AS STEAMSHIP CO TORM
Form 20-F
June 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from __________________ to __________________

OR

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

Date of event requiring this shell company report __________________

Commission file number 000-49650

AKTIESELSKABET DAMPSKIBSSELSKABET TORM

(Exact name of Registrant as specified in its charter)

A/S STEAMSHIP COMPANY TORM

(Translation of Registrant's name into English)

Kingdom of Denmark

(Jurisdiction of incorporation or organization)

Tuborg Havnevej 18, DK-2900 Hellerup, Denmark

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered

NONE

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

Common Shares, par value 10 Danish Kroner per share,*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one (1) Common Share.

(Title of class)

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

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

NONE

(Title of class)

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

36,400,000 common shares, par value 10 Danish Kroner per share.

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

Yes [X] No [_]

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

Yes [_] No [X]

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

Yes [X] No [_]

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

Large accelerated filer [X] Accelerated filer [_] Non-accelerated filer [_]

Indicate by check mark which financial statement item the registrant has elected to follow.

[X] Item 17 [_] Item 18

If this is an annual report, indicate by check mark whether the registrant is a

shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [_] No [X]

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

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

Yes [_] No [_]

The Company "Aktieselskabet Dampskibsselskabet Torm" is referred to as "TORM" in this Annual Report.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

TORM desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This report and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. When used in this report, the words "anticipate," "believe," "expect," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," and similar expressions identify forward-looking statements.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these assumptions and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including fluctuations in charterhire rates and vessel values, changes in demand in the shipping market, including the effect of changes in OPEC's petroleum production levels and worldwide oil consumption and storage, changes in regulatory requirements affecting vessel operating including requirements for double hull tankers, changes in TORM's operating expenses, including bunker prices, dry-docking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, changes in the price of our capital investments, such as the NORDEN shares, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of

shipping routes due to accidents, political events or acts by terrorists, and other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission, or the SEC.

ITEM 1.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

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

A. Selected Financial Data

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

Effective January 1, 2005, we adopted International Financial Reporting Standards or IFRS and changed our reporting currency from DKK to USD. We had previously presented our financial statements under Danish GAAP. In accordance with the Securities and Exchange Commission, or the SEC, reporting requirements for first-time application of IFRS, in this report we present the comparative financial information under IFRS only for the fiscal year ended December 31, 2004. IFRS differs in certain respects from United States generally accepted accounting principles, or U.S. GAAP. The differences between IFRS and U.S. GAAP as applicable to the historical financial statements are summarized in Note 23 to the consolidated financial statements included herein.

The selected consolidated financial data under U.S. GAAP includes the Liner activities, which were sold to A.P. MOller-Maersk A/S on September 16, 2002. The results of the operations attributable to the Liner activities, which represent a discontinued operation, are presented in two separate lines in the income statement after net income from continuing operations. The impact of the sale of the Liner activities is included herein.

	For the year ended December 31			
	2001	2002	2003	2004

	----	----	----	----
	(1)	(1)	(1)	(1)
		(in thousands of USD except for per shar		
IFRS financial data				
Statement of Operations Data:				
Net revenue				433,320
Port expenses, bunkers and commissions				(83,769

Time charter equivalent earnings				349,551
Charter hire				(59,592
Operating expenses				(49,791
Gross profit (Net earnings from shipping activities)				240,168
Profit from sale of vessels				0
Administrative expenses				(38,637
Other operating income				13,139
Depreciation and impairment losses				(35,181

Operating profit				179,489
Financial items				25,839

Profit before tax				205,328
Tax expenses				(18,715

Net profit for the year				186,613
Balance sheet data (as of end of period):				
Total assets (4)				1,239,562
Non-current liabilities				406,545
Shareholders' equity/net assets				715,407
Common shares				61,098
No. of shares outstanding (3) (5)				36,400,000
Other financial data (3)				
Dividends declared per share DKK				15.0
Dividends declared per share USD (6)				2.7
Earnings per share - basic				5.4
Earnings per share - diluted				5.3

			For the year ended
	2001	2002	2003
	----	----	----
	(1)	(1)	(1)
		(in thousands of USD exce	
U.S. GAAP financial data (7)			
Profit from continuing operations before income taxes and discontinued operations	62,248	6,417	51,365
Tax benefit (expense) on profit	(19,302)	(4,420)	1,725
	---------	-------	-----
Profit from continuing operations	42,946	1,997	53,090
Profit from discontinued operations (8)	2,092	8,849	0

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Net profit before change in accounting principles (2)	45,038	10,846	53,090
Cumulative effect of change in accounting principles as at January 1, 2005 (2)			
Net profit after change in accounting principles (2)			
Earnings per share - basic:			
Profit from continuing operations (3)	1.2	0.1	1.5
Profit from discontinuing operations (3)	0.1	0.2	0.0
Net profit before change in accounting principles (2)(3)	1.3	0.3	1.5
Cumulative effect of change in accounting principles as at January 1, 2005 (2)(3)			
Net profit after change in accounting principles (2)(3)			
Earnings per share - diluted:			
Profit from continued operations (3)	1.2	0.1	1.5
Profit from discontinued operations (3)	0.1	0.2	0.0
Net profit before change in accounting principles (2) (3)	1.3	0.3	1.5
Cumulative effect of change in accounting principles as at January 1, 2005 (2)(3)			
Net profit after change in accounting principles (2)(3)			
Total assets (4)	483,725	562,756	816,646
Non-current liabilities (including capital lease obligations)	180,717	245,046	285,468
Shareholders' equity	160,738	168,927	339,738
No. of shares outstanding (3)(5)	36,400,000	36,400,000	36,400,000

1. Effective January 1, 2005, we have changed the accounting policies used in preparing our financial statements from Danish GAAP to IFRS and changed our reporting currency from DKK to USD. In accordance with the SEC reporting requirements for first-time application of IFRS, we present the comparative financial information only for the fiscal year ended December 31, 2004. Comparative financial information prepared in accordance with IFRS data is not provided for the years ended December 31, 2001 and 2003.

2. We changed our method of accounting for vessel drydocking costs under U.S. GAAP as of January 1, 2005. Please refer to Note 23 in our consolidated financial statements included herein and the table presented in footnote 9 below for further information.

3. We increased the share capital in May 2004 from nominal DKK 182.0 million (USD 30.5 million) to nominal DKK 364.0 million (USD 61.1 million) through the issue of 18.2 million bonus shares of DKK 10 (USD 1.7) each. The bonus shares were allotted to our existing shareholders at the ratio of 1:1. The comparative figures are restated to reflect the issue of bonus shares.

4. Total assets for each period includes bonds that serve as collateral for certain of our borrowings. This amount was USD 0 million as of December 31, 2005, USD 10 million as of December 31, 2004 for both IFRS and U.S. GAAP, and USD 9 million as of December 31, 2003, USD 26 million as of December 31, 2002 and USD 22 million as of December 31, 2001 for U.S. GAAP.

5. Shares outstanding as of December 31, 2005 includes 1,558,472 shares that we purchased and hold as own shares, reflected in shareholders' equity. As of December 31, 2004 we held 1,566,612 own shares, as of December 31, 2003

and December 31, 2002 we held 1,762,736 own shares, and as of December 31, 2001 we held 1,742,936 own shares.

6. Dividends are converted to U.S. dollars based on the historical exchange rate for the year in question.

7. As a consequence of the change in reporting currency from DKK to USD effective as of January 1, 2005, comparative U.S. GAAP financial data for 2001 to 2003 is translated from DKK into USD for income related data using the average USD/DKK exchange rate for period and for balance sheet related data using the USD/DKK exchange rate at the end of such period.

8. Profit from discontinued operations for 2002 includes the gain of USD 7.6 million on disposal of the Company's Liner activities.

9. The table below presents U.S. GAAP net income adjusted for the proforma effect of the change in method of accounting for dry dock costs from the accrual method to the deferral method as if the adopted method of accounting had been applied during all periods affected.

Proforma	2001	2002	2003
	(in millions of USD, except for per share		
Net income as reported	45,038	10,846	53,090
Effect of accounting change	911	1,942	46
Net income	45,949	12,788	53,136
Per share (basic)			
As reported	1.3	0.3	1.5
Effect of accounting change	0.0	0.1	0.0
Proforma profit	1.3	0.4	1.5
Per share (diluted)			
As reported	1.3	0.3	1.5
Effect of accounting change	0.0	0.1	0.0
Proforma profit	1.3	0.4	1.5

EXCHANGE RATE INFORMATION

The following tables show, for the five most recent financial years, certain information regarding the exchange rate between the Danish Kroner and the U.S. dollar, based on the noon buying rate in New York City for cable transfers of DKK as certified for customs purposes by the Federal Reserve Bank of New York, expressed in DKK per U.S. dollar. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this report.

	DKK per U.S. dollar			
	High	Low	Average (1)	Period End
Year ended December 31,				
2001	8.8900	7.8260	8.3710	8.3529

2002	8.6470	7.0850	7.8862	7.0850
2003	7.1684	5.9150	6.5774	5.9150
2004	6.3115	5.4596	5.9891	5.4940
2005	6.3891	5.5161	5.9953	6.2985

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(1): The average of the exchange rates on the last business day of each month during the relevant period.

	DKK per U.S. dollar	
	High	Low
Month ended		
November 30, 2005	6.3891	6.1857
December 31, 2005	6.3698	6.1874
January 31, 2006	6.2284	6.0714
February 28, 2006	6.2888	6.1677
March 31, 2006	6.2748	6.1174
April 30, 2006	6.1710	5.9076

On April 28, 2006, the exchange rate between the Danish Kroner and the U.S. dollar was 5.9076.

B. Capitalization and Indebtedness

Not Applicable.

C. Reason for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

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

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

INDUSTRY SPECIFIC RISK FACTORS

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

The dry bulk carrier and product tanker sectors are cyclical with attendant volatility in charter hire rates and industry profitability. The degree of charter hire rate volatility among different types of dry bulk carriers and product tankers has varied widely. The charter rates for dry bulk carriers and especially for product tankers remain near historically high levels. If we enter into a charter when charter hire rates are low, our revenues and earnings will be adversely affected. In addition, a decline in charter hire rates likely will cause the value of our vessels to decline. We cannot assure you that we will be able to successfully charter our vessels in the future or renew our existing charters at rates sufficient to allow us to operate our business profitably, meet our obligations or to pay dividends to our shareholders. The factors

affecting the supply and demand for dry bulk carriers and product tankers are outside of our control and are unpredictable. The nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for seaborne transportation of cargo include:

- demand for and production of dry bulk products, crude oil and refined petroleum products;

- the distance cargo is to be moved by sea;

- changes in oil production and refining capacity;

- global and regional economic and political conditions;

- environmental and other regulatory developments; and

- changes in seaborne and other transportation patterns, including changes in the distances over which cargo is transported due to geographic changes in where commodities are produced, oil is refined and cargoes are used.

The factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;

- the scrapping rate of older vessels;

- vessel casualties;

- price of steel;

- number of vessels that are out of service;

- changes in environmental and other regulations that may limit the useful life of vessels; and

- port or canal congestion.

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

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

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

- general economic and market conditions affecting the shipping industry;

- competition from other shipping companies;

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

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

Our operating results from our fleet are subject to seasonal fluctuations, which may adversely affect our operating results

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

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

Terrorist attacks such as the attacks on the United States on September 11, 2001, the bombings in Spain on March 11, 2004 and in London on July 7, 2005 and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere, continue to cause uncertainty in the world financial markets and may affect our business, operating results and financial condition. The continuing conflict in Iraq may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain any additional financing or, if we are able to obtain additional financing, to do so on terms favorable to us. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Any of these occurrences could have a material adverse impact on our business, financial condition, results of operations and ability to pay dividends.

If we violate environmental laws or regulations, the resulting liability may significantly and adversely affect our earnings and financial condition

Our operations are subject to extensive regulation designed to promote tanker safety, prevent cargo and bunker spills and generally protect the environment. Local, national and foreign laws, as well as international treaties and conventions, can subject us to material liabilities in the event that our vessels release oil and oil products or other hazardous substances. For example, the United States Oil Pollution Act of 1990, or OPA, provides that owners, operators and bareboat charterers are strictly liable for the discharge of oil in U.S. waters, including the 200 nautical mile zone off each coast of the U.S. OPA provides for unlimited liability in some circumstances, such as a vessel operator's gross negligence or willful misconduct or failure to report an incident or cooperate in oil removal activities. However, in other circumstances, OPA limits liability to the greater of USD 1,200 per gross ton or USD 10 million per vessel. Under a recently proposed legislation, OPA liability limits will be increased, when such legislation is enacted, to the greater of USD 1,900 per gross ton or USD 16.0 million per tanker. OPA also permits states to set their own penalty limits. Most U.S. states bordering navigable waterways impose unlimited liability for discharges of oil in their waters. The International Maritime Organization, or IMO, has adopted a similar liability scheme that may impose strict liability for oil spills, subject to limits that do not apply if the release is caused by the vessel owner's intentional or reckless conduct.

U.S. law, the law in many of the nations in which we operate and international treaties and conventions that impact our operations also establish strict rules governing vessel safety and structure, training, inspections, financial assurance for potential cleanup liability and other matters. These requirements can limit our ability to operate our vessels and substantially increase our operating costs.

Under OPA, all oil tankers that do not have double hulls will be phased out by 2015 and will not be permitted to come to United States ports or trade in United States waters. In addition, OPA specifies annual inspections, vessel manning, equipment and other construction requirements that are in various stages of development by the U.S. Coast Guard, or USCG, applicable to new and to existing vessels.

In December 2003, the IMO adopted a proposed amendment to the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of single-hull tankers from 2015 to 2010 unless the relevant flag states extend the date to 2015. Moreover, the IMO or other regulatory bodies may adopt further regulations in the future that could adversely affect the useful lives of our tankers as well as our inability to generate income from them.

These requirements can affect the resale value or useful lives of our vessels. While all of our tankers are double-hull, we believe that regulation of the tanker industry will continue to become more stringent and more expensive for us and for our competitors. Substantial violations of applicable requirements or a catastrophic release from one of our vessels could have a material adverse impact on our financial condition and results of operations. Additional laws and regulations may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material effect on our operations. Government regulation of tankers, particularly in the areas of safety and environmental impact may change in the future and require us to incur significant capital expenditure on our vessels to keep them in compliance.

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

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

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

COMPANY SPECIFIC RISK FACTORS

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

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

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

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

- create liens on our assets;
- engage in mergers or acquisitions;
- change the management of our vessels or terminate or materially amend the management agreement relating to each vessel; and

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

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

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

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

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

Our vessels may suffer damage and we may face unexpected dry-dock repairs that could affect our cash flow and financial condition

If our owned vessels suffer damage, they may need to be repaired at a dry-docking facility or other type of ship repair facility. The costs of dry-dock repairs are unpredictable and can be substantial. We may have to pay dry-docking costs that are not covered by our insurance, which would decrease earnings. Repairs may involve long periods of inactivity, which may have a negative effect on earnings and our ability to service our debt.

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

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

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. As of December 31, 2005, our fleet of owned vessels included two tankers and three bulk vessels more than 10 years of age. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine and hull technology. After vessels reach 15 years of age, the majority of charterers and oil companies may impose restrictions on vessels that make it more difficult to trade the vessels with optimal flexibility. In addition, these older vessels must meet certain hull thickness tests. Furthermore, cargo insurance rates increase for vessels over 15 years of age, making them less desirable to charterers. We, however, consider a useful lifetime of 25 years to be the best estimate of the economic lifetime of a vessel.

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

Risks involved with operating ocean-going vessels could affect our business and reputation, which would adversely affect our revenues

The operation of an ocean-going vessel carries inherent risks. These risks include the possibility of:

- marine disaster;

- piracy;
- environmental accidents;
- cargo and property losses or damage; and
- business interruptions caused by mechanical failure, human error, war, terrorism, piracy, political action in various countries, labor strikes, or adverse weather conditions.

Any of these circumstances or events could increase our costs or lower our revenues. The involvement of one or more of our vessels in an oil spill or other environmental disaster may harm our reputation as a safe and reliable vessel operator which would adversely affect our revenues.

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

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

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions a maritime lien holder may enforce its lien by arresting a vessel and commencing foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay a substantial sum of money to have the arrest lifted.

In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels.

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

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition one or more of our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could negatively impact our revenues.

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

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

An economic slowdown in the Asia Pacific region could have a material adverse effect on our business, financial position and results of operations

A significant number of the port calls made by our vessels involves, or will involve, the loading or discharging of raw materials in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, but particularly in China, may have an adverse effect on our business, financial position and results of operations, as well as our future prospects. In recent years, China has been one of the world's fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. We cannot assure you that such growth will be sustained or that the Chinese economy will not experience negative growth in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain Asian countries may adversely effect economic growth in China and elsewhere. Our business, financial position, results of operations, ability to pay dividends as well as our future prospects, will likely be materially and adversely affected by an economic downturn in any of these countries.

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

In 2005, we generated nearly all of our revenues in U.S. dollars but incurred approximately 81% of our expenses in U.S dollars and 15% was incurred in Danish Kroner. A change in exchange rates could lead to fluctuations in our reported net income.

Interest rate fluctuations may significantly affect our loan payments, which could adversely affect our financial condition

As of December 31, 2005, all of our loans bore interest at floating rates. Increases in prevailing rates could increase the amounts that we would have to pay to our lenders. As of December 31, 2005, we had entered into interest swap agreements expiring between 2006 and 2010 for approximately 61% of the then outstanding principal amounts of our loans that may mitigate some of our exposure to the risk of rising interest rates. However, increases in interest rates will increase our payments under loans not covered by caps of the interest rates of our loans and swap agreements and may negatively affect our earnings and cash flow.

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

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

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

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

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

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

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

Historically, the shipping industry has been highly unpredictable and volatile. The market for ADSs in the shipping industry may be equally volatile. The Copenhagen Stock Exchange is smaller and less liquid than the major securities exchanges or markets in the United States. The trading volume of our

shares on the Copenhagen Stock Exchange has been volatile. It may be hard to predict future trading levels or volatility. Consequently, you may not be able to sell ADSs at the time and at the price you desire.

Holders of ADSs may experience delays in receiving information and materials that holders of our common shares may not

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

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

Our primary capital expenditures are in connection with the acquisitions of vessels. For the past several years, we have been acquiring new vessels and disposing of older vessels in our fleet to ensure compliance with the safety requirements of the International Maritime Organization, or the IMO. During the past three years, we have entered into contracts to purchase 33 additional vessels under construction, or newbuildings, and secondhand vessels, for a total cost of approximately USD 1.2 billion and have sold six vessels for aggregate proceeds of approximately USD 139.0 million. As of April 30, 2006, we have taken delivery of 20 vessels under this investment program and expect to take delivery of the remaining 13 vessels, between 2006 and 2009, representing a total investment of approximately USD 500.0 million.

B. Business Overview

THE FLEET

As of December 31, 2005, our fleet of owned vessels consisted of 27 product tankers and ten dry bulk carriers. The total tonnage of those vessels is approximately 2,186,829 dwt. In addition, we chartered six product tankers and seven drybulk carriers and commercially managed approximately 43 vessels for third party owners and charterers.

For an overview of our fleet please refer to Item 4D and for details of our investment activities please refer to Item 5A.

Our product tanker division is engaged in the transportation of refined oil products such as gasoline, jet fuel, naphtha and gas oil. We own and operate three sizes of product carriers. The largest vessels are Aframax tankers of approximately 100,000 to 105,000 dwt, that primarily transport naphtha between the Arabian Gulf and Japan and other East Asiatic countries. The other two sizes of product tankers, Panamax, which are tankers of approximately 80,000 to 85,000 dwt, and Handymax, which are tankers of approximately 40,000 to 50,000 dwt, operate in the above mentioned areas and in the U.S., Africa, Europe and the Caribbean. One of these vessels is owned in joint venture with a partner.

Our dry bulk vessels transport products such as grain, coal and iron ore. We operate dry bulk vessels of two sizes: Panamax and Handysize. The Panamax dry bulk vessels, which range between 60,000 and 80,000 dwt, carry iron ore and coal as well as commodities such as grain, bauxite and fertilizer. The Handysize dry bulk vessels are approximately 20,000 to 30,000 dwt and are fitted to carry logs, but can also carry commodities such as grain, fertilizer and steel.

In 1997, we diversified into the operation of anchor-handling tug/supply vessels and other similar offshore craft that service oil rigs but ceased this activity in December 2003.

Each of our vessel categories generates gross profits (net earnings from shipping activities) by operating owned and chartered in vessels. Gross profits (net earnings from shipping activities) generated by the Liner service is included in the item "Profit before tax from discontinued operations" in the Income Statement. Over the last three financial years the contribution to net earnings from shipping activities per division has been as follows:

Division	2004	2005
Product Tankers	56%	67%
Dry Bulk Vessels	44%	33%

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

PRODUCT TANKER POOLING ARRANGEMENTS

We employ all of our owned and chartered product tankers in three pooling arrangements, the LR2 Pool, the LR1 Pool and the MR Pool, along with vessels from several other shipping companies. The manager of each pool has the responsibility for the commercial management of the participating vessels, including the marketing, chartering, operation and bunker (fuel oil) purchase of the vessels. Each pool is administered by a pool board, which is comprised of representatives of each pool participant. The pool boards set the pools' policies and issue directives to the pool managers. The pool participants remain responsible for all other costs including the financing, insurance, manning and technical management of their vessels. The earnings of all of the vessels are aggregated and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available. Please refer to Note 2 to our consolidated financial statements contained herein for further

details relating to the treatment of income from pools.

The LR2 Pool

As of December 31, 2005, the LR2 Pool was comprised of 20 Aframax tankers that are all double-hull and mainly trade clean petroleum products. We formed LR2 Management A/S, a Danish corporation, to serve as the commercial manager of the LR2 Pool. During 2004, the role of commercial manager was transferred to a limited partnership: LR 2 Management K/S. LR2 Management A/S, which was renamed Long Range 2 A/S, is the general partner of the partnership. We own 50% of all issued and outstanding voting stock of Long Range 2 A/S and a 50% interest in LR 2 Management K/S. Maersk Tankers, one of the pool participants, also owns a 50% interest in both entities. The other participants in this pool are Primorsk Shipping Corporation, Reederei "Nord" Klaus E. Oldendorff Ltd. and Rederi AB Gotland. Three of our owned vessels and two of our chartered in vessels participated in this pool. In 2005, we have exercised options to purchase the two charted-in vessels which were delivered in January 2006 and added to the pool. We have also contracted to add our 7 newbuildings and another newbuilding in which we have a 50% interest to the pool between 2006 and 2009 when the vessels are delivered from the shipbuilding yard. The LR2 pool has also time chartered in one vessel, the charter of which is expected to end in January 2006. If a participant wants to sell one of its vessels in the pool, it must give notice to the pool board two months in advance of such sale, and six months notice is required for a participant to withdraw all of its vessels from the pool. No such notice has been given from any partner from January 1, 2005 to April 30, 2006.

The LR1 Pool

As of December 31, 2005, the LR1 Pool consisted of 31 Panamax tankers, and we serve as the sole manager of the pool. The other participants in this pool are Difko, Marinvest Shipping AB, Waterfront Shipping AS, Mitsui OSK Lines Ltd., Reederei "Nord" Klaus E. Oldendorff Ltd., Great Basic Limited, Great Global (Asia) Limited, Prime Marine Corporation Inc. and Rederiaktiebolaget Gotland. As of December 31, 2005, nine of our owned and chartered vessels participated in this pool, and we had contracted to add one newbuilding vessel and another newbuilding in which we have a 50% interest to the pool in 2006 and 2007 when the vessels are delivered from the shipbuilding yard. If a participant wants to sell one of its vessels or withdraw all of them from the pool, it must give three months advance notice to the pool board. No such notice has been given from any partner from January 1, 2005 to April 30, 2006.

The MR Pool

The MR Pool is a pooling arrangement we have entered into with Prisco Singapore Pte Ltd. and Sanmar Shipping for the pooling of 23 Handymax product tankers as of December 31, 2005. We serve as the sole manager of the MR Pool. As of December 31, 2005, 17 of our vessels participated in this pool. If a participant wants to sell one of its vessels in the pool, it must give notice to the pool board three months in advance of such sale, and six months notice is required for a participant to withdraw all of its vessels from the pool. No such notice has been given from any partner from January 1, 2005 to April 30, 2006.

DRY BULK VESSEL OPERATION

We operate both Panamax and Handysize vessels in our Bulk Division. We operate our Panamax vessels ourselves while our Handysize vessels are operated through our participation in the IHC Pool. Similar to the pooling arrangement for our product tankers, the earnings from the Handysize vessels are aggregated and divided according to the relative performance capabilities of the vessel and the actual earning days per vessel. The pool is administered by a pool board, which is comprised of representatives of each pool participant. The pool board

sets the pools' policies and issues directives to the pool manager. The pool participants remain responsible for the financing, insurance, manning and technical management of their individually owned vessels.

Handysize Pool

We established a pool called the International Handybulk Carriers, or IHC Pool, on October 1, 2001, together with Pacific Basin Shipping Investments Limited and Wah Kwong Shipping Holdings Limited. The IHC Pool is comprised of approximately 50 vessels as at December 31, 2005. Pacific Basin serves as commercial manager for the pool. We have entered two of our owned vessels into the pool, TORM Arawa and TORM Pacific. In April 2006, we sold these two vessels for expected delivery in the second quarter of 2006and will no longer participate in the IHC Pool.

OUR INVESTMENT IN DAMPSKIBSSELSKABET NORDEN A/S ("NORDEN")

In the summer of 2002, TORM acquired a share holding in NORDEN and subsequently launched a public offer on the Copenhagen Stock Exchange for the remainder of NORDEN's shares. After the offer, TORM owned 727,803 shares representing 33% - excluding NORDEN's own shares - acquired at a price of DKK 361 per share for a total investment of DKK 263 million. In 2005 we acquired a small portion of additional shares so that as of December 31, 2005, we were NORDEN's single largest shareholder with 34.8% of NORDEN's outstanding shares, excluding own shares.

NORDEN, founded in 1871, is a Danish based shipping company listed on the Copenhagen Stock Exchange. NORDEN's focus is on tankers and bulk carriers. As of December 31, 2005, NORDEN operated approximately 124 vessels through a mix of owned and chartered tonnage.

Despite the fact that the goal of acquiring NORDEN - to create one shipping company combining TORM's tanker activities with NORDEN's strength in bulk markets - was not realized in 2002, we nonetheless retained the shareholding in NORDEN. This was done not only with the aim of making a merger possible in the longer term, but also in view of the investment potential.

In the autumn of 2004, two of NORDEN's shareholders decided to sell a total of 20% of the shares in NORDEN to Rasmussengruppen AS. At the same time Rasmussengruppen reached an agreement with A/S Motortramp, which owns 25.7% of the share capital, whereby the two parties have granted one another first refusal on each other's shares in NORDEN, and at the same time committed themselves not to sell their shares to a third party for a period of two years.

THE INDUSTRY - TANKERS

The international product tanker industry provides seaborne transportation of refined petroleum products for the oil market. According to industry sources, tankers transported refined oil products corresponding to approximately 710 million tons annually in the fourth quarter of 2005 showing a 5.7% increase as compared to fourth quarter 2004. For 2005 as a whole, industry sources estimate that products trade increased by 5%. The two main types of operators that provide transportation services in the tanker market are:

- major oil companies; and
- independent ship owners.

They provide transportation services for end users such as:

- oil companies;

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

According to industry sources, the world tanker fleet above 10,000 dwt consists of approximately 3,322 vessels totaling 328 million dwt or 6.8% higher as of January 1, 2006 as compared to the year before. Oil companies own, or control through long-term time charters, approximately one third of the current world tanker capacity. Independent ship owners own or control the other two thirds. Oil companies use their fleets not only to transport their own oil products, but also to compete with the independent ship owners to transport oil products for others.

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

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

Product tankers are tankers that typically have cargo handling systems that are designed to transport several different refined products simultaneously, such as gasoline, jet fuel, kerosene, naphtha and heating oil, from refineries to the ultimate consumer. Product tankers generally have coated cargo tanks that make it easier to clean the tanks between voyages involving different cargoes. This coating also protects the steel in the tanks from corrosive cargoes. Product tankers generally range in size from 10,000 dwt to 110,000 dwt.

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

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

Supply and Demand for Tankers

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

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

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

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

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

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

THE INDUSTRY - DRY BULK FLEET

Overview

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

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

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

Vessel Types

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

- Handysize dry bulk carriers (20,000 to 30,000 dwt). Unlike most larger dry bulk carriers, Handysize dry bulk carriers are equipped with cargo gear such as cranes. This type of vessel is well suited for transporting both major and minor bulk commodities to ports around the world that may have draft restrictions or are not equipped with gear for loading or discharging of cargo.

- Panamax dry bulk carriers (60,000 to 80,000 dwt). Panamax dry bulk carriers are designed with the maximum width, length and draft that will allow them to transit fully laden through the Panama Canal. Panamax vessels are primarily used in the transport of major bulks such as grain and coal, along with some minor bulks like phosphate, petcoke and salt.

- Capesize dry bulk carriers (100,000 dwt or above). Capesize dry bulk carriers primarily transit from the Atlantic to the Pacific Ocean via Cape Horn or the Cape of Good Hope, hence their name. Capesize vessels are typically used for long voyages in the coal and iron ore trades.

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

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

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

Australia, the United States and Canada to Europe and Japan.

- Iron Ore. Iron ore is primarily transported from Brazil and Australia to China, Europe and Japan. The majority of iron ore shipments is carried by Capesize dry bulk carriers.

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

Our dry bulk vessels transport cargoes such as grain, coal and iron ore. We operate both Handysize and Panamax dry bulk vessels. Most of the coal and iron ore we transport are carried on our Panamax vessels, while both types of vessels carry grain and fertilizer. The rates that we can achieve for our vessels depend on the supply and demand dynamics described below.

Demand for Dry Bulk Vessels

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

Supply of Dry Bulk Carriers

The size of the world's dry bulk carrier fleet changes as a result of newbuildings and scrapping or loss of vessels. The general trend in the development of the bulk market has always been closely linked to the state of the world economy. The economic downturn in Asia in the late 1990's led to sharp falls in cargo volumes, and therefore rates, whereas the subsequent recovery has likewise acted to boost the sector with rates recovering to above those prevailing prior to the crisis. In 2003 and 2004 the dry bulk market reached historically high levels and the charter rates, although volatile, have remained relatively high compared to the previous years due, among other, to a strong demand from China for iron ore, coupled with a low level of newbuilding deliveries and a low global newbuilding order book in the bulk market. The level of expected newbuildings in the dry bulk sector in the forthcoming years remains at a relatively low level due to the preference by the major shipyards for building container and tanker vessels that in recent years have been more profitable to the shipyards.

CHARTERING OF THE FLEET

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

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

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

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

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

MANAGEMENT OF THE FLEET

We provide the operations, chartering, technical support, shipyard supervision, insurance and financing management services necessary to support our fleet. Our chartering staff, as well as our fleet's management personnel, is mainly located in our head office in Copenhagen and in our office in Singapore. Our staff makes recommendations to our senior management regarding the chartering of our vessels, as well as identifying when opportunities arise to buy or sell a vessel. We also have offices in Manila, Hamburg and Tokyo, but all decisions relating to the vessels we manage are made or approved in our offices in Copenhagen and Singapore.

SEASONALITY

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

ENVIRONMENTAL AND OTHER REGULATIONS

Government regulation significantly affects the ownership and operation of our vessels. The various types of governmental regulation that affect our vessels include international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or where our vessels are registered. We cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. Various governmental and quasi-governmental agencies require us to obtain permits, licenses and certificates for the operation of our vessels. Although we believe that we are substantially in

compliance with applicable environmental and regulatory laws and have all permits, licenses and certificates necessary for the conduct of our operations, future non-compliance or failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers are leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for modern vessels that are able to conform to the stricter environmental standards. We maintain high operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our crews and officers and compliance with U.S. and international and other national regulations.

Our vessels are subject to both scheduled and unscheduled inspections by a variety of governmental and private entities, each of which may have unique requirements. These entities include the local port authorities such as the U.S. Coast Guard, harbor master or equivalent, classification societies, flag state administration or country of registry, and charterers, particularly terminal operators and major oil companies which conduct frequent vessel inspections.

International Maritime Organization

The International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of marine pollution by ships), has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, which has been updated through various amendments, or the "MARPOL Convention. The MARPOL Convention relates to environmental standards including oil leakage or spilling, garbage management, as well as the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. In March 1992, the IMO adopted regulations that set forth pollution prevention requirements applicable to tankers, which became effective in July 1993. These regulations, which have been adopted by over 150 nations, including many of the jurisdictions in which our tankers operate, provide for, among other things, phase-out of single hull tankers and more stringent inspection requirements; including, in part, that:

- tankers between 25 and 30 years old must be of double hull construction or of a mid-deck design with double-sided construction, unless: (1) they have wing tanks or double-bottom spaces not used for the carriage of oil, which cover at least 30% of the length of the cargo tank section of the hull or bottom; or (2) they are capable of hydrostatically balanced loading (loading less cargo into a tanker so that in the event of a breach of the hull, water flows into the tanker, displacing oil upwards instead of into the sea);

- tankers 30 years old or older must be of double hull construction or mid-deck design with double sided construction; and

- all tankers are subject to enhanced inspections.

Also, under IMO regulations, a tanker must be of double hull construction or a mid-deck design with double-sided construction or be of another approved design ensuring the same level of protection against oil pollution if the tanker:

- is the subject of a contract for a major conversion or original construction on or after July 6, 1993;

- commences a major conversion or has its keel laid on or after January 6, 1994; or

- completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

In April 2001, the IMO accelerated its existing timetable for the phase-out of single hull oil tankers which became effective in September 2002. These regulations require the phase-out of most single hull oil tankers by 2015 or earlier, depending on the age of the tanker and whether it has segregated ballast tanks. Under the regulations, the flag state administration may allow for some newer single hull ships registered in its country that conform to certain technical specifications to continue operating until the 25th anniversary of their delivery. Any port state, however, may deny entry of those single hull tankers that are allowed to operate until their 25th anniversary to ports or offshore terminals.

However, as a result of the oil spill in November 2002 relating to the loss of the m.t. Prestige, which was owned by a company not affiliated with us, in December 2003, the Marine Environmental Protection Committee of the IMO, or MEPC, adopted an amendment to a MARPOL Convention, which became effective in April 2005. The amendment revised an existing regulation 13G accelerating the phase-out of single hull oil tankers and adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil. Under the revised regulation, single hull oil tankers must be phased out no later than April 5, 2005 or the anniversary of the date of delivery of the ship on the date or in the year specified in the following table:

Category of Oil Tankers	Date or Year
Category 1 oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks	April 5, 2005 for ships delivered on April 5, 1982 or earlier; or 2005 for ships delivered after April 5, 1982
Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements and Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.	April 5, 2005 for ships delivered on April 5, 1977 or earlier 2005 for ships delivered after April 5, 1977 but before January 1, 1978 2006 for ships delivered in 1978 and 1979 2007 for ships delivered in 1980 and 1981 2008 for ships delivered in 1982 2009 for ships delivered in 1983 2010 for ships delivered in 1984 or later

Under the revised regulations, the flag state administration may allow for some newer single hull oil tankers registered in its country that conform to certain technical specifications to continue operating until the earlier of the anniversary of the date of delivery of the vessel in 2015 or the 25th anniversary of their delivery. Any port state, however, may deny entry of those single hull oil tankers that are allowed to operate until the earlier of their anniversary date of delivery in 2015 or their 25th anniversary to ports or offshore terminals.

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

- the oil tanker conversion was completed before July 6, 1996;
- the conversion included the replacement of the entire cargo section and fore-body and the tanker complies with all the relevant provisions of MARPOL Convention applicable at the date of completion of the major conversion; and
- the original delivery date of the oil tanker will apply when considering the 15 years of age threshold relating to the first technical specifications survey to be completed in accordance with MARPOL Convention.

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

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

- crude oils having a density at 15(0)C higher than 900 kg/m3;
- fuel oils having either a density at 15(0)C higher than 900 kg/ m3 or a kinematic viscosity at 50(0)C higher than 180 mm2/s;
- bitumen, tar and their emulsions.

Under the regulation 13H, the flag state administration may allow continued operation of oil tankers of 5,000 dwt and above, carrying crude oil with a density at 15(0)C higher than 900 kg/m3 but lower than 945 kg/m3, that conform to certain technical specifications and, in the opinion of the such administration, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship and provided that the continued operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery. The flag state administration may also allow continued operation of a single hull oil tanker of 600 dwt and above but less than 5,000 dwt, carrying HGO as cargo, if, in the opinion of the such administration, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship, provided that the operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery.

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

Any port state, however, can deny entry of single hull tankers carrying HGO which have been allowed to continue operation under the exemptions mentioned above, into the ports or offshore terminals under its jurisdiction, or deny ship-to-ship transfer of HGO in areas under its jurisdiction except when this is

necessary for the purpose of securing the safety of a ship or saving life at sea.

The IMO has also negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from ships. Annex VI was ratified in May 2004 and became effective in May 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Compliance with these regulations could require the installation of expensive emission control systems and could have an adverse financial impact on the operation of our vessels. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

The operation of our vessels is also affected by the requirements set forth in the IMO's Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We are certified as an approved ship manager under the ISM Code.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state or by an appointed classification society, under the ISM Code. All of our vessels have obtained safety management certificates.

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

Many countries have ratified and currently follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, or the 1969 Convention. Under this convention, and depending on whether the country in which the damage results is a party to the 1992 Protocol to the International Convention on Civil Liability for Oil Pollution Damage, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Under an amendment that became effective in November 2003 for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability is limited to approximately USD 6.5 million plus approximately USD 913 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability is limited to approximately USD 129.9 million. As the 1969 Convention calculates liability in terms of basket currencies, these figures are based on currency exchange rates on March 20, 2006. Under the 1969 Convention, the right to limit liability is forfeited where the spill is caused by the owner's actual fault; under the 1992 Protocol, a shipowner cannot limit liability where the spill is caused by the owner's intentional or reckless conduct. Vessels trading in jurisdictions that are

parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the 1969 Convention has not been adopted, including the United States, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

The United States Oil Pollution Act of 1990

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States' territorial sea and its two hundred nautical mile exclusive economic zone. Although OPA is primarily directed at oil tankers and product tankers, it applies to discharges by non-tanker ships, including dry bulk carriers, of fuel oil, or bunkers, used to power such vessels.

Under OPA, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers. OPA defines these other damages broadly to include:

- natural resources damages and the costs of assessment thereof;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage; and
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

Title VII of the Coast Guard and Maritime Transportation Act of 2004, or the CGMTA, recently amended OPA to require the owner or operator of any non-tank vessel of 400 gross tons or more, that carries oil of any kind as a fuel for main propulsion, including bunkers, to prepare and submit a response plan for each vessel on or before August 8, 2005. Previous law was limited to vessels that carry oil in bulk as cargo. The vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or substantial threat of such a discharge of ore from the vessel due to operational activities or casualties.

OPA limits the liability of responsible parties to the greater of USD 600 per gross ton or USD 0.5 million per dry bulk carrier that is over 300 gross tons (subject to possible adjustment for inflation) and to the greater of USD 1,200 per gross ton or USD 10.0 million per tanker that is over 3,000 gross tons per discharge (subject to possible adjustment for inflation). Under a recently proposed legislation, OPA liability limits will be increased, when such legislation is enacted, to the greater of USD 950 per gross ton or USD 0.8 million per dry bulk carrier that is over 300 gross tons (subject to possible adjustment for inflation) and to the greater of USD 1,900 per gross ton or USD 16.0 million per tanker that is over 3,000 gross tons per discharge (subject to possible adjustment for inflation). These limits of liability do not apply if an incident was directly caused by violation of applicable United States federal safety, construction or operating regulations or by a responsible party's gross

negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. In addition, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances (other than oil) whether on land or at sea, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of USD 300 per gross ton or USD 5.0 million for vessels not carrying hazardous substances as cargo or residue, unless the incident is caused by gross negligence, willful misconduct, or a violation of certain regulations, in which case liability is unlimited. We believe that we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our tankers call.

OPA requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under OPA. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility in the amount of USD 1,500 per gross ton for tankers, coupling the OPA limitation on liability of USD 1,200 per gross ton with the CERCLA liability limit of USD 300 per gross ton. We expect that if the recently proposed legislation increasing liability limitations is enacted, the U.S. Coast Guard will increase the amount of the financial responsibility accordingly. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA regulations, an owner or operator of more than one tanker will be required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum liability under OPA and CERCLA. We have provided requisite guarantees and received certificates of financial responsibility from the U.S. Coast Guard for each of our vessels required to have one.

We insure each of our vessels with pollution liability insurance in the maximum commercially available amount of USD 1.0 billion per vessel per incident. A catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on our business.

Under OPA, with certain limited exceptions, all newly built or converted tankers operating in U.S. waters must be built with double-hulls. Existing vessels that do not comply with the double-hull requirement must be phased out over a 20-year period, from 1995 to 2015, based on size, age and place of discharge, unless retrofitted with double-hulls. Notwithstanding the phase-out period, OPA currently permits existing single-hull tankers to operate until the year 2015 if their operations within U.S. waters are limited to:

- discharging at the Louisiana Offshore Oil Port, also known as the LOOP; or
- unloading with the aid of another vessel, a process referred to in the industry as lightering, within authorized lightering zones more than 60 miles off-shore.

Owners or operators of tankers operating in the waters of the U.S. must file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. These response plans must, among other things:

- address a "worst case" scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case discharge";
- describe crew training and drills; and

- o identify a qualified individual with full authority to implement cleanup actions.

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

Additional U.S. Environmental Requirements

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

The Clean Water Act, or the CWA, prohibits the discharge of oil or hazardous substances into navigable waters and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages. State laws for the control of water pollution also provide varying civil, criminal and administrative penalties in the case of a discharge of petroleum or hazardous materials into state waters. The CWA complements the remedies available under the more recent OPA and CERCLA, discussed above. Under current regulations of the EPA, vessels are not required to obtain CWA permits for the discharge of ballast water in U.S. ports. However, as a result of a recent U.S. federal court decision, vessel owners and operators may be required to obtain CWA permits for the discharge of ballast water, or they will face penalties for failing to do so. Although the EPA is likely to appeal this decision, we do not know how this matter is likely to be resolved and we cannot assure you that any costs associated with compliance with the CWA's permitting requirements will not be material to our results of operations.

The National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. NISA established a ballast water management program for ships entering U.S. waters. Under NISA, mid-ocean ballast water exchange is voluntary, except for ships heading to the Great Lakes, Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil. However, NISA's exporting and record-keeping requirements are mandatory for vessels bound for any port in the United States. Although ballast water exchange is the primary means of compliance with the act's guidelines, compliance can also be achieved through the retention of ballast water onboard the ship, or the use of environmentally sound alternative ballast water management methods approved by the U.S. Coast Guard. If the mid-ocean ballast exchange is made mandatory throughout the United States, or if water treatment requirements or options are instituted, the costs of compliance could increase for ocean carriers.

Our operations occasionally generate and require the transportation, treatment and disposal of both hazardous and non-hazardous wastes that are subject to the requirements of the U.S. Resource Conservation and Recovery Act, or RCRA, or comparable state, local or foreign requirements. In addition, from time to time we arrange for the disposal of hazardous waste or hazardous substances at offsite disposal facilities. If such materials are improperly disposed of by third parties, we might still be liable for clean up costs under applicable laws.

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

European Union Tanker Restrictions

In July 2003, in response to the m.t. Prestige oil spill in November 2002, the European Union adopted regulation that accelerates the IMO single hull tanker phase-out timetable. Under the regulation no oil tanker is allowed to operate under the flag of a EU member state, nor shall any oil tanker, irrespective of its flag, be allowed to enter into ports or offshore terminals under the jurisdiction of a EU member state after the anniversary of the date of delivery of the ship in the year specified in the following table, unless such tanker is a double hull oil tanker:

Category of Oil Tankers	Date or Year
Category 1 oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks	2003 for ships delivered in 1980 or earlier 2004 for ships delivered in 1981 2005 for ships delivered in 1982 or later
Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements and Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.	2003 for ships delivered in 1975 or earlier 2004 for ships delivered in 1976 2005 for ships delivered in 1977 2006 for ships delivered in 1978 and 1979 2007 for ships delivered in 1980 and 1981 2008 for ships delivered in 1982 2009 for ships delivered in 1983 2010 for ships delivered in 1984 or later

Furthermore, under the regulation, all oil tankers of 5,000 dwt or less

must comply with the double hull requirements no later than the anniversary date of delivery of the ship in the year 2008. The regulation, however, provides that oil tankers operated exclusively in ports and inland navigation may be exempted from the double hull requirement provided that they are duly certified under inland water legislation.

The European Union, following the lead of certain European Union nations such as Italy and Spain, as of October 2003, has also banned all single hull tankers of 600 dwt and above carrying HGO, regardless of flag, from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in 2005, certain single hull tankers above 15 years of age will also be restricted from entering or leaving European Union ports or offshore terminals and anchoring in areas under European Union jurisdiction.

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

VESSEL SECURITY REGULATIONS

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter came into effect in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security Code, or ISPS Code. Among the various requirements are:

- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures provided such vessels have on board a valid International Ship Security Certificate that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

INSPECTION BY CLASSIFICATION SOCIETIES

Every seagoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and maintained in accordance with the rules of the

classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made between the vessels' class and the flag state concerned.

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

Annual Surveys: For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

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

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

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

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

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

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society, which is a member of the International Association of Classification Societies. All our vessels are certified as being "in class" by Lloyd's Register or Det Norske Veritas. All new and secondhand vessels that we purchase must be certified prior

to their delivery under our standard contracts and memorandum of agreement. If the vessel is not certified on the date of closing, we have no obligation to take delivery of the vessel.

RISK OF LOSS AND LIABILITY INSURANCE

General

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

Hull and Machinery Insurance

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

Protection and Indemnity Insurance

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

Our current protection and indemnity insurance coverage for pollution is USD 1 billion per vessel per incident. The thirteen P&I Associations that comprise the International Group insure more than 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I Association has capped its exposure to this pooling agreement at USD 4.25 billion. As a member of two P&I Associations, which are members of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group.

COMPETITION

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

LEGAL PROCEEDINGS

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

C. Organizational Structure

The following table set forth our significant entities as of December 31, 2005.

Entity	Activities
A/S Dampskibsselskabet TORM	This is the parent company. The company owned 22 product tankers and four bulk carriers. This company employs most of the employees providing commercial and technical management for TORM vessels and pool vessels.
Torm Singapore (Pte) Ltd.	100% owned subsidiary. The company owned five product tankers and six bulk carrier. The company also provides some commercial and technical management.
LR2 Management K/S	50% owned limited partnership. Maersk Tankers owns the other 50%. The partnership acts as pool manager for The LR2 pool.
LR1 Management K/S	100% owned limited partnership. The partnership acts as pool manager for the LR1 pool.
MR Management K/S	100% owned limited partnership. The

partnership acts as pool manager for the MR pool.

During 2004, we restructured the activities of the Group with the primary aim of transferring ownership of vessels from single-vessel entities to A/S Dampskibsselskabet TORM and Torm Singapore (Pte) Ltd thereby reducing the number of significant entities.

D. Property, Plant and Equipment

Real Property

We do not own any real property other than three small residential properties. We lease office space in Copenhagen and Singapore on contracts expiring in 2014 and 2008, respectively, and we have leased eight apartments in Singapore on contracts expiring up until December 2007. Please refer to item 5F for further disclosures relating to our contractual obligations.

Fleet

The following table lists our entire fleet of owned vessels as of December 31, 2005:

Product Tankers	Year Built	Dwt	Ownership	Flag (1)
TORM Ingeborg	2003	99,999	D/S TORM	NIS
TORM Valborg	2003	99,999	D/S TORM	NIS
TORM Helene	1997	99,999	D/S TORM	DIS
TORM Signe	2005	72,718	Torm Singapore	Singapore
TORM Sofia	2005	72,718	Torm Singapore	Singapore
TORM Estrid	2004	74,999	D/S TORM	DIS
TORM Ismini	2004	74,999	D/S TORM	DIS
TORM Emilie	2004	74,999	D/S TORM	NIS
TORM Sara	2003	72,718	Torm Singapore	Singapore
TORM Helvig	2005	44,990	D/S TORM	DIS
TORM Ragnhild	2005	44,990	D/S TORM	DIS
TORM Freya	2003	45,990	D/S TORM	DIS
TORM Thyra	2003	45,990	D/S TORM	DIS
TORM Camilla	2003	44,990	D/S TORM	DIS
TORM Carina	2003	44,990	D/S TORM	DIS
TORM Mary	2002	45,990	D/S TORM	DIS
TORM Vita	2002	45,940	D/S TORM	DIS
TORM Gertrud	2002	45,940	D/S TORM	DIS
TORM Gerd	2002	45,940	D/S TORM	DIS
TORM Caroline	2002	44,946	D/S TORM	DIS
TORM Cecilie	2001	44,946	D/S TORM	NIS
TORM Clara	2000	45,999	D/S TORM	DIS
TORM Agnete	1999	47,165	Torm Singapore	Singapore
TORM Gunhild	1999	44,999	D/S TORM	DIS
TORM Anne	1999	44,990	Torm Singapore	Singapore
TORM Gotland	1995	44,999	D/S TORM	DIS
TORM Alice	1995	44,999	D/S TORM	DIS

Bulk Carriers	Year Built	Dwt	Ownership	Flag
TORM Rotna	2001	75,971	Torm Singapore	
TORM Tina	2001	75,966	Torm Singapore	Singapore
TORM Marta	1997	69,638	D/S TORM	NIS
TORM Baltic	1997	69,614	Torm Singapore	Singapore
TORM Marlene	1997	69,548	Torm Singapore	Singapore
TORM Tekla	1993	69,268	D/S TORM	DIS
TORM Herdis	1992	69,618	D/S TORM	NIS

TORM Marina	1990	69,637	D/S TORM	DIS
TORM Arawa(2)	1997	27,827	Torm Singapore	Singapore
TORM Pacific(2)	1997	27,802	Torm Singapore	Singapore

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

(2) TORM Arawa and TORM Pacific were sold in April 2006 and are expected to be delivered to the buyers by July 2006.

Other

We have entered into various IT-related, office equipment and car rental contracts which typically expire after 0.5-2.5 years. We also have contractual obligations relating to vessels chartered in. Please refer to item 5F for further disclosures relating to our contractual obligations.

Please refer to Item 5A for information relating to our contractual obligations and planned investments.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

2005 SUMMARY

In 2005, we grew both in terms of higher net profit and in the size of our fleet. Growth in the number of owned vessels combined with high, though volatile, freight rates within both the tanker and dry bulk segments resulted in the net profit for 2005 of USD 299 million (as compared to USD 187 million in 2004), the highest in the Company's history. Earnings per share rose to USD 8.6 in 2005 from USD 5.4 in 2004. On April 19, 2006, at the annual general meeting, our shareholders approved a dividend payment of USD 3.6 (DKK 23) per share (as compared to USD 2.7 (DKK 15) per share in 2004) corresponding to a total dividend payment of USD 132 million.

The expansion and renewal of our fleet continued during 2005. The total owned fleet increased by 25% from 29.5 vessels in 2004 to 37 vessels in 2005. The fleet owned by the Company has grown by 26% annually in the past five years and has, thereby, more than tripled in size since 2001. In addition, the Company has presently nine vessels chartered, which are to be redelivered after December 31, 2006. This development is set to continue through an ongoing investment program and through the chartering in of additional tonnage. As a result, the fleet, and thereby the number of earning days, is set to increase by 57%, representing a total of 26 additional vessels, by 2009 pursuant to agreements entered into on April 30, 2006.

During 2005, the Company took delivery of four newbuildings: two LR1 and two MR product tankers. In line with the Company's strategy to grow our fleet, the Company purchased a further seven modern second-hand product tankers: two LR1 and five MR. The Company also sold 4.5 of the oldest product tankers in our fleet during 2005. Our product tanker fleet thereby totaled 27 vessels at the end of 2005. During 2005, we have exercised an option to purchase a dry bulk carrier, which brought the total of vessels in our dry bulk fleet to 10 at the end of the year. As of April 30, 2006, we expect to take delivery of 13 additional vessels, between 2006 and 2009, representing a USD 500 million investment out of a total investment program of USD 625 million.

TRENDS WITHIN THE PRODUCT TANKER AND BULK SEGMENTS

Some of the current key trends affecting the two segments in which we operate are:

1 Expansion of refining capacity away from the areas of consumption in the Western Hemisphere;

2 Increase of importance of environmental regulations and the quality of service;

3 Lower inventories; and

4 Delivery of new vessels.

Expansion of refining capacity away from the areas of consumption in the Western Hemisphere In recent years, there has been a clear trend of expansion of refining capacity away from the areas of consumption in the Western Hemisphere.

According to PVM Oil Associates, from the present time through to 2012, additional refining capacity will primarily be built in OPEC countries, especially in Saudi Arabia. In addition, China and India are expected to increase capacity through to 2010. Refining capacity in Europe and the U.S. is expected to be increased slightly but insufficiently to meet the increasing demand. More stringent environmental and other restrictions on refineries limit the scope for additional refining capacity in Europe and the U.S. Considering the capacity constraints at refineries in oil consuming countries, increased demand will be satisfied through increased imports from more distant sources. This will result in longer transportation distances for petroleum products from the refineries in the Middle East and the Far East to the areas of consumption in Europe and the U.S. We expect this trend to positively affect the product tanker market.

Environmental regulations and increase of importance of service quality The ongoing and ever increasing safety and environmental requirements have resulted in customers' demand for higher quality of service both ashore and at sea.

The International Maritime Organization, or the IMO, the individual flag states as well as the classification societies have been issuing more stringent requirements and regulations governing ship design and the operation of vessels. The requirements represent a wide spectrum of rules from the construction of vessels and its equipment to the operation of the vessel as well as the qualifications for officers and ratings along with the Company's own standards of vessel operations. In addition, our customers have to an increasing extent begun to issue their own environmental and safety requirements. The effect is increased demand for higher quality of service and the establishment and documentation of standard routines and procedures.

We expect that this trend will result in standardized procedures and operations and make it progressively difficult to identify differences in the way shipowners operate their tonnage. As such, quality of service will in the future become a key differentiator.

We consider this to be a positive development which underpins the Company's strategy to aim for the highest quality in terms of education and training of our personnel, design and shipbuilding of our vessels thereby ensuring a very high level of service.

Lower inventories

Inventories of clean petroleum products have been at very low levels since 2003. This has been the result of increased consumption combined with the rising price of crude oil resulting in a number of market participants not wishing to hold excessive inventories. The low inventories in turn result in erratic

deliveries, occasionally forcing market participants to pay very high freight rates.

Delivery of new vessels

Freight rates in both the product tanker and bulk segments are strongly influenced by the number of vessels available and, as a consequence, the delivery of new vessels into the market and the scrapping of older vessels.

Product tankers

We expect that the delivery of newbuilding product tankers during the period form 2006 to 2009 will be at historically high levels. The existing global order book of product tankers due for delivery during that period represents approximately 40 to 45% of the existing world fleet of the three vessel sizes operated by TORM.

In 2003, the EU and the IMO adopted new and revised rules requiring the phasing out of single-hulled tankers. The rules will result in the phase out of single-hulled tankers, which have not been built since the beginning of the 1990s, by 2010. We anticipate that up to 25% of the world product tanker fleet will be phased out or will operate in areas, where the EU and the IMO rules are not observed.

Dry bulk carriers

According to Fearnleys, the net addition of Panamax bulk carriers to the existing fleet in 2006 will be approximately 5%. In the subsequent years, however, the order book is modest compared to the very strong dry bulk market experienced in recent years. Freight rates for the Panamax bulk carriers are affected not only by newbuilding deliveries in the Panamax fleet, but also by the addition to the fleet of Capesize vessels and Handymax vessels. According to Fearnleys, 19% of the total fleet of Capesize vessels is expected to be added by 2009 and 15% of the total fleet of Handymax vessels is expected to be added by 2008.

TORM 2006-2008 strategy - "GREATER EARNING POWER"

In 2005, our Board of Directors approved a new three-year strategy plan termed "Greater Earning Power.", or the Strategy

The Strategy plan focuses on the following areas:

- Ensuring high long-term return on equity and the shares.
- Greater focus on the development of the Company's organizational structure and the employees' skills.
- Use of the Company's market position to achieve better market intelligence and knowledge and thereby improve the basis on which decisions are made, the speed of such decisions and thereby reducing uncertainty.
- Establish its own organization or work in cooperation with pool partners in the key geographical centers worldwide in order to further improve customer service.
- Secure significant growth in both the product tanker and dry bulk segments.
- The product tanker segment shall continue to be the most significant business area. Growth shall in general come from within the existing

business.

- Investments will primarily be made in the product tanker segment, whereas growth within the bulk segment shall principally be achieved through chartering in of vessels and/or the exercising of purchase options.

- The allocation between owned and chartered-in vessels shall at the end of the 3-year period be approximately 70% owned and 30% chartered-in tonnage in order to increase the availability of capital and with the aim of increasing flexibility.

The Strategy is an extension of the Company's strategy in recent years which has focused primarily on the product tankers and to a lesser degree on the dry bulk carriers. We have put more emphasis on establishing a global organization and developing our employees.

We plan to significantly increase the number of earning days of our vessels, subject to maintaining profitability of our Company. Based on our newbuilding order book and ship commitments for time charters as of April 30, 2006, we expect to increase the number of earning days by 39% by year-end 2008 and by 57% by the end of 2009.

Tanker Division

It is our long-term goal to be a significant consolidator of the product tanker market within the LR2, LR1 and MR business areas and to become the leading player in the product tanker market. We expect to achieve this goal through the Company's own growth and development and through growth within each pool that we operate. This strategy is expected to result in better earnings, improved vessel utilization, increased flexibility for our customers and leverage of our large-scale purchasing power.

We anticipate to expand our product tanker fleet by continuing our newbuilding program, through the purchase of secondhand vessels or fleets or a merger with other companies which would be in the best interest of our shareholders and the Company's further development. Additionally, we expect to increase the number of long-term chartered product tankers, inclusive of purchase options.

Bulk Division

The dry bulk market is highly fragmented. We do not expect this market to be consolidated during the three-year period during which the Strategy will be implemented.

The Bulk Division is focused on the Panamax vessels. We currently have no newbuildings on order. We expect the growth to result principally form chartering in of vessels.

Chartering in is, according to the Company's assessment, the most cost effective way in which to increase our market share. The Strategy for the Bulk Division is based on chartering in tonnage for longer periods combined with purchase options. Accordingly, it will continue to be the Company's policy to economically hedge a significant portion of this forward exposure and to guard against volatile trading conditions.

We expect to incrementally increase our exposure to the dry bulk market by expanding in the Panamax business area only through timely acquisitions.

Financial strategy

We believe that the Company has a very solid financial foundation, which ensures that there is capacity available for further timely expansion. This is the key to the Company's Strategy.

In light of the currently very high freight levels and vessel prices combined with the Company's criteria for financial returns, we continue to be prudent and cautious in making investments. We retain a significant financial capacity to undertake timely investments.

A. Operating Results

The financial information included in the discussion below is derived from our consolidated financial statements. Effective January 1, 2005, we adopted International Financial Reporting Standards or IFRS and changed our reporting currency from DKK to USD. We had previously presented our financial statements under Danish GAAP. In accordance with the Securities and Exchange Commission, or the SEC, reporting requirements for first-time application of IFRS, in this report we present the comparative financial information under IFRS only for the fiscal year ended December 31, 2004. . Please refer to Note 1 to our consolidated financial statements for disclosures of the effects of the changes in accounting policies. IFRS differs in certain respects from United States generally accepted accounting principles, or U.S. GAAP. For a discussion of the primary differences between IFRS and U.S. GAAP and a reconciliation of profit and stockholders' equity to U.S. GAAP, please see Note 23 to our consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005
(in thousands of USD)

	2004	2005
Net revenue	433,320	586,975
Port expenses, bunkers and commissions	(83,769)	(123,138)
Time Charter Equivalent Earnings	349,551	463,837
Charter hire	(59,592)	(82,139)
Operating expenses	(49,791)	(66,744)
Gross profit (Net earnings from shipping activities)	240,168	314,954
Profit from sale of vessels	0	54,731
Administrative expenses	(38,637)	(31,176)
Other operating income	13,139	12,570
Depreciation and impairment losses	(35,181)	(47,894)
Operating profit	179,489	303,185
Financial items	25,839	(3,818)
Profit before tax	205,328	299,367
Tax expenses	(18,715)	(4)
Net profit for the year	186,613	299,363

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2005 AND THE YEAR ENDED DECEMBER 31, 2004

Net profit for the year increased by 60% to USD 299 million in 2005 from

USD 187 million in 2004 resulting in earnings per share of USD 8.6 in 2005 and USD 5.4 in 2004. The net profit for 2005, which includes a gain on sale of vessels of USD 55 million and dividend from Dampskibsselskabet Norden A/S of USD 12 million, is considerably higher than expected as reported at the beginning of the year.

The considerably higher profit is primarily due to the net addition of 9.5 vessels to our fleet of owned and long-term chartered vessels. Freight rates in the tanker segment, which during part of 2005 were significantly higher than expected, further contributed to the reported profit.

Our total assets increased by USD 570 million in 2005 to USD 1,810 million from USD 1,240 million in 2004. The increase resulted in an increase of USD 517 million in the carrying amount of our vessels and vessels under construction, mainly due to fleet expansion, a decrease in the carrying amount of marketable securities of USD 58 million and an increase in cash and cash equivalents of USD 91 million.

The shareholders' equity increased by USD 190 million in 2005 to USD 905 million compared to USD 715 million in 2004. The solvency ratio, as defined in Item 17, decreased by 8 percentage points to 50% in 2005 from 58% in 2004. The significant increase in shareholders' equity is mainly due to the profit in 2005 less dividend paid out and value adjustment of the Company's investment in Norden. Our total liabilities increased by USD 381 million to USD 905 million in 2005 as compared to USD 524 million in 2004 primarily due to increases in mortgage debt and bank loans used to finance a part of the expansion of the fleet.

Net earnings from shipping activities

The table below presents net earnings from shipping activities on segment level for the years ended December 31, 2004 and 2005:

USD million

	Tanker	Bulk	Not Allocated	Total 2004	Tanker
Net revenue	255.7	177.5	0.1	433.3	419.3
Port expenses, bunkers and commissions	(68.8)	(15.0)	0.0	(83.8)	(111.4)
Time charter equivalent earnings	186.9	162.5	0.1	349.5	307.9
Charter hire	(13.5)	(46.1)	0.0	(59.6)	(44.3)
Operating expenses	(39.5)	(11.6)	1.3	(49.8)	(51.4)
Gross profit/(loss) (Net earnings from shipping activities)	133.9	104.8	1.4	240.1	212.2

Our total net revenue in 2005 was USD 587 million as compared to USD 433 million in the previous year. Our net revenue is derived from two segments: the Tanker Division and the Bulk Division. In the markets in which these divisions operate, the time charter equivalent (TCE) rates, defined as net revenue less voyage expenses divided by the number of available earning days (days available for service) is used to compare freight rates. Under time charter contracts the charterer pays for the voyage expenses, whereas the shipowner pays for the voyage expenses under voyage charter contracts. As a consequence, we base our economic decisions primarily upon the expected TCE rates rather than on expected net revenues. The analysis of revenue is therefore based on the development in time charter equivalent earnings. Our time charter equivalent earnings in 2005

were USD 464 million as compared to USD 350 million in 2004. The addition of tonnage, especially in the LR1 and MR tanker business areas, as well as higher rates in the tanker segment during part of the year were the primary reasons for the increase in the TCE.

Tanker Division

Net revenues in the Tanker Division in 2005 increased by 64% to USD 419 million from USD 256 million in 2004, whereas the TCE earnings increased by USD 121 million, or 65%, to USD 308 million in 2005 from USD 187 million in the previous year.

The market for the Company's product tankers reached a historical peak in 2005, characterized by high but volatile freight rates with strong earnings primarily during the first and fourth quarters. Because of an unusually high growth in oil consumption towards the end of 2004, the product tanker market had a strong beginning in 2005. During the second quarter of 2005, the product tanker market experienced a normal seasonal decrease. However, the ongoing growth in demand in the U.S. for the import of gasoline and other oil products, especially up to the summer holiday season, resulted in a steady product tanker market during mid-year.

Hurricanes Katrina and Rita, which struck the southern U.S. during the third quarter of 2005, had a major and boosting effect on the product tanker market in 2005. 95% of the oil production in the Mexican Gulf was interrupted, and 20% of the local refining capacity was temporarily shut down. The refining capacity in the U.S. was restored to normal output levels during the fourth quarter 2005. Demand for transportation capacity increased further as a result of low inventory levels of refined products in the Western Hemisphere, resulting from high oil prices and limited refining capacity. We believe that these low inventories, combined with lack of refinery capacity often resulted in increased demand for product tankers.

Charter rates were increased towards the end of 2005, reaching historically high levels despite a large number of product tanker newbuildings. According to Fearnleys, 17% of the total product tanker fleet entered the market in 2005 as compared 20% in 2004. Concurrently, according to the Energy Information Administration, oil demand grew by 1.5% in 2005 compared to 3.3% in 2004, and, according to Clarksons, on average freight rates during 2005 were 5.0% higher than in 2004.

In 2005, we achieved freight rates in the LR2 business area that were on average 6% higher than in the previous year. This increased our earnings by USD 4 million. The number of available earning days increased by 165 days, or 9% resulting in an increase in earnings of USD 6 million.

In the LR1 business area, we took delivery of four vessels and sold 2.5 vessels during 2005. Two of the sold vessels were leased back on five-year time charters. These transactions were the primary reason for the increase in the number of available earning days of 1,326 days in 2005 representing a 93% increase from the previous year and resulting in an increase in our earnings of USD 33 million. The 30% increase in average freight rates in 2005 resulted in a USD 21 million increase in our earnings.

In the MR business area, the Company took delivery of seven vessels and sold two vessels during 2005. The addition of new tonnage was the main reason for the increase in the number of available earning days of 1,235 days, or 28%, which increased our earnings by USD 26 million. The average freight rates were 24% higher in 2005 than in the previous year, which affected earnings positively by USD 30 million.

The table below shows the TCE earnings in the Tanker Division.

Earnings for the Tanker division

USD million	MR	LR1	LR2	Unallocated
Time charter equivalent earnings 2004	93	35	60	(1)
Change in number of earning days	26	33	6	-
Change in freight rates	30	21	4	-
Other	-	-	-	1
Time charter equivalent earnings 2005	149	89	70	0

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

Earnings data for the Tanker division

USD/Day	2004 Full year	2005 Q1	Q2	Q3	Q
LR2/Aframax vessels					
Available earning days for: *)					
- Owned vessels	1,098	270	271	274	2
- Time chartered vessels	726	180	171	274	2
TCE per earning days **)	33,116	35,715	30,281	28,185	45,9
OPEX per earning days ***)	(4,754)	(5,526)	(4,849)	(5,899)	(6,1
LR1/Panamax vessels					
Available earning days for: *)					
- Owned vessels	1,425	372	404	499	5
- Time chartered vessels	0	126	248	276	2
TCE per earning days **)	24,912	32,704	26,906	26,509	41,7
OPEX per earning days ***)	(6,153)	(4,991)	(6,836)	(6,074)	(5,6

Earnings data for the Tanker division

USD/Day	2004 Full year	2005 Q1	Q2	Q3	
MR vessels					
Available earning days for: *)					
- Owned vessels	4,346	1,125	1,270	1,547	1,6
- Time chartered vessels	0	0	0	0	
TCE per earning days **)	21,381	27,465	26,079	23,499	29,3
OPEX per earning days ***)	(5,936)	(6,223)	(6,594)	(6,274)	(6,5

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

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

***) OPEX = Operating expenses for our owned vessels.

Bulk Division

In the Bulk Division net revenue decreased by 6% to USD 168 million in 2005 from USD 178 million in the previous year, whereas the time charter equivalent earnings decreased by USD 7 million or 4% to USD 156 million in 2005 as compared to USD 163 million in 2004.

In 2005, freight rates prevailing in the dry bulk segment did were less than freight rates in 2004. The dry bulk market began the year strongly but has been extremely volatile throughout 2005.

At the outset of 2005, a large part of the world bulk fleet was idle in ports, especially in Australia and China, awaiting loading or discharge due to lack of port capacity. This contributed to maintaining high rates in early 2005. From mid 2005, however, port congestion was reduced to more normal levels in most ports.

A lower rate of growth in the import of coal and iron ore primarily by China during the third quarter of 2005, coupled with an increase in newbuilding deliveries and limited scrapping, resulted in a decrease in freight rates as the year progressed. Notwithstanding these trends, however, according to Clarkson, the charter rates ended the year considerably above the historical mean for the period 1990-2005 of 12,644 USD/day.

Given the rise in freight levels in 2003 and 2004 to historically high, we elected to take advantage of these circumstances by chartering out a substantial part of the dry bulk fleet on longer term time charter, often for periods of about one year. These longer period charters have tended to reduce the risk inherent in a market of such volatility. We have continued to pursue this strategy successfully in 2005, and the Bulk Division's income has not been significantly affected by the market's volatility.

Freight rates in the Panamax business area in 2005 were on average 9% higher than in 2004, increasing our earnings by USD 12 million. In this business area, one vessel, which had previously been chartered in, was added to our fleet of owned vessels during 2005. The decrease in the number of available earning days by 506 days from the previous year was due to the net redelivery of tonnage chartered in, and resulted in the decrease of USD 13 million in the TCE earnings in this business area.

In the Handysize business area earnings decreased by USD 5 million as a consequence of a reduction in available earning days of 23% and a 5% decrease in the average freight rates.

The table below shows the change in the TCE earnings in the Bulk Division.

Earnings for the Bulk division

USD million	Handysize	Panamax	Unallocated
Time charter equivalent earnings 2004	18	144	1
Change in number of earning days	(4)	(13)	-

Change in freight rates	(1)	12	-
Other	-	-	(1)
	---	---	---
Time charter equivalent earnings 2005	13	143	0

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

Earnings data for the Bulk division

USD/Day	2004	2005		
	Full year	Q1	Q2	Q3
Panamax vessels				
Available earning days for: *)				
- Owned vessels	1,853	559	685	736
- Time chartered vessels	3,776	765	518	504
TCE per earning days **)	25,534	30,641	30,962	27,523
OPEX per earning days ***)	(5,022)	(4,794)	(4,607)	(4,294)
Handysize vessels				
Available earning days for: *)				
- Owned vessels	732	169	176	184
- Time chartered vessels	324	30	30	31
TCE per earning days **)	16,829	18,952	17,645	14,514
OPEX per earning days ***)	(3,173)	(2,916)	(3,908)	(3,690)

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

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

***) OPEX = Operating expenses for own vessels.

The table below details the earning days of our Panamax vessels under time charter agreements and voyage charter agreements in 2004 and 2005.

	2004	2005	Change in %
Total earning days	5,754	5,143	(10.6%)
Days under time charter agreements	5,585	5,143	(7.9%)
% of total days	97.1%	100%	
Days under voyage charter agreements	169	0	(100%)
% of total days	2.9%	0%	

The number of earning days above is higher than the number of earning days according to the table labeled "Earnings data for the Bulk division" because the latter only includes owned vessels and vessels chartered in for periods equal to or longer than six months.

Operation of vessels

Vessels chartered in on time charters do not give rise to operating expenses for TORM but only to charter hire payments. As compared to 2004,

charter hire in the Tanker Division increased by USD 31 million to USD 44 million in 2005, whereas charter hire paid in the Bulk Division decreased by USD 8 million to USD 38 million. The increase in the Tanker Division was primarily caused by the sale and lease back on time charters of two vessels in the LR1 business area in the beginning of 2005.

The operating expenses for the owned vessels increased by USD 17 million to USD 67 million in 2005. The most significant factor behind this development was the increase in the number of operating days by 1,987 days, or 21%, primarily due to the addition of owned vessels in the LR1, MR and Panamax business areas. The main reasons for the operating expenses not increasing proportionately to the increase in the number of operating days are one-time expenses relating to the preparation of two vessels for sale and a high number of dry-dockings during 2005 totaling 277 days in 2005 as compared to 30 days in 2004. Days in dry-dock are not included in the number of operating days, whereas the vessels incur operating expenses at similar levels as during operation. In addition, the operating expenses for some of the vessels added this year are higher than the average for the fleet as of the beginning of the year. The total fleet of owned vessels incurred 31 off-hire days in 2005 corresponding to three per thousand of the number of operating days compared to 15 off-hire days in 2004 corresponding to two per thousand of the number of operating days. The Company regards this as a very satisfactory level.

Operating expenses are mainly incurred in USD and DKK. The average DKK/USD exchange rate in 2005 was more or less unchanged from 2004 and did not affect the development in operating expenses significantly.

Administrative expenses and other operating income

Our total administrative expenses decreased from 2004 to 2005 by USD 8 million to USD 31 million mainly due to lower administrative costs relating to the share options plan, which was partially offset by increased salary expenses due to the addition of new staff and a general increase in salary levels.

Administrative expenses are primarily incurred in DKK. The average DKK/USD exchange rate in 2005 was more or less unchanged from 2004 and did not affect the development in administrative expenses significantly.

Other operating income primarily comprises income from chartering commissions received by TORM in connection with the management of the three tanker pools. Other operating income amounted to USD 13 million in 2005 as in 2004 despite an increase in commissions from the tanker pools, primarily due to one-time income of USD 2 million in 2004. These commissions are based on net revenues in the pools, and the change is a direct result of the change in freight rates and the number of vessels in the pools compared to the previous year.

Vessels and dry-docking

The increase in tangible fixed assets of USD 479 million to USD 1,167 million in 2005 is mainly attributable to the change in vessels and capitalized dry-docking. The carrying value of vessels and capitalized dry-docking increased by USD 419 million to USD 1,066 million in 2005. The increase relating to vessels amounted to USD 414 million. The addition of new tonnage amounted to a total acquisition cost of USD 517 million resulting from two LR1 tanker newbuildings and two LR1 tankers built in 2003 and 2004, two MR tanker newbuildings and five MR tankers built in 2000 to 2003 as well as one Panamax bulk vessel built in 2001. Furthermore, in 2005, we have sold two MR tankers built in 1992 and 1994 and 2.5 LR1 tankers built in 1988 and 1990 at a total carrying amount of USD 63 million and depreciation on the vessels in our fleet amounted to USD 40 million. Prepayment on vessels under construction increased in 2005 by USD 60 million to USD 97 million due to additional costs relating to

vessels under construction of USD 295 million less the above-mentioned newbuilding deliveries of USD 191 million and the transfer of a vessel under construction to non- current assets held for sale at a carrying amount of USD 44 million.

Depreciation amounted to USD 48 million in 2005 as compared to USD 35 million in 2004, an increase of USD 13 million. The increase is due to the expansion of the fleet during 2005.

As at December 31, 2005, our newbuilding program comprised of 12 tanker vessels to be delivered during 2006 to 2009, and the contractual liabilities under the program amounted to USD 540 million. In addition the Company called options in 2005 to acquire two LR2 tankers on time charter built in 1999 and 2000, which were delivered in January 2006. The contractual liability relating to these vessels amounted to USD 94 million as of December 31, 2005. In 2005, we also contracted to sell one of our LR1 vessels under construction subsequent to delivery in 2006 bringing the total net investment program to 13 vessels.

The market value of the fleet and investment program (7.5 LR2 tanker newbuildings, 1.5 LR1 tanker newbuildings, two MR tanker newbuildings and two second-hand LR2 tankers) exceeded the carrying value of the fleet including newbuilding contracts by USD 768 million as of December 31, 2005. This valuation is based on the average of three internationally acknowledged shipbrokers' valuations.

Other investments (NORDEN)

Other investments mainly comprise of our investment in approximately 33% of the shares of Norden with a carrying value of USD 352 million as of December 31, 2005 compared to USD 363 million as of December 31, 2004.

TORM does not consider Norden as an associated company, as the Company does not have influence on decisions and is not represented on Norden's Board of directors. The investment in Norden is valued on the basis of the closing price on the Copenhagen Stock Exchange on December 31, 2005 of DKK 2,958.63 per share. The positive effect from the increase in the share price from DKK 2,725.52 as of December 31, 2004 was offset by the adverse effect of the change in the DKK/USD exchange rate of USD 49 million.

We hold investments in other entities with an aggregate carrying amount of USD 9 million as of December 31, 2005, of which USD 2 million concerns unlisted entities, compared to USD 5 million as of December 31, 2004. The carrying amount of the unlisted shares constitutes the estimated fair value based on available information.

Financing

Net financial items in 2005 were negative by USD 4 million as compared to a net income of USD 26 million in 2004. The most significant reason for the change is the lower dividend from Norden of USD 12 million in 2005 as compared to USD 34 million in 2004 and an increase in interest expenses of USD 10 million to USD 26 million in 2005 primarily due to the increase in net interest bearing debt, as defined in Item 17 below, of USD 360 million during the year to USD 632 million in 2005 from USD 272 million in 2004.

The invested capital, as defined in Item 17, increased by USD 558 million to USD 1,176 million as of December 31, 2005 from USD 618 million in 2004. The increase can primarily be explained by the addition of tonnage and prepayments on newbuildings during 2005. Taking into account the development in net interest bearing debt during 2005, a significant part of the expansion of our Company is financed by cash flow from operations and from sale of vessels.

Shareholders' equity increased by USD 190 million to USD 905 million in 2005. The considerable growth in shareholders' equity is mainly due to the net profit in 2005 of USD 299 million less USD 90 million dividends paid out during the year and value adjustment of the Company's investment in shares in other companies, including Norden, of USD 23 million.

Please refer to Note 9 to our consolidated financial statements for a breakdown of financial items in the income statement and to Note 13 for an overview of mortgage debt and bank loans.

Tax

The tax expense for 2005 comprises current tax for the year of USD 9 million, which is unchanged compared to the previous year, less a USD 9 million reduction of deferred tax as compared to an increase in deferred tax of USD 8 million in 2004. Net tax for 2005 was USD 0 million as compared to an expense of USD 19 million in 2004. Of the reduction in deferred tax in 2005, USD 4 million was a result of a change in the Danish corporation tax rate from 30% to 28%. The deferred tax liability as at December 31, 2005 of USD 55 million as compared to USD 73 million in the previous year was furthermore affected by a currency exchange gain of USD 10 million which is recognized in the income statement under financial items.

All significant Danish entities in our group entered into the tonnage taxation scheme effective from 2001 and have filed tax returns for 2001 through 2004. The assessment of the tax returns by the tax authorities has not yet been completed, and the recognized current tax liabilities are therefore to a great extent based on Management's judgment regarding the outcome of the assessment. TORM paid USD 7 million in corporation tax on account in 2005 regarding these entities.

Please refer to Item 10E and Notes 3 and 10 to our consolidated financial statements for further information.

B. Liquidity and capital resources

The payments of the Company's obligations under loan agreements, along with the payments of charter hire for chartered-in vessels, and all other commitments that TORM has entered into, are paid out of the cash generated by the Company. Total cash and cash equivalents amounted to USD 157 million at the end of 2005 as compared to USD 66 million at the beginning of the year, resulting in a net increase in cash and cash equivalents from cash flows of USD 91 million in 2005 as compared to a net increase of USD 38 million in 2004. The primary sources of cash flow were profits from operating activities, additional borrowing and proceeds from the sale of vessels. The cash flows were primarily used to finance the extensive expansion of the Company's fleet during the year.

The Company's operations generated a historically high cash inflow of USD 261 million compared to an inflow of USD 228 million in 2004.

During 2005, our cash flows were primarily used to finance our investing activities. The Company invested USD 636 million in tangible fixed assets during 2005, primarily comprising the expansion of our fleet, compared to USD 187 million in 2004. The total cash inflow from the sale of vessels was USD 178 million in 2005 including USD 47.5 million from the sale and leaseback of two vessels. The Company did not generate any cash flows from the sale of non-current assets in 2004.

The total cash inflow from financing activities amounted to USD 303 million in 2005 compared to cash outflow of USD 3 million in 2004. Additional borrowing generated inflow of USD 645 million in 2005 which was used to finance the purchase of newbuildings along with the purchase of second-hand vessels. In

2005, repayment of mortgage debt and bank loans amounted to USD 252 million. Dividend payments to TORM shareholders, which in 2005 amounted to USD 90 million, also affected our cash flow from financing activities.

The Company has significant cash requirements associated with long-term debt and time charters. The payment of debt and the Company's time charters are influenced by changes in interest rates. In order to manage interest rate risk, the Company strategically uses various financial instruments which work to swap the variable interest rate on a portion of the borrowings for fixed rate debt.

In order to increase its financial flexibility, TORM entered into three revolving facilities with leading banks in 2005. The facilities have a total limit of USD 498 million, of which USD 256 million was drawn as of December 31, 2005, and are dedicated to financing the acquisition of new tonnage and used for the ongoing financing of some of our existing vessels. As of December 31, 2005, the Company had approximately USD 535 million of additional loans, bringing the total borrowings available under our credit agreements to USD 1,033 million, of which USD 242 million was unused, and bearing a weighted average interest rate of LIBOR + 0.73%.

When acquiring vessels, TORM usually pays the first 20% to 30% of the contract price and the remaining 70% to 80% is financed by mortgage debt. However, due to the high inflow of cash in the past two to three years, TORM has in certain cases paid a greater portion of the contract price. For all 12 vessels in the newbuilding program, the Company has paid approximately 26% of the aggregate contract price. TORM has entered into an agreement to finance the remaining purchase price of five of the LR2 product tankers in the newbuilding program, expected to be delivered during the period from April 2006 to January 2008. The Company expects to enter into financing agreements for the payment of the remaining purchase price of the other seven vessels in time to meet all payment obligations. For all 12 vessels in the newbuilding program, the Company expects to pay USD 108 million, of which USD 20 million was paid in 2006. The total outstanding contractual commitments amount to USD 402 million.

TORM believes that based on available cash and planned investments, projected operating cash flows and financing capacity, the Company has sufficient cash flow to meet the operating requirements, cash flow obligations and other strategic initiatives set by the Company's Board of Directors. TORM also believes that the current fleet structure, based on time charters and owned vessels, provides the Company with the flexibility to react to changes in market conditions and thus reducing the Company's exposure to negative market developments.

For further disclosure and discussion of our contractual obligations please refer to Item 10C and Notes 13 and 17 to the consolidated financial statements.

FOREIGN CURRENCY EFFECTS

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

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

EFFECTS OF INFLATION

Inflation generally affects us by increasing the interest expense of floating rate indebtedness and by increasing the cost of labor, dry-docking costs and other operating expenses. We do not believe inflation has had or will

have a material impact on our operations. Inflationary pressures on bunker costs are not expected to have a material effect on our future operations because freight rates for voyage charters are generally sensitive to the price of a ship's fuel. A sharp rise in bunker prices tends to have only a temporary negative effect on results since freights generally adjust after prices settle at a higher level.

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

Not applicable.

D. Trend information.

EXPECTATIONS FOR 2006

TORM's financial results primarily rely on developments in freight rate levels and available earning days within the product tanker and dry bulk segments. As of April 30, 2006, 26% of the remaining earning days in the Tanker Division have been economically hedged for 2006 through time charter agreements or other hedging instruments. Similarly, as of April 30, 2006, 66% of the Bulk Division's remaining earning days have been economically hedged for the rest of the year...

The Company's forecast of profit before taxes for 2006 is in the range of USD 155 to USD 175 million. This range however is only a forecast and a number of unpredictable factors could significantly impact freight rates and earnings for both product tankers and bulk carriers. Furthermore, it is difficult to predict the timing of delivery of additional tonnage we not yet contracted for. For 2006, we estimate that the following factors will have the greatest influence on our earnings:

- Worldwide economic growth;
- Consumption of clean petroleum products, especially in the U.S.;
- The level of China's import of commodities, especially iron ore, coal and grain;
- The addition of product tankers and bulk carriers; and
- Other events such as strikes, political instability in the oil exporting countries, weather conditions, shut-down of refineries, etc. Tanker Division

In 2006, the tanker market is expected to be positively affected by an accelerated increase in worldwide demand for oil. The market is expected to be negatively affected by a substantial number of newbuilding product tanker deliveries.

In 2006, as in 2005, the global product tanker fleet is expected to be affected by a historically large newbuilding order book of ships due for delivery in 2006. According to Fearnleys, in 2006 the net increase in the fleet of the three vessel sizes operated by TORM is anticipated to be approximately 17%. The net growth is expected to be reduced in the succeeding years and then leveled, in light of an expected phase out of single-hull product tankers until 2010.

Worldwide consumption of oil is expected to increase by 2% in 2006 according to the Energy Information Administration, or the EIA, with China and the U.S. being the largest consumers. The figure compares with an increase of 1.5% in 2005. The long distances involved in the transportation of clean petroleum products, attributable to the fact that additional refinery capacity

is far away from the main consuming countries, will, when combined with growth in consumption, continue to positively affect the product tanker market.

We expect that for our Tanker Division will experience lower rates in 2006 than it did in 2005. The decrease in freight rates will to some extent be offset by the increase in TORM's fleet, which will increase the number of earning days in 2006 by approximately 26% as compared to 2005. As of April 30, 2006, approximately 49% of TORM's available earning days in our product tanker segment for 2006 had been fixed at satisfactory rates.

Bulk Division

The Bulk Division has for the past two years experienced very high, but also highly volatile freight rates. We expect that freight rates will continue to be volatile in 2006 and lower than in 2004 and 2005.

The newbuilding order book for 2006, and deliveries of new vessels, is significant. Nevertheless, for years following 2006, the newbuilding order book is relatively modest despite historically high freight rates experienced in recent years.

The demand, and thereby the freight rates, in the bulk market in 2006 will be driven to a great extent by the development in the world economy, especially in China. As a result of what TORM believes will be another period of great volatility, the Company has decided to economically hedge a considerable part of its exposure to the bulk market for 2006 in the same way as was done in 2005 by chartering out a number of vessels for periods of one to two years. As of April 30, 2006, TORM has economically hedged approximately 78% of the earning days for the Panamax vessels at an average rate of USD 18,690/day. The Company believes that this will serve as a good earnings base for the Bulk Division. The Company will continue to seek period coverage for the remainder of the unhedged earning days.

E. Off-balance sheet arrangements.

We do not have any off-balance sheet arrangements.

F. Tabular disclosure of contractual obligations.

We have various contractual obligations and commercial commitments to make future payments including debt agreements, lease obligations and purchase commitments. The following table summarizes our future obligations under these contracts due by period as of December 31, 2005 (in USD million):

USD million	2006	2007	2008	2009	2010
Long-Term Debt (1)	59.9	59.9	90.0	57.5	57.
Interest payments fixed by interest rate swaps(3)	17.6	14.2	6.9	0.0	0.
Estimated variable interest payments (4)	20.9	21.7	29.4	34.9	31.
Chartered-in Vessels (Operating leases)	61.3	34.2	40.7	37.8	23.
Newbuilding installments (Purchase Obligations)(2)	225.3	146.7	95.5	28.0	-
Other operating leases	2.2	2.2	1.9	1.7	1.
Total	387.2	278.9	264.4	159.9	113.

(1) Debt payments could be accelerated upon violation of debt covenants. We are in compliance at December 31, 2005 and we believe the likelihood of a debt covenant violation is remote.

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

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

(4) Variable interest payments are estimated based on a 6% floating interest rate, which was our estimate of 6 months LIBOR + a margin as of April 30, 2006.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS and U.S. GAAP requires our 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 our management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or the changes in the estimate that would have a material impact on the Group's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable. However, actual results could differ from the original estimates requiring adjustments to these balances in future periods.

Management believes that the following are the significant accounting estimates and judgments used in the preparation of the consolidated financial statements and the reconciliation to U.S. GAAP.

Carrying amounts of vessels

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

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

historically volatile.

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

There were no impairments of vessels recorded in 2004 or 2005.

Tax

All significant Danish entities within the Group entered the then newly enacted Danish tonnage taxation scheme which went into effect on January 1, 2001 and have filed tax returns for 2001 to 2004. The assessment of the tax returns by the tax authorities has not yet been completed. The tax regulations are highly complex, and while the Group aims to ensure that the estimates of tax assets and liabilities that it records are accurate, there may be instances which might require adjustments to be made to estimates previously recorded.

The Group believes there is a material uncertainty as to the estimate of taxes payable as of December 31, 2005 due to the lack of precedents that interpreted the tonnage tax regulation. The estimate is based on scenario analyses and discussions with the tax authorities, tax advisors and industry organizations, and the uncertainty primarily relates to the division of the activities between income and expenses from shipping related activities, which are taxed under the tonnage tax scheme, and income and expenses from other activities, which are not taxed under the tonnage tax scheme.

The Group believes that the tax returns filed for 2001 to 2004 will not trigger taxes payable in excess of the amount, which has been recognized as per December 31, 2005, because estimated taxable income to a large extent is offset by deductible losses from prior periods, and that the deferred tax liability recorded is adequate.

CHANGE IN ACCOUNTING POLICIES

IFRS

Adoption of International Financial Reporting Standards (IFRS)

Effective January 1, 2005, TORM adopted the International Financial Reporting Standards, or IFRS, which existed as of December 31, 2005. The transition is accounted for in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, and our transition date is January 1, 2004. The adoption of these standards and interpretations has resulted in changes to the Group's accounting policies in the following areas:

a) Prior to the adoption of IFRS, unrealized gains or losses with respect to bonds and shares in other companies were recognized in the income statement, under financial items. Shares are regarded as financial assets available for sale. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" unrealized gains or losses with respect to shares are recognized directly in shareholders' equity and released to the income statement when the assets are derecognized. Bonds are classified as financial assets at fair value through profit or loss. Therefore, unrealized gains or losses with respect to bonds are still recognized in the income statement.

b) Deferred tax assets and liabilities under the tonnage tax scheme were previously considered as contingent and were disclosed in the Notes. In accordance with IAS 12 "Income Taxes," the ongoing efforts of convergence with US GAAP and in order to align the accounting under IFRS with US GAAP, deferred

tax assets and liabilities are recognized in the balance sheet and the change for the year is recognized in the income statement.

c) TORM's share option scheme provides employees with the choice of a cash settlement or receipt of TORM shares. At the date the options are granted, the difference between the exercise price and the market price of the shares was previously recognized as a compensation expense under "administrative expenses" in the income statement. Receipts and payments relating to the exercise of the share options were recognized directly in shareholders' equity. In accordance with IFRS 2 "Share-based Payment" the scheme is treated as a cash-settled share-based payment transaction. A liability relating to share options not exercised is recognized in the balance sheet. The change in the liability for the period and the value of the share options exercised in the period are recognized in the income statement. The liability is measured using the Black-Scholes model. In the cash flow statement cash flows relating to the share option scheme are reclassified from financing activities to operating activities.

d) The Group has chosen to apply the optional exemption in IFRS 1"First-time Adoption of International Financial Reporting Standards" relating to cumulative translation differences. As a consequence, cumulative translation differences are deemed to be zero at the date of transition to IFRS, and gain or loss on a subsequent disposal of an operation applying a functional currency different from USD will exclude translation differences that arose before the date of transition to IFRS.

e) Non-current assets held for sale were previously included in the respective line in the balance sheet according to the type of asset. In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" non-current assets held for sale are presented in a separate line under current assets in the balance sheet and measured at the lower of carrying amount and fair value less costs to sell. Depreciation of an asset ceases when it is classified as held for sale.

f) Highly liquid bonds were previously included in "Cash and cash equivalents" in the cash flow statement. In accordance with IAS 7 "Cash Flow Statements" an investment must be subject to an insignificant risk of changes in value to qualify as a cash equivalent. Consequently, bonds with a term to maturity exceeding 3 months are classified as investing activities.

g) Forward contracts regarding bunker purchases were previously accounted for as cash flow hedges. The current practices do not fulfill the documentation requirements prescribed by IAS 39 "Financial Instruments: Recognition and Measurement". Consequently, value adjustments of forward contracts regarding bunker purchases are recognized in the income statement.

The effects of the adoption of IFRS

The adoption of IFRS has resulted in a reduction in the net profit for 2004 of USD 193.1 million to USD 186.6 million, a reduction in shareholders' equity as at January 1, 2004 of USD 65.7 million to USD 347.9 million and a reduction in shareholders' equity as at December 31, 2004, of USD 75.1 million to USD 715.4 million.

Changes in accounting estimates and judgments

The functional currency in the administrative entity is changed from DKK to USD as of January 1, 2005 in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates." A significant part of the DKK assets have been divested during 2005 and the activities of the administrative entity have been further integrated with the operating entities.

The reporting currency is changed from DKK to USD, which will provide a truer and fairer view of the financial results, financial performance and cash flows of the Group in accordance with IAS 1 "Presentation of Financial Statements" and IAS 21 "The Effects of Changes in Foreign Exchange Rates." The change in reporting currency is implemented retrospectively from January 1, 2004.

U.S. GAAP

As of January 1, 2005, TORM changed its method of accounting for vessel dry-docking costs under US GAAP from the accrual method to the deferral method. Under the accrual method, dry-docking costs had been accrued as a liability and an expense on an estimated basis in advance of the next scheduled dry-docking. Subsequent payments for dry-docking were charged against the accrued liability. Under the deferral method, costs incurred in replacing or renewing the separate assets that constitute the dry-docking costs are capitalized and depreciated on a straight-line basis over the estimated period until the next dry-docking. Dry-docking activities include, but are not limited to, 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. This change was made to conform to prevailing shipping industry accounting practices and the Group's accounting under IFRS. On January 1, 2005, TORM recorded the effect of the change in accounting principles on periods prior to 2005 as a cumulative effect of accounting change of USD 8.7 million (net of income tax of USD 0.4 million (income)) or USD 0.3 per basic share. The effect of this change in accounting methods on the US GAAP shareholders' equity was an increase of USD 8.7 million.

ACCOUNTING PRINCIPLES NOT YET ADOPTED

IFRS

IFRS 7 "Financial Instruments: Disclosures" adds certain new disclosures about financial instruments to those currently required by IAS 32, replaces the disclosures now required by IAS 30 and compiles all of those financial instruments disclosures together in a new standard. The standard is effective for periods beginning on or after January 1, 2007.

Amendment to IAS 1 "Presentation of Financial Statements". The amendment introduces disclosure requirements about the level of capital and how the capital is managed. The amendment is effective for periods beginning on or after January 1, 2007.

TORM expects to implement these new disclosure requirements with effect from the financial year 2006.

U.S. GAAP

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 123 (revised 2004) "Share-based Payment", which is a revision of SFAS 123, "Accounting for Stock-Based Compensation". SFAS 123R supersedes APB opinion No. 25, "Accounting for Stock issued to Employees" and its interpretations, and revises SFAS 123 "Accounting for Stock-Based Compensation". SFAS 123R eliminates the alternative to use APB Opinion 25's intrinsic value method of accounting that was provided in SFAS 123 as originally issued. SFAS 123R requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. SFAS 123R applies to all awards granted and modified, repurchased, or cancelled after the first interim or annual period beginning after 15 June 2005. The Company does not expect the adoption of SFAS 123R to have a material impact on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS 154 "Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS 154 replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements", and amends the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 establishes retrospective application, unless impracticable, as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. Under SFAS 154, the correction of an error in previously issued financial statements is not an accounting change, but involves adjustments to previously issued financial statements. In many, but not all aspects, under SFAS 154 the accounting for changes and error corrections are converged with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on the company's financial position or results of operations.

In November 2005 the FASB issued Staff Position No. FAS 115-1 and FAS 124-1, the Meaning of Other -Than-Temporary Impairment and Its Application to Certain Investments, ("FSP No. 115-1"). FSP No. 115-1 provides accounting guidance for identifying and recognizing other-than-temporary impairments of debt and equity securities, as well as cost method investments in addition to disclosure requirements. FSP No. 115-1 is effective for reporting periods beginning after December 15, 2005, and earlier application is permitted. This new pronouncement will be effective in 2006 and the Company does not believe that adoption of FSP No. 115-1 will have a material effect on its financial position, cash flows or results of operations.

U. S. GAAP ACCOUNTING POLICIES ADOPTED DURING 2005

None.

G. Safe harbor

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and senior management

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

Name	Age	Position
Board of Directors:		
Niels Erik Nielsen	58	Chairman of the Board
Christian Frigast	54	Deputy Chairman of the Board
Lennart Arnold Johan Arrias	57	Director
Ditlev Engel	42	Director
Rex Harrington	72	Director, retired in April 2006

Peder Mouridsen	56	Director
Gabriel Panayotides	51	Director
Nicos Zouvelos	51	Director, joined in April 2006
Management:		
Klaus Kjaerulff	54	Chief Executive Officer and Acting Chief Financial Officer
Klaus Nyborg	42	Chief Financial Officer, resigned in June 2006

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

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

Christian Frigast has been a director of the Company since September 26, 2000 and Deputy Chairman since April 25, 2002. Mr. Frigast is the managing director of Axcel A/S, a Danish investment company. He also serves as a member of the Board for numerous companies including Holdingselskabet af 1. august 1997 A/S and several companies related to Axcel A/S. Mr. Frigast holds a Masters of Science degree in Economy from the University of Copenhagen.

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

Ditlev Engel has been a director of the Company since April 25, 2002. Mr. Engel is Group President and CEO of Vestas Wind Systems A/S. He serves as a member of the board of directors for several companies related to Vestas Wind Systems A/S. Mr. Engel holds a Bachelor of Science degree in Economy from the Copenhagen Business School.

Rex Harrington, a director of the Company since April 2003, is the former Director of Shipping at The Royal Bank of Scotland (RBS) where he had responsibility for its extensive shipping portfolio. He has wide experience in the shipping industry and in marine finance, starting his career at the Bank of England after graduating from Oxford University with a Masters degree. He is now an independent shipping advisor. Mr. Harrington is the Chairman of the Advisory Board of the Liberian International Ship and Corporate Registry and a non-executive director of the International Chamber of Commerce Commercial Crime Services, which incorporates the International Maritime Bureau. He also serves on the board of directors of General Maritime Corporation, a shipping a publicly traded company with securities registered under the Securities Exchange Act of 1934. In addition, Mr. Harrington is a Deputy Chairman of the International Maritime Industries Forum and a member of various organizations, including InterCargo London Advisory Panel, Lloyds Register of Shipping General Committee, London Shipping Law Centre Steering Committee and The Baltic Exchange. Mr. Harrington was a Director of Clarksons (international shipbrokers) from 1995 to 1998 and of Lloyds Register of Shipping from 1994 to 1999. Mr. Harrington retired as a director of the Company at the annual general meeting held in April 2006.

Peder Mouridsen has been a director of the Company since 2003. Mr. Mouridsen is employed by TORM as a Chief Engineer and has been with the Company since 1970. He has been elected by the employees of TORM to our Board of Directors.

Gabriel Panayotides has been a director of the Company since September 26, 2000. Mr. Panayotides is Chairman (since 1998) of Excel Maritime Carriers Ltd., listed on the American Stock Exchange since October 1997. Mr. Panayotides has been engaged in the ownership and operation of ships since 1978 and sits on the Greek Committee of the classification societies, Bureau Veritas and Lloyds Register of Shipping. He has a Bachelors degree from the Pireaus University of Economics.

Nicos Zouvelos was elected to replace Rex Harrington as a director of the Company at the AGM in April 2006. Mr. Zouvelos is General Manager of Beltest Shipping Company Ltd., in Cyprus. He holds a Master of Science degree in Quantative Economics from University of Stirling, Scotland.

Klaus Kjaerulff has been our Chief Executive Officer and Managing Director since September 2000 and our Acting Chief Financial Officer since June 2006. Mr. Kjaerulff has worked for TORM since 1976. From 1997 to 2000, he served as Executive Vice President responsible for our tanker and bulk divisions. From 1981 to 1997, Mr. Kjaerulff was Vice President of our tanker division. He is deputy chairman of the board of the Danish Shipowners' Association and also serves as a member of the board for ICC Denmark, Assuranceforeningen SKULD, Norske Veritas Rad and The Trade Council of Denmark.

Klaus Nyborg was our Chief Financial Officer from February 2002 to June 2006. Prior to working for us, Mr. Nyborg was employed in various capacities at the A.P. M0ller Group, most recently as Chief Financial Officer (CFO) of the Maersk Logistics division. From 1998 to 2001, he served as Vice President and Regional CFO at Maersk for the Asia-Mid-East Region. From 1997 to 1998, he was the Regional CFO for the Europe-Africa Region. From 1992 to 1997, Mr. Nyborg served as General Manager and Corporate Secretary in the A.P. M0ller Group. Mr. Nyborg serves as a board member of The Danish Securities Council. He holds a Masters degree in Law and Business Economics and a Diploma in Economics from the Copenhagen Business School.

B. Compensation.

In 2005, we paid a total of USD 0.9 million to the Board of Directors and USD 3.4 million to our executives including exercised stock options. We have not set aside any amounts to provide pension, retirement or similar benefits to our directors and executive officers. For a description of our stock option plan please refer to "Option Plan" below. As of December 31, 2005, members of our Board of Directors had exercised 81,400 options.

C. Board Practices.

The members of our Board of Directors are elected for four-year terms. At the end of each term, they are eligible for re-election. All current Board members were elected at the annual general meeting in 2003 and, except for Mr. Rex Harrington, will be eligible for re-election in 2007. There are no service contracts between us and any of our directors providing for benefits upon termination of a director's election.

Committees of the Board of Directors

On July 31, 2005, we established an audit committee, which adopted an audit committee charter in compliance with Nasdaq's corporate governance rules. Our audit committee is comprised of two independent members of our board of directors who will be responsible for reviewing our accounting controls and

recommending to the board of directors the engagement of our outside auditors. The members of the audit committee are Messrs. Christian Frigast and Gabriel Panayotides. In addition, we have established a remuneration committee that is comprised of two independent members of our board of directors which are responsible for establishing executive officers' compensation and benefits. The members of our compensation committee are Messrs. Niels Erik Nielsen and Christian Frigast.

Exemptions from Nasdaq corporate governance rules

We have certified to Nasdaq that our corporate governance practices are in compliance with, and are not prohibited by, the laws of the Kingdom of Denmark. Therefore, we are exempt from many of Nasdaq's corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, notification of material non-compliance with Nasdaq corporate governance practices and the establishment of an audit committee and a formal written audit committee charter. The practices that we follow in lieu of Nasdaq's corporate governance rules are described below.

- In lieu of a nomination committee comprised of independent directors, our board of directors will be responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees. Shareholders may also identify and recommend potential candidates to become board members in writing. Also, under Danish law, two of our seven directors are elected by our employees. No formal written charter has been prepared or adopted because this process is outlined in our Articles of Association and in the laws of the Kingdom of Denmark.

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

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

Other than as noted above, we are in full compliance with all other applicable Nasdaq corporate governance standards.

D. Employees.

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

	2003	2004	2005
Land-based employees			
Denmark	92	93	103
Other	3	7	20
Total	95	100	123
Seafarers (officers)	185	195	216
Total employees	280	295	339

In 2003, 2004 and 2005, approximately 30 of our employees were employed in administrative positions. The majority of the staff on vessels owned by our subsidiaries and associated companies are not employed by us.

E. Share ownership

The following table sets forth information as of April 30, 2005, regarding the total amount of capital stock owned by our officers and directors on an individual basis:

Name	Position	Shares (Nom. Hold.)
Niels Erik Nielsen	Chairman of the Board	*
Christian Frigast	Deputy Chairman of the Board	*
Lennart Arnold Johan Arrias	Director	*
Ditlev Engel	Director	*
Nicos Zouvelos	Director	*
Peder Mouridsen	Director	*
Gabriel Panayotides	Director	*
Klaus Kjaerulff	Chief Executive Officer	*
Klaus Nyborg	Chief Financial Officer	*

* The person beneficially owns less than one percent of our common shares.

Option plan

In 2001, we created a share option based incentive program for Management, key employees and the Board members. The program included 23 participants who from 2001 to 2003 have been granted options to purchase shares in the Company, where the option holder can buy the shares at a specified exercise price or where the differential between the share price as of the day of exercising the options and the option price may be settled in cash.

In this respect we acquired 4.39% of our share capital for USD 7.9 million to cover the economic risk of share price movements in connection with the share option incentive program. As of December 31, 2005 24,420 treasury shares were held to cover this risk. The value of these shares was USD 1.2 million as of December 31, 2005, whereas the value of the options exercised during 2005 was USD 1.3 million, which was primarily settled in cash. As of December 31, 2005, 98% of the options were exercised and as of April 30, 2006, all the options were exercised.

Please refer to Note 5 to the consolidated Financial Statements for further information.

Employee shares

During April 2001, the Board of Directors also decided to offer our employees 200,000 common shares for the price of DKK 10.5 per share. In October 2001, our employees exercised the right to purchase 194,235 of these shares. The

market price at the date of the grant was DKK 54.3 per share. The remaining stock purchase rights have expired.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

A. Major shareholders.

Our capital stock is comprised of common shares, par value DKK 10 per share. Shareholders holding 5% or more of the total number of our outstanding shares are required to file information with the Copenhagen Stock Exchange.The following table sets forth information regarding the owners of 5% or more of our common shares as of April 30, 2006 according to announcements made to the Copenhagen Stock Exchange in accordance with section 29 of the Danish Securities Trading Act. None of the shareholders have any special voting rights.

Name	Number of Shares	Percentage of Class
Beltest Shipping Company Ltd.	11,216,600	30.8%
Menfield Navigation Company Limited	7,282,352	20.0%
A/S Dampskibsselskabet TORM's Understottelsesfond, Denmark	2,278,440	6.3%

Beltest and its parent company, Ryder Holdings Inc., have filed a Schedule 13D with the SEC. Menfield Navigation Company Limited acquired 7,282,352 shares, or 20.0% of our outstanding shares during 2003, 2004 and 2005. A/S Dampskibsselskabet TORM's Understottelsesfond's has filed a Schedule 13G with the SEC and its shareholding in TORM have not changed over the last three years.

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

B. Related party transactions.

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

There have not been any material transactions with such parties during the financial year, except for a time charter agreement with an entity owned by Beltest Shipping Company Limited under which TORM paid USD 7.2 million during 2005.

Management remuneration is disclosed in Note 5 to our consolidated financial statements.

C. Interests of experts and counsel.

Not Applicable.

ITEM 8. FINANCIAL INFORMATION.

A. Consolidated Statements and Other Financial Information.

See Item 17.

DIVIDEND DISTRIBUTION POLICY

Under Danish law, we are permitted to distribute dividends from our surplus capital. Any decision to distribute dividends will be at the discretion of the

Board of Directors and must be approved by the shareholders at our annual general meeting. Our shareholders approved a dividend of DKK 23 corresponding to USD 3.6 for every DKK 10 share at the annual general meeting in 2006.

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

B. Significant Changes.

Not Applicable.

ITEM 9. THE OFFER AND LISTING.

A. Offer and Listing Details.

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

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

DKK	2001 (*)	2002 (*)	2003 (*)	2004	2005
Low	22.00	23.07	28.66	96.89	221.99
High	31.25	30.21	91.44	249.11	361.54
Average Daily Volume	18,908	22,350	50,416	81,351	151,415

(*): Adjusted for the issue of bonus shares in May 2004.

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

2004	1st quarter	2nd quarter	3rd quarter
Low	96.89	136.54	139.72
High	198.99	175.74	172.76
Average Daily Volume	106,556	41,774	72,080

2005	1st quarter	2nd quarter	3rd quarter
Low	221.99	286.71	306.65
High	324.85	339.22	361.54
Average Daily Volume	116,375	139,772	161,463

For the previous six months:

	November 2005	December 2005	January 2006	Februar 200
Low	291.48	292.24	294.25	292.8

High	334.66	306.06	310.19	309.2
Average Daily Volume	211,635	207,537	116,082	106,50

B. Plan of Distribution

Not Applicable.

C. Markets.

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

USD	2002	2003	2004	2005
	(*)	(*)		
Low	3.15	3.16	17.12	38.68
High	4.25	15.73	44.90	59.57
Average Daily Volume	454	5,083	14,839	14,213

(*): Adjusted for the issue of bonus shares in May 2004.

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

2004	1st quarter	2nd quarter	3rd
Low	17.12	22.29	
High	35.40	29.49	
Average Daily Volume	12,436	7,283	
2005	1st quarter	2nd quarter	3rd
Low	38.68	49.00	
High	57.58	57.39	
Average Daily Volume	33,664	11,079	

For each of the previous six months:

	November 2005	December 2005	January 2006	Februar 200
Low	45.61	46.74	47.76	46.2
High	54.08	48.90	50.89	50.0
Average Daily Volume	6,833	5,084	4,799	1,78

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

This section summarizes our share capital and the material provisions of our Articles of Association, including rights of holders of our shares. The description is only a summary and does not describe everything that our Articles of Association contain. A copy of our Articles of Association was filed with the Securities and Exchange Commission on June 28, 2002, as Exhibit 1.1 to our annual report on Form 20-F for the year ended December 31, 2001. As a foreign private issuer, we are not subject to the proxy rules applicable to issuers under Section 14 of the Exchange Act of 1934, as amended, and our officers, directors and principal shareholders are not subject to the short-swing profit disclosure and recovery provisions of Section 16 of that act. We intend to provide quarterly reports for the first three quarters of each fiscal year to the Securities and Exchange Commission on Form 6-K containing unaudited financial and other information that we file with the Copenhagen Stock Exchange.

A. Share capital.

Not Applicable.

B. Memorandum and Articles of Association.

Our Articles of Association provide that our principal objectives are

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

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

Our Articles of Association also contain the following provisions:

- our Board of Directors shall receive a fixed stipend, which shall be set by the Board of Directors and approved by the shareholders during the annual general meeting;
- any dividend payable to a shareholder which remains unclaimed after five years shall accrue to us;
- each common share shall have the right to one vote;
- directors are elected for four year terms, after which they are entitled to be re-elected;
- there are no redemption rights; and

- generally, proposals to amend our Articles of Association or to dissolve or merge with another company require the approval of at least 2/3 of all votes cast at a meeting at which 3/5 of the outstanding share capital is present, unless the resolution was proposed by the Board of Directors, in which case a simple majority of the votes cast at a meeting at which a quorum consisting of 1/3 of the outstanding shares is present is required.

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

- special meetings can be convened by the Board of Directors and the auditors at any time on at least eight days notice but cannot be more than four weeks in advance;

- holders of at least 10% of our share capital can request special meetings by submitting a written request to the Board of Directors, which then has 14 days to convene a meeting;

- shareholders desiring to attend the general meeting must obtain an admission card from us at least four days prior to the meeting;

- admission cards will be issued to registered holders, and holders of unregistered shares who have obtained a deposit receipt issued by the depositary bank (or Danish Securities Center) and a written declaration that the shares will not be transferred until after the general meeting;

- shares acquired from another shareholder will not have any voting rights unless the shares are registered or unless the holder has filed and provided proof of ownership at least one day prior to the announcement of the general meeting; and

- proposals by shareholders must be submitted in writing to the Board of Directors before February 15th in order to be considered at the annual general meeting.

DANISH LAW CONSIDERATIONS

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

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

C. Material contracts.

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

NEWBUILDING CONTRACTS

We have entered into seven contracts with Dalian New Shipbuilding Heavy Industry Co. Ltd., each for the construction of a 110,000 dwt product tanker. Of these contracts two were executed on June 20, 2003, two were executed on October 22, 2003, one was executed on January 20, 2004 and two were executed on May 25, 2005. The contracts provide for stage payments of 10% upon signing of the contracts, 30% during construction, and 60% upon delivery of the vessel for the first five of the vessels. On the other two vessels the contracts provide for stage payments of 50% upon signing of the contracts, 33% during construction, and 17% upon delivery of each of the vessels. Delivery of the tankers is scheduled between April 2006 and January 2009.

We have entered into four contracts with Guangzhou Shipyard Int. Co. Ltd., each for the construction of a 51,800 dwt product tanker. Of these contracts two were executed on November 1, 2005 and two were executed on January 16, 2006. The contracts provide for stage payments of 20% upon signing of the contracts, 40% during construction, and 40% upon delivery of the vessel for each of the vessels. Delivery of the tankers is scheduled between August 2008 and June 2009.

LOAN AGREEMENTS AND CREDIT FACILITIES

On January 15, 2004, the Company has entered into a USD 95 million loan agreement with Nordea Bank Danmark A/S to assist in the financing of five vessels in our fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted to Nordea Bank a first priority mortgage, registered over and against the five vessels. The loan is due to be repaid in 2014.

On December 10, 2004, the Company has entered into a USD 570 million revolving credit facility with Danske Bank A/S and Danish Ship Finance to assist in the financing of 20 vessels in the TORM fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted to Danske Bank and Danish Ship Finance a first priority mortgage, registered over and against the 20 vessels. The loan is due to be repaid in 2014.

On March 1, 2005, the Company has entered into a USD 161 million revolving credit facility with Import Export Bank of China to assist in the financing of five of the abovementioned newbuildings. The interest rate is fixed based upon LIBOR. As security for our obligations under the debt instrument, we have granted to Nordea Bank Denmark, who acts as guarantors towards Import Export Bank of China for us, a first priority mortgage, registered over and against the five vessels. The loan is due to be repaid in 2013.

On December 23, 2005, TORM Singapore Pte. Ltd., a company wholly-owned by TORM, has entered into a USD 237 million loan agreement with The Hongkong And Shanghai Banking Corporation Limited to assist in the financing of seven vessels in the TORM fleet. The interest rate is a variable rate based upon LIBOR. As security for our obligations under the debt instrument, we have granted to The Hongkong And Shanghai Banking Corporation Limited a first priority mortgage, registered over and against the seven vessels. The loan is due to be repaid in 2015.

D. Exchange controls.

None.

E. Taxation.

The following discussion is a summary of the material Danish and U.S. federal income tax considerations relevant to an investment decision by a U.S. Holder and a Non-U.S. Holder, as defined below, in our American Depositary Shares, or ADSs, as evidenced by American Depositary Receipts, or ADRs. This

discussion does not purport to deal with the tax consequences of owning ADSs to all categories of investors, some of which, such as dealers in securities and investors whose functional currency is not the U.S. dollar, may be subject to special rules. You should consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of ADSs.

DANISH TAX CONSIDERATIONS

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

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

No withholding tax is levied on dividends paid to a corporation which holds at least 20% of a company's shares, provided that the shareholder company (i) has held those shares for a minimum of one year during the time in which the dividends were paid and (ii) is a resident in another European Union country or in a country with which Denmark has entered into a taxation treaty which eliminates or reduces the withholding tax on dividends.

Under the current income tax convention between Denmark and the United States, dividends on shares beneficially-owned by U.S. holders who are eligible for treaty benefits are subject to an effective Danish withholding tax at the rate of 15%. The withholding tax rate is reduced to 5% if the beneficial owner of the dividends is a U.S. company, which holds directly at least 10% of the share capital of the company paying the dividends.

Denmark has entered into tax conventions reducing the withholding tax to the applicable convention rate for individual residents of the United States, Canada, Germany, Belgium, Luxembourg, Norway, Sweden, Ireland, Switzerland, Greece and the United Kingdom. The regime does not entitle the investor to a lower withholding tax rate than the rate applicable according to the double taxation treaty, but reduces the withholding tax rate from the normal rate of 28% to the withholding tax rate that applies according to the relevant double taxation treaty.

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

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

U.S. FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Seward & Kissel LLP, our U.S. counsel, the following are the material U.S. federal income tax consequences to us and to U.S. Holders and Non-U.S. Holders, as defined below, regarding our ADSs. The following discussion of U.S. federal income tax matters is based on the Internal Revenue Code of

1986, as amended, which we refer to as the "Code," judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury, all as they exist on the date hereof and all of which are subject to change, possibly with retroactive effect. In addition, the discussion is based, in part, on the description of our business as described above and assumes that we conduct our business as described in that section.

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

United States Taxation Of Our Company

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

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

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

Code Section 883 Exemption

Under Code Section 883 and the final regulations promulgated thereunder that came into effect and applies to us beginning the calendar year 2005, TORM and each subsidiary that derives U.S. source shipping income will qualify for exemption from U.S. federal income tax under Section 883 in respect of such shipping income if, in relevant part:

- TORM and each subsidiary is organized in a qualified foreign country which, as defined, is a foreign country that grants an equivalent exemption from tax to corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883, which we refer to as the "country of organization requirement"; and

- more than 50% of the value of the stock of TORM and each subsidiary is treated as owned, directly or indirectly, by individuals who are "residents" of qualified foreign countries, which we refer to as the "ownership requirement."

Since the U.S. Treasury Department has recognized Denmark, the country of

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

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

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

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

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

For 2005, TORM's common stock satisfied these "regularly-traded" tests. Furthermore, TORM has no reason to believe that this will not continue to be the case notwithstanding the ADS listing on the NASDAQ.

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

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

number of days during such year, which we refer to as the "5% closely-held group exception."

Based on its shareholdings during 2005, TORM was subject to the 5% override rule of the final regulations. However, TORM has obtained from one of its 5% shareholders, and from each entity in the chain of ownership between such shareholder and TORM, ownership statements required by the final regulations to support such shareholder's status as a qualified shareholder for more than half the days of the calendar year 2005. Since the percentage ownership of TORM common shares owned by such 5% qualified shareholder for such period is such that the common share percentage owned by the remaining shareholders in the 5% closely-held group for such period falls below the 50% ownership threshold, TORM therefore qualifies for the 5% closely-held exception.

Therefore, both TORM and each subsidiary is eligible to claim exemption from tax under Section 883 on the U.S. source shipping income earned during 2005.

The United States-Denmark Income Tax Treaty Exemption

Without regard to Section 883, we believe that TORM, each Danish subsidiary and certain non-Danish subsidiaries would qualify for exemption from U.S. federal income tax under Article 8 of the United States-Denmark Income Tax Treaty, which we refer to as the "Treaty."

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

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

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

TORM's common stock is currently listed on a recognized stock exchange within the meaning of the Treaty (the Copenhagen Stock Exchange). Since the common stock is TORM's sole class of stock, the 50% vote/value test is satisfied. Based on their recent trading history on the Copenhagen Stock

Exchange over the past two years, the common shares of TORM also satisfy the substantially and regularly traded test of the Treaty and therefore TORM currently satisfies the publicly traded rule of Article 22 of the Treaty. Although we cannot give any assurances, we have every expectation that the trading volume and trading frequency of TORM's common shares on the Copenhagen Stock Exchange will continue to match or exceed the recent trading history of TORM's common shares on the Copenhagen Stock Exchange.

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

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

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

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

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

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

Gain on Sale of Vessels. To the extent any of our vessels makes more than an occasional voyage to U.S. ports, TORM or its subsidiaries may be considered for United States federal income tax purposes to be engaged in the conduct of a United States trade or business. As a result, except to the extent the gain on the sale of a vessel is incidental to the Shipping Income of TORM or its subsidiaries that is exempt under either Section 883 or the Treaty, any U.S. source gain derived by TORM or its subsidiaries on the sale of a vessel may be

partly or wholly subject to United States federal income tax as "effectively connected" income (determined under rules different from those discussed above) under the net basis and branch tax regime described above. However, we intend to structure sales of our vessels in such a manner, including effecting the sale and delivery of vessels outside of the United States, as to not give rise to U.S. source gain.

Taxation of U.S. Holders

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

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

Distributions. Any distributions made by the ADS depositary agent, or depositary, with respect to our ADSs to a U.S. Holder will generally constitute dividends to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

Dividends paid with respect to our ADSs to a non-corporate U.S. Holder (a "U.S. Individual Holder") may be eligible for preferential U.S. federal income tax rates (through 2008) provided that (1) we are a "qualified foreign corporation," (2) the U.S. Individual Holder has owned our stock for more than 60 days in the 121-day period beginning 60 days before the date on which our stock becomes ex-dividend and (3) we are not a passive foreign investment company for the taxable year of the dividend or the immediately preceding taxable year (which we do not believe we are, have been or will be). The preferential tax rates do not apply to U.S. Holders that are not individuals, trusts or estates.

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

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

Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in his ADSs on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividend received deduction with respect to any

distributions they receive from us. Dividends paid with respect to the underlying common stock of each ADS will generally be treated as "passive income" (or "passive category income" for taxable years beginning after December 31, 2006) or, in the case of certain types of U.S. Holders, "financial services income," (which will be treated as "general category income" for taxable years beginning after December 31, 2006) for purposes of computing allowable foreign tax credits for U.S. foreign tax credit purposes.

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

U.S. Taxation of "Non-U.S. holders"

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

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

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

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

Backup Withholding and Information Reporting

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

- fail to provide an accurate taxpayer identification number;

- are notified by the IRS that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or

- in certain circumstances, fail to comply with applicable certification requirements.

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

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

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

Danish Tonnage Taxation Scheme

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

The election is binding for a ten-year period and, accordingly, we will be covered by the tonnage tax system until 2010.

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

It is as yet uncertain whether activities in relation to management of pools of vessels owned by other shipping companies can or cannot be taxed according to the tonnage tax system, but will be taxed in accordance with the ordinary Danish corporate tax legislation. Special rules apply in relation to the treatment of financial income/expenses.

The taxable income for a Company for a given period is calculated as the sum of the taxable income under the tonnage tax system and the taxable income made up in accordance with to the ordinary Danish corporate tax system. The taxable income is taxed at the normal corporate tax rate (presently 28 %). The taxable income may be offset by tax losses carried forward following the normal Danish Tax rules.

Capital gains in connection with the sale of vessels - calculated for each vessel as the difference between the sales price and the acquisition price plus

expenses incurred for improvement of the vessel - are taxed in accordance with the normal tax legislation.

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

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

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

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

In accordance with Danish accounting principles, the provision for deferred tax that existed at the date of enactment was released to income in 2002, which was in accordance with shipping industry practice in Denmark. However, TORM changed its accounting policies in 2005 to comply with IFRS and in order to align the accounting under IFRS and under U.S. GAAP deferred tax assets and liabilities are recorded in the balance sheet. As at December 31, 2005, the Company carried a deferred tax liability of USD 54.6 million in the balance sheet. In 2005, the Company paid income taxes, including tonnage tax, of USD 5.9 million compared to USD 0.1 million in 2004. The Company paid no income taxes in 2001, 2002 and 2003 due to tax losses carried forward.

The tonnage tax legislation is relatively new, and the guidance from the authorities is not detailed in every aspect. Accordingly, in connection with the preparation of our tax returns for 2001, 2002, 2003 and 2004, we made interpretations of the new tonnage tax legislation some of which have been challenged by the tax authorities. We agree in part to some of the alternative interpretations presented by the tax authorities whereas we do not agree to other of the alternative interpretations presented. The differences in interpretation primarily relate to whether certain income and expense items are taxable under the tonnage taxation scheme or the ordinary Danish corporate tax legislation. The tax authorities have concluded their assessment of the tax return for 2001. However, we have challenged the assessment with respect to certain issues.

F. Dividends and paying agents.

Not Applicable.

G. Statement by experts.

Not Applicable.

H. Documents on display.

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

I. Subsidiary Information

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from foreign currency fluctuations, changes in interest rates and changes in the prices of fuel oil. We enter into financial instruments to manage these risks, but do not use financial instruments for trading or speculative purposes. The sensitivity analyses presented do not consider the effects that such adverse change may have on overall economic activity, nor do they consider additional actions management may take to mitigate its exposure to such changes. Actual results may differ. For an overview of the fair value of the derivative financial instruments please refer to Note 18.

Foreign Exchange Rate Risk

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

Exchange rate risks are assessed in relation to the USD, and the Company's policy is to limit the impact of exchange rate movements on the financial statements and on the financial position of the Company.

The expected cash flow in relation to the payment of technical expenses in non-USD related currencies, salaries, wages and other administrative expenses and dividends are typically covered for a period of up to 1 year ahead. All things being equal, a hypothetical weakening of 1% in the U.S. dollar against Danish Kroner would result in a decrease in the net income of USD 0.8 million in 2006. However, shareholders' equity as of December 31, 2005 would have increased by approximately USD 4 million had the U.S. dollar weakened by 1% against Danish Kroner. Such a change in exchange rates would not have impacted our cash flows.

In order to manage this risk, we enter into forward contracts, cross currency contracts and currency options.

Cross currency contracts

As of December 31, 2005, we had no cross currency contract in place. As of December 31, 2004, the fair value of our currency contracts was USD 6.4 million.

Forward Currency Contracts

In 2005 we entered into forward contracts agreeing to sell a total of USD 50 million against DKK at an average exchange rate of DKK 6.17 for the purpose of servicing our Danish cash flow requirements. As of December 31, 2005, the

fair value of our forward currency contracts was less than USD (0.1) million as compared to USD 3.8 million as of December 31, 2004. The contracts expire in April 2006.

Currency Options

We have entered into an agreement to buy put options for USD 16 million in April 2006. The counterparty must buy USD from us at an exchange rate of 6.00 to the DKK. In case the USD/DKK exchange rate exceeds the agreed level of 6.81, the counterparty can purchase USD from us at an exchange rate of DKK 6.1875 per USD.

As of December 31, 2005, the fair value of our currency options was USD (0.1) million as compared to USD 3.6 million as of December 31, 2004.

Interest Rate Risk

As of December 31, 2005, all of our debts have variable interest rates based on LIBOR plus a margin.

In certain cases, we utilize derivative financial instruments to avoid interest rate fluctuations on earnings and cash resources. Typically, we use interest rate swaps for periods up to 5 years. The instrument's profile always matches the loan profile of the particular loan in question. The differential to be paid or received under the swap agreements is accrued as interest rates change and is recognized as an adjustment to interest expense.

As of December 31, 2005, we were committed to a series of interest rate swap agreements whereby 42% of our total floating rate debt was swapped with fixed rate obligations having an average remaining term of 2.6 year, expiring between 2006 and 2010. These arrangements effectively change our interest rate exposure on the hedged debt from a floating LIBOR rate to an average fixed rate of 4.1%. An additional 19% of our floating rate debt was swapped with fixed rate obligations using interest swaps containing an option element having an average remaining term of 2.2 years and expiring between 2007 and 2009. An interest rate swap containing an option element is an agreement where the seller has an option to ask the buyer to pay actual LIBOR rate if this is above a certain threshold on the fixing day. On three of our interest rate swaps with an option element this threshold is 7%. Below this level, the swaps act as normal interest rate swaps and thereby change our interest rate exposure on the hedged debt from a floating LIBOR rate to an average fixed rate of 3.8%. If market interest rates were to decrease approximately 1% the interest rate swap agreements in place at the end of the year would require us to pay USD 4.8 million of interest in excess of market rates. The fair value of these interest rate swaps at December 31, 2005 was USD 6.6 million as compared to USD 0.2 million as of December 31, 2004.

A 1% increase in interest rates on the remaining variable rate debt would result in USD 2.0 million of additional interest expense for the year ended December 31, 2005 as compared to USD 1.2 million as of December 31, 2004. We assess each debt instrument, the level of debt to fix and the timing of entering into such agreements based on the market conditions.

At year-end we had a bond portfolio with a fair value of USD 0.2 million. The bonds were drawn for early redemption and sold with value on January 2, 2006.

Bunker Price Risk

Our results of operations could be negatively impacted by increases in the price of fuel oil. To cover this risk, we economically hedge the price of part of its bunkers' requirements for up to 12 months forward at a fixed price. In 2005, the Company hedged twenty five per cent of its bunker requirements, and at

year-end it had hedged about twenty nine per cent of the 2006 requirement. The market value of these contracts was USD 0.0 million at year end as compared to USD (0.8) million in 2004. A hypothetical change of 1 percentage point in the price per ton of bunker oil would result in a change in cost in 2006 of USD 1.2 million based on the expected consumption of bunkers, where the Company, not the charterer, takes the risk.

In light of the Company's pool structure, bunker hedging for tankers is not done in respect of an individual vessel when it has been chartered out. Instead, bunker hedging is planned in connection with the specific pool's total estimated bunker requirements. Nonetheless, where a contract of affreightment covering several voyages has been fixed, the pool may economically hedge bunker requirements specifically for such a contract.

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

All bunker hedgings and indeed any other form of hedging are carried out only based on specific requirements and not for the purpose of any form of speculation.

Freight Rate Risk

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

The COA's would meet the definition of a derivative financial instrument according to SFAS 133, but since we in nearly all instances take physical delivery, our COA's qualify for the normal sales and purchase exemption and are therefore not accounted for as derivative financial instruments. The freight derivatives are purely paper deals that require no physical delivery of either a vessel or a cargo and as such are treated as a derivative financial instrument.

As of December 31, 2005, the fair values of the freight derivatives were USD (1.9) million as compared to USD (4.4) million as of December 31, 2004.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

Part II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

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

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure of controls and procedures.

As of December 31, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them timely to material information relating to the Company required to be included in the Company's periodic Securities and Exchange Commission filings.

(b) Management's annual report on internal controls over financial reporting.

Not applicable.

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

Not applicable.

(d) Changes in internal control over financial reporting.

There have been no significant changes in our internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company's most recent evaluation of internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

We have established an audit committee of the board of directors. Our audit committee is comprised of two independent members of our board of directors who will be responsible for reviewing our accounting controls and recommending to the board of directors the engagement of our outside auditors. The members of the audit committee are Messrs. Christian Frigast and Gabriel Panayotides. Our audit committee does not include a financial expert because it is not consistent with Danish practice.

ITEM 16B. CODE OF ETHICS

We have not adopted a formal corporate code of conduct applicable to all directors, officers and employees because we are not required to have one under Danish law.

ITEM 16C. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

The aggregate fee for audit and audit services provided by Deloitte to the Company in 2005 and 2004 were:

(in USD million)	2005	2004
Audit Fees	0.5	0.3
Audit-Related Fees	0.0	0.0
Tax Fees	0.1	0.1

All Other Fees	0.0	0.1
Total	0.6	0.5

The Danish Annual Report is audited by Deloitte and Ernst & Young. The aggregate fee for audit and audit services provided by Ernst & Young to the Company in 2005 is disclosed in Note 6 to the consolidated financial statements.

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

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

ITEM 16D. EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES None.

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

None.

Part III

ITEM 17. FINANCIAL STATEMENTS

We specifically incorporate by reference in response to this item the report of the independent auditors, the consolidated audited financial statements and the accompanying notes, appearing on pages F-1 through F-51.

Non-GAAP measures

In this document we use the measures: solvency ratio, net interest bearing debt and invested capital. Although not GAAP measures they are all commonly used financial measures.

Solvency ratio

Solvency ratio measures the proportion of the total assets, which is financed by shareholders' equity. We believe that it is a relevant measure, which management uses to measure the overall development in our financial position. Solvency ratio is calculated as follows:

(in USD million)	2004	2005
Shareholders' equity	715.4	904.7
Divided by Total assets	1,239.6	1,810.1
Equals Solvency ratio	57.7%	50.0%

Net interest bearing debt

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

(in USD million)	2004	2005
Mortgage debt and bank loans	395.4	789.0
Less Cash and cash equivalents	(65.5)	(156.7)
Less Bonds	(58.1)	(0.2)
Equals Net interest bearing debt	271.8	632.1

Invested capital

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

(in USD million)	2004	2005
Tangible fixed assets	688.0	1,167.1
Plus Inventories	5.8	10.9
Plus accounts receivable	53.7	70.9
Plus Non-current assets held for sale	0.0	43.4
Less Deferred tax	(73.2)	(54.6)
Less Trade accounts payable	(15.7)	(22.9)
Less Current tax liabilities	(9.4)	(9.4)
Less Other liabilities	(23.1)	(23.6)
Less Deferred income	(7.4)	(6.0)
Equals Invested capital	618.7	1,175.8

ITEM 18. FINANCIAL STATEMENTS

Not Applicable.

TORM AND SUBSIDIARIES
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December 31, 2004 and 2005 ....F-3

Consolidated Balance Sheets as of December 31, 2004 and 2005................F-4

Consolidated Statements of Total Gains and Losses for the years ended
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December 31, 2004 and 2005...F-8

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO
THE SHAREHOLDERS OF AKTIESELSKABET DAMPSKIBSSELSKABET TORM

We have audited the accompanying consolidated balance sheets of Aktieselskabet Dampskibsselskabet TORM and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, total gains and losses, statement of changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Aktieselskabet Dampskibsselskabet TORM and subsidiaries as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 in conformity with International Financial Reporting Standards.

International Financial Reporting Standards vary in certain respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 23 to the consolidated financial statements.

As discussed in Note 23 to the financial statements, in 2005 the Company changed its method of accounting for vessel dry-docking expenses under principles generally accepted in the United States of America.

Deloitte Statsautoriseret Revisionsaktieselskab
Copenhagen, Denmark

June 9, 2006

TORM AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

(EXPRESSED IN THOUSANDS OF USD)

	Note
Net revenue	
Port expenses, bunkers and commissions	
Time charter equivalent earnings	
Charter hire	
Operating expenses	
Gross profit (Net earnings from shipping activities)	4, 5
Profit from sale of vessels	
Administrative expenses	5, 6
Other operating income	
Depreciation and impairment losses	8
Operating profit	
Financial items	9
Profit before tax	
Tax expenses	10
Net profit for the year	
Earnings per share	
Earnings per share (USD)	21
Earnings per share (DKK) *)	
Diluted earnings per share (USD)	21
Diluted earnings per share (DKK) *)	

*) 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 stat

TORM AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2005
(EXPRESSED IN THOUSANDS OF USD)

	Note
ASSETS	

NON-CURRENT ASSETS		
Tangible fixed assets		
Land and buildings		
Vessels and capitalized dry-docking	15	6
Vessels under construction and prepayments for vessels		
Other plant and operating equipment		
	8	6
Financial fixed assets		
Other investments	7	3
		3
Total non-current assets		1,0
CURRENT ASSETS		
Inventories of bunkers		
Freight receivables, etc.		
Other receivables		
Accruals		
Marketable securities	15	
Cash and cash equivalent		
		1
Non-current assets held for sale	20	
Total current assets		1
TOTAL ASSETS		1,2

The accompanying notes are an integrated part of these financial state

TORM AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2004 AND 2005
(EXPRESSED IN THOUSANDS OF USD)

	Note	
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Common shares	11	
Treasury shares	11	
Revaluation reserves		3
Retained profit		2
Proposed dividend		
Hedging reserves		
Translation reserves		
Total shareholders' equity		7

	Note	
LIABILITIES		
Non-current liabilities		
Deferred tax	10	
Mortgage debt and bank loans	13,15	3
Total non-current liabilities		4
Current liabilities		
Mortgage debt and bank loans	13,15	
Trade payables		
Current tax liabilities		
Other liabilities	14	
Deferred income	12	
Total current liabilities		1
Total liabilities		5
Total shareholders' equity and liabilities		1,2
Accounting policies	1-3	
Collateral security	15	
Guarantee and contingent liabilities	16	
Contractual liabilities	17	
Fair value of derivative financial instruments	18	
Related party transactions	19	
Earnings per share	21	
Appropriation on net profit for the year incl. Proposed dividend	22	
Reconciliation to United States Generally Accepted Accounting Principles (U.S. GAAP)	23	

The accompanying notes are an integrated part of these financial state

TORM AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS OF DECEMBER 31, 2004 AND 2005
(EXPRESSED IN MILLIONS OF USD)

	Common shares	Treasury shares	Retained profit	Proposed dividends	recogni Revaluati reserve
SHAREHOLDERS' EQUITY					
Balance at January 1, 2004	30.5	(8.7)	358.7	36.7	0.0
Change in accounting policies			(184.4)		118.7
Balance at January 1, 2004 as restated	30.5	(8.7)	174.3	36.7	118.7
Changes in shareholders' equity 2004:					
Exchange rate adjustment arising on translation of entities using a measurement currency different from USD					

Reversal of deferred gain/loss on cash flow hedges at the beginning of the year					
Deferred gain/loss on cash flow hedges at year-end					
Reversal of fair value adjustment on available for sale investments at the beginning of the year					(118.7)
Fair value adjustment on available for sale investments at year-end					319.3
Net gains/losses recognized directly in the equity	0.0	0.0	0.0	0.0	200.6
Profit for the year			186.6		
Total income/(expenses) for the year	0.0	0.0	186.6	0.0	200.6
Disposal of treasury shares, cost		1.0			
Gain on disposal of treasury shares			0.1		
Dividends paid				(35.4)	
Dividends paid on treasury shares			1.5		
Exchange rate adjustment on dividends paid			1.3	(1.3)	
Proposed dividend for the financial year			(99.9)	99.9	
Exercise of share options			5.1		
Bonus share issue	30.6		(30.6)		
Cost of bonus share issue			0.0		
Total changes in shareholders' equity 2004	30.6	1.0	64.1	63.2	200.6

TORM AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(CONTINUED)
AS OF DECEMBER 31, 2004 AND 2005
(EXPRESSED IN MILLIONS OF USD)

	Common shares	Treasury shares	Retained profit	Proposed dividends	recogni Revaluati reserve
Shareholders' equity at December 31, 2004	61.1	(7.7)	238.4	99.9	319.3
Changes in shareholders' equity 2005:					
Exchange rate adjustment arising on translation of entities using a measurement currency different from USD					
Reversal of deferred gain/loss on cash flow hedges at the beginning of the year					
Deferred gain/loss on cash flow hedges at year-end					
Reversal of fair value adjustment on available for sale investments at the beginning of the year					
Fair value adjustment on available for					

sale investments at year-end					
Net gains/losses recognized directly in the equity	0.0	0.0	0.0	0.0	(22.9)
Profit for the year			299.4		
Total income/(expenses) for the year	0.0	0.0	299.4	0.0	(22.9)
Disposal of treasury shares, cost		0.0			
Dividends paid				(94.5)	
Dividends paid on treasury shares			4.1		
Exchange rate adjustment on dividends paid			5.4	(5.4)	
Exercise of share options			0.4		
Proposed dividend for the financial year			(132.4)	132.4	
Total changes in shareholders' equity 2005	0.0	0.0	176.9	32.5	(22.9)
Shareholders' equity at December 31, 2005	61.1	(7.7)	415.3	132.4	296.4

The accompanying notes are an integrated part of these financial state

TORM AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005
(EXPRESSED IN THOUSANDS OF USD)

	2
CASH FLOW FROM OPERATING ACTIVITIES	
Operating profit	179,
Adjustments:	
Reversal of profit from sale of vessels	
Reversal of depreciation and impairment losses	35,
Reversal of other non-cash movements	4,
Dividends received	34,
Interest income and exchange rate gains	3,
Interest expenses	(15,
Income taxes paid	(
Change in inventories, accounts receivables and payables	(12,
Net cash inflow/(outflow) from operating activities	228,
CASH FLOW FROM INVESTING ACTIVITIES	
Investment in tangible fixed assets	(187,
Investment in equity interests and securities	
Sale of non-current assets	
Net cash inflow/(outflow) from investing activities	(187,
CASH FLOW FROM FINANCING ACTIVITIES	
Borrowing, mortgage debt and other financial liabilities	146,

Repayment/redemption, mortgage debt	(85,
Repayment/redemption, lease liabilities	(30,
Dividends paid	(33,
Purchase/disposal of treasury shares	1,
Cash inflow/(outflow) from financing activities	(2,
Net cash inflow/(outflow) from operating, investing and financing activities	38,
Cash and cash equivalents, at January 1	27,
Cash and cash equivalents, at December 31	65,
Of which used as collateral	
	65,

The accompanying notes are an integrated part of these financial state

TORM AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

NOTE 1

CHANGES IN ACCOUNTING POLICIES

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In the current year, the TORM Group has adopted all of the International Financial Reporting Standards as at December 31, 2005. The transition is accounted for in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, and the date of transition is January 1, 2004. The adoption of these standards and interpretations has resulted in changes to the Group's accounting policies in the following areas:

a) Unrealized gains or losses in respect of bonds and shares in other companies were previously recognized in the income statement under financial items. Shares are regarded as financial assets available for sale. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" unrealized gains or losses in respect of shares are recognized directly in shareholders' equity and released to the income statement when the assets are derecognized. Bonds are classified as financial assets at fair value through profit or loss. Therefore, unrealized gains or losses in respect of bonds are still recognized in the income statement.

b) Deferred tax assets and liabilities under the tonnage tax scheme were previously considered as contingent and were disclosed in the Notes. In accordance with IAS 12 "Income Taxes" and the ongoing efforts to convergence with US GAAP and in order to align the accounting under IFRS and under US GAAP, deferred tax assets and liabilities are recognized in the balance sheet and the change for the year is recognized in the income statement.

c) TORM's share option scheme provides the employees with the choices of cash settlement or receipt of TORM shares. The difference at the date the options are granted between the exercise price and the market price of the shares was previously recognized as a compensation expense in administrative expenses in the income statement. Receipts and payments relating to the exercise

of the share options were recognized directly in shareholders' equity. In accordance with IFRS 2 "Share-based Payment" the scheme is treated as cash-settled share-based payment transactions. A liability relating to share options not exercised is recognized in the balance sheet. The change in the liability for the period and the value of the share options exercised in the period are recognized in the income statement. The liability is measured using the Black-Scholes model. In the cash flow statement cash flows relating to the share option scheme are reclassified from financing activities to operating activities.

d) The Group has chosen to apply the optional exemption in IFRS 1"First-time Adoption of International Financial Reporting Standards" relating to cumulative translation differences. As a consequence, cumulative translation differences are deemed to be zero at the date of transition to IFRS, and gain or loss on a subsequent disposal of an operation applying a functional currency different from USD will exclude translation differences that arose before the date of transition to IFRS.

e) Non-current assets held for sale were previously included in the respective line in the balance sheet according to the type of asset. In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" non-current assets held for sale are presented in a separate line under current assets in the balance sheet and measured at the lower of carrying amount and fair value less costs to sell. Depreciation of an asset ceases when it is classified as held for sale.

f) Highly liquid bonds were previously included in "Cash and cash equivalents" in the cash flow statement. In accordance with IAS 7 "Cash Flow Statements" an investment must be subject to an insignificant risk of changes in value to qualify as a cash equivalent. Consequently, bonds with a term to maturity exceeding 3 months are classified as investing activities.

g) Forward contracts regarding bunker purchases were previously accounted for as cash flow hedges. The current practices do not fulfill the documentation requirements prescribed by IAS 39 "Financial Instruments: Recognition and Measurement". Consequently, value adjustments of forward contracts regarding bunker purchases are recognized in the income statement.

CHANGES IN ACCOUNTING ESTIMATES AND JUDGEMENTS

The functional currency in the administrative entity is changed to USD from DKK prospectively from January 1, 2005 in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" as a significant part of the DKK assets have been divested during 2005 and the activities of the administrative entity have been further integrated with the operating entities.

The reporting currency is changed to USD from DKK, which will provide a truer and more fair view of the financial results, financial performance and cash flows of the Group in accordance with IAS 1 "Presentation of Financial Statements" and IAS 21 "The Effects of Changes in Foreign Exchange Rates." The change in reporting currency is implemented retrospectively from January 1, 2004.

EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The effects of the changes in accounting policies, estimates and judgments on the balance sheet as at January 1, 2005 and on the comparative figures for 2004 for the Group are illustrated in the statements presented on the following page. The statements are presented in USD in accordance with the change in reporting currency.

	Reference to description	January 1
		Previous GAAP t
CONSOLIDATED INCOME STATEMENT		
Net revenue		433.3
Port expenses, bunkers and commission	g	(83.0)
Time charter equivalent earnings		350.3
Charter hire		(59.6)
Operating expenses		(49.8)
Gross profit/(loss) (Net earnings from shipping activities		240.9
Profit/(loss) from sale of vessels		0.0
Administrative expenses	c	(28.8)
Other operating income		13.2
Depreciation and impairment losses		(35.2)
Operating profit		190.1
Financial items	a	199.2
Profit/(loss) before tax		389.3
Tax expenses	b	(9.6)
Net profit/(loss) for the year		379.7
ASSETS		
Tangible fixed assets		688.0
Financial fixed assets		368.5
Total non-current assets		1,056.5
Total current assets		183.1
Total assets		1,239.6
SHAREHOLDERS' EQUITY AND LIABLITIES		
Total shareholders' equity	b, c	790.5
Non-current liabilities	b	333.3
Current liabilities	c	115.8
Total liabilities		449.1
Total shareholders' equity and liabilities		1,239.6

SHAREHOLDERS' EQUITY		
Shareholders' equity, previous GAAP		
Deferred tax	b	
Liability regarding outstanding share options	c	
Shareholders' equity, IFRS		

ACCOUNTING PRINCIPLES NOT YET ADOPTED

The following standards have not yet been adopted:

IFRS 7 "Financial Instruments: Disclosures". The standard adds certain new disclosures about financial instruments to those currently required by IAS 32, replaces the disclosures now required by IAS 30 and compiles all of those financial instruments disclosures together in a new standard. The standard is effective for periods beginning on or after January 1, 2007.

Amendment to IAS 1 "Presentation of Financial Statements". The amendment introduces disclosure requirements about the level of capital and how the capital is managed. The amendment is effective for periods beginning on or after January 1, 2007.

TORM expects to implement these new disclosure requirements with effect from the financial year 2006.

NOTE 2

ACCOUNTING POLICIES

The annual report has been prepared in accordance with the International Financial Reporting Standards and the disclosure requirements for Danish listed companies' financial reporting. 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 Group applies USD as presentation currency in the preparation of financial statements.

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

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

TORM acts as pool manager for 3 pools in which the Group 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 charter

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 and the related expenses are recognized upon delivery of service in accordance with the terms and conditions of the charter parties.

For cross over voyages (voyages in progress at the end of a reporting period) the uncertainty and the dependence on estimates are greater than for concluded voyages. The Group recognizes a percentage of the estimated revenue and voyage expenses for the voyage equal to the percentage of the estimated duration of the voyage completed on the balance sheet date. The estimate of revenue and voyage expenses is based on the expected duration and destination of the voyage, vessel statistics regarding bunker consumption, estimates of port expenses and previous experience.

When recognizing net revenue, there is a risk that the actual number of days it takes to complete the voyage will differ from the estimate, and for time charter parties a lower day rate may have been agreed for additional days. The contract for a single voyage may state several alternative destination ports. The destination port may change during the voyage, and the rate may vary depending on the destination port. Changes to the estimated duration of the voyage as well as changing destinations and weather conditions will affect the voyage expenses.

Demurrage revenues

Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, TORM is compensated for the additional time incurred in the form of a demurrage revenue. Demurrage revenues are recognized upon delivery of service in accordance with the terms and conditions of the charter parties.

Upon completion of the voyage, the Group 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 counter claims 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 Group 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.

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 Group 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 Group's business plans. The Group 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 under construction is measured at costs incurred.

Dry-docking costs

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

The cost of acquiring a new vessel is divided into dry-docking costs and the remaining cost of the vessel. The two elements are recognized and depreciated separately. For newbuildings, the initial dry-docking asset is estimated based on the expected costs related to the first-coming dry-docking, which is again based on experience and past history of similar vessels. For second-hand vessels, a dry- docking asset is also segregated and capitalized separately, however, taking into account the normal docking intervals in TORM.

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 TORM personnel and the cost of hiring third party personnel to oversee a dry-docking. Dry-docking activities include, but are not limited to, the inspection, service on turbocharger, replacement of shaft seals, service on boiler, replacement of hull anodes, applying of antifouling and hull paint, steel repairs and refurbishment and replacement of other parts of the vessel.

Deferred tax

All significant Danish entities within the Group entered the Danish tonnage taxation scheme for a binding 10-year period with effect from January 1, 2001 and have filed tax returns for the fiscal years 2001 to 2004. Under the Danish tonnage taxation scheme, taxable income is not calculated on the basis of income and expenses as under the normal corporate taxation. Instead, taxable income is calculated with reference to the tonnage used during the year. The taxable income for a Company for a given period is calculated as the sum of the taxable income under the tonnage taxation scheme and the tax- able income from the activities that are not covered by the tonnage taxation scheme made up in accordance with the ordinary Danish corporate tax system.

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

OTHER ACCOUNTING POLICIES

Consolidation principles

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

Entities in which the Group holds between 20% and 50% of the votes and exercises significant but not controlling influence are regarded as associated companies.

Associated companies which are by agreement managed jointly with one or more other companies, and therefore subject to joint control (jointly controlled entities), are accounted for using proportionate consolidation, whereby the individual items in their financial statements are included in proportion to the ownership share.

The consolidated financial statements are prepared on the basis of the financial statements of the Parent Company, its subsidiaries and proportionately consolidated companies by combining items of a uniform nature and eliminating inter-company transactions, balances and shareholdings as well as realized and unrealized gains and losses on transaction between the consolidated companies. The financial statements used for consolidation purposes are prepared in accordance with the Group's accounting policies. Entities are included in the consolidated financial statements from the date of acquisition or founding until the date of disposal or wounding up.

Foreign currencies

The functional currency of all significant entities including subsidiaries and associated companies is USD, because the Group's vessels operate in international shipping markets, in which revenues and expenses are settled in USD, and the Group's most significant assets and liabilities in the form of vessels and related mortgage debt are in USD. Transactions in currencies other than the functional currency are translated into the functional currency at the date of the transactions. Gains or losses arising between the exchange rate at the transaction date and the exchange rate at the settlement date are recognized in the income statement under financial items.

Cash, accounts receivable and payable and other monetary items denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the balance sheet date. Differences between the exchange rate at the transaction date and the exchange rate at the balance sheet date are recognized in the income statement under financial items.

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

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.

Derivative financial instruments

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

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

Changes in fair value of derivative financial instruments, which are designated as cash flow hedges, are recognized directly in share- holders' equity under "Hedging reserves". When the hedged trans- action is recognized in the income statement, the cumulative value adjustment recognized in equity is transferred to the income statement and included in the same line as the hedged transaction.

Changes in fair value of 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 Group, the current use of interest rate swaps with cap features, forward freight agreements and forward contracts regarding bunker purchases does not qualify for hedge accounting. Changes in fair value of interest rate swaps with caps features, for- ward freight agreements and forward contracts regarding bunker purchases are therefore recognized in the income statement under "Financial items", "Net revenue" and "Port expenses, bunkers and commissions" respectively. Changes in fair value of forward freight agreements, which are not entered for hedge purposes, are recognized in "Net revenue".

All fair values are based on market-to-market prices or standard pricing models.

Segment information

TORM consists of two business segments: Tanker and Bulk. This segmentation is based on the Group's internal management and reporting structure in addition to evaluation of risk and earnings. Transactions between segments are based on market-related prices and are eliminated at Group level.

The Group only has one geographical segment, because the Group considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world.

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

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

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

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

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

Employee benefits

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

Pension plans

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

Share based compensation

The Board of directors, the Management and a number of key employees participate in a share option scheme. The scheme provides these persons with the choices of cash settlement or receipt of TORM shares. At the balance sheet date a liability relating to share options not exercised is recognized in the balance sheet under other liabilities. The change in the liability for the period and the value of the share options exercised in the period is recognized in the income statement. The liability is measured using the Black-Scholes model.

Leases

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

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

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

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

Agreements to charter out vessels, where substantially all the risks and rewards of ownership are transferred to the lessee, are classified as finance leases, and an amount equal to the net investment in the lease is recognized and presented in the balance sheet as a receivable. The carrying amount of the vessel is 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 agreed on market terms or the sales price is lower than the fair value. If the sales price exceeds the fair value, the difference between the sales price and the fair value is deferred and amortized in proportion to the lease payments over the life of the lease.

A loss related to a sale and leaseback transaction resulting in an operating lease is recognized in the income statement at the date of transaction except if the loss is reflected in future lease payments below fair value, it is deferred and amortized in proportion to the lease payments over the life of the lease.

INCOME STATEMENT

Net revenue

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

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

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

Port expenses, bunkers and commissions

Port expenses, bunker fuel consumption and commissions are recognized upon delivery of service in accordance with the charter parties concluded.

Charter hire

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

Operating expenses

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

Profit from sale of vessels

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

Administrative expenses

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

Other operating income

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

Depreciation and impairment losses

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

Financial items

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

Tax

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

BALANCE SHEET

Other plant and equipment

Land is measured at cost.

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

Operating equipment is measured at cost less accumulated depreciation. Computer equipment is depreciated on a straight-line basis over 3 years, and other operating equipment is depreciated on a straight-line basis over 5 years.

Leasehold improvements are measured at cost less accumulated amortization and impairment losses, and leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease and the estimated useful life.

Cost comprises acquisition cost and costs directly related to the acquisition up until the time when the asset is ready for use.

Financial assets

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

Financial assets are classified as:

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

Other investments

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

Dividends on shares in other companies are recognized as income in the period in which they are declared.

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

Receivables

Outstanding freight receivables and other receivables that are of a current nature, expected to be realized within 12 months from the balance sheet date, are classified as loans and receivables and presented as current assets. Receivables are measured at the lower of amortized cost and net realizable values, which corresponds to nominal value less provision for bad debts.

Securities

Bonds are classified as financial assets at fair value through profit or loss and are measured at market value at the balance sheet date. Realized and unrealized gains and losses resulting from valuation or realization of bonds are recognized as financial items in the income statement. Bonds are traded frequently and therefore presented as current assets.

Impairment of assets

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For vessels, the cash-generating unit is the total fleet of the Group.

Inventories

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

Non-current assets held for sale

Non-current assets held for sale are presented in a separate line under current assets in the balance sheet and measured at the lower of carrying amount and fair value less costs to sell. Depreciation of an asset ceases when it is classified as held for sale.

Treasury shares

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

Provisions

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

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.

STATEMENT OF CASH FLOWS

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

Cash flow from operating activities is presented indirectly and is based on profit before financial items for the year adjusted for profit from sale of

vessels, non-cash operating items, changes in working capital, income tax paid, dividends received and interest paid/received.

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

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

Cash and cash equivalents comprise cash at bank and in hand and highly liquid bonds with a term to maturity not exceeding 3 months. Other bonds and other investments are classified as investment activities.

EARNINGS PER SHARE

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

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

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

As a consequence of the registration of American Depository Receipts (ADRs) with the United States Securities and Exchange Commission (SEC), the Group has prepared a summary of the effect on net income and shareholders' equity had the financial statements been prepared in accordance with the accounting principles generally accepted in the United States.

NOTE 3

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Carrying amounts of vessels

The Group evaluates the carrying amounts of the vessels to deter- mine if events have occurred that would require a modification of their carrying amounts. The valuation of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. In assessing the recoverability of the vessels, the Group reviews certain indicators of potential impairment such as reported sale and purchase prices, market demand and general market conditions. Market valuations from leading, independent and internationally recognized shipbroking companies are obtained on a semi-annual basis as part of the review for potential impairment indicatory. Under US GAAP, if an indication of impairment is identified, the undiscounted future cash flows are compared to carrying amount of the assets. If these are less than the carrying amount, an impairment loss is recorded based on the difference between the fair value (generally based on discounted future cash flows) and the carrying amount of the vessels. If, under IFRS, an indication of impairment is identified, the need for recognizing an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the net selling price and the discounted future cash flows.

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

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

There were no impairments of vessels recorded in 2004 or 2005.

Tax

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

It is the Group's assessment that there is material uncertainty as to the estimate of taxes payable as of December 31, 2005 due to the lack of precedents that have interpreted the tonnage tax regulation. The estimate is based on scenario analyses and discussions with the tax authorities, tax advisors and industry organizations, and the uncertainty primarily relates to the division of the activities between income and expenses from shipping related activities, which are taxed under the tonnage tax scheme, and income and expenses from other activities, which are not taxed under the tonnage tax scheme.

The Group estimates that the tax returns filed for 2001 to 2004 will not trigger taxes payable in excess of the amount, which has been recognized as per December 31, 2005, because estimated taxable income to a large extent is offset by deductible losses from prior periods, and that the deferred tax liability recorded is adequate.

NOTE 4 - NET EARNINGS FROM SHIPPING ACTIVITIES (in USD million)

	For the year ended December 3		
	Tanker	Bulk	Not allo
CONSOLIDATED SEGMENT INFORMATION			
INCOME STATEMENT			
Net revenue	255.7	177.5	0
Port expenses, bunkers and commissions	(68.8)	(15.0)	0
Time Charter Equivalent Earnings	186.9	162.5	0
Charter hire	(13.5)	(46.1)	0
Operating expenses	(39.5)	(11.6)	1
Gross profit/(loss) (Net earnings from shipping activities)	133.9	104.8	1
Profit/(loss) from sale of vessels	0.0	0.0	0
Administrative expenses	(28.5)	(9.5)	(0
Other operating income	12.9	0.3	0
Depreciation and impairment losses	(28.6)	(6.5)	(0
Operating profit	89.7	89.1	0
Financial items			25
Profit/(loss) before tax			26
Tax expenses			(18
Net profit/(loss) for the year			7
BALANCE			As of
Total non-current assets	565.6	122.3	368
Total assets	605.5	130.8	503
Total liabilities	29.5	8.0	486
OTHER INFORMATION			
Additions to tangible fixed assets	126.4	60.9	0
Impairment losses recognized in the income statement	0.0	0.0	0

Financial items, tax expenses and the termination of the Company's Offshore and Liner activity are included in "Not allocated".

The comparative figures on segment information have been changed as all financial items are included in "Not allocated", whereas previously certain financial items, among others interest expenses from loans on vessels, were allocated to segments, Furthermore, mortgage debt and bank loans are included in "Not allocated", whereas previously allocated to segments.

	For the year ended Dec		
	Tanker	Bulk	Not alloca

CONSOLIDATED SEGMENT INFORMATION

INCOME STATEMENT			
Net revenue	419.3	167.6	0
Port expenses, bunkers and commissions	(111.4)	(11.7)	0
Time Charter Equivalent Earnings	307.9	155.9	0
Charter hire	(44.3)	(37.9)	0
Operating expenses	(51.4)	(15.3)	0
Gross profit/(loss) (Net earnings from shipping activities)	212.2	102.7	0
Profit/(loss) from sale of vessels	54.7	0.0	0
Administrative expenses	(25.4)	(5.8)	0
Other operating income	12.4	0.2	0
Depreciation and impairment losses	(37.0)	(10.8)	0
Operating profit	216.9	86.3	0
Financial items			(3
Profit/(loss) before tax			(3
Tax expenses			0
Net profit/(loss) for the year			(3
BALANCE			As o
Total non-current assets	1,025.8	141.3	361
Total assets	1,139.2	145.5	525
Total liabilities	39.4	5.7	860
OTHER INFORMATION			
Additions to tangible fixed assets	607.2	28.7	0
Impairment losses recognized in the income statement	0.4	0.1	0

Financial items and tax expenses are included in "Not allocated".

NOTE 5 - STAFF COSTS (in USD million)

	For the years ended December 31	
	2004	2005
Total staff costs		
Staff costs included in operating Costs	10.7	12.9
Staff costs included in administrative expenses	27.4	21.1
Total	38.1	34.0

Staff costs comprise the following

Wages and salaries	25.8	30.3
Share-based compensation	9.8	0.5
Pension costs	2.3	2.7
Other social security costs	0.2	0.5
Total	38.1	34.0
Hereof remuneration to the Board of Directors and salaries to the Management		
Wages and salaries	2.5	3.7
Share-based compensation	3.7	0.5
Pension and social security costs	0.1	0.1
Total	6.3	4.3
Hereof remuneration to the Board of directors	1.4	0.9
Hereof salaries to the Management	4.9	3.4
Total	6.3	4.3

Employee information

The average number of staff in TORM in the financial year was 339 (2004: 295). The majority of the staff on vessels are not employed by TORM.

The members of Management are, in the event of termination by the Company, entitled to a severance payment of up to 18 months' salary. The pension age for members of Management is 62.

	Total options 2005	Option 2001
Share option program - 2001 to 2005*		
Board of Directors		
Allocated	105,820	24,420
Exercised in 2003	(24,420)	(8,140)
Exercised in 2004	(36,560)	(16,280)
Exercised in 2005	(20,420)	0
Forfeited/expired	0	0
Not exercised at December 31, 2005	24,420	0
Management		
Allocated	463,420	106,940
Exercised in 2003	(285,180)	(106,940)
Exercised in 2004	(178,240)	0
Forfeited/expired	0	0
Not exercised at December 31, 2005	0	0
Key Employees		
Allocated	634,640	206,120
Exercised in 2003	(420,380)	(206,120)
Exercised in 2004	(214,260)	0
Forfeited/expired	0	0

Not exercised at December 31, 2005	0	0
Resigned persons		
Allocated	402,760	147,820
Exercised in 2003	(232,240)	(138,840)
Exercised in 2004	(162,380)	(8,980)
Exercised in 2005	(8,140)	0
Forfeited/expired	0	0
Not exercised at December 31, 2005	0	0
Total number of not exercised options at December 31, 2005	24,420	0
Not exercised in percentage of common shares	0.07%	0.00%

* The figures in the table above and the description below are adjusted to reflect the issue of b

The classification has been adjusted to reflect the persons association with TORM as at December 31, 2005.

In 2001, a share option compensation plan for 20 of the Board members, executives and key employees was introduced. The plan grants 1,606,640 options, which are priced at 3 different dates, 485,300 in 2001, 564,740 in 2002 and 556,600 in 2003. Option holders may exercise their options in specified periods and choose to purchase the Company's shares at the strike price or receive a cash payment equivalent to the difference between the strike price and the share price.

The individual must be employed at the grant date to receive that year's options.

The share options for 2001 were priced on February 20, 2001, the share options for 2002 were priced on March 20, 2002 and the share options for 2003 were priced on February 27, 2003. The 2001 share options are exercisable at a price of DKK 27 (USD 4.53) per share, the 2002 share options at a price of DKK 29.25 (USD 4.91) per share and the 2003 share options at a price of DKK 31.3 (USD 5.25). The share options can be exercised at the earliest 1 year and at the latest 3 years and four weeks after the pricing, observing the rules concerning insider trading.

In 2005, 28,560 options have been exercised (2004: 591,440). The weighted average share price at the date of exercise is DKK 281.03 (USD 46.86) per share for shares exercised in 2005 (2004: DKK 184.11 (USD 30.73)). The total number of not exercised options at December 31, 2005 is 24,420 which equates 0.07% of the common shares. The Company has acquired treasury shares to cover the share option program. The cost of the shares has been recognized directly in Shareholders' equity.

According to the Black-Scholes model, the fair value of the not exercised part of the share option program is estimated at USD 1.0 mill. (2004: USD 1.8 mill.) at the balance sheet date. The amount is recognized in the balance sheet

The key assumptions of the Black-Scholes model are:

- The average dividend equals 5.81% (2004: 3.48%) of the average share price for the period.

- The volatility is estimated at 27.7% (2004: 93.76%).
- The risk free interest rate based upon expiry of the options applies to 2.75 % (2004: between 2.37% and 2.50%).
- The quoted share price as of December 31, 2005 is 305.12 DKK/share (48.25 USD/share) (2004: 225.77 DKK/share (41.29 USD/share)).

NOTE 6 - ADMINISTRATIVE EXPENSES (in USD million)

Remuneration to the auditors appointed at the Annual General Meeting	For the year ended December 31 2004	2005
Ernst & Young		
Audit fees	0.2	0.1
Audit-related fees	0.0	0.0
Tax fees	0.0	0.0
Fees other services	0.0	0.0
Total fees	0.2	0.1
Deloitte		
Audit fees	0.3	0.5
Audit-related fees	0.0	0.0
Tax fees	0.1	0.1
Fees other services	0.1	0.0
Total fees	0.5	0.6

NOTE 7 - FINANCIAL FIXED ASSETS (in USD million)

Other investments	2004	2005
Cost:		
Balance at January 1	45.1	49.1
Exchange rate adjustment	4.0	0.0
Additions	0.0	15.4
Disposals	0.0	0.0
Balance at December 31	49.1	64.5
Value adjustment:		
Balance as of January 1	118.7	319.4
Exchange rate adjustment	27.3	(50.5)
Value adjustment for the year	173.4	27.6
Balance as of December 31	319.4	296.5
Carrying amount at December 31:	368.5	361.0
Hereof listed	368.5	358.5
Hereof unlisted	0.0	2.5

NOTE 7

Parent company:

A/S Dampskibsselskabet TORM		Denmark

Investments in subsidiaries*)

Torm Shipware A/S	100%	Denmark
Torm Singapore (Pte) Ltd.	100%	Singapore
Torm Shipping Asia (Pte) Ltd	100%	Singapore
Torm Asia Limited	100%	Hong Kong
Torm Asia Bulkers Limited	100%	Hong Kong
Eastern Light Shipping Limited	100%	Liberia
Southern Light Shipping Limited	100%	Liberia
Hermia Shipping Corporation	100%	Liberia
Hilde Shipping Corporation	100%	Liberia
Shipping (Germany) G.m.b.H.	100%	Germany
Long Range 1 A/S	100%	Denmark
Medium Range A/S	100%	Denmark
LR1 Management K/S	100%	Denmark
MR Management K/S	100%	Denmark
TORM SHIPPING (PHILS.), INC.	25%	Philippines

Investments in jointly controlled e

HMSC Shipping Ltd	50%
Long Range 2 A/S	50%
LR2 Management K/S	50%

Furthermore, TORM is participa in a number of joint ventures, whic not legal entities.

The investments in these joint ventures are included as investment jointly controlled operations.

The following represents the results reflected in the consolidated income statement and the summarized balance sheet data that is reflected in the consolidated balance sheet for the year ended December 31, 2004 and 2005 in accordance with IFRS associated with jointly controlled entities:

	2004	2005
Net revenue	12.5	0.0
Port expenses, bunkers and commissions	(5.5)	0.0
Time Charter Equivalent Earnings	7.0	0.0
Charter hire and operating expenses	(0.9)	0.0
Gross profit (Net earnings from shipping activities)	6.1	0.0
Profit from sale of vessels	0.0	0.0
Administrative expenses	(1.1)	(1.5)
Other operating income	2.0	2.7
Depreciation and impairment losses	(2.9)	0.0
Operating profit	4.1	1.2
Financial items	(1.0)	(0.1)
Profit before tax	3.1	(1.1)
Tax expenses	(0.4)	0.0
Net profit for the year	(2.7)	(1.1)
Non current assets	0.1	0.0
Current assets	3.4	2.1
Non-current liabilities	0.0	0.0
Current liabilities	1.4	1.0

Other investments:

Dampskibsselskabet "Norden" A/S	33% **)	Denmark

The Norden shareholding is currently treated in TORM's accounts as "Other

investments" given that TORM is deemed not to have significant influence on Norden in the form of board seats or similar.

*) Companies with activity in the financial year.

**) Including Norden's treasury shares.

NOTE 8 - TANGIBLE FIXED ASSETS (in USD million)

	Land and buildings	Vessels and capitalized dry-docking	Prepayment vessels un construct
Cost:			
Balance at January 1, 2004	1.3	651.0	38.5
Exchange rate adjustment	0.0	0.0	0.0
Additions	0.0	120.2	65.3
Disposals	0.0	(1.7)	0.0
Transferred to/from other items	0.0	66.5	(66.5)
Balance at December 31, 2004	1.3	836.0	37.3
Depreciation and impairment losses:			
Balance at January 1, 2004	0.9	156.8	0.0
Exchange rate adjustment	0.0	0.0	0.0
Additions	0.0	0.0	0.0
Disposals	0.0	(1.7)	0.0
Reversal of impairment losses	0.0	0.0	0.0
Depreciation for the year	0.0	33.4	0.0
Balance at December 31, 2004	0.9	188.5	0.0
Carrying amount at December 31, 2004	0.4	647.5	37.3
Cost:			
Balance at January 1, 2005	1.3	836.0	37.3
Exchange rate adjustment	0.0	0.0	0.0
Additions	0.0	340.1	294.7
Disposals	0.0	(137.3)	0.0
Transferred to/from other items	0.0	191.2	(191.2)
Transferred to non-current assets held for sale	0.0	0.0	(43.4)
Balance at December 31, 2005	1.3	1,230.0	97.4
Depreciation and impairment losses:			
Balance at January 1, 2005	0.9	188.5	0.0
Exchange rate adjustment	0.0	0.0	0.0
Additions	0.0	0.0	0.0
Disposals	0.0	(71.9)	0.0

Reversal of impairment losses	(0.5)	0.0	0.0
Depreciation for the year	0.0	47.0	0.0
Balance at December 31, 2005	0.4	163.6	0.0
Carrying amount at December 31, 2005	0.9	1,066.4	97.4
Hereof finance leases	0.0	0.0	0.0
Hereof financial expenses included in cost	0.0	1.3	0.2

At October 1, 2004 the value of land and buildings assessed for Danish tax purposes amounted to USD 0.5 million (carrying amount at December 31, 2005 USD 0.4 mill.) compared with USD 0.5 million at October 1, 2003.

Included in the carrying amount for vessels and capitalized dry-docking are capitalized dry-docking costs in the amount of USD 12.6 million (2004: USD 7.1 mill.).

Please refer to Note 15 for information with relation to assets used for collateral security.

NOTE 9 - FINANCIAL ITEMS (in USD million)

	For the years ended December 31	
	2004	2005
Financial income		
Interest income	3.4	3.3
Gain on other investments	0.0	0.1
Dividends *)	34.1	12.8
Gain on derivative financial instruments	5.2	0.2
Exchange rate adjustment	0.0	9.6
	42.7	26.0
Financial expenses		
Interest expense on mortgage and bank debt	14.8	25.6
Net losses on marketable securities at fair value through profit and loss	0.4	3.9
Exchange rate adjustments	0.8	0.0
Other interest expenses	0.9	0.5
Hereof included in the cost of tangible fixed assets	0.0	(0.2)
	16.9	29.8
Total financial items	25.8	(3.8)

*) Includes dividend on the Norden shares of USD 12.6 million in 2005 (2004: USD 34.0 mill.).

NOTE 10 - TAXES (in USD million)

	For the years ended December 31	
	2004	2005
TAX ON PROFIT FOR THE YEAR AND DEFERRED TAX		

Current tax for the year	(9.6)	(8.8)
Adjustment related to previous years	0.0	0.0
Adjustment of deferred tax	(9.1)	8.8
Tax income/(expenses)	(18.7)	0.0
Effective corporate tax rate	9.1%	0.0%
Deferred tax liability		
Balance at January 1	58.8	73.3
Exchange rate adjustment	5.4	(9.9)
Reduction of Danish corporation tax from 30% to 28%	-	(4.2)
Deferred tax for the year	9.1	(4.6)
Balance at December 31	73.3	54.6

The Company participates in the tonnage tax scheme in Denmark. Participation in the tonnage tax scheme is binding until December 31, 2010.

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. No reconciliation of income tax is provided, as it is not meaningful under the tonnage tax scheme.

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

NOTE 11 - COMMON SHARES

	As of December 31		
	2004	2005	2004
	Number of shares, mill.	Number of shares, mill.	Nominal val DKK mill
Balance at January, 1	18.2	36.4	182.0
Issue of bonus shares	18.2	0.0	182.0
Balance at December, 31	36.4	36.4	364.0

The common shares consist of 36.4 mill. shares at denomination DKK 10 per share. No shares carry special rights. All issued shares are fully paid.

In May 2004 the Company increased the share capital from nominally DKK 182.0 mill. to nominally DKK 364.0 mill. through the issue of 18.2 mill. bonus shares of DKK 10 each. The bonus shares were allotted to the Company's existing shareholders at the ratio of 1:1. Beyond this no changes have been made to the share capital within the last 5 years.

TREASURY SHARES *

	2004	2005	2004	2005
	Thousands of shares	Thousands of shares	Nominal value DKK million	Nominal value DKK million

Balance at January, 1	1,762.7	1,566.6	17.6	15.7
Purchase	0.0	0.0	0.0	0.0
Sale	0.0	0.0	0.0	0.0
Share options exercised	(196.1)	(8.1)	(1.9)	(0.1)
Balance at December, 31	1,566.6	1,558.5	15.7	15.6

*The figures in the table above and the description below are adjusted to reflect the issue of bonus shares in May 2004.

At December 31, 2005, the Company's holding of treasury shares represented 1,558,472 shares (2004: 1,566,612 shares) at denomination DKK 10 per share, with a total nominal value of USD 2.5 mill. (2004: USD 2.9 mill.) and a market value of USD 75.2 million (2004: USD 64.7 mill.) The retained shares equate to 4.3% (2004: 4.3%) of the Company's common shares.

Total consideration in respect of the purchase of treasury shares was USD 0.0 mill. (2004: USD 0.0 mill.), whereas for the sale of shares it was USD 0.0 mill. (2004: USD 1.0 mill.). As the disposal of treasury shares is carried out in connection with the exercise of share options, the consideration is based on exercise prices in the share option program. Of the holding of treasury shares, 24,420 (2004: 52,980) shares are held as a hedge of the Company's share option program. The remaining shares will be used for further development of the capital structure, for financing or execution of acquisitions, for sale or for other types of transfers.

NOTE 12 - (in USD million)

	As of December 31	
DEFERRED INCOME	2004	2005
Deferred gain related to sale and lease back transactions	7.4	5.9
Other	0.0	0.1
	7.4	6.0

NOTE 13 - MORTGAGE DEBT, BANK LOANS AND CAPITALIZED LEASE OBLIGATIONS (in USD million)

	As of December 31	
To be repaid as follows:	2004	2005
Falling due within one year	62.1	59.9
Falling due between one and two years	47.4	59.9
Falling due between two and three years	57.0	90.0
Falling due between three and four years	27.8	57.5
Falling due between four and five years	39.6	57.5
Falling due after five years	161.5	464.2
	395.4	789.0

The presented amounts to be repaid are adjusted by directly related costs arose from the issuing of the loans by USD 1.7 mill. (2004: USD 0 mill.), which

are amortized over the term of the loans.

	Maturity	Fixed/ floating	Effective interest 2004	Effective interest 2005
LOAN				
USD	2005	Floating	3.8%	-
USD	2006	Floating	3.9%	-
USD	2007	Floating	4.0%	-
USD	2008	Floating	3.3%	5.4%
USD	2009	Floating	4.3%	-
USD	2011	Floating	2.8%	5.4%
USD	2012	Floating	3.8%	-
USD	2013	Floating	4.4%	5.4%
USD	2014	Floating	3.9%	4.9%
USD	2015	Floating	-	5.2%
Weighted average effective interest rate			3.9%	5.0%
Carrying amount				

The Group has an early settlement option to repay the loans by paying a breakage costs.

Part of the loans have been swapped to fixed interest rate. Please refer to the section "Managing risk and exposure" for further information on financial risks.

NOTE 14 - OTHER LIABILITIES (in USD million)

	As of December 31 2004	2005
Partners and commercial managements	3.8	6.0
Accrued dry-docking costs	0.3	1.9
Accrued interests	3.2	3.2
Wages and social expenses	5.2	6.5
Derivative financial instruments	7.3	2.9
Miscellaneous, including items related to shipping activities	3.3	3.1
	23.1	23.6

NOTE 15 - COLLATERAL SECURITY (in USD million)

Collateral security for mortgage debt and bank loans:

	As of December 31 2004	2005
Vessels	386.4	760.7
Marketable securities	9.9	0.0
	396.3	760.7

The total carrying amount for vessels that have been provided as security

amounts to USD 766.5 mill. as at December 31, 2005.

NOTE 16 - GUARANTEE AND CONTINGENT LIABILITIES (in USD million)

	As of December 31	
	2004	2005
Guarantee liabilities	0.7	0.0

The guarantee liabilities for the Group for 2004 are related to guarantee liabilities to Danmarks Skibskredit A/S and the Danish Shipowners' Association. In 2005, the guarantee liability to Danmarks Skibskredit A/S has been cancelled.

The Company has as at December 31, 2005 contracted 12 vessels (newbuildings) (2004: 7 vessels), an investment totaling USD 540 mill. (2004: USD 283 mill.). Furthermore, the Company has exercised the purchase options on 2 time chartered vessels, an investment totaling USD 94 mill.

NOTE 17

USD million
CONTRACTUAL LIABILITIES - AS LESSEE (operating leases)
Charter hire for vessels on time charter:

	2004	2005
Falling due within one year	45.0	61.3
Falling due between one and two years	35.3	34.2
Falling due between two and three years	31.2	40.7
Falling due between three and four years	30.7	37.8
Falling due between four and five years	25.2	23.1
Falling due after five years	35.8	56.2
	203.2	253.3
Average period until redelivery (years)	2.7	3.1
Newbuilding installments and exercised purchase options (purchase obligations):		
Falling due within one year	93.5	225.3
Falling due between one and two years	75.8	146.7
Falling due between two and three years	57.0	95.5
Falling due between three and four years	25.6	28.0
Falling due between four and five years	0.0	0.0
Falling due after five years	0.0	0.0
	251.9	495.5
Other operating leases:		
Falling due within one year	1.1	2.2
Falling due between one and two years	1.1	2.2
Falling due between two and three years	0.9	1.9
Falling due between three and four years	0.8	1.7
Falling due between four and five years	0.9	1.8
Falling due after five years	4.6	5.8
	9.4	15.6

Other operating leases primarily consist of contracts regarding office spaces and apartments as well as IT-related contracts.

During the year, charter hire expenses have been recognized in the income statement by USD 82.1 mill. and other operating lease expenses have been recognized by USD 1.5 mill.

USD million
CONTRACTUAL LIABILITIES - AS LESSOR (operating leases)
Charter hire income for vessels on time charter and bareboat charter:

	2004	2005
Falling due within one year	114.1	102.7
Falling due between one and two years	2.6	26.8
Falling due between two and three years	0.3	13.8
Falling due between three and four years	0.0	13.7
Falling due between four and five years	0.0	6.0
Falling due after five years	0.0	0.0
	117.0	163.0
Average period until redelivery (years)	0.5	0.9

Charter hire income for vessels on time charter and bareboat charter is recognized under net revenue.

NOTE 18 - FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (in USD million)

		Fair value adjustments Income statement			S
	Fair value at January 1, 2004	Net revenue	Port expenses, bunkers and comm.	Financial items	
Cross currency swaps	5.9	-	-	(5.8)	
Forward rate contracts	0.3	-	-	3.9	
Interest rate swaps	(5.3)	-	-	1.1	
Currency options	(0.3)	-	-	3.9	
Bunker hedge	0.0	-	(0.8)	-	
Forward Freight Agreement	0.2	(4.6)	-	-	
	0.8	(4.6)	(0.8)	3.1	

		Fair value adjustments Income statement			S
	Fair value at January 1, 2005	Net revenue	Port expenses, bunkers and comm.	Financial items	

Cross currency swaps	0.1	-	-	(0.1)
Forward rate contracts	3.8	-	-	(3.9)
Interest rate swaps *)	0.2	-	-	3.5
Currency options	3.6	-	-	(3.6)
Bunker hedge	(0.8)	-	0.8	-
Forward Freight Agreement	(4.4)	2.5	-	-
	2.5	2.5	0.8	(4.1)

Please refer to the section "Managing risk and exposure" for further information on commercial and financial risks.

*) As at December 31, 2005 the Company had entered into interest rate swap contracts with a fair value of USD 3.3 mill. designated as hedge of interest payments during the period 2006 to 2008. The gains or losses on these contracts will be recognized under financial items in the income statement together with the interest payments.

NOTE 19 - RELATED PARTY TRANSACTIONS

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

There have not been any material transactions with such parties during the financial year, except for a time charter agreement with an entity owned by Beltest Shipping Company Limited under which TORM paid USD 7.2 mill. during 2005. The agreement was mentioned in the annual report for 2004.

Management remuneration is disclosed in Note 5.

NOTE 20 - NON-CURRENT ASSETS HELD FOR SALE

In 2005, the Company has entered into a contract concerning sale of one of the vessels under constructions for delivery in 2006. The result from the sale of the vessel will be recognized in the income statement when the risks and rewards are transferred upon delivery of the vessel to the buyer. The vessel has been classified as held for sale and is presented separately in the balance sheet and is included under Tanker in the segment information.

NOTE 21 - EARNINGS PER SHARE

	2004	2005
Net profit for the year (USD mill.)	186.6	299.4
Mill. Shares		
Average number of shares	36.4	36.4
Average number of treasury shares	(1.6)	(1.6)
Average number of shares outstanding	34.8	34.8
Dilutive effect of outstanding share options	0.2	0.1
Average number of shares outstanding incl. dilutive effect of share options	35.0	34.9
Earnings per share (USD)	5.4	8.6

Diluted earnings per share (USD)	5.3	8.6

The comparative figures for number of shares and earnings per share are restated to reflect the issue of bonus shares in May 2004.

NOTE 22

USD million	2004	2005
APPROPRIATION OF NET PROFIT FOR THE YEAR INCL. PROPOSED DIVIDEND		
Proposed appropriation of net profit for the year in the Parent Company, A/S Dampskibsselskabet TORM:		
Proposed dividend	99.9	132.4
Retained profit	105.9	103.3
Net profit for the year	205.8	235.7
Total shareholders' equity in the Parent Company, A/S Dampskibsselskabet TORM:		
Common shares	61.1	61.1
Treasury shares	(7.7)	(7.7)
Revaluation reserves	319.3	296.4
Retained profit	286.8	400.0
Proposed dividend	99.9	132.4
Hedging reserves	0.4	3.2
Translation reserves	6.0	6.0
Total shareholders' equity	765.8	891.4
Proposed dividend per share (USD)	2.7	3.6

NOTE 23 - RECONCILIATION TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (U.S. GAAP)

The TORM Group's Annual Report has been prepared in accordance with the International Financial Reporting Standards (IFRS), which differs in certain respects from U.S. GAAP.

The following is a summary of the adjustments to net income for the years ended December 31, 2004 and 2005 and shareholders' equity as of those dates, necessary to reconcile those to net income and shareholders' equity determined in accordance with U.S. GAAP.

Reconciliation of Net income for the year to U.S. GAAP Net income (in USD million)

	Notes	2004	2005
Net income as reported under IFRS		186.6	299.4
Dry-docking costs	a)	(1.5)	0.0
Write-down on assets	b)	0.2	1.4
Derivative financial instruments	c)	2.6	0.0
Share options	d)	(1.2)	0.0
Deferred gain on sale and lease back of vessels	e)	0.0	(17.3)
Deferred taxation	f)	1.0	4.3

Net income in accordance with U.S. GAAP before change in accounting principles		187.7	287.8
Cumulative effect of change in accounting principles as at January 1, 2005	a)		8.7
Net income in accordance with U.S. GAAP after change in accounting principles		187.7	296.5

Reconciliation of Shareholders' equity to U.S. GAAP Shareholders' Equity (in USD million)

	Notes	2004	2005
Shareholders' equity as reported under IFRS		715.4	904.7
Dry-docking costs	a)	(8.3)	0.0
Write-down on assets	b)	(1.9)	(0.5)
Derivative financial instruments	c)	0.0	0.0
Share options	d)	(0.1)	0.0
Deferred gain on sale and lease back of vessels	e)	0.0	(17.3)
Deferred taxation	f)	0.2	4.8
Shareholders' equity in accordance with U.S. GAAP before change in accounting principles		705.3	891.7
Cumulative effect of change in accounting principles as at January 1, 2005			0.0
Shareholders' equity in accordance with U.S. GAAP after change in accounting principles		705.3	891.7

The Group's accounting policies under IFRS are described below where these differ from U.S. GAAP:

a) Dry-docking costs

As of January 1, 2005, TORM changed its method of accounting for vessel dry-docking costs under US GAAP from the accrual method to the deferral method. Under the accrual method, dry-docking costs had been accrued as a liability and an expense on an estimated basis in advance of the next scheduled dry-docking. Subsequent payments for dry-docking were charged against the accrued liability. Under the deferral method, costs incurred in replacing or renewing the separate assets that constitute the dry-docking costs are capitalized and depreciated on a straight-line basis over the estimated period until the next dry-docking. Dry-docking activities include, but are not limited to, 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. This change was made to conform to prevailing shipping industry accounting practices and the Group's accounting under IFRS. On January 1, 2005, TORM recorded the effect of the change in accounting principle on periods prior to 2005 as a cumulative effect of accounting change of USD 8.7 mil- lion (net of income tax of USD 0.4 (income)) or USD 0.3 per basic share. The effect of this change in accounting method on the US GAAP shareholders' equity was an increase of USD 8.7 million.

The proforma effect of this change, as if it had been made for 2004, would be to increase net income as follows:

	2004
Proforma (USD million)	
Net income as reported	187.7
Effect of accounting change	1.1
Net income	188.8
Per share (diluted)	
As reported	5.4
Effect of accounting change	0.0
Total	5.4

b) Write-down on assets

In 1998, TORM recognized an impairment charge for certain vessels on capital leases as the carrying value at the time exceeded the fair value of these vessels. In 2000, TORM recognized an impairment charge for certain properties for the same reason. Under IFRS, impairment losses are reversed in subsequent periods if the fair value increases. The Company recorded a reversal of the impairment loss of USD 1.7 million for the increase in fair value of these vessels during 2002 and a reversal of the impairment loss of USD 0.5 million for the increase in fair value of the properties during 2005.

Under US GAAP, impairment losses cannot be reversed. This results in a difference in depreciation expense between US GAAP and IFRS. In February 2005, the vessels were sold and the remaining impairment loss was added to the profit on sale of vessels recognized under IFRS.

c) Derivative financial instruments

Both under IFRS and US GAAP, derivative financial instruments are recognized in the balance sheet at fair value. For fair value hedges the change in fair value is set off against the change in fair value of the hedged item. For cash flow hedges the change in fair value on the contract is recorded as a component of shareholders' equity and then transferred to the income statement when the hedged item is realized. The change in fair value on contracts that does not qualify for hedge accounting is recorded in the income statement at the end of each period.

TORM has entered into interest rate swaps to hedge the interest rate risk on the long-term loans obtained to finance vessel purchases.

As part of the transition to IFRS the fair value of interest rate swaps classified as cash flow hedges under previous GAAP has been recognized as a separate component of shareholders' equity on January 1, 2004. The majority of these interest rate swaps have either expired in 2004 or the forecast transaction was no longer expected to occur because the long-term loans have been repaid. Consequently, the fair value of these interest rate swaps has been transferred to the income statement in 2004.

Under US GAAP, TORM elected to apply hedge accounting to interest rate swaps designated as cash flow hedges beginning on October 1, 2003. For interest rate swaps entered prior to October 1, 2003 TORM accounted for changes in fair value as a component of income. As from January 1, 2005, TORM elected also to apply hedge accounting under US GAAP for the remaining interest rate swaps entered prior to October 1, 2003 in order to align the accounting under US GAAP and IFRS.

d) Share options

Under IFRS, TORM's share option scheme is treated as cash-settled share-based payment transactions. A liability relating to share options not exercised is recognized in the balance sheet. The change in the liability for the period and the value of the share options exercised in the period are recognized in the income statement. The liability is measured at fair value using the Black-Scholes model.

Under US GAAP, stock-based compensation is accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." and related interpretations in accounting for stock based compensation. Under APB No. 25, the Group recognizes compensation expense for the difference between the exercise price and market price at the measurement date. This compensation is amortized over the vesting period. TORM grants options with cash settlement terms for which the measurement date is the date that these options are exercised. Under APB 25, compensatory plans with cash settlement terms qualify as variable plans, for which total compensation cost must be recalculated each period based on the current share price, until the options are exercised.

e) Deferred gain on sale and lease back of vessels

During 2005, TORM sold and leased back 2 vessels for 5 years. The leases are regarded as operating leases under both IFRS and US GAAP.

Under IFRS, the profit on the sale of the vessels is recognized in the income statement immediately in accordance with IAS 17.

Under US GAAP the profit on the sale shall be deferred and amortized in proportion to the related gross rental charged to expense over the lease term in accordance with FAS 28 as the criteria to deviate from this treatment (cf. FAS 28 a, b and c) were not met. The profit on the sale and lease back transaction will be deferred and amortized on a straight-line basis from February 1, 2005 to February 1, 2010.

f) Deferred taxation

TORM applies the same treatment of deferred tax under IFRS and US GAAP. The reconciliation item relates to the tax effect of the differences in accounting treatment expressed by the items a) to e) above. The difference in deferred tax liability as at December 31, 2005 only relates to the deferral under US GAAP of the gain on sale of vessels in item e) above.

g) Investment in bonds

Under IFRS, bonds are classified as financial assets at fair value through profit or loss and are measured at market value at the balance sheet date. Realized and unrealized gains and losses resulting from valuation or realization of bonds are recognized as financial items in the income statement. Bonds are traded frequently and therefore presented as current assets.

Under US GAAP, investments in bonds are classified as an available-for-sale, cf. Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Unrealized gains and losses are recorded as a component of shareholders' equity unless there is an other than temporary impairment of the securities. There were no other than temporary impairments in 2004 or 2005.

The effect of this difference on net income and shareholders' equity in 2004 and 2005 was USD 0.0 million.

h) Joint ventures

The Group has investments in entities that are jointly owned and operated together with third parties, and in which the parties have joint dominant influence. Under IFRS, TORM accounts for these investments under the proportional consolidation method.

Under U.S. GAAP, these entities would be accounted for using the equity method, which will not result in a difference in net income between IFRS and U.S. GAAP.

The results reflected in the consolidated income statement for the years ended December 31, 2004 and 2005 in accordance with IFRS associated with these joint ventures are represented in Note 7 to the consolidated financial statements.

i) Earnings Per Share

Earnings per share is computed consistent with IFRS.

The following table sets forth the computation of basic and diluted U.S. GAAP net income per share (in thousands except share and per share data):

	2004	2
Numerator for basic and diluted Earnings Per Share (in thousands of USD)		
Profit from continuing operations	187,654	296,
Profit from discontinuing operations	0	
Profit for the year	187,654	296,
No. of shares No. of shares		
Weighted average number of shares:		
Basic	34,784,357	34,839,
Effect of dilutive shares and share options	260,613	28,
Diluted	35,044,970	34,868,
Basic earnings per share		
Profit from continuing operations	5.4	
Profit from discontinued operations	0.0	
Profit for the year before change in accounting principles	5.4	
Cumulative effect of change in accounting principles as at January 1, 2005		
Profit after change in accounting principles		
Diluted earnings per share		
Profit from continuing operations	5.4	
Profit from discontinued operations	0.0	
Profit for the year before change in accounting principles	5.4	
Cumulative effect of change in accounting principles as at January 1, 2005		

Profit after change in accounting principles

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The weighted average number of shares excludes the shares reacquired from the date of repurchase. The comparative figures for number of shares and earnings per share are restated to reflect the issue of bonus shares in May 2004.

j) New accounting requirements not yet adopted

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004) "Share-based Payment", which is a revision of SFAS 123, "Accounting for Stock-Based Compensation". SFAS 123R supersedes APB opinion No. 25, "Accounting for Stock issued to Employees" and its interpretations, and revises SFAS 123 "Accounting for Stock-Based Compensation". SFAS 123R eliminates the alternative to use APB Opinion 25's intrinsic value method of accounting that was provided in SFAS 123 as originally issued. SFAS 123R requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. SFAS 123R applies to all awards granted and modified, repurchased, or cancelled after the first interim or annual period beginning after 15 June 2005. The Company does not expect the adoption of SFAS 123R to have a material impact on the company's financial position or results of operations.

In May 2005, the FASB issued SFAS 154 "Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS 154 replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements", and amends the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 establishes retrospective application, unless impracticable, as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. Under SFAS 154, the correction of an error in previously issued financial statements is not an accounting change, but involves adjustments to previously issued financial statements. In many, but not all aspects, under SFAS 154 the accounting for changes and error corrections are converged with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on the company's financial position or results of operations.

In November 2005 the FASB issued Staff Position No. FAS 115-1 and FAS 124-1, The Meaning of Other -Than-Temporary Impairment and Its Application to Certain Investments, ("FSP No. 115-1"). FSP No. 115-1 provides accounting guidance for identifying and recognizing other-than-temporary impairments of debt and equity securities, as well as cost method investments in addition to disclosure requirements. FSP No. 115-1 is effective for reporting periods beginning after December 15, 2005, and earlier application is permitted. This new pronouncement will be effective in 2006 and the Company does not believe that adoption of FSP No. 115-1 will have a material effect on its financial position, cash flows or results of operations.

ITEM 19. EXHIBITS

Number		Description of Exhibits
1.1	[_]	Articles of Association for A/S Dampskibsselskabet TORM (the "Company"), dated April 19, 2006
1.2	[_]	Rules of Procedure for the Board of Directors of the Company and English Translation(1)
2.2	[_]	Form of Depositary Agreement between Deutsche Bank and the Company(1)
4.1	[_]	The Company's Employee Stock Purchase Plan (1)
4.2	[_]	Office lease between PFA Pension II and the Company and English Translation (1)
4.3	[_]	Engagement letter of Bech-Bruun Dragsted and English Translation(1)
4.4	[_]	DKK 42 million revolving credit facility letter from Danske Bank to the Company dated December 11, 1998 and English translation(1)
4.5	[_]	Debt Instrument from Agnete Shipping Corporation to Danske Bank Aktieselskab, Singapore Branch, dated August 9, 1995(1)
4.6	[_]	Debt Instrument from Eastern Light Shipping Limited to Danske Bank Aktieselskab, Hong Kong Branch, dated November 17, 1995(1)
4.7	[_]	Debt Instrument from Southern Light Shipping Limited to Danske Bank Aktieselskab, Hong Kong Branch(1)
4.8	[_]	Debt Instrument from Hermia Shipping Corporation to Danske Bank Aktieselskab, Singapore Branch, dated June, 14, 1996 and to Danske Bank A/S dated August 29, 2001(1)
4.9	[_]	Debt Instrument from Hilde Shipping Corp. to Danske Bank Aktieselskab, dated July 3, 2000(1)
4.10	[_]	Debt Instrument from Skagerak Tankers Limited to Danske Bank Aktieselskab, Singapore Branch, dated May 9, 1996(1)
4.11	[_]	Debt Instrument from Anne Product Carriers (PTE) Ltd. To Danske Bank Aktieselskab, Singapore Branch, August 28, 1998(1)
4.12	[_]	Debt Instrument from Gunhild Shipping Corporation to Danske Bank Aktieselskab, Singapore Branch, dated November 6, 1998(1)
4.13	[_]	Debt Instrument from Tekla Shipping Co. Ltd to Danske Bank, Singapore Branch, dated March 23, 1992(1)
4.14	[_]	Debt Instrument from Alice Product Tanker Corporation to Danske Bank Aktieselskab, Singapore Branch, dated November 8, 1994(1)
4.15	[_]	Debt Instrument from Bothnia Shipping Corporation to Danske Bank, Singapore Branch, dated September 20, 1989(1)
4.16	[_]	Debt Instrument from Olga Shipping Corporation to Danske Bank Aktieselskab, Singapore Branch, dated October 27, 1995(1)
4.17	[_]	Secured Loan Agreement, between Caseros Shipping Limited and

		Nordea Bank, dated June 15, 1994(1)
4.18	[_]	Loan Agreement between Estrid Shipping Corporation and Danmarks Skibskreditfond, dated November 6, 2001(1)
4.19	[_]	Loan Agreement between Ragnhild Shipping Corporation and Danmarks Skibskreditfond, dated November 6, 2001(1)
4.20	[_]	Shipbuilding Contract for the Construction of Hull No. S161, between the Company and Samho Heavy Industries Co., Ltd. and Hyundai Heavy Industries Co., Ltd., dated November 24, 2000(1)
4.21	[_]	Shipbuilding Contract for the Construction of Hull No. S162, between the Company and Samho Heavy Industries Co., Ltd. and Hyundai Heavy Industries Co., Ltd., dated November 24, 2000(1)
4.22	[_]	Contract for Construction and Sale of Hull No. S-1089, between Thyra Shipping Corporation and Daedong Shipbuilding Co., Ltd., dated March 2, 2001(1)
4.23	[_]	Contract for Construction and Sale of Hull No. S-1090, between Freya Shipping Corporation and Daedong Shipbuilding Co., Ltd., dated March 2, 2001(1)
4.24	[_]	Contract for Construction and Sale of Hull No. S-1086, between Gertrud Shipping Corporation and Daedong Shipbuilding Co., Ltd., dated November 3, 2000(1)
4.25	[_]	Contract for Construction and Sale of Hull No. S-1087, between Gerd Shipping Corporation and Daedong Shipbuilding Co., Ltd., dated November 3, 2000(1)
4.26	[_]	Contract for Construction and Sale of Hull No. S-1079, between the Company and Daedong Shipbuilding Co., Ltd., dated August 25, 2000(1)
4.27	[_]	Contract for Construction and Sale of Hull No. S-1080, between the Company and Daedong Shipbuilding Co., Ltd., dated August 25, 2000(1)
8.1	[_]	List of the Company's subsidiaries(1)
31.1	[_]	Rule 13a-14(a)/15d-14(a) Certification of the Company's Chief Executive Officer and Acting Chief Financial Officer
32.1	[_]	Certification of the Company's Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated by reference from exhibit of same number to Registration Statement on Form 20-F, filed February 27, 2002 (File No. 000-49650)

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement on its behalf.

AKTIESELSKABET DAMPSKIBSSELSKABET TORM

By: /s/ Klaus Kjaerulff

Name: Klaus Kjaerulff
Title: Chief Executive Officer and
Acting Chief Financial Officer

Date: June 9, 2006

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