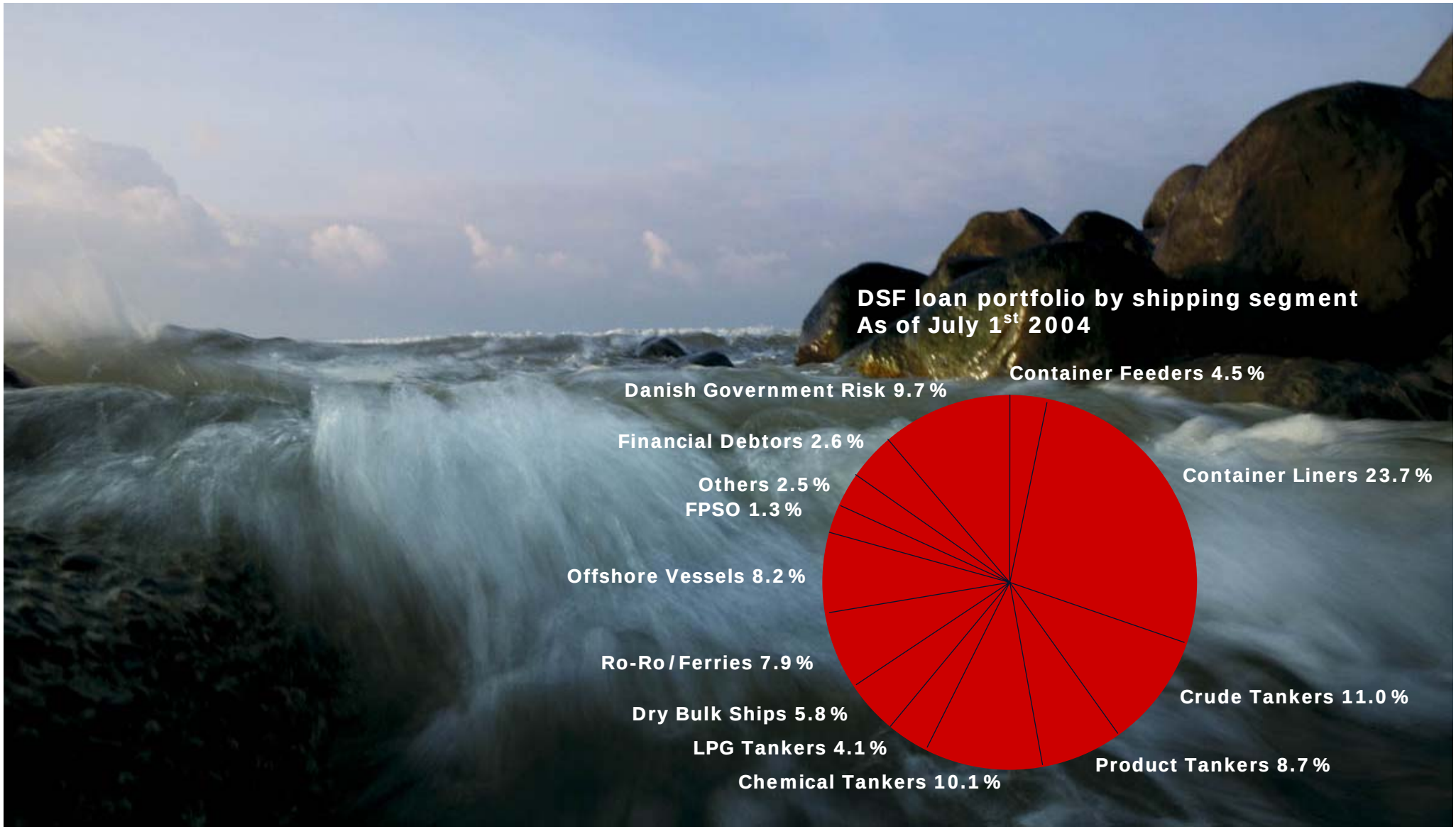
Shipping Market Review – 1st Half 2004



Shipping Market Review – 1st Half 2004

Introduction

This report reviews the central developments within the period of January to June of 2004 for the main shipping segments in which Danish Ship Finance (DSF) has exposure.

Whilst every effort has been taken to represent as reliable information as possible, DSF does not represent the information as accurate or complete, and it should not be relied upon as such. Any opinions expressed reflect DSF's judgement at the time this report was prepared and are subject to change without notice. DSF will not be responsible for the consequences of reliance upon any opinion or statement contained in this report.

General Developments

2004 has so far been characterized by a general fear of a supply deficit for most of the main raw materials thereby leading to very high commodity prices throughout the period.

As merchant shipping is largely engaged in the transport of raw materials, the developments in the commodity markets have had profound effect on the shipping markets and in some cases vice versa.

In particular for the dry bulk markets fears of a raw material deficit has given rise to unprecedented high freight rates, predominantly in the first quarter of 2004. Rates subsequently fell drastically as port congestion and the demand for dry bulk commodities contrary to expectations seemed to subside.

The fall in dry bulk shipping demand came partly as a lagged effect after New Year, when the Chinese government introduced several measures to curb growth in the Chinese steel industry.

So far, the Chinese government's efforts to control the economic growth in China do not seem to have had an apparent negative effect on other shipping segments than the dry bulk segments.

For all shipping segments 2004 has been marked by increased focus on security. After the September 11 attacks the IMO in December 2002 adopted a new security code – The International Ship and Port Facility Security Code (ISPS Code) – in order to improve maritime security.

The ISPS Code applies to all vessels above 500 gt engaged in international voyages, and all port facilities that serve such ships. The ISPS Code had a mandatory deadline on July 1st 2004 for full compliance with the code, forcing through major preparations and investments all over the world prior to the deadline.

The major incentive to comply with the code is that ships, which do not comply or are coming from ports that do not comply, may possibly be denied access to the destination port. For ship owners and port authorities not complying, the ISPS Code could thus potentially be very costly. To date, no reports have surfaced informing that ships have been denied access to ports.

As we turn to the second part of 2004 the fear of a commodity supply deficit is still an issue. Saudi Arabia proclaim they have no spare oil production capacity, and despite the efforts of the Chinese government to slow economic growth, the Chinese demand for all raw materials continues at a high level, thereby straining the transport sectors to their limits.

But growth in shipping demand may soon be slowing as capacity constraints or bottle necks become more and more pronounced in several sectors of the global economy. In Asia, North America and Europe the ports, the inland transport infrastructure and the oil industry are all showing increasing signs of strain, thereby affecting all or most of the shipping markets.

In conclusion, 2004 may for most of the shipping markets be yet another record breaking year. The question is whether or not we are past the peak.

Executive Summary

- *Ship Building:* 14 % higher contracting prices (30% y-o-y) and an extended delivery period did not seem to be a noteworthy deterrent for new contracting in 1h04. Future contracting activity is expected to be on a downward path.
- *Container Ships:* 1st quarter trade growth has beaten forecasts with European container imports showing the strongest growth. Charter rates seem to have reached an upper resistance level and freight rates per teu only reluctantly edges upward. Short-term outlook is still positive but continued ordering of new tonnage warns of tougher times in the longer run.
- *Crude Tankers:* 2004 has so far turned out better than the record year 2003, driven mainly by Chinese and American demand and fears of a global oil supply deficit. Timecharter rates, newbuilding prices and secondhand prices are all on the rise as the outlook for the remainder of 2004 and most of 2005 is generally good.
- *Product Tankers:* Strong Chinese oil demand more than outweighs reductions in Japanese oil product imports. Contracting of newbuildings is down on limited shipyard capacity and prices continue to rise. The short-term outlook continues to be somewhat positive, carried by still strong Chinese and US demand.
- *Chemical Tankers:* Strong revival in spot earnings was driven mainly by a weak USD, strong Chinese demand for chemicals and high freight rates in the markets for Clean Petroleum Products. Outlook continues to be positive on the back of an increased global industrial production.
- *LPG Tankers:* Small LPG ships experienced a clear revival in spot earnings, while the largest LPG ships saw less improvement. Newbuilding and secondhand prices are markedly up. The outlook is positive, partly because of an ageing fleet and somewhat small orderbook.
- *Dry Bulk Ships:* Port congestion and raw material shortages helped to significantly force up prices on steel and earnings of dry bulk ships. Less port congestion and a Chinese government stepping on a pinpointed brake helped in bringing them back down. In the short as well as in the longer run earnings are expected to stay high.
- *Car Carriers:* An increasingly tighter market has sent charter rates significantly above the previous 10-year record. Despite high contracting prices 1q04 showed the highest volume of newbuilding contracts ever, caused by an ageing fleet and positive demand growth prospects.
- *Ro-Ro/Ferries:* An enlarged EU has provided for high cargo growth in the Baltic Sea, but cheap airfares continue to take passengers away from ferry lines within Europe. An old fleet may turn into more orderings of newbuildings.
- *Offshore Support Vessels:* Lacklustre freight rates and more ships in lay-up or being scrapped. Future North Sea demand is expected to turn upwards, partly because of improved taxation and licensing conditions.

Ship Building

Increased contracting prices and filled Asian orderbooks have provided the European yards with a good opportunity to win orders. Contracting continued unabated in 1st and 2nd quarter of 2004 despite ever increasing prices and extended delivery time.

CONTRACTING PRICES

30 % year-on-year average increase in contracting prices
Contracting prices continued their astonishing ascent in 2004, carried by strong freight markets and a filled Asian orderbook stretching even further into 2007 and 2008. In 1h04 the average prices have increased 10-16%, according to Clarksons data. Prices are now almost at level with or even higher than the previous major spike seen in 1990.

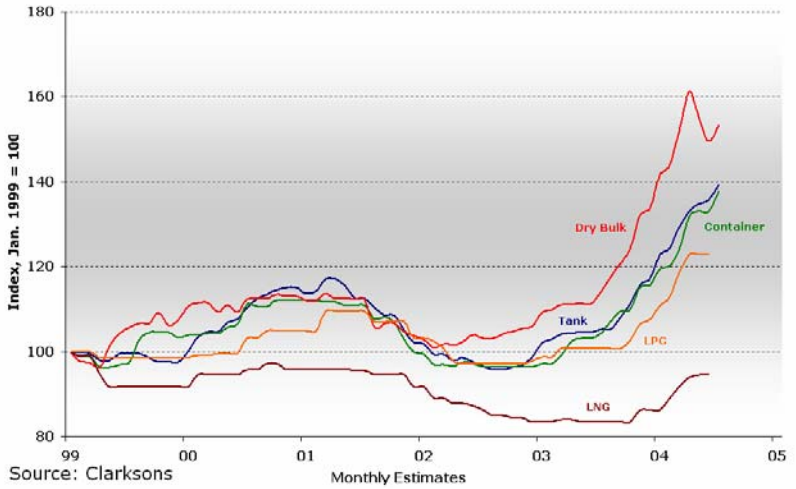
Towards the end of 1h04 the contracting prices seemed to level off as if an upper resistance level in prices had been reached. The levelling off in prices was furthermore helped along by weakening confidence in the dry bulk segments on the back of drastically falling freight rates in these segments. Consequently dry bulk contracting saw prices falling by approximately 5% in 2q04 with the Panamax and Handymax segments being hit the hardest.

The 30% y-o-y increase in prices can be mainly explained by rising costs on steel. Since early 2002 the Japanese price on a tonne of steel has more than doubled causing the total costs of building e.g. a VLCC or a Capesize bulk carrier to rise by an estimated 30-40%.

For shipyards relying on short-term supplies of steel the higher prices have had very damaging effects on their bottom lines. This has led some yards to try to renegotiate contracts or simply not honouring the contract on grounds of the refundment guarantee from the bank not being issued making the contract null and void.

Moreover the price increases can be explained by the largest ever amount of newbuilding contracts committed over the last 1½ years providing yards with the arguments to raise prices even further.

Newbuilding Average Price Index, 1999-2004



Source: Clarksons

Newbuilding Prices in Domestic Currency, 1999-2004

Source: Clarksons/Bloomberg

In 2q04 steel prices in China have fallen drastically and lately global steel prices have plateaued and in some instances even started a descent. The main currencies have in 1h04 on average been fairly stable if not depreciating against the USD. Combined, these developments may indicate stable if not falling contracting prices in the longer term. As the Asian orderbooks are full well into 2007, thereby providing yards with a considerable pricing power, the price descent may be fairly moderate.

CONTRACTING ACTIVITY

Continued contracting despite higher prices and longer delivery

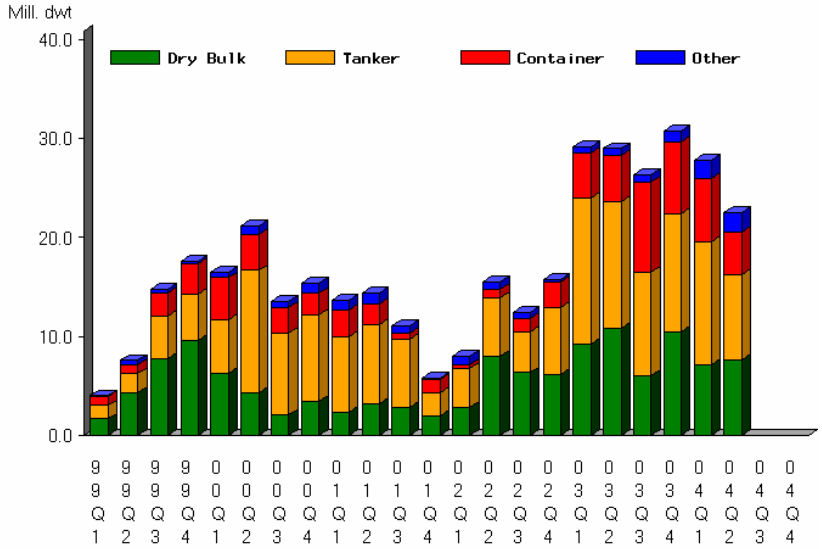
In the face of market perceptions that shipyard capacity was full into 2007 new contracts in 1h04 still seemed to find available space for 'early' delivery.

In particular the European shipyards have benefited from the tight capacity at the Asian shipyards. The contracting at EU shipyards has been rather obviously affected by the March 31st deadline for contracting ships to be built with state subsidy. Up to the deadline contracting of particularly containerships has shown the highest levels ever. Principally Germany, Denmark and Poland have benefited from the high container ship contracting. In 2q04, past the EU subsidy deadline, contracting dropped considerably.

In January 2004 the EU Parliament ruled in favour of extending the shipyard subsidy program from March 31st 2007 to March 31st 2008 for orders contracted before April 1st 2005. This may lead to continued ordering at EU yards but probably not to the extent seen so far.

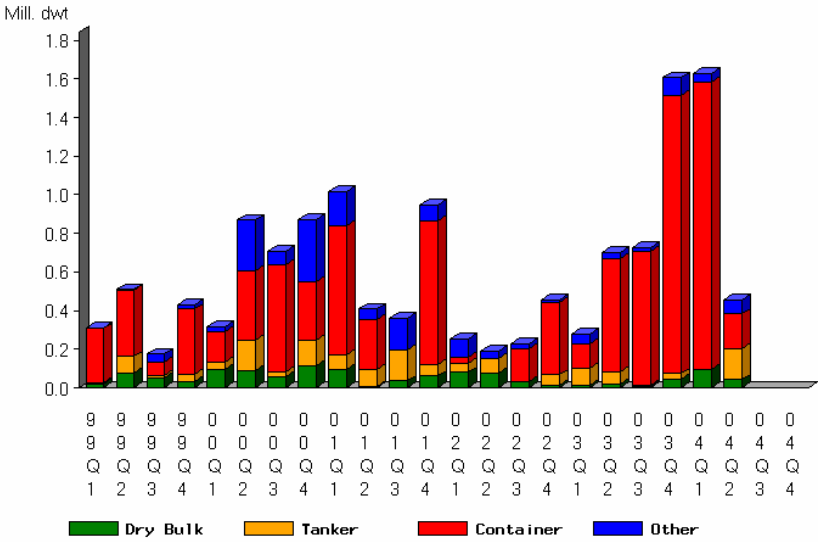
In general the EU shipyards still suffer from a lack of cruise and ferry orders, which are not included in the current subsidy program. As the cruise industry is slowly regaining its former strength and as the Ro-Ro fleet is generally old and in need of replacement, the, until recently, lacklustre situation for the European shipyards may in coming years turn for the better.

Total Merchant Ship Contracting, 1999-2004



Source: Clarksons

Contracts at West European Shipyards, 1999-2004



Source: Clarksons

Non-EU European shipyards have benefited similarly from the tight Asian capacity situation, but have seen a much smoother and ever increasing contracting activity all throughout '03 and '04. Turkish shipyards are now almost fully booked to the end of 2006, with small tanker ships constituting the majority of the Turkish orders.

At the beginning of 2004 the total volume of ships contracted with delivery in 2006 and ahead equalled around 40 million dwt. Six months later this number has more than doubled to app. 100 million dwt. As a comparison about 70 million dwt. has been the largest amount of dwt. delivered during any 1 year for the last 10 years. This indicates as a very rough guide that there is still more than 40 mill. dwt. of shipyard capacity available for 2007 delivery.

OUTLOOK

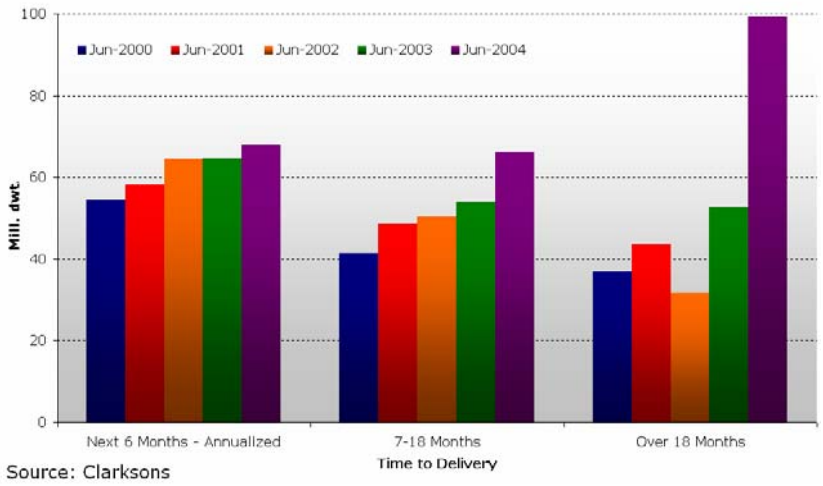
Stable contracting prices and lower contracting volumes

Given the already massive orderbook for most shipping segments, the seriously extended delivery time of 1-3 years above normal and the current prices at 10-year highs, any new contracting will be done at extraordinarily high risks. The current high risk run by the buyer may hopefully limit further ordering until the shipping demand situation in 2006 and ahead is more certain.

A key explanation for the increased prices in 2003 and 2004 has been the rising steel prices partly caused by a range of short-term events. During 2q04 the Chinese prices on steel have fallen drastically and the global steel prices seem to have levelled out. As the current global steel and raw material prices are probably considerably above their long-term production costs it may be expected that prices have reached their peak and are now on a slow downward trend (see selected steel prices on page 24).

For most of the major shipping segments any further contracting is not going to be on the back of a need to replace old or banned ships, but on the back of expectations of further strong trade growth. As shipping is notoriously cyclical the current high state of most of the shipping market may not provide for much more upside.

Total Orderbook by Time to Delivery



Source: Clarksons

\+ *Asian and to a certain extent European shipyard capacity is occupied until end of 2007 providing shipyards with considerable pricing power thereby keeping the prices from falling too fast or too deep.*

\+ *European shipyards in particular may gain from the future need of fleet replacement in the Ro-Ro segments.*

\- *Falling prices on some types of steel may in time imply reduced costs for the shipyards and thus lower contracting prices.*

\- *The currently very large backlog of orders could bring the shipyards to expand their capacity thereby causing a very high surplus of shipyard capacity once the current orders have been delivered.*

Container Ships

1st quarter trade growth has beaten forecasts with the European container imports showing especially strong growth. Charter rates seem to have reached an upper resistance level and freight rates per teu only reluctantly edges upward. Short-term outlook is still positive but continued ordering of new tonnage warns of tougher times in the longer run.

FREIGHT RATES

Rising charter costs and levelled income per box

The historic lack of newbuilding contracting for containerships below 3,000 teu during the previous 2-3 years has been increasingly evident in the charter market all throughout 1st half of 2004. This lack of tonnage resulted in charter rates for small and medium containerships to turn further upward and have now reached unprecedented highs.

Conversely the freight rates per teu showed only small signs of improvement during most of 1st half 2004 (note that graph to the right below ends at 1q04). Towards mid-year freight rates per teu have shown more positive tendencies.

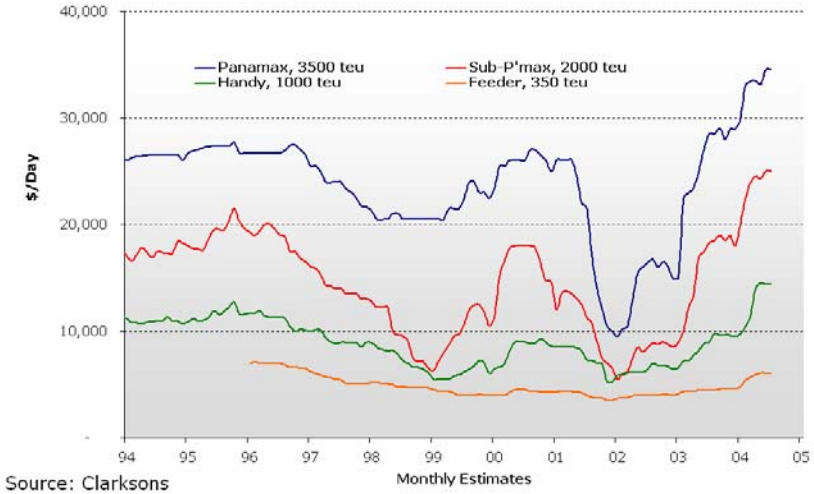
The combination of progressively higher charter costs and only minor income gains have resulted in some feeder routes being rerouted, cancelled or in some instances kept running with a loss. Moreover, lately it has lead to a levelling in charter rates as container carriers have refused further rises.

SUPPLY & DEMAND

European imports remain stronger than the US imports

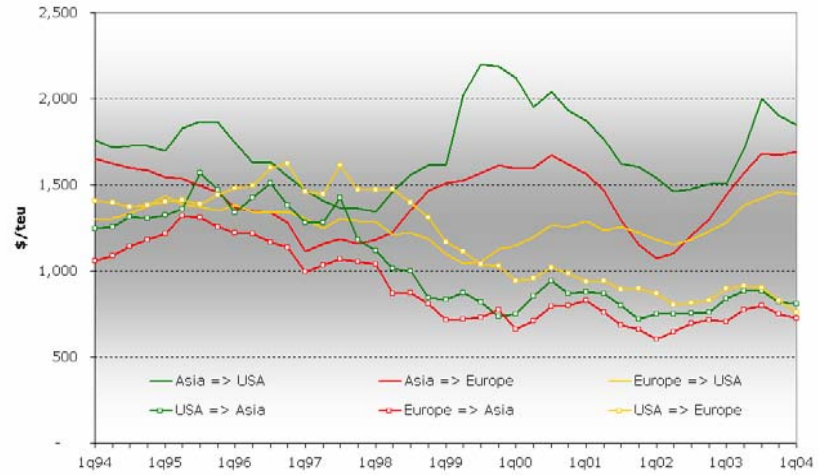
According to Clarksons the Northern European and Mediterranean container imports from Asia showed a 20% increase year-on-year during 1q04, whereas the US imports showed a 13% increase in imports from Asia, thereby beating forecasts. This is a continuation

Container Timecharter Rates, 1994-2004



Source: Clarksons

Average Freight Rates per TEU, 1994-2004



Source: Containerisation International

of the trends seen in 2003 where, according to Drewry, European imports increased by 17.6% and North American imports increased by a lower 9.9%.

Early indications of 2q04 show a slight decrease in growth rates as Lloyd's List reports of 14% growth year-on-year in trade from Asia to Europe. As 2nd quarter 2003 was particularly hard hit with SARS fundamental trade growth in 2nd quarter 2004 may be even lower.

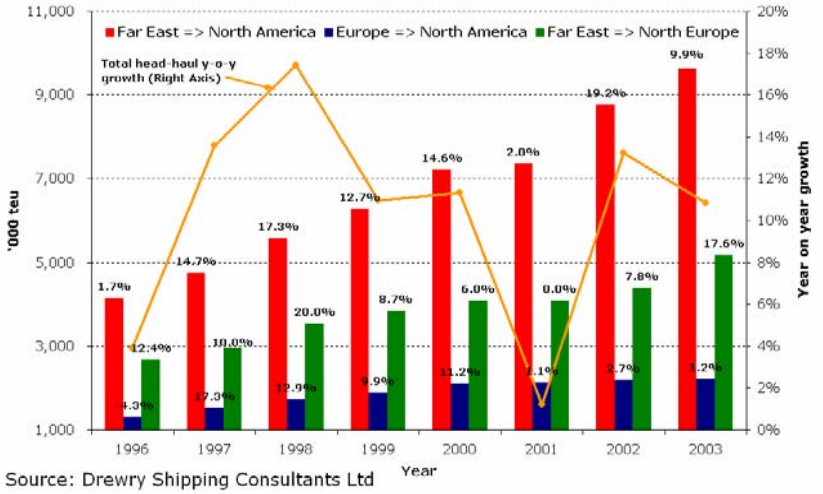
Within Asia the intra-regional trade has in periods shown even higher growth. For the period of January to February the container trade between Japan and China was 26.6% higher compared with the same period a year before, according to Clarksons.

The high growth in trade has had similar implications for the demand for containers. Consequently carriers have experienced increasing problems finding available containers within Asia and seen increasing costs when relocating empty containers from the Western markets. The lack of containers was amplified by a short-term lack of steel in China leading to speculations on future disruptions to trade on the back of too few containers. These fears have so far proved somewhat unfounded but may in the future become a temporary reality.

The trade growth for the Asia to US trade was in 2002 and parts of 2003 powered by a need for stock rebuilding in the US retail sector and furthermore boosted by falling interest rates which pushed up consumer spending and housing construction. In 2004 fears of rising interest rates in the US seem to have negatively impacted housing construction which, if persistent, may influence the container trade growth negatively.

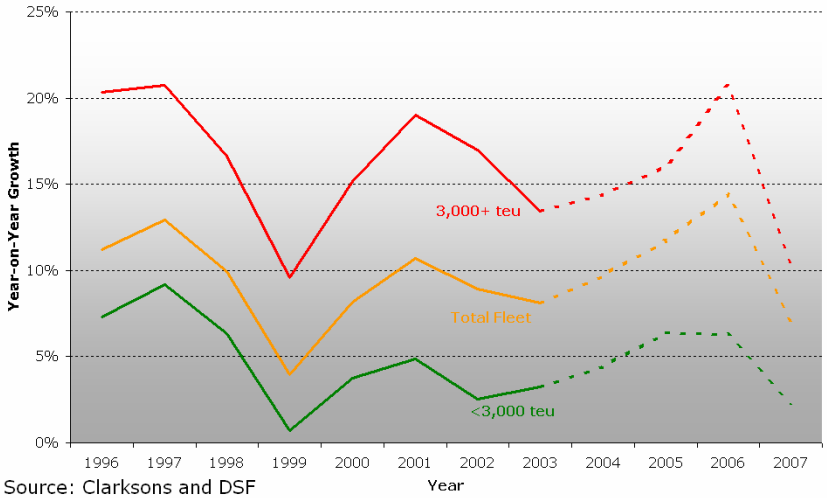
In connection with the US presidential election campaign and increasing worries on US unemployment growth the US has increased its protectionist rhetoric and behaviour particularly against China. Though the temporary tariffs on steel from China were lifted, the US introduced new tariffs on wood furniture from China. In 1q04 wood products accounted for 13% of the US-bound Transpacific container trade.

Main Head-haul Container Trade, 1996-2003



Source: Drewry Shipping Consultants Ltd

Fully Cellular Container Fleet Growth, 1996-2007



Source: Clarksons and DSF

So far the EU has not exhibited the same degree of protectionist behaviour as the US.

Both the North American and European import growth in 2002, 2003 and 2004 can be attributed to the relocation of industrial production from the Western countries to China in particular. According to US consultants company PIERS, China now accounts for close to 50% of Transpacific container trade to the US whereas China's share was around 46% in 2001.

A reason that the European container import growth lagged the US growth by about a year can be partly explained by the European companies being somewhat slower at relocating their production to China following China's WTO accession. Moreover, the European economic downturn occurred later than the US downturn in 2001 thus causing a later and less pronounced need for rebuilding stocks prior to an expected economic recovery. The European import push in 2003 and now in 2004 was and is furthermore helped along by a depreciating Dollar to which the Chinese Remninbi is pegged.

CONTRACTING & SHIP VALUES

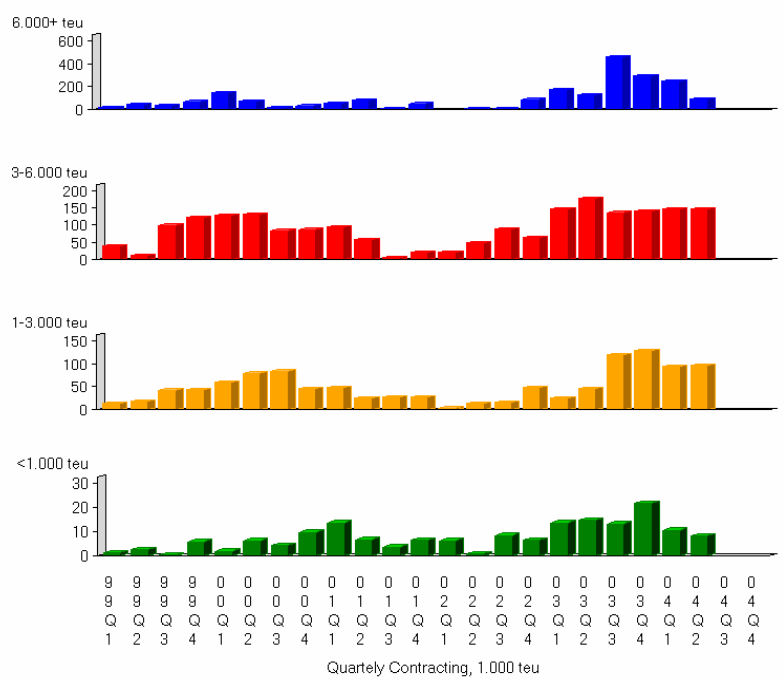
Continued high contracting and higher secondhand prices

Container shipping companies undauntedly continued their contracting at the Asian and European shipyards in 1st half 2004 seemingly disregarding the already large orderbook and ever increasing contracting prices. The total orderbook now represents close to 50% of the current containership fleet measured in teu, warning of a future massive influx of new tonnage.

Because of capacity constraints at the Asian yards, some shipping lines decided to convert their existing orders into larger ships instead of ordering additional ships. By now the largest ships on order approach or exceed 10,000 teu a piece.

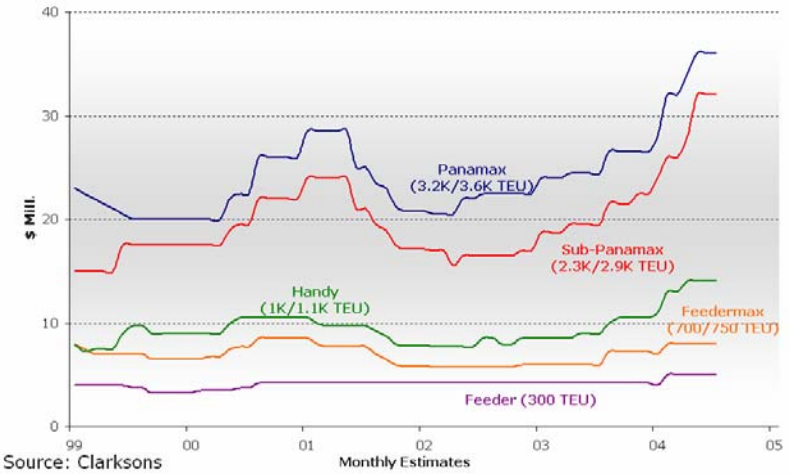
Because of higher timecharter rates and newbuilding prices, the secondhand prices increased around 10-40% during 1st half 2004, according to Clarksons figures.

Container Ship Contracting, 1999-2004



Source: Clarksons

Prices of 10 Year Old Container Ships, 1999-2004



Source: Clarksons

OUTLOOK

Large orderbook may indicate trouble after 2004

The segments servicing the major inter-regional trade lanes (ships with nominal capacity above 3,000 teu) are in the coming years going to experience a remarkable growth in capacity. These deep sea segments are expected to see a 14.4% growth in 2004 increasing to 20.7% in 2006. Compared with a historic annual average growth in demand of around 10% on the head-haul trades these are staggering growth figures and may lead to some concern.

Conversely the intermediate and feeder segments (<3,000 teu) show a much lower growth of around 4-6% in the coming years. As the short sea segments show an increasing share of ships above 25 years the 2006-2007 growth figures may turn out even lower.

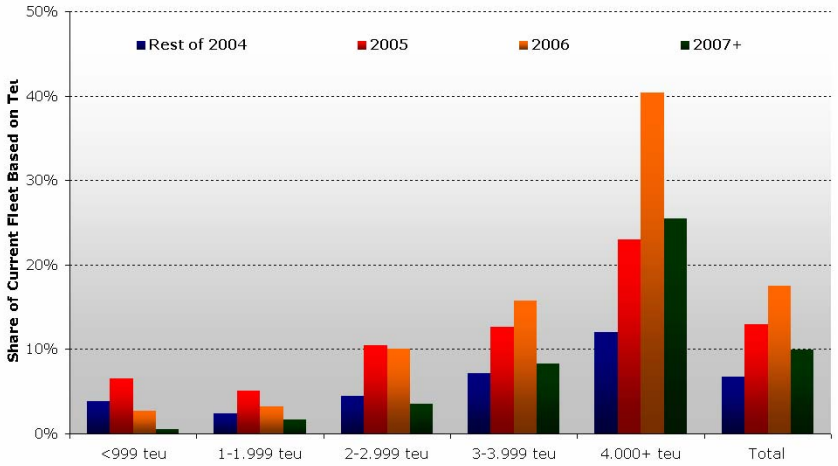
This large disparity in fleet growth may lead to some of the smaller deep sea ships being cascaded down into the intra-regional trades filling the void of short sea container ships seen on these routes. But unfortunately the possibility of 3,000+ teu vessels to perform short sea duties is diminishing as the physical size of harbours and canals ultimately limit the maximum size of ships servicing these trades.

Several uncertainties loom over the demand side as well.

The initial push on European and North American imports from China's accession to the WTO may be coming to an end. The Chinese industrial sector shows increasing signs of bottlenecks, particularly in the energy sector which in some provinces forces factories to shut down production for days because of power shortages. Also roads, railways and ports show increasing signs of overload.

In addition, the increasing protectionist mentality may to a certain degree discourage American and European companies from

Container Ship Orderbook by Year of Delivery



Source: Clarksons

Fully Cellular Container Fleet Annual Growth

Year	<3,000 teu	3,000+ teu	Total fleet
2004 *	4.4%	14.4%	9.7%
2005 *	6.4%	16.0%	11.7%
2006	6.3%	20.7%	14.4%
2007	2.3%	10.3%	7.1%

Source: Clarksons and DSF

** net of expected scrapping*

outsourcing further of their production to the Far East, thereby limiting future growth in deep sea container trade.

In the USA as well as in Europe consumption growth in 2002-2004 can be partly explained by lower interest rates leading to higher house prices whereby the consumer is lead to believe he or she has more wealth. As interest rates may be on the rise this may have negative consequences for house prices, housing construction and private consumption thereby negatively impacting growth in the container trades.

A reversal of temporary tax stimulus in the US, that helped spur the recent rebound, may hurt US consumption. Moreover, on a global scale, very high oil prices are now more than ever making a dent on private consumption.

On the positive side the Euro-zone economies, the USA and Japan have shown improved industrial production, employment figures and consumer confidence supporting the belief of a more sustained global economic recovery in 2004 and 2005.

A factor which in it self is not directly positive may turn in the carriers' favour. To an increasing extent European and US West coast ports show signs of congestion - both immediately at the harbour, but particularly further inland. Especially at times of seasonally high trade this may reduce excess supplies of ships as the ships wait to berth at the congested ports. In the longer run congested ports and railways may negatively influence growth in cargo volumes and thus curtail growth in demand for container ships.

Most of the above mentioned negative factors have a long time until they are clearly visible in trade flows. Thus for 2004 and well into 2005 the outlook is rather optimistic for the deep sea trades, but may turn for the worse sometime in late 2005 or 2006.

For the short sea trades the low number of newbuildings may help to keep the supply-demand equation in favour of the shipowners in the short run as well as in the longer run.

+ *Improved industrial production, employment and consumer confidence in Europe, the USA and Japan.*

+ *Low number of smaller container ships supporting a long period of high rates in the charter market.*

+ *Mounting port congestion may cause lower available ship capacity as ships wait to berth thereby alleviating any potential excess supply of ships.*

- *Very high numbers of deep sea container ships being delivered until 2007 adding to the risk of a supply surplus.*

- *Rising interest rates may have a negative impact on private consumption and housing construction.*

- *High oil prices may reduce growth in private and business spending.*

- *Protectionist behaviour may reduce the incentives to outsource production to the Far East, thereby curbing future trade growth.*

- *A stronger Dollar and Remninbi may reduce the European import growth.*

- *The rebuilding of inventories following the 2001-2002 economic slump may be generally over in Europe as well as in the USA.*

Crude Tankers

2004 has so far turned out better than the record year 2003. Timecharter rates, newbuilding prices and secondhand prices are all on the rise as the outlook for the remainder of 2004 and most of 2005 is generally good.

FREIGHT RATES

Historically high spot earnings and rising timecharter rates
On the back of a very good 2003, 1st half of 2004 has turned out even better.

The utilization degree of the overall crude carrying tanker fleet reached its absolute peak (~ 100 %) in late 2003 and early 2004 causing spot rates to exceed 100.000 USD per day for a VLCC.

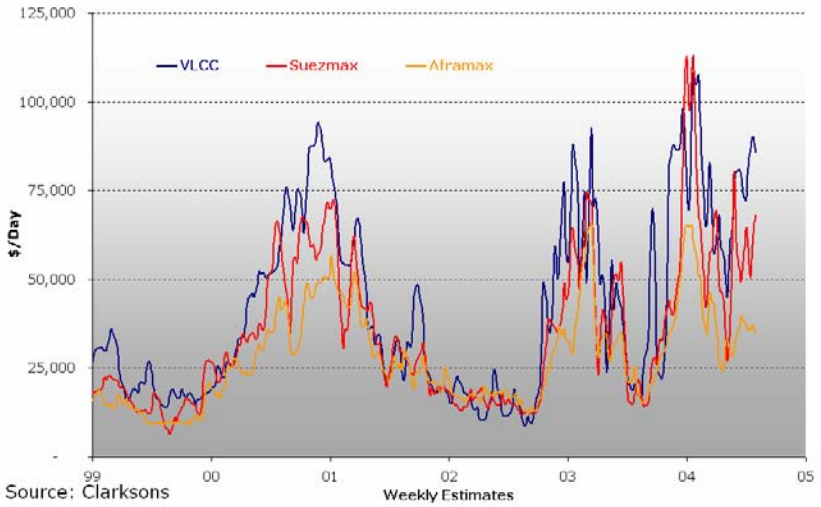
Partly due to upward revisions in the expectations for oil demand from both the US Dept. of Energy (US DoE) and the International Energy Agency (IEA) strongly supporting a positive outlook, but also because of seasonally strong spot rates, timecharter rates have shown continued improvements during most of 1st half 2004.

SUPPLY & DEMAND

Fear of oil supply shortage trigger best ever tanker demand
Rapidly growing oil demand in China and the US has put increasing pressure on production facilities in the Middle East as well as in the western countries. In July 2004 the OPEC spare production capacity was down to an estimated 0.5-1.0 mb/day, according to the US DoE. Global oil demand has been additionally boosted by the desire to build strategic oil reserves following the Iraqi war, political turmoil in Nigeria and Venezuela along with terrorist attacks against oil related facilities in the Middle East.

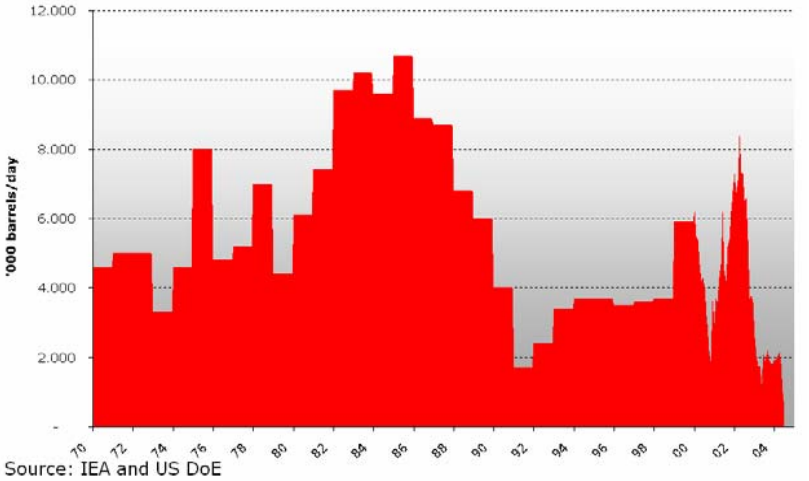
As short and middle range European and Former Soviet Union (FSU) oil production have been running at maximum capacity the

Crude Tanker Spot Earnings, 1999-2004



Source: Clarksons

OPEC Spare Production Capacity, 1970-2004



Source: IEA and US DoE

far-away Middle East producers and in particular Saudi Arabia to an increasing degree have had to act as swing supplier. On top of more oil being transported this has led to longer transport distances and thus more demand for crude tankers.

Despite seasonally strong demand, high oil prices and low US inventories, OPEC during 1st quarter 2004 decided to lower its production quotas in anticipation of significantly higher crude oil inventories in the course of springtime.

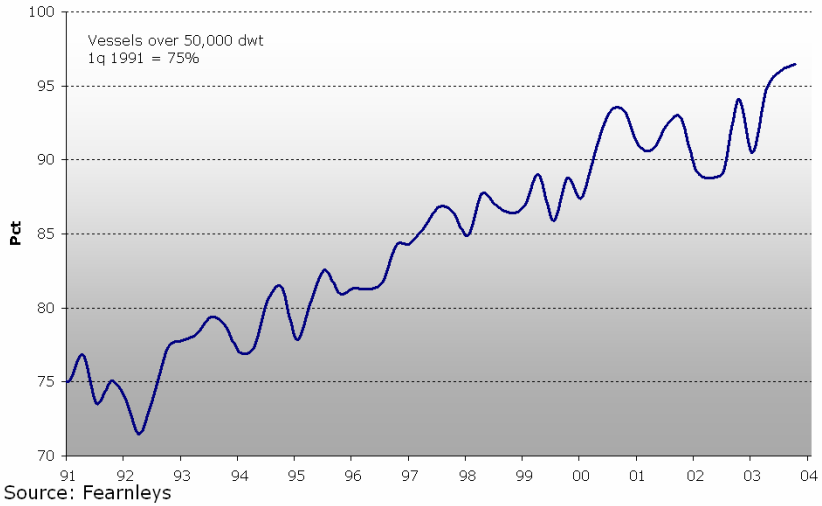
Contrary to expectations the crude oil inventories kept being somewhat low as demand growth kept being strong in China as well as in the US. US crude imports are up 7.2% in 1st half 2004 on the same period a year ago, according to the US DoE.

The Chinese imports of crude and refined oils are primarily due to a wish to build oil storages, an increased industrial production and increased numbers of cars and trucks. Widespread shortages of electrical power have lead companies to invest in back-up generators running on diesel or fuel oil. As these generators are less fuel efficient, the demand for oil has been amplified. According to SSY, the May 2004 figures for the Chinese car sales show a year-on-year growth of 21%, but a month-on-month reduction of 19%. The fall in car sales is believed to be partly down to rising Chinese interest rates and restricted credit for car purchases.

In other parts of the Far East imports are down. South Korean imports are down 10% and Japanese imports are down 5% during 1q04 compared with the same period the year before, according to Platou. In South Korea as well as in Japan the lower figures are mainly attributable to Japanese nuclear powerplants returning to production after having undergone extensive safety inspections. Out of 17 taken out of production 12 have now returned.

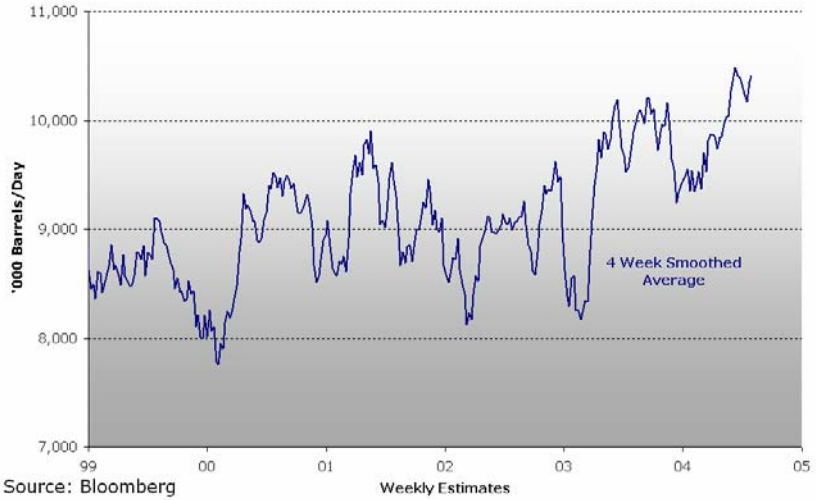
During 2nd quarter 2004 the fears of an oil supply shortage got bigger, as spare production capacity, capable of increasing production within a short period, was seen reduced in the preceding months. Both Norway and Russia have reported that they have no extra exporting capacity and have postponed their regular facility overhaul in order to take advantage of the current

Utilization Degree of Crude and Product Tanker Fleet, 1991-2003



Source: Fearnleys

US Crude Oil Imports, 1999-2004



Source: Bloomberg

high crude prices. In combination with ever higher crude prices OPEC thus decided to increase its production quotas markedly. Subsequently sentiment improved dramatically among the tanker owners and spot rates reached exceptionally high seasonal levels.

CONTRACTING & SHIP VALUES

Contracting of VLCC and Aframax doesn't seem to stop
Contracting of crude tankers continued strongly into 2004 despite that the existing orderbook was more than equivalent to the number of ships being forced to the breaking beaches within the coming two years. Thus new contracting is to an increasing extent due to optimistic demand expectations, and not as previously on the back of stricter regulation commanding a large fleet replacement program.

Because of higher timecharter rates and newbuilding prices the secondhand prices increased around 10-30% during 1st half 2004, according to Clarksons figures.

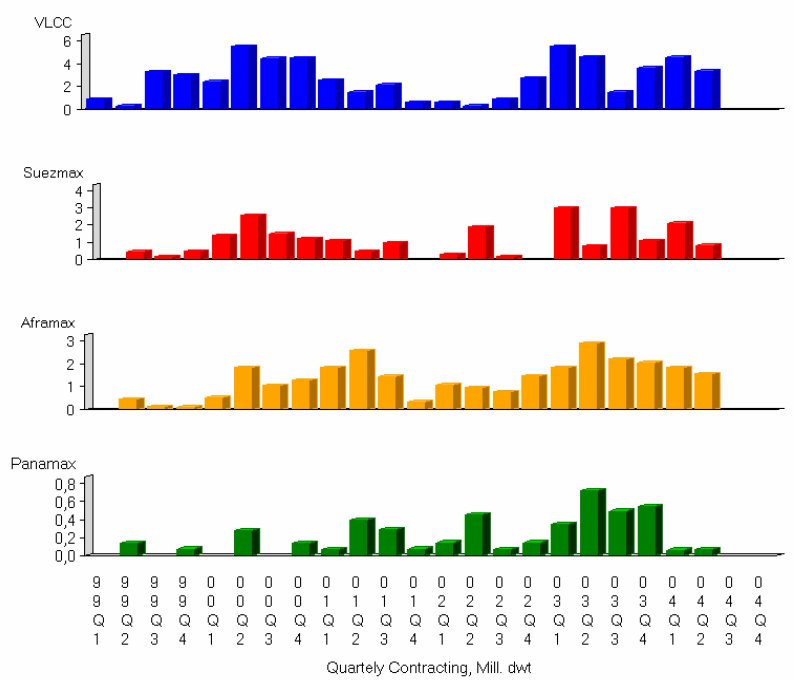
OUTLOOK

Strong fundamentals point to a firm 2004 and 2005
The fundamentals governing the outlook for the crude tanker market show a picture of strong tanker market for an extended period ahead.

During the last 10-15 years tanker demand has grown faster than fleet growth thereby causing increased overall utilization of the tanker fleet. In the last 5 years this has been ever more evident in progressively more erratic spot rates and on average higher spot and charter rates. As the current utilization degree of the tanker fleet is close to maximum, even a large growth in tanker supply should not turn into a highly noticeable slump in tanker earnings.

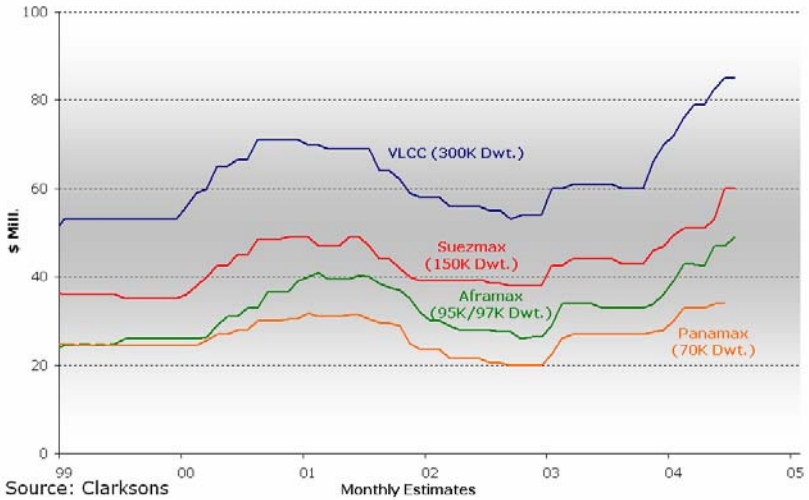
Global oil demand is by the US DoE forecasted to rise by 2.7% in 2004 and 2.5% in 2005. Not since 1988 has growth been this high. In 2002 and 2003 the growth was estimated at respectively 0.3% and 1.6%, according to the US DoE. Particularly as both the

Crude Tanker Contracting, 1999-2004



Source: Clarksons

Prices of 5 Year Old Crude Tankers, 1999-2004



Source: Clarksons

USA and China to an ever greater extent rely on seaborne imports to cover their rising consumption, growth in tanker demand may be as high as 5% in 2004 and 2005.

With political unrest in Nigeria and an uncertain political situation in Venezuela the tanker demand may suddenly turn upwards if export capacity should fall further in either of the two countries. In that situation it would not so much be a problem of spare production capacity at other OPEC-members but rather a serious problem with available tanker capacity. Current tanker capacity is already running at almost full capacity with little ability to meet the increased demand from the eventual increase in voyage distances when the medium or short-haul suppliers shut down their production.

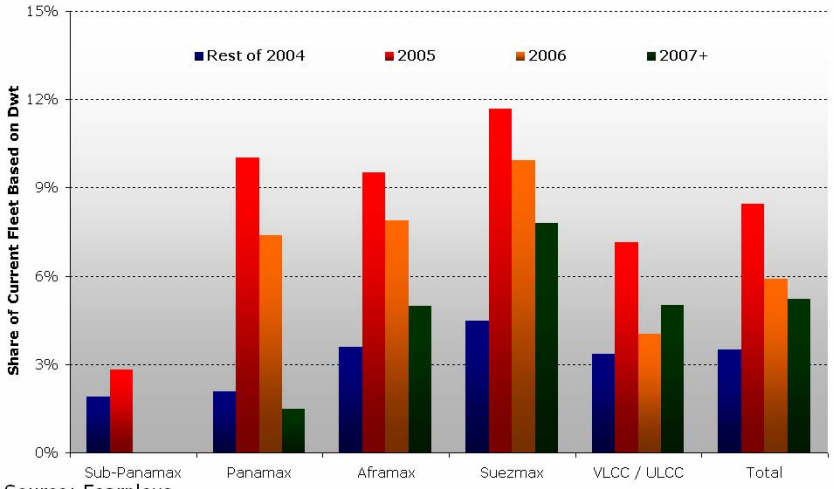
On the negative side the strong growth in Chinese demand for oil may be slowing as bottlenecks in the infrastructure become more and more pronounced. The number of trucks driving on the roads is being sought limited in order not to overload the roads, thereby curbing oil demand growth. On the supply side Chinese refineries are running at maximum capacity and so far, the extra demand has to a certain degree been capable of being sourced from foreign refineries. But inland China transportation capacity, including rail and pipeline, is being equally stretched, thereby in the future limiting suppliers' ability to bring their oil products to inland and remote markets, according to the IEA.

Furthermore, aspects such as a potential hard landing in China, consistently high oil prices, terrorist attacks and abruptly rising interest rates are ever latent threats to the future demand for oil.

If the global demand for oil were going to experience a large negative demand shock the detrimental effects on the tanker market may prove long-lasting. As the share of crude tankers above 20 of years of age at the moment is rapidly shrinking the ability to scrap ships in the face of a demand shock is also shrinking. Thus a period of low freight rates may turn out to be long-lasting.

Nonetheless, the immediate short and medium-term outlook for the crude tanker fleet is quite positive.

Crude Tanker Orderbook by Year of Delivery



Source: Fearnleys

+ *Expectations of highest oil demand growth in more than 15 years for 2004 and 2005.*
+ *An ever increasing share of the global oil consumption is carried by sea leading to higher growth in tanker demand than in global oil demand.*
+ *Long-distance suppliers are more and more relied upon leading to positive growth in tonnes-miles.*
+ *Historically high utilization of the overall crude tanker fleet.*
+ *Political unrest in the major oil supplying countries Nigeria and Venezuela may, if affecting oil production, mean significantly increased tanker demand.*
- *Large orderbook in most crude tanker segments indicating above normal fleet growth in 2004-2006.*
- *China showing increasing signs of bottlenecks and lower growth in car sales, which could hamper the future growth in oil demand.*

Product Tankers

Strong Chinese oil demand more than outweighs reductions in Japanese oil product imports. Global refineries run at high utilization levels supporting a need for further product imports. Contracting of newbuildings is down on limited shipyard capacity and prices continue to rise. The short-term outlook continues to be positive, carried by still strong Chinese and US demand.

FREIGHT RATES

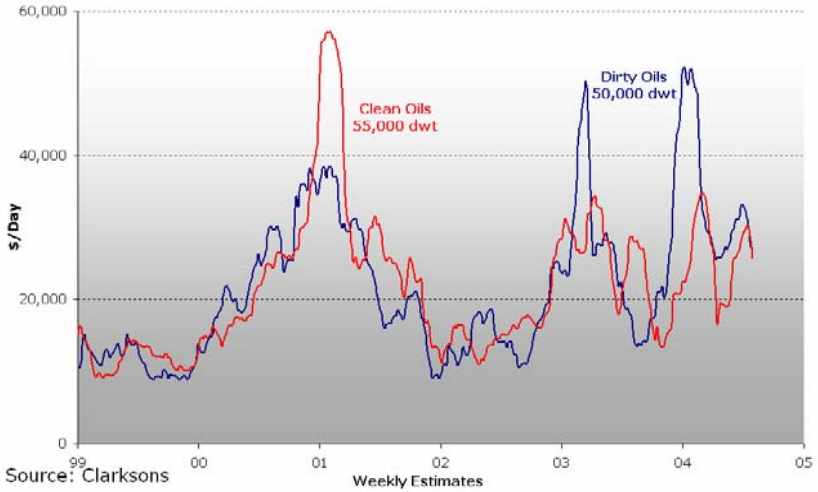
High spot rates beat low expectations
Despite high numbers of deliveries from the shipyards pressuring earnings and expected lower Japanese imports a general high tanker demand has kept rates higher than expected.

In line with spot rates for the crude tankers product tankers showed high spot earnings throughout the early part of 1st quarter 2004. As winter subsided rates turned downward, only to head sharply upward following OPEC's announcement of higher production quotas and in preparation for the summer driving season.

SUPPLY & DEMAND

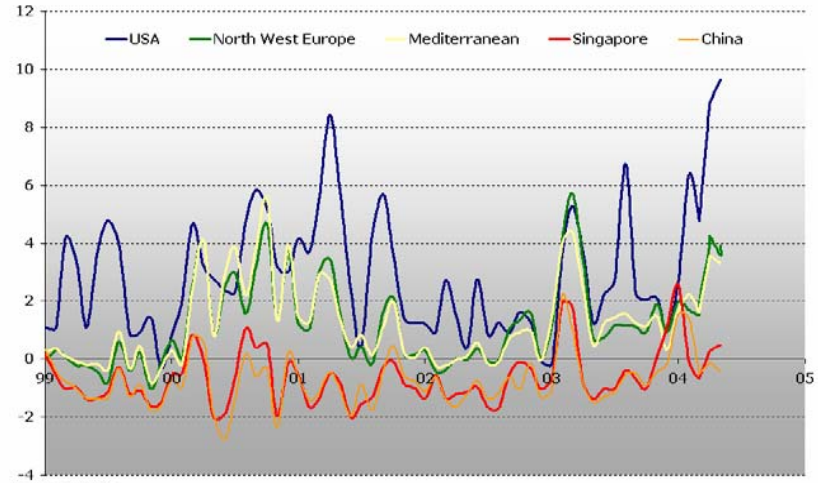
Hard-pressed Chinese crude refineries turn product imports sky high
On a global scale, not only confined to the USA, 2004 has so far shown an increasing reliance on foreign refineries to provide for domestic consumption of oil products. OECD inventories of oil products have continuously been close to historical lows while crude stocks have risen to more comfortable levels. The above developments may indicate that the current high oil prices are a result of both vulnerable and strained crude oil supplies, but also of an oil refining industry with growing problems in meeting demand. A continuation of this trend ought to be positive on the demand for product tankers.

Product Tanker Spot Earnings, 1999-2004



Source: Clarksons

Average Regional Refining Margins, 1999-2004



Source: IEA

Throughout 1st half 2004 Chinese crude oil refineries have shown generally high capacity utilization. Because of total oil demand surpassing throughput at the Chinese crude refineries, imports of oil products and feedstocks were up 47% in January to May, according to Fearnleys. A major part of the import growth was in heavy fuel oil and gasoil/diesel, driven partly on the back of increasing consumption in the transport sector and partly caused by greater use of back-up power generators.

Most of the increasing product imports were sourced from near-by suppliers Japan and Singapore. Japanese product exports were up by 36% in 1q04 on levels a year ago, according to SSY data, mainly on account of increased Chinese demand, but also because of an opening in the Japan-USA arbitrage trade. Partly because 12 out of an original 17 closed nuclear powerplants have returned to production Japanese oil product imports were down by 8% in 1q04.

US refineries show a similar story with high utilization. Combined with low oil product stocks, high refining margins and a still ailing Venezuelan refining sector this has provided the product tankers with ample opportunities to transport oil products from Europe, the Far East and the Middle East to the USA. US refining margins have been further boosted by the ban of MTBE from car fuels in several states, leading to a fragmented US petroleum market and the highest US refining margins in more than 10 years.

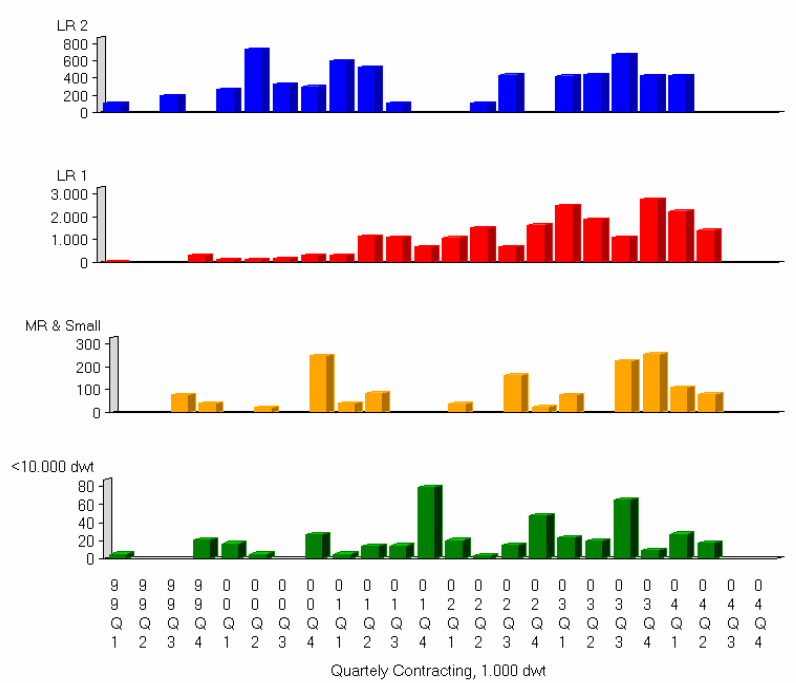
CONTRACTING & SHIP VALUES

Higher prices and declining contracting activity

Particularly 2nd quarter 2004 saw a general reduction in contracting of newbuildings. Higher contracting prices and an already larger orderbook were deterrents, but to a larger extent a lack of available shipyard berths restricted further contracting.

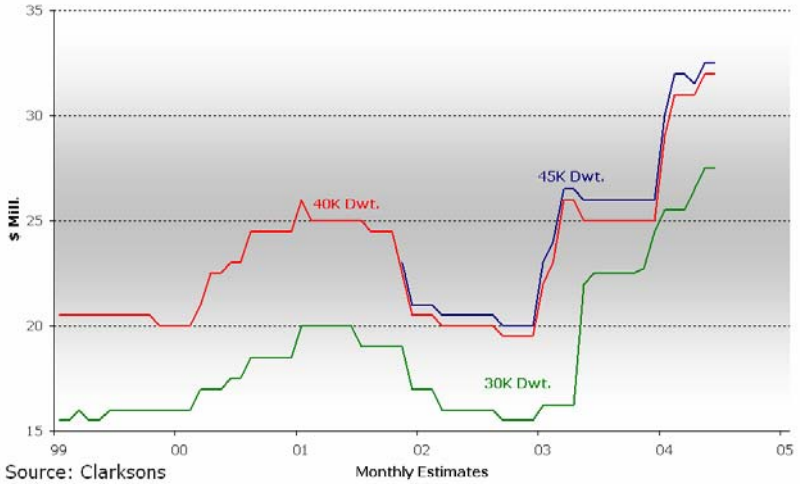
Because of higher timecharter rates and newbuilding prices the secondhand prices increased around 10-30% during 1st half 2004, according to Clarksons figures.

Product Tanker Contracting, 1999-2004



Source: Clarksons

Prices of 5 Year Old Product Tankers, 1999-2004



Source: Clarksons

OUTLOOK

Slowing demand growth but IMO single-hull deadline nears

In particular the Chinese demand growth is expected to slow down. The issuing of credit for car purchases has been restricted and truck loading limits are being enforced more stringently. The IEA forecasts a growth in total Chinese oil consumption of 14.3% in all of 2004 of which most of the incremental growth is to be met by product imports. But the imports of oil products may reach a temporary upper limit as the ports and inland oil infrastructure show increasing signs of overload.

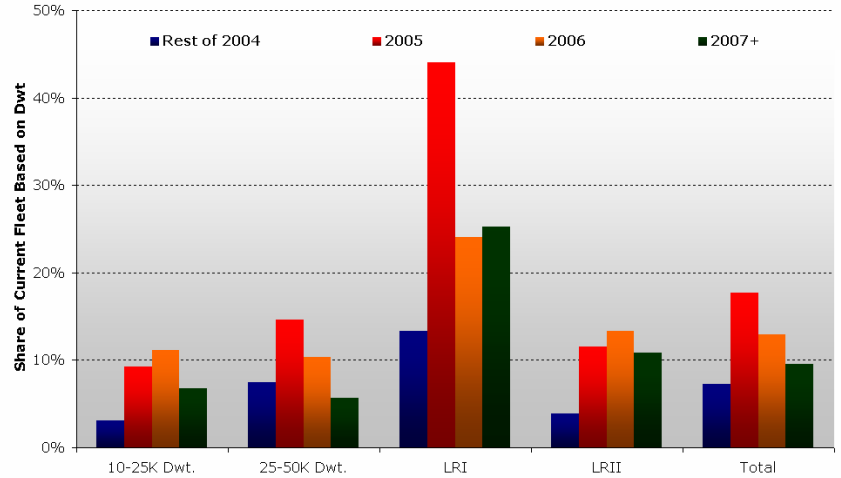
As the remaining 5 Japanese nuclear powerplants are expected back in production during the remainder of 2004 the Japanese product imports are set to fall additionally despite growing Japanese industrial production and private consumption.

Continued low product stocks in the OECD countries despite higher crude inventories may speak for a continued high reliance on imported products, thereby keeping the product tankers from experiencing too low earnings.

In the longer run demand for product tankers is set to grow partly because of growing refining capacity in the Middle East in combination with a lack of sufficient refinery capacity in the consuming countries. From 2003 to 2008 Middle East exporting capacity of clean petroleum products is expected to rise by almost 60%.

Despite a very high number of deliveries within the next 18 months net growth in the product tanker fleet is expected to be somewhat manageable. Stricter IMO regulations on the carriage of heavy fuels in non-double-hulled tankers are to be set in force by April 1st 2005, thereby forcing non-double-hulled tankers either to sail with clean and light oils or to be scrapped. As the oil companies who need to transport clean and light oils have as high quality standards as the companies who need to transport heavy oils, most of the non-double-hulled tankers are most likely going to be scrapped.

Product Tanker Orderbook by Year of Delivery



Source: Fearnleys

\+ *Expectations of highest oil demand growth in more than 15 years for 2004 and 2005.*

\+ *An ever increasing share of the global oil consumption is carried by sea leading to higher growth in tanker demand than in global oil demand.*

\+ *Refineries located close to the consumer are running at high utilization whereby additional oil consumption has to be supplied from foreign refineries and transported by product tankers.*

\- *Large orderbook in most product tanker segments indicating very high fleet growth in 2004-2006.*

\- *Chinese demand growth may be slowing down as bottlenecks in the infrastructure become more pronounced.*

\- *The return to production of a further 5 Japanese nuclear powerplants may reduce the need for product imports into Japan.*

Chemical Tankers

Strong revival in spot earnings was driven mainly by a weak USD, strong Chinese demand for chemicals and high freight rates in the markets for Clean Petroleum Products. Outlook continues to be positive on the back of an increased global industrial production.

FREIGHT RATES

Initial strong improvement followed by correction, and rise
1st quarter 2004 turned out to be one of the strongest quarters seen for years for the deep sea chemical carriers. Spot rates showed remarkable improvements on most of the benchmark routes, but from a weak base.

2nd quarter did display a correction in rates and in recent weeks rates have once again displayed a strong revival.

Renewed CoA's have been settled at significantly higher levels. On the deep sea routes up to 90% of the market is done on long term contracts (CoA), while on the short sea markets the share is somewhat lower.

SUPPLY & DEMAND

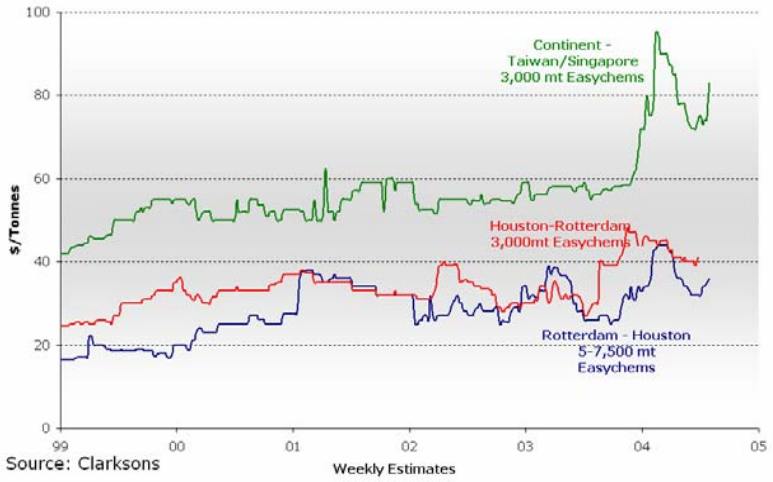
Strong Chinese demand and low USD boost chemical trade
Several factors have in combination lead to the resurgence in chemical carrier freight rates, of which an increased industrial production in Asia, the US and Europe weighs the most.

Particularly Chinese demand for chemical products continues to grow at a strong pace, leading to increased demand for both short sea and deep sea chemical carriers.

Given a depreciating USD since 2001 the North American chemical industry has seen it increasingly easier to export its products to e.g. Europe and parts of Asia during the last 3 years.

High scrap prices, an elderly fleet and more stringent vetting procedures have all lead to slightly higher scrapping. Furthermore,

Chemical Tanker Spot Rates, 1999-2004



Source: Clarksons

Industrial Production, Seasonally Adj., 1999-2004

Source: Bloomberg

the supply of tankers with chemical carrying capabilities was seen reduced as high CPP freight rates induced several of the chemical tankers with lower specifications to temporarily leave the chemical market.

CONTRACTING & SHIP VALUES

Mixed contracting volumes and slowly rising prices
As freight rates for particularly the stainless steel chemical tankers does not yet provide for a sufficient return on capital, contracting has remained at subdued levels. Conversely the contracting of the chemical/product tankers with lower specifications has maintained its momentum on the back of an ageing fleet.

Secondhand and newbuilding prices are slowly rebounding.

OUTLOOK

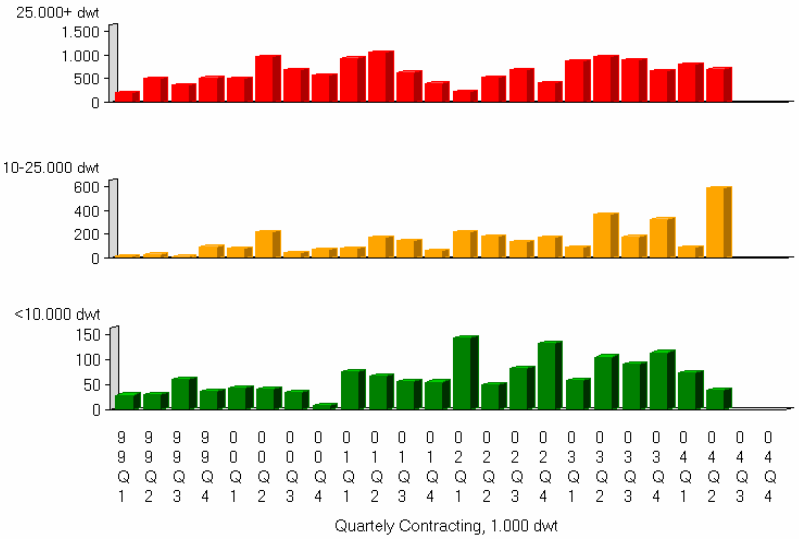
Positive outlook on improved industrial production growth
High feedstock prices (crude oil and natural gas) may reduce a further growth in chemical production with undesirable effects on demand growth for chemical tankers.

The growth in deep sea chemical transport might be curtailed in the coming three years as large new chemical plants are being built in China. This might lead to less growth for the deep sea ships but higher demand growth for the short sea chemical ships.

New production capacity, particularly in the Middle East, coming on stream in 2004 to 2006 may entail that the old and maybe more expensive European and North American chemical plants are driven out of competition for the Asian imports. Is this to happen, the distances that the chemicals are transported are to be shorter with a negative effect on the demand for chemical tankers.

Nevertheless, a stronger global industrial production is in the future expected to lead to increased demand for chemical tankers, whereby the freight rates for the remainder of 2004 and into 2005 are expected to remain at somewhat high levels.

Chemical Tanker Contracting, 1999-2004



Source: Clarksons

+ *Still stronger industrial production worldwide may most likely lead to stronger demand for chemical tankers.*
+ *High scrapping prices and old fleet may induce higher scrapping of particularly the smaller chemical tankers.*
+ *A reclassification of certain vegetables oils from non-IMO class to IMO II and III, may from 2007 lead to more demand for chemical tankers.*
- *High feedstock prices may limit future growth in chemical production worldwide.*
- *The segments of larger (above 30,000 dwt) low specification product/chemical tankers are in the coming years to see a high growth in ship numbers.*
- *Middle Eastern and Asian production capacity is set to grow, which may lead to shorter transport distances for the deep sea chemical carriers.*

LPG Tankers

Small LPG ships experienced a clear revival in spot earnings, while the largest LPG ships saw less improvement. Newbuilding and secondhand prices are markedly up. The outlook is positive, partly because of an ageing and thus scrap-destined fleet.

FREIGHT RATES

Clear improvement in small LPG ships' earnings
Although not shown on the upper graph to the right, spot earnings for the small (below 5.000 cbm) coastal vessels witnessed noteworthy increases in earnings during most of 1st half 2004.

Conversely, the large inter-regional Very Large Gas Ships (VLGS, 60,000+ cbm) maintained or slightly improved their earning at reasonable levels.

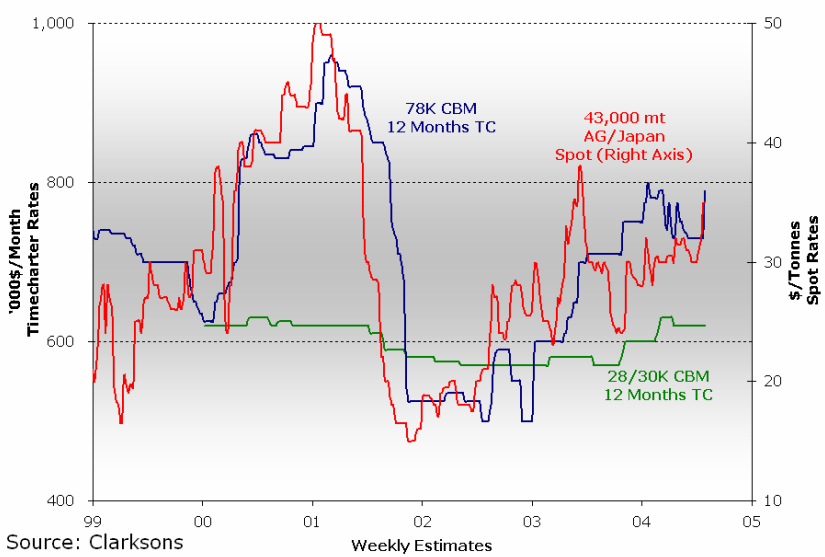
SUPPLY & DEMAND

High scrap prices and improved demand gave higher rates
Some of the revival in freight rates for the small and medium LPG ships is attributable to significantly higher scrap prices. Higher scrap prices have increased the incentives to scrap elderly ships, thereby reducing the fleet or neutralizing any new deliveries.

Furthermore, increased industrial production in Europe and Asia has had the side effect of increasing demand for transport of particularly petrochemical gasses within the two regions. As the individual cargo sizes have been rather small, the smaller fully pressurised and semi-refrigerated LPG ships have in particular benefited from this development, to the detriment of the medium-large LPG ships.

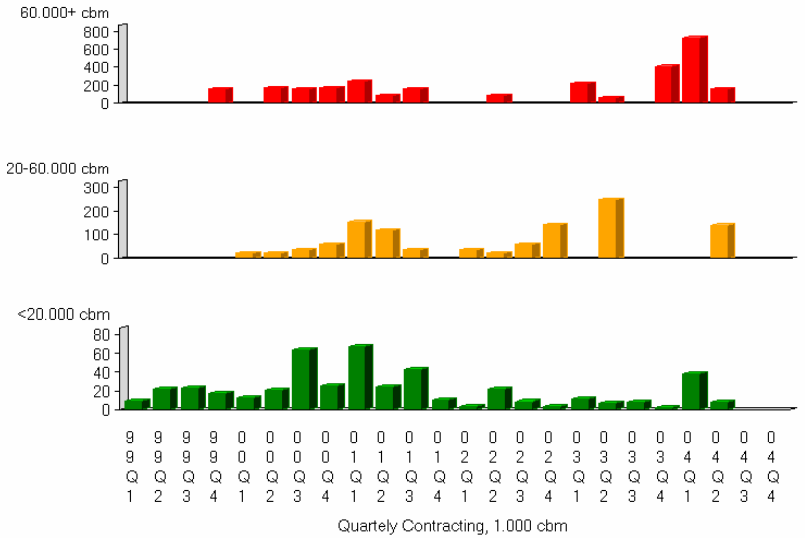
Conversely, in 2nd quarter 2004 a general lack of ethylene to be transported lead to increased idle time for the sub-segment of the LPG fleet involved in transporting ethylene.

LPG Spot and Timecharter Rates, 1999-2004



Source: Clarksons

LPG Tanker Contracting, 1999-2004



Source: Clarksons

CONTRACTING & SHIP VALUES

Little contracting of coastal ships - high contracting of VLGS
According to Clarksons data, only 3 ships smaller than 10,000 cbm were contracted during 1st half 2004, while 17 LPG ships above 10,000 cbm were ordered.

Out of the 17 large ships 11 are VLGS with capacity above 70,000 cbm, thereby indicating a clear preference for the largest ships.

During 1st half 2004 newbuilding prices have shown increases in the region of 20-40% while secondhand prices have increased a remarkable 5-70%, according to Fearnley data.

OUTLOOK

Small orderbook and old fleet may provide for better future
Particularly the fully refrigerated fleet exhibit a large proportion of elderly ships, but also the smaller segments have similar tendencies. In combination with currently high scrap values this may lead to increased scrapping in the year to come.

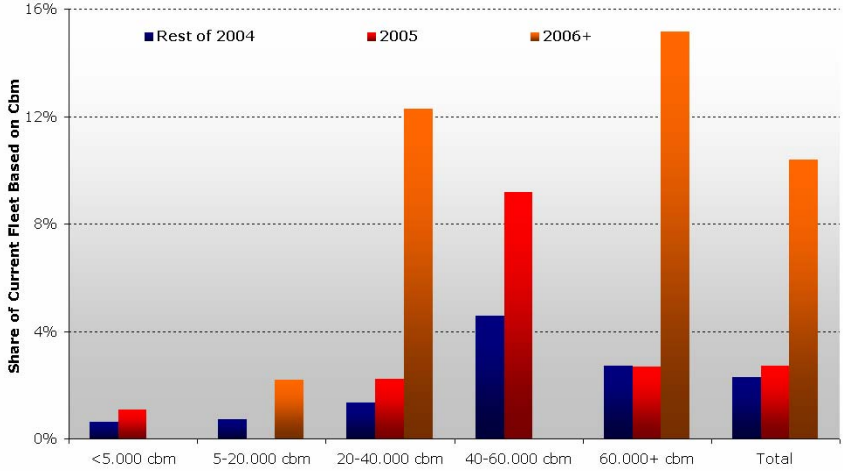
The orderbook contains a very limited number of ships for almost all of the segments. Not until 2006 are the LPG segments to experience a noteworthy fleet growth.

Demand for LPG ships is expected to increase steadily in the balance of 2004 and 2005.

In Asia the use of LPG is particularly oriented towards domestic consumption, while in North America and Europe LPG is more heavily used in the chemical and industrial production. As the Chinese economy in particular grows stronger its consumption of LPG is thus to increase in parallel. In North America and Europe the industrial production shows signs of continuing growth, also with positive implications for LPG ships.

In total, freight rates for the LPG tankers are expected to remain in lucrative territory throughout the remainder of 2004 and well into 2005.

LPG Tanker Orderbook by Year of Delivery



Source: Clarksons

+ *High scrapping prices and old fleet may induce higher scrapping of LPG ships.*

+ *Very small number of deliveries from the ship yards for the next 18 months.*

+ *Middle East production capacity continues to grow, which in combination with Asian consumption growth may most likely lead to increased demand for the VLGS.*

- *Lower freight rates in the Clean Petroleum Product markets may force a few of the largest LPG ships back in to transporting LPG and ammonia.*

- *In particular the coastal LPG segments still exhibit a significant degree of excess supplies of ships. Until the excess ships have been scrapped, freight rates are to remain under negative pressure within these segments.*

Dry Bulk Ships

Port congestion and raw material shortages helped to significantly force up prices on steel and earnings of dry bulk ships. Less port congestion and a Chinese government stepping on a very pin-pointed brake helped in bringing them back down. In the short run as well as in the longer run earnings are expected to stay high.

FREIGHT RATES

Large fluctuations in earnings as China flexes its muscles
Spot rates reached their all time record in January 2004 with Capesize spot earnings surpassing 100,000 USD/day. In the following months rates fell drastically, but to levels that previously would have been regarded as very lucrative.

The fall in earnings was partly caused by China carrying through economic reforms, which very accurately targeted the Chinese steel manufacturing and housing construction industries. Not until May did the dry bulk imports show year-on-year reductions, thus the fall in spot earnings was rather caused by worsening sentiment among the ship owners and less port congestion than a real reduction in demand.

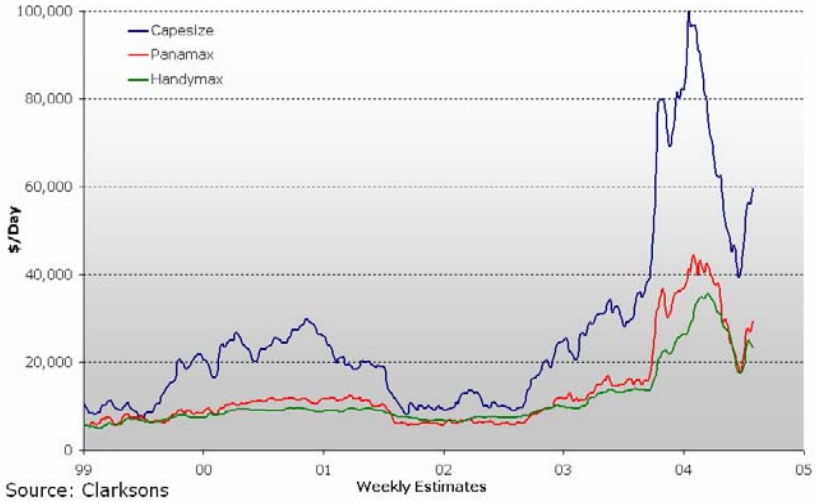
Recently the Chinese iron ore importers have returned to the market causing a sharp rise in spot earnings.

Because the perceived fall in iron ore demand was so imminently visible in spot earnings, the market lost its positive expectations with regard to future ship demand, and timecharter rates thus fell similarly hard. Lately, they have risen somewhat.

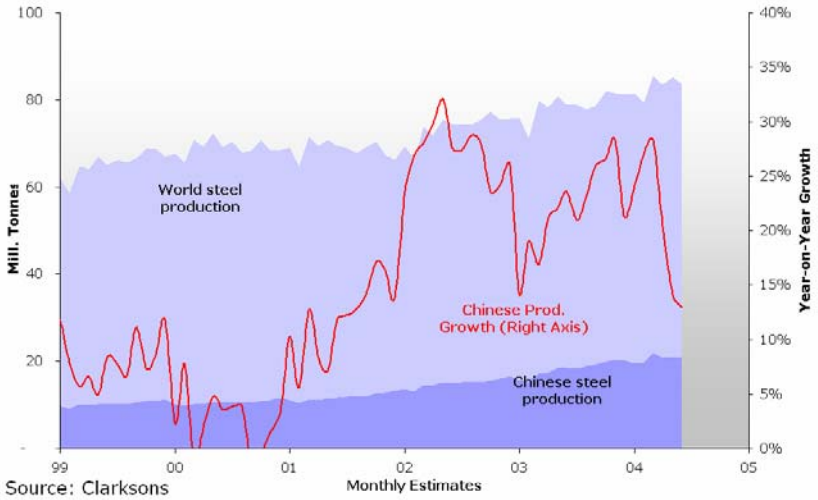
SUPPLY & DEMAND

Chinese iron ore and coking coal continue to set the pace
Compared with the large fluctuations in spot earnings, demand for dry bulk ships have not shown as large changes. In the period

Dry Bulk Spot Earnings, 1999-2004



World and Chinese Steel Production, 1999-2004



January to April 2004 Chinese imports of the main dry bulk products (iron ore, steel, coal and grain) continued to show large year-on-year increases of around 36%, according to SSY. Conversely, May import figures showed a year-on-year drop of around 5.5%, indicating that the economic reforms by the Chinese government were beginning to filter through to the commodity markets.

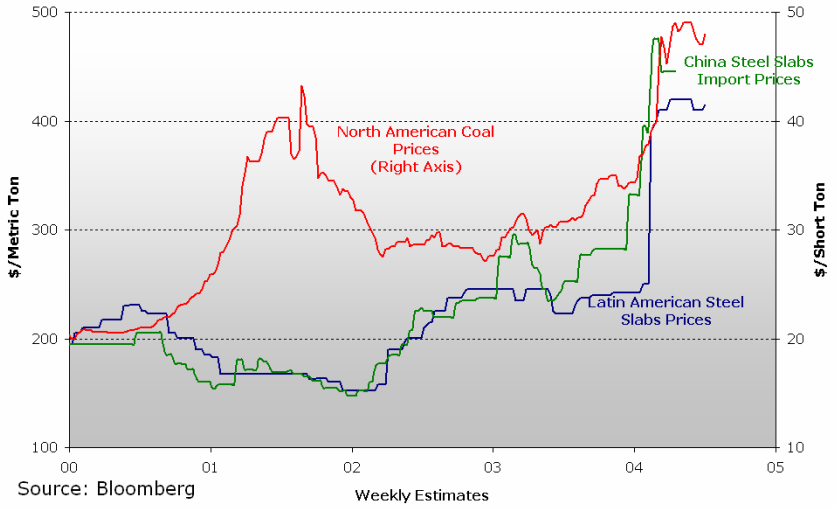
On top of the driving force, China, showing signs of an economic slowdown, port congestion and waiting time in most of the large dry bulk ports have been brought significantly down. At the height of the marked an estimated 25% of the Capesize fleet were waiting at congested ports to load or unload. The reduced waiting time caused the effective supply of dry bulk ships to increase and freight rates to come further down.

In addition to the effects from the economic reforms, the previous months' very high imports lead to substantial stockpiling of raw materials that had to be brought down before new imports were needed. The stock building may indicate that future import growth may be far lower than seen in the first four months of 2004.

With the clear purpose of curbing the excessive growth in domestic steel production and steel consumption the Chinese government have introduced several measures. During 1q04 the amount of acreage given free for housing construction was sought limited by the Chinese government in order to limit the massive rise in steel prices and to prevent the housing market from experiencing significantly falling prices in the future.

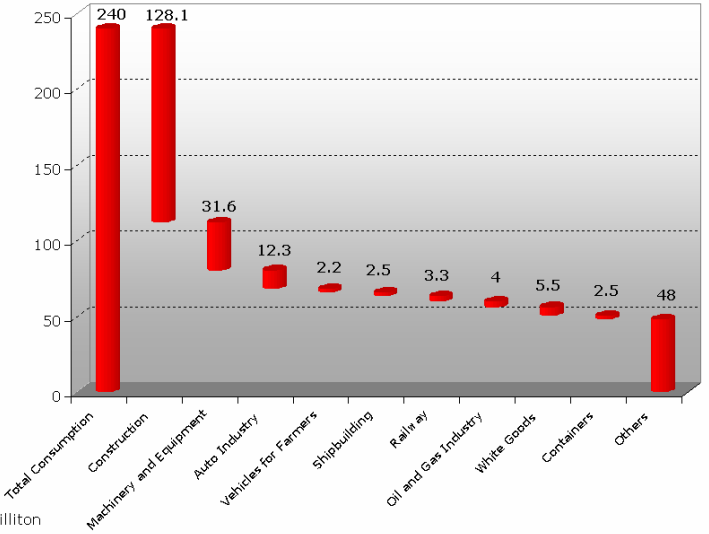
To further limit the production growth of steel a number of other measures has been set into force. The banks are no longer to provide loans for steel manufacturing projects which do not meet certain criteria on environmental and industrial standards. The local authorities have been encouraged to refrain from giving subsidies to the electricity purchases from local steel mills. Import subsidies on technical equipment for the use of construction on non-approved steel mills have been removed. And lastly, the Chinese 'State Development and Reform Commission' has agreed

Coal and Steel Prices, 2000-2004



Source: Bloomberg

Chinese Steel Consumption by End Use Sector, 2003



Source: BHP-Billiton

to stop the approval of new construction of new production capacity with local steel mills and iron ore mines.

For the global steel markets the excessive growth in Chinese steel production and consumption has been most acutely felt by shortness in supplies of raw materials used to manufacture steel – particularly iron ore and coking coal. This comes at a time when rising industrial production in the EU, the US and Japan are fast approaching the highs of 2000 intensifying the need for steel.

Rising Chinese production of steel has meant that China has more than cut its exports of coking coal in half. In 2003 China's share of global seaborne coking coal exports stood at approximately 7%, according to SSY. Thus non-Chinese Asian steel mills instead have had to receive larger supplies from Australia, Canada and the USA, leading to longer transport distances and thus higher demand for dry bulk ships. On top of very high freight costs the momentary deficit of coking coal supplies have resulted in very high production costs, and a genuine fear of a shortage of steel products within the steel industries in Asia, North and South America as well as in Europe. This led to dramatic increases in steel prices worldwide.

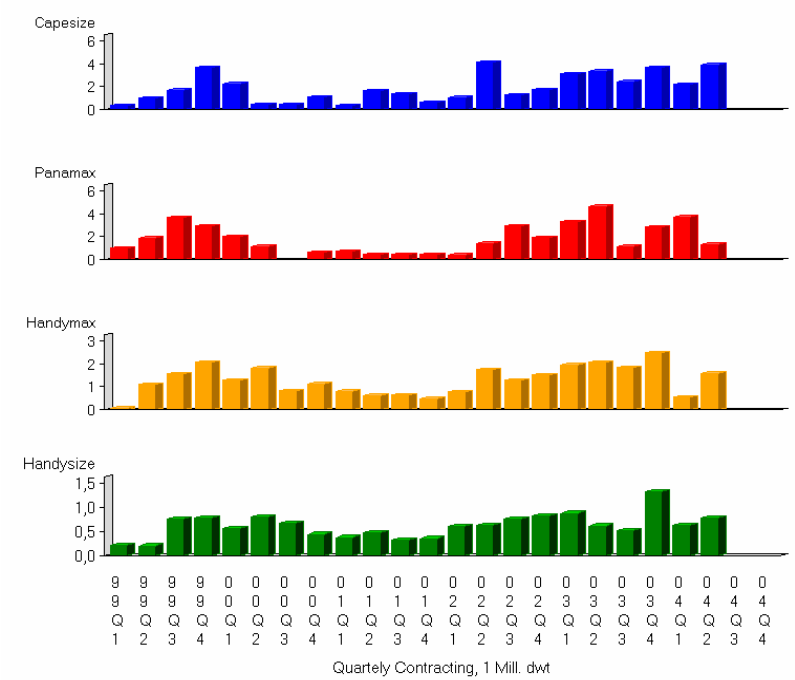
Chinese, Australian and North American coking coal production is in the future expected to increase substantially rendering the current fears of a global shortage of coking coal as a short-term phenomenon. Global production of iron ore is also expected to increase in order to sufficiently meet demand.

CONTRACTING & SHIP VALUES

Surprise fall in spot rates took the steam out of prices
The fall in newbuilding prices, spot rates and timecharter rates all helped to bring down secondhand prices to levels seen at New Year. In tandem with spot and timecharter rates lately showing improvements, secondhand prices also rose during June-July.

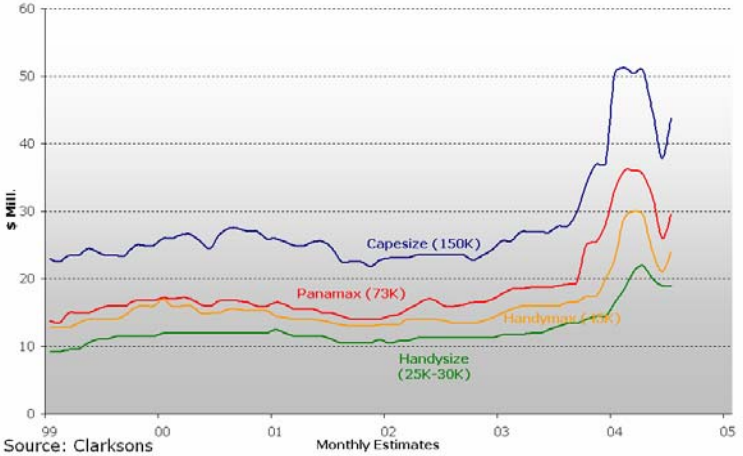
Despite falling spot earnings, shipowners' belief in the future seemed unaffected as contracting of new dry bulk ships continued at reasonably strong levels in 1st half 2004.

Dry Bulk Ship Contracting, 1999-2004



Source: Clarksons

Prices of 5 Year Old Dry Bulk Ships, 1999-2004



OUTLOOK

Still strong outlook as China is down but definitely not out
Recent increases in spot rates show that the dry bulk market is still very tight with limited ability of the dry bulk fleet to meet increased demand. In particular the Capesize fleet shows signs of strain. With some ports recently displaying rising congestion once again, the question of port congestion is also not a closed chapter.

The dry bulk fleet consists of 24% of ships older than 20 years and the current orderbook reveals only moderate deliveries during the next couple of years. Given these factors the future freight rates are probably only to turn low in the event of a sharp demand reduction, and not on the back of a large fleet growth.

Demand for most of the main dry bulk commodities are expected to show a continued resilient growth.

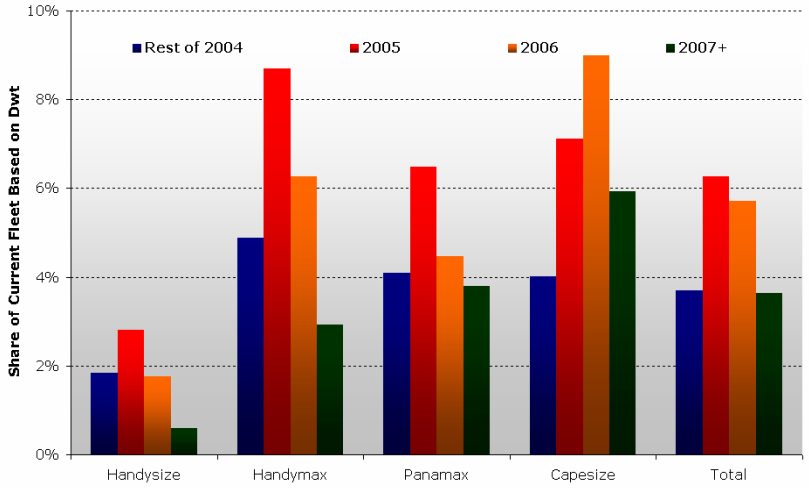
In light of the continued very high oil and gas prices the use of thermal coal in the industrial and energy sectors is in the short term expected to gain further strength. Despite a majority of the closed Japanese nuclear powerplants returning to production, the Japanese imports of steam coal has surged to new highs, according to SSY, partly because of high oil prices, an improved overall economy and rising industrial production.

Demand for dry bulk ships is going to receive a boost from lower Chinese coking coal exports, forcing non-Chinese Asian steel mills to import from far away suppliers leading to higher tonnes-miles.

Though the growth in Chinese steel production and consumption is expected to be reduced, it is still expected to stay at a reasonably high level for years to come. Foreign direct investment continues to flow into China at a high rate supporting continued growth. And China's demographics still depict a future massive move from the countryside to the cities - demanding more jobs and more houses.

In conclusion dry bulk rates, particularly for the Capesize and Panamax vessels, are expected to remain at high levels for the foreseeable future.

Dry Bulk Ship Orderbook by Year of Delivery



Source: Clarksons

+ *Lower exports of coking coal from China may lead to significantly higher tonnes-miles as the other Asian steel mills instead have to purchase coking coal from more distant suppliers, e.g. Australia, USA or Canada.*

+ *Moderate orderbook and an ageing fleet combined with restricted shipyard capacity and high contracting prices indicate low growth in the total dry bulk fleet.*

+ *Continued higher industrial production in North America, Europe and Japan supports continued high demand for seaborne transport of steel, iron ore, coking coal and thermal coal.*

+ *Consistently high oil and gas prices support a high demand for thermal coal.*

- *Chinese demand growth may be slowing down, but from a high level, as bottlenecks in the infrastructure become more pronounced.*

Car Carriers

Still a very tight market with lack of tonnage has sent charter rates significantly above their previous 10-year record. Despite high contracting prices 1q04 showed the highest volume of newbuilding contracts ever, caused by an ageing fleet and positive demand growth prospects.

FREIGHT RATES

10-year record in charter rates for Pure Car Carriers
According to Hesnes data, charter rates for vehicles carriers in 1st quarter 2004 clearly surpassed their previous record level from 1997. Rates have continued to appreciate remarkably throughout 1st half of 2004.

SUPPLY & DEMAND

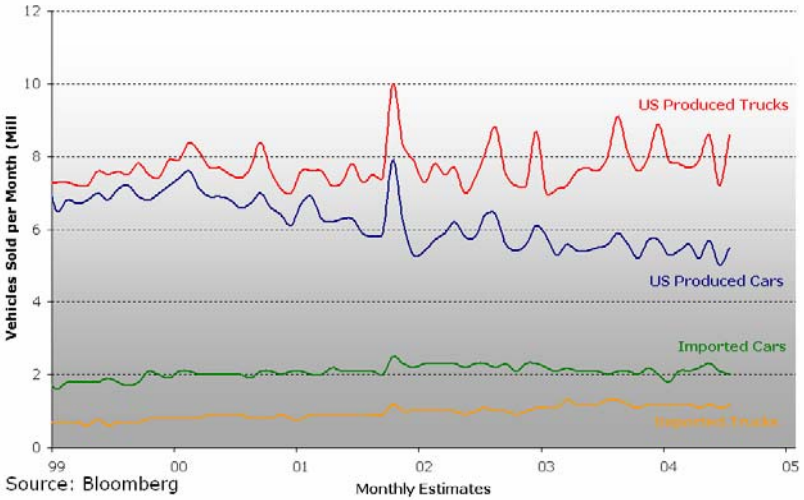
A notable lack of accessible tonnage pushes up rates
On the deep sea market for vehicles carriers the market has remained extremely tight. The few ships that did become available were being chartered at increasingly higher rates. The very tight situation has so far meant that no ships have been scrapped despite an ever increasing age and non-optimal design.

Demand on the deep sea routes has been especially strong for cars going to the Middle East from Europe, North America and Asia.

Despite a weak USD, North American car imports from Europe and Asia have witnessed resilient volumes.

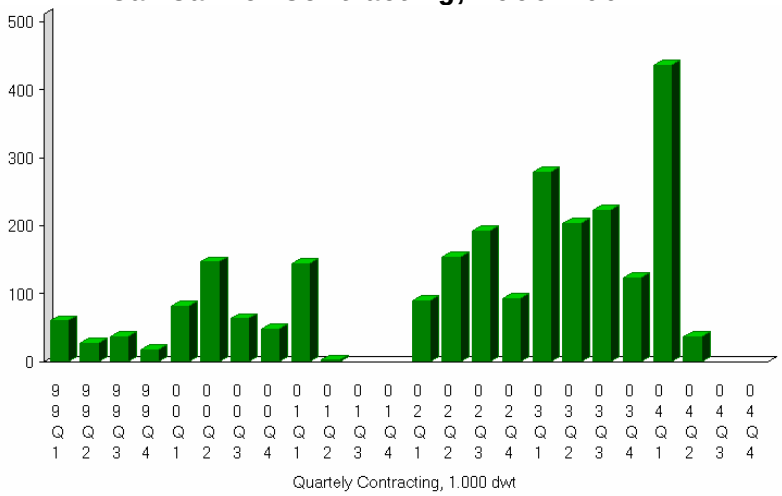
For the short sea carriers the trade in secondhand cars has shown particularly strong progress. Moreover cars produced for the European market are increasingly being built and exported from low cost countries and regions such as Turkey, Balkans and Central Europe, giving rise to an increased demand for short sea car carriers within Europe and the Mediterranean.

US Monthly Vehicles Sales, 1999-2004



Source: Bloomberg

Car Carrier Contracting, 1999-2004



Source: Clarksons

CONTRACTING & SHIP VALUES

Very strong contracting and rising prices

1st quarter 2004 exhibited the highest volume of new contracting for more than 10 years. The size of the newbuildings is also upgraded with the largest PCC under construction being 7.000 ceu.

Contracting of newbuildings during 2nd quarter subsided noticeably as and already large orderbook, 15% higher newbuilding prices and extended delivery time seemed to discourage further contracting.

OUTLOOK

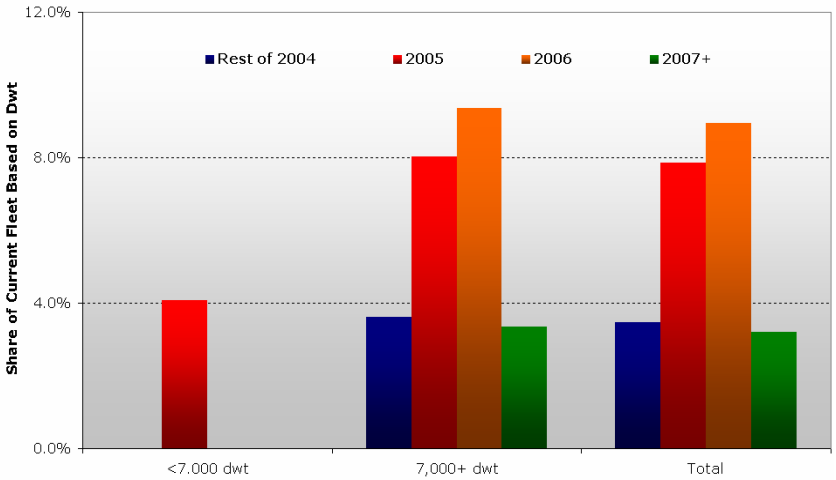
Still tight market, but weak USD and rising interest rates may prove harmful

In 2003 the growth in deep sea car transport was partly driven by European demand accentuated by low interest rates, rising housing prices and a strong Euro particularly compared to the JPY and the KRW. The outlook for European demand in 2004 is somewhat less favourable, partly because of rising interest rates particularly in the UK, which in view of a potential housing bubble about to burst may negatively influence the consumer confidence and purchasing power. But despite falling overall sales, a strong Euro still could lead to increased imports from Asia at the expense of locally produced vehicles.

A more clear threat to the growth in transport volumes is the low USD, which may hamper European and Asian exports to North America. Similarly the US may experience lower growth in sales figures as rising interest rates and very high gasoline prices lessen the incentives to purchase new vehicles.

Nonetheless, the deep sea and short sea vehicle carrier markets are currently so tight that earnings are expected to remain high in the short to medium turn.

Car Carrier Orderbook by Year of Delivery



Source: Clarksons

+	*A strong Euro compared to the Asian currencies may lead to increased imports into Europe despite overall stable car sales.*
+/-	*The somewhat high number of deliveries during 2005 and 2006 may put negative pressure on rates. But the high proportion of elderly and scrap destined ships ought to a large degree counteract the fleet growth.*
-	*A wish to control the rising house prices in the UK by raising interest rates may negatively influence sales figures of new cars.*
-	*A weak USD may threaten the North American imports of vehicles from particularly the Asian and European exporting countries.*

Ro-Ro/Ferries

An enlarged EU has provided for high cargo growth in the Baltic Sea, but cheap airfares continue to take passengers away from ferry lines within Europe. An old fleet may turn into more orderings of newbuildings.

SUPPLY & DEMAND

Larger EU, but cheap airfares steal passengers from ferries
The inclusion of Estonia, Latvia, Lithuania and Poland as new EU member states as per May 1st 2004 has effectively made the Baltic Sea into an EU inland "lake".

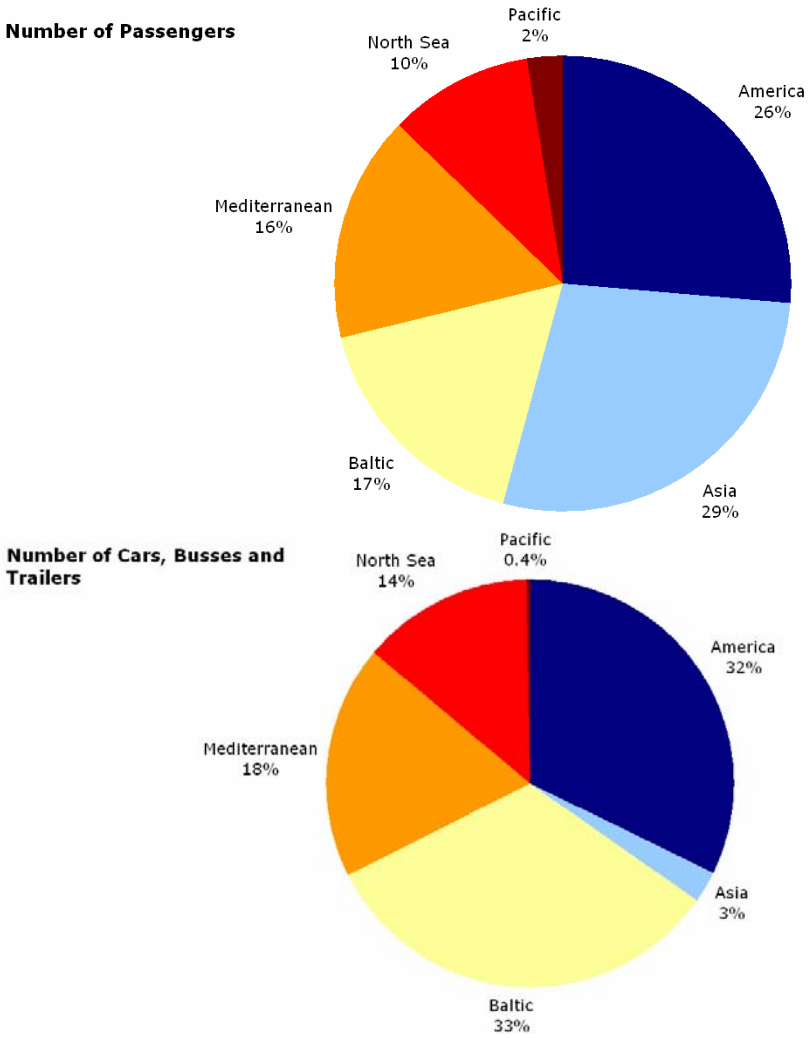
Up to the EU enlargement container and trailer traffic to and from the new member states have shown large growth. For instance the port of Klaipeda, Lithuania, experienced a 65% growth in number of handled containers in 2003, and growth in the first four months of 2004 has been approximately 21%, according to Lloyd's List. As economic growth in the new member states is expected to be well above the EU average future port traffic is expected to continue to grow at healthy rates.

In anticipation of this enlarged Ro-Ro market particularly Danish Ro-Ro, ferry and container feeder shipping companies seem to have been early in preparing for this potential market.

In 2004 ship scrapping and ship lay-up have been boosted by stricter requirements that require new fire fighting sprinkler systems within EU waters before a January 2005 deadline.

The fierce competition among airlines and the advent of cheap budget airlines are increasingly being felt among Ro-Ro and ferry operators within the EU. Much lower airfares have made it comparatively more preferable to travel by air than by ship among the states within the EU, thereby taking passengers away from ferries and from Ro-Ro ships with passenger carrying capacity.

Ro-Ro, Ferry and Cruise Traffic by Region, 2003



Source: ShipPax, Statistics 04

On the other hand, an increasingly congested road network within the EU and much higher gasoline prices have made it comparatively less expensive to move cargo by sea than by road, thereby transferring cargo to the Ro-Ro and container ships.

CONTRACTING & SHIP VALUES

Contracting volumes at very low levels

According to Clarksons' data, only 8 Ro-Ro freight/passenger ships were ordered during 1st half 2004. 7 contracts went to European yards while 1 contract went to a South Korean yard.

Orders within the last couple of years show that Ro-Ro ships to an increasing extent are built with the purpose of carrying cargo, while their passenger carrying capabilities are being reduced. This is mainly in order to meet higher growth in cargo volumes than in passenger numbers.

OUTLOOK

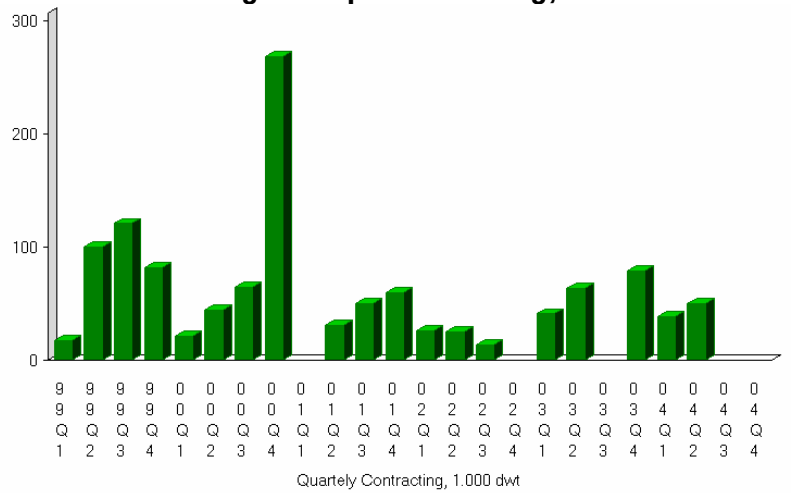
Old fleet and small orderbook indicate a future tight market

Ro-Ro fleet demographics show an increasingly older fleet. As the current orderbook is not even close to meeting future demand, even given a no demand growth scenario, future contracting may be needed within the coming years.

Continued high pressure on the road network within Europe is expected to lead to more cargo being moved by sea. If a combined EU effort succeeds in reducing port costs in particular, short sea shipping within EU waters may in the coming years experience an even larger growth.

In the longer run Ro-Ro operators in the Baltic Sea may see increased competition from small container feeder operators. As the combined Baltic trade grows larger, there may even be increased competition from the large inter-regional fully cellular container ship operators as well.

Ro-Ro/Passenger Ship Contracting, 1999-2004



Source: Clarksons

+ *A large share of elderly Ro-Ro ships are expected to be scrapped in the coming years. Given the current almost non-existing orderbook the market may become significantly tighter.*

+ *European road traffic is expected to show robust growth throughout the next decade. In order to prevent the roads from becoming too congested several measures are being taken to move cargo from the road to the sea.*

- *Low airfares may continue to take away passengers from the ferry business.*

- *When the container volumes become big enough in the Baltic region, the fully cellular and dedicated container vessels may take away the cargo from the Ro-Ro operators.*

Offshore Support Vessels

Lacklustre freight rates and more ships in lay-up, as continuously high crude and gas prices have not yet turned into sufficiently higher exploration and drilling activity. Future North Sea demand is expected to turn upwards, partly because of improved taxation and licensing conditions.

FREIGHT RATES

Rates at persistently low levels in North Sea and elsewhere
In the North Sea freight rates have exhibited continuously low levels throughout 1st quarter 2004. The low rates in the North Sea led a few owners to put their older and smaller vessels up for sale.

The exodus of support vessels from the North Sea meant by May and June that the availability of tonnage was lower, thereby improving the basis for higher freight rates in the spring and summer periods of seasonally high demand.

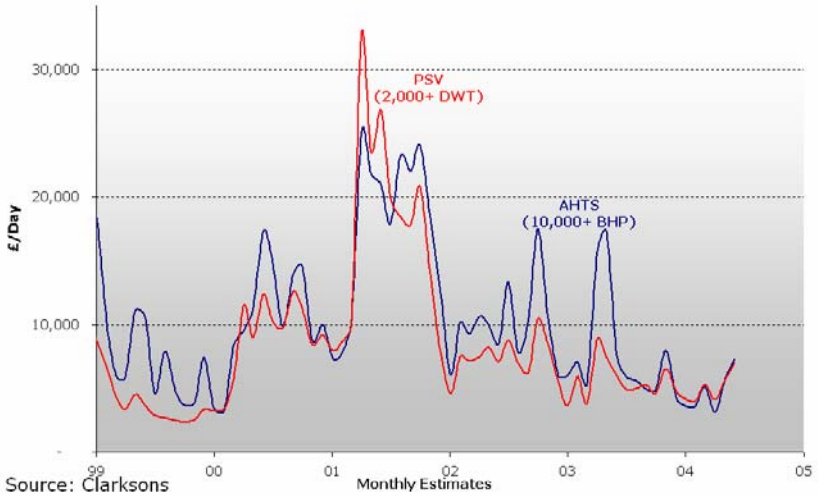
Conversely, the vessels that in 2003 and 2004 left the North Sea for other markets have lead to negative pressure on rates in these markets in 1st half 2004.

In the Gulf of Mexico the freight rates have been similarly dismal, partly caused by decreasing numbers of operating drilling rigs. These low rates have led to very high numbers of ships being scrapped or laid up.

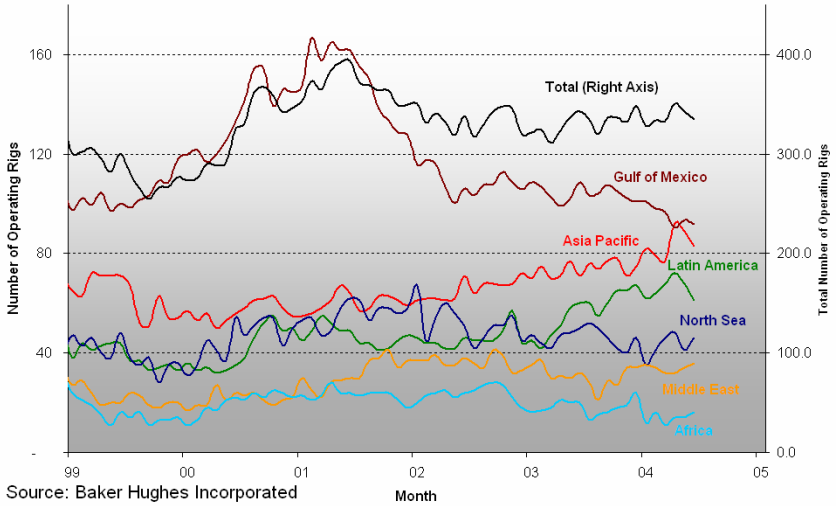
SUPPLY & DEMAND

Still low exploration and drilling activity, lately on the rise
The high crude oil and gas prices exhibited since 2002 should theoretically have turned into a drastic increase in spendings of the oil companies in order to boost production capabilities. Spending has increased, but at subdued levels compared with previous

Offshore Vessel Spot Rates, 1999-2004



Offshore Operating Rigs, 1999-2004



strong oil price periods. This is particularly true in mature areas such as the North Sea and the Gulf of Mexico.

Several issues have so far held back exploration and development activity.

The confidence in oil and gas prices to stay high for a long period has not been strong enough. As oil demand during the last year has outpaced oil supply world-wide leading to significantly lower spare production capacity, expectations of continuously high commodity prices have become stronger, thereby lately supporting a revival in oil and gas exploration.

Exploration and drilling technology has continuously been improved upon, which in combination with greater focus on profitability have led to fewer wells being drilled and thereby less work for the offshore vessels.

Probably the most influential negative factors have been an apparent lack of suitable drilling acreage in combination with unfavourable taxing conditions, thereby limiting further profitable exploration and production in the mature offshore areas.

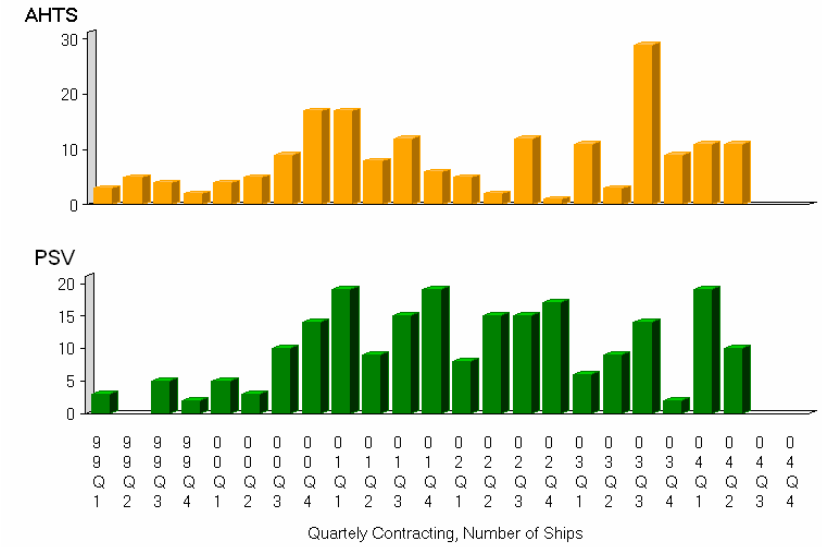
CONTRACTING & SHIP VALUES

Continued contracting of smaller ships, lower ship values
Contracting of smaller AHTS's and smaller PSV's does not seem to show noteworthy signs of decline. This contracting is particularly driven by a need to replace old and rundown ships in these smaller segments.

Conversely, the industry-wide fleet replacement programme of larger offshore vessels seems to be coming to an end with only few new orders being undertaken.

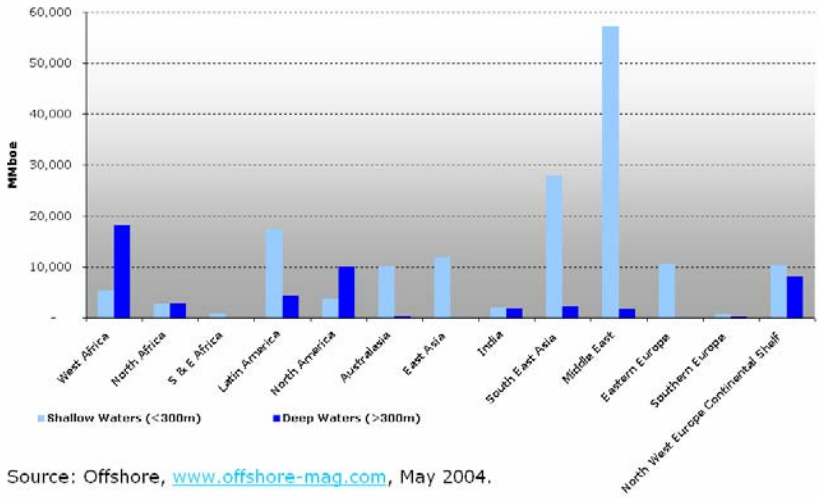
The low freight rates have led to a reduction in secondhand values during 1st quarter, but the values have since then remained fairly stable, partly because of expectations of a future revival in rates.

Offshore Vessel Contracting, 1999-2004



Source: Clarksons

Expected Offshore Field Developments, 2004-2008



Source: Offshore, www.offshore-mag.com, May 2004.

Higher deep sea activity and improved North Sea conditions
Offshore vessel demand from global deep sea exploration, development and production is expected to grow significantly in the years to come. This development may lead to greater demand particularly for the larger offshore support vessels.

Conversely, demand from shallow water exploration and production is in the longer run expected to decrease particularly in the North Sea. But the decline in demand for offshore support vessels may be momentarily offset by decommissioning of oil platforms and subsea installations.

The low levels of investments during 2002-2004 of the large oil companies in the North Sea have led the UK Offshore Operators Association to warn that: If there is no real investment in the North Sea in the coming 2 or 3 years the result might be a disappearing infrastructure and thus less investment opportunities.

This and similar claims have been heard and acted upon by both the UK and Norwegian governments.

On top of the changed tax laws from 2003 the UK government has introduced a "new frontier" license that allows exploration companies to apply for larger acreage at significantly reduced costs and with a longer period to carry out the necessary exploration and development. Moreover, the UK government has in its 22nd license round offered 1,039 blocks, in the largest offering round since 1965. This offering includes both blocks in mature basin areas and in frontier areas west of Shetland.

Similarly, the Norwegian government has offered substantial new acreage and has put forward a proposal to lower taxes on oil production. These measures are in addition to a decision from 2003 to allow for all-year petroleum activity in the Barents Sea.

In total these new measures are expected to lead to increasing activity and freight rates later in 2004 and in 2005 particularly.

+ *As shallow water areas are increasingly being emptied global spending on deep sea exploration, development and production is expected to increase substantially in the years to come.*

+ *The confidence in continuing high gas and oil prices have become stronger, thereby supporting continued investment in the offshore oil sector.*

+ *Lowered UK and Norwegian taxes on offshore oil production is probably going to lead to increased activity in the North Sea.*

+ *Very large numbers of blocks on offer in both the UK and Norway sectors in mature areas as well as in possibly lucrative frontier areas.*

+ *The installation of large pipelines and the reopening of the Barents Sea for oil exploration and production may lead to increased demand for offshore support vessels sometime during 2005.*

+ *In the longer run decommissioning of oil platforms and related installations may lead to increased demand for offshore support vessels.*

- *The shallow water areas in the North Sea and the Gulf of Mexico are generally perceived as holding no new major oil discoveries, thereby limiting further investments.*

- *There still exists a significant amount of excess tonnage in most of the major offshore areas keeping freight rates from rising too high or too fast.*

Glossary

Aframax: Crude oil tanker or product tanker too large to pass through the Panama Canal and below 120,000 dwt.

AHTS: Anchor Handling Tug Supply. Offshore vessel used for jobs such as the relocation of anchors for oil rigs.

BHP: Break Horse Power. The amount of engine horsepower.

Brent: Term used for crude oil from the North Sea. Brent oil is traded at the International Petroleum Exchange in London, and the price of Brent is used as a benchmark for several other types of European oil.

Bulk vessel: Description of vessels transporting large cargo quantities, including coal, iron ore, steel, corn, gravel, oil, etc.

Bunker: Fuel for vessels.

Capesize: Dry bulk carrier of more than approximately 80,000 dwt; too large to pass through the Panama Canal.

Cbm: Cubic Meter.

Cgt: Compensated Gross Tonnage. International unit of measure that facilitates a comparison of different shipyards' production regardless of the types of vessel produced.

Clean products: Refers to light, refined oil products such as jet fuel, gasoline and naphtha.

CoA: Contract of Affreightment. Contract between shipping company and shipper concerning the freight of a predetermined volume of goods within a given period of time and/or at given intervals.

Container conference: Collaboration agreement between a number of container shipping lines on trade routes or regions for the purpose of enhancing efficiency of the vessel capacity and harmonising price/teu.

Dirty products: Refers to heavy oils such as crude oil or refined oil products such as diesel oil, fuel oil or bunker oil.

Dwt: Dead Weight Tons. Indication of a vessel's cargo carrying capacity (including bunkers, ballast, water and food supplies, crew and passengers).

Feeder: Small container carrier.

FPSO: Floating Production Storage Offloading unit. Vessel used in the offshore industry to supplement/replace an oil rig.

Geared: Indicates that a vessel is equipped with a crane or other lifting device.

Gearless: Indicates that a vessel is not equipped with a crane or other lifting device.

Gt: Gross Tons. Unit of 100 cubic feet or 2,831 cubic meters used in arriving at the calculation of gross tonnage.

Handy, tank: Crude oil tanker, product tanker or chemical tanker of between 10,000 and 25,000 dwt.

Handymax, dry cargo: Dry bulk carrier of between approximately 40,000 and 60,000 dwt.

Handysize, dry cargo: Dry bulk carrier of between approximately 10,000 and 40,000 dwt.

IMO: International Maritime Organization. An organisation under the UN.

IMO I-III: Quality grades for tankers for the permission to transport different chemical and oil products. IMO I are the most hazardous products, IMO III the least hazardous.

Chemical tanker: Tanker with coated or stainless steel tanks (IMO I-III).

LNG vessels: Liquefied Natural Gas. Vessels for transporting liquefied natural gas (methane gas).

LPG vessels: 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.

LR1, product tanker: 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 50,000—80,000 dwt.

LR2, product tanker: Long Range 2. Product tanker too large to pass through the Panama Canal of approximately 80,000 dwt.

Mbtu: Million British Thermal Unit. Unit of measure indicating the amount of energy included – equivalent to joule or calorie.

Medium, tanker: Product tanker of between 25,000 and 50,000 dwt.

MMboe: Million Barrels of Oil Equivalent. Measure of the amount of barrels of oil/gas contained in a field.

MTBE: Methyl Tertiary Butyl Ether. An oxygenate which is added to petrol to make the fuel burn more cleanly.

Multi-Purpose: Dry bulk carrier with multiple applications, mainly as a feeder vessel or for special cargo.

Offshore vessel: Vessel serving the offshore oil industry.

OPEC: Organisation of Petroleum Exporting Countries.

Panamax, container: 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—4,000 teu.

Panamax, tanker: 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 50,000—80,000 dwt.

Panamax, dry cargo: 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—80,000 dwt.

PCC: Pure Car Carrier. Car carrier built exclusively to transport passenger cars.

PCTC: Pure Car Truck Carrier. Car carrier built to transport small and large passenger cars (SUVs, MPVs, etc.), trucks and other contractor equipment.

Post-Panamax: Container vessel of approximately 4,000+ teu that is too large to pass through the Panama Canal.

Product tanker: Tanker vessel with coated tanks used to transport refined oil products.

PSV: Platform Supply Vessel. Offshore vessel serving the offshore oil installations.

Reefer: Container vessel with cooling/freezing capacity.

Reefer vessel: Bulk carriers with a large reefer capacity in the holds.

Ro-Con: Ro-Ro vessel with container capacity.

Ro-Pax: Ro-Ro vessel with passenger capacity.

Ro-Ro: Roll On – Roll Off. Common description of vessels on which the cargo is rolled on board and ashore.

SARS: Severe Acute Respiratory Syndrome.

Stand-by vessel: Offshore vessel used to monitor and fight fires and environmental accidents on oil rigs.

Suezmax: Crude oil tanker with the maximum dimensions for passing through the Suez Canal (approximately 120,000—200,000 dwt.).

Teu: Twenty Feet Equivalent Unit. Container with a length of 20 feet (about 6 metres)

	which forms the basis of describing the capacity of a container vessel.
Ton-nautical mile:	Unit of measure indicating the volume of cargo and how far it has been transported.
Tonnage:	Synonymous with “vessel”.
ULCC:	Ultra Large Crude Carrier. Crude oil tanker above 320,000 dwt.
VLCC:	Very Large Crude Carrier. Crude oil tanker of between approximately 200,000 and 320,000 dwt.
VLGS:	Very Large Gas Ship. LPG ship with capacity above 60,000 cbm.
WTI:	West Texas Intermediate. Oil price benchmark in the USA.

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