Other employees				
Granted	2,628,779	1,022,003	847,763	759,013
Transferred to resigned employees	-721,846	-171,001	-175,698	-375,147
Exercised	0	0	0	0
Forfeited/expired in 2007-2010	-568,795	-234,868	-264,105	-69,822
Forfeited/expired in 2011	-121,289	-115,458	-5,831	0
Not exercised at 31 December 2011	**1,216,849**	**500,676**	**402,129**	**314,044**
Resigned employees				
Granted	39,590	0	39,590	0
Transferred from management and other employees	1,250,204	171,001	375,707	703,496
Exercised	0	0	0	0
Forfeited/expired in 2007-2010	0	0	0	0
Forfeited/expired in 2011	-5,558	-1,080	-2,359	-2,119
Not exercised at 31 December 2011	**1,284,236**	**169,921**	**412,938**	**701,377**
Total number of share options not exercised at 31 December 2011	**2,724,846**	**894,358**	**815,067**	**1,015,421**
Of which:				
Share options with a fixed exercise price	1,208,314	396,613	361,432	450,269
Share options with an exercise price based on peer group	1,516,532	497,745	453,635	565,152
Total number of share options not exercised at 31 December 2010	**2,851,693**	**1,010,896**	**823,257**	**1,017,540**
Total number of share options that could be exercised at 31 December 2011:				
Share options granted in 2007 og 2008 with a fixed exercise price	811,701	0	361,432	450,269
Share options granted in 2007 and 2008 with an exercise price based on peer group	1,018,787	0	453,635	565,152
	1,830,488	**0**	**815,067**	**1,015,421**
Total number of share options that could be exercised at 31 December 2010	**1,017,540**	**0**	**0**	**1,017,540**

NOTE 5

USD million	2011	2010
Remuneration to auditors appointed at the Parent Company's Annual General Meeting		
Deloitte		
Audit fees	0.5	0.5
Audit-related fees	0.6	0.3
Tax fees	0.1	0.1
Fees other services	0.2	0.3
	1.4	**1.2**

NOTE 6

USD million	2011	2010
OTHER INVESTMENTS		
Other investments include shares in other companies.		
Cost:		
Balance at 1 January	5.4	5.4
Additions	0.0	0.0
Disposals	0.0	0.0
Balance at 31 December	**5.4**	**5.4**
Value adjustment:		
Balance at 1 January	-2.4	-2.2
Exchange rate adjustment	-0.5	-0.2
Value adjustment for the year	9.1	0.0
Disposals	0.0	0.0
Balance at 31 December	6.2	-2.4
Carrying amount at 31 December	**11.6**	**3.0**
Of which listed	0.0	0.2
Of which unlisted	11.6	2.8

NOTE 7

USD million	Goodwill	Other intangible assets	Total
INTANGIBLE ASSETS			
Cost:			
Balance at 1 January 2010	89.2	2.7	91.9
Additions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Balance at 31 December 2010	**89.2**	**2.7**	**91.9**
Amortization and impairment losses:			
Balance at 1 January 2010	0.0	0.5	0.5
Disposals	0.0	0.0	0.0
Amortization and impairment losses for the year	0.0	0.2	0.2
Balance at 31 December 2010	**0.0**	**0.7**	**0.7**
Carrying amount at 31 December 2010	**89.2**	**2.0**	**91.2**
Cost:			
Balance at 1 January 2011	89.2	2.7	91.9
Additions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Balance at 31 December 2011	**89.2**	**2.7**	**91.9**
Amortization and impairment losses:			
Balance at 1 January 2011	0.0	0.7	0.7
Disposals	0.0	0.0	0.0
Amortization and impairment losses for the year	89.2	0.1	89.3
Balance at 31 December 2011	**89.2**	**0.8**	**90.0**
Carrying amount at 31 December 2011	**0.0**	**1.9**	**1.9**

Please refer to note 9 for information on impairment testing.

NOTE 8

USD million	Land and buildings	Vessels and capitalized dry-docking	Prepayments on vessels	Other plant and operating equipment	Total
TANGIBLE					
FIXED ASSETS					
Cost:					
Balance at 1 January 2010	4.1	2,818.7	273.8	23.6	3,120.2
Exchange rate adjustment	0.0	0.0	0.0	0.1	0.1
Additions	0.0	73.6	204.5	3.4	281.5
Disposals	0.0	-13.4	0.0	-2.3	-15.7
Transferred to/from other items	0.0	235.0	-235.0	0.0	0.0
Transferred to non-current assets held for sale	0.0	0.0	0.0	0.0	0.0
Balance at 31 December 2010	**4.1**	**3,113.9**	**243.3**	**24.8**	**3,386.1**
Depreciation and impairment losses:					
Balance at 1 January 2010	0.4	428.3	0.0	12.8	441.5
Exchange rate adjustment	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	-11.2	0.0	-2.0	-13.2
Depreciation for the year	0.1	136.7	0.0	4.4	141.2
Loss on sale of newbuildings	0.0	0.0	16.3	0.0	16.3
Balance at 31 December 2010	**0.5**	**553.8**	**16.3**	**15.2**	**585.8**
Carrying amount at 31 December 2010	**3.6**	**2,560.1**	**227.0**	**9.6**	**2,800.3**
Of which finance leases	0.0	39.5	0.0	0.0	39.5
Of which financial expenses included in cost	0.0	2.5	1.6	0.0	4.1
Cost:					
Balance at 1 January 2011	4.1	3,113.9	243.3	24.8	3,386.1
Exchange rate adjustment	0.0	0.0	0.0	-0.2	-0.2
Additions	0.0	20.7	94.8	3.0	118.5
Disposals	-1.9	-334.6	-7.8	-0.4	-344.7
Transferred to/from other items	0.0	199.3	-199.3	0.0	0.0
Transferred to non-current assets held for sale	0.0	0.0	-61.8	0.0	-61.8
Balance at 31 December 2011	**2.2**	**2,999.3**	**69.2**	**27.2**	**3,097.9**
Depreciation and impairment losses:					
Balance at 1 January 2011	0.5	553.8	16.3	15.2	585.8
Exchange rate adjustment	0.0	0.0	0.0	-0.1	-0.1
Disposals	-0.4	-67.8	0.0	-0.3	-68.5
Depreciation for the year	0.1	140.6	0.0	4.2	144.9
Impairment loss	0.0	97.8	0.0	0.0	97.8
Transferred to/from other items	0.0	16.3	-16.3	0.0	0.0
Balance at 31 December 2011	**0.2**	**740.7**	**0.0**	**19.0**	**759.9**
Carrying amount at 31 December 2011	**2.0**	**2,258.6**	**69.2**	**8.2**	**2,338.0**
Of which finance leases	0.0	71.5	0.0	0.0	71.5
Of which financial expenses included in cost	0.0	2.8	0.8	0.0	3.6

Included in the carrying amount for vessels and capitalized dry-docking are capitalized dry-docking costs in the amount of USD 33.2 million (2010: USD 40.0 million).

For information on assets used as collateral security, please refer to note 18.

In all material aspects, the depreciation under Other plant and operating equipment of USD 4.2 million relates to administration (2010: USD 4.4 million). Please refer to note 9 for information on impairment testing.

NOTE 9

IMPAIRMENT TESTING

As at 31 December 2011, Management performed a review of the recoverable amount of the assets by assessing the recoverable amount for the significant assets within the cash generating units the Tanker Division, the Bulk Division and the investment in 50% of FR8.

As at 31 December 2011, the recoverable amount of the Tanker Division and the investment in 50% of FR8 is the value in use, whereas the recoverable amount of the Bulk Division was the net selling price.

Based on the review, Management concluded that:

- Assets within the Bulk Division were not impaired as the net selling price exceeded the carrying amount by USD 42 million.
- Assets within the Tanker Division were impaired by USD 187 million of which USD 89.2 million related to goodwill and 97.8 million related to vessels.
- The carrying amount of the investment of 50% in FR8 was impaired by USD 13 million in addition to the impairment losses of USD 35 million and USD 20 million recognized in 2010 and 2009 respectively.

The impairment losses of USD 200 million in total for the Tanker Division and FR8 are caused by the continued global economic uncertainty and weaker market fundamentals, which have led to a more cautious view on the short to mid-term freight rates.

In the assessment of the net selling price of the Bulk Division, Management included a review of market values derived as the average of three internationally acknowledged shipbrokers' valuations.

The assessment of the value in use of the Tanker Division and the investment in 50% of FR8 was based on the present value of the expected future cash flows derived from discounted cash flow calculations.

The major assumptions used in the calculation of the value in use are:

- The cash flows are based on known tonnage including vessels contracted for delivery in future periods. 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.
- The product tankers are expected to generate normal income for 25 years. Given the current age profile of the tanker fleet, the average remaining life would be approximately 19 years.
- Freight rate estimates in the period 2012 to 2015 are based on the Company's business plans, which in 2014 and 2015 assume a gradual increase towards the 10-year historic average.
- Freight rates beyond 2015 are for the Tanker Division based on the following 10 year historic average freight rates from Clarkson adjusted by the inflation rate:
  - LR2 27,436 USD/day
  - LR1 22,968 USD/day
  - MR 20,138 USD/day
- The freight rates used in the calculation of value in use for the investment of 50% in FR8 equal the assumptions used in the Tanker Division less USD/day 1,000.
- Operating expenses and administrative expenses are estimated based on TORM's current run rate adjusted for cost reductions outlined in the operating budgets and business plans for the period 2012 to 2013. Beyond 2014, operating expenses per operating day and administrative expenses are expected to increase with the inflation rate.
- WACC is set to 8.0% (2010: 8.2%) for the Tanker Division and 9.0% (2010: 9.2%) for the investment of 50% in FR8. WACC is calculated using a standard WACC model in which cost of equity, cost of debt and capital structure are the key parameters.
- The inflation rate is based on the US Federal Reserve and ECB inflation target over the medium term, currently set to 2%.

The above assumptions are in line with the forecast used as basis in discussions with banks and other stakeholders as further described in note 2.

Management believes that these major assumptions are reasonable.

The calculation of value in use is very sensitive to changes in the key assumptions which are considered to be related to the future development in freight rates, WACC applied as discounting factor in the calculations and the development in operating expenses. The sensitivities have been assessed as follows, all other things being equal:

- A decrease in the Tanker freight rates of USD/day 500 would result in a further impairment of USD 144 million for the Tanker Division
- An increase of the WACC of 1% would result in a further impairment of USD 208 million for the Tanker Division
- An increase of the operating expenses of 5% would result in a further impairment of USD 88 million for the Tanker Division

It should be emphasized that in a forced sale the recoverable amount of the vessels would be significantly lower than the carrying amount under a going concern assumption.

As outlined above, the impairment tests have been prepared on the basis that the Company will continue to operate its vessels as a fleet in the current set-up. In comparison, the market value of the TORM vessels including the order book was USD 1,797 million, which is USD 608 million less than the carrying impaired amount.

NOTE 10

USD million	2011	2010
FINANCIAL ITEMS		
Financial income		
Interest income from cash and cash equivalents, etc.	1.3	0.5
Fair value adjustments on derivative financial instruments	4.2	2.2
Exchange rate adjustments, including net gain (from forward exchange rate contracts)	4.4	0.0
	9.9	2.7
Financial expenses		
Interest expenses on mortgage and bank debt, including realized net loss on interest related derivatives	58.7	50.6
Exchange rate adjustments, including net realized loss from forward exchange rate contracts	4.0	2.6
Other financial expenses	10.6	6.6
Of which included in the cost of tangible fixed assets	-0.6	-0.5
	72.7	59.3
Total financial items	**-62.8**	**-56.6**

NOTE 11

FREIGHT RECEIVABLES

Analysis at 31 december of freight receivables:

USD million	2011	2010
FREIGHT RECEIVABLES		
Neither past due nor impaired	78.7	55.1
Due < 30 days	43.7	21.0
Due between 30 and 180 days	13.4	23.7
Due > 180 days	4.4	8.4
	140.2	**108.2**

At 31 December 2011, freight receivables included receivables at a value of USD 0.2 million (2010: USD 0.2 million), that are individually determined to be impaired to a value of USD 0.0 million (2010: USD 0.0 million).
Movements in provisions for impairment of freight receivables during the year are as follows:

USD million	2011	2010
PROVISION FOR IMPAIRMENT OF FREIGHT RECEIVABLES		
Balance at 1 January	0.2	0.1
Provisions for the year	0.0	0.1
Provisions reversed during the year	0.0	0.0
Provisions utilised during the year	0.0	0.0
Balance at 31 December	**0.2**	**0.2**

Provision for impairment of freight receivables has been recognised in the income statement under Port expenses, bunkers and commissions. The provision is based on an individual assessment of each receivable.

NOTE 12

USD million	2011	2010
OTHER RECEIVABLES		
Partners and commercial managements	5.0	1.5
Derivative financial instruments	5.6	2.4
Receivables at joint ventures	4.5	3.7
Tax receivables	0.6	0.8
Miscellaneous, including items related to shipping activities	10.3	4.3
	26.0	**12.7**

NOTE 13

USD million	2011	2010
TAX		
Current tax for the year	-2.6	-1.3
Adjustments related to previous years	0.5	1.7
Adjustment of deferred tax	0.5	0.6
	-1.6	**1.0**

	2011	2010
RECONCILIATION OF THE EFFECTIVE CORPORATION TAX RATE FOR THE YEAR		
Corporation tax rate in Denmark	25.0%	25.0%
Differences in tax rates, foreign subsidiaries	-2.4%	2.9%
Differences in tax rates, foreign jointly controlled entities	-0.8%	-2.4%
Adjustment of tax related to previous years	0.1%	1.2%
Effect from the tonnage tax scheme	-22.3%	-26.0%
Effective corporate tax rate	**-0.4%**	**0.7%**

The Company participates in the tonnage tax scheme in Denmark. The participation in the tonnage tax scheme is binding until 31 December 2017.

Under the Danish tonnage tax scheme, income and expenses from shipping activities are not subject to direct taxation. Instead the taxable income is calculated from:
- The net tonnage of the vessels used to generate the income from shipping activities.
- A rate applicable to the specific net tonnage of the vessel, based on a sliding scale.
- The number of days the vessels are used during the year.

The Company expects to participate in the tonnage tax scheme after the binding period and at a minimum to maintain an investing and activity levels equivalent to the time of entering the tonnage tax scheme.

Payment of dividends to the shareholders of TORM A/S has no tax implications for TORM A/S.

USD million	2011	2010
DEFERRED TAX		
Balance at 1 January	54.4	55.0
Deferred tax for the year	-0.5	-0.6
Balance at 31 December	**53.9**	**54.4**

Essentially all deferred tax relates to vessels included in the transition account under the Danish tonnage tax scheme.

NOTE 14

	2011	2010	2011	2010
	Number of shares million	Number of shares million	Nominal value DKK million	Nominal value DKK million
COMMON SHARES				
Balance at 1 January	72.8	72.8	364.0	364.0
Balance at 31 December	**72.8**	**72.8**	**364.0**	**364.0**

The common shares consist of 72.8 million shares of a nominal value of DKK 5 each. No shares carry special rights. All issued shares are fully paid.

In May 2007, the denomination of the Company's shares was changed from DKK 10 per share to DKK 5 per share. The nominal value of the Company's common shares remained unchanged DKK 364.0 million, whereas the number of shares were changed from 36.4 million shares of DKK 10 each to 72.8 million shares of DKK 5 each.

	2011	2010	2011	2010	2011	2010
	Number of shares (1,000)	Number of shares (1,000)	Nominal value DKK million	Nominal value DKK million	% of share capital	% of share capital
TREASURY SHARES						
Balance at 1 January	3,461.6	3,556.4	17.3	17.8	4.8	4.9
Purchase	0.0	0.0	0.0	0.0	0.0	0.0
Sale	0.0	0.0	0.0	0.0	0.0	0.0
Used for share-based compensation	-231.2	-94.8	-1.1	-0.5	-0.4	-0.1
Balance at 31 December	**3,230.4**	**3,461.6**	**16.2**	**17.3**	**4.4**	**4.8**

The total consideration for the treasury shares was USD 17.3 million (2010: USD 17.9 million).

At 31 December 2011, the Company's holding of treasury shares represented 3,230,432 shares (2010: 3,461,580 shares) of DKK 5 each at a total nominal value of USD 2.8 million (2010: USD 3.1 million) and a market value of USD 2.1 million (2010: USD 24.5 million). The retained shares equate to 4.4% (2010: 4.8%) of the Company's common shares.

The treasury shares are held as a hedge of the Company's program for share-based compensation.

NOTE 15

USD million	2011	2010
DEFERRED INCOME		
Deferred gain related to sale and lease back transactions	7.6	0.0
	7.6	**0.0**

NOTE 16

USD million	2011	2010
OTHER LIABILITIES		
Partners and commercial managements	6.1	3.3
Accrued operating expenses	6.6	5.7
Accrued interest	3.6	5.7
Wages and social expenses	17.8	22.3
Derivative financial instruments	41.2	24.5
Payables to joint ventures	0.8	0.8
Miscellaneous, including items related to shipping activities	8.8	7.9
	84.9	**70.2**

NOTE 17

EFFECTIVE INTEREST RATE AND FAIR VALUE OF MORTAGE DEBT AND BANK LOANS

Certain of TORM's loan agreements contain minimum requirements to the liquidity and solvency of TORM and other restrictions, which may limit TORM's ability to:

- Enter into mergers or corporate restructurings, or effect material divestments, if such would be materially adverse to the Company.
- Materially change the operations or purpose of the Company.

In addition, TORM must comply with the following requirements:

- Equity ratio must exceed 25%.
- Equity must exceed DKK 1.25 billion (USD 217.6 million at 31 December 2011).
- Cash available must exceed USD 60 million for a significant part of the loans.

As at 31 December 2011, TORM's equity ratio of 23.2% resulted in a breach of its financial covenants under the existing loan agreements, and in January 2012 the cash covenant of USD 60 million was also breached. As at 31 December 2011, TORM therefore did not have an unconditional right to defer payments on the loans for more than 12 months, and the mortgage debt and bank loans are in principle payable on demand. Accordingly the mortgage debt and bank loans are classified as current liabilities in the balance sheet as at 31 December 2011.

As at 1 March 2012, except for the temporary standstill agreement described in note 2, none of these defaults have been remediated.

Please refer to note 2 for further information on the Company's liquidity and capital resources and note 23 and 24 for further information on interest rate swaps and financial risks.

The table below shows the effective interest and fair value of the mortgage debt and bank loans assuming that TORM is a going concern.

		2011			2010		
USD million	Fixed/ floating	Maturity	Effective interest	Fair value	Maturity	Effective interest	Fair value
LOAN							
USD	Fixed	2011	-	-	2011	4.4%	47.7
USD	Fixed	2012	-	-	2012	4.4%	51.4
USD	Fixed	2012	-	-	2013	4.4%	29.0
USD	Floating	2012	3.6%	811.3	2013	2.0%	868.7
USD	Floating	2012	2.0%	222.5	2014	2.0%	235.6
USD	Floating	2012	3.9%	89.1	2015	3.9%	93.8
USD	Floating	2012	2.6%	451.3	2016	1.9%	488.1
USD	Floating	2012	4.1%	75.6	2018	3.5%	81.2
USD	Floating	2012	3.8%	35.2	-	-	-
USD	Floating	2012	4.9%	69.0	2020	3.6%	77.3
USD	Floating	2012	3.3%	49.7	-	-	-
Weighted average effective interest rate			**3.2%**			**2.3%**	
Fair value				**1,803.7**			**1,972.8**

Part of the loans with floating interest rate have been swapped to fixed interest rate.

NOTE 18

USD million	2011	2010
COLLATERAL SECURITY FOR MORTGAGE DEBT AND BANK LOANS		
Value of loans collateralized by vessels	1,768.5	1,972.8
	1,768.5	**1,972.8**

The total carrying amount for vessels that have been provided as security amounts to USD 2,280 million as at 31 December 2011 (2010: USD 2,487 million).

NOTE 19

USD million	2011	2010
GUARANTEE COMMITMENTS AND CONTINGENT LIABILITIES		
Guarantee commitments	**0.0**	**0.0**

The guarantee commitments of the Group are less than USD 0.1 million and relate to guarantee commitments to the Danish Shipowners' Association.

NOTE 20

CONTRACTUAL OBLIGATIONS, MORTGAGE DEBT AND BANKLOANS

TORM has various contractual obligations and commercial commitments to make future payments including lease obligations and purchase commitments.

Due to an unremediated breach of financial covenants as at 31 December 2011, the Company's mortgage debt and bank loans including accrued interest are formally due in 2012.

The Company was not in breach of its financial covenants as at 31 December 2010, and accordingly the maturities and estimated interest payments on mortgage debt and bank loans as at 31 December 2010 are the actual maturities according to the loan agreements in effect at that date.

The following table summarizes the Company's contractual obligations.

As of 31 December 2011:

USD million	2012	2013	2014	2015	2016	There-after	**Total**
Mortgage debt and bank loans (1)	1,794.7	0.0	0.0	0.0	0.0	0.0	1,794.7
Interest payments related to interest rate swaps (2)	30.9	15.6	8.5	5.0	3.5	0.0	63.5
Estimated variable interest payments (3)	9.4	0.0	0.0	0.0	0.0	0.0	9.4
Total	**1,835.0**	**15.6**	**8.5**	**5.0**	**3.5**	**0.0**	**1,867.6**

USD million	2012	2013	2014	2015	2016	There-after	**Total**
Finance lease liabilities	48.3	2.4	2.6	2.9	3.2	18.3	77.7
Interest element finance lease	2.7	2.5	2.3	2.0	1.7	1.1	12.3
Chartered-in vessels (incl. vessels not delivered (Operating lease) (4)	268.3	214.0	190.2	145.9	75.0	143.1	1,036.5
Newbuilding installments and exercised purchase options (Purchase obligations) (5)	52.0	9.7	20.0	0.0	0.0	0.0	81.7
Other operating leases (6)	6.9	6.9	5.0	1.8	1.0	0.1	21.7
Total	**378.2**	**235.5**	**220.1**	**152.6**	**80.9**	**162.6**	**1,229.9**

Contractual obligations - as lessor:							
Charter hire income for vessels on time charter and bareboat charter (incl. vessels not delivered) (Operating lease) (7)	68.6	16.5	4.6	0.0	0.0	0.0	89.7
Total	**68.6**	**16.5**	**4.6**	**0.0**	**0.0**	**0.0**	**89.7**

NOTE 20 – CONTINUED

As of 31 December 2010:

USD million	2011	2012	2013	2014	2015	There-after	**Total**
Mortgage debt and bank loans (1)	211.3	207.7	834.4	192.7	131.6	384.0	1,961.7
Interest payments related to interest rate swaps (2)	19.3	23.0	13.1	4.7	1.6	0.4	62.1
Estimated variable interest payments (3)	43.2	30.0	24.0	18.9	16.7	27.4	160.2
Total	**273.8**	**260.7**	**871.5**	**216.3**	**149.9**	**411.8**	**2,184.0**

USD million	2011	2012	2013	2014	2015	There-after	**Total**
Finance lease liabilities	2.0	2.2	2.4	2.6	2.9	20.9	33.0
Interest element finance lease	2.9	2.7	2.5	2.3	2.0	2.8	15.2
Chartered-in vessels (incl. vessels not delivered (Operating lease) (4)	269.2	237.8	191.1	164.4	116.6	158.3	1,137.4
Newbuilding installments and exercised purchase options (Purchase obligations) (5)	164.7	84.9	8.5	0.0	0.0	0.0	258.1
Other operating leases (6)	6.9	6.7	6.5	4.9	1.5	1.7	28.2
Total	**445.7**	**334.3**	**211.0**	**174.2**	**123.0**	**183.7**	**1,471.9**

Contractual obligations - as lessor:							
Charter hire income for vessels on time charter and bareboat charter (incl. vessels not delivered) (Operating lease) (7)	108.0	28.3	5.8	2.8	0.0	0.0	144.9
Total	**108.0**	**28.3**	**5.8**	**2.8**	**0.0**	**0.0**	**144.9**

(1) The presented amounts to be repaid are adjusted by directly related costs arising from the issuing of the loans by USD 12.3 million (2010: USD 11.1 million) which are amortized over the term of the loans.

(2) Actual fixed rate according to interest rate swaps is used for the hedged interest payments.

(3) Variable interest payments are estimated based on a 2.5% (2010: 3.0%) net interest rate including margin.

(4) Leases have been entered into with a mutually non-cancelable lease period of up to eight years. Certain leases include an option to renew for one or two additional years at a time for up to three years and/or a purchase option. Exercise of the purchase option on the individual vessel is based on an individual assessment. Certain leases include a profit sharing element implying that the actual charter hire may be higher. The average period until redelivery of the vessels is 2.3 years (2010: 3.3 years). Two leasing agreements include a purchase liability upon default of certain financial covenants similar to those disclosed in note 17.

(5) As of 31 December 2011, TORM had contracted three newbuildings (2010: 10 newbuildings) to be delivered during 2012-2014. For all three vessels the total outstanding contractual commitment amounted to USD 82m as at 31 December 2011 (2010: USD 258m).

(6) Other operating leases primarily consist of contracts regarding office spaces, cars and apartments as well as IT-related contracts.

(7) Certain leases include a profit sharing element implying that the actual charter hire may be higher. Charter hire income for vessels on time charter and bareboat charter is recognised under revenue. The average period until redelivery of the vessels is 0.6 years (2010: 0.6 years).

NOTE 21

USD million	Minimum lease payments	Interest element	Carrying amount
FINANCE LEASE LIABILITIES - AS LESSEE			
Lease liabilities regarding finance lease assets:			
2011			
Falling due within one year	55.6	-7.3	48.3
Total current	55.6	-7.3	48.3
Falling due between one and five years	19.6	-8.4	11.2
Falling due after five years	19.3	-1.1	18.2
Total non-current	38.9	-9.5	29.4
Total	**94.5**	**-16.8**	**77.7**
Fair value			**77.7**
2010			
Falling due within one year	4.9	-2.9	2.0
Total current	4.9	-2.9	2.0
Falling due between one and five years	19.6	-9.5	10.1
Falling due after five years	23.7	-2.8	20.9
Total non-current	43.3	-12.3	31.0
Total	**48.2**	**-15.2**	**33.0**
Fair value			**33.0**

Finance lease relates to:

- One MR product tanker chartered on bareboat for a period of eight years expiring no later than 2017. The Company has an option to purchase the vessel at the end of 5th, 6th and 7th year of the charter period. At the expiry of the charter period, the Company has an obligation to purchase the vessel.
- One LR2 product tanker chartered on bareboat for a period of seven years expiring no later than 2018. The Company has an option to purchase the vessel at the end of 4th, 5th, 6th and 7th year of the charter period. At the expiry of the charter period, the owner has a put option to sell the vessel to the Company.

NOTE 22

PURCHASE OPTIONS ON VESSELS

As of 31 December 2011, TORM had the following purchase options on vessels:

Exercise year/ Vessel type	Number of vessels	Average age of the vessels as per exercise date of the options, years	Average option exercise price as of 31 Dec. 2011 USD million
2012:			
LR1	1	6.0	28.0
MR *)	1	5.0	37.1
Panamax **)	4	3.8	40.8
2013:			
Panamax	3	4.3	42.7
2014:			
MR ***)	2	8.8	38.3
Panamax	1	5.0	45.0
2015:			
LR2 ****)	1	8.2	42.0
Panamax	1	5.0	51.7
2016:			
LR2	2	9.8	36.0
Panamax	1	5.0	58.1
2017:			
Panamax	2	5.0	57.5
2018:			
Panamax	2	6.0	54.9
2021:			
Panamax	1	7.0	47.8
Total	**22**		

As of 31 December 2011, TORM had purchase options on 22 vessels.

*) The stated option price is the minimum option price for the vessel. There is a 50/50 profit sharing on the difference between the market price and the option price.

**) Each option can be exercised if the market price for the vessel exceeds the option price by minimum USD 2 million. There is a 50/50 profit sharing on the difference between the market price and the option price.

***) Besides a purchase option, TORM has a purchase obligation at the end of the current bareboat charter contract on one of the MR vessels. Please refer to note 21 for further information.

****) TORM has a purchase option, and the owner has a put option at the end of the current bareboat charter contract on one of the LR2 vessels. Please refer to note 21 for further information.

NOTE 23

DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair value of the derivative financial instruments:

USD million	**Fair value as of 31 Dec. 2011**	Fair value as of 31 Dec. 2010
Hedge accounting cash flows:		
Derivative financial instruments regarding interest rate and currency exchange rate:		
Forward exchange contracts	-3.8	-0.5
Interest rate swaps	-26.0	-1.4
Non hedge accounting:		
Derivative financial instruments regarding interest rates:		
Interest rate swaps	-11.1	-21.3
Derivative financial instruments regarding freight and bunkers:		
Bunker swaps	2.3	-0.2
FFAs	1.5	0.0
Derivative financial instruments regarding options on vessels:		
Right to share of gain on purchase options on vessels	0.0	6.0
Acquired liabilities related to options on vessels	-0.1	-1.9
	-37.2	**-19.3**
Of which included in:		
Non-current assets		
Other financial assets	0.0	6.0
Current assets		
Other receivables	3.9	0.5
Current liabilities		
Other liabilities	-41.0	-23.9
Acquired liabilities related to options on vessels	-0.1	-1.9
	-37.2	**-19.3**

NOTE 23 – CONTINUED

The table below shows realised amounts as well as fair value adjustments regarding derivative financial instruments recognized in the income statements and equity in 2011 and 2010:

	Income statement				
USD million	Freight and bunkers derivatives	Operating expenses	Administrative expenses	Financial items	Equity Hedging reserves
Bunker swaps	7.0	-	-	-	-
FFAs	7.1	-	-	-	-
Forward exchange contracts	-	1.2	1.6	-	-3.3
Interest rate swaps	-	-	-	-8.4	-24.6
Currency contracts	-	-	-	-3.7	-
Right to share of gain on purchase options on vessels	-	-	-	-6.0	-
Total 2011	**14.1**	**1.2**	**1.6**	**-18.1**	**-27.9**
FFAs	3.3	-	-	-	-
Forward exchange contracts	-	-1.7	-1.8	-	-
Interest rate swaps	-	-	-	-16.2	1.4
Currency contracts	-	-	-	-0.1	-
Right to share of gain on purchase options on vessels	-	-	-	-2.9	-
Total 2010	**3.3**	**-1.7**	**-1.8**	**-19.2**	**1.4**

Please refer to the section 'Risk Management' and note 24 for further information on commercial and financial risks.

The forward exchange rate contracts with a fair value of USD -3.8 million (2010: USD -0.5 million) are designated as hedge accounting to hedge a part of TORM's payments in 2012 regarding administrative and operating expenses denominated in DKK.

The interest rate swaps with a fair value of USD -26.0 million (2010: USD -1.4 million) are designated as hedge accounting to hedge a part of TORM's interest payments during the period 2012 to 2016.

The gains or losses on these contracts will be recognized in the income statement when realized together with the hedged items.

NOTE 24

RISKS ASSOCIATED WITH TORM'S ACTIVITIES

The risks can generally be divided into four main categories: Long-term strategic risks, industry and market-related risks, operational and compliance risks, and financial risks.

LONG-TERM STRATEGIC RISKS

Industry-changing risks, such as the substitution of oil for other energy sources and radical changes in transportation patterns, are considered to have a relatively high potential impact but are long-term risks. Management continues to monitor long-term strategic risks to ensure earliest possible mitigation of potential risks as well as to develop necessary capabilities to exploit opportunities created by the same risks.

INDUSTRY AND MARKET-RELATED RISKS

Industry and market-related risk factors relate to changes in the markets and in the political, economic and physical environment that Management cannot control and can only influence to a very limited degree, such as freight rates, vessel and bunker prices.

FREIGHT RATE VOLATILITY

The Company's income is principally generated from voyages carried out by its fleet of vessels. As such, TORM is exposed to the considerable volatility that characterizes freight rates.

In the tanker segment, it is the Company's strategy to seek a certain exposure to this risk, as volatility also represents an opportunity as earnings historically have been higher in the day-to-day market compared to time charters. On the other hand, TORM is aiming at reducing the sensitivity to the volatility of freight rates by achieving economies of scale, by actively seeking optimal geographical positioning of the fleet and by optimizing the service offered to customers.

Within the tanker segment, freight income is to a certain extent covered against the general volatility through the use of physical contracts, such as cargo contracts and time charter agreements with durations of 6-24 months. In addition to these, TORM uses financial instruments such as forward freight agreements (FFAs) and paper-based time charter contracts, with coverage of typically 6-12 months forward, based on market expectations and in accordance with the Company's risk management policies.

In 2011, 33% of freight earnings deriving from the Company's tankers were secured in this way compared to 44% in 2010. Time charter contracts accounted for 57% (2010: 65%) of overall hedging, as this hedging instrument resulted in higher rates than those offered by the forward market. In 2011, the Company entered into FFAs with a total contract value of USD 331 million (2010: 263 million). At the end of 2011, the coverage for 2012 is at a relatively low level of 26% (by the end of 2010: 24%).

FFA trade and other freight-related derivatives are subject to specific policies and guidelines approved by the Board of Directors including trading limits, stop-loss policies, segregation of duties and other internal control procedures. Transactions are registered in an industry-developed IT system, which provides mark-to-market reports to Management and input for financial reporting.

For the bulk segment, TORM will seek to have high coverage. The targeted coverage for the next 12 months rolling is more than 75% for the core fleet of owned and time charter vessels. TORM will actively seek cover using the spot market, reletting time charters and/or using derivative instruments.

TORM applies hedge accounting to certain FFA contracts. Hedge accounting is applied systematically and is based on specific policies.

All things being equal and to the extent the Company's vessels have not already been chartered out at fixed rates, a freight rate change of USD/day 1,000 would lead to the following change in profit before tax based on the expected number of earning days for the coming financial year:

USD million	**2012**	2011
SENSITIVITY TO CHANGES IN FREIGHT RATES		
Changes freight rates of USD/day 1,000:		
Changes in profit before tax	**30.3**	**30.9**

SALES AND PURCHASE FLUCTUATIONS

It is a core element of TORM's strategy to maintain and expand a large fleet of modern vessels, particularly in the product tanker segment, by contracting newbuildings and through transactions in the second-hand market. As a result, the Company is exposed to risk associated with changes in the value of the vessels, which can vary considerably during their useful lives.

During the year, TORM took delivery of four MR newbuildings and reduced its fleet by seven product tankers. Two MR product tankers were sold as part of TORM's strategy to own and operate a modern fleet. The Company also entered into sale and leaseback agreements for two LR2 vessels and sold additional two LR2 vessels. One MR newbuilding with scheduled delivery in 2013 was cancelled. The order book stands at three MR vessels, which are fully financed. In addition, TORM sold the last two bulk newbuilding contracts as the Company has a cautious view on the dry bulk market going forward and actively seeks to preserve liquidity and reduce debt.

BUNKER PRICE FLUCTUATIONS

The Company's operating profit is affected by movements in the price of fuel oil consumed by the vessels – known in the industry as bunkers. The cost of bunkers accounted for 69% of total voyage costs in 2011 (2010: 65%) and is by far the biggest single cost related to a voyage.

To reduce the exposure to this risk, the Company hedges a part of its bunker requirements using oil derivatives.

Within the tanker segment, bunker requirements are hedged with coverage usually provided for a period of up to 12 months forward.

Bunker trade is subject to specific risk policies and guidelines approved by the Board of Directors including trading limits, stop-loss, stop-gain and stop-at-zero policies, segregation of duties and other internal control procedures.

For the bulk carriers, the bunker requirements are similarly hedged to match cargo contract commitments.

In 2011, TORM covered 7.6% (2010: 1.9%) of its bunker requirements using hedging instruments. As of 31 December 2011, TORM has hedged the price for 0.0% (2010: 0.0%) of its bunker requirements in the spot market for 2012, and the total market value of bunker hedge contracts at year-end was USD 2.1 million (2010: -0.2 million).

TORM applies hedge accounting to certain bunker hedge contracts. Hedge accounting is applied systematically and is based on specific policies.

NOTE 24 – CONTINUED

All things being equal, a price change of 10% per ton of bunker oil would lead to the following change in expenditure based on the expected bunker consumption in the spot market:

USD million	2012	2011
SENSITIVITY TO CHANGES IN THE BUNKER PRICES		
Increase in the bunker prices of 10% per ton:		
Change in bunker expenses	**46.7**	**43.7**

OPERATIONAL RISKS

Operational risks are those risks associated with the ongoing operations of the business and includes risks such as vessel operation, safe operation of vessels, availability of experienced seafarers and staff, terrorism and piracy and insurance and counterparty risk.

INSURANCE COVERAGE

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

In order to reduce the exposure to this risk, the fleet is insured against such risks to the extent possible. The total insurance program comprises a broad cover of risk in relation to the operation of vessels and transportation of cargoes, including personal injury, environmental damage and pollution, cargo damage, third-party casualty and liability, hull and engine damage, total loss and war. All of TORM's owned vessels are insured for an amount corresponding to their market value plus a margin to cover any fluctuations. Liability risks are covered in line with international standards. Furthermore, all vessels are insured for loss of hire for a period of up to 90 days in the event of a casualty.

It is TORM's policy to cooperate with financially sound international insurance companies with a credit rating of BBB or better - presently some 14-16 companies along with two P&I Clubs to diversify risk. The P&I Clubs are member of the internationally recognized collaboration, International Group of P&I clubs, and the Company's vessels are each insured for the maximum amounts available in the P&I system. At the end of 2011, the aggregate insured value of hull and machinery and interest for TORM's owned vessels and newbuildings amounted to USD 2.7 billion (2010: USD 2.8 billion).

COUNTERPARTY RISK

The negative development in the shipping industry since 2009 caused counterparty risk to be an ever-present challenge demanding close monitoring to manage and decide action to minimize possible losses. The maximum counterparty risk associated is equal to the values recognized in the balance sheet. A consequential effect of the counterparty risk is loss of income in future periods, e.g. counterparts not being able to fulfill their responsibilities under a time charter, a contract of affreightment or an option. The main risk is the difference between the fixed rates under a time charter or a contract of affreightment and the market rates prevailing upon default.

The Company has focused closely on its risk policies and procedures during the year to assure that risks managed in the day-to-day business are kept at agreed levels and that changes in the risk situations are brought to Management's attention.

The Company's counterparty risks are primarily associated with

i. receivables, cash and cash equivalents
ii. derivative financial instruments and commodity instruments with positive fair value
iii. prepayments for vessels under construction

Receivables, cash and cash equivalents

The majority of TORM's customers are companies that operate in the oil industry. It is assessed that these companies are to a great extent subject to the same risk factors as those identified for TORM's Tanker Division.

In the Tanker Division, a major part of the Company's freight revenues stems from a small group of customers. One customer accounted for 10% (2010: 11%) of our freight revenues in 2011 and was the only customer accounting for close to 10% this year. The concentration of earnings on a few customers requires extra attention to credit risk. TORM has a credit policy under which continued credit evaluations of new and existing customers take place. For long-standing customers, payment of freight normally takes place after a vessel has discharged her cargo. For new and smaller customers, the Company's financial risk is limited as freight most often is paid prior to the cargo's discharge or, alternatively, that a suitable bank guarantee is placed in lieu thereof.

Unlike the product tanker market, the bulk market is very fragmented and characterized by a large proportion of operating companies. The Bulk Division enforces appropriate vetting of counterparties using all available information and insists on additional mitigation such as bank guarantees, upfront payment of freight or parent company guarantee, if required, to reduce the risk profile of a contract to a reasonable level without jeopardizing commercial opportunity.

As a consequence of the payment patterns mentioned above, the Company's receivables within the Tanker and the Bulk Divisions primarily consist of receivables from voyages in progress at year end and, to a lesser extent, of outstanding demurrage. For the past five years, the Company has not experienced any significant losses in respect of charter payments or any other freight agreements. With regard to the collection of demurrage, the Company's average stands at 98%, which is considered to be satisfactory given the differences in interpretation of events. By the end of 2011, demurrage represents approximately 9.7% (2010: approximately 7.6%) of the total freight revenues.

The Company only places cash deposits with major banks covered by a government guarantee or with strong and acceptable credit ratings.

Derivative financial instruments and commodity instruments

Currently 100% of TORM's Forward Freight Agreements (FFA) and approximately 50% of fuel swaps are cleared either through Norsk Oppgjørs Sentral (NOS), London Clearinghouse (LCH) or NYMEX Clearport, hereby effectively reducing counterparty credit risk by daily clearing of balances. Over the counter fuel swaps are restrictively entered with major oil companies, banks or highly reputed partners with a satisfactory credit rating. Financial derivative instruments, mainly interest rate swaps and forward exchange contracts, are exclusively traded with major banks in possession of a high credit rating.

FINANCIAL RISKS

Financial risks relate to the Company's financial position, financing and cash flows generated by the business including foreign exchange risk and interest rate risk. The Company's liquidity and capital resources are described in note 2.

NOTE 24 – CONTINUED

FOREIGN EXCHANGE RISK

TORM uses USD as functional currency because the majority of the Company's transactions are denominated in USD. The foreign exchange risk is thereby limited to cash flows not denominated in USD. The primary risk relates to transactions denominated in DKK, EUR and SGD and relates to administrative and operating expenses.

The part of the Company's expenses that are denominated in currencies other than USD account for approximately 90% for administrative expenses and approximately 25% for operating expenses.

To reduce the foreign exchange exposure the Company's policy is to hedge the DKK cash flows normally for a period of up to 12 months forward, typically by entering into forward foreign exchange contracts. As of 31 December 2011, the total outstanding amount of such contracts was USD 60 million.

Other significant cash flows in non-USD related currencies occur occasionally, including certain of the Company's purchase options denominated in JPY. In 2011, none of these was recognized as a liability for the Company. No other significant cash flows in non-USD related currencies occurred in 2011.

Forward foreign exchange contracts and other foreign exchange contracts are traded subject to specific risk policies and guidelines approved by the Board of Directors including trading limits, segregation of duties and other internal control procedures.

All things being equal, a change in the USD exchange rate of 10% in relation to DKK would result in a change in profit before tax and equity as follows:

USD million	**2012**	2011
SENSITIVITY TO CHANGES IN THE USD/DKK EXCHANGE RATE		
Effect of an increase in the USD exchange rate of 10% in relation to DKK:		
Change in profit before tax	4.6	2.1
Change in equity	1.2	0.3

At year-end 2010, TORM had forward hedging contracts of USD 72 million against DKK (year-end 2009: USD 24 million) in respect of operating and administrative expenses for 2011, and during 2011 TORM did not enter into any currency forward contracts hedging 2011 (2010: USD 27 million), but sold USD 21 million (2010: USD 25.5 million) spot in order to cover the DKK cash requirements for operating and administrative expenses in 2011. As such, in 2011 spot and forward exchange rate contracts for a total of USD 93 million (2010: USD 76.5 million) were unwounded at an average exchange rate of 5.53 (2010: 5.34) as against the average exchange rate for the year of USD against DKK of 5.36 (2010: 5.62). Furthermore, TORM sold USD 60 million (2010: USD 72 million) with value in 2012 and beyond at an exchange rate of 5.37 against DKK (2010: 5.57).

In 2011, TORM did not enter into any foreign exchange options (2010: USD 16 million).

INTEREST RATE RISK

When a company has interest-bearing debt or receivables, the interest rate can be either fixed or floating. If a company has interest bearing debt or receivables with floating interest and the interest rate deviates from the expected, an interest rate risk occurs. TORM's interest rate risk generally relates to interest-bearing mortgage debt and bank loans. All the Company's loans for financing vessels are denominated in USD, and all are floating rate loans.

To reduce this risk, the Company in certain cases 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 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 swap portfolio aims at hedging the underlying loan portfolio. 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 2011, the Company benefitted from the generally low level of interest and entered into further interest rate swaps so that the contract value end 2011 is USD 1,278 million. At the end of the year, the interest rates for 71% of the Company's debt had been fixed through interest rate swaps or fixed-rate agreements at a level of 2.3%.

Interest rate swaps and other interest rate contracts are traded subject to specific risk policies and guidelines approved by the Board of Directors including trading limits, segregation of duties and other internal control procedures.

To the extent possible, the Company seeks to ensure that its foreign exchange and interest rate hedges qualify for hedge accounting.

All things being equal, a change in the interest rate level of 1 percent point on the unhedged variable interest debt will result in a change in the interest rate expenses as follows:

USD million	**2012**	2011
SENSITIVITY TO CHANGES IN INTEREST RATES		
Effect of an increase in the interest rate level of 1 percent point:		
Increase in interest rate expenses	5.0	9.4

TORM's interest-bearing USD debt decreased from year-end 2010 to year-end 2011 by USD 169 million (2010: USD 192 million) to USD 1,804 million (2010: USD 1,973 million) driven by repayments on loans.

As explained in note 20, an unremediated breach of financial covenants occurred as of 31 December 2011, and the Company's mortgage debt and bank loans including accrued interest are formally due in 2012.

Management continues to forecast interest payments beyond the formal maturity of the mortgage debt and bank loans. As such, the interest rate swaps below remain as effective hedges, and the below information shall be read in light of this information.

The portion of the interest rate swaps hedging the USD mortgage debt with forecasted maturity within one year was USD 605 million (2010: USD 161 million), USD 674 million between 1 and 5 years (2010: USD 825 million) and zero thereafter (2010: USD 146 million). The effective interest rates were between 0.9% and 4.4% (2010: 1.6% and 4.4%).

The market value of TORM's interest rate swaps was USD -37 million at year-end 2011 (2010: USD -22.7 million). Please refer to note 17 for further details regarding the Company's interest-bearing debt.

NOTE 24 – CONTINUED

At year-end, TORM had covered 74% (2010: 55%) of its total interest rate costs for the next year at an average rate of 3.7% (2010: 2.9%) including margin. For the forecasted interest rate costs for 2013 and 2014, the coverage is 38% and 32% respectively (2010: The coverage for 2012 was 47% and 2013 was 44%). Assuming that the banks do not enforce the above mentioned breach, the fixed interest rate debt has an average period of 2.1 years remaining (2010: 2.7 years), expiring between 2012 and 2016.

NOTE 25

FINANCIAL INSTRUMENTS

USD million	**2011**	2010
CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES AS DEFINED IN IAS 39:		
Loans and receivables		
Loans to jointly controlled entities	8.2	10.3
Freight receivables	140.2	108.2
Other receivables	21.5	11.4
Cash and cash equivalents	85.6	120.0
	255.5	**249.9**
Available-for-sale assets		
Other investments	11.6	3.0
	11.6	**3.0**
Derivative financial instruments (assets)		
Other financial assets (held for trading)	0.0	6.0
Other receivables (held for trading)	3.9	0.3
Other receivables (hedge accounting)	0.0	0.2
	3.9	**6.5**
Financial liabilities measured at amortised cost		
Mortage debt and bank loans	1,794.6	1,961.7
Finance lease liabilities	77.7	33.0
Trade payables	115.6	48.0
Other liabilities	26.0	24.0
	2,013.9	**2,066.7**
Derivative financial instruments (liabilities)		
Acquired liabilities related to options on vessels (held for trading)	0.1	1.9
Other liabilities (held for trading)	11.2	21.9
Other liabilities (hedge accounting)	29.8	2.0
	41.1	**25.8**

The fair value of the financial assets and liabilities above equals the carrying amount except for mortage debt and bank loans for which the fair value can be found in note 17.

Other financial assets consist of TORM's rights to a share of the gain on purcahse options on vessels, which were acquired as part of OMI. The options have been measured using a Monte Carlo simulation model where the key input is the expected volatility on the vessel prices and the estimated vessel price today for all vessel ages. The volatility on vessel prices is based on the long-term volatility of 5-year-old (2010: 5-year-old) vessels and estimated to 15% (2010: 15%), and vessel prices are based on broker valuations at year-end.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET

The table below shows the fair value hierarchy for financial instruments measured at fair value in the balance sheet. The financial instruments in question are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include input for the asset or liability that are not based on observable market data (unobservable input).

NOTE 25 – CONTINUED

USD million	2011 Quoted prices (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Available-for-sale financial assets:				
Other investments	-	-	11.6	11.6
Derivative financial instruments (assets):				
Other financial assets (held for trading)	-	-	-	-
Other receivables (held for trading)	-	3.9	-	3.9
Other receivables (hedge accounting)	-	-	-	-
Total financial assets	**0.0**	**3.9**	**11.6**	**15.5**
Derivative financial instruments (liabilities):				
Acquired liabilities related to options on vessels (held for trading)	-	0.1	-	0.1
Other liabilities (held for trading)	-	11.2	-	11.2
Other liabilities (hedge accounting)	-	29.8	-	29.8
Total financial liabilities	**0.0**	**41.1**	**0.0**	**41.1**

USD million	2010 Quoted prices (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Available-for-sale financial assets:				
Other investments	0.2	-	2.8	3.0
Derivative financial instruments (assets):				
Other financial assets (held for trading)	-	6.0	-	6.0
Other receivables (held for trading)	-	0.3	-	0.3
Other receivables (hedge accounting)	-	0.2	-	0.2
Total financial assets	**0.2**	**6.5**	**2.8**	**9.5**
Derivative financial instruments (liabilities):				
Acquired liabilities related to options on vessels (held for trading)	-	1.9	-	1.9
Other liabilities (held for trading)	-	21.9	-	21.9
Other liabilities (hedge accounting)	-	2.0	-	2.0
Total financial liabilities	**0.0**	**25.8**	**0.0**	**25.8**

There were no transfers between Level 1 and 2 in 2011 and 2010.

NOTE 25 – CONTINUED

RECONCILIATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET BASED ON LEVEL 3

USD million	**2011**	2010
Other investments, Available-for-sale :		
Balance at 1 January	2.8	3.0
Gain/loss in other comprehensive income	8.8	-0.2
Transfers to/from Level 3	-	-
Balance at 31 December	**11.6**	**2.8**
Gain/loss in the income statement for assets held at the end of the reporting period	**0.0**	**0.0**

NOTE 26

RELATED PARTY TRANSACTIONS

Niels Erik Nielsen, Chairman of the Board of Directors, was during the year a practicing partner in the law firm Lett. Lett has rendered legal assistance during the financial year as one of a number of law firms. The firm's fee of USD 0.2 million (2010: 0.0 million) is based upon the amount of time spent by the firm. In previous years, Niels Erik Nielsen was a practicing partner in the law firm Bech-Bruun. The firm's fee of USD 0.0 million (2010: USD 0.4 million) is based upon the amount of time spent by the firm.

Stefanos-Niko Zouvelos, member of the Board of directors, is General Manager of Beltest Shipping Company Limited. TORM has during the year paid USD 0.0 million (2010: USD 0.1 million) to an entity owned by Beltest Shipping Company Limited under a time charter agreement involving one product tanker vessel. TORM has during the year served as commercial and technical manager for that product tanker for which TORM has received commissions and fees of USD 0.2 million (2010: 0.2 million).

Gabriel Panayotides, member of the Board of Directors, is chairman of the Board of Directors of Excel Maritime. TORM has paid USD 2.0 million involving one Panamax dry bulk vessel and USD 0.9 million involving one Handymax dry bulk vessel until 31 December 2011 (2010: USD 0.0 million) under time charter agreements.

Jesper Jarlbæk, member of the Board of Directors, is chairman of the Board of Directors in Basico Consulting A/S. TORM has used Basico Consulting A/S for consulting services in 2011 amounting to USD 0.8 million (2010: USD 0.3 million) based upon the amount of time spent by the firm.

Angelos Papoulias, member of the Board of Directors, is director of Investments & Finance Ltd. TORM has used Investments & Finance Ltd. for consulting services in 2011 amounting to USD 1.3 million (2010: USD 0.2 million) based upon the amount of time spent by the firm.

There have been no other transactions with such parties during the financial year.

Management remuneration is disclosed in note 4.

It is considered that the Alpha Trust and its Trustee, First Link Management Services Limited, has control over the Group and the Parent Company via the ownership of 52.23% of the share capital in TORM A/S.

NOTE 27

NON-CURRENT ASSETS HELD FOR SALE

At year end 2011, the Company has entered into agreements concerning the sale of two Panamax dry bulk newbuilding contracts. The contracts have been classified as held for sale and presented separately in the balance sheet and are included under Bulk in the segment information.

The loss from the sale of the contracts amounting to USD 41 million has been recognized in the income statement for 2011 under net profit/(loss) from sale of vessels.

At year end 2010, the Company had not entered into any contracts regarding sale of vessels, which qualified for classification as assets held for sale.

NOTE 28

CASH FLOWS

USD million	2011	2010
Reversal of other non-cash movements:		
Amortisation of acquired assets and liabilities	-2.7	-5.9
Share-based payment	1.3	2.7
Adjustmens on derivative financial instruments	-4.0	-5.1
Exchange rate adjustments	0.3	0.3
Gain from sale of other fixed assets than vessels	-1.7	0.0
	-6.8	**-8.0**

USD million	2011	2010
Change in bunkers, receivables and payables		
Change in bunkers	-48.0	-17.6
Change in receivables	-45.3	-42.0
Change in prepayments	8.7	-7.0
Change in trade payables and other liabilities	82.3	10.3
Fair value changes of derivative financial instruments	-13.7	11.6
Other non cash movements included in current assets and liabilities	-1.7	1.5
	-17.7	**-43.2**

NOTE 29

ENTITIES IN THE GROUP

Parent Company:

TORM A/S		Denmark

Investments in subsidiaries*):

TORM Singapore Pte. Ltd.	100%	Singapore	TT Shipowning K/S	100%	Denmark
TORM Norge AS	100%	Norway	Torghatten & TORM Shipowning ApS	100%	Denmark
TORM USA LLC	100%	Delaware	Tiber Shipping LLC	100%	Marshall Islands
Long Range 1 A/S	100%	Denmark	OMI Marine Service Ltd.	100%	Delaware
Medium Range A/S	100%	Denmark	OMI Holding Ltd.	100%	Mauritius
LR1 Management K/S	100%	Denmark	TORM Shipping India Private Limited	100%	India
MR Management K/S	100%	Denmark	OMI Crewing Service Ltd.	100%	Bermuda

Investments in legal entities included as jointly controlled entities*):

Long Range 2 A/S	50%	Denmark	Ugland & TORM Shipowning ApS	50%	Denmark
LR2 Management K/S	50%	Denmark	FR8 Holdings Pte. Ltd.	50%	Singapore
UT Shipowning K/S	50%	Denmark	TORM SHIPPING (PHILS.), INC.	25%	Philippines

*) Companies with activities in the financial year.

Furthermore, TORM participates in a number of joint ventures, primarily The MR Pool, The LR1 Pool and The LR2 Pool, which are not legal entities.
The investments in these joint ventures are included as investments in jointly controlled operations.

NOTE 29 – CONTINUED

The following represents income and expenses and summarized balance sheet data for jointly controlled entities.

USD million	2011	2010
Total income	60.4	81.6
Total expenses	-68.8	-104.6
Net profit for the year	**-8.4**	**-23.0**
Non-current assets	237.0	288.6
Current assets	62.6	80.2
Non-current liabilities	163.8	180.8
Current liabilities	35.2	42.2

NEWBUILDING CONTRACTS AND PURCHASE OPTIONS ON VESSELS IN JOINTLY CONTROLLED ENTITIES

As of 31 December 2011, no purchase options on vessels were exercised (2010: no purchase options) in jointly controlled entities. TORM's share of the total outstanding contractual commitment for the exercised purchase options on vessels amounts to USD 0 million (2010: USD 0 million) as of 31 December 2011.

NOTE 30

	2011	2010
EARNINGS/LOSS PER SHARE		
Net profit/loss for the year (USD million)	**-453.0**	**-135.3**
Million shares		
Average number of shares	72.8	72.8
Average number of treasury shares	-3.3	-3.5
Average number of shares outstanding	69.5	69.3
Dilutive effect of outstanding share options	0.0	0.0
Average number of shares outstanding incl. dilutive effect of share options	**69.5**	**69.3**
Earnings/loss per share (USD)	**-6.5**	**-2.0**
Diluted earnings/loss per share (USD)	**-6.5**	**-2.0**

When calculating diluted earnings per share for 2011, 4,661,318 share options (2010: 3,787,429 share options) have been omitted as they are out-of-the-money, but potentially the share options might dilute earnings per share in the future.

STATEMENT BY MANAGEMENT

We have today presented the annual report of TORM A/S for the financial year 1 January - 31 December 2011.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position as of 31 December 2011 as well as of their financial performance and cash flows for the financial year 1 January - 31 December 2011.

Reference is made to note 2 to the consolidated financial statements "Liquidity, capital resources, going concern and subsequent events", in which it is stated that the successful outcome of the current negotiations with TORM's banks and other stakeholders to secure the implementation of the comprehensive financing and restructuring plan outlined in the conditional framework agreement in principle is a prerequisite for TORM's continued operation. In a forced sale, or if TORM is otherwise not able to continue as a going concern, the net value of the Company's assets, liabilities and off balance sheet items would be significantly lower than the current carrying amounts.

We also believe that the management report contains a fair review of the development and performance of the Group's and the Parent's business and of their financial position as a whole, together with a description of the principal risks and uncertainties that they face.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 23 April 2012

BOARD OF DIRECTORS:

Niels Erik Nielsen
Chairman

Christian Frigast
Deputy Chairman

Peter Abildgaard

Rasmus J. Skaun Hoffmann

Kari Millum Gardarnar

Jesper Jarlbæk

Gabriel Panayotides

Angelos Papoulias

Stefanos-Niko Zouvelos

EXECUTIVE MANAGEMENT:

Jacob Meldgaard
CEO

Roland M. Andersen
CFO

INDEPENDENT AUDITOR'S REPORT

This auditors report replaces the auditor's report with a disclaimer of opinion included in TORM A/S Annual Report for 2011 made publicly available at www.torm.com in Company Announcement No. 6 - 2012 dated 1 March 2012.

TO THE SHAREHOLDERS OF TORM A/S

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND PARENT FINANCIAL STATEMENTS

We have audited the consolidated financial statements and parent financial statements of TORM A/S on pages 44 – 100, for the financial year 1 January to 31 December 2011, which comprise the income statement, the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group as well as for the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and for such internal control as the Management determines is necessary to enable the preparation and fair presentation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements and the parent financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the consolidated financial statements and the parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and parent financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the consolidated financial statements and the parent financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

OPINION

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2011 and of the results of their operations and cash flows for the financial year 1 January to 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

EMPHASIS OF MATTER

EMPHASIS OF MATTER REGARDING THE FINANCIAL STATEMENTS – GOING CONCERN

In forming our opinion on the consolidated financial statements and the parent financial statements, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements concerning the Group's and the Parent's ability to continue as a going concern at least until 31 December 2012.

Note 2 to the consolidated financial statements discloses that with the current financial position and continuing low freight rate levels, TORM A/S will not have sufficient liquidity to continue its operations throughout 2012. Therefore TORM A/S has entered into a conditional framework agreement in principle with its banks and major time charter partners to execute a comprehensive financing and restructuring plan that will provide TORM A/S with sufficient liquidity to continue its operation at least until 31 December 2012. The plan will result in:

- the banks and the time charter partners receiving an ownership interest of 92.5% in TORM A/S, while the existing shareholders will retain an ownership interest of 7.5%,
- the banks providing a USD 100 million revolving credit facility maturing in two years,
- the banks providing a deferral of all installments and repayments of loans until December 2016 with simultaneous possibility for rolling up interest the first two years, however such that liquidity in excess of a pre-defined minimum liquidity threshold will be paid to the banks,

- the time charter partners aligning the time charter-in rates with the market level or agreeing to terminate the charters.

The implementation of the plan is primarily subject to finalization of the contractual agreements, the final approval by the Board of Directors, the banks and time charter partners as well as shareholder approval of the authorizations to the Board of Directors to carry out the necessary capital reduction and capital increase. These conditions, along with the other matters explained in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Parent's ability to continue as a going concern.

The consolidated financial statements and the Parent financial statements do not include the adjustments that would result if the Group and the Parent are unable to continue as a going concern.

EMPHASIS OF MATTER REGARDING THE FINANCIAL STATEMENTS – VALUATION OF VESSELS

In forming our unqualified opinion on the consolidated financial statements and the parent financial statements, we have considered the adequacy of the disclosure in note 9 to the consolidated financial statements concerning the Group's and the Parent's impairment testing of the Tanker Division, which gives an account of the sensitivities associated with the key assumptions around charter rates, operating expenses and weighted average cost of capital used in the impairment tests.

Furthermore, note 9 in the consolidated financial statements states that the market value of the Group's fleet as of 31 December 2011 is USD 1,797 million, which is USD 608 million less than the carrying amount at 31 December 2011, and that in a forced sale the recoverable amount of the fleet will be significantly lower than under the going concern assumption applied when preparing the consolidated financial statements and parent financial statements.

STATEMENT ON THE MANAGEMENT COMMENTARY (PAGES 4-43)

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent financial statements. On this basis, it is our opinion that the information provided in the management commentary is consistent with the consolidated financial statements and the parent financial statements.

Copenhagen, 23 April 2012

DELOITTE
Statsautoriseret Revisionspartnerselskab

Anders Dons
State Authorised
Public Accountant

Henrik Kjelgaard
State Authorised
Public Accountant

PARENT COMPANY 2011

INCOME STATEMENT
1 JANUARY – 31 DECEMBER

USD '000	Note	2011	2010
Revenue		1,294,582	820,785
Port expenses, bunkers and commissions		-673,063	-294,668
Freight and bunkers derivatives		14,105	3,339
Time charter equivalent earnings		**635,624**	**529,456**
Charter hire		-446,919	-255,522
Operating expenses	2	-136,885	-134,911
Gross profit (Net earnings from shipping activities)		**51,820**	**139,023**
Net profit/(loss) from sale of vessels		-59,715	-16,300
Administrative expenses	2, 3	-53,051	-66,906
Other operating income		-1,155	1,685
EBITDA		**-62,101**	**57,502**
Impairment losses on tangible and intangible assets	5, 6	-173,294	0
Amortization and depreciation	6	-121,513	-120,586
Operating profit/(loss) (EBIT)		**-356,908**	**-63,084**
Financial income	7	11,079	62,224
Financial expenses	7	-97,865	-126,829
Profit/(loss) before tax		**-443,694**	**-127,689**
Tax expenses	10	-1,093	675
Net profit/(loss) for the year		**-444,787**	**-127,014**

Allocation of profit/(loss) for the year

The Board of Directors recommends that the net profit/(loss) for the year of USD 445 million is allocated as follows:

Proposed dividend USD 0.0 per share of DKK 5 (2010: USD 0.0)	0
Retained profit	-444,787
	-444,787

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

STATEMENT OF COMPREHENSIVE INCOME
1 JANUARY – 31 DECEMBER

USD '000	2011	2010
Net profit/(loss) for the year	**-444,787**	**-127,014**
Other comprehensive income:		
Fair value adjustment on hedge instruments	-29,128	-3,426
Value adjustment on hedge instruments transferred to income statement	852	6,342
Fair value adjustment on other investments available for sale	8,651	-229
Transfer to profit or loss on sale of available for sale investments	0	0
Other comprehensive income after tax	**-19,625**	**2,687**
Total comprehensive income for the year	**-464,412**	**-124,327**

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

BALANCE SHEET
AT 31 DECEMBER

USD '000	Note	2011	2010
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill		0	89,184
Total Intangible assets	**5**	**0**	**89,184**
Tangible fixed assets			
Land and buildings		1,976	2,019
Vessels and capitalized dry-docking	13	1,840,549	2,198,597
Prepayments on vessels		36,120	170,293
Other plant and operating equipment		6,464	7,679
Total Tangible fixed assets	**6**	**1,885,109**	**2,378,588**
Financial assets			
Investment in subsidiaries	4	19,825	26,009
Loans to subsidiaries		53,875	21,664
Investments in jointly controlled entities	4	42,411	67,611
Loans to jointly controlled entities		8,198	10,298
Other investments	4	11,612	2,960
Other financial assets		0	6,000
Total Financial assets		**135,921**	**134,542**
Total non-current assets		**2,021,030**	**2,602,314**
CURRENT ASSETS			
Bunkers		83,321	39,388
Freight receivables	8	137,882	102,730
Other receivables	9	20,920	11,515
Other financial assets		0	0
Prepayments		11,664	20,307
Cash and cash equivalents		70,927	27,685
		324,714	201,625
Non-current assets held for sale	20	21,236	0
Total current assets		**345,950**	**201,625**
TOTAL ASSETS		**2,366,980**	**2,803,939**

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

BALANCE SHEET
AT 31 DECEMBER

USD '000	Note	2011	2010
EQUITY AND LIABILITIES			
EQUITY			
Common shares		61,098	61,098
Treasury shares		-17,309	-17,883
Revaluation reserves		6,180	-2,471
Retained profit		373,777	817,857
Proposed dividend		0	0
Hedging reserves		-28,618	-342
Translation reserves		5,896	5,896
Total equity		**401,024**	**864,155**
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liability	10	53,858	54,358
Mortgage debt and bank loans	12, 13, 15	0	1,526,435
Finance lease liabilities	16	26,806	27,709
Total non-current liabilities		**80,664**	**1,608,502**
Current liabilities			
Mortgage debt and bank loans	12, 13, 15	1,515,574	185,501
Finance lease liabilities	16	1,620	1,415
Loans from subsidiaries		174,814	32,910
Trade payables		114,270	44,500
Current tax liabilities		1,094	1,742
Other liabilities	11	77,836	63,329
Acquired liabilities related to options on vessels		84	1,885
Total current liabilities		**1,885,292**	**331,282**
Total liabilities		**1,965,956**	**1,939,784**
TOTAL EQUITY AND LIABILITIES		**2,366,980**	**2,803,939**

Accounting policies	1
Effective interest rate and fair value of mortgage debt and bank loans	12
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Derivative financial instruments	17
Financial instruments	18
Related party transactions	19
Non-current assets held for sale	20
Cash flows	21

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

STATEMENT OF CHANGES IN EQUITY

USD million	Common shares	Treasury shares *)	Retained profit	Proposed dividends	Revaluation reserves	Hedging reserves	Translation reserves	Total
EQUITY								
Equity at 1 January 2010	**61.1**	**-18.1**	**942.4**	**0.0**	**-2.2**	**-3.3**	**5.9**	**985.8**
Changes in equity 2010:								
Net profit/(loss) for the year			-127.0					-127.0
Other comprehensive income for the year					-0.2	2.9		2.7
Total comprehensive income for the year	**0.0**	**0.0**	**-127.0**	**0.0**	**-0.2**	**2.9**	**0.0**	**-124.3**
Disposal treasury shares, cost		0.2						0.2
Loss from disposal of treasury shares			-0.2					-0.2
Share-based compensation			2.7					2.7
Total changes in equity 2010	**0.0**	**0.2**	**-124.5**	**0.0**	**-0.2**	**2.9**	**0.0**	**-121.6**
Equity at 31 December 2010	**61.1**	**-17.9**	**817.9**	**0.0**	**-2.4**	**-0.4**	**5.9**	**864.2**
Comprehensive income for the year:								
Net profit/(loss) for the year			-444.8					-444.8
Other comprehensive income for the year					8.7	-28.3		-19.6
Total comprehensive income for the year	**0.0**	**0.0**	**-444.8**	**0.0**	**8.7**	**-28.3**	**0.0**	**-464.4**
Disposal treasury shares, cost		0.6						0.6
Loss from disposal of treasury shares			-0.6					-0.6
Share-based compensation			1.3					1.3
Total changes in equity 2011	**0.0**	**0.6**	**-444.1**	**0.0**	**8.7**	**-28.3**	**0.0**	**-463.1**
Equity at 31 December 2011	**61.1**	**-17.3**	**373.8**	**0.0**	**6.3**	**-28.7**	**5.9**	**401.1**

*) Please refer to note 14 in the consolidated financial statements for further information on treasury shares.

CASH FLOW STATEMENT

USD '000	Note	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit/(loss)		-356,908	-63,084
Adjustments:			
Reversal of profit from sale of vessels		59,715	16,300
Reversal of depreciation and impairment losses		294,807	120,586
Reversal of other non-cash movements	21	-4,627	-8,224
Dividends received		1,417	3,464
Interest received and exchange rate gains		5,920	296
Interest paid and exchange rate losses		-61,925	-67,227
Income taxes paid/repaid		-2,240	-3,340
Change in bunkers, accounts receivables and payables	21	-19,182	-28,057
Net cash flow from operating activities		**-83,023**	**-29,286**
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in tangible fixed assets		-76,884	-195,810
Investment in equity interests and securities		0	-23
Sale of equity interests and securities		0	0
Loans and repayment of loans to subsidiaries and jointly controlled entities		111,278	33,820
Sale of options on vessels		0	0
Sale of non-current assets		292,709	120
Net cash flow from investing activities		**327,103**	**-161,893**
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowing, mortgage debt		33,780	317,096
Repayment/redemption, mortgage debt		-230,142	-129,152
Repayment/redemption, finance lease liabilities		-4,476	-5,306
Dividends paid		0	0
Cash flow from financing activities		**-200,838**	**182,638**
Net cash flow from operating, investing and financing activities		**43,242**	**-8,541**
Cash and cash equivalents at 1 January		**27,685**	**36,226**
Cash and cash equivalents at 31 December		**70,927**	**27,685**
Of which restricted cash and cash equivalents		0	0
		70,927	**27,685**

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

NOTE 1

ACCOUNTING POLICIES

SUPPLEMENTARY ACCOUNTING POLICIES FOR THE PARENT COMPANY

In addition to the accounting policies for the Group as presented in note 1 in the consolidated financial statement, the Parent Company, TORM A/S, applies the following supplementary accounting policies.

Foreign currencies

Exchange rate gains or losses on intercompany balances with foreign subsidiaries, which are considered a part of the investment in the entity, are recognized directly in equity.

Investment in subsidiaries and jointly controlled entities

Investment in subsidiaries, associated companies and jointly controlled entities are recognized and measured in the financial statement of the Parent Company at cost and classified as non-current assets. Dividends are recognized under financial income.

NOTE 2

USD million	2011	2010
STAFF COSTS		
Total staff costs		
Staff costs included in operating expenses	18.0	20.9
Staff costs included in administrative expenses	37.7	42.4
	55.7	**63.3**
Staff costs comprise the following:		
Wages and salaries	49,3	56,0
Share-based compensation	1,3	2,3
Pension costs	4,8	4,6
Other social security costs	0,3	0,4
	55,7	**63,3**

Employee information

The average number of permanently employed staff in the Parent Company in the financial year was 186 (2010: 171) land-based employees and 212 (2010: 225) seafarers.
The average number of employees is calculated as a full-time equivalent (FTE).
Management remuneration is disclosed in note 4 in the consolidated financial statements.

NOTE 3

USD million	2011	2010
Remuneration to the auditors appointed at the Annual General Meeting in the Parent Company		
Deloitte		
Audit fees	0.4	0.4
Audit-related fees	0.6	0.3
Tax fees	0.1	0.1
Fees for other services	0.2	0.3
	1.3	**1.1**

NOTE 4

USD million	Investment in subsidiaries	Investment in jointly controlled entities	Total investments	Other investments
FINANCIAL ASSETS				
Cost:				
Balance at 1 January 2010	75.5	117.5	193.0	5.4
Additions	5.3	0.0	5.3	0.0
Disposals	-54.8	-4.8	-59.6	0.0
Balance at 31 December 2010	**26.0**	**112.7**	**138.7**	**5.4**
Value adjustment:				
Balance at 1 January 2010	0.0	0.0	0.0	-2.2
Exchange rate adjustment				-0.2
Value adjustment for the year				0.0
Disposals				0.0
Impairment losses	0.0	-45.1	-45.1	0.0
Balance at 31 December 2010	**0.0**	**-45.1**	**-45.1**	**-2.4**
Carrying amount at 31 December 2010	**26.0**	**67.6**	**93.6**	**3.0**
Cost:				
Balance at 1 January 2011	26.0	112.7	138.7	5.4
Additions	0.0	0.0	0.0	0.0
Disposals	-6.2	0.0	-6.2	0.0
Balance at 31 December 2011	**19.8**	**112.7**	**132.5**	**5.4**
Value adjustment:				
Balance at 1 January 2011	0.0	-45.1	-45.1	-2.4
Exchange rate adjustment				-0.5
Value adjustment for the year				9.1
Disposals				0.0
Impairment losses	0.0	-25.2	-25.2	0.0
Balance at 31 December 2011	**0.0**	**-70.3**	**-70.3**	**6.2**
Carrying amount at 31 December 2011	**19.8**	**42.4**	**62.2**	**11.6**
Hereof listed				0.0
Hereof unlisted				11.6

Please refer to note 9 in the consolidated financial statement for information on impairment testing.

A list of companies in the Group is found in note 29 at page 84 in the annual report.

NOTE 5

USD million	Goodwill	Total
INTANGIBLE ASSETS		
Cost:		
Balance at 1 January 2010	0.0	0.0
Additions	0.0	0.0
Disposals	0.0	0.0
Transferred to/from other items	89.2	89.2
Balance at 31 December 2010	**89.2**	**89.2**
Impairment losses:		
Balance at 1 January 2010	0.0	0.0
Disposals	0.0	0.0
Impairment losses for the year	0.0	0.0
Balance at 31 December 2010	**0.0**	**0.0**
Carrying amount at 31 December 2010	**89.2**	**89.2**
Cost:		
Balance at 1 January 2011	89.2	89.2
Additions	0.0	0.0
Disposals	0.0	0.0
Balance at 31 December 2011	**89.2**	**89.2**
Impairment losses:		
Balance at 1 January 2011	0.0	0.0
Disposals	0.0	0.0
Impairment losses for the year	89.2	89.2
Balance at 31 December 2011	**89.2**	**89.2**
Carrying amount at 31 December 2011	**0.0**	**0.0**

Please refer to note 9 in the consolidated financial statement for information on impairment testing.

In connection with the dissolvement of certain subsidiaries acquired as part of the acquisition of OMI, the related goodwill was transferred to the Parent Company in 2010.

NOTE 6

USD million	Land and buildings	Vessels and capitalized dry-docking	Pre-payments on vessels	Other plant and operating equipment	Total
TANGIBLE FIXED ASSETS					
Cost:					
Balance at 1 January 2010	2.3	2,374.2	219.9	20.2	2,616.6
Additions	0.0	65.8	155.0	2.6	223.4
Disposals	0.0	-9.3	0.0	-1.2	-10.5
Transferred to/from other items	0.0	188.3	-188.3	0.0	0.0
Balance at 31 December 2010	**2.3**	**2,619.0**	**186.6**	**21.6**	**2,829.5**
Depreciation and impairment losses:					
Balance at 1 January 2010	0.2	310.9	0.0	11.3	322.4
Disposals	0.0	-7.3	0.0	-1.1	-8.4
Depreciation for the year	0.1	116.8	0.0	3.7	120.6
Loss from sale of newbuildings	0.0	0.0	16.3	0.0	16.3
Balance at 31 December 2010	**0.3**	**420.4**	**16.3**	**13.9**	**450.9**
Carrying amount at 31 December 2010	**2.0**	**2,198.6**	**170.3**	**7.7**	**2,378.6**
Hereof finance leases	0.0	27.7	0.0	0.0	27.7
Hereof financial expenses included in cost	0.0	2.2	1.1	0.0	3.3
Cost:					
Balance at 1 January 2011	2.3	2,619.0	186.6	21.6	2,829.5
Additions	0.0	17.4	57.0	2.4	76.8
Disposals	0.0	-316.8	-7.8	-0.2	-324.8
Transferred to/from other items	0.0	104.8	-104.8	0.0	0.0
Transferred to non-current assets held for sale	0.0	0.0	-61.8	0.0	-61.8
Balance at 31 December 2011	**2.3**	**2,424.4**	**69.2**	**23.8**	**2,519.7**
Depreciation and impairment losses:					
Balance at 1 January 2011	0.3	420.4	16.3	13.9	450.9
Disposals	0.0	-54.9	0.0	-0.2	-55.1
Depreciation for the year	0.0	118.0	0.0	3.6	121.6
Loss on sale of newbuildings	0.0	0.0	33.1	0.0	33.1
Impairment loss	0.0	84.1	0.0	0.0	84.1
Transferred to/from other items	0.0	16.3	-16.3	0.0	0.0
Balance at 31 December 2011	**0.3**	**583.9**	**33.1**	**17.3**	**634.6**
Carrying amount at 31 December 2011	**2.0**	**1,840.5**	**36.1**	**6.5**	**1,885.1**
Hereof finance leases	0.0	26.9	0.0	0.0	26.9
Hereof financial expenses included in cost	0.0	2.0	0.8	0.0	2.8

Included in the carrying amount for vessels and capitalized dry-docking are capitalized dry-docking costs in the amount of USD 25.7 million (2010: USD 30.7 million).

Please refer to note 9 in the consolidated financial statement for information on impairment testing.

Please refer to note 12 for information in relation to assets used for collateral security.

NOTE 7

USD million	2011	2010
FINANCIAL ITEMS		
Financial income		
Interest income from cash and cash equivalents	1.9	0.9
Gain on other investments (available-for-sale)	0.0	0.0
Dividends	0.0	0.0
Dividends from subsidiaries	1.4	59.2
Fair value adjustments on derivative financial instruments	3.7	2.1
Currency translation adjustments, including net gain/loss from forward exchange rate contracts	4.1	0.0
	11.1	62.2
Financial expenses		
Interest expense on mortgage and bank debt, including net gain/loss on interest-related derivatives	50.3	46.2
Fair value adjustments on derivative financial instruments	0.0	0.0
Currency translation adjustments, including net gain/loss from forward exchange rate contracts	4.0	2.6
Impairment losses on jointly controlled entities	25.2	45.1
Write down on financial fixed assets regarding liquidation of inactive subsidiaries and jointly controlled entities	9.1	27.2
Other financial expenses	9.9	6.0
Hereof included in the cost of tangible fixed assets	-0.6	-0.3
	97.9	126.8
Total financial items	**-86.8**	**-64.6**

NOTE 8

FREIGHT RECEIVABLES

Analysis at 31 December of freight receivables:

USD million	2011	2010
FREIGHT RECEIVABLES		
Neither past due nor impaired	78.2	53.5
Due < 30 days	43.2	20.4
Due between 30 and 180 days	13.3	23.2
Due > 180 days	3.2	5.6
	137.9	**102.7**

At 31 December 2011, freight receivables include receivables at a value of USD 0.2 million (2010: USD 0.2 million), that is individually determined to be impaired to a value of USD 0.0 million (2010: USD 0.0 million).

Movements in the provision for impairment of freight receivables during the year are as follows:

USD million	2011	2010
PROVISION FOR IMPAIRMENT OF FREIGHT RECEIVABLES		
Balance at 1 January	0.2	0.1
Provisions for the year	0.0	0.1
Provisions reversed during the year	0.0	0.0
Provisions utilized during the year	0.0	0.0
Balance at 31 December	**0.2**	**0.2**

Provision for impairment of freight receivables has been recognized in the income statement under Port expenses, bunkers and commissions. The provision is based on an individual assessment of each individual receivable.

NOTE 9

USD million	2011	2010
OTHER RECEIVABLES		
Partners and commercial managements	5.0	1.2
Derivative financial instruments	5.6	2.4
Receivables at joint ventures	3.7	3.7
Tax receivables	0.6	0.5
Miscellaneous, including items related to shipping activities	6.0	3.7
	20.9	**11.5**

NOTE 10

USD million	2011	2010
TAX		
Current tax for the year	-2.0	-1.3
Adjustments related to previous years	0.5	1.4
Adjustment of deferred tax	0.5	0.6
	-1.0	0.7
Effective corporate tax rate	**-0.2%**	**0.7%**

The Company participates in the tonnage tax scheme in Denmark. Participation in the tonnage tax scheme is binding until 31 December 2017.

Under the Danish tonnage tax scheme, the income and expenses from shipping activities are not subject to direct taxation. Instead the taxable income is calculated from:
- The net tonnage of the vessels used to generate the income from shipping activities
- A rate applicable to the specific net tonnage of the vessel, based on a sliding scale
- The number of days the vessels are used during the year.

The Company expects to participate in the tonnage tax scheme after the binding period and at a minimum to maintain its current investing and activity level.

The difference between the effective corporate tax rate of -0.2% (2010: 0.5%) and the corporation tax rate in Denmark of 25% (2010: 25%) primarily relates to the tonnage tax scheme.

Payment of dividends to the shareholders of TORM A/S has no taxable consequences for TORM A/S.

USD million	2011	2010
DEFERRED TAX		
Deferred tax at 1 January	54.4	55.0
Deferred tax for the year	-0.5	-0.6
Deferred tax at 31 December	**53.9**	**54.4**

Essentially all deferred tax relates to vessels included in the transition account under the tonnage tax scheme.

NOTE 11

USD million	2011	2010
OTHER LIABILITIES		
Partners and commercial managements	6.0	2.7
Accrued operating expenses	5.4	5.2
Accrued interests	3.2	5.3
Wages and social expenses	15.8	21.5
Derivative financial instruments	37.5	19.9
Payables to joint ventures	0.0	0.6
Miscellaneous, including items related to shipping activities	9.9	8.1
	77.8	**63.3**

NOTE 12

EFFECTIVE INTEREST RATE AND FAIR VALUE OF MORTGAGE DEBT AND BANK LOANS

Certain of TORM's loan agreements contain minimum requirements to the liquidity and solvency of TORM and other restrictions, which may limit TORM's ability to:
- Enter into mergers or corporate restructurings, or effect material divestments, if such would be materially adverse to the company.
- Materially change the operations or purpose of the company.

TORM must comply with the following requirements:
- Equity ratio must exceed 25%.
- Equity must exceed DKK 1.25 billion (USD 217.6 million at 31 December 2011).
- Cash available must exceed USD 60 million for a significant part of the loans.

As at 31 December 2011, TORMs equity ratio of 23.2% resulted in a breach of its financial covenants under the existing loan agreements, and in January 2012 the cash covenant of USD 60 million was also breached. As at 31 December 2011 TORM therefore does not have an unconditional right to defer payments on the loans for more than 12 months and the mortgage debt and bank loans are in principle payable on demand. Accordingly the mortgage debt and bank loans are classified as current liabilities in the balance sheet.

As at 1 March 2012, except for the temporary standstill described in note 2, none of these defaults have been remediated.

The table below shows effective interest and fair value of the mortgage debt and bank loans assuming that TORM is a going concern.

		2011			2010		
USD million	Fixed/ floating	Maturity	Effective interest	Fair value	Maturity	Effective interest	Fair value
LOAN							
USD	Fixed	2011	-	-	2011	4.4%	47.7
USD	Fixed	2012	-	-	2012	4.4%	51.4
USD	Fixed	2012	-	-	2013	4.4%	29.0
USD	Floating	2012	3.9%	705.0	2013	2.1%	750.0
USD	Floating	2012	2.0%	209.1	2014	2.0%	221.4
USD	Floating	2012	2.6%	451.3	2015	1.9%	488.1
USD	Floating	2012	4.1%	75.7	2016	3.5%	81.2
USD	Floating	2012	3.8%	35.2	-	-	-
USD	Floating	2012	4.9%	45.5	2020	3.7%	51.1
Weighted average effective interest rate			**3.3%**			**2.3%**	
Fair value				**1,521.8**			**1,719.9**

Part of the loans with floating interest rate have been swapped to fixed interest rate.

NOTE 13

USD million	2011	2010
COLLATERAL SECURITY		
Collateral security for mortgage debt and bank loans:		
Vessels	1,486.6	1,719.9
	1,486.6	**1,719.9**

The total carrying amount for vessels that have been provided as security amounts to USD 1,897 million (2010: USD 2,216 million).

NOTE 14

USD million	2011	2010
GUARANTEE AND CONTINGENT LIABILITIES		
Guarantees for bank loans in subsidiaries	237.1	297.5
Guarantees for leasing liabilities in subsidiaries	92.0	0.0
Other guarantee liabilities	0.0	0.0
Total Guarantee and contingent liabilities	**329.1**	**297.5**

Other guarantees relate to guarantee liabilities to the Danish Shipowners' Association and amount to less than USD 0.1 million.

NOTE 15

CONTRACTUAL OBLIGATIONS, MORTGAGE DEBT AND BANK LOANS

TORM has various contractual obligations and commercial commitments to make future payments including debt agreements, lease obligations and purchase commitments.

Due to an unremediated breach of financial covenants as of 31 December 2011, the Company's mortgage debt and bank loans including accrued interest are formally due in 2012.

The Company was not in breach of its covenants as of 31 December 2010 and accordingly the maturities and estimated interest payments on mortgage debt and bank loans as of 31 December 2010 are the actual maturities according to the loan agreements in effect at that date.

The following table summarizes the Company's contractual obligations:

NOTE 15 – CONTINUED

At 31 December 2011:

USD million	2012	2013	2014	2015	2016	Thereafter	**Total**
Mortgage debt and bank loans (1)	1,515.6	0.0	0.0	0.0	0.0	0.0	1,515.6
Interest payments related to interest rate swaps (2)	28.6	13.5	8.2	4.6	2.9	0.0	57.8
Estimated variable interest payments (3)	4.8	0.0	0.0	0.0	0.0	0.0	4.8
Total	**1,549.0**	**13.5**	**8.2**	**4.6**	**2.9**	**0.0**	**1,578.2**

USD million	2012	2013	2014	2015	2016	Thereafter	**Total**
Finance lease liabilities	1.6	1.8	2.1	2.3	2.7	17.9	28.4
Interest element finance lease	3.3	3.1	2.8	2.6	2.2	1.4	15.4
Chartered-in vessels (incl. vessels not delivered (Operating lease) (4)	327.1	273.1	248.2	184.1	85.5	126.1	1,244.1
Newbuilding installments and exercised purchase options (Purchase obligations) (5)	52.0	9.8	19.9	0.0	0.0	0.0	81.7
Other operating leases (6)	4.7	4.8	3.3	0.1	0.1	0.0	13.0
Total	**388.7**	**292.6**	**276.3**	**189.1**	**90.5**	**145.4**	**1,382.6**

Contractual obligations - as lessor:							
Charter hire income for vessels on time charter and bareboat charter (incl. vessels not delivered) (Operating lease) (7)	68.6	16.5	4.6	0.0	0.0	0.0	89.7
Total	**68.6**	**16.5**	**4.6**	**0.0**	**0.0**	**0.0**	**89.7**

At 31 December 2010:

USD million	2011	2012	2013	2014	2015	Thereafter	**Total**
Mortgage debt and bank loans (1)	185.5	181.8	727.3	171.4	72.9	373.0	1,711.9
Interest payments related to interest rate swaps (2)	16.3	19.9	10.7	3.9	1.2	0.2	52.2
Estimated variable interest payments (3)	35.4	22.3	18.7	14.5	12.7	20.6	124.2
Finance lease liabilities	1.4	1.6	1.8	2.1	2.3	19.9	29.1
Interest element finance lease	3.5	3.3	3.1	2.8	2.5	3.8	19.0
Chartered-in vessels (incl. vessels not delivered (Operating lease) (4)	312.6	281.7	234.9	207.1	138.3	158.7	1,333.3
Newbuilding installments and exercised purchase options (Purchase obligations) (5)	127.7	84.9	8.5	0.0	0.0	0.0	221.1
Other operating leases (6)	4.8	4.9	5.0	3.4	0.0	0.0	18.1
Total	**687.2**	**600.4**	**1,010.0**	**405.2**	**229.9**	**576.2**	**3,508.9**

Contractual obligations - as lessor:							
Charter hire income for vessels on time charter and bareboat charter (incl. vessels not delivered) (Operating lease) (7)	102.7	28.3	5.7	2.8	0.0	0.0	139.5
Total	**102.7**	**28.3**	**5.7**	**2.8**	**0.0**	**0.0**	**139.5**

(1) The presented amounts to be repaid are adjusted by directly related costs arising from the issuing of the loans by USD 6.2 million (2010: USD 8.0 million) which are amortized over the term of the loans.

(2) Actual fixed rate according to interest rate swaps is used for the covered interest payments.

(3) Variable interest payments are estimated based on a 2.5% (2010: 3.0%) net interest rate including margin.

(4) Leases have been entered into with a mutually non-cancelable lease period of up to eight years. Certain leases include an option to renew for one or two additional years at a time for up to three years and/or a purchase option. Exercise of the purchase option on the individual vessel is based on an individual assessment. Certain leases include a profit sharing element implying that the actual charter hire may be higher. The average period until redelivery of the vessels is 2.5 years (2010: 3.5 years). Two leasing agreements include a purchase liability upon default of certain financial covenants similar to those disclosed in note 17 in the consolidated financial statement.

(5) At 31 December 2011, TORM had contracted three newbuildings (2010: eight newbuildings) to be delivered during 2012-2014. For all three vessels the total outstanding contractual commitment amounted to USD 82 million as at 31 December 2011 (2010: USD 221 million).

(6) Other operating leases primarily consist of contracts regarding office spaces, cars and apartments as well as IT-related contracts.

(7) Certain leases include a profit sharing element implying that the actual charter hire may be higher. Charter hire income for vessels on time charter and bareboat charter is recognized under revenue. The average period until redelivery of the vessels is 0.6 years (2010: 0.6 years).

NOTE 16

USD million	Minimum lease payments	Interest element	Carrying amount
FINANCE LEASE LIABILITIES - AS LESSEE			
Lease liabilities regarding finance lease assets:			
2011			
Falling due within one year	4.9	-3.3	1.6
Total current	4.9	-3.3	1.6
Falling due between one and five years	19.6	-10.7	8.9
Falling due after five years	19.3	-1.4	17.9
Total non-current	38.9	-12.1	26.8
Total	**43.8**	**-15.4**	**28.4**
Fair value			28.4
2010			
Falling due within one year	4.9	-3.5	1.4
Total current	4.9	-3.5	1.4
Falling due between one and five years	19.6	-11.7	7.9
Falling due after five years	23.6	-3.8	19.8
Total non-current	43.2	-15.5	27.7
Total	**48.1**	**-19.0**	**29.1**
Fair value			**29.1**

Finance lease relates to an MR product tanker vessel chatered on bareboat for a period of eight years expiring no later than 2017. The Company has an option to purchase the vessel at the end of the 5th, 6th and 7th year of the charter period. At the expire of the charter period, the Company has an obligation to purchase the vessel.

NOTE 17

DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair value of the derivative financial instruments:

USD million	**Fair value at 31 Dec. 2011**	Fair value at 31 Dec. 2010
Hedge accounting, cash flows:		
Derivative financial instruments regarding interest rate and currency exchange rate:		
Forward exchange rate contracts	-3.8	-0.5
Interest rate swaps	-24.8	0.2
Non hedge accounting:		
Derivative financial instruments regarding interest rate and currency exchange rate:		
Interest rate swaps	-8.5	-18.3
Derivative financial instruments regarding freight and bunkers:		
Bunker swaps	2.3	-0.2
Forward Freight Agreements	1.5	0.0
Derivative financial instruments regarding options on vessels:		
Right to share of gain on purchase options on vessels	0.0	6.0
Acquired liabilities related to options on vessels	-0.1	-1.9
	-33.4	**-14.7**
Hereof included in:		
Non-current assets		
Other financial assets	0.0	6.0
Current assets		
Other receivables	3.9	0.5
Other financial assets	0.0	0.0
Non-current liabilities		
Acquired liabilities related to options on vessels	0.0	0.0
Current liabilities		
Other liabilities	-37.2	-19.3
Acquired liabilities related to options on vessels	-0.1	-1.9
	-33.4	**-14.7**

NOTE 17 - CONTINUED

The table below shows realized amounts as well as fair value adjustments regarding derivative financial instruments recognized in the income statement and equity in 2011 and 2010:

	Income statement				
USD million	Freight and bunkers derivatives	Operating expenses	Administration expenses	Financial items	Equity hedging reserves
Bunker swaps	7.0	-	-	-	-
Forward Freight Agreements	7.1	-	-	-	-
Forward rate contracts	-	1.2	1.6	-	-3.3
Interest rate swaps	-	-	-	-5.6	-24.9
Currency options	-	-	-	-3.7	-
Acquired liabilities related to options on vessels	-	-	-	-	-
Right to share of gain on purchase options on vessels	-	-	-	-6.0	-
Total 2011	**14.1**	**1.2**	**1.6**	**-15.3**	**-28.2**
Bunker swaps	-	-	-	-	-
Forward Freight Agreements	3.3	-	-	-	-
Forward rate contracts	-	-1.7	-1.8	-	-
Interest rate swaps	-	-	-	-13.7	2.9
Currency options	-	-	-	-0.1	-
Forward to buy shares	-	-	-	-	-
Right to share of gain on purchase options on vessels	-	-	-	-2.9	-
Total 2010	**3.3**	**-1.7**	**-1.8**	**-16.7**	**2.9**

Please refer to the section Managing risk and exposure and note 24 in the consolidated financial statements for further information on financial risks.

The forward exchange rate contracts with a fair value of USD -3.8 million (2010: USD -0.5 million) are designated as hedge accounting to hedge a part of TORM's payments in 2012 regarding administrative and operating expenses denominated in DKK.
The interest rate swaps with a fair value of USD -24.8 million (2010: USD 0.2 million) are designated as hedge accounting to hedge a part of TORM's interest payments during the period 2012 to 2016.
The gains or losses on these contracts will be recognized in the income statement when realized together with the hedged items.

NOTE 18
FINANCIAL INSTRUMENTS

USD million	2011	2010
CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES AS DEFINED IN IAS 39:		
Loans and receivables		
Loans to subsidiaries	53.8	21.7
Loans to jointly controlled entities	8.2	10.3
Freight receivables, etc.	137.9	102.7
Other receivables	16.7	10.4
Cash and cash equivalents	70.9	27.7
	287.5	**172.8**
Available-for-sale financial assets		
Other investments	11.6	3.0
	11,6	**3.0**
Derivative financial instruments (assets)		
Other financial assets (held for trading)	0.0	6.0
Other receivables (held for trading)	3.9	0.3
Other receivables (hedge accounting)	0.0	0.2
	3.9	**6.5**
Financial liabilities measured at amortized cost		
Mortgage debt and bank loans	1,516.0	1,711.9
Finance lease liabilities	28.4	29.1
Loan from subsidiaries	174.8	32.9
Trade payables	114.3	44.5
Other liabilities	23.1	18.3
	1,856.6	**1,836.7**
Derivative financial instruments (liabilities)		
Acquired liabilities related to options on vessels (held for trading)	0.1	1.9
Other liabilities (held for trading)	8.7	18.8
Other liabilities (hedge accounting)	28.6	0.5
	37.4	**21.2**

The fair value of the financial assets and liabilities above equals the carrying amount except for mortgage debt and bank loans for which the fair value can be found in note 12.

Other financial assets consistes of TORM's rights to a share of the gain on purchase options on vessels, which were acquired as part of OMI. The options have been measured using a Monte Carlo simulation model where the key input are the expected volatility on the vessel prices and the estimated vessel prices today for all vessel ages. The volatility on vessel prices is based on the long-term volatility of 5-year-old vessels and estimated to 15% (2010: 15%) and vessel prices are based on broker valuation at year-end.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET
The table below shows the fair value hierarchy for financial instruments measured at fair value in the balance sheet. The financial instruments in question are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include input for the asset or liability that are not based on observable market data (unobservable input).

NOTE 18 – CONTINUED

USD million	2011 Quoted prices (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Available-for-sale financial assets:				
Other investments	0.0	0.0	11.6	11.6
Derivative financial instruments (assets):				
Other financial assets (held for trading)	-	0.0	-	0.0
Other receivables (held for trading)	-	3.9	-	3.9
Other receivables (hedge accounting)	-	0.0	-	0.0
Total financial assets	**0.0**	**3.9**	**11.6**	**15.5**
Derivative financial instruments (liabilities):				
Acquired liabilities related to options on vessels (held for trading)	-	0.1	-	0.1
Other liabilities (held for trading)	-	8.7	-	8.7
Other liabilities (hedge accounting)	-	28.6	-	28.6
Total financial liabilities	**0.0**	**37.4**	**0.0**	**37.4**

USD million	2010 Quoted prices (Level 1)	Observable input (Level 2)	Unobservable input (Level 3)	Total
Available-for-sale financial assets:				
Other investments	0.2	-	2.8	3.0
Derivative financial instruments (assets):				
Other financial assets (held for trading)	-	6.0	-	6.0
Other receivables (held for trading)	-	0.3	-	0.3
Other receivables (hedge accounting)	-	0.2	-	0.2
Total financial assets	**0.2**	**6.5**	**2.8**	**9.5**
Derivative financial instruments (liabilities):				
Acquired liabilities related to options on vessels (held for trading)	-	1.9	-	1.9
Other liabilities (held for trading)	-	18.8	-	18.8
Other liabilities (hedge accounting)	-	0.5	-	0.5
Total financial liabilities	**0.0**	**21.2**	**0.0**	**21.2**

There were no transfers between Level 1 and 2 in 2011 and 2010.

RECONCILIATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET BASED ON LEVEL 3

USD million	**2011**	2010
Other investments, Available-for-sale :		
Balance at 1 January	2.8	3.0
Gain/loss in the income statement	0.0	0.0
Gain/loss in other comprehensive income	8.8	-0.2
Transfers to/from Level 3	0.0	0.0
Balance at 31 December	**11.6**	**2.8**
Gain/loss in the income statement for assets held at the end of the reporting period	**0.0**	**0.0**

NOTE 19

RELATED PARTY TRANSACTIONS

Subsidiaries and jointly controlled entities are considered as related parties in relation to the Parent Company, TORM A/S, in addition to the related parties disclosed in note 26 to the consolidated financial statements. The following transactions took place between TORM A/S and subsidiairies and jointly controlled entities during the year:

USD million	**2011**	2010
Services provided by TORM A/S	21.3	17.0
Assets sold by TORM A/S	82.8	0.0
Services provided by subsidiaries and jointly controlled entities	72.1	44.5
Assets sold by subidiaries and jointly controlled entities	0.0	0.0
	176.2	**61.5**

The services provided between the parties are all directly related to the Group's shipping activities.

NOTE 20

NON-CURRENT ASSETS HELD FOR SALE

At year end 2011, the Company had entered into agreements concerning sale of two Panamax dry bulk newbuilding contracts. The contracts have been classified as held for sale and are presented separately in the balance sheet and are included under Bulk in the segment information.

The loss from the sale of the contracts amounting to USD 41 million has been recognized in the income statement for 2011 under net profit/(loss) from sale of vessels.

At year end 2010, the Company had not entered into any contracts regarding sale of vessels, which qualified for a classification as assets held for sale.

NOTE 21

CASH FLOWS

USD million	**2011**	2010
Reversal of other non-cash movements:		
Amortization of acquired assets and liabilities	-2.0	-5.9
Fair value adjustmens on derivative financial instruments	4.0	-5.1
Currency translation adjustments	0.1	0.3
Share-based payment	1.3	2.7
Other adjustments	0.0	-0.2
	-4.6	**-8.2**

USD million	**2011**	2010
Change in bunkers, accounts receivables and payables:		
Change in bunkers	-47.3	-14.3
Change in receivables	-44.6	-29.7
Change in prepayments	8.6	-5.8
Change in trade payables and other liabilities	84.3	8.7
Fair value changes of derivative financial instruments	-14.5	13.0
Other non cash movements included in current assets and liabilities	-5.7	0.0
	-19.2	**-28.1**

TORM FLEET OVERVIEW AS OF 31 DECEMBER 2011

TANKERS/ BULK	SEGMENT	VESSEL	DWT	BUILT	OWNERSHIP	CARRYING VALUE (USD M)
Tanker	LR2	TORM HELENE	99,999	1997	100%	20*
Tanker	LR2	TORM KRISTINA	105,001	1999	100%	29*
Tanker	LR2	TORM GUDRUN	101,122	2000	100%	30*
Tanker	LR2	TORM INGEBORG	99,999	2003	100%	31*
Tanker	LR2	TORM VALBORG	99,999	2003	100%	31*
Tanker	LR2	TORM MARGIT	109,672	2007	100%	34
Tanker	LR2	TORM MARINA	109,672	2007	100%	49*
Tanker	LR2	TORM MAREN	110,000	2008	100%	52*
Tanker	LR2	TORM MATHILDE	110,000	2008	100%	52*
Tanker	LR1	TORM SARA	72,718	2003	100%	35*
Tanker	LR1	TORM ESTRID	74,999	2004	100%	25
Tanker	LR1	TORM EMILIE	74,999	2004	100%	35*
Tanker	LR1	TORM ISMINI	74,999	2004	100%	25
Tanker	LR1	TORM SIGNE	72,718	2005	100%	37*
Tanker	LR1	TORM SOFIA	72,718	2005	100%	38*
Tanker	LR1	TORM UGLAND	74,999	2007	50%	15
Tanker	LR1	TORM VENTURE	74,999	2007	100%	31*
Tanker	MR	TORM GUNHILD	44,999	1999	100%	16*
Tanker	MR	TORM ANNE	44,990	1999	100%	17*
Tanker	MR	TORM NECHES	47,052	2000	100%	33*
Tanker	MR	TORM CLARA	45,999	2000	100%	30*
Tanker	MR	TORM CECILIE	44,946	2001	100%	29*
Tanker	MR	TORM AMAZON	47,275	2002	100%	35*
Tanker	MR	TORM SAN JACINTO	47,038	2002	100%	35*
Tanker	MR	TORM MARY	45,990	2002	100%	18
Tanker	MR	TORM VITA	45,940	2002	100%	18
Tanker	MR	TORM CAROLINE	44,946	2002	100%	30*
Tanker	MR	TORM GERTRUD	45,940	2002	100%	19
Tanker	MR	TORM GERD	45,940	2002	100%	19
Tanker	MR	TORM THYRA	45,990	2003	100%	19
Tanker	MR	TORM FREYA	45,990	2003	100%	19
Tanker	MR	TORM MOSELLE	47,024	2003	100%	37*
Tanker	MR	TORM ROSETTA	47,015	2003	100%	37*
Tanker	MR	TORM CAMILLA	44,990	2003	100%	28*
Tanker	MR	TORM CARINA	44,990	2003	100%	27*
Tanker	MR	TORM HORIZON	46,955	2004	100%	40*
Tanker	MR	TORM HELVIG	44,990	2005	100%	33*
Tanker	MR	TORM RAGNHILD	44,990	2005	100%	33*
Tanker	MR - ICE	TORM THAMES	47,035	2005	100%	43*
Tanker	MR	TORM KANSAS	46,922	2006	100%	43*
Tanker	MR	TORM REPUBLICAN	46,893	2006	100%	43*
Tanker	MR	TORM PLATTE	46,920	2006	100%	43*
Tanker	MR - ICE	TORM LAURA	52,000	2008	100%	40*
Tanker	MR - ICE	TORM LENE	52,000	2008	100%	40*
Tanker	MR - ICE	TORM LOTTE	52,000	2009	100%	40*

* Indicates vessels for which TORM believes that, as of 31 December 2011, the basic charter-free market value is lower than the vessel's carrying amount.

TANKERS/ BULK	SEGMENT	VESSEL	DWT	BUILT	OWNERSHIP	CARRYING VALUE (USD M)
Tanker	MR - ICE	TORM LOUISE	52,000	2009	100%	41*
Tanker	MR - ICE	TORM LILLY	52,000	2009	100%	41*
Tanker	MR - ICE	TORM LANA	52,000	2009	100%	41*
Tanker	MR	TORM ALICE	50,500	2010	100%	43*
Tanker	MR	TORM ALEXANDRA	50,500	2010	100%	42*
Tanker	MR	TORM ASLAUG	50,500	2010	100%	43*
Tanker	MR	TORM AGNETE	50,500	2010	100%	42*
Tanker	MR	TORM ALMENA	50,500	2010	100%	43*
Tanker	MR	TORM AGNES	50,500	2011	100%	44*
Tanker	MR	TORM AMALIE	50,500	2011	100%	44*
Tanker	Handysize	TORM MADISON	35,828	2000	100%	29*
Tanker	Handysize	TORM TRINITY	35,834	2000	100%	29*
Tanker	Handysize	TORM RHONE	35,751	2000	100%	29*
Tanker	Handysize	TORM CHARENTE	35,751	2001	100%	30*
Tanker	Handysize - ICE	TORM OHIO	37,274	2001	100%	31*
Tanker	Handysize - ICE	TORM LOIRE	37,106	2004	100%	37*
Tanker	Handysize - ICE	TORM GARONNE	37,178	2004	100%	37*
Tanker	Handysize - ICE	TORM SAONE	37,106	2004	100%	37*
Tanker	Handysize - ICE	TORM FOX	37,006	2005	100%	38*
Tanker	Handysize - ICE	TORM TEVERE	36,990	2005	100%	38*
Tanker	Handysize - ICE	TORM GYDA	37,000	2009	100%	43*
Bulk	Panamax	TORM ANHOLT	74,195	2004	100%	18
Bulk	Panamax	TORM BORNHOLM	75,912	2004	100%	20

* Indicates vessels for which TORM believes that, as of December 31 2011, the basic charter-free market value is lower than the vessel's carrying amount.

NEWBUILDINGS AS OF 31 DECEMBER 2011

TANKERS/ BULK	SEGMENT	VESSEL	DWT	BUILT	OWNERSHIP
Tanker	MR	TORM ARAWA GSI 08130005	49,999	2012	100%
Tanker	MR	TORM ANABEL GSI 08130006	49,999	2012	100%
Tanker	MR	TORM ANDREA GSI 08130008	52,300	2014	100%

GLOSSARY

20-F: Annual report filed with the US Securities and Exchange Commission (SEC).

ADR: American Depository Receipt. Proof of ownership (the equivalent) of one share. ADRs are used by foreign companies wishing to be admitted to listing on American stock exchanges.

ADS: American Depositary Shares. Shares registered with the SEC and kept in custody with a bank as security for the ADRs issued.

Bareboat: See B/B.

B/B: Bareboat. A form of charter arrangement where the charterer is responsible for all costs and risks in connection with the operation of the vessel.

Bulk: Dry cargo – typically commodities such as coal, grain, iron ore, etc.

Bunkers: Fuel with which to run a vessel's engines.

Capesize: Bulk carriers with a cargo carrying capacity of 120,000-200,000 dwt.

Classification society: Independent organization, which ensures through verification of design, construction, building process and operation of vessels that the vessels at all times meet a long list of requirements to seaworthiness, etc. If the vessels do not meet these requirements, insuring and mortgaging the vessel will typically not be possible.

COA: Contract of Affreightment. A contract that involves a number of consecutive cargoes at previously agreed freight rates.

Coating: The internal coatings applied to the tanks of a product tanker enabling the vessel to load refined oil products.

Demurrage: A charge against the charterer of a vessel for delaying the vessel beyond the allowed free time. The demurrage rate will typically be at a level equal to the earnings in USD/day for the voyage.

DKK: Danish kroner.

Dry cargo: See Bulk.

Dwt: Deadweight ton. The cargo carrying capacity of a vessel.

FFA: Forward Freight Agreement. A financial derivative instrument enabling freight to be hedged forward at a fixed price.

GAAP: Generally Accepted Accounting Principles.

Handymax: Dry bulk carriers with a cargo carrying capacity of 40,000-60,000 dwt.

Handysize: A specific class of product tankers with a cargo carrying capacity of 20,000 – 40,000 dwt.

IAS: International Accounting Standards.

IFRS: International Financial Reporting Standards.

IMO: International Maritime Organization.

Kamsarmax: Dry bulk carriers with a cargo carrying capacity of 80,000–85,000 dwt.

KPI: Key Performance Indicator. A measure of performance used to define and evaluate how the company is making progress towards its long-term organizational goals.

LR1: Long Range 1. A specific class of product tankers with a cargo carrying capacity of 60,000 – 80,000 dwt.

LR2: Long Range 2. A specific class of product tankers with a cargo carrying capacity of 80,000 – 110,000 dwt.

LTAF: Lost Time Accident Frequency. Work-related personal injuries that result in more than one day off work per million hours of work.

MR: Medium Range. A specific class of product tankers with a cargo carrying capacity of 40,000 – 60,000 dwt.

Oil major: One of the world's largest publicly owned oil and gas companies. Examples of oil majors are BP, Chevron, ExxonMobil, Shell and Total.

OPEC: Organization of the Petroleum Exporting Countries.

Panamax: Dry bulk carriers with a cargo carrying capacity of 60,000–80,000 dwt. The biggest vessel allowed to pass through the Panama Canal.

P&I club: Protection & Indemnity Club.

Pool: A grouping of vessels of similar size and characteristics, owned by different owners, but commercially operated jointly. The pool manager is mandated to charter the vessels out for the maximum benefit of the pool as a whole. Earnings are equalized taking account of differences in vessel specifications, the number of days the vessels have been ready for charter, etc.

Product tanker: A vessel suitable for carrying clean petroleum products such as gasoline, jet fuel and naphtha.

Sarbanes-Oxley Act: An act passed by the US Congress in 2002 to protect investors from the possibility of fraudulent accounting activities by corporations. It mandated strict reforms to improve financial disclosures from corporations and prevent accounting fraud.

SEC: US Securities and Exchange Commission.

Supramax: Dry bulk carriers with a cargo carrying capacity of 40-60,000 dwt.

T/C: Time charter. An agreement covering the chartering out of a vessel to an end user for a defined period of time, where the owner is responsible for crewing the vessel, but the charterer must pay port costs and bunkers.

TCE: See T/C equivalent.

Time charter: See T/C.

T/C equivalent: The freight receivable after deducting port expenses, consumption of bunkers and commissions.

UN: The United Nations.

DESIGN: BYSTED A/S

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