



SHIPPING MARKET REVIEW

APRIL 2013

“

DANISH SHIP FINANCE IS TO BE THE MOST RECOGNIZED AND
STABLE PROVIDER OF FINANCING FOR REPUTABLE SHIP OWNERS

”



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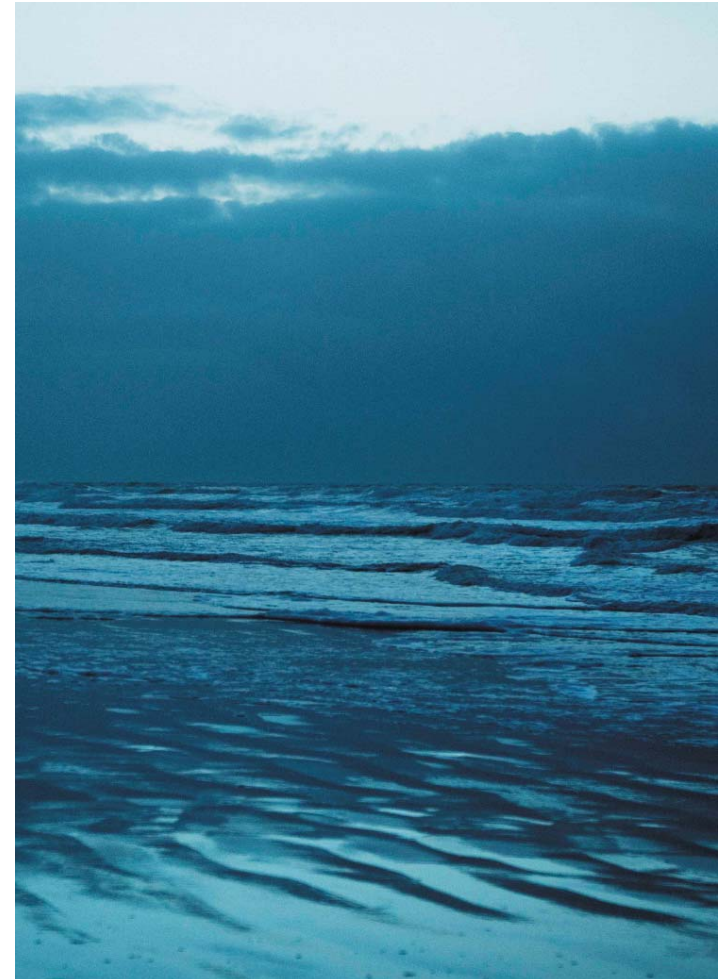
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EXECUTIVE SUMMARY

SHIPPING MARKET REVIEW – APRIL 2013



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EXECUTIVE SUMMARY

Please read carefully the disclaimer at the beginning of this report. The report reviews key developments in shipping markets and the main shipping segments during the period October 2012 to March 2013 and indicates possible future market directions.

IN SEVERAL SHIP SEGMENTS RATES AND ASSET VALUES ARE LOW, ESSENTIALLY REFLECTING THE FACT THAT TRADE VOLUMES AND TRAVELLING DISTANCES ARE STILL TRAILING EXCESS SUPPLY. THE FRAGILE OUTLOOK FOR THE GLOBAL ECONOMY SUGGESTS THAT SALVATION SHOULD PARTLY COME FROM WITHIN THE INDUSTRY: ORDERING NEW VESSELS IS LIKELY ONLY TO DELAY THE RECOVERY.

SHIPBUILDING

Shipyards' order cover continues to decline, as more tonnage is being delivered than contracted. The global order cover has been declining for nearly 63 consecutive months, falling from 4.6 years at the end of 2007 to 18 months at the end of 2012. Only one-third of global yard capacity was in demand during 2012. Capacity has started to adjust. We estimate that 3% of the global yard capacity went out of business in 2012. The remaining yards delivered on average 73% of the orders scheduled to be delivered in 2012. Small and medium-sized yards struggled to meet their delivery schedules. In 2013 and 2014, many yards will be running out of orders. Small and medium-sized Chinese yards appear to be at the epicentre of the capacity adjustment process. We estimate that global yard capacity, by the end of 2014, could be back at the 2008 level. The impact on newbuilding prices could be profound. If capacity, rather than marginal construction costs, is to determine newbuilding prices, a return to the 2002 lows is a possibility. However, we argue that the marginal construction costs will represent a price floor above the 2002 low.

CONTAINER

The container market is struggling to handle surplus capacity in a period with low demand growth and an orderbook almost entirely filled by large Post-Panamax vessels. Many Liners seem to be handling the surplus capacity, while tonnage providers seem to be suffering the most from the overcapacity issues. In 2012, European import volumes dropped, once again, below the pre-crisis level. This caused an even larger overhang of capacity. Nevertheless, box rates remained fairly high, while timecharter rates struggled to cover operating expenditures. Asset values declined accordingly. Container supply in the Post-Panamax segment seems to be ahead of demand for the foreseeable future. The logical consequence will be to see vessels operated at low speeds and low utilisation rates or even vessels being laid up. Whether Liners will be able to continue enforcing market discipline, hence supporting box rates at healthy levels, remains an open question. But it seems inevitable that tonnage providers (i.e. charter rates) will continue to have tough years ahead. Obvious Post-Panamax scrapping candidates are few, as the Post-Panamax fleet is young. And more is yet to come. More than 3 million teu is currently on order, of which more than half is scheduled to be delivered in 2013. Post-Panamax vessels younger than ten years old have to become scrapping candidates if the capacity of the current Post-Panamax orderbook is to be counterbalanced by scrapping. Temporary lay-ups of idling vessels may become an issue again this year or next. A new contracting boom, for whatever reason – eco-design, marginal cost per teu, or market share – could potentially delay the recovery in the container industry beyond reason.

CRUDE TANKERS

Crude tanker freight rates improved in 2012 from the low levels in 2011. Deliveries of crude tanker vessels continued at high levels in 2012. 25 million dwt was added to the fleet. Scrapping was relatively low compared to the last couple of

years, with only 10 million dwt sent to the scrapyards in 2012. In total, the crude tanker fleet grew 5% in 2012. Distance-adjusted demand grew by 6% in 2012, largely held up by longer travel distances. But rising domestic US oil production, combined with the continued inflow of vessels, kept rates low. Distance-adjusted demand is expected to contract 0.7% in 2013, as both Europe and the USA are expected to import less crude oil from shorter distances. Asia is the only major region expected to show positive growth figures in 2013. Another year of declining annual deliveries in 2013, as well as an increase in scrapping, is expected to lead to growth of 4% in the crude tanker fleet. Thus, demand has to improve and the oversupply in the crude tanker market has to be further reduced before balance can be achieved and the market can start to recover.

PRODUCT TANKERS

In 2012, the average Baltic Clean Tanker Index came out below 700, down 11% from the monthly average of 2011, as feeble economic growth continued to weigh down oil product demand and trade flows – especially in the OECD. While the product tanker market began 2012 with sagging rates, market fundamentals improved during the year. Modest fleet growth and a pick-up in demand led to an improvement in the market halfway through 2012 and consequently rates began to improve – albeit from very low levels. The product tanker fleet grew 1% in 2012, while demand volumes grew by 1.4%. But as travel distances declined, distance-adjusted demand only increased by 0.7%. A gradual recovery is expected from late 2013, as strong product tanker demand, combined with longer travel distances and modest fleet growth, is expected to improve the balance between supply and demand in the product tanker market.

LPG TANKERS

The average Baltic LPG Index rose 1% in 2012. An abundance of cargoes from the Middle East and strong Asian demand kept the market afloat. However, during the fourth quarter of 2012, the Baltic index fell, as high stock levels and the absence of the winter season dulled demand. Thus, while demand grew

by a healthy 10% in 2012, the LPG fleet grew by only 2%, as only 0.35 million Cu. M entered the fleet. After a couple of years with limited fleet growth, the LPG tanker fleet is expected to grow by 5% in 2013. Demolition is expected to pick up in 2013 and distance-adjusted demand is estimated to increase by 5%. Hence, the outlook remains bright, even though the freight market has come down lately. However, the surge in contracting activity might ruin the delicate balance between supply and demand in 2014.

DRY BULK

Timecharter rates and ship values continued to push lower throughout 2012. Meanwhile, activity in the timecharter market declined, indicating a larger discrepancy between owners and charterers regarding rates. Deliveries of dry bulk vessels continued at a record-high level in 2012, as 98 million dwt was added to the fleet. Scrapping also set a new record, with 35 million dwt sent to the scrapyards in 2012. However, despite record-high scrapping activity, the fleet grew 10% in 2012, while distance-adjusted demand only increased by 4%, largely held down by declining grain trade from the USA. Demand is expected to return to normal growth rates of around 6% from 2013 onwards, largely held up by increasing iron ore and coal consumption in Asia. Another year of record-high scrapping in 2013, as well as a decline in annual deliveries, is expected to lead to growth of 6% in the dry bulk fleet in 2013. Thus, while demand is returning to normal in 2013, oversupply in the dry bulk market remains and further adjustments of the fleet are needed before balance can be achieved and the market can start improving.

* * *

Accordingly, several ship segments are facing low freight rates, declining asset values and a short to medium-term outlook where the risk of escalating overcapacity cannot be neglected. However, lessons from previous shipping cycles are that occasional spikes in freight rates do occur, even in downward trending markets.

GENERAL REVIEW AND OUTLOOK

SHIPPING MARKET REVIEW – APRIL 2013



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GENERAL REVIEW AND OUTLOOK

IN SEVERAL SHIP SEGMENTS RATES AND ASSET VALUES ARE LOW, ESSENTIALLY REFLECTING THE FACT THAT TRADE VOLUMES AND TRAVELLING DISTANCES ARE STILL TRAILING EXCESS SUPPLY. THE FRAGILE OUTLOOK FOR THE GLOBAL ECONOMY SUGGESTS THAT SALVATION SHOULD PARTLY COME FROM WITHIN THE INDUSTRY: ORDERING NEW VESSELS IS LIKELY ONLY TO DELAY THE RECOVERY.

WORLD DEMAND INDICATORS

IN MANY WAYS, 2012 WAS A DIFFICULT YEAR MARKED BY SLUGGISH ECONOMIC GROWTH AND GEOPOLITICAL TURMOIL. WORLD SEABORNE TRADE VOLUMES GREW BY LESS THAN THE WORLD FLEET.

WORLD SEABORNE TRADE VOLUMES INCREASED BY 4% IN 2012

The International Monetary Fund (IMF) estimates that the global economy expanded by 3.3% in 2012, which is half a percentage point lower than the growth recorded in 2011. Europe suffered the most, as the region's GDP is expected to have declined by a little more than half a percentage point in 2012. Headed by China, the developing countries remained a key contributor to global growth in 2012. However, the emerging markets of Asia and Latin America also experienced weaker economic growth than forecasted. China's economy grew 7.8% in 2012, which is the lowest level in 13 years, as the domestic and export markets cooled. By comparison, the Chinese economy grew by 10.4% in 2010 and 9.3% in 2011. In total, global seaborne trade volumes are estimated to have increased by a little less than 4% in 2012, whereas the world fleet is expected to have expanded by almost 9%.

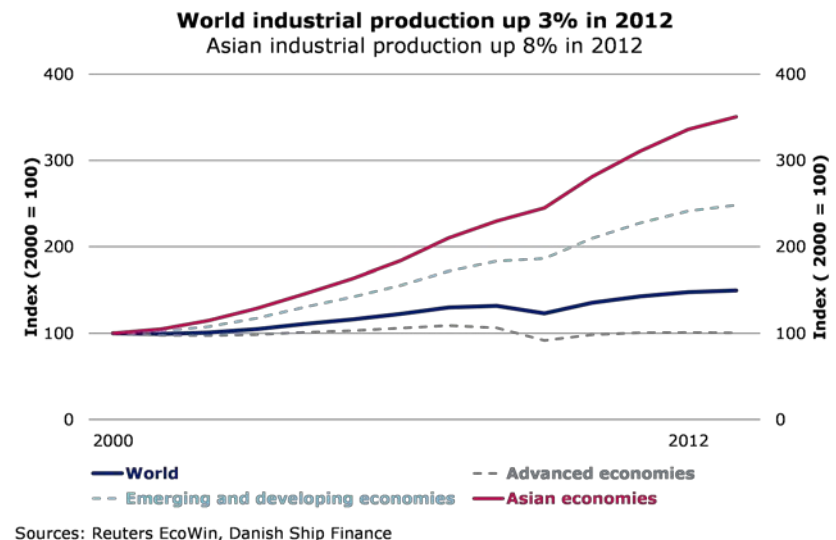
INDUSTRIAL PRODUCTION GOES LOCAL

World industrial production increased by 3% in 2012, despite remaining flat in the advanced economies. The growing industrial production in the United States was counterbalanced by lower industrial production in both the euro area and Japan. In the emerging and developing economies, by contrast, industrial production advanced 6% last year.

Figure GRO.1



Figure GRO.2



This development was primarily driven by the Asian economies, although Chinese industrial production surprisingly seems to have dropped 2% in 2012. Production in Latin America remained stable over the period (fig. 2).

GLOBAL GROWTH WILL STRENGTHEN IN 2013

Global financial conditions improved throughout 2012. However, a broad set of indicators for global industrial production and trade suggest that global growth did not strengthen further during the fourth quarter of 2012 and the first two months of 2013. Still, IMF predicts that global growth will increase marginally during 2013, as it sees the factors underlying the soft global activity of 2012 subsiding during 2013. But downside risks remain significant, as both advanced and emerging economies are facing weak external demand and domestic bottlenecks. Nevertheless, IMF estimates that the global economy will increase by 3.5% in 2013 (+0.3% more than in 2012). The advanced economies are expected to grow by 1.4% in 2013 (+0.1% compared to 2012), while the emerging markets and developing economies are expected to increase by 5.5% (+0.4% compared to 2012).

GROWTH DYNAMICS ARE CHANGING

Consequently, there is much to indicate that global growth is beginning to resume in 2013, although the traditional growth engines of North America, Europe, and Japan continue to sputter. China remains the beacon we all look to for rescue. China has been one of the main contributors to growth in seaborne trade over the last ten years, both in terms of volumes and adding significant miles to the average voyage at sea.

IT IS ALL ABOUT CHINA

Today, China has not only become the world's second-largest import market; it has also become the fastest growing. Its strong demand for raw materials, advanced machinery, and consumer products has benefited developed and developing countries alike. But the macroeconomic outlook is changing, as several European economies are in recession and the crisis is spreading. Growth is decelerating in many developed economies,

forcing China to adapt to the lower external demand and the domestic bottlenecks.

RISK CONTINUES TO BUILD UP

In 2008, before the shipping markets peaked, we were arguing that the Chinese economy is in the process of moving towards a more sustainable and domestic-orientated growth model. We have previously addressed both the alarming issues lurking on the books of the big state-owned banks and the large level of debt issued by provincial governments. We have argued that China has created GDP growth partly through asset inflation (which can temporarily mask an inefficiency of the real economy), which might explain why returns on invested capital are wearing off. This could indicate that the economy has exhausted its gains from first-generation reforms and the absorption of imported technologies. In view of all these and other problems, we have stated that it seems a necessity for China to speed up reforms and introduce new ways of generating economic growth. Adding to this a shrinking labour force (due to an ageing population), reforms seem urgently needed. However, one thing remains clear: we have been miscalculating the timing. So why should the game change in 2013 or 2014?

CHINA'S PATTERN OF ECONOMIC GROWTH IS ADJUSTING

Lately, we have observed the first apparent sign of a structural change in the way the Chinese economy is growing. New growth engines are being introduced, and the old ones are gradually being replaced. During the boom period, Chinese growth was mainly driven by two engines: exports and fixed asset investments (FAIs). The financial crisis created a high barrier to China's export growth, as customers in developed countries faced lower domestic demand. In the past two years, a shrinking trade balance has, in fact, dragged down growth. Hence, we see no impending recovery on the demand side for China's exports in the near future. China's FAIs have basically driven the import side of the Chinese growth story, not to mention China's dry bulk imports, for many years. In fact, Chinese FAIs have tripled in the last five years to the current level of 70% of GDP in 2012.

FAI-led growth works when the export market is strong and the domestic factors of production are underutilised. Pushing the use of FAIs beyond this point is fundamentally turning bank loans into unsustainable GDP creation. Unfortunately, China seems to have pushed the level of FAIs beyond the limits, with the excuse that growth – per se – will solve all problems. We sincerely doubt that this will be the case.

CHINA TO GENERATE LESS DRY BULK DEMAND IN THE FUTURE

China's future growth potential is plentiful – there is no argument against that – but we argue that more FAIs will not be part of the solution for much longer. In an economy with fully employed factors of production, GDP growth should come from productivity improvements or domestic consumption. China has plenty of room to realise its growth potential in the skilled labour-intensive industries, despite rising labour costs. China's labour costs amount to only one-sixth to one-seventh of the OECD level. But this growth will be less steel intensive (i.e. create less dry bulk demand) than growth generated by FAIs.

CHINESE PRIVATE CONSUMPTION TO CONTRIBUTE FURTHER

The need to increase private consumption, and thereby lower the alarmingly high income inequality, has long been a hot topic. State planners have debated income inequality for eight years without much success. China needs to allocate more resources to its social welfare programmes, in order to encourage lower private savings and higher private consumption. The latest policy plan signals big changes sooner than expected. These new policies will favour household income growth, improve the social safety net, and support the expansion of the service sector and private enterprises, especially small and medium-sized businesses. As disposable incomes rise, consumers will be able to buy more services and goods. That should spur the expansion of new service businesses, as well as increase the demand for consumer products. At the same time, business services will grow more quickly as the country's economy continues to develop. Unfortunately, it is still too early to tell whether the planned changes will have an impact on private consumption in the short to medium term.

HIGH CHINESE GDP GROWTH IN THE FUTURE

What's next for China? The future is shrouded in uncertainty, but much seems to indicate that the Chinese economy will continue to grow at impressive rates in the foreseeable future. Above, we have highlighted some structural issues that we fear may impact the Chinese growth potential negatively. These factors should be considered carefully, although little indicates that 2013 will be a year that the fundamental growth drivers are set to change dramatically. For 2013, we still expect FAIs to be the largest contributor to growth, mainly driven by arguments related to urbanisation and the accelerated rise of smaller cities, which are expected to make a key contribution to FAI growth in 2013.

FRAGILE GLOBAL RECOVERY

According to IMF, the global economy is expected to show a gradual upturn during 2013, although downside risk remains relevant. Policy actions have lowered acute crisis risks in many advanced economies, but the euro area economies, in particular, continue to pose a large downside risk to the global outlook. A further strengthening of global growth in 2014 looks within range, assuming recovery takes a firm hold in the eurozone.

THE SHIPPING CRISIS DEEPENED EVEN FURTHER DURING 2012. MANY OWNERS ARE STRUGGLING. FOR THE FIRST TIME IN YEARS, SCRAPPED CAPACITY OUTNUMBERS CONTRACTING ACTIVITY. THE OUTLOOK FOR 2013 REMAINS BLEAK, AS THERE IS OVERCAPACITY IN SEVERAL SEGMENTS.

RATES ARE LOW

The shipping crisis deepened even further during 2012. Since the heyday of 2008, the fleet has grown by 45%, while seaborne demand volumes are up only 15%. Several, but not all, ship segments are facing lower earnings, and during 2012 the leading earnings index dropped 25%, breaking the previous floor of 2002 (fig. 1). In several segments earnings are now moving down towards or even failing to cover operating expenses. The combination of increasingly low fleet utilisation and a higher frequency of temporarily idling vessels has resulted in lowered timecharter rates in several ship segments.

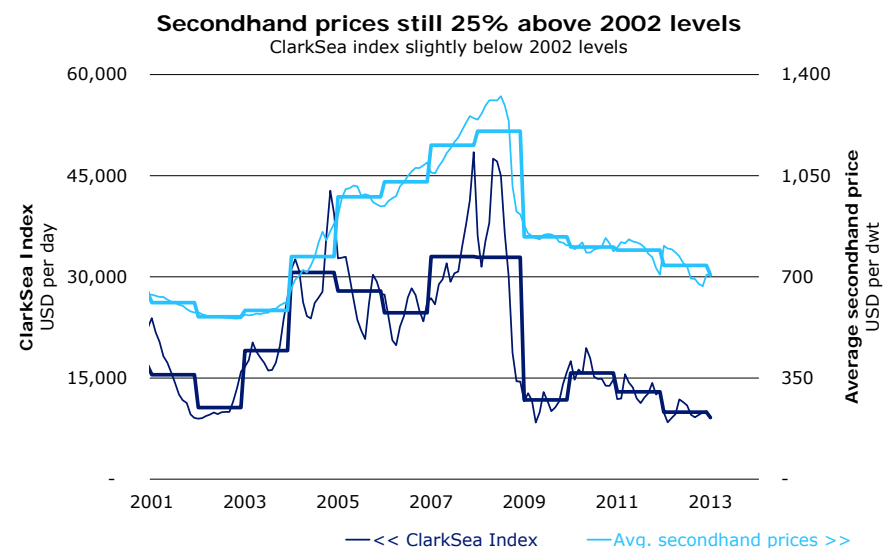
BUNKER COSTS ARE HIGH

To make the situation even more fragile, bunker prices (380 cst Rotterdam) reached a record-high level of USD 713 per ton in 2012 (fig. 2), exacerbating matters for many ship owners. However, it should be noted that not all ship owners are equally exposed to the higher bunker costs, as individual exposure is determined by the business strategy and risk profile of the owner.

ASSET VALUES ARE APPROACHING THE RECORD-LOW LEVELS OF 2002

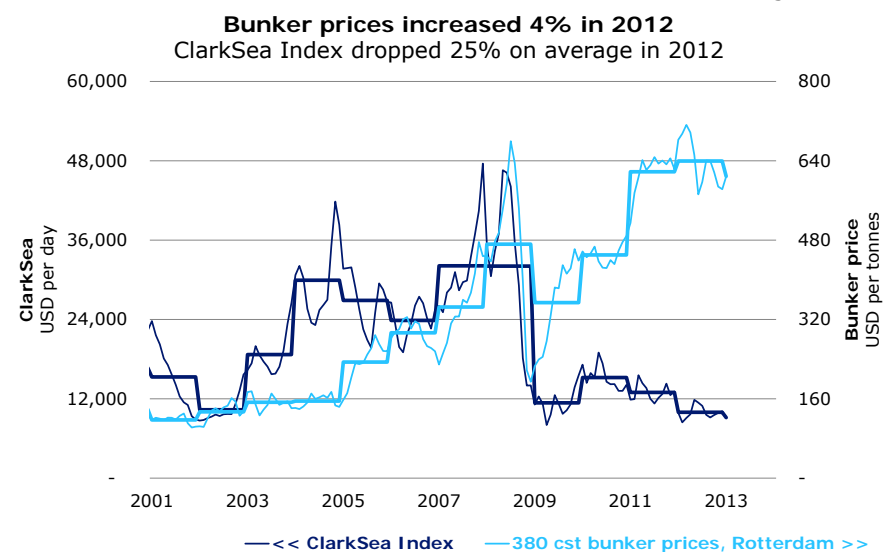
Naturally, the growing overcapacity has taken its toll on secondhand prices and during 2012 the average secondhand price fell by 7%, although this was still 25% above the record-low levels of 2002 (fig. 1). The growing gap between supply and demand affected not only short-term earnings, but also market expectations for the medium and long-term earnings potential. Old vessels, in particular, are constrained by short-term cuts in earnings, whereas younger vessels tend to find some refuge in their theoretical long-term upside potential. Nonetheless, the combination of low asset values, high bunker prices, and relatively high scrap values has precipitated many ship owners' decision to scrap vessels before the age of 25. In the past, vessels were not often scrapped before the fourth special

Figure GRO.1



Sources: Clarksons, Danish Ship Finance

Figure GRO.2



Sources: Clarksons, Danish Ship Finance

survey, but in today's slumping market some owners have to weigh up the economics of paying for the survey of a 20-year-old vessel and trading it afterwards against the scrap value of the vessel.

LIMITED NEED FOR ADDITIONAL VESSELS – ECO-DESIGN OR NOT

Despite the oversupply of tonnage, ship owners are continuing to order new vessels, and are thereby suppressing the long-term upside potential of asset values. Few segments are currently in a position where a further influx of vessels can be absorbed, and therefore, owners' decisions to contract are profoundly affecting the industry. In the segments where overcapacity is continuing to grow every year, a recovery of rates and values must be expected to be significantly delayed. Moreover, if the overcapacity continues to grow in the coming years, premature scrapping and lay-ups of vessels seem an inevitable consequence, implying that even though ordering a low-priced new vessel, eco-design or not, might save on voyage-related costs, it could turn out to be extremely expensive from an industry perspective.

45 MILLION DWT CONTRACTED IN 2012

Viewed from an historical perspective, contracting activity in 2012 was moderate, but from the perspective of the current market situation it seems too high — a total of 45 million dwt was contracted (fig. 3). The annual delivery for the years to come significantly exceeds the scrapping potential of the industry, even without accounting for the contracts made in 2012. The current orderbook contains more than 250 million dwt of new orders, while at present only 130 dwt of the fleet is older than 25 years. True, in the current low market vessels as young as 20 years might be considered potential scrapping candidates until the market recovers. Unfortunately, in a few segments, this hardly changes the situation (fig. 4). 2013 is expected to be an extraordinarily tough year for many ship owners, as more than 150 million dwt is currently scheduled to be delivered.

THE SALE AND PURCHASE MARKET REMAINS LIQUID

Transaction volumes in the sale and purchase market seems to indicate that the market mechanism is still functioning well, albeit less flexible than before. Nevertheless, current prices are not in

Figure GRO.3

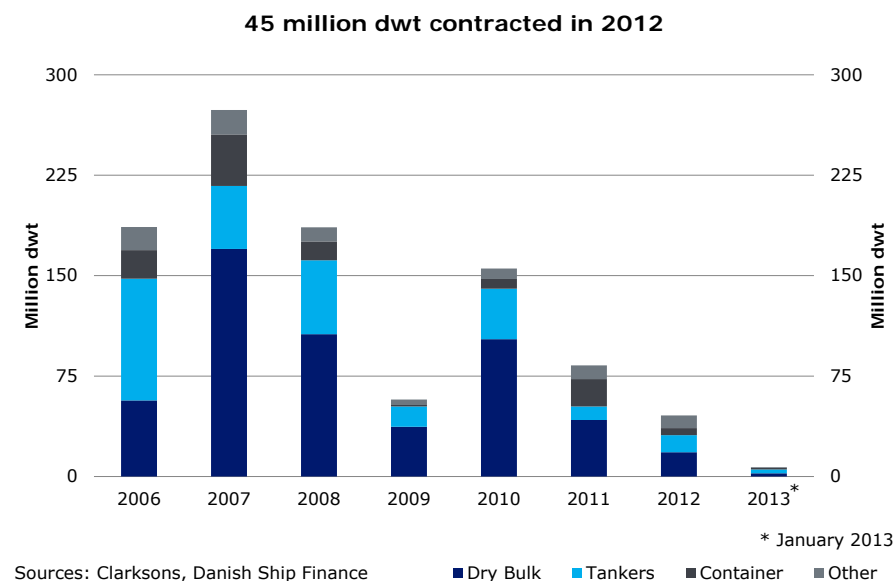
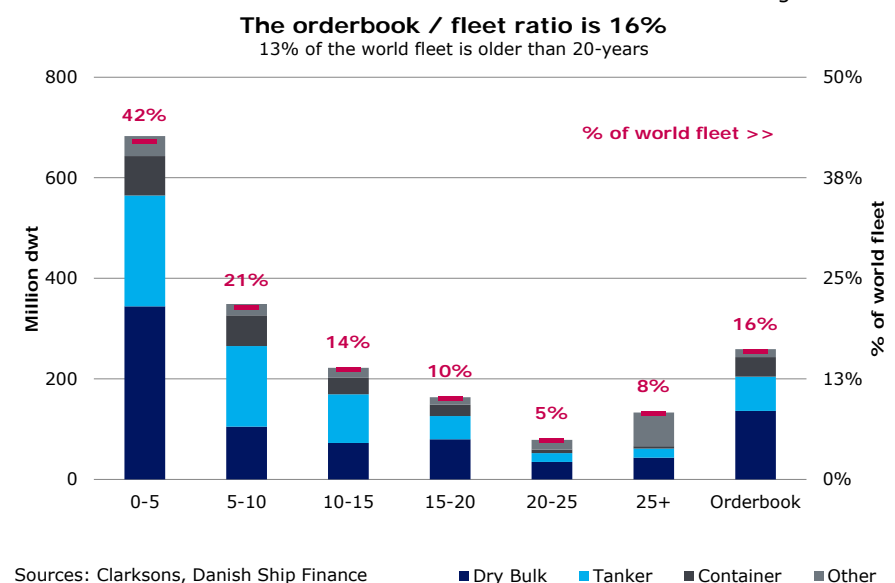


Figure GRO.4



balance. Secondhand prices — in several segments — look expensive relative to newbuilding prices. This has prompted some investors to argue that if only banks would facilitate sales of assets at significant discounts, owners would not be *forced* to order new vessels. Clearly, this would be an attractive investment opportunity for cash-rich buyers, but we can hardly accept it as a remedy for the re-establishment of balance between secondhand and newbuilding prices. We fear that adding capacity to the current market will only extend the current crisis and hence lower the long-term upside potential for asset values. We urge that owners will choose to retrofit their fleet instead of ordering new vessels, even though the savings on the voyage-related costs might be less than for new eco-designed vessels.

NEWBUILDING PRICES DOWN 11% IN 2012

Anyway, let us take a closer look at the global shipbuilding industry. It seems apparent that the industry is struggling to utilise the capacity. Relative to the large global yard capacity of 60 million cgt, the demand for new ships in 2012 was very low. The annual contracting activity of 2012 added barely four months of future employment to the global shipbuilding industry. Consequently, the global order cover dropped by more than 20% in 2012 to 18 months at the end of the year. This had a profound impact on newbuilding prices (per cgt), which, on average, declined 11% (fig. 5). Newbuilding prices for less sophisticated vessels have been hit significantly harder than those of sophisticated vessels. The average newbuilding price (per cgt) for a dry bulk vessel declined by 13% in 2012, whereas the average gas newbuilding price (per cgt) declined by only 3%. The average newbuilding price has dropped more than 40% from its peak in 2008, but is still 30% above the previous low from 2002.

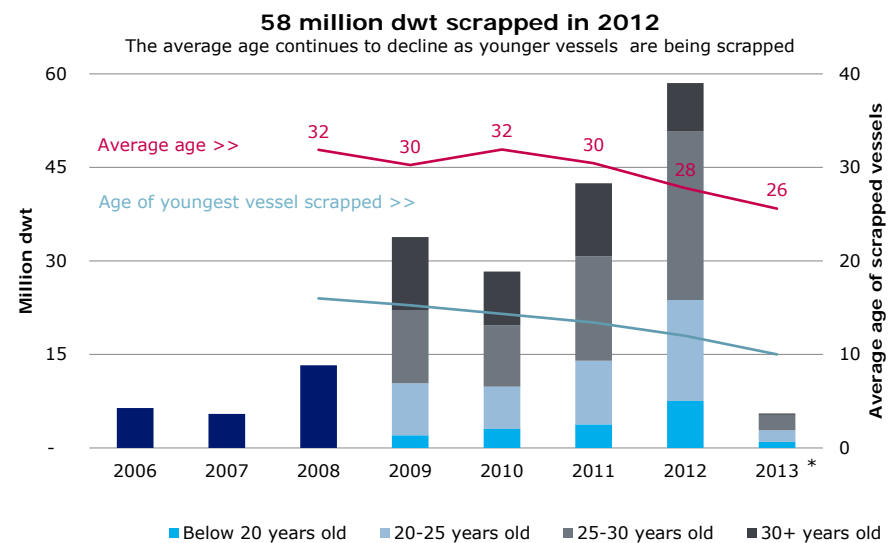
LIMITED DOWNSIDE POTENTIAL IN NEWBUILDING PRICES

Clearly, not all yards are equally exposed to the limited demand for new vessels. Generally speaking, the yards capable of building a broader range of sophisticated vessels seem to be attaining more orders than yards primarily building less sophisticated vessels (e.g. dry bulk). Some yards have not managed to win any orders during

Figure GRO.5



Figure GRO.6



the last two or three years, while others received orders in both 2011 and 2012. Given the current market situation, it is critical to consider whether the 2002 low represents the potential downside risk for current newbuilding prices: despite the gloomy outlook, we are inclined to believe that this will not be the case. However, government-supported shipyards could choose to operate below their marginal construction costs, for a short period, resulting in a further reduction in newbuilding prices. Hence, a scenario where capacity, rather than construction costs, determines newbuilding prices could be the outcome of the massive surplus of yard capacity. For the sake of freight rates and asset values, let us hope that the lowered newbuilding prices will not spark a contracting boom.

58 MILLION DWT SCRAPPED IN 2012

The harsh market conditions led owners to scrap a record-high number of vessels in 2012 — more than 1,300 vessels with a combined capacity of 58 million dwt (fig. 6). This represents a 40% increase compared to the capacity scrapped in 2011. In several segments extreme scrapping scenarios are part of the attempt to rebalance supply and demand within the next two or three years. Accordingly, the average scrapping age continues to decline, and as of January 2013, the average vessel scrapped had an age of 26 years. A declining average is on its own not a game-changer, but if the trend continues, premature scrapping will be the new industry standard (i.e. scrapping before a vessel turns 25 years). A prematurely scrapped vessel might represent a loss for the individual owner, but it would contribute to the recovery of the overall segment — and also indirectly support the competitors. This dilemma might jeopardise the recovery process when timecharter rates return to levels where debt can be served. We fear that the recovery path, in some segments, might be longer than previously expected.

YARD CAPACITY SET TO FALL

Clearly, a certain amount of new orders will be placed in 2013 and 2014, but we do not expect contracting activity to be strong enough to support the current yard capacity. We estimate that as much as 20-30% of current yard capacity will be in excess

and might eventually be shut down. Small and medium-sized privately-owned Chinese yards appear to be at the epicentre of the capacity adjustment process. We estimate that by the end of 2014 global yard capacity could be back at the 2008 level. On average, we predict that newbuilding prices for less sophisticated vessels could drop by as much as 5-10% by the end of 2013.

SHIP FINANCE IN TURMOIL

Global ship financing has been hit hard by the turmoil on the financial markets and, in particular, the European debt crisis. Combined with low freight rates, high bunker prices, and declining asset values, this makes it seem inevitable that many less credit-worthy owners will struggle to raise new debt. Ship owners' ability to take delivery of their newbuildings or to place new orders will become highly constrained if their access to the debt markets is limited further. Therefore, our expectation for 2013 is that owners will continue to struggle and postpone or even cancel newbuilding orders. That said, cash-rich and well-established owners and/or owners with access to Export Credit Agencies (ECAs) or the like might be able to make deals that could prove to be attractive in the long run.

OUTLOOK FOR 2013 AND BEYOND

We expect rates and asset values to remain low in 2013, although we see potential for some short-lived spikes in freight rates.

SHIPBUILDING

SHIPPING MARKET REVIEW – APRIL 2013



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SHIPBUILDING

THE GLOBAL SHIPBUILDING INDUSTRY IS FACING A NEGATIVE OUTLOOK. THE ORDER COVER CONTINUES TO DECLINE AND A 20% REDUCTION IN GLOBAL YARD CAPACITY IS EXPECTED OVER THE NEXT TWO YEARS, MAINLY BECAUSE SMALL AND MEDIUM-SIZED YARDS WILL BECOME INACTIVE. HENCE, GLOBAL YARD CAPACITY WILL BE LOWER THAN THE 2008 LEVEL BY 2015.

NEWBUILDING PRICE

THE GLOBAL ORDER COVER HAS BEEN DECLINING FOR NEARLY 63 CONSECUTIVE MONTHS, FALLING FROM 4.6 YEARS AT THE END OF 2007 TO 18 MONTHS AT THE END OF 2012. NEWBUILDING PRICES, DOWN BY 11% IN 2012 ALONE, HAVE FOLLOWED SUIT.

NEWBUILDING PRICES DOWN BY 11% IN 2012

To some extent, newbuilding prices reflect yards' order cover (i.e. orderbook/yard capacity). Global yard capacity is, however, a simplified figure, as not all shipyards are capable of building all ship segments. This explains why newbuilding prices have developed differently from one ship segment to the next. In 2012, average newbuilding prices fell by 11%, but for dry bulk vessels they dropped by 13%, while for gas carriers they only declined 3% (fig. 1).

ORDER COVER DOWN BY 20% IN 2012

The global order cover fell by 22% to 18 months during 2012 (fig. 1). Yards delivered 48 million cgt, whereas new orders of 23 million cgt were registered during the period. The order cover varies greatly among yards. Some yards have scheduled deliveries three years ahead, while others urgently need to secure new orders. Clearly, such variations put prices under pressure.

PRICE OF STEEL DOWN 15% IN 2012

The price of steel declined by 15% in 2012 (fig. 2). Steel costs are a large component of the total costs of building a vessel. Generally, the more specialised a vessel is, the smaller the role of steel costs in the overall building costs. We argue that declining steel prices enable lower newbuilding prices and vice versa.

Figure SB.1

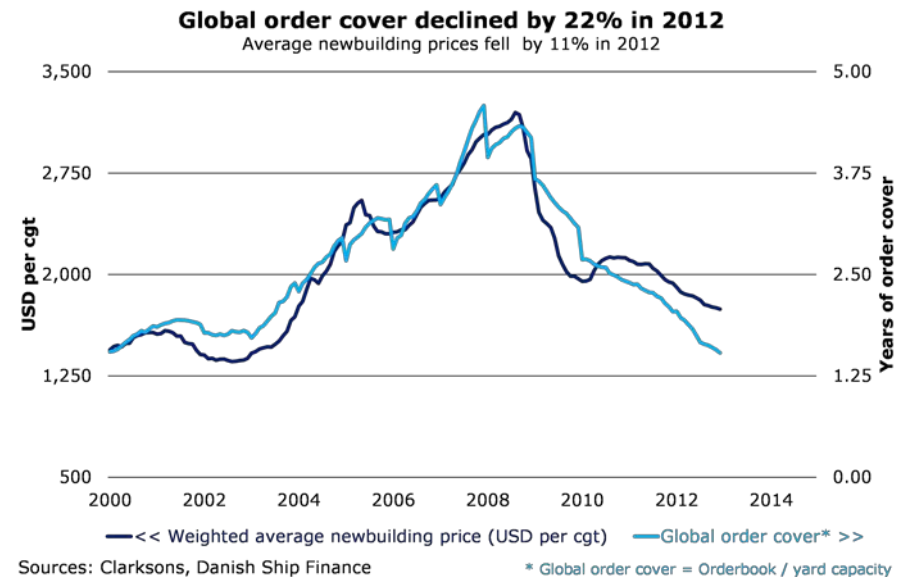
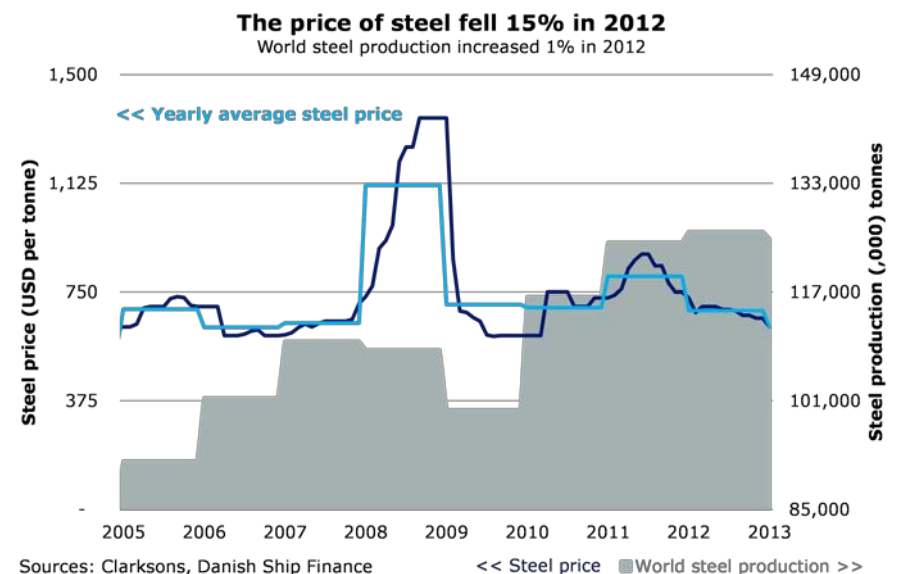


Figure SB.2



CONTRACTING ACTIVITY SUFFERED A SEVERE SLOWDOWN IN 2012. GLOBAL ORDER COVER, IN DECLINE SINCE 2007, FELL BY 20% TO 18 MONTHS.

The combination of low freight rates, high bunker costs, and continuing asset devaluations seems at last to have reduced owners' appetite for new vessels. Remarkably, orders placed in 2012 have increasingly been within the more specialised ship segments, such as offshore supply units and gas carriers. South Korea secured most of the specialised orders, but it is obvious that several high-end Chinese yards are pitching to secure more specialised vessels in their orderbooks.

CONTRACTING ACTIVITY DOWN 30% IN 2012

In 2012, 23 million cgt was contracted. This is 30% less than the capacity contracted during 2011. Compared to an estimated yard capacity of 62 million cgt, we can conclude that less than 40% of annual global yard capacity was in demand during 2012. The low contracting activity has driven the order cover down to 18 months (fig. 3). The situation is getting critical: 483 of the 703 active yards – representing 26% of 2012 yard capacity – did not win a single new order during 2012. Some yards have not won any new orders for two or even three years. Almost 80% of small yards (capacity less than 80,000 cgt) did not receive a single new order in 2012.

SOUTH KOREA SECURED 33% OF NEW ORDERS

South Korean yards secured 7.6 million cgt of new orders during 2012 (fig. 4). South Korean yard capacity is estimated at 17 million cgt. Consequently, approximately 40% of South Korean capacity was in demand during 2012. Large yards secured almost all orders placed in South Korea last year.

CHINA ATTRACTED 34% OF ORDERS PLACED IN 2012

Chinese yards secured new orders of 7.7 million cgt during 2012 (fig. 4). Chinese yard capacity is estimated at 23 million cgt. Consequently, 30% of Chinese yard capacity was in demand during 2012. Medium-sized yards dominate the Chinese yard industry. 65% of new orders were placed at medium-sized yards. Large yards only secured 27% of the new orders.

Figure SB.3

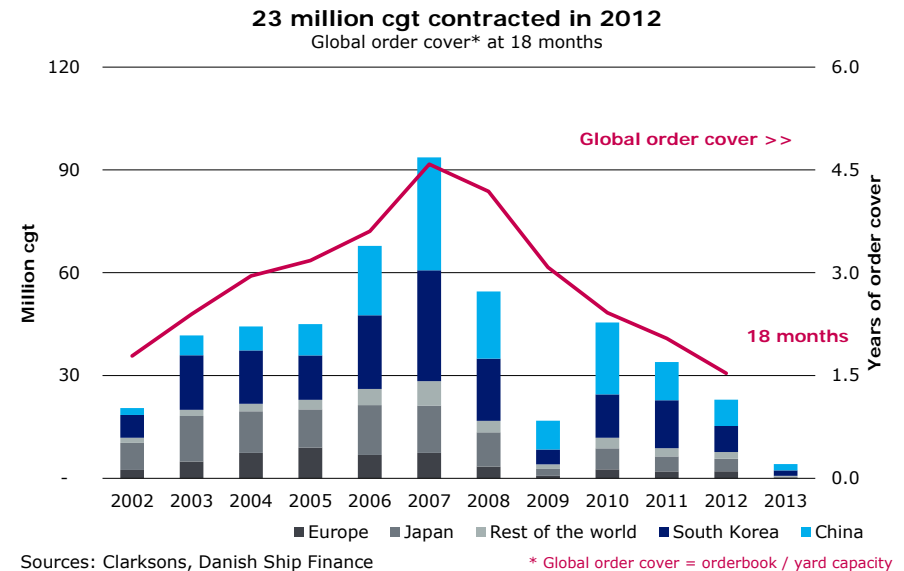
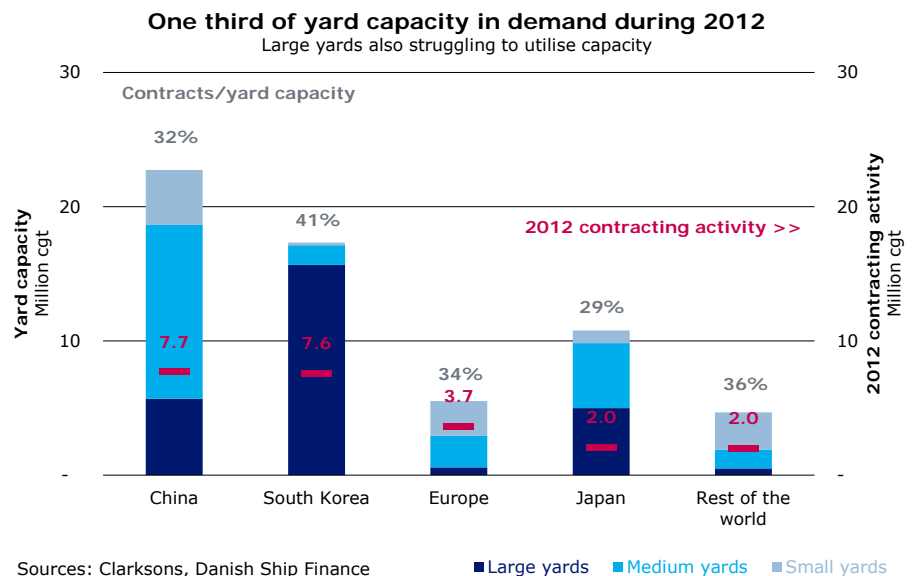


Figure SB.4



GLOBAL DELIVERY

IN 2012, OWNERS TOOK DELIVERY OF 48 MILLION CGT, 10% LESS THAN IN 2011. WE HAD EXPECTED THE SLUGGISH MARKET TO REDUCE THE INFLOW OF NEW VESSELS FURTHER. STILL, 73% OF SCHEDULED DELIVERIES WERE BUILT. LARGE YARDS PERFORMED ALMOST ACCORDING TO SCHEDULE. EVERY SECOND VESSEL DELIVERED WAS A DRY BULK VESSEL.

48 MILLION CGT DELIVERED IN 2012

A total of 66 million cgt was scheduled for delivery in 2012. Firm orders represented 59 million cgt and 7 million cgt were purchase options. 48 million cgt (73%) was actually delivered (fig. 5). The inflow of vessels was 9% below 2011 deliveries and 12% below the record-high level of 2010.

LARGE YARDS DELIVERED 80% OF THEIR ORDERBOOK

Large yards built almost half the capacity delivered during 2012. Large yards delivered 83% of their scheduled orders, while medium-sized and small yards delivered only 70% and 74%, respectively.

CHINA DELIVERED 20 MILLION CGT IN 2012

China was scheduled to deliver 28 million cgt in 2012, whereas 20 million cgt (69%) was actually delivered (fig. 5). More than half the orderbook was scheduled to be built at medium-sized yards, while the large yards accounted for only 25%. The large and medium-sized yards delivered about 70% of the scheduled orders, whereas small yards delivered 82%. Dry bulk vessels represented 63% of total deliveries from Chinese yards.

SOUTH KOREA DELIVERED 14 MILLION CGT IN 2012

South Korea was scheduled to deliver 18 million cgt in 2012, but actual deliveries were 14 million cgt. In other words, 76% of scheduled deliveries were actually built (fig. 5). The large yards delivered more or less according to schedule, while the small and medium-sized yards failed to perform according to schedule, as only 20-25% of scheduled deliveries actually reached the sea.

Figure SB.5

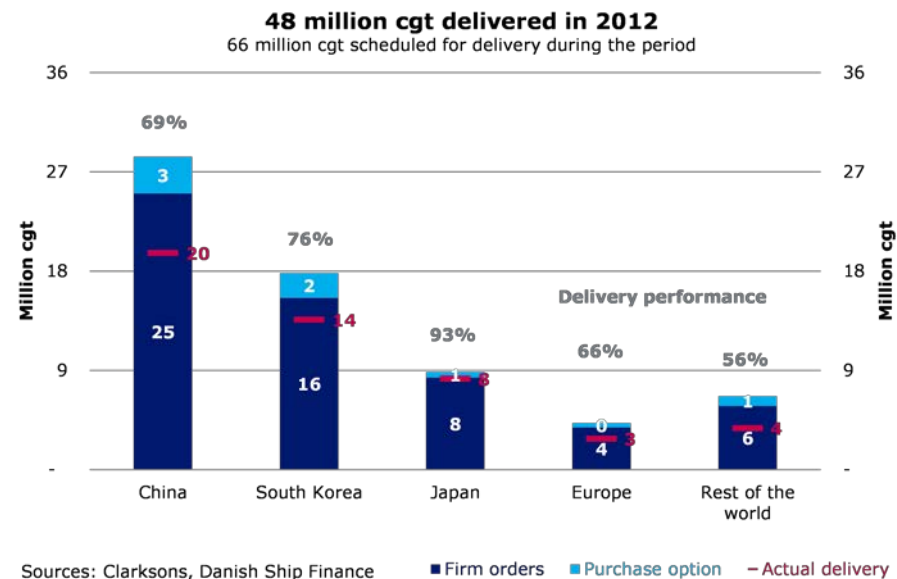
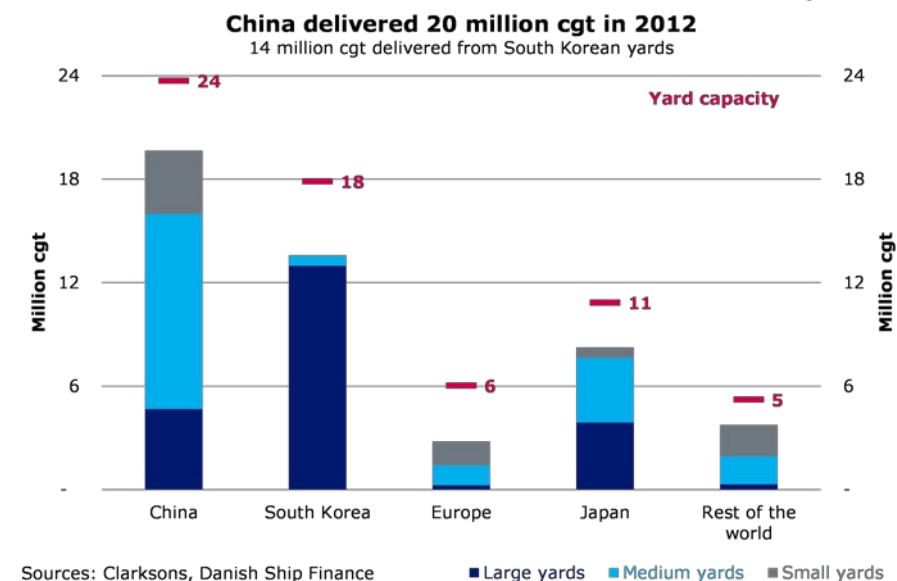


Figure SB.6



YARD CAPACITY AND UTILISATION

THE ORDERBOOK IS SHRINKING AND IS CURRENTLY AT THE 2005 LEVEL, WHILE GLOBAL YARD CAPACITY HAS ALMOST DOUBLED SINCE 2005. YARDS ARE UNDER PRESSURE TO SECURE NEW ORDERS. IN 2012, WE ESTIMATE THAT 3% OF THE GLOBAL YARD CAPACITY CLOSED OR AT LEAST BECAME INACTIVE.

YARD CAPACITY POTENTIALLY REDUCED BY 2.2 MILLION CGT IN 2012

In 2011, global yard capacity was estimated at 63.7 million cgt. During 2012, yard capacity of 2.7 million cgt (182 yards) is estimated to have become inactive. Our definition of inactive yards is yards without a scheduled delivery during the year and an orderbook of zero. Deliveries from newly established yards in 2012 represent almost half a million cgt. Consequently, we estimate the active global yard capacity to have been reduced by 2.2 million cgt (3%) by the end of 2012 (fig. 7).

YARD CAPACITY OF 980,000 CGT BECAME INACTIVE IN CHINA

The Chinese yard industry is facing great challenges. 166 small yards are struggling, having secured new orders equivalent to only 12% of their capacity in 2012. Clearly, some yards have a better order cover than others. We estimate that as many as 50 small yards – with a combined capacity of 980,000 cgt – became inactive during 2012. In other words, we estimate that 4% of Chinese yard capacity went out of business in 2012 (fig. 7).

YARD CAPACITY OF 540,000 CGT TURNED INACTIVE IN SOUTH KOREA

South Korean yards secured more contracts relative to the yard capacity in 2012 than the other builder regions, but with most orders going to the large yards. Many of the small and medium-sized yards failed to attract the attention of ship owners. We estimate that 3% of the South Korean yard capacity (540,000 cgt) turned inactive in 2012 (fig. 7).

GLOBAL YARD UTILISATION OF 78% IN 2012

In Europe, Japan, and the Rest of the World, yards with a combined capacity of up to 1.1 million cgt is estimated to have turned inactive in 2012. Consequently, active global yard capacity is estimated to have been reduced by 2.7 million cgt in 2012. As postponements were still high in 2012, global yard utilisation decreased from 83% in 2011 to 78% in 2012 (fig. 8).

Figure SB.7

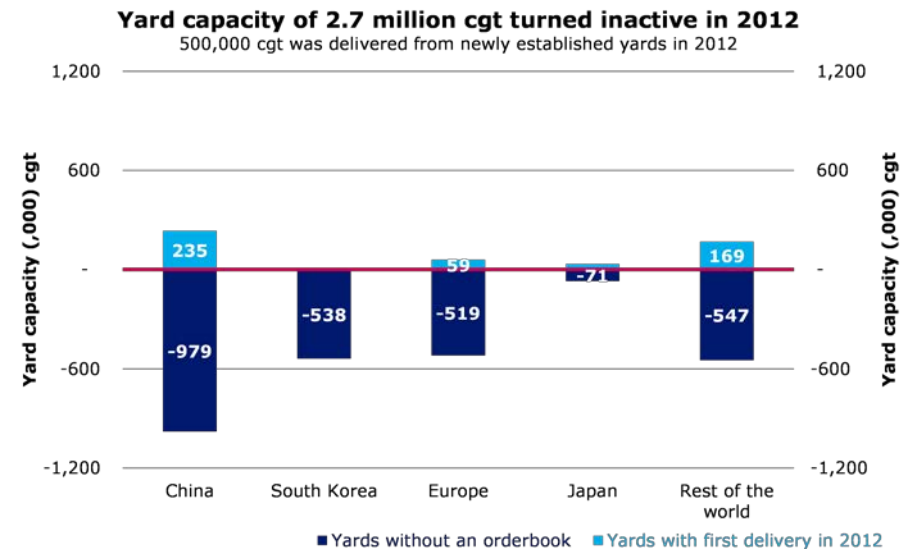
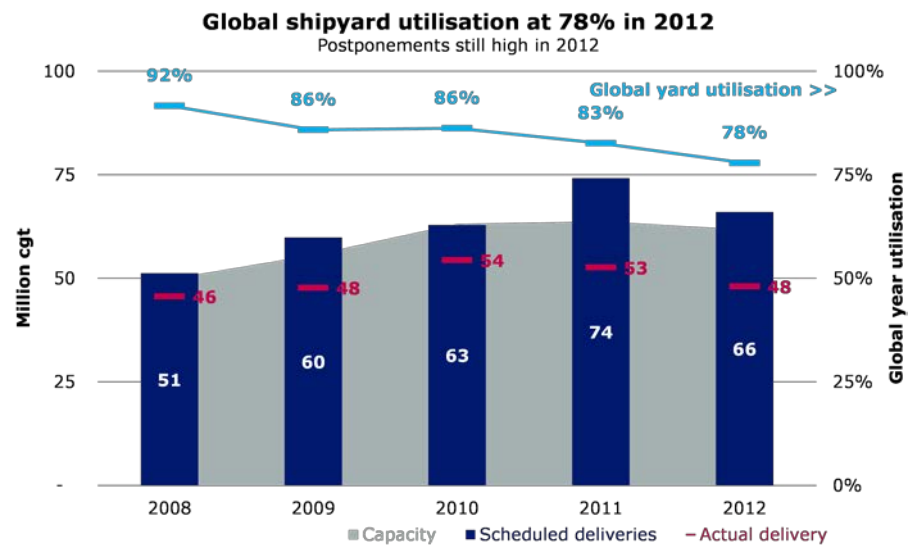


Figure SB.8



OUTLOOK

A LARGE SHARE OF THE GLOBAL SHIPBUILDING INDUSTRY IS RUNNING OUT OF ORDERS. WE ESTIMATE THAT 9% OF GLOBAL SHIPBUILDING CAPACITY WILL CLOSE IN 2013. IN 2014, ANOTHER 15% OF THE YARD CAPACITY MAY CLOSE, IF CONTRACTING ACTIVITY REMAINS LOW.

The outlook for the global shipbuilding industry remains gloomy. The order cover continues to decline as contracting activity fails to balance deliveries and yard capacity adjusts slowly. However, the outlook varies greatly among builder countries and individual yards. Generally, large yards are more diversified in terms of building capabilities, whereas small yards often specialise and therefore build a narrower range of ship types. As a result, large yards generally have a better order cover than small and, to some extent, medium-sized yards. We estimate that the global order cover will drop from 18 months in March 2013 to 15 months in December 2013. Clearly, new orders will be placed in 2013 and yard capacity may adjust more quickly than the 5.7 million cgt (9%) reduction we assume in our forecast, but the message seems clear: 2013 and 2014 look to be extremely challenging years for the global yard industry in general, and for the Chinese yard industry in particular.

20% OF GLOBAL YARD CAPACITY IN EXCESS DURING 2013

With 57 million cgt in the orderbook for delivery in 2013 and an estimated 2012 yard capacity of 61 million cgt, yard utilisation in 2013 may seem acceptable, on the surface anyway (fig. 9). As described above, the order cover varies greatly among yards, which blurs the picture considerably. Numerous yards in fact have scheduled deliveries that exceed our projected yard capacity. Whether those yards are expanding we cannot tell. However, given their scheduled deliveries for 2014 and onwards, we find this very unlikely. Our methodology for calculating spare capacity is to track each individual yard's spare capacity. Accordingly, we expect 20% of global yard capacity (or 12.5 million cgt) to be spare capacity in 2013 and 53% (33 million cgt) in 2014. In general, large yards have a higher order cover than small and medium-sized yards. On average, spare capacity at large yards in 2014 is 43%, while small yards are scheduled to run at an extremely low utilisation rate of about 22% (fig. 9).

Figure SB.9

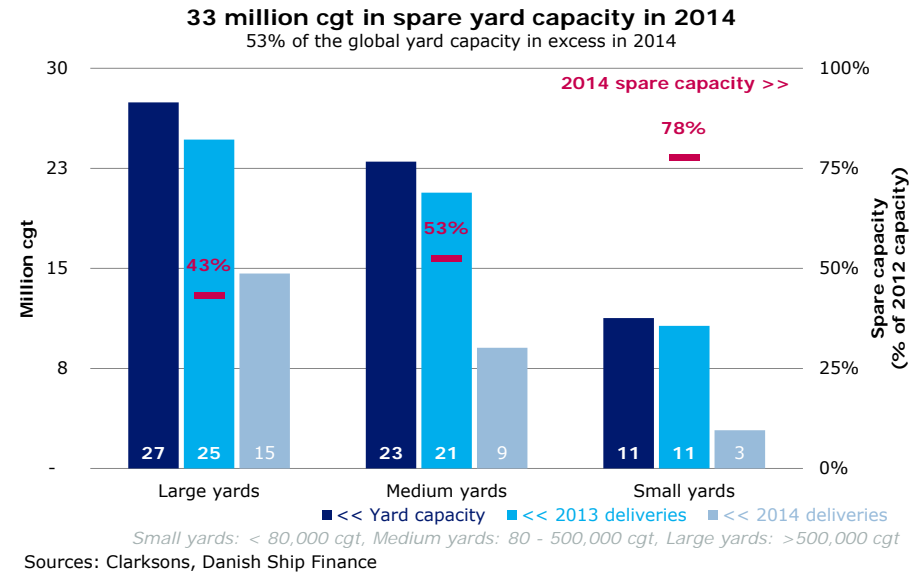
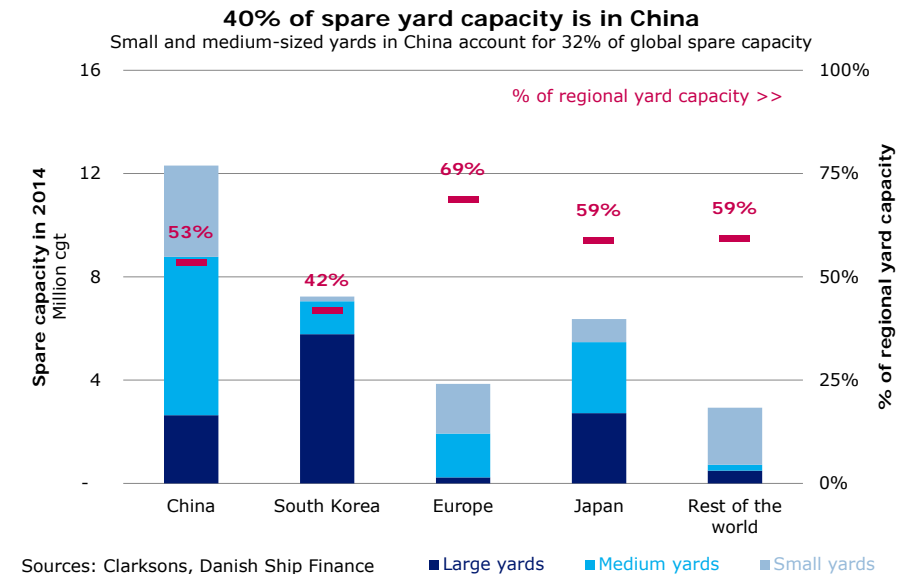


Figure SB.10



38% OF GLOBAL SPARE YARD CAPACITY IS IN CHINA

In 2013 and 2014, Chinese yards will account for 35% and 38%, respectively, of global spare capacity (fig. 10). In particular, small and medium-sized yards are struggling to fill their orderbooks. Spare capacity in 2014 at small and medium-sized Chinese yards accounts for 80% of Chinese spare capacity and 30% of global spare capacity. In total, 53% of Chinese yard capacity is expected to be idle in 2014 (19% in 2013).

SOUTH KOREA ACCOUNTS FOR 22% OF GLOBAL SPARE YARD CAPACITY

Large yards dominate the South Korean yard industry. More than 90% of South Korean yard capacity is based at eight large yards. While these yards secured a large share of the 2011 and 2012 contracts, it was not enough to utilise their capacity. In 2014, we estimate that they will have spare capacity of 40%. This represents 18% of global spare capacity in 2014. The 17 small and medium-sized yards in South Korea seem fairly well booked for 2013, but have almost no scheduled deliveries for 2014 and onwards. However, due to the low number of yards, their spare yard capacity represents only 4% of global spare yard capacity in 2014 (fig. 10).

GLOBAL YARD CAPACITY DOWN BY 9% IN 2013

Traditionally, yard capacity adjustments have taken years to accomplish. However, we argue that small and some medium-sized privately-owned yards, particularly in China, might go out of business faster than previously seen. Our methodology for predicting yard inactivity, which only takes individual yard orderbooks and annual delivery schedules into account, may be too simple. Recently, we have seen yard closures driven by financial problems, rather than the order backlog. Nevertheless, we will continue to apply the current methodology. In 2013, we estimate that 5.7 million cgt could turn inactive and hence reduce active global yard capacity by 9% (fig. 11). Global yard capacity is expected to be reduced by an additional 8.7 million cgt in 2014. These estimates suggest that active global yard capacity will be reduced by 26% or 16 million cgt between 2012 and 2014, bringing global yard capacity back to the 2008 level.

GLOBAL YARD UTILISATION OF 79% IN 2013

Orders scheduled for delivery in 2013 represent 57 million cgt. Subtracting expected postponements from 2013 onwards, deliveries

Figure SB.11

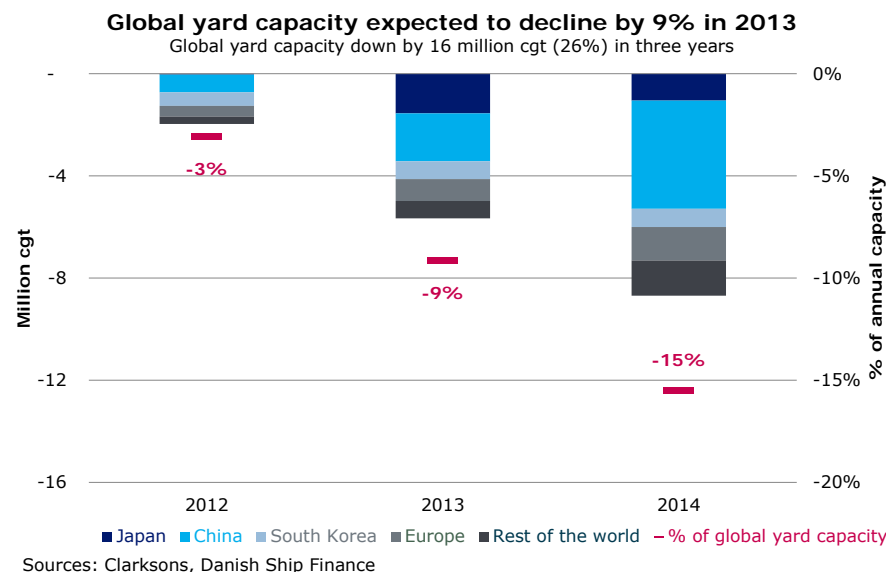
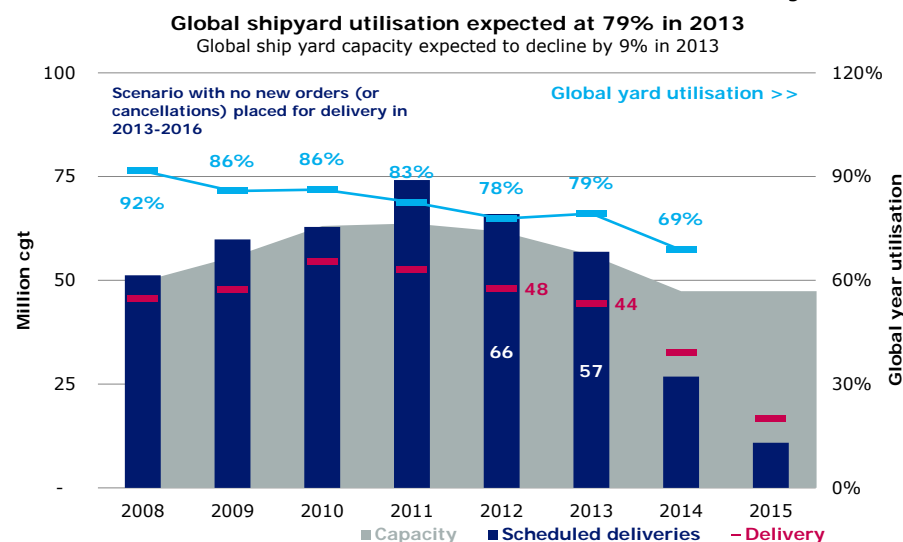


Figure SB.12



in 2013 are expected to reach 44 million cgt. With an expected yard capacity reduction of 9% (to 56 million cgt), global yard utilisation is estimated to be stable at just below 80% in 2013 (fig. 12).

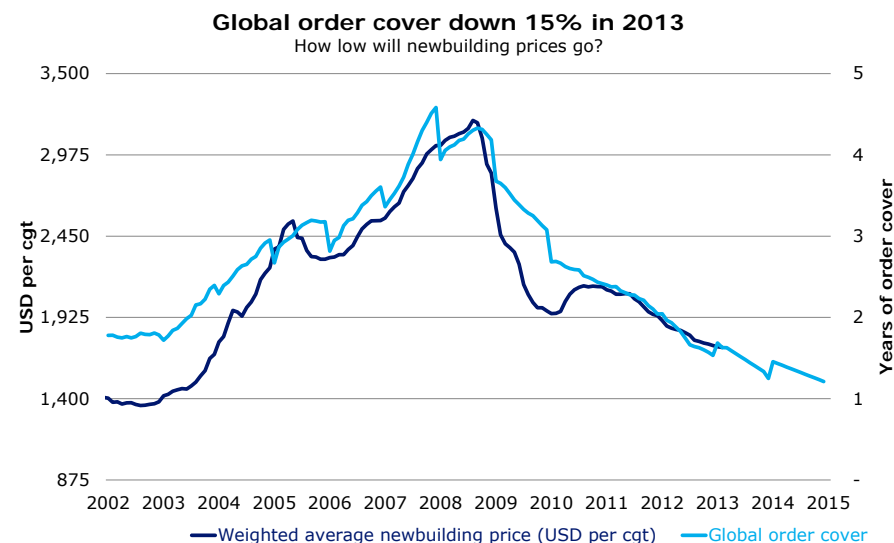
16 MILLION CGT TO BE CONTRACTED FOR DELIVERY IN 2014

The 2014 outlook is bleak: 27 million cgt is currently in the orderbook for delivery in 2014. Adding approximately 6 million cgt in potential postponements, 32 million cgt is now scheduled for delivery during the year. Global yard capacity is forecast to decline to 47 million cgt by 2014. Consequently, yards need to secure an additional 6 million cgt in new orders for delivery in 2014 in order to maintain an 80% utilisation rate on the reduced yard capacity. This does not include any cancellations, though. To maintain an 80% utilisation rate on the current yard capacity, new orders of 21 million cgt will be needed for delivery in 2015, unless by 2014 yard capacity has been reduced relative to its current level. One might consider which segments have the potential to absorb a large inflow of new tonnage over the next two years. The answer is: not many.

NEWBUILDING PRICES MAY GO DOWN 5-10% IN 2013

The global orderbook has been declining since 2008, while global yard capacity peaked in 2010. Newbuilding prices do – to some extent – reflect the yards' order cover (i.e. orderbook/yard capacity). By the end of 2013, the order cover is estimated to reach 15 months. This could translate into a 5-10% reduction in newbuilding prices. The global spare yard capacity is currently expected to peak at 53% in 2014. Clearly, new orders will be placed, but we do not expect global yard utilisation to surpass 80% in 2014. In this scenario, newbuilding prices are expected to bottom out at USD 1,450 per cgt, just above the 2002 low.

Figure SB.13



Sources: Clarksons, Danish Ship Finance

CONTAINER

SHIPPING MARKET REVIEW – APRIL 2013



**DANISH
SHIP FINANCE**

CONTAINER

THE CONTAINER MARKET IS STRUGGLING TO HANDLE SURPLUS CAPACITY IN A PERIOD WITH LOW DEMAND GROWTH AND AN ORDERBOOK ALMOST ENTIRELY FILLED BY LARGE POST-PANAMAX VESSELS. MANY LINERS SEEM TO BE HANDLING THE SURPLUS CAPACITY, WHILE TONNAGE PROVIDERS SEEM TO BE SUFFERING THE MOST FROM THE OVERCAPACITY ISSUES.

MARKET COMMENTARY

IN 2012, EUROPEAN IMPORT VOLUMES DROPPED, ONCE AGAIN, BELOW THE PRE-CRISIS LEVEL. THIS CAUSED AN EVEN LARGER OVERHANG OF CAPACITY. NEVERTHELESS, BOX RATES REMAINED FAIRLY HIGH, WHILE TIMECHARTER RATES STRUGGLED TO COVER OPERATING EXPENDITURES (OPEX). ASSET VALUES DECLINED ACCORDINGLY.

The economic crisis in Europe has taken its toll on European import volumes far beyond what we expected six months ago. The combination of lower than predicted demand and a massive inflow of new and large vessels suppressed the container market during the second half of 2012 and the first two months of 2013. Liners are slow steaming and are operating vessels at low utilisation rates in an attempt to handle the mounting excessive supply. In the first half of 2012, capacity discipline among Liners seemed to be in place, enabling box rates to rise above their potential (fig. 1). Tonnage providers, on the other hand, are directly exposed to the overcapacity, clearly illustrated by the low timecharter rates. It remains to be seen whether Liners will manage to obtain high box rates when the overcapacity intensifies during 2013.

BOX RATES UP 18% IN 2012

In 2012, the rollercoaster development in box rates continued. The China Containerized Freight Index began the year at index 881. By May 2012, the index peaked at an all-time high level – above index 1,300 – only to descend to index 1,114 by the year-end. Nevertheless, box rates were, on average, 18% higher in 2012 than the previous year. The index has remained above index 1,100 during the first three months of 2013 (fig. 1).

Figure CS.1

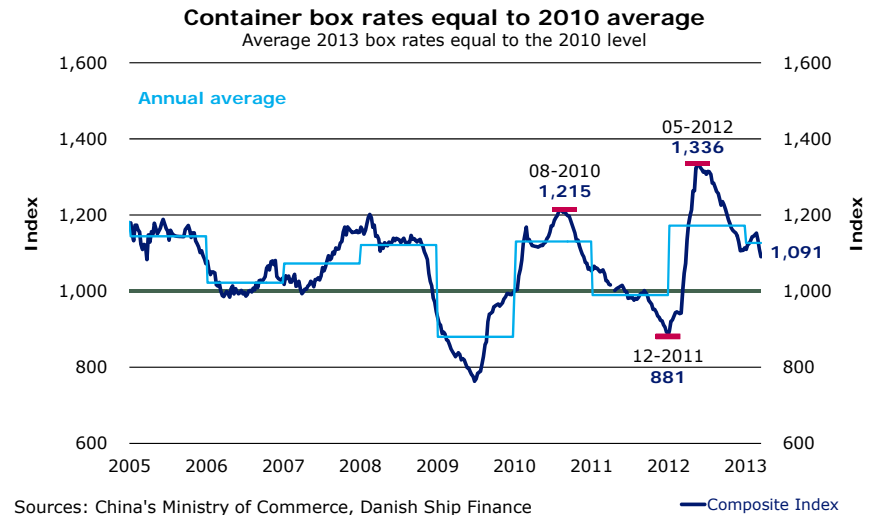
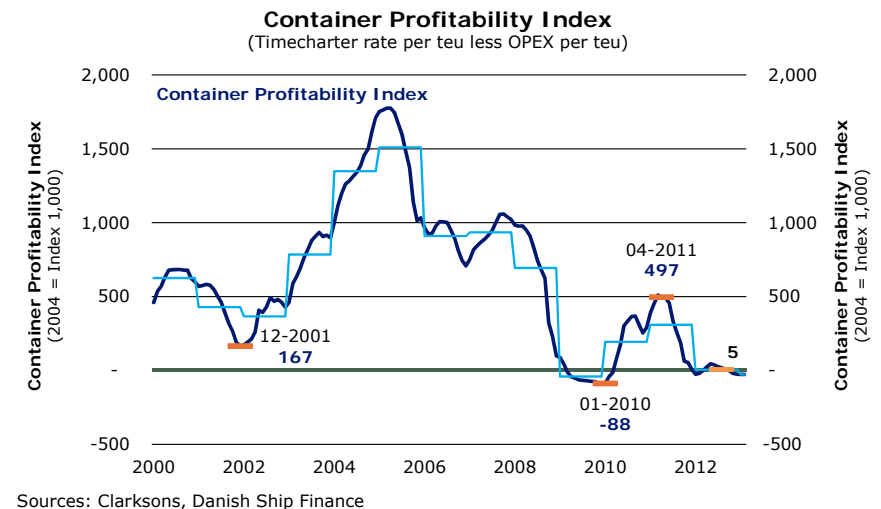


Figure CS.2



CONTAINER PROFITABILITY INDEX DROPPED BELOW ZERO

In the container market, timecharter rates tend to reflect the supply and demand balance for vessels up to the size of a Panamax vessel. In 2012, the oversupply of vessels not only lowered timecharter rates to unsustainable low levels, but also drove down timecharter spreads between sub-segments. In 2012, average timecharter rates declined by 2%, sending the container profitability index below zero. This means that the average timecharter rate was insufficient to cover OPEX (fig. 2).

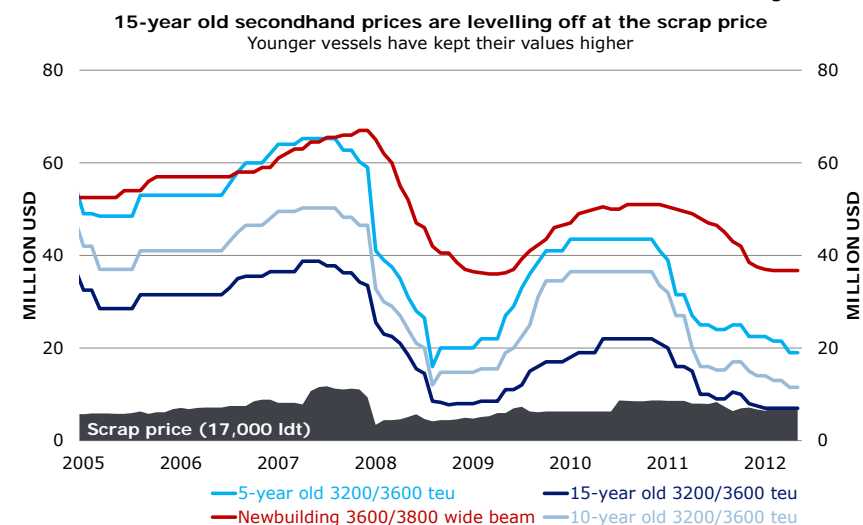
ASSET PRICES DROPPED FURTHER IN 2012

Secondhand prices declined throughout the year and are currently at very depressed levels. On average, prices for 10-year old vessels dropped by 44% in 2012, and are currently more than 70% below the highs of 2008. However, the development in ship prices varies among ages and vessel sizes. Generally, younger and larger vessels have better kept their values. For example, the secondhand price of a 5-year old 3200/3600 teu vessel declined by 32% in 2012, whereas the price of a 15-year old vessel of the same size declined by more than 50%, to levels near the scrap price (fig. 3). Post-Panamax prices appeared more stable, declining 5-10% during 2012. Newbuilding prices dropped by 20% in 2012, and seems to be approaching construction costs. This, combined with the low number of yards actually capable of building container vessels, could indicate that newbuilding prices are at, or near, the bottom (fig. 3). Let us hope that this will not result in a new order boom.

6% FLEET GROWTH IN 2012

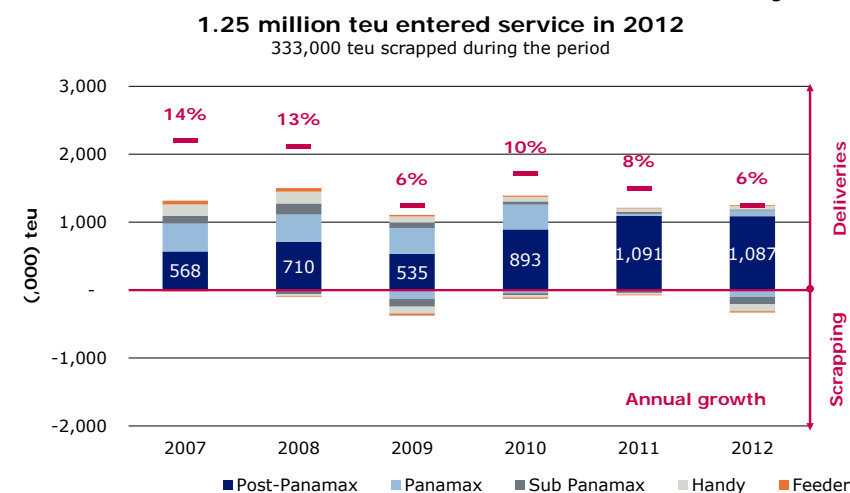
Annual capacity inflow continued at an alarming pace in 2012. A massive 1.25 million teu was delivered, of which the Post-Panamax segment accounted for more than 1 million teu. In total, 117 Post-Panamax vessels entered the fleet in 2012 (122 in 2011). Of these, 51 vessels had a capacity above 10,000 teu. Scrapping activity approached the record-high level of 2009, as more than 300,000 teu was scrapped. It was, unfortunately, primarily smaller vessels that were scrapped. The average age of vessels scrapped was 23 years, which is about five years younger than the average age of vessels scrapped in 2010-2011. The aggregated container fleet grew by 6% in 2012, while the Post-Panamax segment grew by 15% (fig. 4).

Figure CS.3



Sources: Clarksons, Danish Ship Finance

Figure CS.4



Sources: Clarksons, Danish Ship Finance

CONTAINER DEMAND UP BY 1% IN 2012

Container demand has failed to absorb the large entry of mega-vessels delivered both in 2012 and the previous years. European imports in general and the trading routes from Asia to Europe in particular remain the focal point of the overcapacity. European import volumes have once again fallen back below the pre-crisis level after a 4% decline in import volumes during 2012. The largest head-haul routes from Asia to Europe dropped almost 7% in 2012, taking travel distances into account. The lower European imports rippled into the Intra-Asian trades, although the strong import figures from both the Middle East and Africa supported Intra-Asian head-haul demand (i.e. component trades), which grew by 5.2% in 2012 (fig. 5). North American imports were more robust, and the Asia-North America trade lanes expanded by 3.5% in 2012 (up 0.5 percentage points from 2011). Total distance-adjusted head-haul demand grew by a little more than 1% in 2012. This is 3 percentage points lower than predicted in our last Shipping Market Review from October 2012.

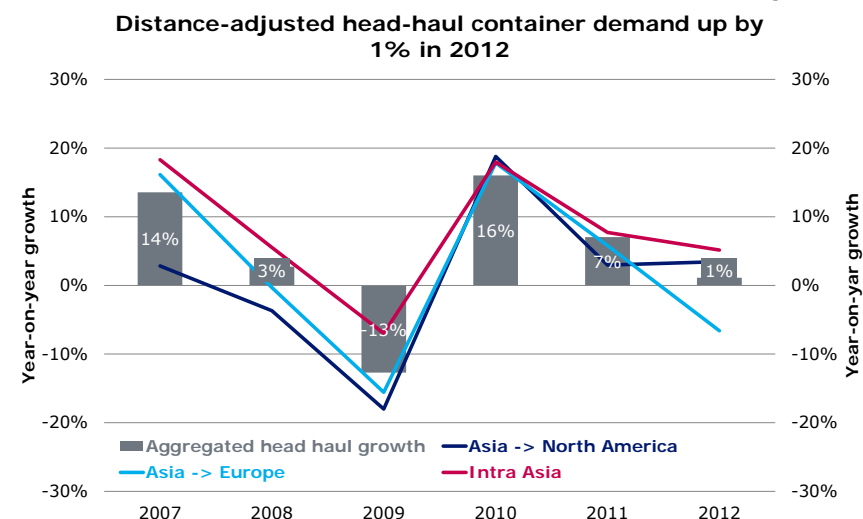
THE SUPPLY-DEMAND GAP EXPANDED BY 5 PERCENTAGE POINTS IN 2012

The combination of low demand growth and a large influx of mega-vessels forced Liners to continue their efforts to cascade their vessels beyond their commercial potential and hence operate their fleet at even lower utilisation rates and at low speeds. Most trading routes are currently being impacted by the cascading effort. Still, the effective supply-demand gap widened in the region of 5 percentage points during 2012. Tonnage providers suffered the most.

MODEST CONTRACTING ACTIVITY IN 2012

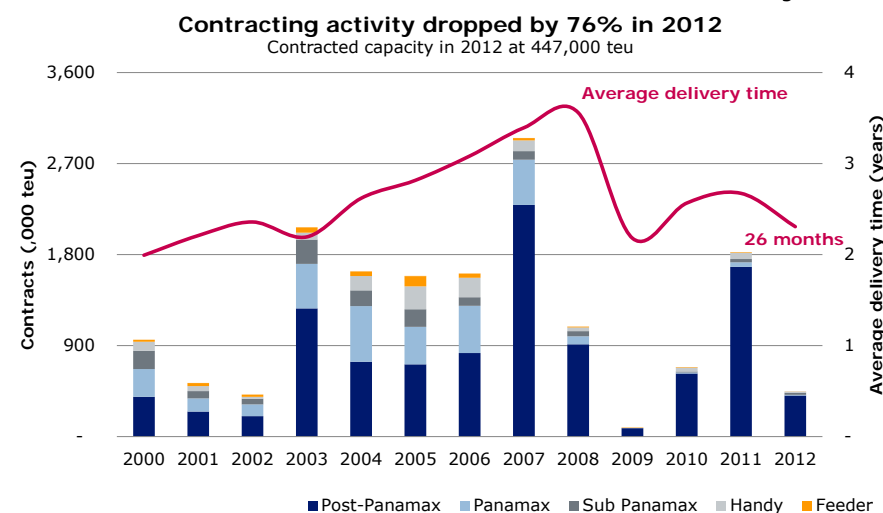
Only 17 owners placed orders for new vessels in 2012. Five of these owners do not seem to have a container vessel in their fleet today. In total, 450,000 teu (75 vessels) were contracted, which is a reduction of 76% compared to 2011. 52 of the contracted vessels were Post-Panamax vessels, of which ten vessels had a capacity above 10,000 teu. In the first three months of 2013, 143,000 teu was contracted. The lower contracting activity has led to a decline in the average delivery time, which currently stands at 26 months (fig. 6).

Figure CS.5



Sources: IHS Global Insight, Danish Ship Finance

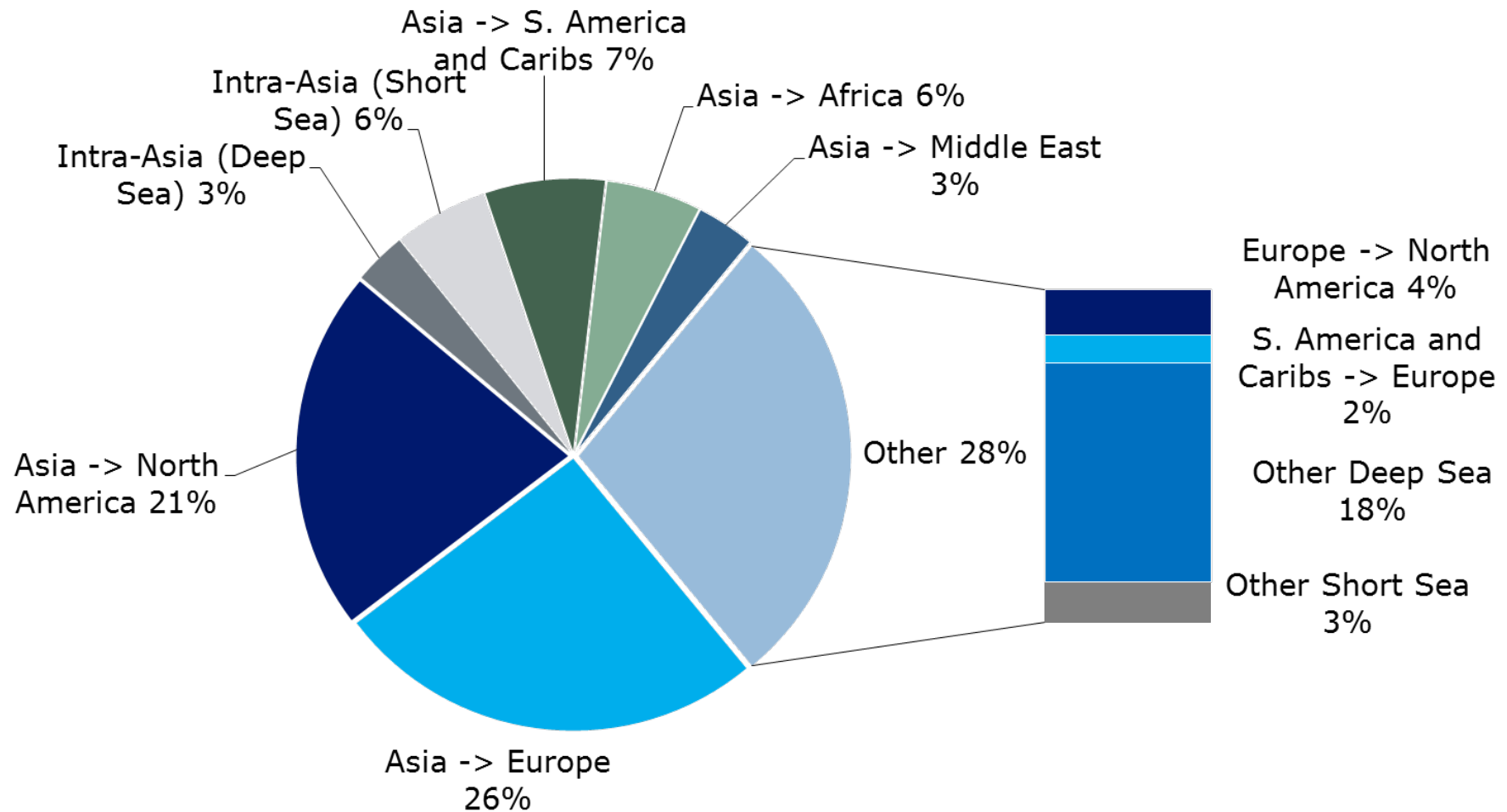
Figure CS.6



Sources: Clarksons, Danish Ship Finance

Total Head-Haul Container Routes 2012 (measured in teu-nautical miles)

Figure CS. 7



Sources: IHS Global Insight, Danish Ship Finance

OUTLOOK

THE POST-PANAMAX FLEET IS YOUNG AND MANY NEW VESSELS ARE SCHEDULED TO ENTER SERVICE IN THE NEXT FEW YEARS. DEMAND IS FAILING TO FILL THE CAPACITY, EVEN THOUGH SLOW STEAMING PREVAILS AND IT SEEMS THAT CASCADING IS BEING ENFORCED BEYOND ITS POTENTIAL. THE NOMINAL IMBALANCE BETWEEN SUPPLY AND DEMAND IS EXPECTED TO RISE IN 2013 AND 2014.

Container supply in the Post-Panamax segment seems to be ahead of demand for the foreseeable future. The logical consequence will be to see vessels operated at low speeds and low utilisation rates or even laid-up. Whether Liners will be able to enforce market discipline, supporting box rates at healthy levels, remains an open question. But it seems inevitable that tonnage providers (i.e. charter rates) will continue to have tough years ahead. Obvious scrapping candidates are few, as the Post-Panamax fleet is young (fig. 8). And more is yet to come. More than 3 million teu is currently on order, of which more than half is scheduled to be delivered in 2013. Post-Panamax vessels younger than ten years old have to become scrapping candidates if the capacity of the current Post-Panamax orderbook is to be counterbalanced by scrapping. Temporary lay-ups of idling vessels may become an issue again this year or next. A new contracting boom, for whatever reason – eco-design, marginal cost per teu or market share – could potentially delay the recovery in the container industry beyond reason.

7% FLEET GROWTH IN 2013

The container fleet is scheduled to increase by 11% before allowing for order cancellation, order deferrals, and demolition. Annual deliveries are scheduled at a little more than 1.8 million teu, of which 160,000 teu was delivered during the first three months of 2013. We expect a limited number of orders to be cancelled (2-3%) in 2013, while we expect between 15% and 25% of orders scheduled for delivery in 2013 to be postponed for later delivery. We predict that the scrapping activity of 2012 will continue in 2013: smaller and older vessels will be scrapped (300-400 teu), as the cascade of Post-Panamax vessels will put pressure on the smaller vessels. In total, we estimate that the container fleet will grow by 1.1 million teu, or 7%, in 2013 (fig. 9).

Figure CS.8

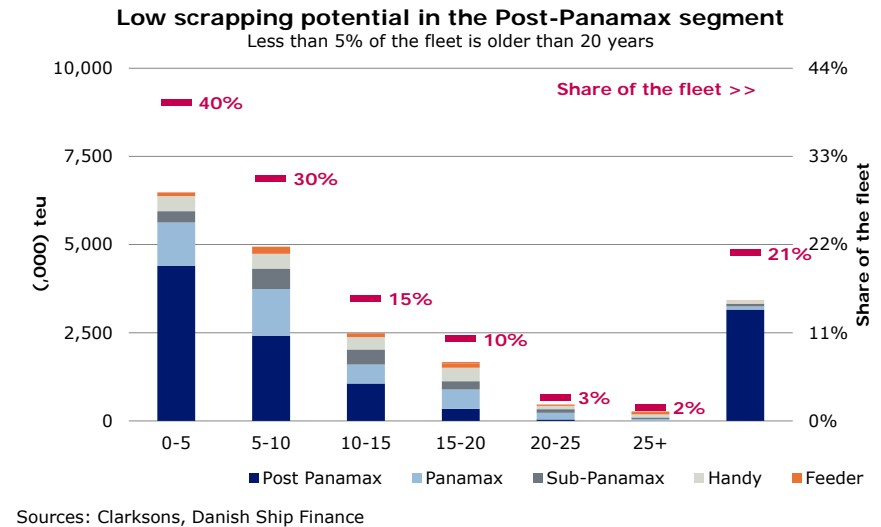
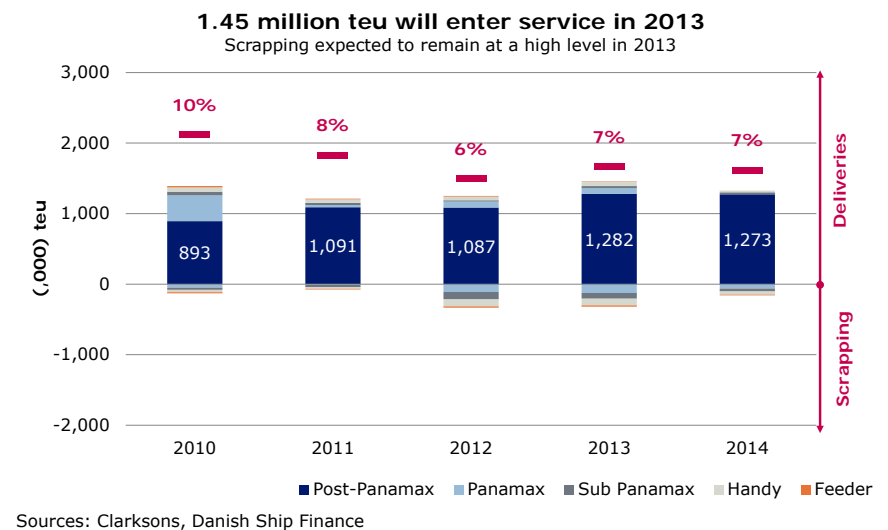


Figure CS.9



HEAD-HAUL DEMAND EXPECTED TO GROW BY 3% IN 2013

Total head-haul demand is expected to grow by 3% in 2013, which is a downward revision from the 5% we predicted in our October 2012 publication. The fragile outlook for the Eurozone leads us to lower our expectation for European imports in 2013. Still, North American demand seems relatively robust. The Asia-North America trade lanes are expected to grow by 4% in 2013, whereas the main Asia-Europe trade lanes are projected to remain stable (fig. 10). However, the European import figure could be a conservative appraisal. We still expect a much divided Europe going forward, with Asia-North Europe performing better than Asia-Mediterranean.

NORTH-SOUTH TRADE LANES EXPECTED TO GROW BY 4% IN 2013

The cascading process of the main East-West trade lanes is causing larger vessels to be cascaded to North-South trades. Growth on these trade lanes has historically been high and the demand forecast also points to a robust scenario. However, growth has slowed significantly in recent years and declined further from 13% in 2011 to 4% in 2012. In 2013, growth is expected to remain at 4%. Even though demand seems robust, we doubt that growth will be sufficient to absorb the inflow of larger tonnage.

SUPPLY-DEMAND GAP EXPECTED TO WIDEN FURTHER IN 2013

The supply surplus is expected to widen further in 2013, since the effective supply growth is expected to exceed distance-adjusted demand growth by 4 percentage points. By 2014, the supply surplus could potentially expand by an additional two percentage point, as supply is expected to increase by 7%, while distance-adjusted head-haul demand is predicted to grow by 5% (fig. 11).

RATES AND VALUES

From a supply and demand perspective, we see few signs of a recovery in box rates and risk is building up. Still, Liners might be able to keep market discipline and hence introduce box rate increases in a market of nominal overcapacity. Nonetheless, volatility is expected to remain high. Timecharter rates are expected to remain low until balance between supply and demand begins to be re-established. We argue that secondhand prices for vessels older than ten years may have bottomed out at the current low levels, as the implied required earnings of these vessels are approaching the current low timecharter rates.

Figure CS.10

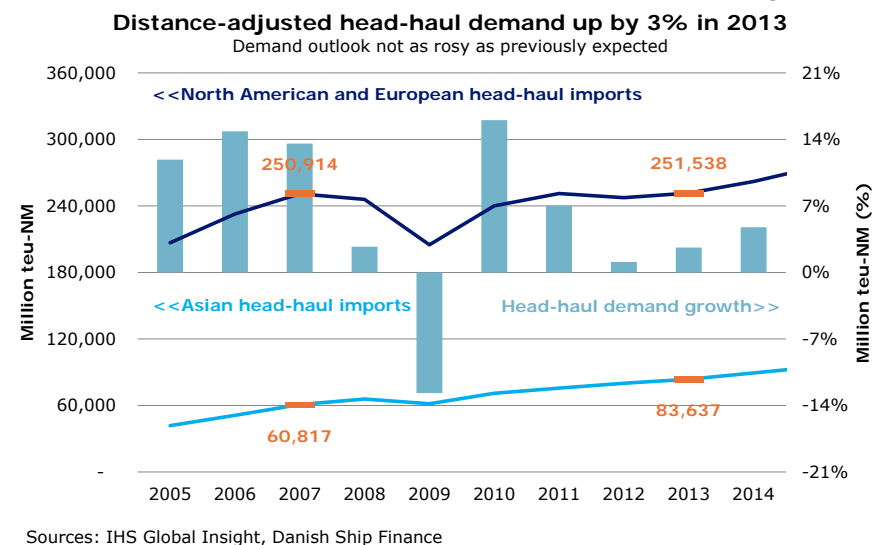
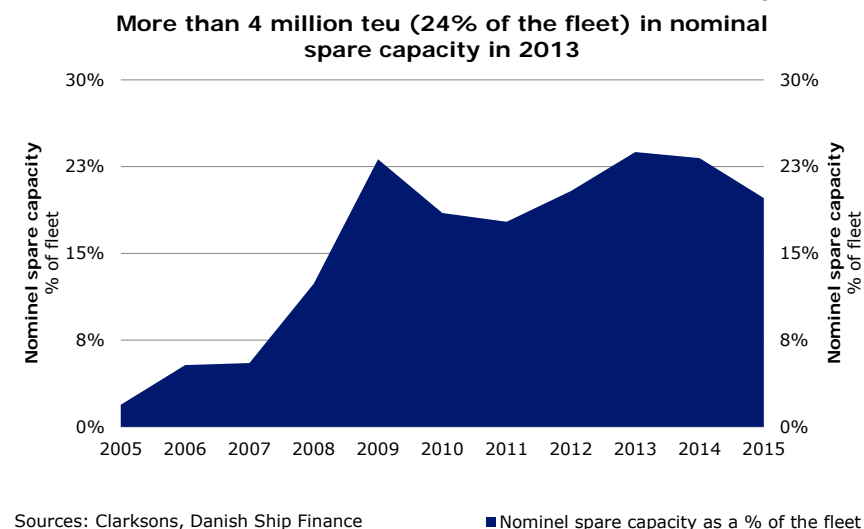
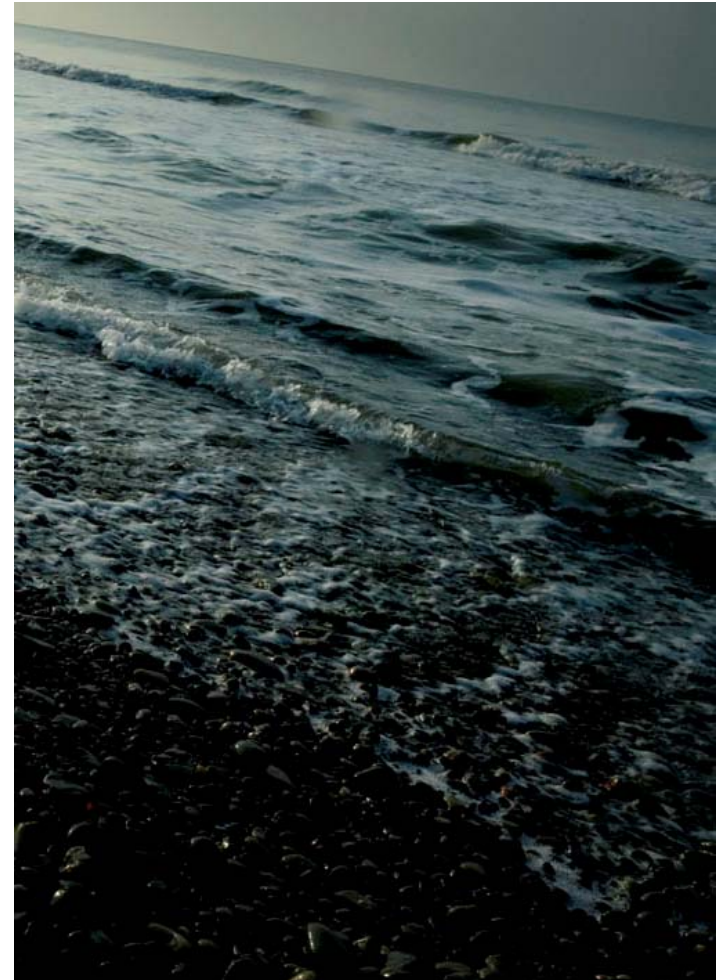


Figure CS.11



CRUDE TANKER

SHIPPING MARKET REVIEW – APRIL 2013



**DANISH
SHIP FINANCE**

CRUDE TANKER

MARKET CONDITIONS IMPROVED MARGINALLY IN 2012. 2013 IS EXPECTED TO BE YET ANOTHER CHALLENGING YEAR FOR CRUDE TANKERS. SHORTER TRAVEL DISTANCES AND MODEST DEMAND GROWTH COMBINED WITH A FLEET GROWTH OF 4% WILL KEEP FREIGHT RATES AT LOW LEVELS IN 2013.

MARKET COMMENTARY

CRUDE TANKER FREIGHT RATES IMPROVED IN 2012 FROM THE LOW LEVELS OF 2011. LONGER TRAVEL DISTANCES LIFTED DISTANCE-ADJUSTED DEMAND, BUT RISING DOMESTIC US OIL PRODUCTION AND THE CONTINUED INFLOW OF NEW VESSELS KEPT RATES LOW.

2012 started off showing acceptable rates in the crude tanker market. VLCC, in particular, was boosted by Saudi Arabia raising its production and importers beginning to build inventories and preparing for the pending embargo on Iranian oil. However, once the market had adjusted, the demand for tonnage slowed and freight rates for VLCC and Suezmax started declining over the summer. Rates recuperated somewhat in the seasonal upsurge of the fourth quarter. In the first two months of 2013, rates plummeted once again, as oil production in the Middle East dropped significantly. On average, crude tanker earnings rose from USD 17,600 per day to USD 19,700 per day, a rise of 6%, in 2012 (fig 1.). This increase in earnings was spread across all segments, except Suezmax, which suffered under the decline of US imports. VLCC experienced the largest improvement, going from USD 17,000 per day to USD 20,500 per day in 2012. By February 2013, average crude tanker earnings were USD 14,000 per day for the running year. Timecharter rates declined by approximately 10% in 2012.

ASSET VALUES REMAIN UNDER PRESSURE

Vessel prices declined further in 2012. Newbuilding prices fell by 5-8%, whereas secondhand prices differed between segments. VLCC experienced only moderate declines, while prices of Suezmax and Aframax fell by around 10-20% (fig. 2). Surprisingly, older vessels increased beyond their demolition value.

Figure T.1

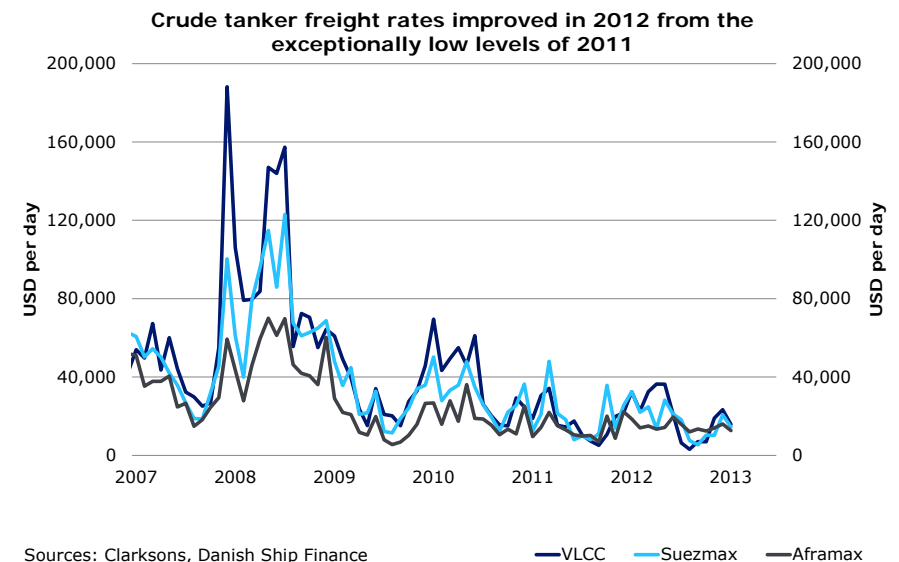
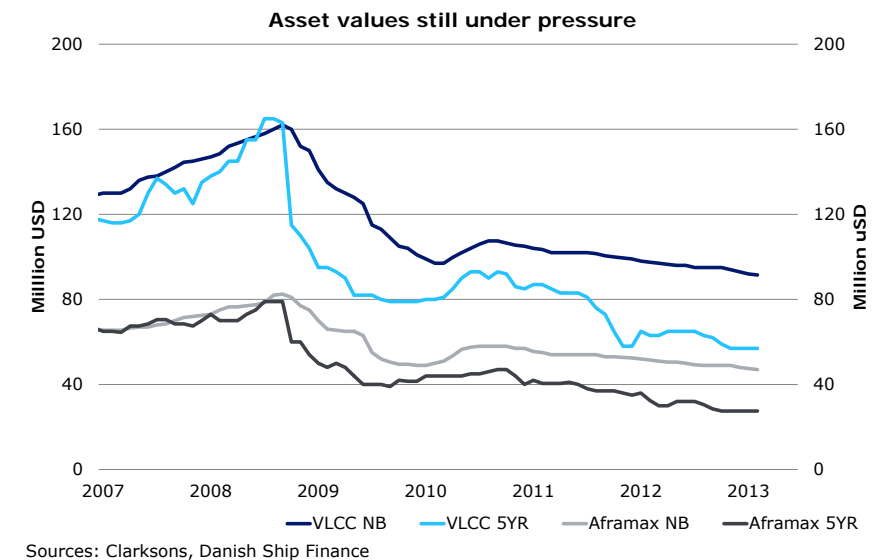


Figure T.2



SEABORNE CRUDE TANKER TRADE GREW 4% IN 2012

Seaborne crude oil trade grew by 4% in 2012 (+76 million tons). However, this was primarily a consequence of the above-mentioned inventory build-ups (ahead of the Iranian embargo), rather than an actual increase in oil consumption (fig. 3).

ASIA CONTINUES TO EXHIBIT STRONG GROWTH FIGURES

Once again, Asian imports dominated seaborne demand for crude oil. China, in particular, followed by India, Japan, and South Korea, increased its imports in 2012. Total Chinese crude oil imports rose by 7% (17 million tons) in 2012, primarily due to the growth in domestic refinery capacity. Indian imports also contributed to the growth in demand, as India also increased its refinery capacity, resulting in an 8% (10 million tons) increase in demand in 2012.

US CRUDE IMPORT CONTRACTED 4% IN 2012

While Asian demand for seaborne crude oil continues to grow, US imports declined by 4% in 2012, as domestic oil production and land-based imports from Canada grew (fig. 4). The increase in US domestic crude oil production matched the decline in US imports of seaborne crude oil (i.e. 800,000 barrels per day). Europe, on the other hand, offset lower oil production in the North Sea with short-haul imports of Libyan crude oil (fig. 3).

LONGER DISTANCES ADDED 2 PERCENTAGE POINTS TO DEMAND IN 2012

Longer trading distances added 2 percentage points to crude tanker demand in 2012. The fact that a large share of Asian imports was supplied by West Africa and South America meant that crude oil, on average, was carried over longer distances. And the ban on Iranian crude oil exports changed trade routes significantly. While the Iranian embargo boosted average travel distances to Asia, European crude oil imports travelled shorter distances, as shorter-haul imports from Russia and West Africa replaced Iranian crude oil imports. US seaborne crude oil imports travelled longer distances, as Middle Eastern exports increasingly took over from West African exports (fig. 4). In total, average travel distances added 2% to total crude tanker demand in 2012. Total distance-adjusted crude tanker demand grew by 6% in 2012 (1% in 2011).

Figure T.3

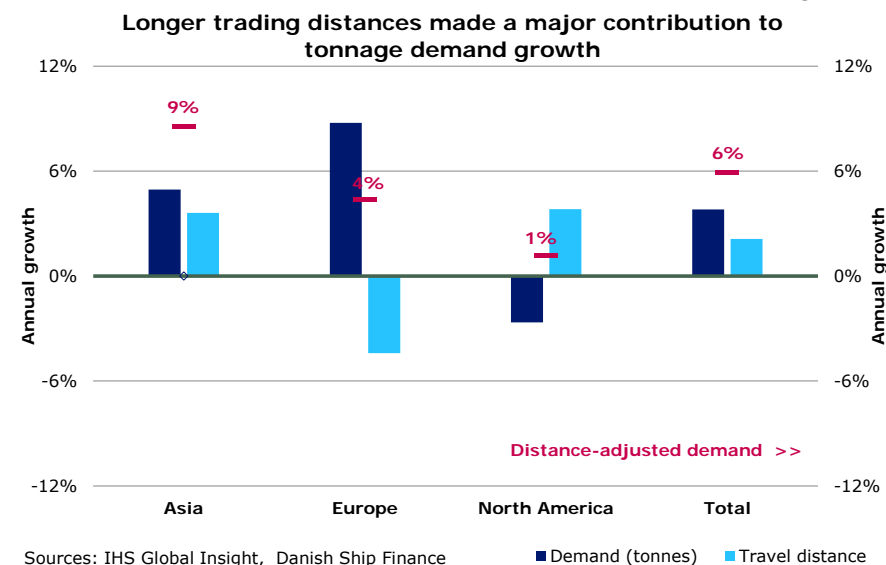
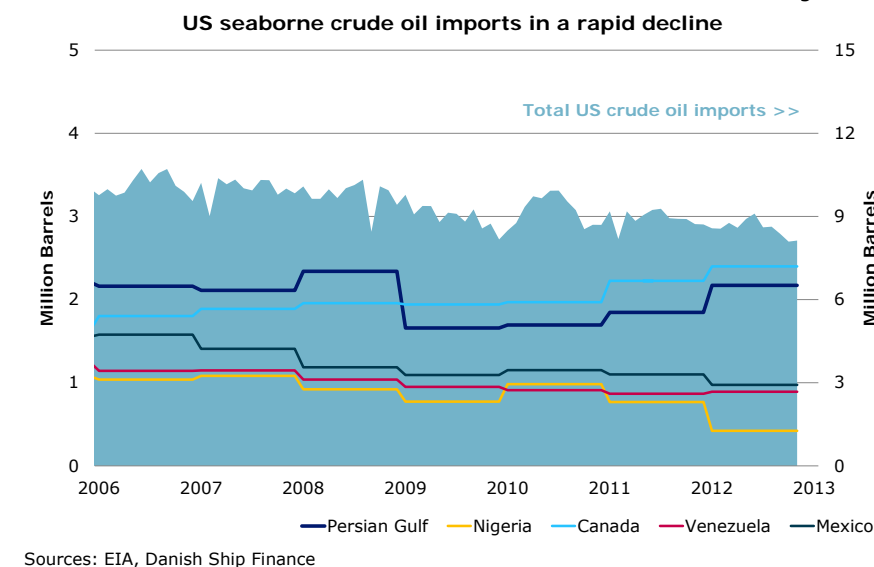


Figure T.4



THE CRUDE TANKER FLEET GREW BY 5% IN 2012

In 2012, the supply of crude tankers grew by 5%, as 25 million dwt was delivered and 10 million dwt was either scrapped or converted into other vessels (fig. 5). Growth was not evenly distributed across segments: the Aframax fleet barely expanded at all, while the VLCC and Suezmax fleet both expanded by 6%. Slippage curbed fleet growth in 2012. In general, slippage for crude tankers accelerated during 2012 from its previous 20-25% pace of the past few years to 35% in 2012. 120 vessels were actually delivered, while 183 vessels were scheduled for delivery at the beginning of 2012.

FOURTH SPECIAL SURVEY TAKES ITS TOLL ON CRUDE TANKER DEMOLITION

The scrapping level of 2012 was relatively low compared to the last couple of years. With few single-hull tankers left and an average fleet age of eight years, there seems to be a shortage of natural scrapping candidates. However, vessels might be scrapped before their fourth special survey as steel replacement costs at this survey are high compared with what a vessel over 20 years can earn in the current market. Moreover, many owners might have difficulty paying for such a survey, resulting in most of the beached vessels in 2012 being scrapped as they approach their 20th birthday. Once the older single-hulls are taken out of the equation, the average scrap age in 2012 was just below 20 years.

YET ANOTHER YEAR OF LOW CONTRACTING

The nature of the current market meant that the appetite for new vessels remained low in 2012, as owners struggled with low rates and excess capacity. Only 7 million dwt was contracted in 2012, and of this total, 4.4 million dwt was within the VLCC segment (fig. 6). So far in 2013, a total of 4.2 million dwt has been ordered within the VLCC segment. Despite the low yard utilisation rates, average delivery time hovered slightly below two years.

THE CRUDE TANKER MARKET WAS OUT OF BALANCE IN 2012

In summary, the supply and demand of the crude tanker market was not balanced in 2012. Even though longer travel distances and the Iranian oil embargo contributed positively to distance-adjusted demand, the effect was offset by the rising US oil production and the continued inflow of new vessels, which kept rates low.

Figure T.5

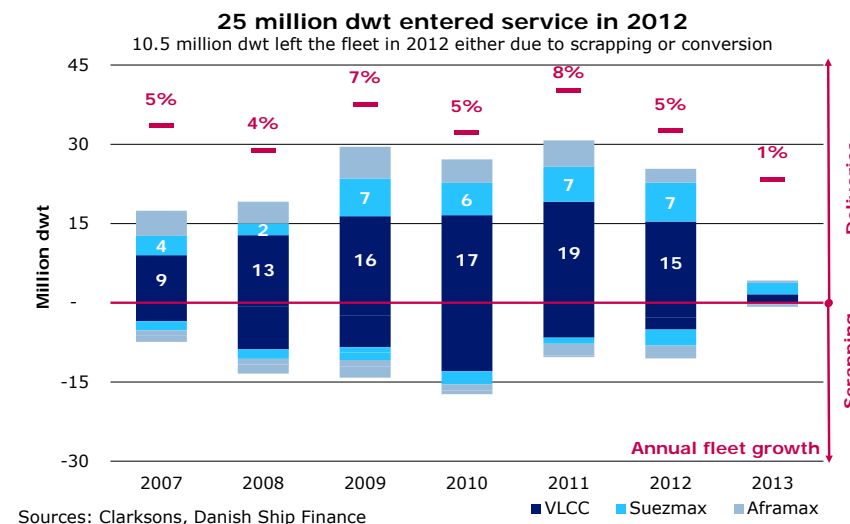


Figure T.6

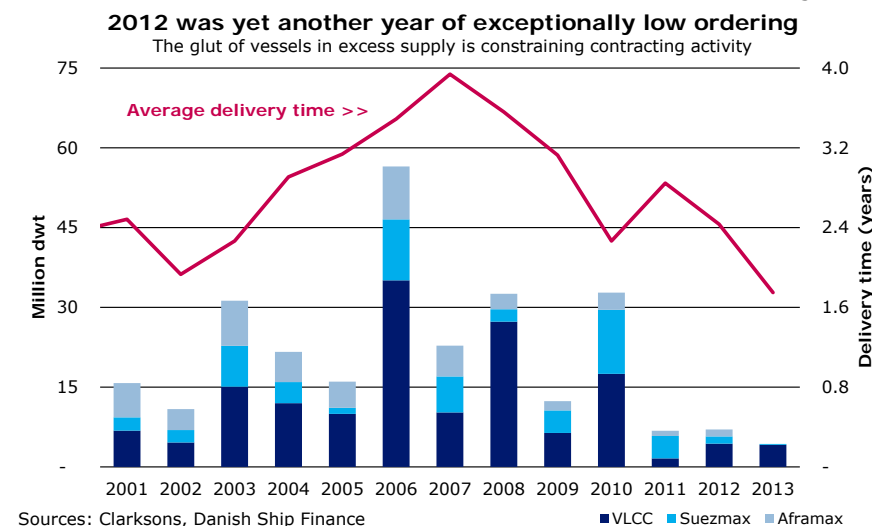
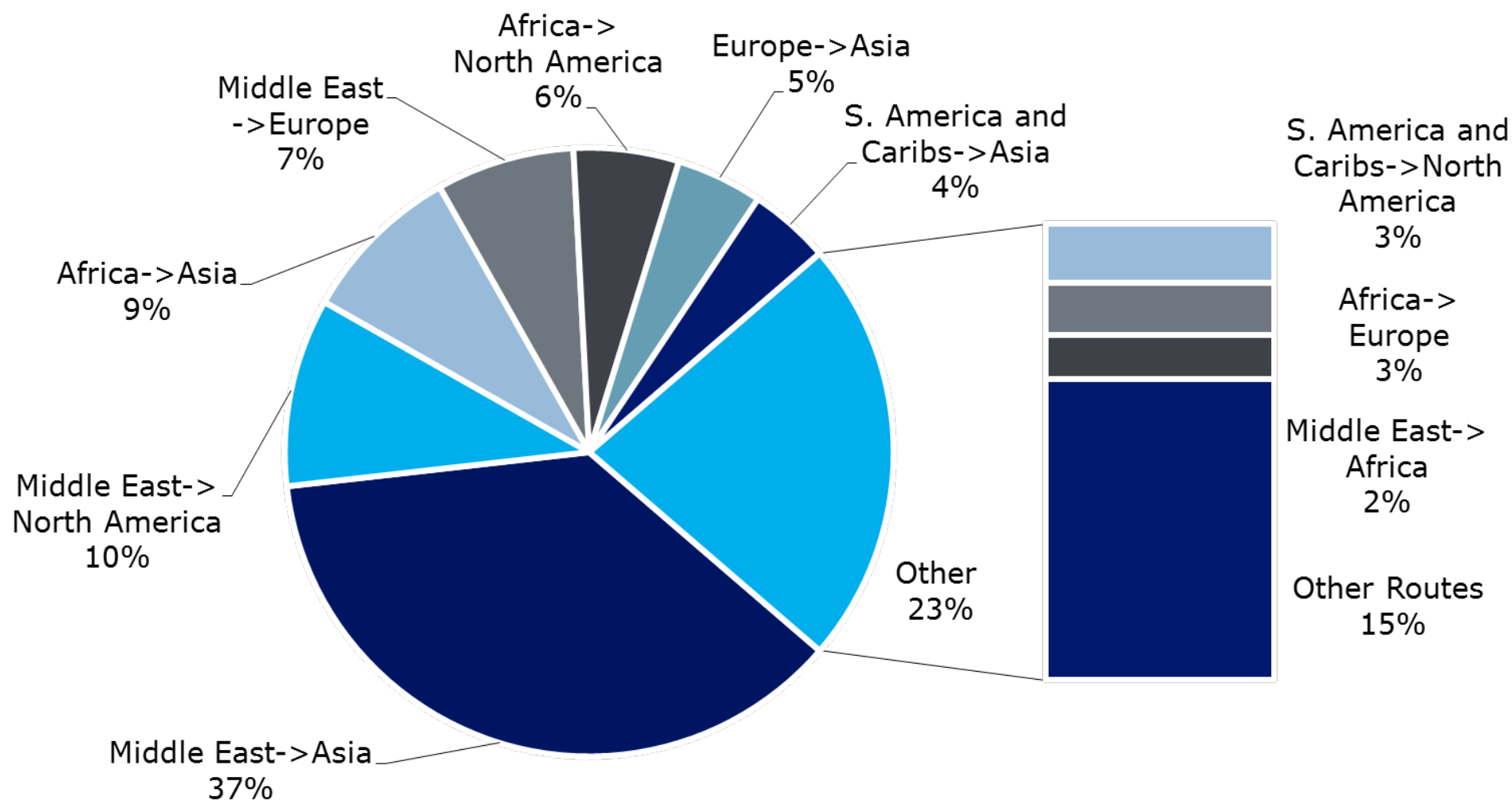


Figure T.7

MAJOR FRONT-HAUL CRUDE TANKER ROUTES (MEASURED IN BILLION TON-NAUTICAL MILES, 2011)



Sources: IHS Global Insight, Danish Ship Finance

OUTLOOK

SCRAPPING ACTIVITY AND POSTPONEMENTS ARE EXPECTED TO PICK-UP THROUGHOUT 2013 AND KEEP FLEET GROWTH AROUND 4%. MEANWHILE, DISTANCE-ADJUSTED CRUDE OIL TRADE IS EXPECTED TO DROP 0.7%. COMBINED, THESE FACTORS WILL CONTINUE TO KEEP RATES AROUND THE LOW LEVELS OF 2012.

ONE NEW VESSEL FOR EVERY TEN AT SEA

As of March 2013, the total orderbook contains 41 million dwt (fig. 9). That is, for every tenth vessel at sea there is one new vessel scheduled to enter the fleet. This is the lowest orderbook to fleet ratio since 2004.

28 MILLION DWT SCHEDULED FOR DELIVERY IN 2013

Although 4 million dwt of the scheduled deliveries have already been delivered by March 2013, another 24 million dwt is still to be delivered in 2013, constituting 7% of the crude tanker fleet. Fleet growth is expected to be highest in the Suezmax segment, followed by the VLCC segment, growing 9% and 8%, respectively, in the remainder of 2013. In 2014, total deliveries are expected to drop to 13 million dwt.

SCRAPPING ACTIVITY EXPECTED TO PICK UP IN 2013

The low scrapping activity during the first two months of 2013 is not likely to continue throughout 2013. With an average age of the fleet around eight years, there seem to be few natural scrapping candidates left (fig. 9). Nevertheless, we expect scrapping volumes to increase, as many vessels are due for their fourth special survey in 2013 and 2014. This, combined with the low freight rate environment and the difficulties in getting vetting for older vessels, means that many of these vessels may leave the fleet. We estimate that 9 million dwt will be scrapped during the remainder of 2013, bringing total scrapping in 2013 to 10 million dwt (3% of the fleet). In 2014, another 6 million dwt is expected to leave the fleet (fig. 10). However, any positive sentiment in the freight market or falling scrap prices may lead to a lower level of scrapping as investment in a fourth special survey becomes a more attractive option.

Figure T.8

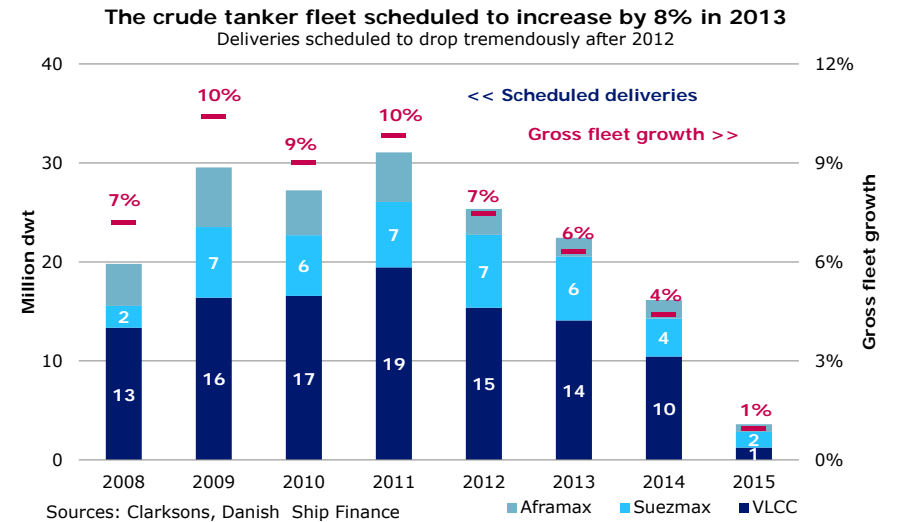
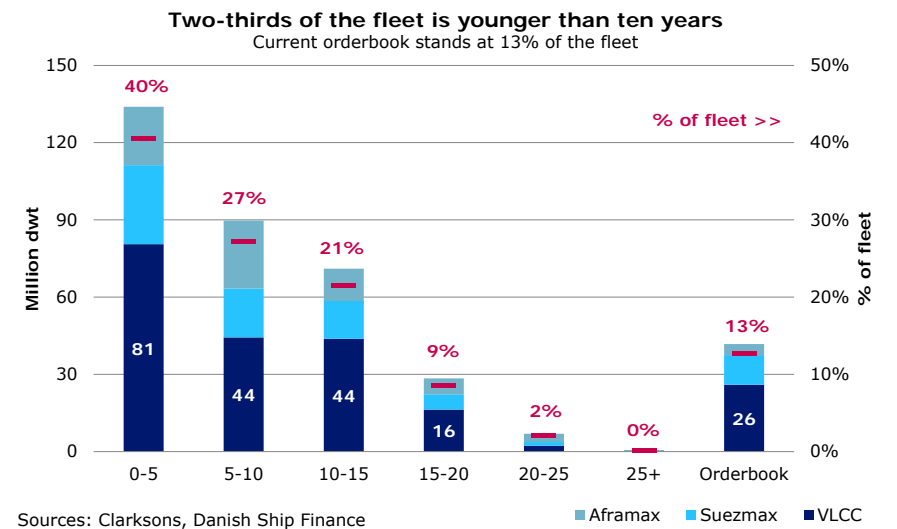


Figure T.9



SLIPPAGE EXPECTED TO LEVEL OFF BUT REMAIN HIGH IN 2013

The relatively high level of slippage will most likely continue for quite some time. Taking the low freight rates and previous slippage into consideration, we project that as much as 5 million dwt will be postponed from 2013 into 2014. This will reduce deliveries for the remaining part of 2013 to 18 million dwt. In total, 23 million dwt is expected to be delivered in 2013. That is about 10% less than in 2012.

CRUDE TANKER FLEET GROWTH SET TO EASE

To sum up, we expect fleet growth to slow from 5% in 2012 to around 4% in 2013, the lowest rate since 2008. Measured in dwt, net fleet additions remain slightly higher than the levels in 2010. In 2014, fleet growth is expected to slow down, albeit relative to a much larger fleet. We estimate that the fleet will grow by approximately 3% in 2014 after a year of historically low deliveries.

DISTANCE-ADJUSTED TRADE VOLUMES AT ZERO GROWTH IN 2013

Seaborne crude oil trade growth is expected to level off in 2013 and 2014 from current levels. Total crude oil trade is expected to contract by 0.7% in 2013 (fig. 11). Asian demand is expected to remain the largest contributor to total distance-adjusted demand growth, as growth is set to increase by 2%. China and India are expected to account for the majority of growth in crude oil imports in the years ahead, driven by demand for transportation fuels. India's distance-adjusted demand for crude oil is expected to increase by 7% in 2013. Meanwhile, the US is expected to single-handedly drive distance-adjusted world demand growth down below zero. Furthermore, the recession in Europe and the struggling European refineries will continue to shift European imports away from crude oil to oil products. From 2014 onwards, distance-adjusted demand is expected to settle down, with growth increasing to about 2%.

AVERAGE DISTANCES MAY DECREASE SLIGHTLY IN 2013

The large increase in Chinese and Indian crude oil imports is unlikely going to be met solely by exports from the Middle East. Hence, crude oil sourced from the Atlantic Basin (long-haul) will increase its share of Asian imports over the next couple of years. That being said, these changes will not happen overnight and are therefore unlikely to add much to average travel distances in 2013 (fig 12). Moreover, not only are European import volumes declining, but distances are also

Figure T.10

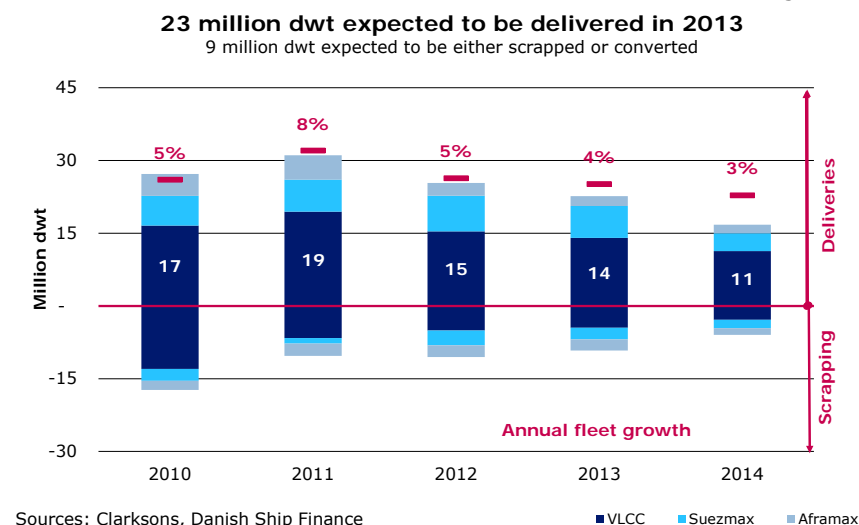
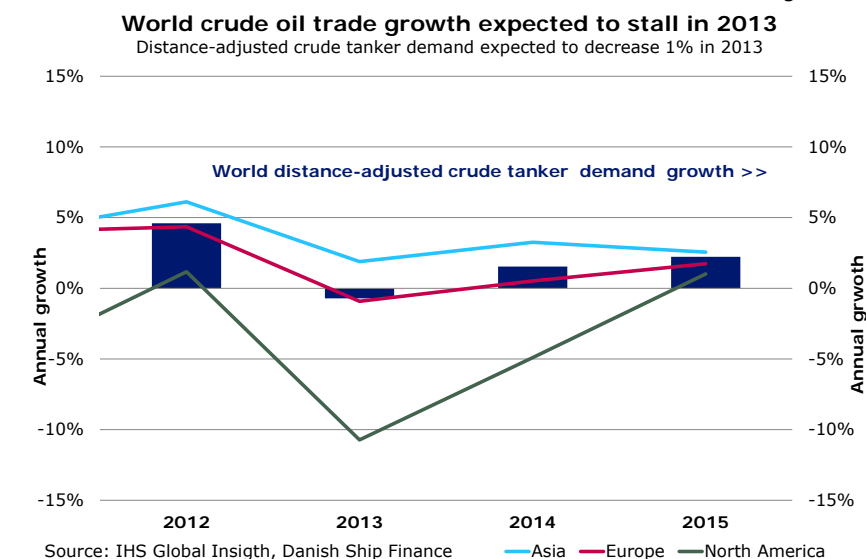


Figure T.11



anticipated to decrease in 2013. European crude oil sourcing is expected to shift away from long-haul Middle East imports to short-haul African imports. Hence, these projected contractions and expansions of world crude oil trade are probably not going to be a significant game changer in 2013. However, declining US seaborne crude oil imports, both in terms of volumes and mileage, will put pressure on distance-adjusted crude tanker demand in 2013 and beyond. The overall effect of the changes in trading patterns will be a reduction in distance-adjusted demand of approximately 1 percentage point in 2013 (fig. 12).

CAN CHINESE IMPORT VOLUMES KEEP UP?

During 2011 and 2012, Chinese oil demand decelerated to less than half of the double-digit growth seen in 2010. We expect that its oil demand will continue to grow by around 5% in 2013. However, imports could possibly exceed this level, as the country has entered into more refinery expansions, while continuing to build strategic reserves. The refinery expansion in 2013 could be as large as 1.2 million barrels (fig. 13). Added to this is the fact that much of China's domestic crude oil production capacity is outdated and may have to be replaced by imports. And lastly, most of the total imports are expected to be long-haul voyages from West Africa and to a smaller extent from South America. These developments in Chinese demand could imply a further boost in crude oil imports in 2013. Nevertheless, it remains to be seen if Chinese crude oil imports can keep growing, and ship owners should take into consideration that Chinese crude oil imports may slow down at some point.

US CRUDE PRODUCTION DETRIMENTAL TO CRUDE OIL TRADE DEMAND

US domestic crude oil production rose from 5.6 million barrels per day in 2011 to 6.5 million barrels per day in 2012 — a rise of 0.9 million barrels per day (fig. 14). The latest projections suggest that US crude oil production could increase by another 0.8 million barrels in 2013, followed by a 0.6 million barrel per day increase in 2014. Combining this projection with the outlook for Canadian oil production, total North American production output could be 1.5 million barrels higher by the end of 2013.

Figure T.12

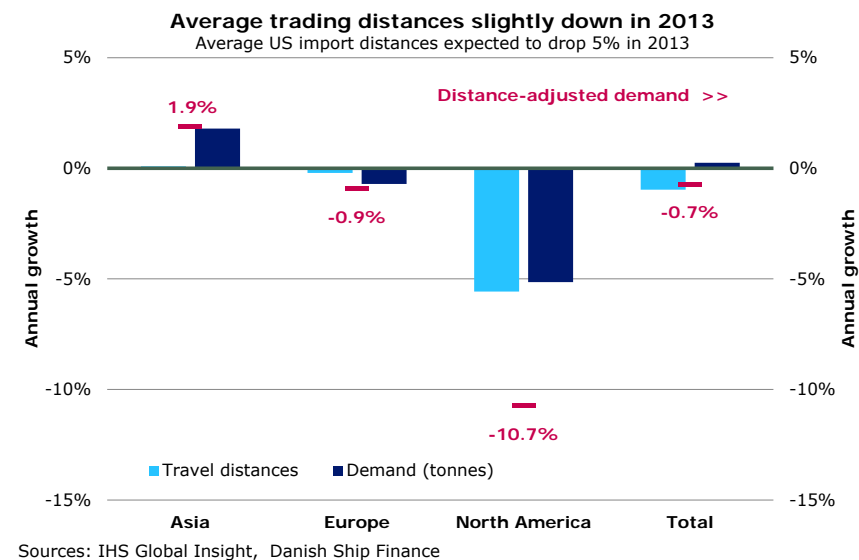
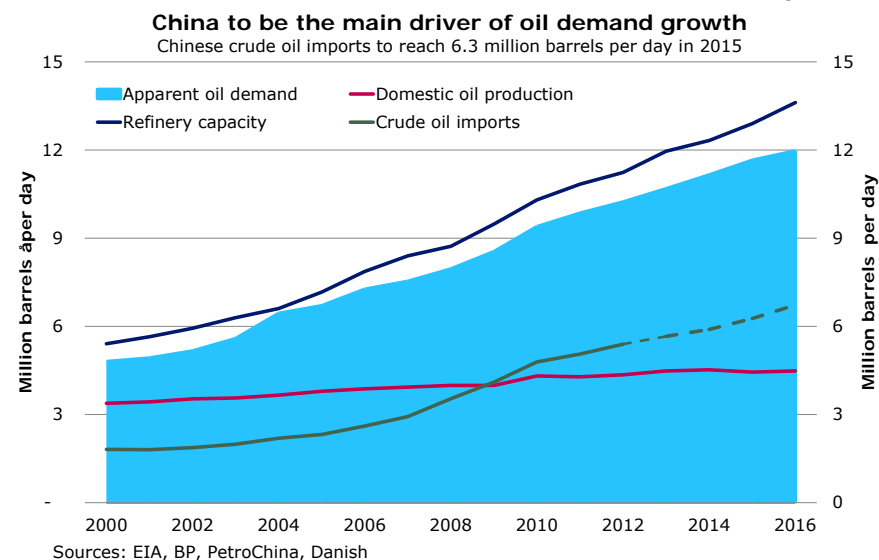


Figure T.13

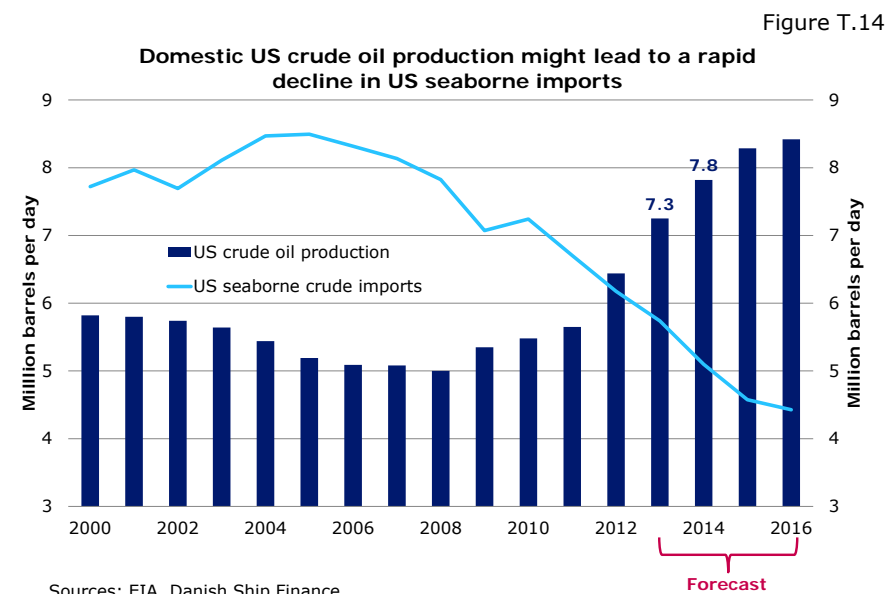


Meanwhile, US product demand is expected to grow slowly over the next couple of years. US oil production is expected to reach 8.4 million barrels per day in 2015 and, adding Canadian crude production to the equation, North American crude supply could approach 12 million barrels per day in 2015, or approximately 80% of US refinery demand. Thereby, seaborne crude oil imports from outside the region could be reduced to approximately 4-4.5 million barrels per day in 2015 (down from 6.2 million barrels per day in 2012) (fig. 14). As domestic production is mainly light sweet crude oil, the majority of the decline in US seaborne imports will be from West Africa and other sources. One could fear that US refiners will use additional light sweet crude volumes to replace some imports of heavier crude oil, which would reduce travel distances even more, as most heavy crude oil is sourced from the Middle East. Additionally, if US production of crude oil continues to outperform expectations, seaborne imports will come under additional pressure.

Although increasing US and Canadian oil production is a negative development for the crude tanker market as we know it, there are some possible positive side effects. As a consequence of the decline in imports from West Africa to the US, more imports are going to Asia instead, with no natural backhaul. Thereby, vessels have to ballast back to the Atlantic, increasing ton-miles at the expense of fleet efficiency, which in the end could mean a higher utilisation of the fleet. Furthermore, the development of additional pipeline infrastructure in Canada and the ability of Canadian producers to export to regions outside North America could provide a boost to distance-adjusted demand.

RATES EXPECTED TO REMAIN LOW IN 2013

The current outlook for the crude tanker market is unlikely to spark any boom in rates in the near future. However, we do expect temporary hikes caused by geopolitical or seasonality to have a positive effect on crude tanker demand, but with less intensity and shorter spikes than previously experienced. Not all vessel classes are expected to be equally affected in 2013. We expect that Suezmax and VLCC will struggle the most in 2013, whereas Aframax might improve before the other two segments. That said, a healthy improvement in world trade in general might be able to turn the market in 2013.



PRODUCT TANKER

SHIPPING MARKET REVIEW – APRIL 2013



**DANISH
SHIP FINANCE**

PRODUCT TANKER

DEMAND PICKED UP MIDWAY THROUGH 2012 AND RATES IMPROVED ACCORDINGLY. PRODUCT TANKER DEMAND SEEMS TO BE BACK ON TRACK AND A GRADUAL RECOVERY IS EXPECTED IN LATE 2013.

MARKET COMMENTARY

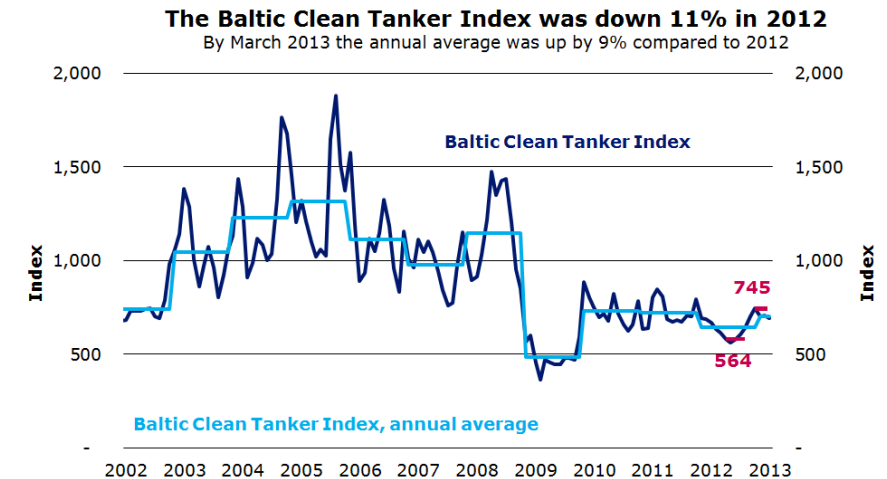
MARKET FUNDAMENTALS IMPROVED DURING 2012, AS A RESULT OF MODEST FLEET GROWTH. HOWEVER, IT WAS ONLY HALFWAY THROUGH 2012 THAT DEMAND PICKED UP AND RATES BEGAN TO IMPROVE.

The product tanker segments developed quite differently in 2012. MR earnings continued to sag going into the third quarter. Despite the improvement in fundamentals, including slowing fleet growth, feeble macroeconomic growth continued to weigh down oil product demand, especially in the OECD, and trade flows. MR earnings rose in the fourth quarter, as Hurricane Sandy and a seasonal rebound lifted earnings. LRs had a miserable first half of 2012, due to an increase in supply, weak demand, and an increase in shorter-haul trades. However, owners responded with a burst of demolition and a shift to the healthier dirty market, which reduced fleet availability and supported freight rates. With Asian industrial production reviving during late 2012, LR rates continued to rise, hitting even more decent levels late in the year. By December 2012, the Baltic Clean Tanker Index stood at 745 – the highest level since early 2011. The average index for the full-year 2012 came out below 700, down 11% from the annual average of 2011. By March 2013, the index averaged 725 for the rolling year, as both LRs and MRs experienced a fairly strong start to 2013. However, timecharter rates remained relatively stable during the period.

SECONDHAND PRICES ON A STEEP DECLINE IN 2012

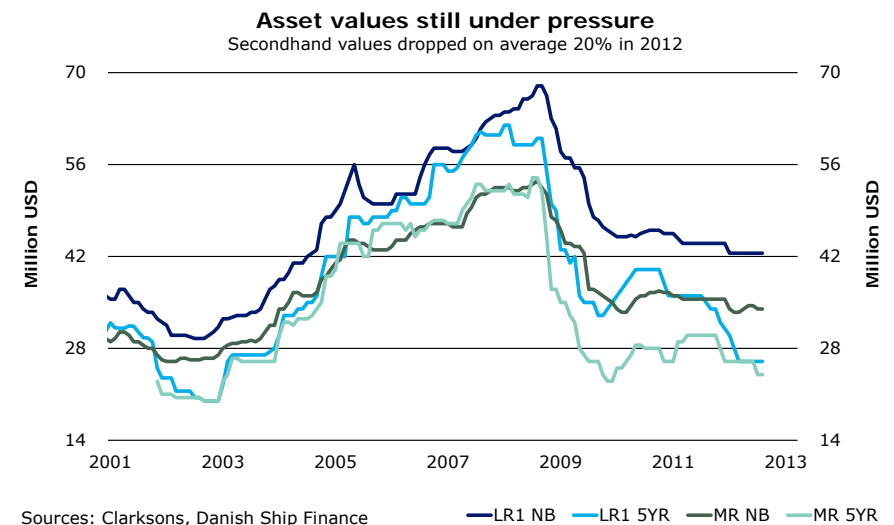
Vessel prices remained under pressure in 2012. In general, newbuilding prices fell by 3-7%, but were hindered from falling further by the renewed demand for the eco-designed labeled vessels. Secondhand prices for MR tankers experienced only moderate declines, whereas secondhand prices for LR tankers seem to fell by 15-20% in 2012 albeit very limited number of vessels changed hands. In 2013, vessel prices have – so far – remained stable. Lately, it seems that the market has begun to factor in some cost savings in the value of the so-called eco

Figure P.1



Sources: Clarksons, Danish Ship Finance

Figure P.2



Sources: Clarksons, Danish Ship Finance

designs when comparing a resale with ordering a new vessel. Our calculations suggest that a new non-eco MR tanker will be traded at a discount to the current newbuilding prices for an eco-designed vessel in the range of USD 3-4 million given our assumptions. This indicates that in the current market eco-designed vessels are expected to generate fuel savings in the range of 10-15%.

SEABORNE PRODUCT TANKER TRADE GREW 1% IN 2012

Growth in seaborne oil product trade appeared to slow down in 2012, with growth rates much lower than in 2011 (9%). Total seaborne product trade is set to stabilise around 1% (11 million tons) in 2012 (fig. 3). However, growth was mainly concentrated in the second half of 2012, as the first half was affected by weak economic growth and shorter hauls.

ASIA DRIVES GLOBAL OIL PRODUCT DEMAND

Asia's demand was once again the main contributor to growth in product tanker demand. Asian oil product imports rose by 3% in 2012, which, in volume terms, is an increase of 9 million tons, or approximately 80% of the overall growth in seaborne oil product trade. The rise in Asian imports was mostly in the form of increased imports of light and middle distillates. Most of the increased demand was met by short-haul intra-Asian trade from India. However, imports from the Middle East and Europe also contributed to the growth in Asian oil product imports. Still, Asian oil product demand was heavily subdued by weak industrial production and naphtha demand during the first half of 2012.

US OIL PRODUCT EXPORTS EXPERIENCED A NEW ALL-TIME HIGH

North America, the world's second-largest import region of oil products, has reduced its imports of oil products during the last seven years, and 2012 was no exception. In total, US oil product imports declined approximately 20% in 2012 (fig. 4). Overall, US imports of liquid fuel products were around 2% lower than in 2011. This drop was primarily due to the continuing decline in household incomes and higher efficiency standards for vehicles. However, despite declining consumption, production of refined oil products has remained relatively stable, and US producers have found it necessary to export more of their production. This led US exports of refined oil products to increase by 5%. In particular, middle distillate exports to Europe and South America experienced strong growth and, especially in the second half of 2012,

Figure P.3

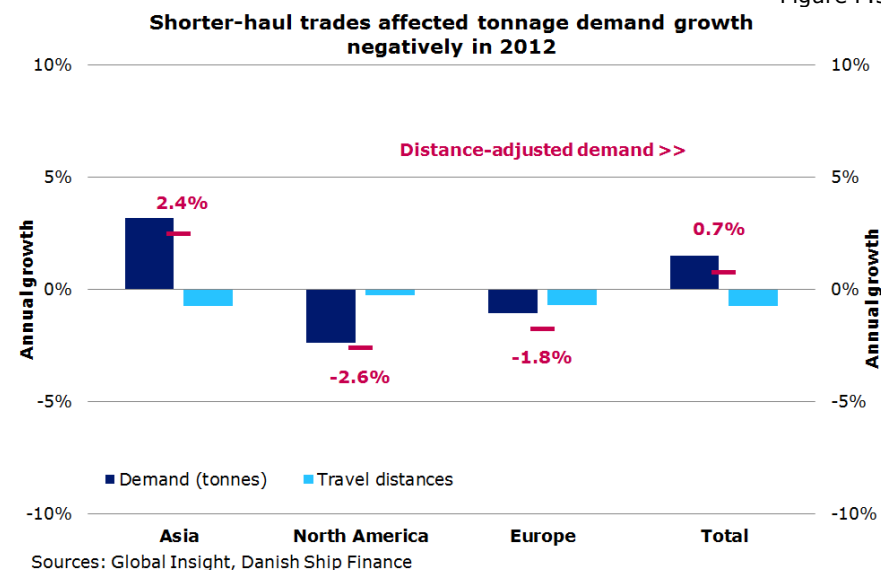
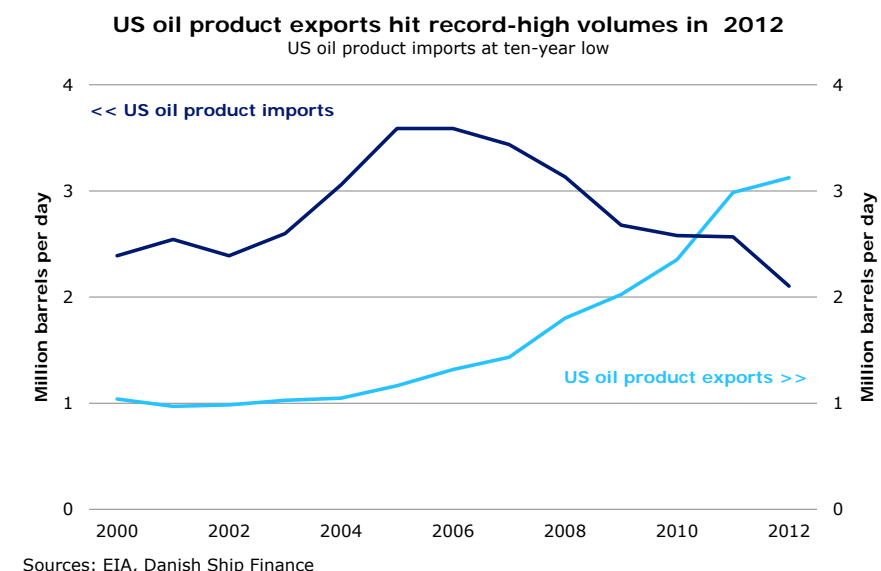


Figure P.4



advancing MR tanker trading in the Atlantic. Still, the increase in US exports volumes was not enough to offset the decline in US imports.

SHORTER TRAVEL DISTANCES REDUCED DISTANCE-ADJUSTED DEMAND

The product tanker trade grew by 1.4% in 2012. However, due to a reduction in travel distances of 0.7%, overall distance-adjusted demand ended up at 0.7%. Average trading distances to Asia, Europe and North America shortened as supply shifted from long-haul trades to short-haul trades.

THE PRODUCT TANKER FLEET GREW BY 1% IN 2012

Around 5 million dwt of new product tanker capacity entered the fleet in 2012, leading to a net fleet expansion of 1%. This was 1.5 million dwt less than planned. New vessels were delivered on schedule until halfway through 2012, when owners began to postpone deliveries in tandem with lower freight rates. Moreover, demolition amounted to almost 3 million dwt, the second-highest level of the last decade, and the average scrapping age decreased significantly to 22 years, down from 25 years in 2011. The majority of the scrapped vessels were MR and LR2 tankers.

THE MR ORDERING BOOM CONTINUES

Owners' appetite for new vessels, and for MR tankers in particular, strongly recovered in 2012 (fig. 6). A total of 4.1 million dwt was contracted, of which 3.2 million dwt was MR tanker tonnage. This trend has continued in the first three months of 2013. A total of 1.6 million dwt has been ordered during this period, of which the majority of vessels are MR tankers (33 vessels). Contracting activity has been driven by hopes of the market recovering in late 2013, low newbuilding prices and allegedly vessels of more fuel-efficient designs.

THE IMBALANCE BETWEEN SUPPLY AND DEMAND NARROWED IN 2012

With fleet expansion of 1% and growth in distance-adjusted demand of 0.7%, the imbalance between supply and demand persisted in 2012. However, the gap narrowed during the second half of 2012, which led to improvements in freight rates.

Figure P.5

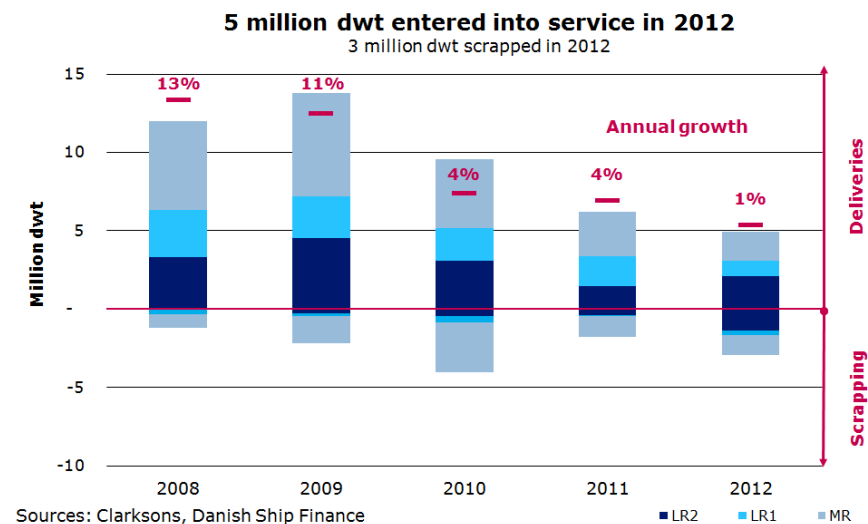
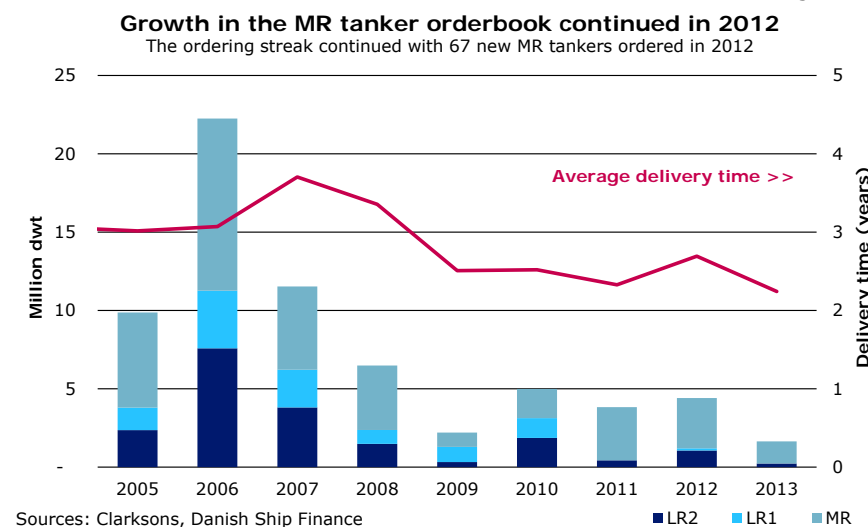
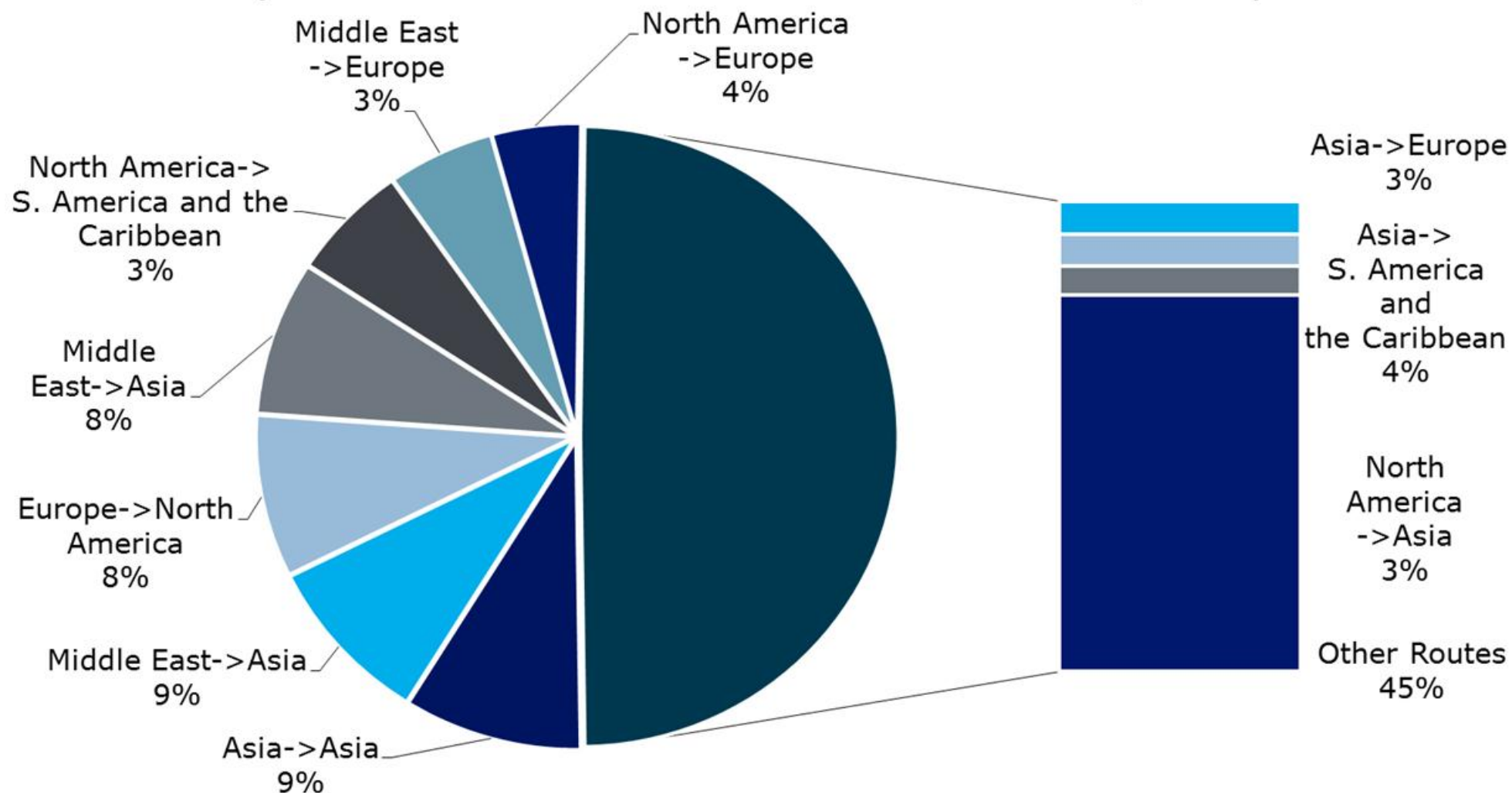


Figure P.6



MAJOR PRODUCT TANKER TRADES (MEASURED IN BILLION TON-NAUTICAL MILES, 2012)



Sources: IHS Global Insight, Danish Ship Finance

STRONG DEMAND, COMBINED WITH LONGER TRADING DISTANCES AND MODEST FLEET GROWTH, IS EXPECTED TO IMPROVE THE SUPPLY/DEMAND BALANCE IN LATE 2013 AND 2014.

6.5 MILLION DWT SCHEDULED FOR DELIVERY IN 2013

Annual fleet addition is expected to remain relatively low in 2013. As of March 2013, 0.6 million dwt has been delivered, while another 6 million dwt is scheduled for delivery during the remainder of 2013. The fleet is expected to grow by 6% in 2013, before allowing for demolition and postponements. The largest inflow of new vessels will be within the MR segment, which has an additional 2.8 million dwt scheduled for delivery. For 2014, annual deliveries are expected to drop to 3.5 million dwt (fig. 8).

MR TANKERS ACCOUNT FOR 75% OF THE ORDERBOOK

As of March 2013, the orderbook contains 10 million dwt, which is the lowest level in 13 years (fig. 9). However, over 20% of these orders were contracted before 2009 and we believe that some of these orders will never be delivered. Hence, the orderbook might only contain 8-9 million dwt. Still, the recent surge in orders, combined with deferment of orders, has actually increased the orderbook to fleet ratio. MR tankers currently account for 75% of the orderbook, up from 64% in August 2012.

SCRAPPING ACTIVITY EXPECTED TO FALL IN 2013

The level of scrapping seen in the first two months of 2013 will most likely continue for the rest of this year and well into 2014 (fig. 9). Scrapping volume essentially reflects the ships' future earnings potential versus the current scrap value. We estimate that 2.2 million dwt will be scrapped in 2013 (30% below the 2012 level) and an additional 1.7 million dwt in 2014.

FLEET GROWTH IS SET TO STABILISE AROUND 2% IN 2013

As previously mentioned, approximately 6 million dwt is scheduled to enter the fleet in 2013. However, we expect that 15-25% of orders scheduled to be delivered in 2013 will be postponed until 2014. Consequently, we estimate that 4.9 million dwt will be added to the fleet this year. Accordingly, we estimate that the product tanker fleet will grow by 2% (2.7 million dwt and 2.5 million dwt) in 2013 and 2014,

Figure P.8

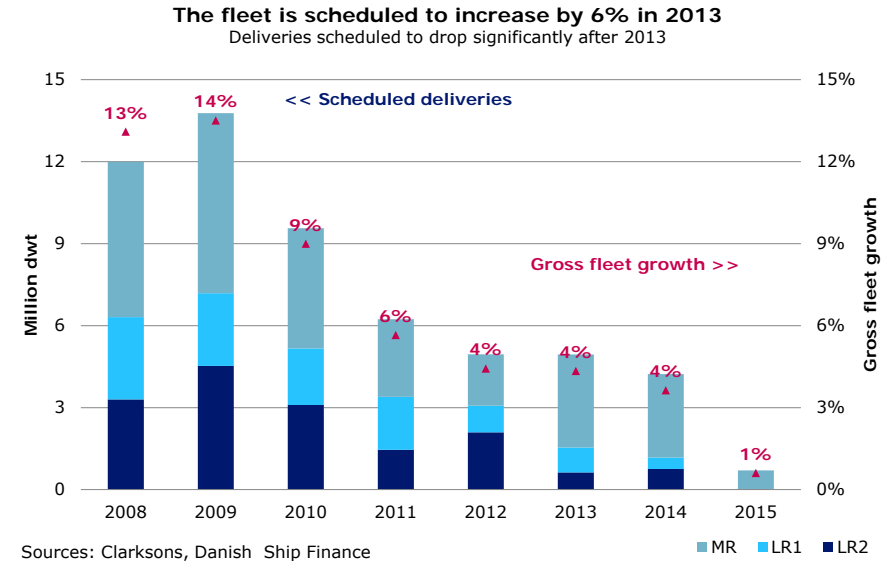
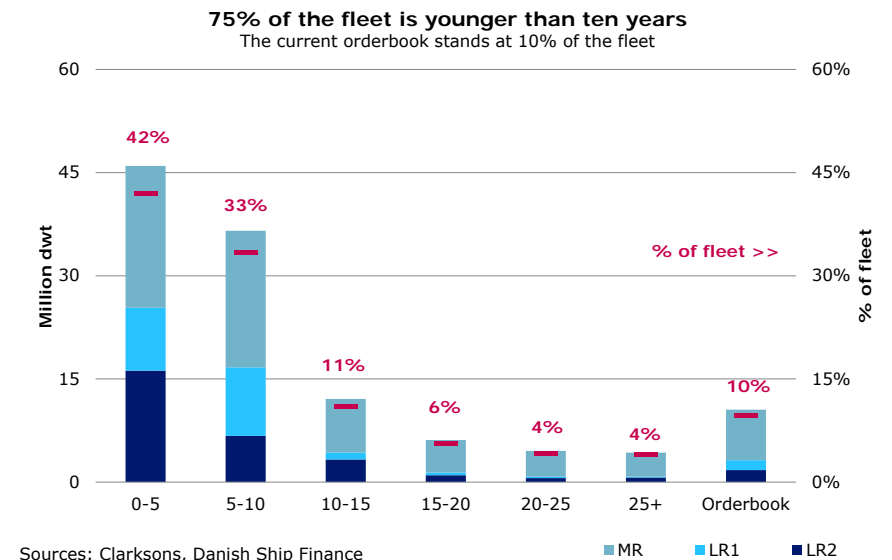


Figure P.9



respectively (fig. 10). However, orders placed in 2013 to be delivered in 2014 might alter our 2014 forecast.

SEABORNE TRADE VOLUMES SET TO INCREASE BY 3% IN 2013

Seaborne demand for refined oil products is expected to increase by 3% in 2013 and 4% in 2014 (fig. 11). The past 16 years' historical average has been 5%. Demand for middle distillates is expected to grow faster than for light distillates, and Asian demand, in particular Chinese, is expected to remain the main driver of total demand for middle distillates. Transportation is anticipated to be the primary source of product demand, followed by industrial demand. From 2015 onwards, growth in oil product demand is expected to stabilise around 4%.

GLOBAL DEMAND FOR LIGHT DISTILLATES IS DECLINING

Light distillates (gasoline, naphtha, solvents etc.) are expected to become less popular over the coming years. As the developed economies, led by the US, make advances within fuel efficiency, demand for light distillates will fall. The expansion of the global car fleet will be the main driver of global gasoline demand; however, this demand will be concentrated mainly within Asia. The US's demand is expected to decline, due to its increasing domestic production of gasoline and falling imports (fig. 12). The implications of this for the product tanker market, and especially MR tankers, are a decline in trans-Atlantic trade, as US gasoline imports have traditionally been supplied by European refineries (>60%). Asian demand for gasoline is expected to be met by increased imports from the Middle East, whereas European gasoline will be exported to Africa and to a lesser extent Asia (fig. 12).

MIDDLE DISTILLATE DEMAND SET TO RISE

Demand for middle distillates (diesel, kerosene etc.) are expected to remain the main contributor to demand in the overall distillate market. Recently, demand for jet fuel and diesel has been subdued, because of the downturn following the financial crisis. Nonetheless, as the global economy slowly recovers, so will demand for diesel and jet fuel. Demand for jet fuel is expected to stem from Asia, particularly China and South America. We expect imports to Europe, South America and Africa to continue to drive product tanker demand, due to factors such as economic growth, policy factors and fuel for generators.

GLOBAL REFINING BALANCES SET TO SHIFT

The roles are shifting within the global refinery industry. Refineries are closing down in Europe and OECD Asia, due to increased competition

Figure P.10

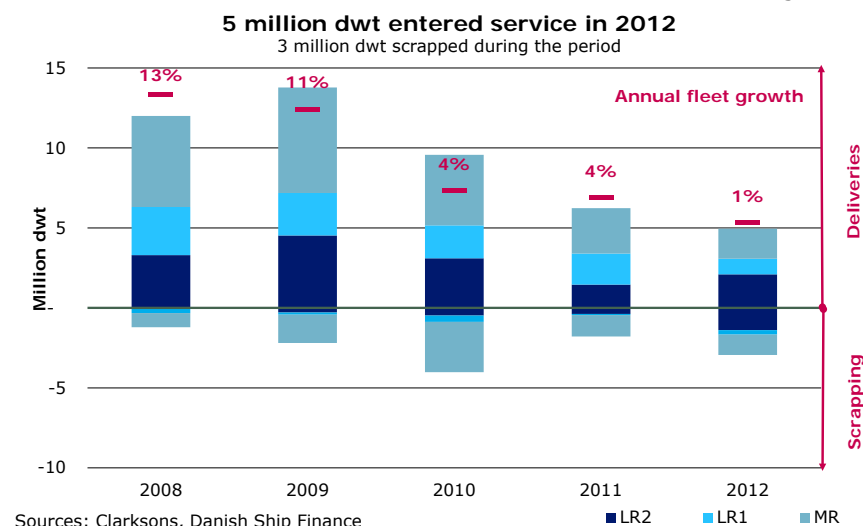
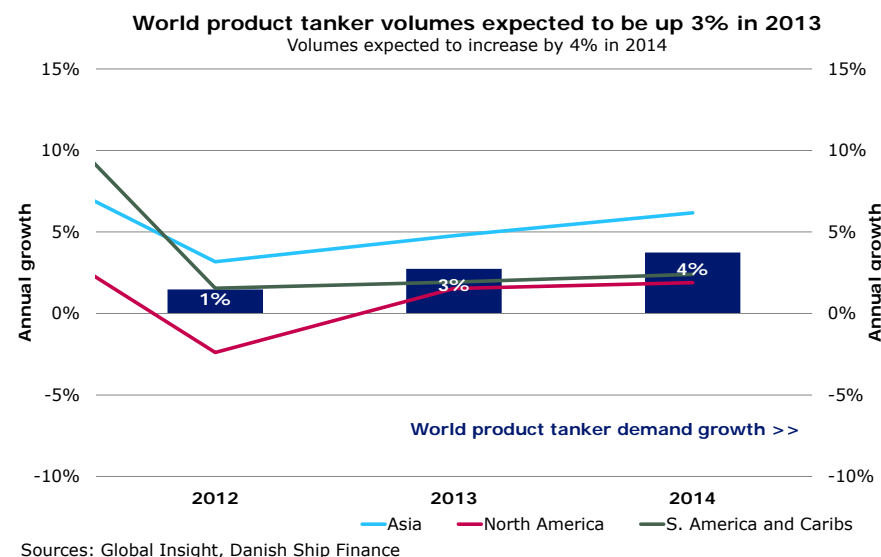


Figure P.11



from more complex and competitive refineries opening in the Middle East and non-OECD Asia. Global refinery capacity is set to grow by 8 million barrels per day (mbpd) between 2013 and 2017 (fig. 13). Of this, Europe is expected to reduce capacity by 0.7 mbpd and OECD Asia by 0.5 mbpd. US refinery capacity will remain unchanged, as reductions on the East Coast are expected to be offset by expansions in the Gulf. The growth will be driven by an increase of 2.1 mbpd in the Middle East and 2.7 mbpd in China.

TRAVEL DISTANCES SET TO INCREASE

As a result of this shift – the growing demand and refinery closures (fig. 12) – we expect the shortage of middle distillates in Europe to increase. This shortage will be covered by imports from the Middle East, India and the US. The growing deficit of light distillates in Asia is expected to be met by Middle East and to some extent European exports. China is playing a role in meeting the growing gasoline deficit in non-OECD Asia, and is thereby indirectly supporting intra-regional MR demand. In recent years, the US has been intensifying its exports to South America, and as South America and Africa are set to become larger importers of middle distillates, we believe that this trend will continue, and thereby generate additional ton-miles. To sum up, these changes in demand and refinery patterns will increase product tanker mileage.

RATES EXPECTED TO IMPROVE IN 2013

With only 20 LR1 and 18 LR2 tankers in the orderbook, we favour these segments based on a benign supply outlook, but also based on long-haul middle distillate trade patterns. In contrast, we are growing more and more concerned about the continued MR ordering boom for the alleged eco designs. However, we still anticipate a continued improvement in MR tanker earnings, driven by stronger demand, but the speed at which new orders are being placed is impeding the upside potential of the MR segment. Increasing arbitrage trading will also have a positive effect on product tanker trading, especially for the MR tanker segment. Still, any severe drawbacks in the world economy will have dire consequences for the fragile product tanker market.

Figure P.12

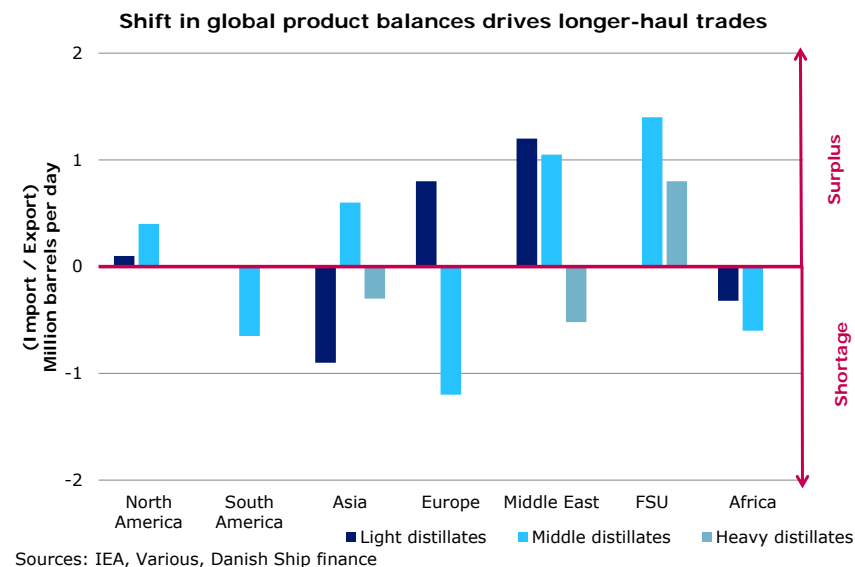
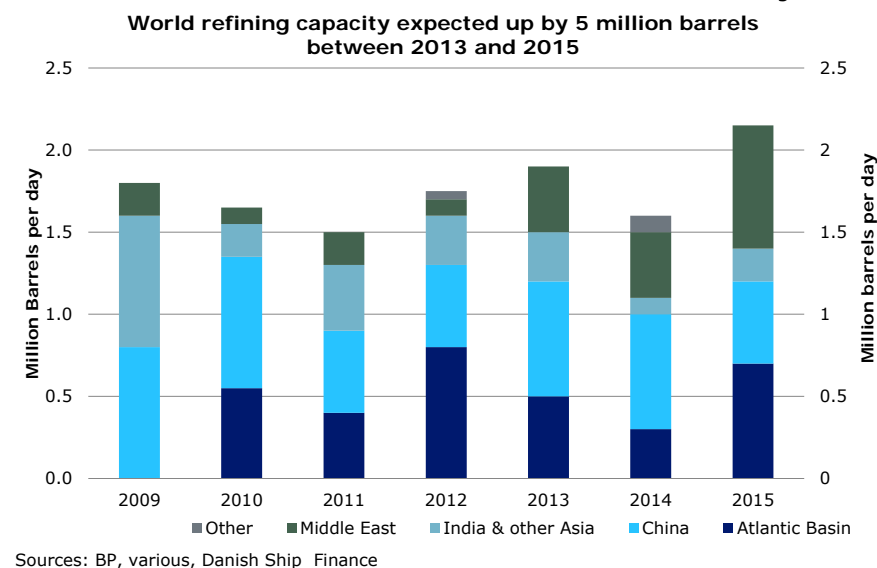
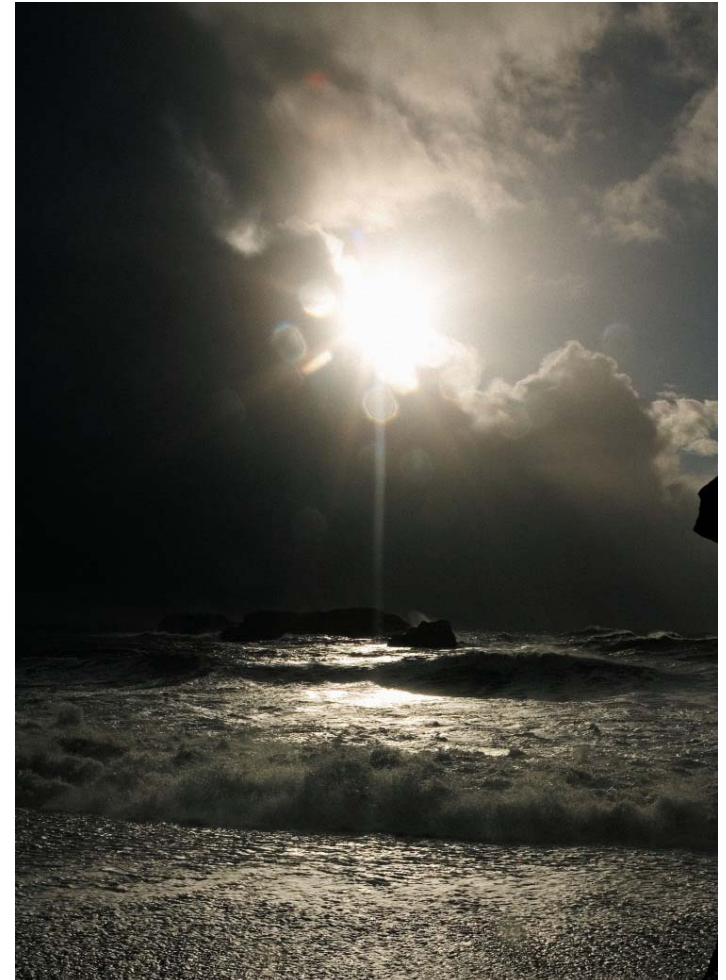


Figure P.13



LPG TANKER

SHIPPING MARKET REVIEW – APRIL 2013



**DANISH
SHIP FINANCE**

LPG TANKER

SUPPLY AND DEMAND WAS FAIRLY BALANCED IN 2012. 2013 IS EXPECTED ALSO TO BRING STRONG DEMAND AND HEALTHY VESSEL EMPLOYMENT. IN 2014, HOWEVER, THE BALANCE BETWEEN SUPPLY AND DEMAND IS HEAVILY DEPENDENT ON A WELL-TIMED INCREASE IN GLOBAL LPG PRODUCTION IN GENERAL AND US LPG PRODUCTION IN PARTICULAR.

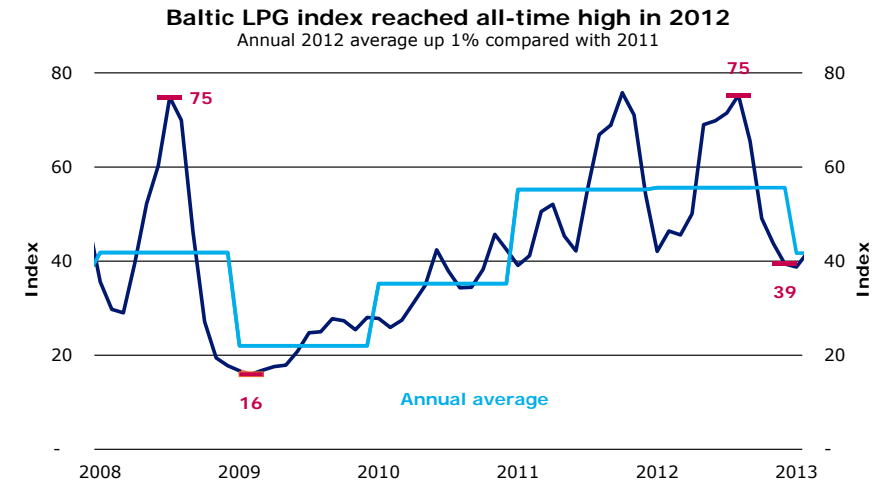
MARKET COMMENTARY

THE AVERAGE BALTIC LPG INDEX ROSE 1% IN 2012. AN ABUNDANCE OF CARGOES FROM THE MIDDLE EAST AND STRONG ASIAN DEMAND KEPT THE MARKET AFLOAT. HOWEVER, DURING THE FOURTH QUARTER OF 2012, THE BALTIC INDEX FELL, AS HIGH STOCK LEVELS AND THE ABSENCE OF THE WINTER SEASON DULLED DEMAND.

THE BALTIC LPG INDEX WAS UP 1% IN 2012

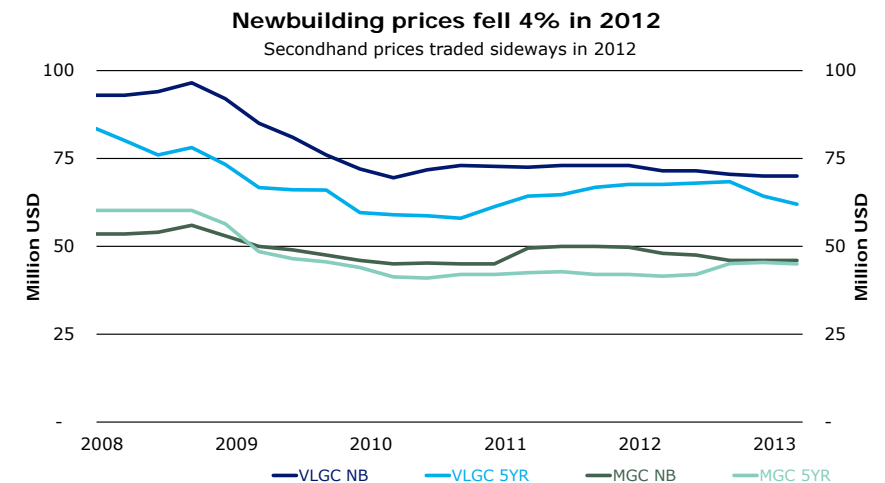
The average Baltic LPG index remains at a high level, and increased by 1% on average in 2012 compared to the year before. 2012 began with a temporary slowdown in demand as winter came to an end and refinery turnarounds occurred in the major exporting regions. From May to August, rates soared, driven by rising demand from Asian countries and ample cargo availability in the Middle East. At the end of August 2012, the daily observations of the Baltic LPG index hovered slightly above 75 (fig. 1). However, in sharp contrast to the previous period, Very Large Gas Carrier (VLGC) rates took a nosedive during the fourth quarter of 2012, as delayed winter demand, high stocks in the Far East, and ample vessel supply in the Middle East weighed vessel demand down. In December 2012, the average monthly index fell to index 39, the lowest level since 2010. However, Large Gas Carriers (LGC) and Medium Gas Carrier (MGC) fared better during the fourth quarter. The Baltic LPG index increased from an average of index 55 in 2011 to index 56 in 2012. During the first quarter of 2013, rates have begun to rise again, driven by the harsh winter conditions, although ample vessel supply in the Middle East has kept rates down. By end-February 2013, the index had rebounded to 45. Timecharter rates, on average, increased 18% during 2012, with VLGCs declining slightly during the fourth quarter.

Figure LPG.1



Sources: Reuters EcoWin, Danish Ship Finance

Figure LPG.2



Sources: Drewry, Clarksons, Danish Ship Finance

NEWBUILDING PRICES CONTINUE DOWNWARDS

Newbuilding prices declined further during 2012, as the global orderbook is shrinking and excess yard capacity has dragged prices down (fig. 2). Newbuilding prices dropped on average 4% during 2012. However, increasing newbuilding activity and the limited number of yards capable of building LPG tankers have prevented vessel prices from falling even further. Average secondhand prices increased marginally (1%) in 2012, with the exception of VLGCs (-5%), due to the drop in rates during the fourth quarter of 2012. Vessel values seem to have stabilised in the first quarter of 2013.

SEABORNE LPG TRADE UP 10% IN 2012

Demand volumes continued to grow at double-digit rates in 2012. Total seaborne LPG commodity volumes are estimated to have risen by 10% in 2012 (fig. 3). However, growth was mainly concentrated during the first nine months of 2012. The growth was predominantly driven by the emerging economies in Asia.

ASIAN ECONOMIES DRIVE LPG DEMAND

LPG supply from the Middle East was up by 11% in 2012, accounting for 70% of the total growth in seaborne LPG volumes. The high cargo availability in the Middle East, at relatively low prices, led India and the Far East to import large quantities of LPG to fill their inventories during 2012. However, the mild weather conditions in the northern hemisphere, in combination with large inventories, drove down demand during the fourth quarter of 2012. By chance, temperatures have fallen significantly during the first three months of 2013, which has caused demand to pick up again. In total, Asian imports rose 10% in 2012, contributing 60% to the growth in global seaborne LPG volumes (fig. 3). Improved LPG imports to Africa and South America contributed 20% to the growth in seaborne LPG volumes. European imports contributed 15% to the annual increase.

US LPG EXPORT VOLUMES ON THE RISE

US exports of LPG (propane) are growing. US exports of propane rose 33% in 2012 (fig. 4). As propane is a by-product of natural gas processing and crude oil refining, the supply of propane has been growing from the extra volumes of US tight oil and shale gas production. In 2012, US LPG production was up 20% compared to 2009. Despite the increase in production, US consumption of propane has not increased. Instead, US producers have turned to the export market for their

Figure LPG.3

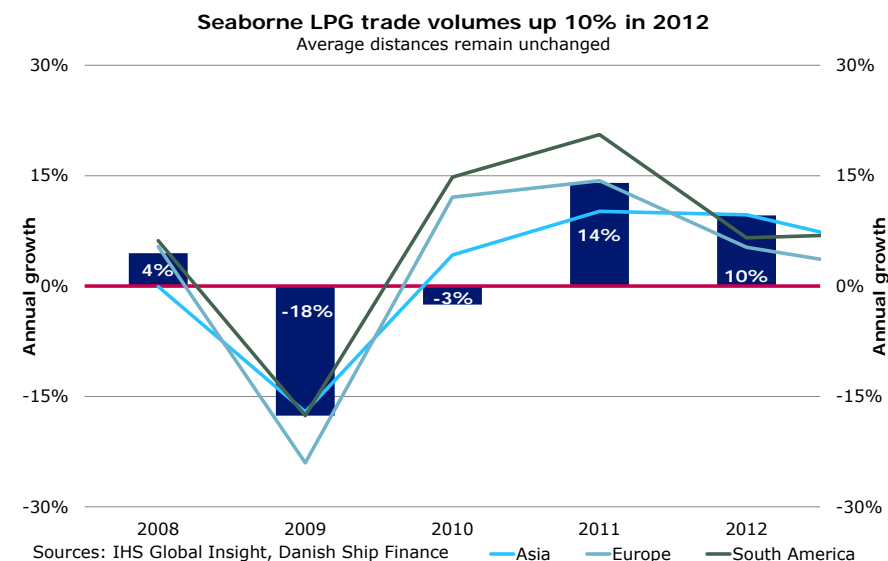
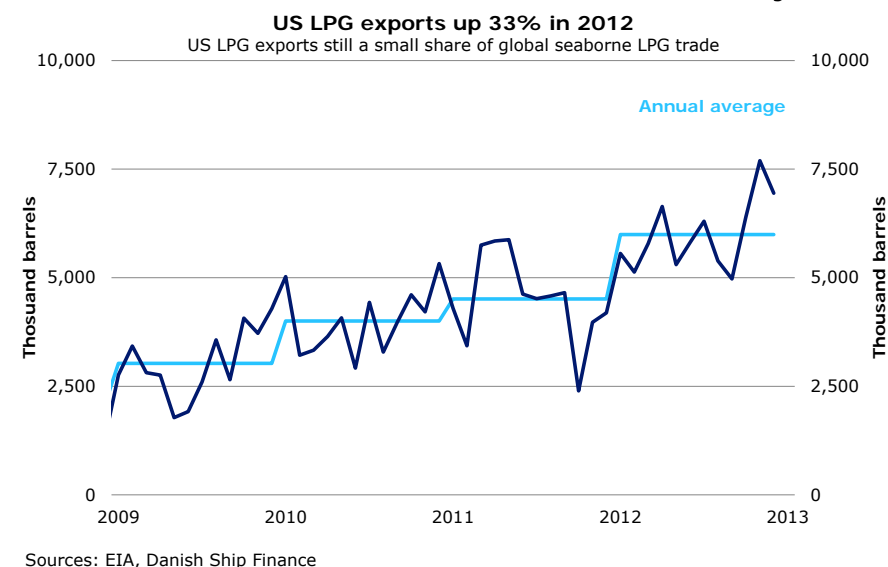


Figure LPG.4



products. Much of these exports have been heading to Mexico and South America, adding additional volumes to the seaborne LPG trade.

FLEET GROWTH ON THE RETREAT

About 0.35 million Cu. M of new LPG tanker capacity began trading in 2012. This was about 30% less than the planned 0.5 million Cu. M. Actual deliveries fell short of projections due to some cancellations and a limited number of postponements. Total fleet additions were the lowest since 1999. In 2012, scrapping were almost zero, as only five small gas carriers were sent for breaking – the lowest figure since 2001. The average age of vessels sold for scrap was more or less unchanged from 2011. The net fleet expansion was 2% (fig. 5).

APPETITE FOR NEW VESSELS SURGED IN 2012

After having contracted a modest 0.5 million Cu. M in 2011, shipowners contracted a total of 1.6 million Cu. M in 2012 (fig. 6). The renewed appetite for tonnage seemed to be focused on VLGCs and MGCs, while no new orders were placed for LGCs. Contracted VLGC and MGC vessels accounted for 90% of the contracted tonnage in 2012, with a small overweight of VLGCs. Low contracting activity in 2011, a smaller orderbook/fleet ratio, lower newbuilding prices, the expected increase in demand from emerging economies, and increased shipments from the US to Asian destinations after the widening of the Panama Canal are driving shipowners' urge for new vessels. Even after VLGC freight rates took a nosedive during the fourth quarter of 2012, shipowners have kept faith in the market. The continued rise in US exports and increasing consumption base in emerging economies has prompted shipowners to continue ordering new vessels during the first quarter of 2013 (0.3 million Cu. M).

Figure LPG.5

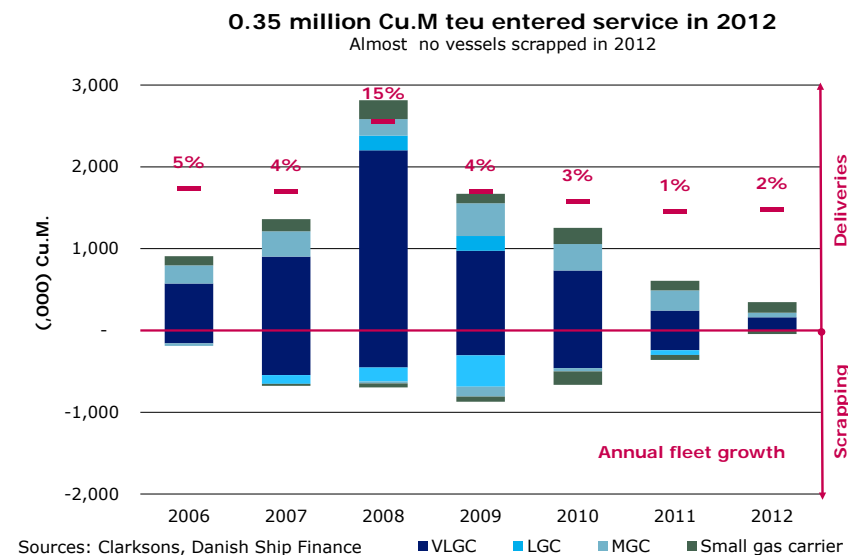


Figure LPG.6

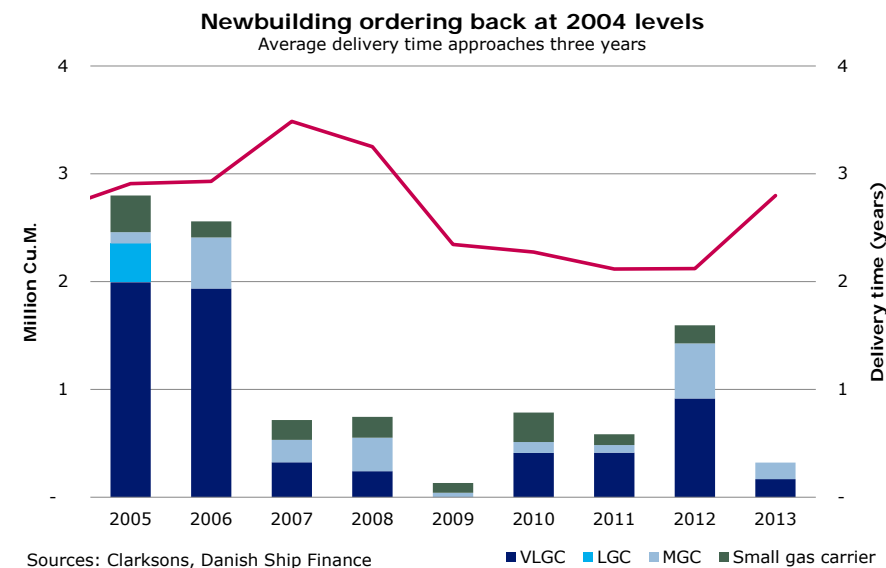
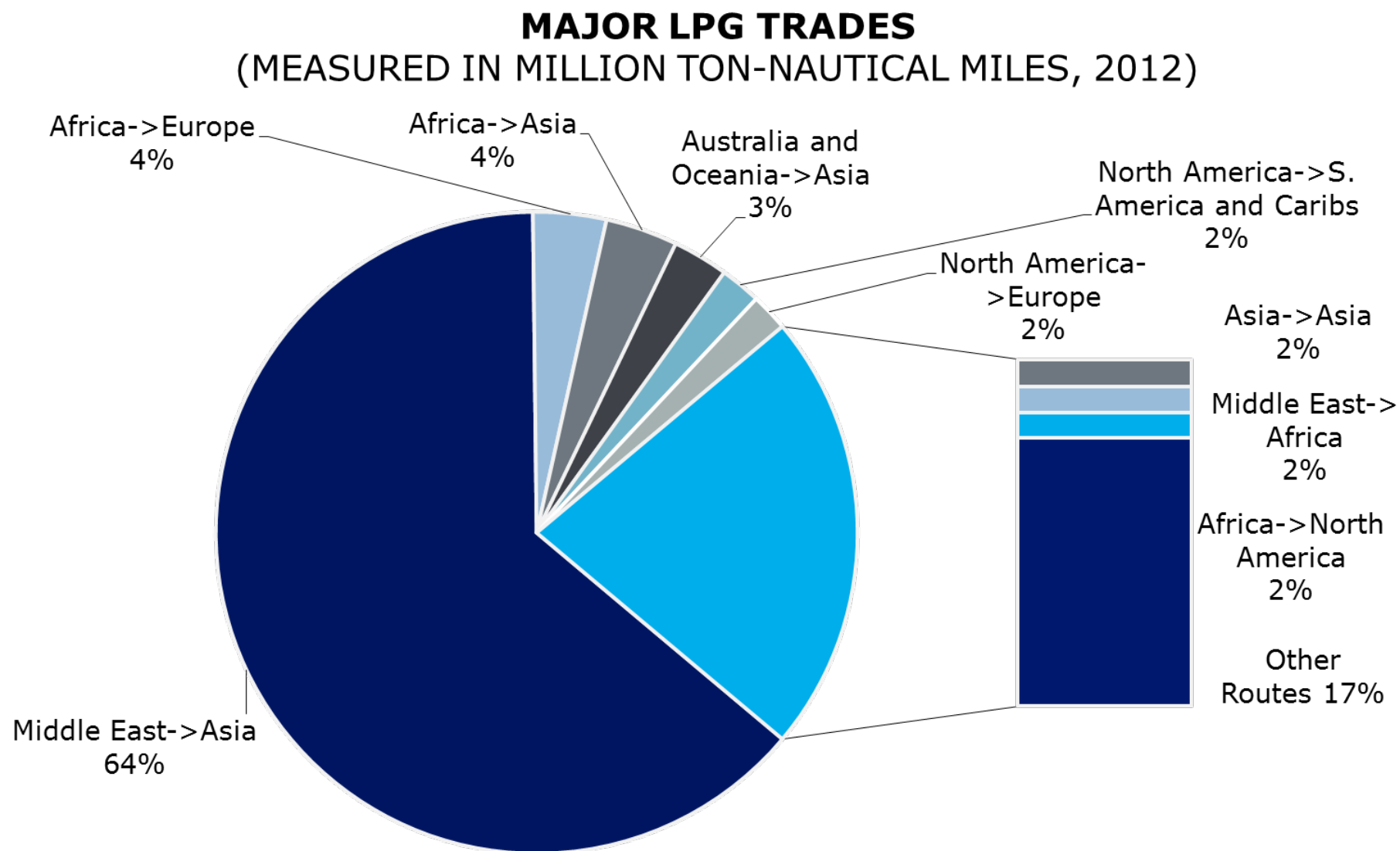


Figure LPG.7



Sources: IHS Global Insight, Danish Ship Finance

OUTLOOK

AFTER A YEAR OF LIMITED GROWTH, THE LPG TANKER FLEET IS EXPECTED TO GROW 5% IN 2013. DEMOLITION IS EXPECTED TO PICK UP. DISTANCE-ADJUSTED DEMAND IS ESTIMATED TO INCREASE BY 5%. THE OUTLOOK REMAINS BRIGHT, EVEN THOUGH THE FREIGHT MARKET HAS COME DOWN LATELY. HOWEVER, THE SURGE IN CONTRACTING ACTIVITY MIGHT RUIN THE DELICATE BALANCE BETWEEN SUPPLY AND DEMAND IN 2014.

1.3 MILLION CU. M SCHEDULED FOR DELIVERY IN 2013

Annual fleet additions are expected to take off in 2013 and 2014. The LPG fleet is expected to increase by 7% in both 2013 and 2014, before allowing for deferrals, cancellations, and demolition. A total of 1.3 million Cu. M is scheduled to enter the fleet in 2013. VLGC deliveries are scheduled to show the highest annual capacity expansion in five years. Growth in the VLGC segment is set to reach 6%. In 2014, another 1.4 million Cu. M is scheduled for delivery. The LPG orderbook beyond 2014 is very thin, however (fig. 8).

SLIPPAGE EXPECTED TO SMOOTH DELIVERIES

Deferment of orders is expected to continue curbing annual deliveries in the years to come. In 2012, 30% of the orderbook was postponed to a later delivery date. As stated above, approximately 1.3 million Cu. M is scheduled to join the fleet in 2013. However, we expect that 10-20% of orders scheduled to be delivered in 2013 will be postponed until 2014. Consequently, we estimate that 1 million Cu. M will be added to the fleet in 2013.

SCRAPPING EXPECTED TO PICK UP IN 2013

For 2013, we estimate that 0.4 million Cu. M will be scrapped, even though not a single vessel has been scrapped during the first quarter of 2013. For 2014, another 0.3 million Cu. M is predicted to be scrapped (fig. 10). However, as scrapping activity is a reflection of both freight rates and scrap values, any major change in market conditions might alter the scrapping behaviour. If market conditions turned negative, ship owners would be left with quite a lot of natural scrap candidates, as almost 20% of the fleet is older than 20 years. This is more than enough to offset scheduled deliveries in 2013 and 2014 (fig. 9). Our scrap scenario lies slightly above the historical trend.

Figure LPG.8

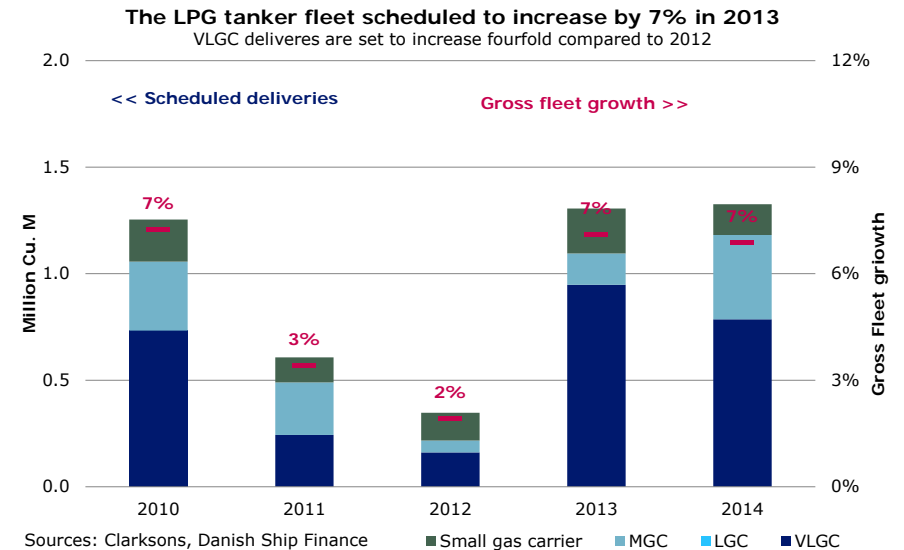
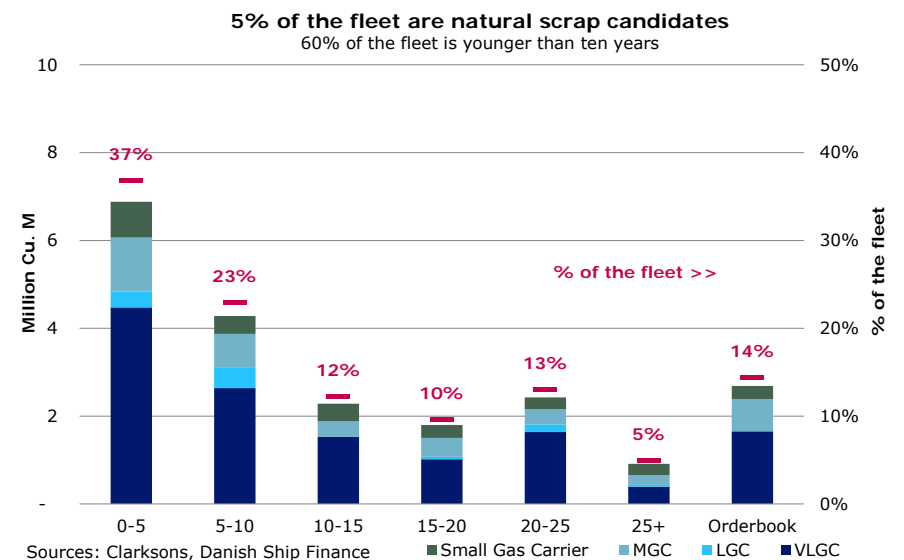


Figure LPG.9



FLEET GROWTH EXPECTED TO INCREASE TO 5% IN 2013

Taking expected scrapping and postponements into account, we expect a net fleet addition of 0.6 million Cu. M in 2013. For 2014, the fleet is expected to expand by 0.9 million Cu. M. This translates into net fleet growth of 5% in both 2013 and 2014, 3% percentage points higher than in 2012. Obviously, this scenario assumes that no new contracts are signed for delivery in 2014.

SEABORNE LPG TRADE TO LEVEL OFF IN 2013

Global seaborne LPG trade growth is expected to be halved in 2013 compared to 2012. Seaborne LPG trade growth is estimated to grow by 5% in 2013 (fig. 11). Growth is expected to be driven mainly by increased demand for petrochemical gases, which is expected to grow by 6% in 2013, and larger demand for butane, which is also set to grow by 6%. The biggest demand driver for LPG carriers in 2013 is expected to be petrochemical gases, provided that prices remain competitive. However, the delayed winter has also caused stock rawdowns in many regions and may boost demand for LPG carriers.

LPG DEMAND IS BEING DRIVEN BY ASIA

The emerging economies in general and the emerging Asian economies in particular are expected to drive LPG demand in 2013 and 2014. Asian LPG imports are expected to expand by 6% in 2013, contributing 60% of the growth in global seaborne LPG trade. Other regions, such as South America and Africa, are also showing strong growth figures. LPG for cooking purposes, auto gas consumption, and as an input to the petrochemical industry is expected to drive demand in Asia.

LPG TRADE PATTERNS ABOUT TO CHANGE

The growth rate of LPG available for exports is slowing down in the Middle East as domestic consumption increases and production of associated gas declines. Future increases in LPG availability are therefore increasingly dependent on rising US propane and ethylene production on the back of increased US natural gas production. Besides, any significant delay in the opening of an expanded Panama Canal might also represent a threat to VLGC earnings in 2014.

US LPG PRODUCTION EXPECTED TO INCREASE

The biggest transformation of the LPG market has been seen in the US, where rising shale gas and tight oil exploitation has resulted in increased

Figure LPG.10

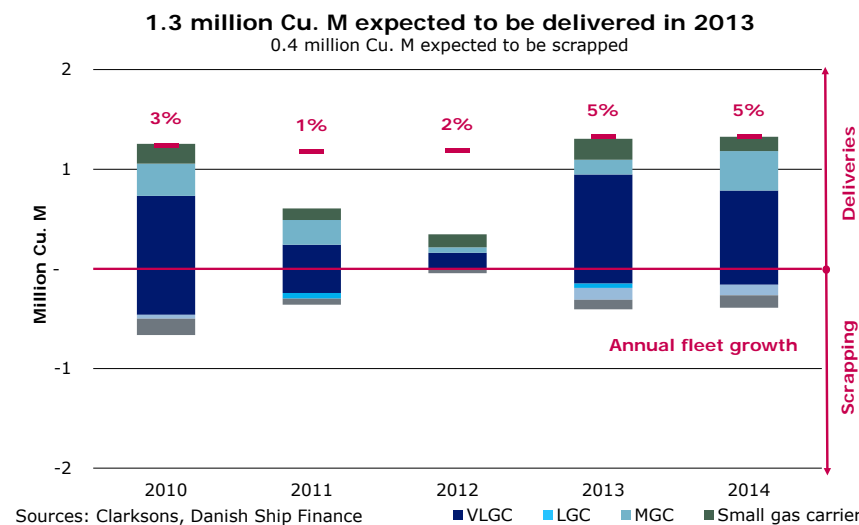
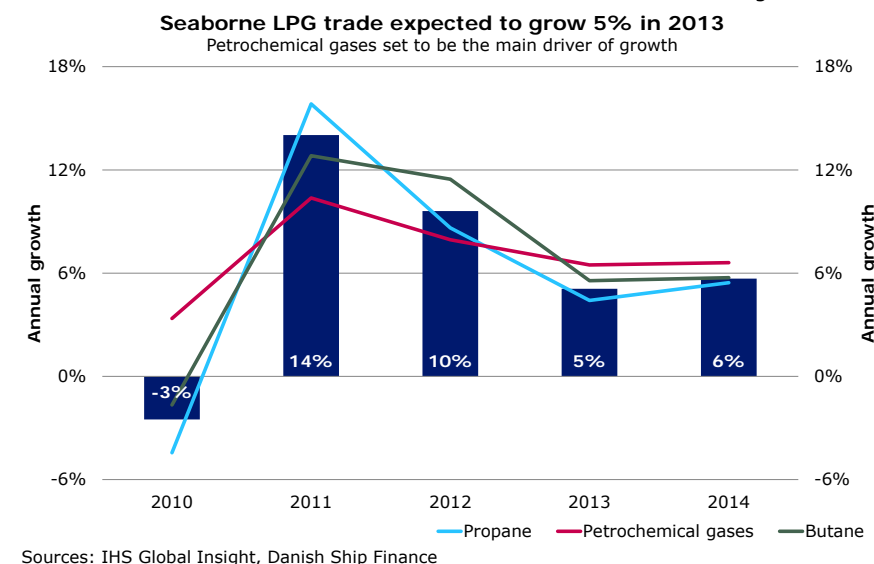


Figure LPG.11

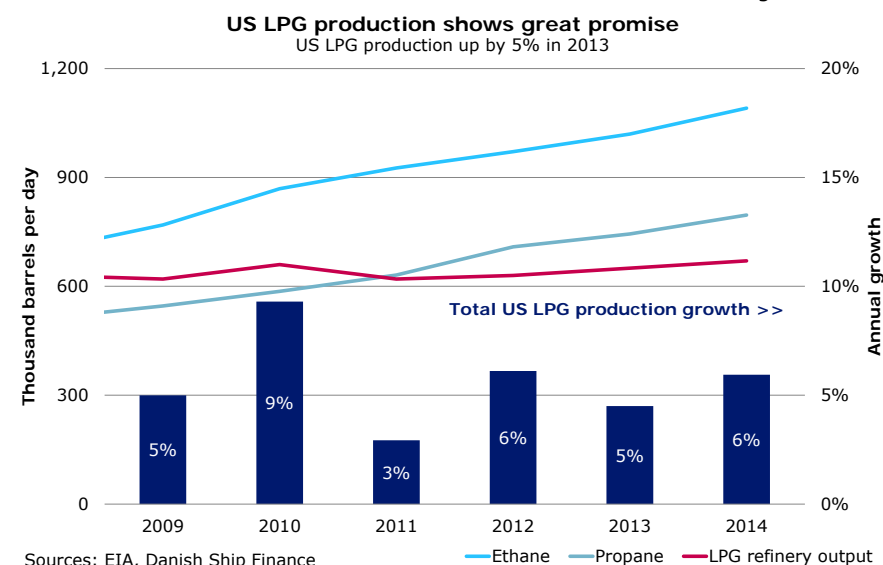


production of both propane and ethane. We estimate that US LPG production will increase by between 5% and 8% in 2013 and 2014 (fig. 12). Moreover, domestic demand is not expected to rise in tandem with production, leading to a continued rise in exports. Until now, most US propane exports have gone to South America. However, many Asian importers have begun to look to the USA for LPG as Middle East cargo availability is diminishing. The market pricing mechanism is also more transparent (in contrast to monthly contract prices from Saudi Aramco), and, most importantly, the voyage duration from the US Gulf to Asia will be reduced significantly when the expansion of the Panama Canal has been completed. The vessels projected to benefit from this development are VLGCs. Additionally, US exports of ethylene are expected to rise on the back of increased production of ethane. In 2014, many ethylene units are projected to come on stream and surpass domestic consumption. Vessels capable of transporting ethylene will reap the benefits of this development.

RATES EXPECTED TO REMAIN FIRM IN 2013

We expect the supply/demand balance to remain tight in 2013, as both supply and demand are projected to grow by 5%. However, the peak witnessed in 2012 is not expected to be reached any time soon. We expect 2014 to be a critical year for LPG carriers, in terms of expected deliveries and projected LPG supply and infrastructure projects. It will not take many LPG supply projects to be delayed or cancelled for vessels scheduled for delivery to end up with fewer cargoes than expected in 2014. However, any boost in the LPG supply or improvement in macro fundamentals will have the reverse effect.

Figure LPG.12



DRY BULK

SHIPPING MARKET REVIEW – APRIL 2013



**DANISH
SHIP FINANCE**

DRY BULK

THE DRY BULK MARKET REMAINS DEPRESSED. WHILE DEMAND IS RETURNING TO NORMAL, ADJUSTMENTS OF THE FLEET ARE NEEDED BEFORE BALANCE CAN BE ACHIEVED AND THE MARKET CAN START IMPROVING.

MARKET COMMENTARY

HIGH FLEET GROWTH AND MODEST GROWTH IN DEMAND IN 2012 LED TO INCREASED OVERSUPPLY IN THE DRY BULK FLEET, KEEPING RATES IN THE MARKET DEPRESSED.

TIMECHARTER RATES DESCENDED DEEPER IN 2012

Timecharter rates continued to push lower throughout 2012, as the supply of vessels outgrew demand. By December 2012, timecharter rates in the Capesize and Panamax segments had fallen by roughly 50% year-on-year to USD 12,375 per day for Capesize vessels and USD 8,700 per day for Panamax vessels. The Handy segments fell by some 25-30%. Throughout most of the second half of 2012, timecharter rates in the Panamax segment were even below those in the Handymax segment. This indicates that the Panamax segment, in particular, was hit hard by the drought raging across the Midwest of the USA in the summer of 2012, which devastated a large amount of the harvest.

ACTIVITY IN THE TIMECHARTER MARKET DECLINING

Activity in the timecharter market declined in 2012. The second half of 2012, in particular, experienced a sharp decline in the number of period fixtures, as only around 100 timecharter contracts were concluded each quarter (fig. 2). This trend is set to continue well into the first quarter of 2013. The Panamax segment especially has experienced declining activity, as the drought in the USA has reduced demand.

LARGE SEGMENTS ARE SEEING SLIGHTLY INCREASING FIXTURE PERIODS

The current timecharter rates seem to be attractive for operators looking to lock in attractive rates. Accordingly, the average fixture period in the Capesize and Panamax segments increased slightly during the second half of 2012 and the first quarter of 2013 (fig. 2). The average fixture period increased from around 7 months in the

Figure DB.1

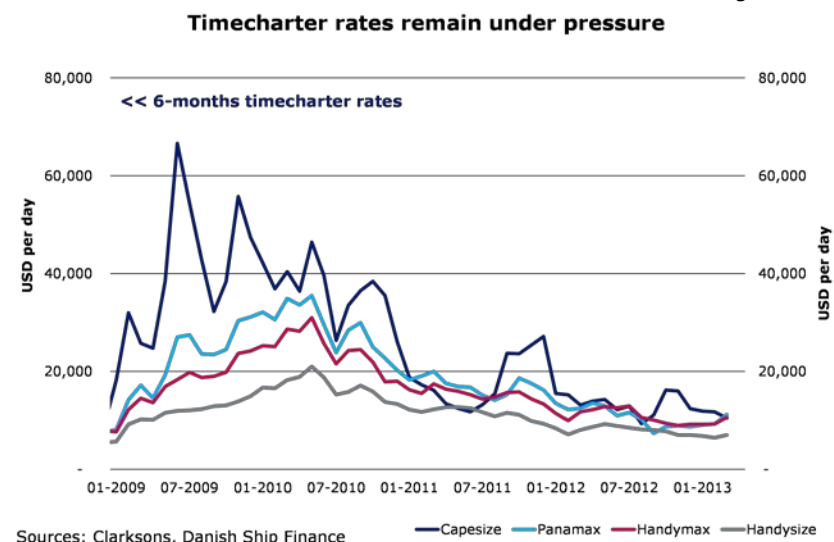


Figure DB.2

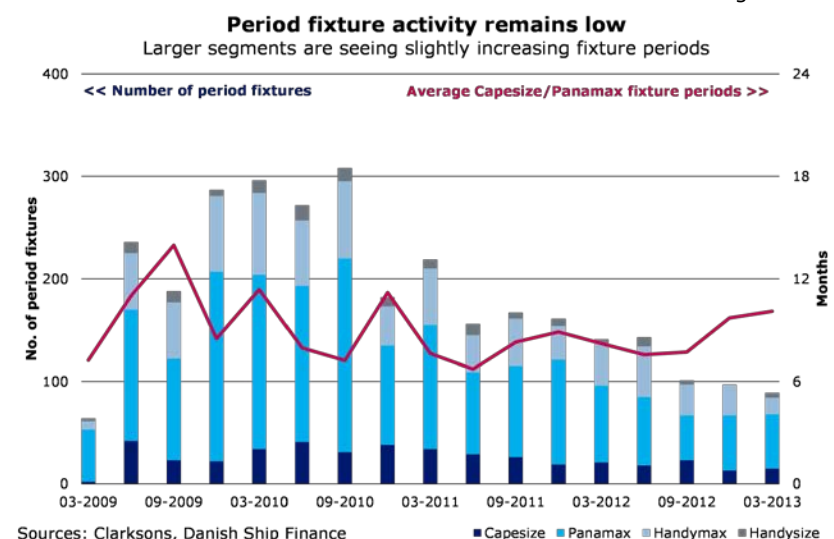


Figure DB.3

second quarter of 2012 to slightly above 10 months in the first quarter of 2013. However, the fact that activity remains so low indicates that either operators expect rates to decrease further or owners are reluctant to accept the current rates and instead prefer to hold their vessels open in the spot market in the hope that rates will improve.

SECONDHAND PRICES CONTINUE DOWNWARDS

Secondhand prices declined further during 2012, as a consequence of the continued deterioration of the dry bulk market (fig. 3). Average secondhand prices had dropped 24% year-on-year by December 2012. As indicated by the discussion above, the Panamax segment was hit the hardest, with a drop of 32% year-on-year. The fall in prices of secondhand Capesize vessels seems to have levelled off with a drop of only 10% year-on-year in December. During the first quarter of 2013, values appear to be stabilising and most segments have actually edged slowly upwards. As of March 2013, the price differences between 5-year-old secondhand vessels in the Panamax, Handymax, and Handysize segments seem to be vanishing. The price of 5-year-old Panamax and Handymax vessels are equal at USD 18.5 million and Handysize vessels are not far below at USD 17 million. The price of a 5-year-old secondhand Capesize vessel stands at USD 34 million.

98 MILLION DWT ADDED TO THE FLEET IN 2012

In 2012, 98 million dwt was delivered to the dry bulk fleet, slightly down from 2011, when a record of 104 million dwt was added (fig. 4). The largest contributor to the fleet expansion was the Capesize segment, where 42 million dwt was launched during the year – down from 50 million dwt the previous year. This was the first time during the current shipping cycle that deliveries of Capesize vessels declined. In the Panamax segment, on the contrary, deliveries increased to 30 million dwt, up from 24 million dwt in 2011.

SCRAPPING INCREASED MARKEDLY

The continued deterioration of dry bulk rates, combined with relatively high scrap prices, pushed a record of 35 million dwt (6% of the fleet) to the scrapyards in 2012 (fig. 4). Although scrapping was highest in the Capesize segment, with 12 million dwt scrapped (5% of the fleet), the Handysize segment saw the largest scrapping activity measured in terms of fleet size, as 11% of the Handysize fleet was scrapped during

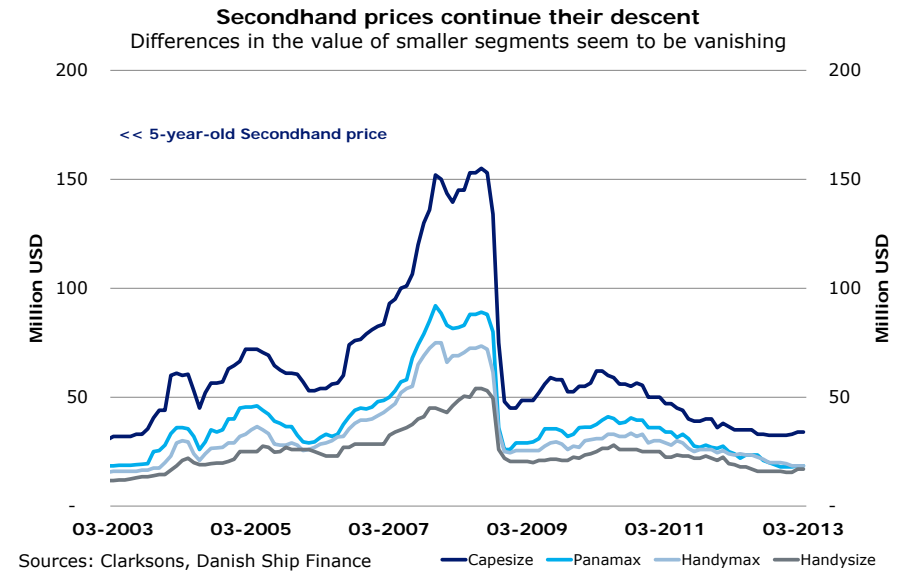
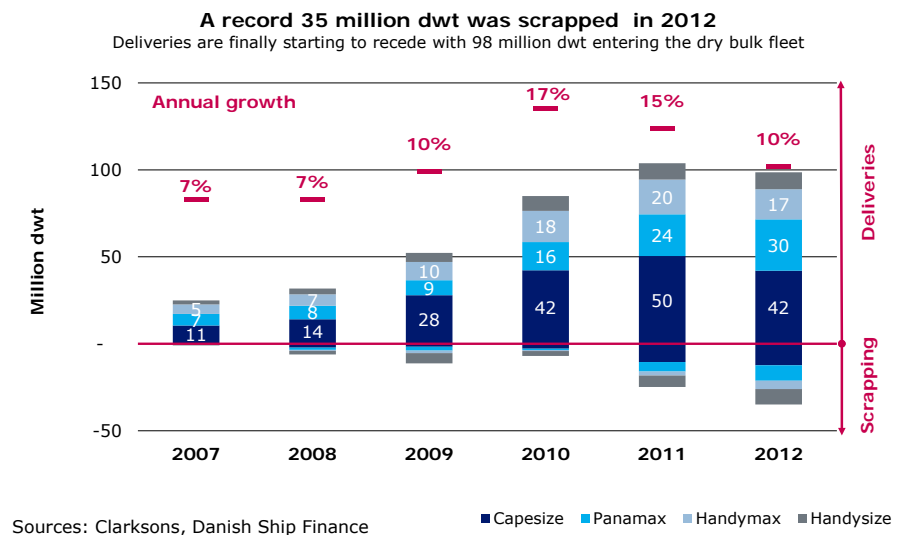


Figure DB.4



2012. In the first three months of 2013, scrapping activity seems to have continued at an unchanged rate.

FLEET EXPANSION ON THE RETREAT

The dry bulk fleet expanded 10% in 2012, down from a 15% growth rate in 2011, albeit relative to a much larger fleet than previously. This was the second year in a row with declining growth rates across all segments. The lowest growth was observed in the Handysize segment, which grew by only 1% in 2012. The Capesize and Panamax segments experienced the largest growth, with growth rates of 12% and 13%, respectively. The Handymax segment saw growth of 10% (fig. 4).

DISTANCE-ADJUSTED DEMAND INCREASED BY 4% IN 2012

Growth in distance-adjusted demand fell to 4% in 2012, from 5% in 2011 (fig. 5). The decline was mainly a result of negative growth in grain trade, as grain exports from the USA were affected by one of the worst droughts on record. Distance-adjusted grain trade declined by 1% in 2012. Iron ore trades held distance-adjusted demand up, with growth rates of more than 6%. Growth in iron ore volumes remains driven by imports to China, which grew by 7% in 2012. Australia was the main source of the increased Chinese iron ore imports, but India also increased its exports of iron ore to China, both causing a slight decline in average trading distances. Distance-adjusted coal trade increased by 4% in 2012. India was once again the main driver behind growth in coal demand, as Indian coal imports increased 17%, largely covered by Indonesian exports.

APPETITE FOR NEW VESSELS CONTINUED TO FADE IN 2012

The continuous poor performance of the dry bulk market caused the appetite for new vessels to fade in 2012 (fig. 6). During the year, a total of 21 million dwt was contracted. This was down from almost 41 million dwt in 2011. The preference for ordering Panamax vessels continued, as almost half the vessels ordered were Panamax vessels (9 million dwt). The remainder of the newly contracted vessels were evenly spread across the other segments. During the first three months of 2013, owners have regained some appetite for ordering new vessels, as 7 million dwt has been contracted so far – the majority of which (6 million dwt) are Capesize vessels. The average delivery time for the newly ordered vessels has fallen to just below two years.

Figure DB.5

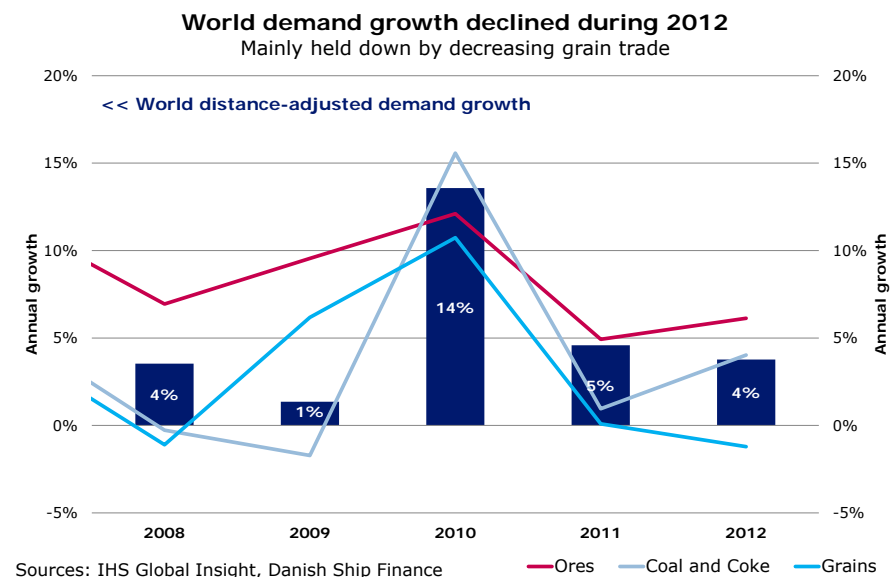
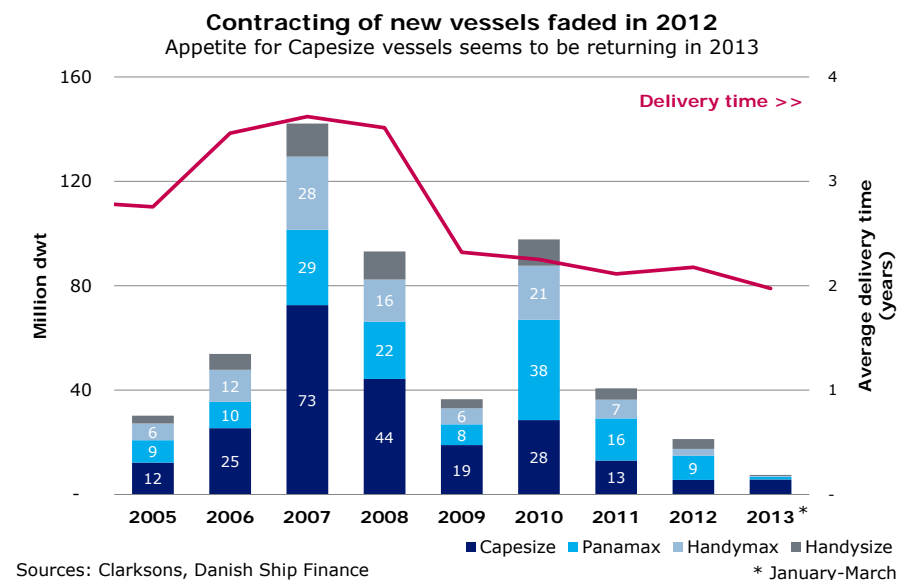
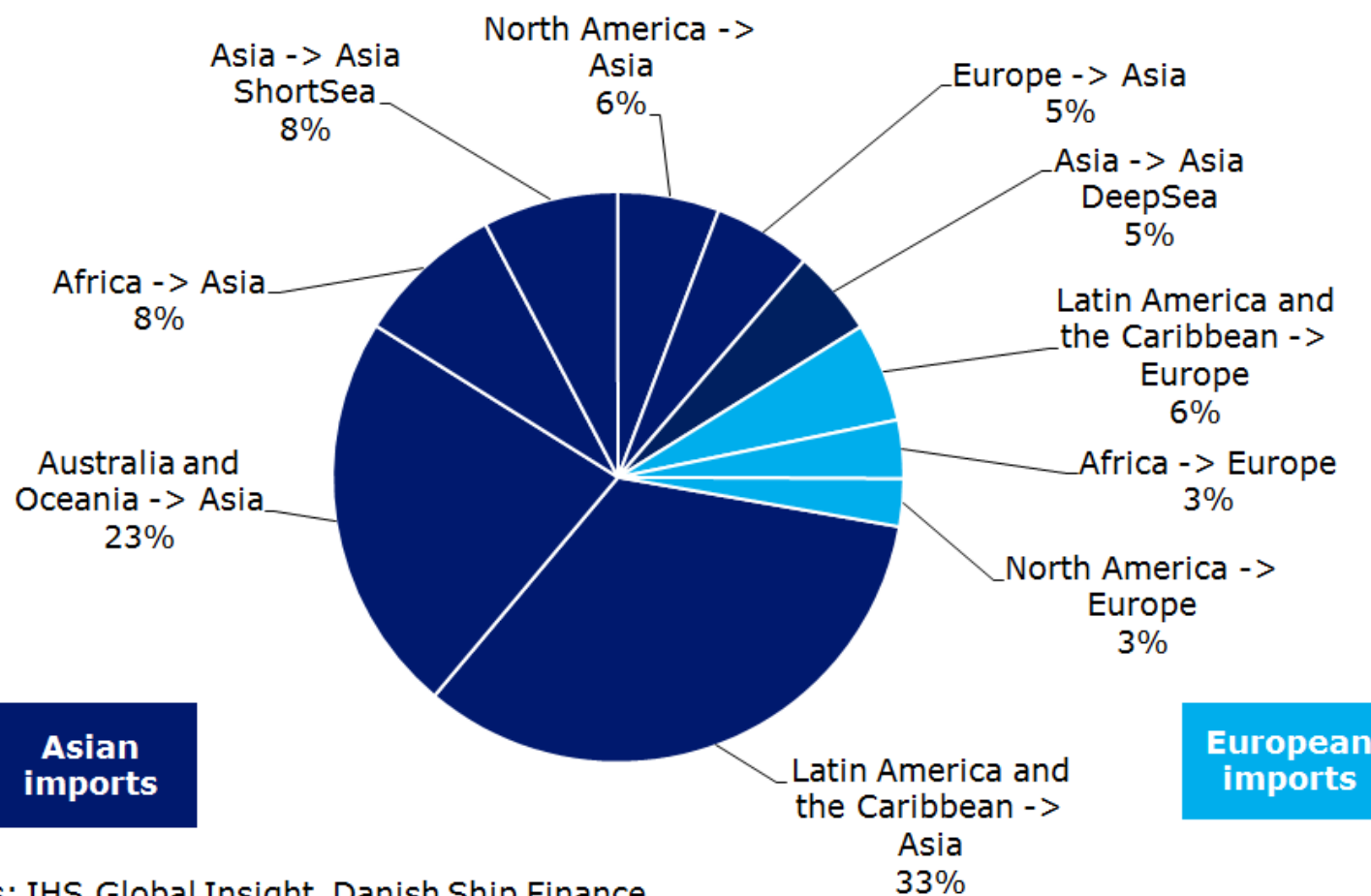


Figure DB.6



ASIAN DEMAND DOMINATES CAPE SIZE DEMAND

TOP 10 FRONT-HAUL CAPE SIZE ROUTES



Sources: IHS Global Insight, Danish Ship Finance

OUTLOOK

THE DRY BULK FLEET IS ESTIMATED TO GROW BY 6% IN 2013, AS ANOTHER YEAR OF RECORD-HIGH SCRAPPING ACTIVITY IS EXPECTED TO CURB FLEET GROWTH. DISTANCE-ADJUSTED DEMAND IS ALSO EXPECTED TO INCREASE BY 6%. A LARGE OVERHANG OF EXCESS SUPPLY WILL KEEP A LID ON RATES – AT LEAST IN 2013.

98 MILLION DWT SCHEDULED FOR DELIVERY IN 2013

The flood of new vessels is not scheduled to ease much in 2013, as 98 million dwt is currently scheduled to enter the fleet (fig. 8). If the entire orderbook is delivered according to schedule and scrapping does not reduce capacity in 2013, the fleet will increase by 14%. Capesize deliveries are scheduled to fall from 42 million dwt in 2012 to 34 million dwt in 2013, and thus growth in the Capesize fleet is set to decrease for the second consecutive year during the current market cycle. The Panamax segment, however, is scheduled to top Capesize deliveries, with 37 million dwt planned to reach the sea in 2013, thereby intensifying the pressure on an already overly saturated Panamax market.

DELIVERIES SCHEDULED TO DROP SIGNIFICANTLY IN 2014

The current orderbook/fleet ratio is 18%; hence, almost one new vessel is planned for every five vessels at sea (fig. 9). As the lion's share of the orderbook is scheduled for delivery in 2013, deliveries are set to drop sharply from 2014, leaving dry bulk yards with a very slim orderbook in the coming years. Only 35 million dwt is scheduled for delivery in 2014 and 7 million dwt in 2015 (fig. 8).

POSTPONEMENTS AND CANCELLATIONS EXPECTED TO SMOOTH DELIVERIES

Cancellations and postponements are likely to help smooth the annual inflow of tonnage in the years to come. Cancellation and postponement was particularly helpful in reducing the Capesize and Handysize orderbook in 2012, as only about two-thirds of the 2012 orderbook actually reached the sea on schedule. We believe that shipyards have an incentive to accept deferrals of some deliveries, in order to smooth activity in the coming years, and thereby defer looming yard closures for as long as possible.

Figure DB.8

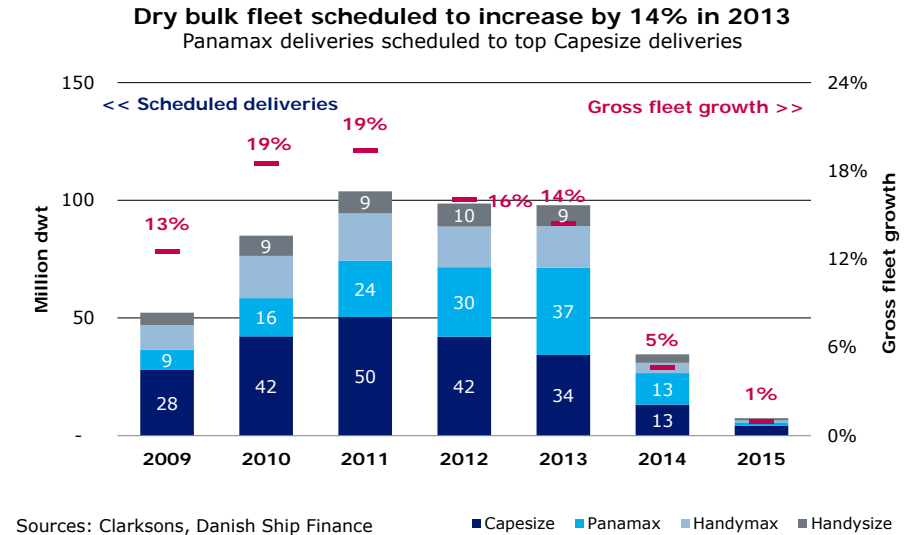
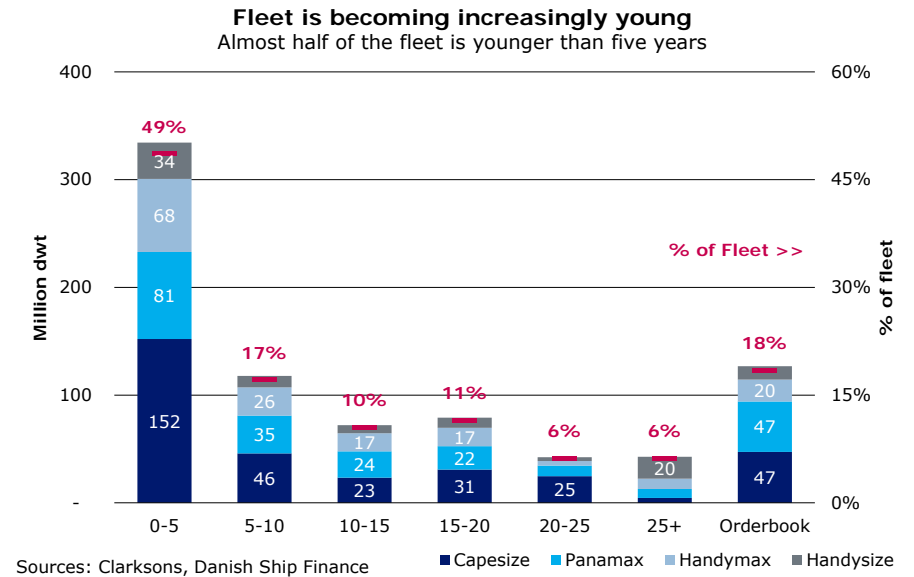


Figure DB.9



THE FLEET IS BECOMING INCREASINGLY YOUNG

As scrapping continues to remove tonnage from the dry bulk fleet, the fleet is becoming increasingly young. 49% of the fleet is under five years and in particular the age distribution of the larger segments is skewed towards younger vessels (fig. 9). The fact that the fleet is getting younger is naturally pushing the average scrapping age downwards. In 2012, the average scrapping age was 28 years, falling to 27 years for vessels scrapped in the first three months of 2013. In the larger segments, the average scrapping age has fallen to 24 years. Using the age distribution as an indicator of the scrapping potential, the segment with the highest scrapping potential is the Handysize segment, where 20 million dwt (24% of the Handysize fleet) is older than 25 years.

SCRAPPING ACTIVITY EXPECTED TO REMAIN HIGH IN 2013

The age distribution is, however, not the only significant factor explaining the level of tonnage being sent to the scrapyards. Obviously, both freight rates and scrap values are important in determining whether to continue trading a vessel or to sell it for scrap. As such, the scrap value to freight rates ratio is one of the most important factors in explaining the level of scrapping (fig. 10). As figure 10 shows, the scrap value to freight rates ratio has been relatively important in determining the share of the fleet sold for scrap. Taking the current level of the ratio into account, one can conclude that there remains a big incentive for scrapping vessels in 2013. When accounting for both the age distribution and the scrap value/freight rates ratio, we estimate that 24 million dwt will be sold for scrap in 2013.

FLEET GROWTH EXPECTED TO DECLINE TO 6% IN 2013

Assuming that the high level of cancellations and postponements continues, we estimate that 66 million dwt will be delivered in 2013 and another 36 million in 2014. If our estimate of 24 million dwt sold for scrap in 2013 holds and another 11 million is scrapped in 2014, we see the fleet growing by 6% in 2013 and another 4% in 2014 (fig. 11). Fleet growth will be highest in the Panamax segment, which will experience growth of 10% in 2013 and 7% in 2014. The Handysize fleet is not expected to grow in 2013, while the Capesize and Handymax fleets are expected to grow by 5% and 6%, respectively. Obviously, this scenario assumes that no new contracting will be concluded for delivery in 2013 and 2014. As already noted, dry bulk yards will see a very slim

Figure DB.10

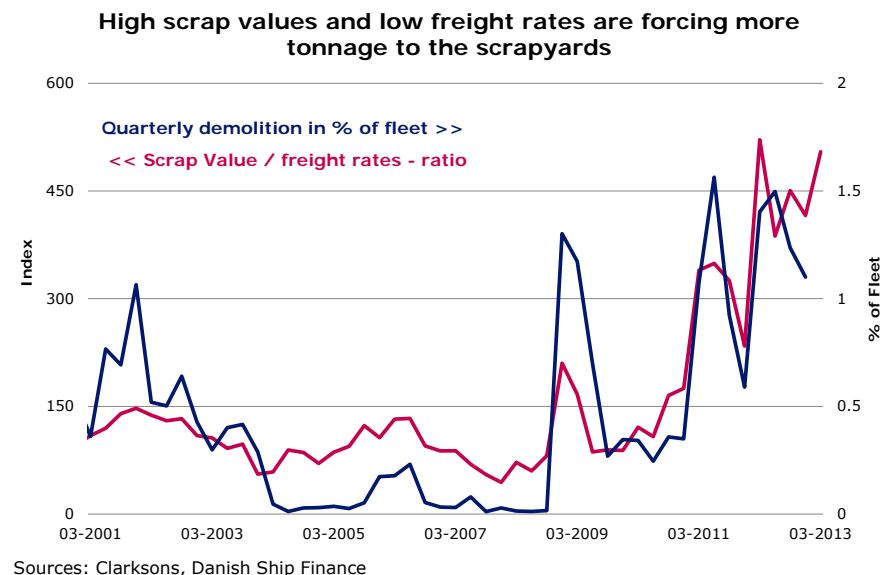
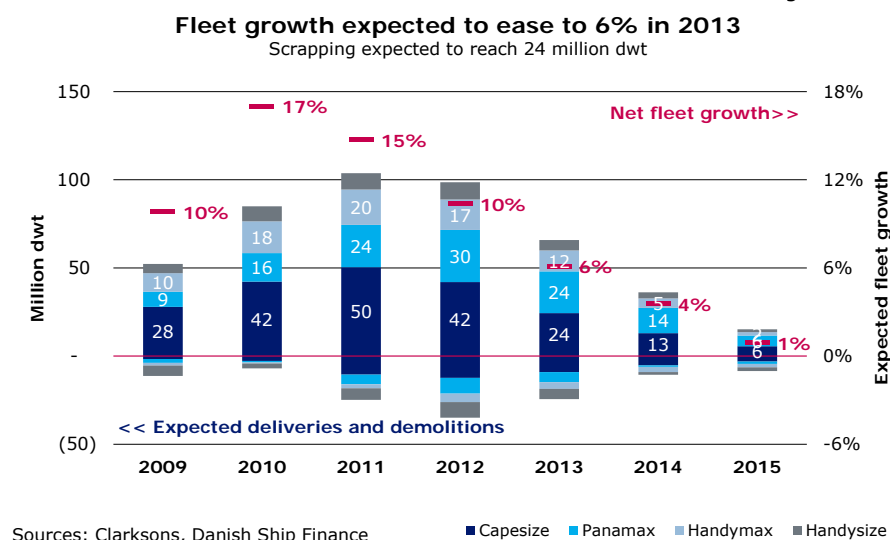


Figure DB.11



orderbook from 2014 onwards which may pose a threat to the scenario presented here.

DISTANCE-ADJUSTED TRADE EXPECTED TO GROW 6% IN 2013

Distance-adjusted trade is expected to grow by 6% in 2013 (fig. 12). Growth is expected to be driven mainly by increased demand for iron ore, which is estimated to grow by 9% in 2013, and larger demand for coal, which is set to grow by 6%. Once again, China will be the primary destination for iron ore shipped out of Australia and Brazil. However, India and South Africa are also expected to increase their exports of iron ore to China, leading to slightly longer travel distances in the iron ore trade. Grain trade is expected to rebound in 2013, as US grain exports are expected to recover. The increase in coal demand is largely a result of increased appetite for Indonesian steam coal in India, which is expected to remain high over the coming years.

INDONESIA AND BRAZIL EXPECTED TO INCREASE MARKET SHARES

While Asia – and China in particular – remains by far the most important destination for dry bulk commodities, the picture is slightly less clear when considering the sources of the commodities (fig. 13). During the next three years, Indonesia is expected to markedly increase its share of total dry bulk commodity exports. Its strategic geographical position, as well as its abundance of coal, iron ore, and other raw materials, is making Indonesia the fastest growing exporter to the Asian countries. Indonesian exports are set to grow by 8% on average over the period. Australia will remain the largest iron ore exporter, whereas Brazil is expected to increase its share of the iron ore market over the next three years. South American exports of dry bulk commodities are expected to increase by 6% annually over the period.

BALANCE IN THE DRY BULK MARKET DRAWING CLOSER

We expect the fleet to grow by 6% in 2013, and although distance-adjusted demand is also set to grow by 6% in 2013, we believe the large oversupply in fleet capacity will remain, keeping a lid on rates – at least in 2013. Further, just as operators reduce speed in response to waning demand, they may also increase speed as demand returns, thereby increasing the effective fleet supply. Thus, while we believe balance in the market is drawing closer, we still believe some adjustments need to take place before balance can be reached and rates begin to improve.

Figure DB.12

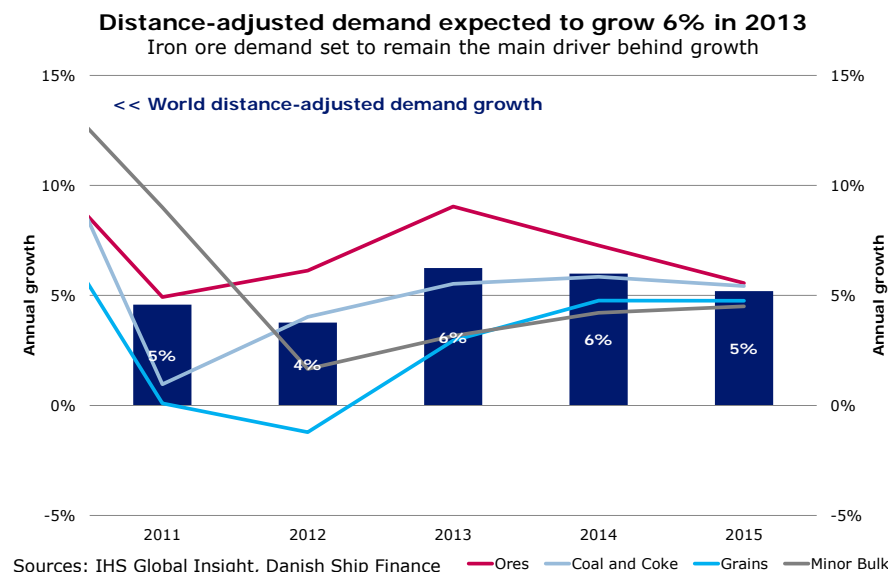
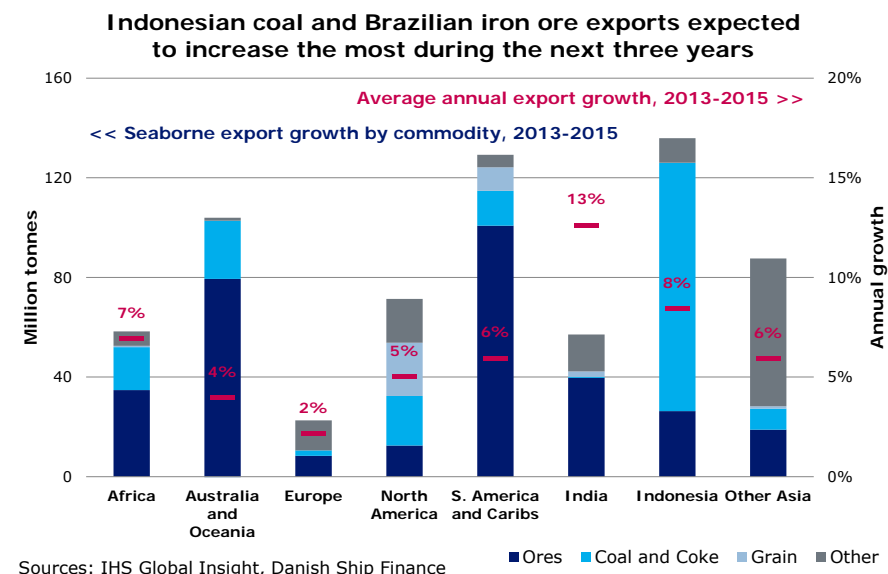


Figure DB. 13



GLOSSARY

SHIPPING MARKET REVIEW – APRIL 2013



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<i>Aframax:</i>	Crude oil tanker or product tanker too large to pass through the Panama Canal and with a capacity of from 80,000 to 120,000 dwt.	<i>Clean products:</i>	Refers to light, refined oil products such as jet fuel, gasoline and naphtha.
<i>Back-haul:</i>	The leg of a trade route that has the lowest container volumes is often called 'back-haul', whereas the return leg is often referred to as 'head-haul'.	<i>CoA:</i>	Contract of Affreightment. Contract between a shipping company and a shipper concerning the freight of a predetermined volume of goods within a given period of time and/or at given intervals.
<i>Barrel:</i>	A volumetric unit measure for crude oil and petroleum products equivalent to 42 U.S. gallons, or approximately 159 litres.	<i>Coating:</i>	The internal coatings applied to the tanks of a product or chemical tanker. Coated tanks enable the ship to transport corrosive refined oil or chemical products and it facilitates extensive cleaning of the tanks, which may be required in the transportation of certain product types.
<i>BHP:</i>	Break Horse Power. The amount of engine horsepower.	<i>Deep sea:</i>	Refers to trading routes longer than 3,000 nautical miles.
<i>Brent:</i>	Term used for crude oil from the North Sea. Brent oil is traded on the International Petroleum Exchange in London, and the price of Brent is used as a benchmark for several other types of European oil.	<i>Deep Sea, chemical:</i>	A chemical tanker larger than or equal to 20,000 dwt.
<i>Bulk vessel:</i>	Description of vessels transporting large cargo quantities, including coal, iron ore, steel, corn, gravel, oil, gas, etc.	<i>Dirty products:</i>	Refers to heavy oils such as crude oil or refined oil products such as fuel oil, diesel oil or bunker oil.
<i>Bunker:</i>	Fuel for vessels.	<i>Drewry:</i>	Drewry Shipping Consultants Ltd. British shipping and transport research company. www.drewry.co.uk
<i>Call on OPEC:</i>	Defined as total global petroleum demand less non-OPEC supply less OPEC natural gas liquid supply.	<i>Dwt:</i>	Dead Weight Tons. Indication of a vessel's cargo carrying capacity (including bunkers, ballast, water and food supplies, crew and passengers).
<i>Capesize:</i>	Dry bulk carrier of more than approximately 100,000 dwt; too large to pass through the Panama Canal.	<i>Dynamic Positioning:</i>	Special instruments on board that in conjunction with bow thrusters and main propellers enable a ship to position itself in a fixed position in relation to the seabed.
<i>Cu.M:</i>	Cubic Meter.	<i>EIA:</i>	Energy Information Administration. A subsidiary of the US Department of Energy. www.eia.doe.gov
<i>Ceu:</i>	Car equivalent unit. Unit of measure indicating the car-carrying capacity of a vessel.	<i>E&P:</i>	Exploration and Production.
<i>Cgt:</i>	Compensated Gross Tonnage. International unit of measure that facilitates a comparison of different shipyards' production regardless of the types of vessel produced.	<i>Feeder:</i>	Small container carrier with a capacity of less than 500 teu.
<i>Chemical tanker:</i>	DSF's definition: IMO I or IMO II tanker with stainless steel, zinc, epoxy or Marineline coated tanks.	<i>Feedermax:</i>	Small container carrier with a capacity of 500-1000 teu.
<i>Clarksons:</i>	British ship brokering and research company. www.clarksons.net		

<i>FPSO:</i>	Floating Production Storage Off-loading unit. Vessel used in the offshore industry to process and store oil from an underwater (sub-sea) installation.		
<i>Front-haul:</i>	The leg of a trade route that has the highest cargo volumes is often called 'front-haul' whereas the return leg is often referred to as 'back-haul'.	<i>Inorganic chemicals:</i>	A combination of chemical elements not containing carbon. The three most common inorganic chemicals are phosphoric acid, sulphuric acid and caustic soda. Phosphoric acid and sulphuric acid are used in the fertilizer industry, whilst caustic soda is used in the aluminium industry. As these chemicals are corrosive to many metals, they are transported in stainless steel tanks.
<i>Geared:</i>	Indicates that a vessel is equipped with a crane or other lifting device.	<i>Intermediate:</i>	Medium-sized chemical carrier with a capacity of between 10,000 and 20,000 dwt.
<i>Gearless:</i>	Indicates that a vessel is not equipped with a crane or other lifting device.	<i>LGC:</i>	Large Gas Carrier. LPG ship with a capacity of between 40,000 and 60,000 Cu.M.
<i>Global order cover:</i>	Global order is the global orderbook divided by annual yard capacity.	<i>Light distillates:</i>	This oil type includes gasoline, naphtha and solvents.
<i>Gt:</i>	Gross Tons. Unit of 100 cubic feet or 2,831 cubic meters, used in arriving at the calculation of gross tonnage.	<i>LPG vessels:</i>	Liquefied Petroleum Gas. Vessels used to transport ammonia and liquid gases (ethane, ethylene, propane, propylene, butane, butylenes, isobutene and isobutylene). The gases are transported under pressure and/or refrigerated.
<i>Handy, container:</i>	Container vessel of between 1,000-1,999 teu.	<i>LR1, product tanker:</i>	Long Range 1. Product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 60,000-74,999 dwt.
<i>Handy, tank:</i>	Crude oil tanker, product tanker or chemical tanker of between 10,000 and 25,000 dwt.	<i>LR2, product tanker:</i>	Long Range 2. Product tanker too large to pass through the Panama Canal and larger than approximately 75,000 dwt.
<i>Handymax, dry cargo:</i>	Dry bulk carrier of between approximately 40,000 and 60,000 dwt.	<i>Medium, tanker (MR):</i>	Medium Range. Product tanker of between 10,000 and 60,000 dwt.
<i>Handysize, dry cargo:</i>	Dry bulk carrier of between approximately 10,000 and 40,000 dwt.	<i>MGC:</i>	Medium Gas Carrier. LPG ship with a capacity of between 20,000 and 40,000 Cu.M.
<i>Head-haul:</i>	The leg of a trade route that has the highest container volumes is often called 'head-haul', whereas the return leg is often referred to as 'back-haul'. On routes where there is a great trading volume mismatch between head-haul and back-haul, the head-haul demand will most often determine the freight rate level.	<i>Middle distillates:</i>	This oil type includes diesel, kerosene and gasoil.
<i>Heavy distillates:</i>	This oil type includes fuel oils and lubes.	<i>Multi-Purpose:</i>	Dry bulk carrier with multiple applications, mainly as a feeder vessel or for special cargo.
<i>IEA:</i>	International Energy Agency. A subsidiary of the OECD. www.iea.org		
<i>IHS Global Insight:</i>	American economic consulting company. www.globalinsight.com		
<i>IMO:</i>	International Maritime Organization. An organisation under the UN.		
<i>IMO I-III:</i>	Quality grades for tankers for the permission to transport different chemical and oil		

<i>Nautical Mile:</i>	Distance unit measure of 1,852 meters, or 6,076.12 ft.	<i>SSY:</i>	Simpson Spence & Young, British ship brokering and research company. www.ssy.co.uk
<i>Offshore vessel:</i>	Vessel serving the offshore oil industry.	<i>Sub-Panamax</i>	Container vessel of approximately 2,000-2,999 teu.
<i>OPEC:</i>	Organisation of Petroleum Exporting Countries.	<i>Suezmax:</i>	Crude oil tanker with the maximum dimensions for passing through the Suez Canal (approximately 120,000—199,999 dwt.).
<i>Organic chemicals:</i>	Contain carbon and are also referred to as petrochemicals. Are used to produce virtually all products made from plastics or artificial fibres.	<i>Super Post-Panamax:</i>	Newest type of container vessel of approximately +10,000 teu.
<i>Panamax, container:</i>	Container carrier with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres, length of 291 metres) of approximately 3,000—5,100 teu.	<i>TCE:</i>	Time Charter Equivalent.
<i>Panamax, tanker:</i>	Crude oil tanker or product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 60,000—79,999 dwt.	<i>Teu:</i>	Twenty Foot Equivalent Unit. Container with a length of 20 feet (about 6 metres) which forms the basis of describing the capacity of a container vessel.
<i>Panamax, dry cargo:</i>	Dry bulk vessel with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 60,000—100,000 dwt.	<i>Teu-knots:</i>	Unit of measure that takes account of the speed of ships when estimating the actual supply of ships within a segment.
<i>Post-Panamax:</i>	Container vessel of approximately 5,100-9,999 teu that is too large to pass through the Panama Canal.	<i>Teu-nautical mile:</i>	Unit of measure indicating the volume of cargo, measured in teu, and how far it has been transported, measured in nautical miles.
<i>Product tanker:</i>	Tanker vessel with coated tanks used to transport refined oil products.	<i>Tight oil:</i>	Tight oil (also known as light tight oil) is a petroleum play that consists of light crude oil contained in petroleum-bearing formations of relatively low porosity and permeability
<i>PSV:</i>	Platform Supply Vessel. Offshore vessel serving the offshore oil installations.	<i>Ton-nautical mile:</i>	Unit of measure indicating the volume of cargo, measured in ton, and how far it has been transported, measured in nautical miles.
<i>Refinery turnarounds:</i>	A planned, periodic shut down (total or partial) of a refinery process unit or plant to perform maintenance, overhaul and repair operations and to inspect, test and replace process materials and equipment.	<i>Tonnage:</i>	Synonymous with "vessel".
<i>Ro-Ro:</i>	Roll On – Roll Off. Common description of vessels on which the cargo is rolled on board and ashore.	<i>Town gas:</i>	A mixture of gases produced by the distillation of bituminous coal and used for heating and lighting: consists mainly of hydrogen, methane, and carbon monoxide.
<i>Short sea:</i>	Refers to trading routes shorter than 3,000 nautical miles.	<i>ULCC:</i>	Ultra Large Crude Carrier. Crude oil tanker of more than 320,000 dwt.
<i>Short Sea, chemical:</i>	Chemical tanker smaller than 10,000 dwt.		
<i>Small gas carrier:</i>	LPG ship smaller than 20,000 Cu.M.		

Vegetable oils: Oils derived from seeds of plants and used for both edible and industrial purposes.

VLCC: Very Large Crude Carrier. Crude oil tanker of between approximately 200,000 and 320,000 dwt.

VLGC: Very Large Gas Carrier. LPG ship with a capacity of more than 60,000 Cu.M.

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