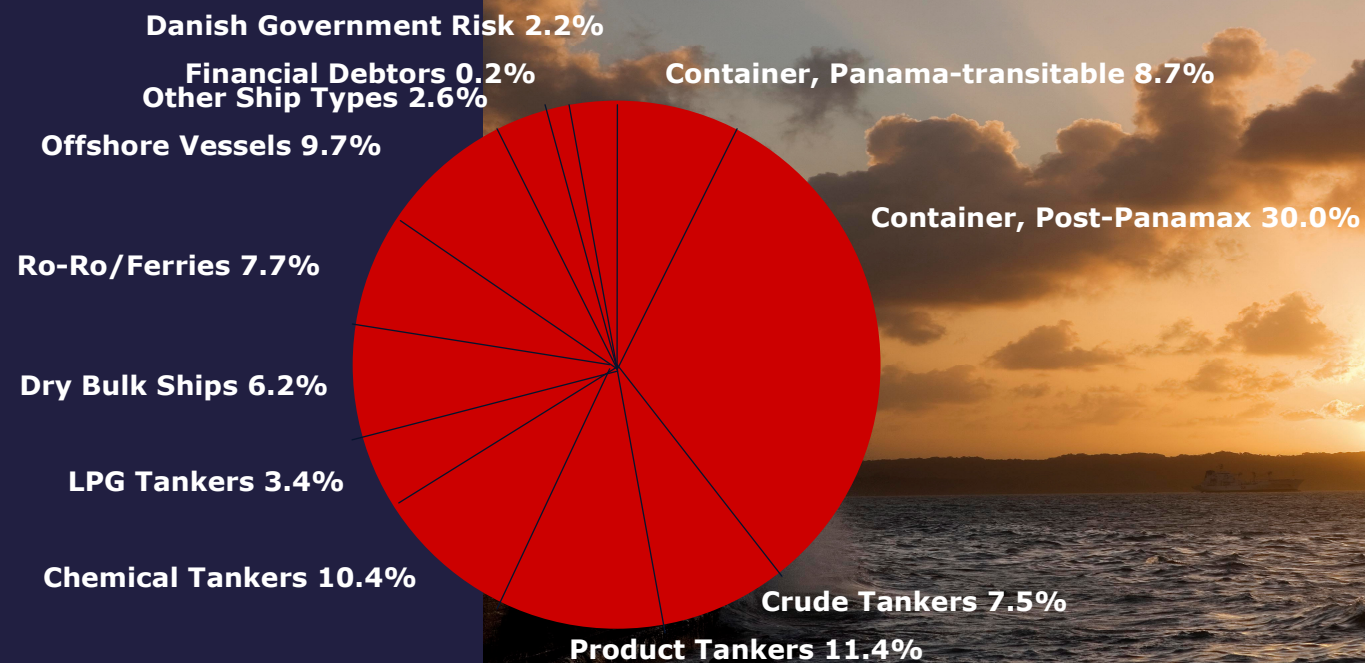


SHIPPING MARKET REVIEW – 2ND HALF 2006

DSF loan portfolio by shipping segment As of December 31st 2006



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**Danish
Ship Finance**

Top-7 Shipping Predictions for 2007

We expect 2007 to be yet another lucrative year for most shipping segments. However, several signs from both the supply side and the demand side are emerging which indicate that the current super-cycle may slowly be coming to an end.

1. **Newbuilding prices in long-term downturn**

We expect newbuilding prices for the next couple of years to exhibit a falling tendency. As yards are still in a very comfortable situation and as most shipowners are still flush with cash, the price fall in 2007 will probably not be significant. Beyond 2007, the oversupply of shipyard capacity will become ever more apparent and newbuilding prices will most likely depreciate at a growing rate.

However, appreciating Asian currencies combined with high steel prices may stem some of the fall in newbuilding prices, thereby ensuring that the bottom in newbuilding prices probably lies significantly higher than the low level experienced in 2002.

2. **Containership surplus capacity to grow by 4%**

Our base case forecast for containership demand growth is 10% in 2007. Containership supplies is on the other hand expected to grow by 14% according to the scheduled delivery dates of the ships in the current orderbook. This equates to a surplus capacity growth of about 3-4% in 2007 – following a surplus capacity growth of about 3.5% in 2006.

3. **Initially, the charter market will take the fall**

With major liner companies signaling that they are willing to shed any excess chartered capacity onto the charter market, the surplus capacity may initially shift from the freight market to the charter market, leading to depressed timecharter rates but rather stable freight rates.

However, a complete cascading of surplus capacity onto the charter market is not possible in the indefinite and eventually surplus capacity will affect the freight market also. Consequently, by mid-2007 or into the second half of 2007 freight rates could begin to show growing weakness.

4. **China's exports of steel will slow**

We expect China's government to be relatively successful in slowing growth in China's steel exports. On the other hand, we do *not* expect it to be fully successful in its goal of a clear reduction in steel exports. Specifically, the price difference between Chinese steel products and foreign products is still too large an incentive for exporters.

5. **China's iron ore imports will slow markedly**

Not only because of slowing steel exports, but more importantly as a result of several wide-ranging reforms aimed at quelling overheated investments in China's housing construction and steel producing sectors, we expect China's demand for iron ore imports to slow markedly. These reforms, if successful, could prove to have far-reaching implications for the demand side of the commodities and shipping markets.

However, the slowdown in China's construction activities and steel exports is probably not to manifest themselves until the 2nd or 3rd quarter of 2007 and freight rates may remain high until then.

Furthermore, it appears from recent Chinese iron ore statistics that Chinese steel mills and iron ore traders are in a preemptive stock-building of iron ore ahead of the scheduled rise in iron ore prices from April 2007. Therefore, Chinese iron ore imports may show great strength in the early months of 2007, but slow thereafter.

6. Less obvious seasonality in tanker markets

For the three largely commodity-based and spot-traded tanker segments (crude, product and LPG), a gradual increase in the global petroleum supply cushion could result in yet another year with freight rates showing high levels in the summer and relatively steady levels in the winter.

These expectations go against OPEC's stated goals of keeping output low and possibly cutting it further in the 2nd quarter. However, enforcing cohesion among OPEC members is difficult in a declining market when no single member is willing to play the role as "swing" producer, thereby giving market share to those who cheat.

Furthermore, with oil and gas prices still greatly supportive of stock-building, demand for OPEC exports remain intact even in the periods of seasonally low consumption. We thus expect oil and gas inventories to exhibit relative strength - even in periods when inventories usually fall.

Consequently, the summer period for tanker demand and freight rates may not be as low as it usually is during a normal seasonal pattern. Furthermore, with high inventories acting as a significant cushion against demand or supply disruptions, the usual autumn and winter peak in tanker demand may not be as clearly visible as it has been during the period 2002-2005.

This is of course barring any random or unforeseen events that may significantly upset the balance between supply and demand. I.e. accidents, unplanned or unannounced maintenance, technical problems, labor strikes, political unrest, guerilla activity, wars, and weather-related supply losses.

Please notice, that this prediction goes against our model forecast on VLCC spot freight rates on page 43. This model is based on the normal behavior of global oil markets and thus does *not* incorporate the effect from oil prices being supportive of stock-building or the effect from a larger supply cushion. Consequently, the model's forecast may be too low in the 1st and 2nd quarters but too high in the 3rd and 4th quarters of 2007.

7. Continued fall in US seaborne oil imports

Despite continued growth in US oil consumption and a desire to expand the US's Strategic Petroleum Reserves, the combination of a return of US oil and gas production and a significant growth in Canada's oil production is expected to lead to the second year in a row of falling US seaborne imports of petroleum products.

A significant component behind the demand for crude and product tankers may thus not be present in 2007.

All of the above predictions are of course all attached by great uncertainty!

Please read carefully the disclaimer at the end of this report!

This report reviews the central developments throughout the latter part of 2006 for the main shipping segments, and indicates possible future market directions.

General Review & Outlook

For the most part, 2006 was yet another good year for shipping.

With the global oil and gas supply industry in widespread catch-up, particularly the offshore supply sector experienced demand and charter rates that before 2006 would have been thought of as inconceivable.

Dry bulk ships experienced a magnificent turnaround in freight rates by mid 2006 and freight rates in the second half continued to outperform, ending the year at very high levels.

Crude, product and LPG tankers experienced relatively high freight rates particularly during the middle two quarters of 2006. On the other hand, rates in the fourth quarter disappointed as they fell across almost all segments instead of increase as rates otherwise tend to do during this time of the year.

Containership liner operators saw a mixed year with large reductions in freight rates during the first half and a slight turn to the better in the second half. On the other hand, timecharter rates experienced clear reductions over the year.

Partly as a consequence of ample liquidity among shipowners from three-four years of extraordinary income, partly as a consequence of an unexpected revival in dry bulk earnings, and partly as a consequence of an anticipated phase-out of single-hulled tankers by 2010, shipyards received new orders in volumes that surpassed previous records. Consequently, newbuilding prices particularly of tankers and dry bulk ships rose the most, whereas prices of other ship types stayed relatively steady over the year.

To an increasing degree we see a world-wide liquidity oversupply as a significant contributing factor to the prolonged super-cycle experienced within most shipping sectors. This is particularly evident in record-setting newbuilding orders and remarkably high ship secondhand prices that appear to have priced out risk aversion and seem to possess a Teflon-like immunity against negative changes in freight markets.

Particularly within tanker segments, secondhand prices have stayed unchanged or risen further despite falling timecharter rates that represent the market's earnings expectations. This seemingly illogical deviation may first of all be the result of much lower risk-aversion because of relaxed financing terms and because of shipowners' bulging cash reserves from several years of record earnings. Secondly, as newbuilding prices constitute the theoretical replacement cost of a ship, secondhand prices are thus likely to exhibit a close correlation to newbuilding prices. The significant rise in newbuilding prices since 2002 does therefore justify a part of the rise in secondhand prices.

But high newbuilding prices do not justify high secondhand prices if the discounted value of the expected income is below the secondhand price. Furthermore, high newbuilding prices do not justify high secondhand prices if the rise in newbuilding prices to a large degree is caused by over-ordering of new tonnage because the markets' risk aversion is reduced.

Outside the realm of shipping, excess liquidity is also amply evident in rock-bottom country risk premiums and strong capital flows into emerging markets.

In addition to a substantial trade surplus, strong capital flows into China has caused a rapid accumulation of liquidity in the country. To a very large extent this liquidity oversupply has been instrumental in propelling the country's economic growth despite domestic obstacles and inefficiencies. As China's powerful growth dynamic has so far been skewed heavily toward exports and fixed investment – a sectoral mix that favors commodity-intensive activities such as urbanization, infrastructure, industrialization, and residential construction – a global liquidity oversupply thus

has been part of the equation behind the super-cycle currently experienced in shipping and most commodity markets.

China's government is now trying hard to initiate reforms that aim particularly at cooling an overheated investment sector and changing the growth dynamic to less commodity-intensive activities. If the government is successful in its reforms, that could prove to have far more challenging implications for the demand side of the commodity and shipping markets than may be expected by many.

Specifically, the Chinese government is targeting the two most important sectors of dry bulk demand in recent years: housing construction and steel production. This is done through measures directly targeting these particular industries and through more broad-based measures such as higher interest rates and higher banking reserve ratio requirements.

However, the Chinese economy is still to a very large degree characterized by excess liquidity and local municipalities show limited adherence to central government policies as the interests of the local community is still to maintain high economic growth. Consequently, the government's efforts to slow investments could in the short to medium term prove to be largely ineffective and China's demand for dry bulk commodities will continue unabated for a while longer.

Finally, the world economy may see growing signs of weakness from an increasingly strained US consumer. In the last many years the US consumers have drawn increasingly from the wealth effects of asset appreciation to finance both consumption and

saving. And with the income-based saving rate falling into negative territory for the first time since the early 1930s, the excess consumption and the outsize import surge it has spawned is a major source of America's macro saving imbalance. The opposite effect may now be about to unfold as bursting of the US property bubble could force US households back to an income-based saving. For Asian economies, that are still heavily dependent on US consumption, a return to income-based saving could mean a clear slowdown in trade.

Despite China's desires to slow its pace of investments and US households that could show increasing signs of weakness, the global economy looks set for yet another year of above-trend growth. Rising stock prices, tight credit spreads, ample credit availability, the dollar's decline over the past year, and still low long-term rates have combined to offset a slightly restrictive level of the US Federal funds rate and rising ECB interest rates. Also, oil prices are, so far, down since mid-2006 thereby helping to postpone the negative effects on US households' disposable income from rising interest rates and slowing house prices. And last, but not least, low inflation worldwide and expanding globalization continue to underpin a world awash in liquidity.

In conclusion, we expect 2007 to be yet another lucrative year for most shipping segments. However, several signs from both the supply side and the demand side are emerging which indicate that the current super-cycle may slowly be coming to an end.

For a summary of all the shipping market that we cover in this report, please read the executive summary below. A more detailed analysis of each of the ship types begins at page 14.

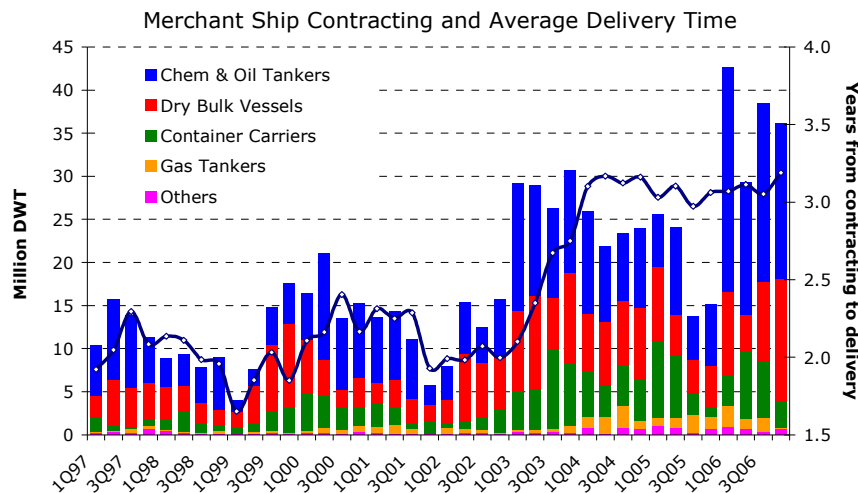
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Executive Summary

Shipbuilding

Shipbuilding, representing the collective conditions and expectations for all ship types, saw yet another record-breaking order intake in 2006.



Sources: Clarksons, Danish Ship Finance

2006 provided the yards with orders in excess of 138 million dwt which by comparison is equal to more than 1.8 times the total volume that the yards delivered during 2006.

Given this staggering order intake, it is slightly surprising that newbuilding prices did not rise more than the 5-13 percent actually experienced in 2006. Since newbuilding prices bottomed out in late 2005, oil tanker and dry bulk newbuilding prices have increased by about 11-14%, according to data from Clarksons and Fearnleys, and have now surpassed their previous record from early 2005. Although newbuilding prices of container ships gained

4-5 percent over the year, they finished 2006 on a level well below their 2005 record highs.

In 2007 the yards will need at least 110 million dwt of new orders for them to maintain their order backlog of 3.25 years and significant pricing power. After 2007, the yards' order requirements will increase even further as shipbuilding capacity continues to expand rapidly for years ahead.

But newbuilding demand for new tanker, dry bulk, and container ships stands a greater chance of falling rather than remaining at an elevated level for one more year. Specifically, we expect a drop in order levels to a range of 55-100 million dwt in 2007 – depending on the degree of restraint. After 2007, we expect total ship orders to fall even further.

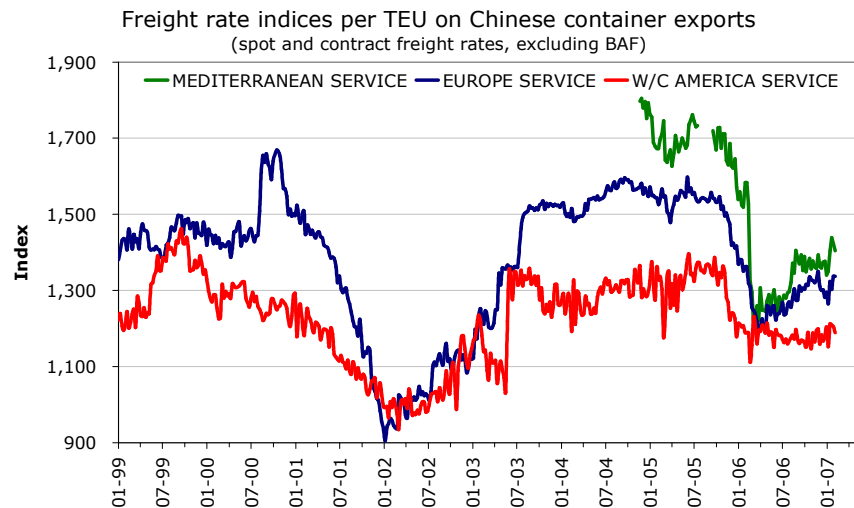
Consequently, we expect newbuilding prices for the next couple of years to fall. As yards are still in a very comfortable situation and as most shipowners are still flush with cash, the price fall in 2007 will probably not be significant. But as the oversupply of shipyard capacity becomes ever more apparent in coming years, newbuilding prices will most likely depreciate at a growing rate.

However, appreciating Asian currencies combined with high steel prices may stem some of the fall in newbuilding prices, thereby ensuring that the bottom in newbuilding prices probably lies significantly higher than the low level experienced in 2002.

Container Ships

Average freight rates for the two main head-haul routes (Asia-Europe, and Asia-North America) were about 13% below 2005 levels. Nonetheless, the liner operators in the second half of 2006 managed to claw back some of the lost ground.

Timecharter rates are on average down by 29% in the 3rd quarter and down 21% in the 4th quarter, measured year-on-year. As the largest ships have seen the largest drops in timecharter rates, it may indicate that they to a larger extent than the smaller segments have been adversely hit by cascading as big liner companies shed their excess tonnage.



Source: Ministry of Communications of the People's Republic of China

As global containership demand growth in 2006 ended up being about 11%, it slightly outperformed our expectations from our previous Shipping Market Review of 9-11%.

Especially Europe's imports of containerized goods from Asia surprised positively with two unusually strong quarters in the beginning of the year followed by two average quarters. In addition, US consumption demonstrated resistance to rising interest rates, largely supported by falling oil prices. Also intra-Asian trade continues to show very healthy growth.

In addition to being positively surprised on demand, supply growth on the other hand surprised by being lower (14.5%) than we anticipated (16%) six months ago. In total, the higher demand and lower supply meant that the actual supply surplus

shrank from our anticipated 5-7% to a much lesser 3.5% in 2006.

Consequently, it appears that the increase in freight rates during the second half of 2006 to a certain extent was the result of a general acceptance that maybe the fundamental picture of supply and demand was not as weak as previously anticipated. Turning to the outlook for containership demand, we expect European containerized imports from Asia to show sustained strength in 2007, although with momentary weakness. For US containerized imports, we expect the combination of a housing slowdown, a slowdown in US private disposable income, and an appreciation of the CNY to cause a continued deceleration in US containerized imports from Asia.

Given our base scenario of 10% global head-haul demand growth and a fleet growth of 14%, surplus capacity will grow by about 4% in 2007, thereby extending the slide in overall fleet utilization that began in late 2005. Based on these fundamentals, our forecast model indicates an 8% drop in 2007 average freight rates on the three largest head-haul routes: Asia-Europe, Asia-North America, and Europe-North America.

However, the model disregards any non-fundamental factors and may thus paint too bearish an outlook for freight rates. Specifically, overall market sentiment currently appears rather bullish, and this alone may most likely prevent freight rates from falling as low as indicated by our model – at least temporarily.

Furthermore, liner operators appear willing to shed chartered in capacity, thereby temporarily shifting the potential surplus capacity from the freight market to the charter market. The outlook for the timecharter market thus appears rather bleak.

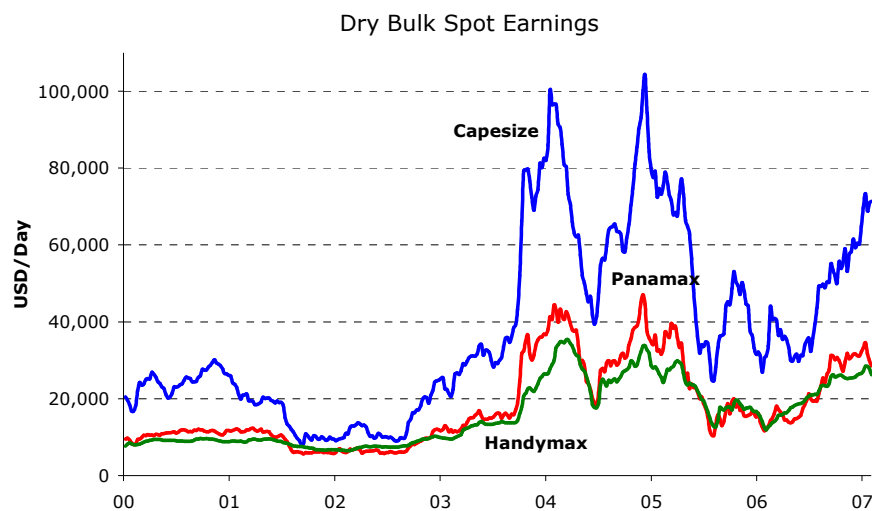
But a complete cascading of surplus capacity to the charter market is not possible in the indefinite. We expect fundamental supply and demand to be increasingly important during the second half of 2007. Freight rates in the second half of 2007 could thus show growing weakness. Consequently, we expect

average head-haul freight rates to fall by a lesser 3-5% in 2007 from the 2006 average level.

These estimates are of course all attached by great uncertainty.

Dry Bulk Ships

The turnaround that the dry bulk freight rates experienced in mid-June showed only temporary soft spots on its relentless rise. Freight rates in all dry bulk segments actually ended the year on a year-high.



Source: Clarksons

The 3rd quarter market turnaround appears to be the result of a fundamental improvement in the supply/demand balance from a 6.4% quarter-on-quarter rise in China's iron ore imports.

But the 4th quarter freight rate strength appears to have been caused by much more than just Chinese iron ore imports. Specifically we believe the strength to be the result of at least two factors: (i) The unexpected turnaround in 3q06 may have left some short positions in the FFA market uncovered, and the subsequent scramble to hedge long in the physical market may

thus have caused freight rates to increase irrespective of the underlying demand for transporting dry bulk commodities.

(ii) On top of the more sentiment-driven factor explained above that may have fuelled the freight rate surge beyond 3q06, increased port congestion soaked up a significant volume of ships thereby straining the supply/demand balance during an already heated period.

Increased Chinese steel exports have meant that China's steel exports now make up 12% of China's total steel production, up from an 8% share in 2005. More importantly, had the 32 million tonnes net increase in China's steel exports not happened in 2006, China's steel production would instead of a 21% increase in 2006 have exhibited a much more subdued growth of 12%.

We thus regard China's transformation from a net importer to one of the world's largest steel exporters as the single-biggest factor behind the sustained boom in seaborne dry bulk trade for yet another year.

We believe our basic arguments for a pending slowdown in China's steel production are still intact, and we thus do hold a concern that the current freight rate strength may only be a temporary hiccup before a prolonged correction in the market. Our expectations for a correction do not rest on worries of a flood of ship supply but rather rest on doubts on the sustainability of China's development.

Specifically, we anticipate China's steel exports to level off at current levels or perhaps grow at a slow pace. And even though it is not a direct fall in steel exports, the marked slowdown in iron ore import growth may thus be a difficult challenge for the overall dry bulk market in the period ahead.

Moreover, the Chinese government is increasingly stepping up its attempts to cut overcapacity in China's steel production sector and we expect it eventually to succeed. Specifically it appears that the restricting measures have led to a perceptible slowdown in China's steel industry investments as they grew by

only 1% in 2006. This is a clear slowdown from a 26-27% annual growth experienced in each of 2004 and 2005. Finally, we anticipate China's housing construction market to continue to grow resiliently throughout much of 2007. But as we on the other hand expect the Chinese government to be increasingly successful in its attempts to slow real estate investments, construction activity may exhibit much less resilience in late 2007, 2008 and 2009.

Almost all of the above highlighted issues indicate that China's steel production will probably slow significantly in 2007 to about 10-15% from the 21% growth experienced in 2006. Consequently China's iron ore imports will slow similarly, thus eventually leading to lower freight rates.

However, the slowdown in China's construction activities and steel exports is probably not to manifest themselves until the 2nd or 3rd quarter of 2007 and freight rates may remain high until then. Furthermore, it appears from recent Chinese iron ore statistics that Chinese steel mills and iron ore traders are in a preemptive stock-building of iron ore ahead of the scheduled rise in iron ore prices from April 2007. Therefore, Chinese iron ore imports may show great strength in the early months of 2007, but slow thereafter.

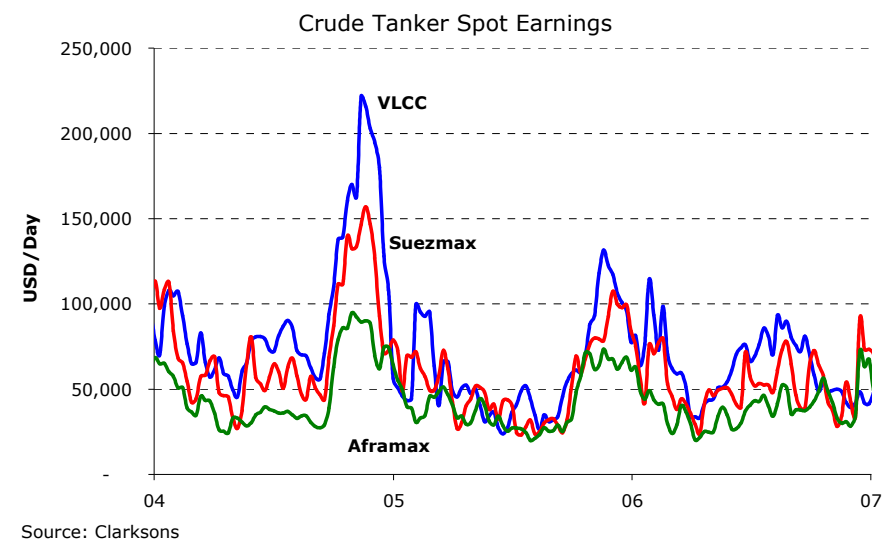
Beyond the development in China, we anticipate port congestion to return to normal levels sometime in 2007 and in the process bringing down freight rates as well. Unfortunately it is almost impossible to predict anything about port congestion, so we will not venture a more precise guess on the timing of this reduction in port congestion.

Crude Tankers

2006 has indeed turned out to be a one of the most atypical years ever for the crude tanker markets: 3rd quarter displayed high freight rates whereas particularly VLCC spot rates in the 4th quarter turned out rather low.

The somewhat poor performance of the VLCCs in the 4th quarter came as global petroleum inventories had grown too large. The resulting drop in oil prices forced OPEC member countries to cut output consequently removing a significant source of demand for crude tankers.

But OPEC's decision to cut output was not only due to excessive inventories. Specifically the revival of US crude and gas production in addition to higher Canadian petroleum production led to much lower requirements for US seaborne imports.



New crude tanker orders in 2006 amounted to an astonishing 53.5 million dwt which is a noteworthy 36.2 million dwt more than contracted during all of 2005. The current orderbook consequently indicates a very high fleet growth for the coming three years.

For the coming period, we expect that the boost to demand that crude and product tankers have enjoyed since 2003 from globally rising inventories will not be present to the same extent as it has since 2003. If the global surplus capacity cushion rises

further, we may even imagine a prolonged inventory reduction with much lower tanker demand as a consequence.

In addition, the tanker shipowners face the challenge of falling North American seaborne imports in both 2007 and 2008. According to EIA's forecasts, combined net petroleum imports of Canada and USA are expected to fall 0.6% in 2007 and a further 1.1% in 2008. That is after having fallen a considerable 4.8% in 2006 and thus marks three consecutive years of import declines for one of the tanker business' most important demand drivers.

On the other hand, overall petroleum demand in China is expected to show continued very healthy growth rates in 2007 and 2008. The IEA forecasts China's overall demand in 2007 to grow by 5.4% and petroleum net imports to grow by 12% (0.4 million barrels/day) compared to 2006. Unfortunately about half of the increase in China's imports in 2007-2008 may arrive via pipelines and overall Chinese consumption growth may not be as beneficial for tanker ship demand as otherwise indicated.

In conclusion, we expect average crude tanker spot freight rates in 2007 to be lower than in 2006. But we expect the still strong Chinese imports to be the key factor that will keep market sentiment and crude tanker freight rates from staying at very low levels for an extended period during 2007. Despite the absence of North American import growth and a quickly growing supply of tankers, we thus do *not* believe that the 2007 average spot rates will be much, if at all, below their 10-year historic average.

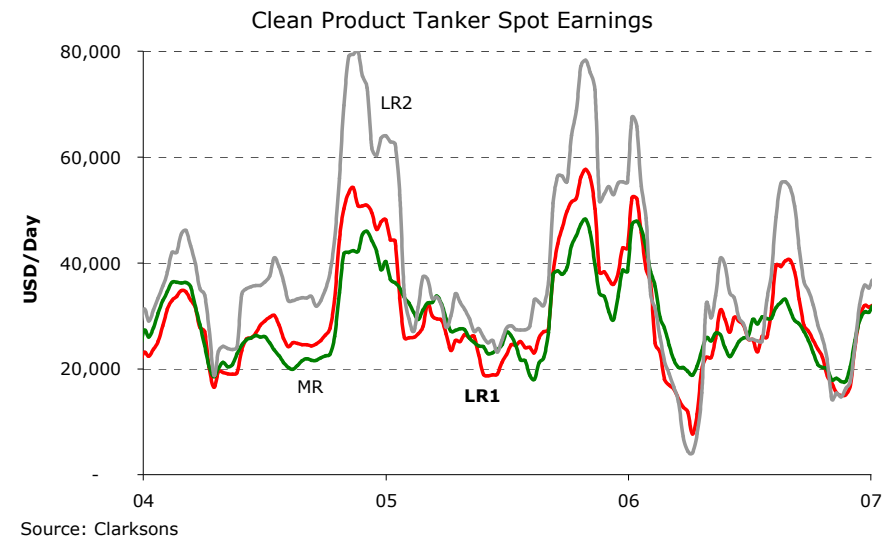
Product Tankers

The historically low freight rates that the clean product tanker experienced during the 1st quarter fortunately did *not* return in the second half of 2006.

Particularly the third quarter turned out to be exceptionally rewarding for the product tanker operators. On the other hand, freight rates in November hit rather low levels, but soon

bounced back. In general the largest vessel sizes experienced the greatest freight rate volatility.

In addition to an extraordinary build-up of storages worldwide, the high freight rates during the 3rd quarter occurred on account of a build-up of fuel oil in the Asian market over the June-August period, bringing storage levels close to full capacity and creating an unseasonal trading boom in the Asian market.



The subsequent downturn in freight rates that lasted until early December occurred as storage levels in some of the larger oil consuming regions had grown too high, thereby causing commodity prices, refining margins and the arbitrage trade to fall. This prompted a heavier than usual maintenance shut-down of refineries particularly in Japan and USA and a larger draw on product inventories brought back into normal territory by late November, demand for products imports could thus resume – leading to a subsequent bounce-back in freight rates.

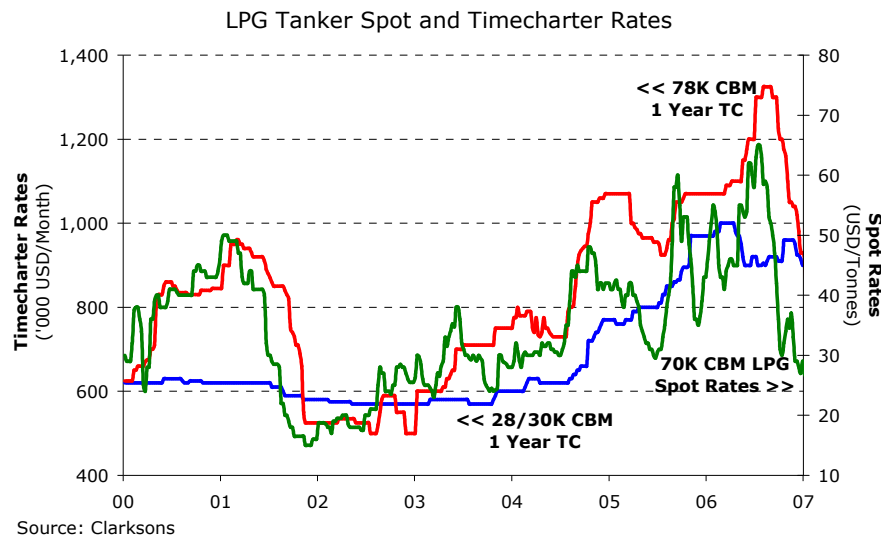
Product tanker shipowners may be facing a disappointing first half of 2007. With the warmest December and January in living

memory oil inventories in the US at high levels, chances of a sudden boost to product imports to the US within the coming 3-6 months seem to be on the low side.

On top of that, fleet growth may be an increasing source of worry and lead to lower product tanker freight rates over coming years. Nonetheless freight rates are still expected to remain at healthy levels in the long run as demand growth is anticipated to remain largely positive.

LPG Tankers

Particularly the Very Large Gas Carrier (VLGC) segment saw freight rates under severe pressure in the 4th quarter of 2006. The 3rd quarter on the other hand turned out to be one of the best quarters ever for the largest LPG carriers. The other LPG segments saw rates remain at rather high levels throughout most of the second half of 2006 – although on a downward trend over the entire year.



At the onset of 3rd quarter, traders world-wide were in a large-scale inventory build-up in anticipation of high autumn and winter LPG consumption thereby demand LPG tankers to transport the LPG from the refinery to the LPG storage site. But as 3rd quarter ran its course and the autumn weather turned out to be exceptionally mild it became obvious that LPG inventories in Europe, Asia-Pacific and the US had grown too high.

The resulting rush to slow LPG output to meet lower demand curbed spot cargo requirements to a significant degree. By November, at least four older VLGCs were placed into temporary lay-up with the intended purpose that it could stem the ongoing downturn in freight rates.

Global LPG consumption and consequent demand for LPG tankers additionally faced a reduction in 2006 as high LPG prices to an increasing degree have led low-income households back to using traditional cooking fuels. Consequently, domestic consumption in large parts of for example South America and developing Asia has fallen in 2006.

In Japan, domestic consumption fell as a result of weaker industrial sector demand as the industry continues to shift towards using lower priced natural gas.

Finally, China's LPG imports fell by almost 14% in 2006. As in Japan and South America, higher domestic prices have pushed end-users toward cheaper coal and natural gas. In combination with higher Chinese LPG output, continued increases in domestic production of natural gas also dampened China's demand for LPG.

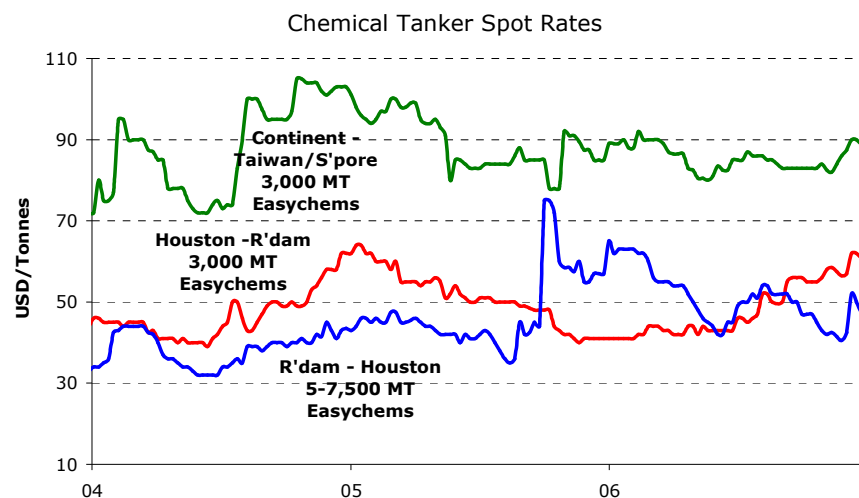
We expect freight rates in 2007 to exhibit less volatility than in previous years and to be lower than in 2006. Particularly in the early part of 2007, we expect freight rates to remain rather depressed as adequate supplies on hand in most consuming regions limit chances of price volatility and wide-spread arbitrage trading. Nonetheless, full storage and limited demand may lead to additional sales by companies that stocked up on LPG in anticipation of a cold winter, and this may be the factor

that keeps the shipping market and freight rates from going too low.

Chemical Tankers

The temporary imbalances in deep sea trading patterns to and from the US (because of hurricane related production outages in 2005) gradually receded in 2006. Consequently, freight rates on US chemical exports for instance to Europe showed a clear revival during the second half of 2006. Overall, freight rates on most *deep sea* routes stayed at rather high levels throughout the second half of 2006.

Similarly, freight rates on most *short sea* routes have also remained at rather high levels throughout the period.



Source: Clarksons

The rebalancing of deep sea trades continued into second half of 2006 as USA's chemical production facilities slowly regained full speed after having experienced significant outages following the hurricane devastations in 2005.

Additionally, a noticeable fall in gas prices, partly due to mild winter weather and partly due to a slowdown in USA's industrial growth, may have boosted US chemical exports as lower feedstock prices have improved the competitiveness of US chemical producers. Moreover, the European and particularly the German industrial production have gained momentum throughout 2006 thereby providing a fitting outlet.

Demand for seaborne chemicals is expected to exhibit robust growth throughout the foreseeable future. However, tonnage supply is expected to continue a conspicuous growth in the same period, and will most likely lead to a gradual fall in the fleet's utilization degree.

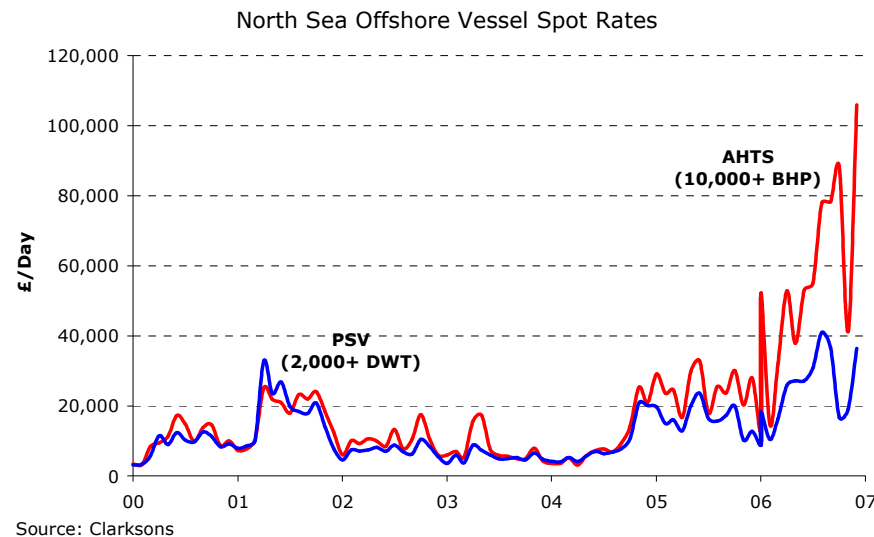
Freight rates are despite of a theoretical drop in fleet utilization not expected to fall in 2007 to any degree as the reclassification by January 1 2007 of almost all chemical products, vegetable oils and animal fats into higher IMO classification grades is expected to lead to increased uncertainty of ship supply and hence greater willingness to pay higher freight rates.

In general, the new classification rules are expected to lead to a more clear-cut boundary between the chemical tanker trade and the product tanker trade. Consequently, the degree of volatility in chemical tanker freight rates may past the reclassification implementation date most likely be greater than before, due to less ability of chemical and product tankers to change trading pattern in order to substitute each other.

Offshore Support Vessels

The second half of 2006 outperformed even our most optimistic expectations.

Average North Sea charter rates in the 2nd half of 2006 for the sub segment of AHTSs larger than 10,000 BHP were 219% above the 1st half 2006 average. Similarly, PSV (2,000+ DWT) charter rates in the second half of 2006 were 156% higher than average rates in the first half of 2006.



High charter rates were obtained through a significant demand growth in the North Sea with a high number of rig moves combined with bad weather. Furthermore, rates were supported by substantial growth outside the North Sea, with demand for offshore vessels growing particularly in India, Malaysia and Indonesia.

Secondly, the activity in West and North Africa has continued to contribute considerably to both the exploration activity and subsea construction activity with a direct positive impact on vessel demand. Especially the major drilling operations off the coast of North Africa, and the installation of FPSO vessels off Angola and Nigeria employed large numbers of advanced tonnage and construction vessels.

Attempting to foresee anything about freight rates in this environment is bound to fail. All that we will venture as a guess is that freight rates most likely are to stay much above any break-even level for offshore support vessel owners throughout 2007.

The offshore support vessel industry will become much more geographically segmented with new growth regions dispersed all over the world. The greater dispersion and consequential physical distance between offshore regions will lead to an effective reduction in the global supply of vessels available for charter at any given moments as vessels will have much longer transportation time to change region.

Secondly, as these new growth regions lack an effective spot market, rig operators are forced to over-charter to ensure the required supply. In sum, these factors reduce effective supply and increase demand, thereby exerting pressure on overall fleet utilization.

In conclusion, we hold rather positive expectations with regard to offshore supply vessel charter rates in the coming year. However, uncertainty at current high charter levels is proportionally high ■

Ship Building

High contracting continued in the second half of 2006, bringing the total contracting of the year up to 138 million dwt. This is up from 78 million dwt in 2005. Newbuilding prices consequently rose by about 5-13% in 2006.

CONTRACTING PRICES

Tanker and dry bulk newbuilding prices break new records

Ship newbuilding prices of nearly all ship types have for the last six months continued their upward move – rising by about 2-14 percent since the middle of 2006 and about 5-13 percent since a year ago.

As the order volumes within the tanker and dry bulk segments have exhibited a strong rebound from much lower 2005 levels, these particular ship types also experienced the largest price increases of the year.

Since newbuilding prices bottomed out in late 2005, oil tanker and dry bulk newbuilding prices have increased by about 11-14%, according to data from Clarksons and Fearnleys, and have now surpassed their previous record from early 2005. Although newbuilding prices of container ships gained 4-5 percent over the year, in 2006 they finished on a level well below their 2005 record highs.

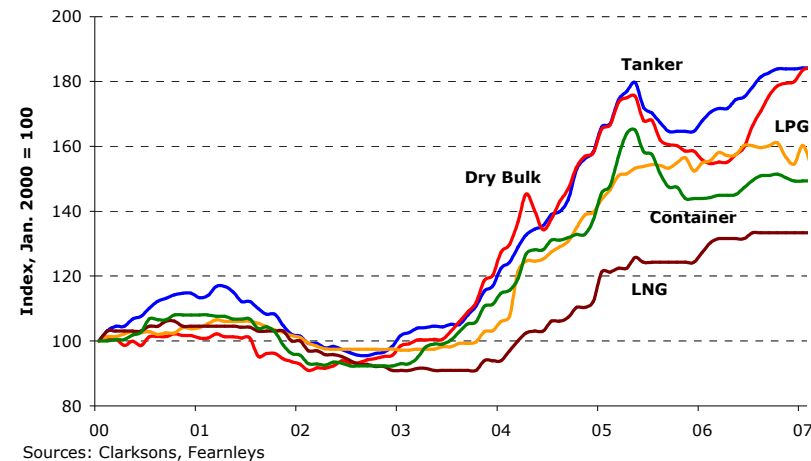
CONTRACTING ACTIVITY

Almost 2 years' worth of orders within just 12 months

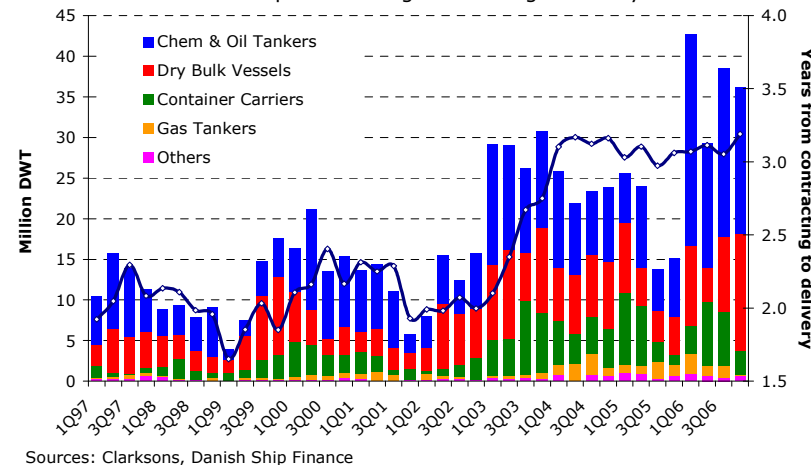
The price increases explained above are the results of a very large order intake by the shipyards during 2006.

2006 provided the yards with orders in excess of 138 million dwt, surpassing even the previous record-year of 2003 by a considerable margin. By comparison, 2002, 2003, 2004, and 2005 experienced order volumes of 51, 115, 95, and 78 million dwt, respectively, according to Clarksons. To put the 2006 order volume further into perspective, 138 million dwt correspond to more than 1.8 times the total volume that the yards delivered during 2006.

Newbuilding Average Price Index



Merchant Ship Contracting and Average Delivery Time



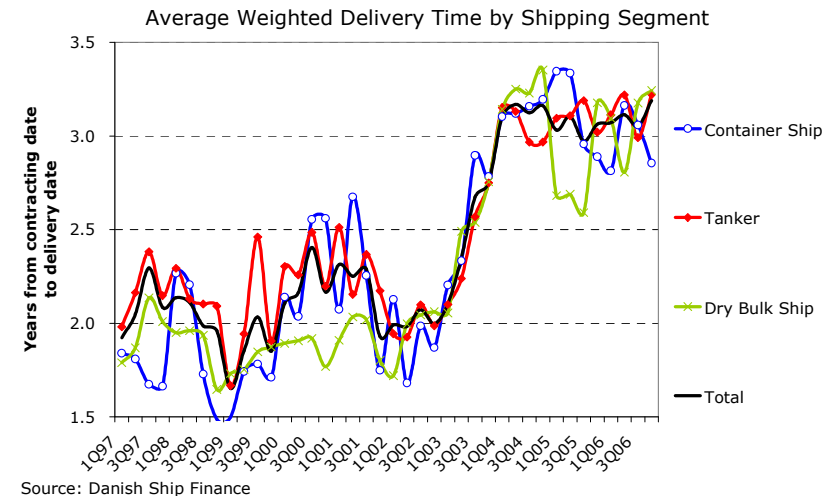
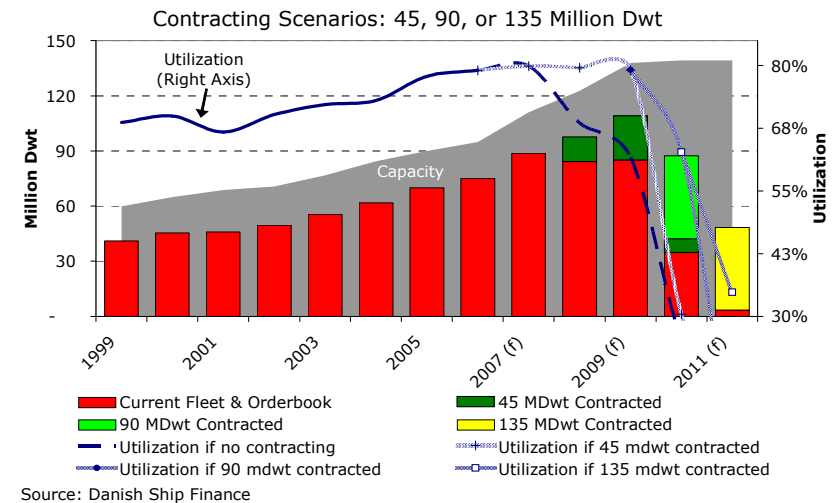
Given this staggering order intake it is slightly surprising that newbuilding prices did not rise more than the 5-13 percent actually experienced in 2006.

But the yards' 2006 deliveries of 75 million dwt are most likely the wrong benchmark against which to measure the yards' future shipbuilding capacity. Already for 2007 delivery, the yards have orders waiting that amount to an even higher 88.7 million dwt. And as far as we can estimate, the future shipyard capacity just keeps on growing for the next 4 years or more.

The growing shipbuilding capacity is also evident in the average delivery time from signing of the shipbuilding contract to actual delivery of the vessel. As depicted by the bottom right graph, the average delivery time has, despite of new orders representing 1.8 times the 2006 output, only increased by about 0.25 years from 3 years in early 2006 to 3.25 years in the final months of 2006. Had the future shipyard capacity not grown at all, the average delivery time would instead have increased by about 0.8 years to a record-setting 3.8 years, according to our calculations.

Thus even though the 138 million dwt in new orders itself is a daunting number, the global shipyard community is somehow managing to increase capacity to almost keep pace with demand, thereby limiting excessive price increases.

As displayed by the upper graph on the right, we estimate that the global shipyard community so far has planned capacity additions that will raise the global shipbuilding capacity from 95 million dwt in 2006 to about 138 million dwt in 2009. If we assume that the yards will have to maintain as high a capacity utilization as in 2006, the planned capacity increases imply that yards in 2007 will have a total order requirement of a massive 110 million dwt. Given that our estimates on planned capacity additions lean towards the conservative side, the shipyards' order requirements will most likely be higher than the estimated 110 million dwt for 2007 and will increase further for years ahead.



OUTLOOK

Too many new orders needed for newbuilding prices to stick

For a long time now, we have argued that newbuilding prices should be falling rather than rebounding. But to our growing concern, shipowners so far seem to have disregarded an already huge orderbook and have instead continued to order new ships in ever growing numbers, thereby contributing to push newbuilding prices to new record highs.

In order to clarify how much has already been contracted at the yards and to illustrate how much is still needed to maintain current newbuilding prices, we have chosen the three largest ship types as general examples: crude and product tankers, dry bulk ships, and container ships.

In the period 2004-2006, the three ship types exhibited a combined ordering activity that averaged around 95 million dwt annually. By comparison, orders of all other ship types in aggregate only constituted about 8 million dwt annually during the same period. Consequently the future development in newbuilding prices is almost entirely dictated by the development of the three largest ship types. Despite that a calculation based on compensated gross tonnage (cgt), instead of dwt, would probably result in slightly higher market share for the 'other' ship types, it however would not alter our conclusion fundamentally.

Tanker ships: given the current orderbook of crude and product tankers, the tanker fleet is expected to exhibit an annual fleet growth net of the required phase-out according to IMO's MARPOL regulations in 2007, 2008, 2009, and 2010 of 8.8%, 8.0%, 10.1%, and a negative 9.9, respectively. Aside from 2010, these high fleet growth numbers are in stark contrast to an annual average tanker fleet growth of about 2% since 1990, and may potentially lay the groundwork for much lower fleet utilization and tanker freight rates for years ahead.

More importantly, the required additional tanker orders needed to replace the remaining tankers that will be phased out in 2010 according to IMO's MARPOL regulations is a significant 44 million

dwt. But the lessons of 2005 have taught us that many non-double hulled tankers will continue trading past their phase-out date or will be converted to double hull long before then. Furthermore, a large part of the oversupply that will occur in 2008-2009 is probably aimed at the expected phase-out in 2010.

Consequently, the 44 million dwt are most likely the *maximum imaginable* replacement requirement, with the real newbuilding requirement probably being far less. More importantly, for each of the ten years after 2010, the IMO phase-out numbers dwindle to an insignificant 1.5 million dwt.

Dry bulk ships: although the current dry bulk orderbook does not portend a future fleet growth as high as in the tanker segments, the current *official* dry bulk orderbook nonetheless indicates a fleet growth in 2007, 2008, 2009, and 2010 of 7.5%, 4.9%, 2.9%, and 1.6%, respectively, net of estimated scrapping. By comparison, the dry bulk fleet has been growing by about 3.5% annually ever since 1990.

However, an important issue to address regarding the future fleet growth based on the official orderbook is the tendency of Japanese shipyards not to officially register their orders until shortly before construction of the ship. Consequently, **a fleet growth based on the official orderbook may paint too rosy a picture for the future balance between supply and demand.**

Instead, we work under the plausible assumption that the Japanese shipyards are already completely booked until the end of 2010 and that they in each consecutive year are capable of building at least 18.4 million dwt dry bulk ships, which they did in 2006. Thus, the potential under-reporting lifts the annual fleet growth to 7.8%, 6.7%, 4.7%, and 4.5% in the four years ahead. Notably, this is without taking in account the yards' ongoing size and efficiency advances that gradually lift the yards' building capabilities.

Should the shipowners wish to be ahead of the curve and order for 2011 delivery, a net fleet growth between 3% and 6% would equate to 19-32 million dwt in incremental newbuilding orders which is still markedly down from 34 million dwt ordered in 2006.

Container ships: the last of the three large and all-important ship types that feed the global shipbuilding industry is also exhibiting much larger fleet growth for the upcoming 2-3 years than what demand is likely to match.

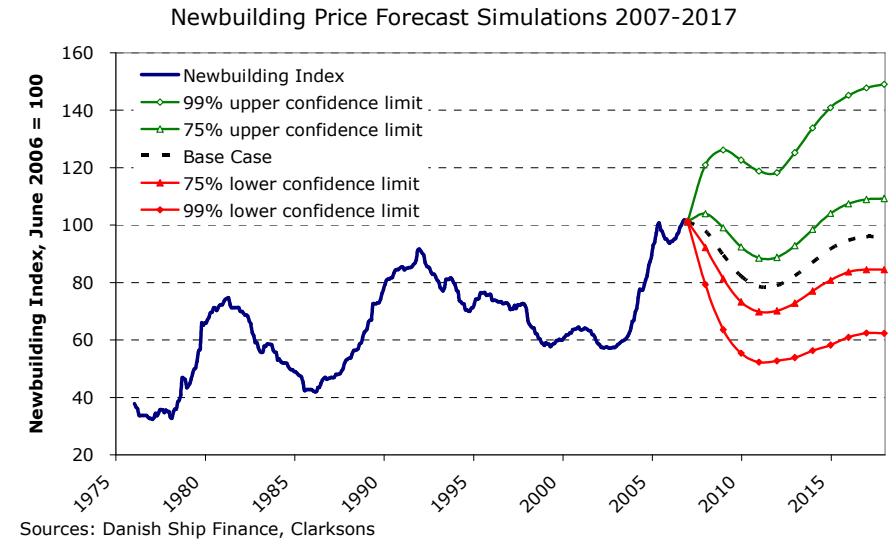
Given the current container ship orderbook and allowing for a steady scrapping of old tonnage, the fleet is expected to grow by 14%, 13.7%, 10.7% and 7% in 2007, 2008, 2009, and 2010, respectively. But as fleet growth in 2007-2009 is far above what demand is expected to increase by and marks a growing oversupply of ships 2-3 years ahead, fleet growth in subsequent years will have to be noticeably lower in order for fleet utilization and freight rates to return to the more healthy levels of 2005.

If indeed container shipowners are capable of demonstrating a collective act of restraint, a sub 10% annual fleet growth for 2010 would equate to incremental orders within the next 12 months of about 5.5 million dwt (450,000 teu). If the shipowners in addition to their 2010 requirements were to order for their 2011 requirements for a restrained 4% growth, it would equate to an extra 12 million dwt (1 million teu) – totalling 17.5 million dwt of orders in 2007. This would mark a clear fall in ordering activity from 20 million dwt (1.6 million teu) in 2006 to 17.5 million dwt (1.5 million teu) in 2007.

Unfortunately for the shipyards, the meticulous calculations explained above bear evidence that the combined newbuilding demand for new tanker, dry bulk, and container ships has a greater chance of falling dramatically rather than remaining at an elevated level for yet another year.

If shipowners begin to show restraint, total ship orders will fall to a range of 55-100 million dwt in 2007 – depending on the degree of restraint. After 2007, we expect total ship orders to fall even further as particularly the tanker phase-out is expected to fall from 62 million dwt in 2010 to about 1.5 million dwt for several years thereafter.

By comparison, yards need at least 110 million dwt of new orders during 2007 for them to maintain their order backlog of 3.25 years and significant pricing power. After 2007, the yards' order



Change in newbuilding prices
from end-2006 levels

End year:	Lower 75% confidence limit	Base Case:	Upper 75% confidence limit
2007	-9%	-3%	3%
2008	-20%	-12%	-2%
2009	-28%	-19%	-9%
2010	-31%	-22%	-12%
2011	-31%	-22%	-12%

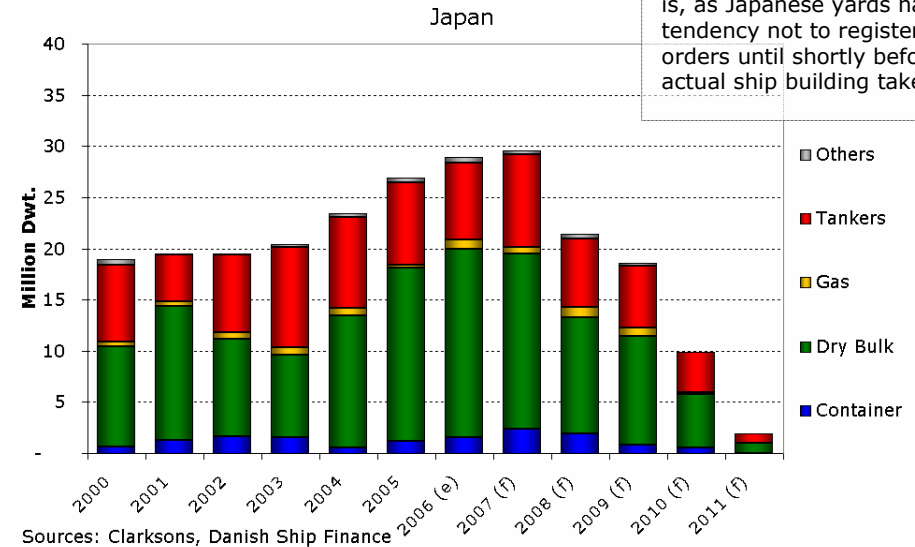
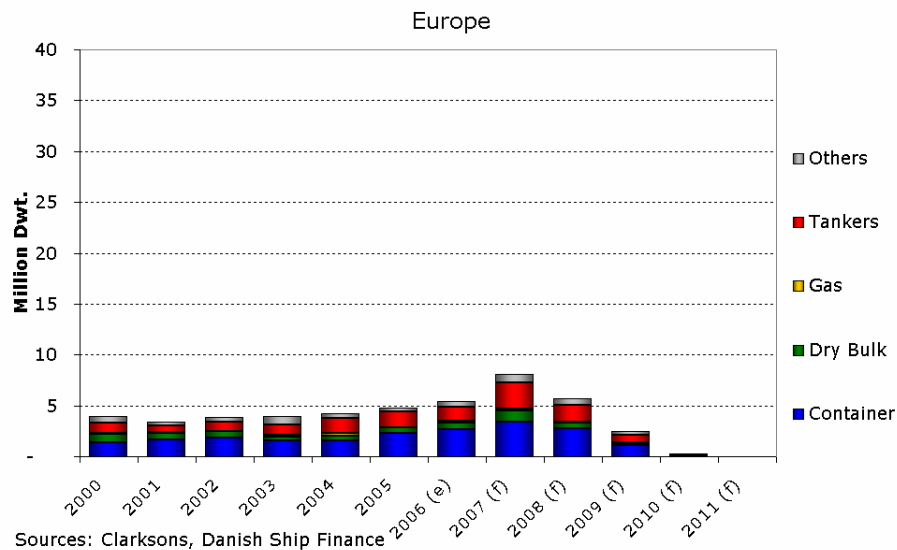
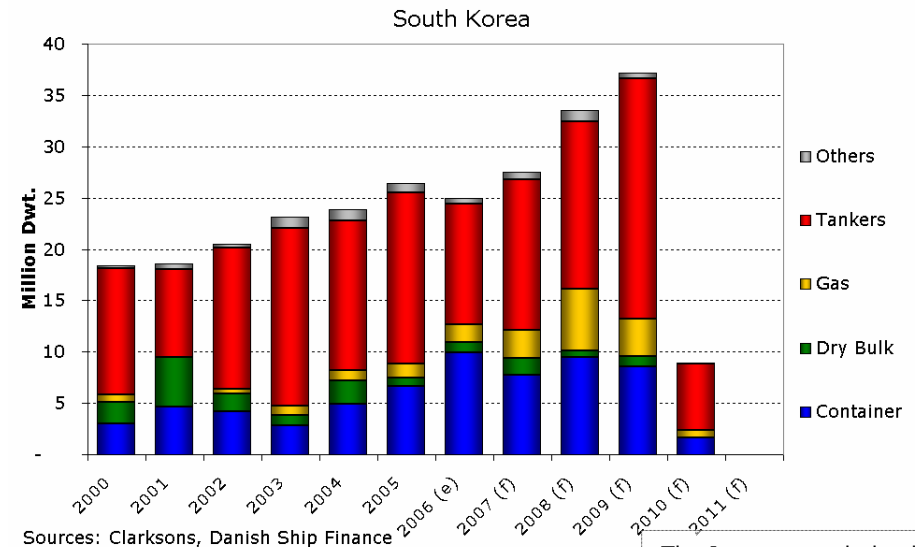
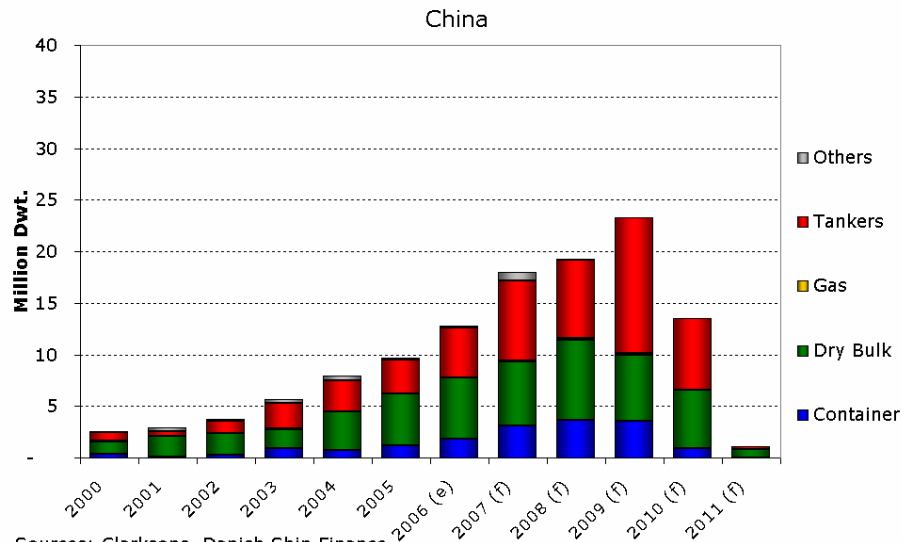
Source: Danish Ship Finance

requirements will increase even further as shipbuilding capacity continues to expand rapidly for years ahead.

In conclusion, we arrive at the expectations that newbuilding prices for the next couple of years are set for a fall (see above graph and table). As yards are still in a very comfortable situation and as most shipowners are still flush with cash, the price fall in 2007 will probably not be significant. As the oversupply of shipyard capacity becomes ever more apparent in coming years, newbuilding prices will most likely depreciate at a growing rate ■

Fleet & Orderbook as per January 3 2007 by Region of Build and Year of Delivery

(Excludes allowances for possible slippage from scheduled delivery dates)



The Japanese orderbook may appear smaller than it actually is, as Japanese yards have a tendency not to register their orders until shortly before the actual ship building takes place.

Container Ships

Freight rates recouped some of the lost ground in the second half of 2006, whereas the timecharter market on the other hand was negatively influenced by liner operators shedding as much excess capacity as possible. Despite falling timecharter rates, secondhand prices continued to rise.

FREIGHT RATES

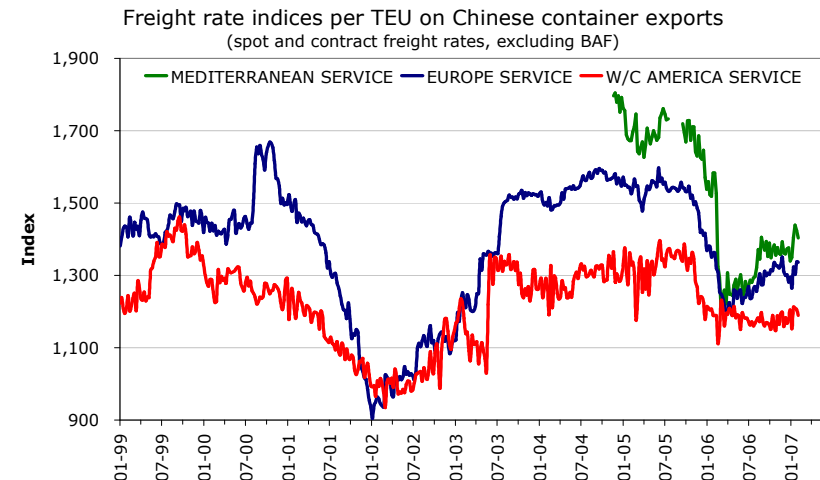
Freight rates recoup some lost ground, but T/C rates fall

In our last Shipping Market Review we forecasted head-haul freight rates to drop by approximately 11% on average in 2006 from the 2005 average for the two main head-haul routes: Asia-Europe, and Asia-North America. As actual 2006 freight rates turned out 13% lower than 2005, our forecast turned out slightly too positive even though the European economy surprised positively in 2006. In a historical perspective, freight rates in 2006 ended on a level close to their historical average.

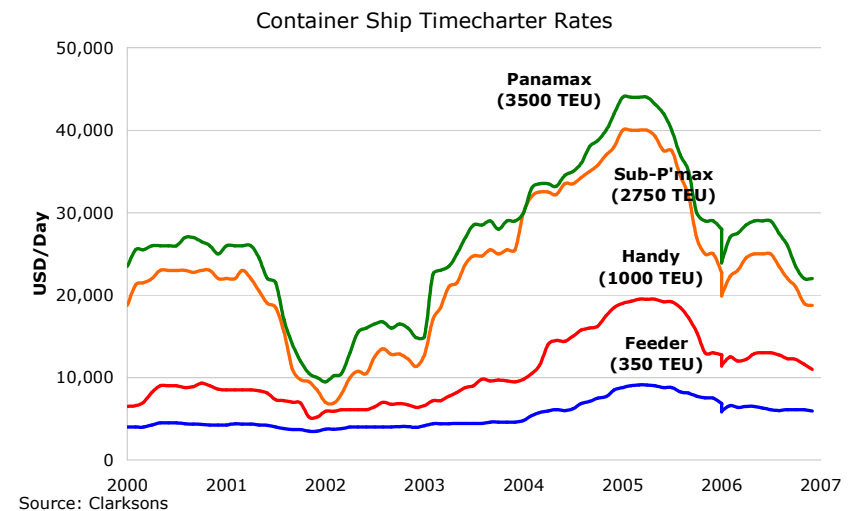
Despite the noticeable fall in average annual rates, the liner operators in the second half of 2006 managed to claw back some of the lost ground.

Considering timecharter rates, the average length of the fixture period declined slightly to 12 months in late 2006 from 15 months in early 2006. The slight shortening of fixture periods may indicate that market participants are growing slightly less comfortable that timecharter rates will remain at current levels for long. Furthermore, the uncertainty in the market is still at a high level given that the current fixture length is markedly down from the high of 35 months in early 2005.

Timecharter rates are on average down by 29% in the 3rd quarter and down 21% in the 4th quarter, measured year-on-year. As the largest ships have seen the largest drops in timecharter rates, it may indicate that they to a larger extent than the smaller segments have been adversely hit by cascading as big liner companies shed their excess tonnage.

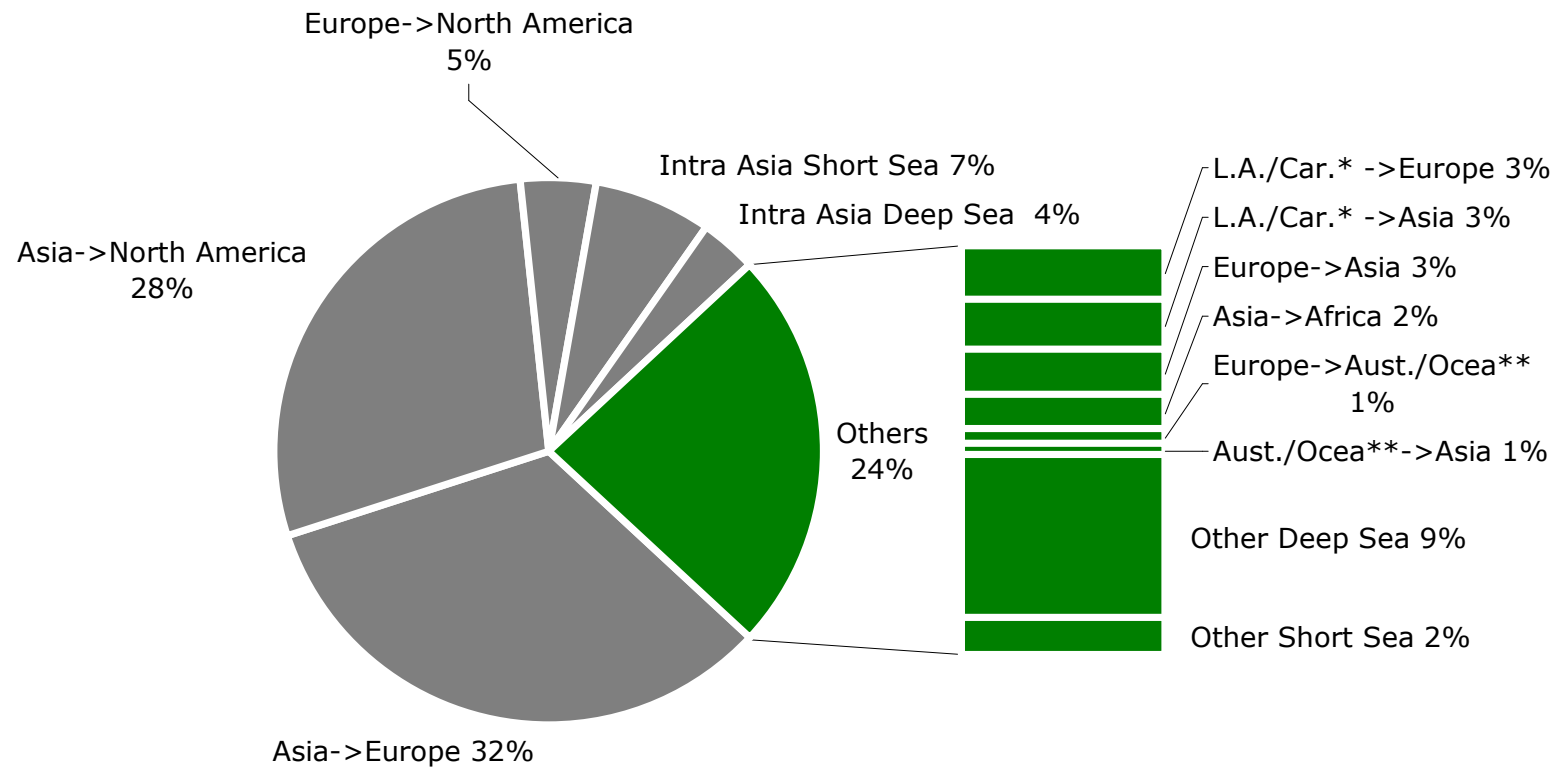


Source: Ministry of Communications of the People's Republic of China



Source: Clarksons

Total Head-Haul Container Ship Demand in 2006 by Route (Measured by teu-Nautical Miles)



Sources: Danish Ship Finance, Global Insight

** Australia and Oceania
* Latin America and the Caribbean

SUPPLY & DEMAND

Lower supply and higher demand than we had expected

Admittedly, global demand growth outperformed our expectations of 9-11% from our previous Shipping Market Review in mid 2006. Instead demand growth ended up at about 11%, according to Drewry Shipping Consultants' estimates on global port handling activity.

Especially Europe's imports of containerized goods from Asia rather surprisingly experienced two unusually strong quarters in the beginning of the year followed by two average quarters. In addition, US consumption demonstrated resistance to rising interest rates, largely supported by falling oil prices.

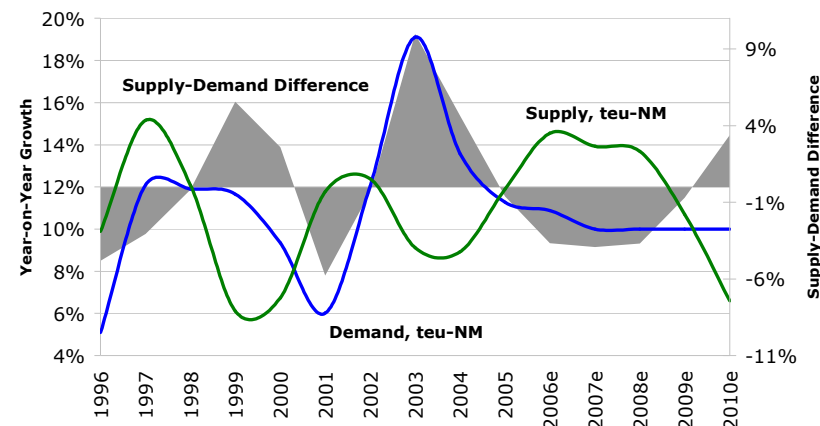
A breakdown of the port handling figures bears evidence that global container trade has seen a locomotive switch: from the still vibrant but uncertain U.S. economy to the steady but reviving European economy. Intra-Asian trade continues to show very healthy growth, but the shorter distances involved in this trade may mean that its importance on overall demand for containerships is less than that of the European and North American economies.

In addition to being positively surprised by demand, supply growth on the other hand was lower than previously anticipated. Specifically, the containership orderbook as per August 2006 heralded a fleet growth in 2006 of a massive 16%, but 2006 fleet growth actually ended up being 14.5%.

In total, the higher demand and lower supply meant that the actual supply surplus shrank from our anticipated 5-7% to a much lesser 3.5% in 2006.

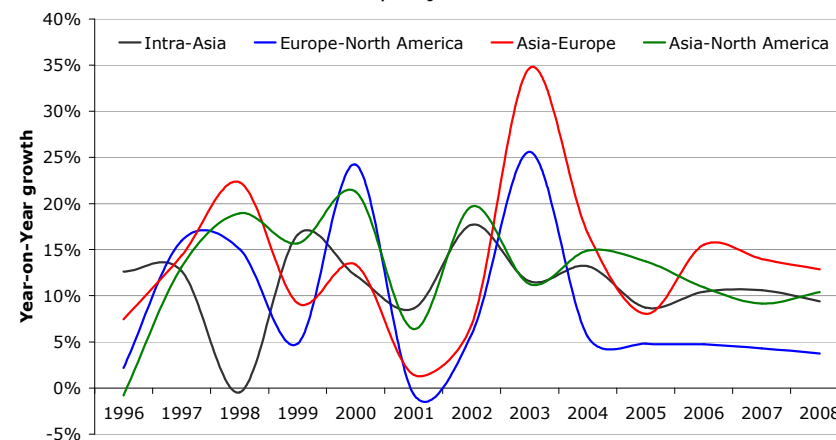
Thus, the fact that liner operators managed to increase freight rates during the second half of 2006 is to a certain extent the result of a general acceptance that maybe the fundamental picture of supply and demand was not as weak as previously anticipated. Additionally, the uncertainty in the first half stemmed from large-scale mergers between some liner operators which for the most part was resolved by the fourth quarter.

Head-Haul Demand Growth & Containership Supply Growth
(Forecast assumes no further newbuildings than current orderbook)



Sources: Danish Ship Finance, Clarksons and Global Insight

Trade Growth by Major Head-Haul Route



Sources: Global Insight, Danish Ship Finance

Our interpretation of the lower than anticipated supply growth is that Clarkson's orderbook and fleet data had been revised due to two factors: (i) First of all, call options on newbuildings may have been included in the earlier data. But as a result of lower freight rates, the options may have been 'out of the money' and hence not exercised. (ii) Secondly, the delivery date of some orders and options may have been postponed, as an already large orderbook was threatening to aggravate the fleet surplus.

In addition to lowering the fleet growth for 2006, the cancellation or postponement of containership orders has led us to downgrade fleet growth in 2007 from 16% to 14%.

The revisions to past and future fleet growth bears evidence that containership owners are indeed exhibiting restraint and doing as much as possible to prevent freight rates from sliding further.

Additionally, shipowners have fought declining freight rates and overcapacity by extracting capacity during the slack season of the fourth quarter. The temporary reduction of capacity is told to last until at least the end of the Chinese New Year holidays which last until end of February.

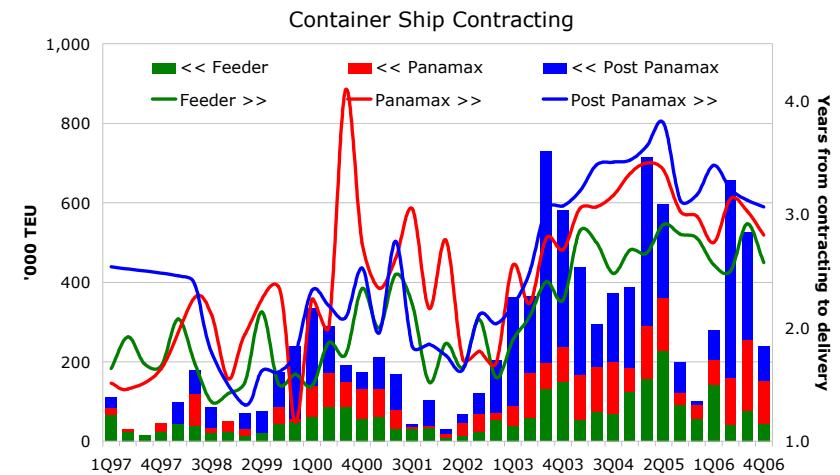
CONTRACTING & SHIP VALUES

Higher secondhand prices despite falling freight rates

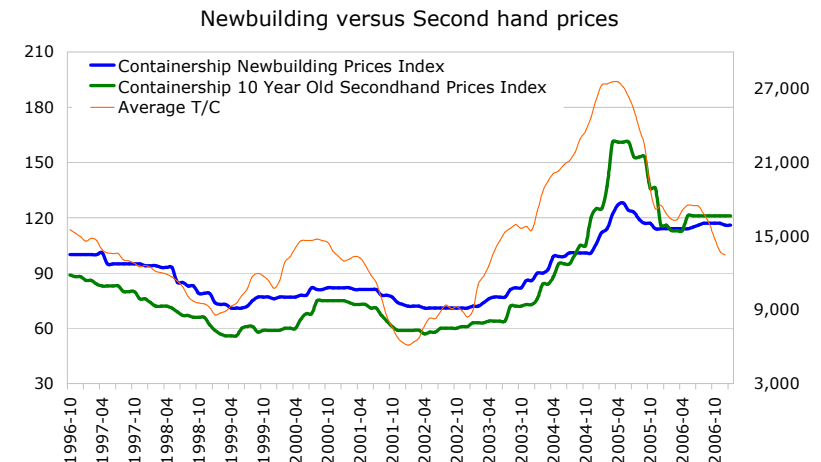
In terms of contracting activity, 2006 turned out to be the second most active year with 1.6 million teu contracted. This high activity happened despite declining freight and timecharter rates, lower fleet utilization, and profit warnings from several major liner operators.

Especially post-panamax ships were heavily contracted with 497.000 teu contracted in the second quarter and 271.000 teu contracted in the third quarter.

Disregarding that timecharter rates lost approximately 20% throughout 2006 and freight rates dropped about 10-13%, secondhand ship prices increased approximately 10%.



Sources: Danish Ship Finance and Clarksons



Sources: Danish Ship Finance, Clarksons

The aberration between ship prices and timecharter rates implies that either ship owners have an unfailing belief in the future, or required return on investment is being cut to the margin.

OUTLOOK

A continued supply surplus 2-3 years ahead

According to current orderbook statistics it appears that approximately 1.5 million teu will enter service in 2007, raising nominal fleet capacity by 13.9%. Given our base scenario of 10% head-haul demand growth, **surplus capacity will grow by about 4% in 2007**, thereby extending the slide in overall fleet utilization that began in late 2005.

Freight rates in 2007: 3-5% fall

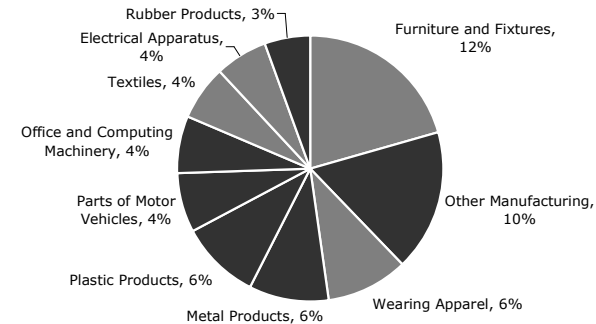
Based on these fundamentals, our forecast model indicates an 8% drop in 2007 average freight rates for the three largest head-haul routes: Asia-Europe, Asia-North America, and Europe-North America.

However, the model disregards any non-fundamental factors and may thus paint too bearish of an outlook for freight rates. Specifically, overall market sentiment currently appears rather bullish, and this alone may most likely prevent freight rates from falling as low as indicated by our model – at least temporarily.

Furthermore, liner operators appear willing to shed chartered in capacity, thereby temporarily shifting the potential surplus capacity from the freight market to the charter market.

However, a complete cascading of surplus capacity onto the charter market is not possible in the indefinite. In addition to a further slowdown in US containerized imports expected to materialize in the latter part of 2007 or in early 2008, we expect fundamental supply and demand to be increasingly important during the second half of 2007. Despite being the seasonal high-point of containerized trade, freight rates in the second half of 2007 could thus show growing weakness.

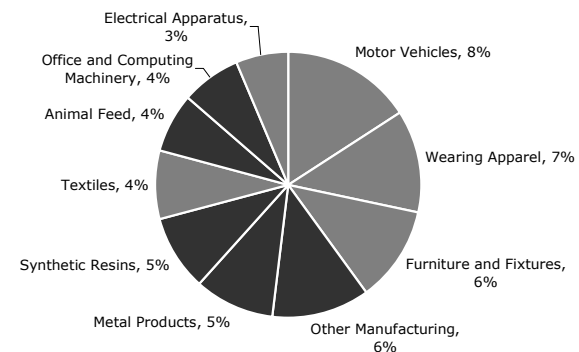
Top 10 Commodities
Asia to North America



Sources: Danish Ship Finance, Global Insight

Industry, 4.7 million teu
Consumer, 3.7 million teu

Top 10 Commodities
Asia to Europe



Sources: Danish Ship Finance, Global Insight

Industry, 2.5 million teu
Consumer, 3.1 million teu

Consequently, we expect average head-haul freight rates to fall by about 3-5% in 2007 from the 2006 average level.

These estimates are of course all attached with great uncertainty.

Timecharter rates: continued weakness

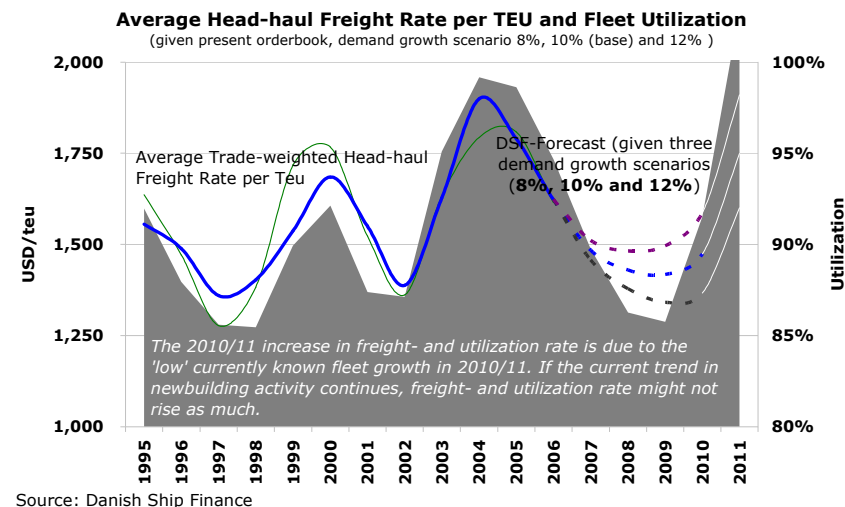
The 2007 outlook for the timecharter market appears rather bleak. The supply surplus has so far materialized via profit warnings from several major liner operators. Consequently they have reacted by shedding ships onto the charter market, thereby pushing down timecharter rates. **As these actions by the liner operators to a certain degree are expected to continue throughout 2007, timecharter rates are expected to show further weakness.**

The next few pages include a brief listing of our basic views on essential macroeconomic issues that is expected to impact demand for containerships. It may be a bit long, but as it seems that the market's expectations for the long-term demand growth may have slightly disconnected from our views we find it to be useful reading.

As can be seen from the graph on page 20, the all-important economic regions for containership demand are North America and Europe. Despite that Asia's intra-regional containerized trade is very large measured in absolute numbers of containers, its share of total containership demand is much smaller when considering the shorter distances involved. Furthermore, Asia's imports from the Western world are *not* of significant importance to the demand for containerships as most of the trade is on *back-haul* routes.

US containerized imports: further slowdown ahead

Our basic outlook for the US economy is that 2007 will prove more resistant than core fundamentals imply as monetary policy is still supportive of growth and energy prices have fallen. However, the macroeconomic outlook for the US economy points towards a gradual economic slowdown. GDP is expected to grow by 2.8%, 0.7%-point below 2006, and total domestic demand is expected to grow by 2% which is a reduction of 1.3%-points from 2006 (Economist Intelligence Unit (EIU), 2007).



We expect a resilient economic growth in the first half of 2007, but remain in doubt for economic growth and containerized imports in the second half 2007. Particularly, we hold reservations regarding the growth in US consumers' disposable income as a massive debt resetting scheme by mid-2007 for US mortgage loans is expected to lead to much higher interest payments. Given that US house prices are not expected to show much growth in 2007, mortgage lenders are to an increasing extent barred from meeting higher interest payments by taking on additional mortgage debt.

However, the extent and the precise timing of this debt resetting on US private consumption, personal savings, and containerized imports are more difficult to foresee. Nonetheless, we expect US containerized imports to continue to grow below trend. In addition to limiting the US homeowners from taking on additional mortgage loans, the general slowdown in US housing sales and construction activity will have a direct impact on containerized imports. This is particularly evident from the upper graph on page 23 as 'Furniture and Fixtures' and 'Other

Manufacturing' are the most traded commodities on the Asia-North America route.

The last major challenge that US containerized imports face is a continued depreciation of the US dollar. We believe Beijing will continue to accelerate the pace of USD/CNY decline in an attempt to diffuse unnecessary and unwanted political attention from a Democratic US Congress. Consequently, US imports from China and rest of Asia will become more expensive, possibly leading to slowing US imports.

In conclusion, we expect the combination of a housing slowdown, a slowdown in US private disposable income, and an appreciation of the CNY will lead to a gradual acceleration in the slowdown in US containerized imports from Asia.

European containerized imports: sustained strength

Our basic expectation is that growth will stay largely robust throughout 2007, and maybe slow in the first half only to re-accelerate later in 2007.

The housing market slowdown in some European countries along with loss of purchasing power stemming from the German VAT hike (effective from January 1, 2007) are likely to become offset by rising real income due to stronger wage growth, lower oil prices and continued strong labour market performance. As such, consumer demand growth looks set to be robust in 2007.

However, the first half 2007 outlook for Europe is clouded by macroeconomic uncertainties given the potential slowdown in US imports and the consequences of a three-point VAT hike in German. Furthermore, European economic growth is likely to slow as additional ECB rate hikes are likely and as fiscal tightening in German and Italian government budgets is announced. But once fiscal policies relax their grip, growth should re-accelerate in Europe.

In terms of demand for containerships, we anticipate lower Asian currencies against the Euro to be instrumental in keeping import

growth robust in 2007 despite a temporary slowdown in European economic growth. Furthermore, as European containerized imports appear much less exposed to the ongoing slowdown in housing markets (see lower graph on page 23), as compared to US containerized imports, the outlook for containerized imports to Europe thus appear in a much better condition.

Asia to Europe was the head-haul route that experienced the largest freight rate reductions in 2006. Liner operators therefore on this route in particular are aiming to push westbound freight rates higher in 2007.

According to the two liner conferences FEFC and TSA, the liner companies anticipate a trade growth of about 15% on the Asia-Europe route. But total supplies of post-panamax (4.000+ teu) ships are expected to increase by approximately 20% in 2007. And with the lion's share of new ships expected to enter service on the Asia-Europe trade routes, the liner operators' intentions to implement freight rate increases on these routes may not be completely successful. However, liner operators may decide to extend the tonnage lay-up in order to sustain freight rates in exchange for lower overall capacity utilization.

In conclusion, we expect European containerized imports from Asia to show sustained strength, although with momentary weakness. Despite continued trade growth, containership supply is expected to outgrow demand.

Outlook for 2008+: continued fleet growth, questionable demand

The long-term outlook for the container trades continue to be clouded by above-trend fleet growth. Based on current orderbook statistics, containership supply in 2008, 2009, and 2010 is set to grow by about 13.7%, 10.7%, and 6.6%, respectively. Consequently, demand will have to grow significantly above its long-term historic trend of 9-10% just to maintain status quo on fleet utilization.

But our base case demand scenario entails an annual growth of about 10% in the coming 1-3 years, only to gradually slow down

to a level of about 6-9% in the very long term. **This leaves us with the anticipation that ship supply will continue to overshoot demand by about 3-4% in 2008, and barely break even in 2009.** Barring any additional orders *at all* for containership newbuildings, demand may as late as 2010 begin to catch up with supply, although only slowly to begin with.

As with short-term demand growth, long-term demand is overly dependent on European and North American containerized imports to stay strong.

In regards to Asia's importance for the overall containership demand, the relatively small market share of the aggregated intra-Asian trade (see exhibit on page 20), and given the trade-dependent characteristics of the Asian economies, we find it rather unlikely that these economies have the potential to offset a slowdown in US or European containerized imports.

Regarding North American containerized imports, we have not yet seen any fallout from a slowdown in US's housing markets. **We do not expect the fallout from a US housing slump to be sudden or dramatic. Rather we expect it to result in a gradual slowdown, ultimately resulting in a long-term import growth that is below the long-term trend.**

An additional long-term challenge facing US containerised imports is the inevitable return to a positive personal savings rate that will lead to relatively slower consumption growth for many years ahead. In the past many years, US consumers have relied on rapidly rising house prices and stock prices to provide them with the necessary savings. But **with house prices most likely being in a long-lasting pause-mode, consumers will eventually be forced into resuming an income based saving rather than an asset based.** Whether this gradual return to a positive personal savings rate will begin in 2007, 2008, or even later, remains a significant uncertainty to our downbeat demand expectations.

The last major challenge that we see facing demand for containerships is a gradual reduction in China's competitiveness.

As the CNY is slowly but steadily appreciating against the USD, as labour costs are rising, as production subsidies are gradually removed, and as environmental controls are tightened, the Chinese economy is already showing early signs of falling competitiveness particularly with respect to low value-added products. The long-term implications may be that production capacity will move to other countries such as India, rest of Asia, Eastern Europe or elsewhere, and this will most likely lead to a reduction in transport distances and thus demand for containerships.

The point is that demand for containerships is as much a question about globalization and price competitiveness as it is a traditional demand issue. European and US consumers do not have some kind of exclusive preference for Chinese products, they simply demand lowest possible prices! Forecasting long term demand growth is therefore as much a question of forecasting changes in production patterns as it is a question of forecasting US and European demand.

In conclusion, we expect demand growth in the very long term to steadily slow. Obviously, this is not going to be the case by 2008, but it certainly will be an interesting trend to follow. Instead we see a still high fleet growth as the most important threat facing the ability of container shipowners to maintain fleet utilization and hence freight rates in the coming 1-3 years ■

Dry Bulk Ships

The impressive turnaround in freight rates that began in mid-2006 continued unabated throughout the second half of 2006. Consequently secondhand prices and contracting activity showed a similarly impressive comeback

FREIGHT RATES

Upturn for all segments, now Capesizes lead the way

The turnaround that the dry bulk freight rates experienced in mid-June showed only temporary soft spots on its relentless rise. Freight rates in all dry bulk segments actually ended the year on a year-high.

Timecharter rates saw similarly impressive gains. For instance the 1-year timecharter rate of a modern 170,000 dwt Capesize rose from about 30,000 USD/day in mid-2006 to an impressive 64,000 USD/day by year-end, according to Clarksons.

SUPPLY & DEMAND

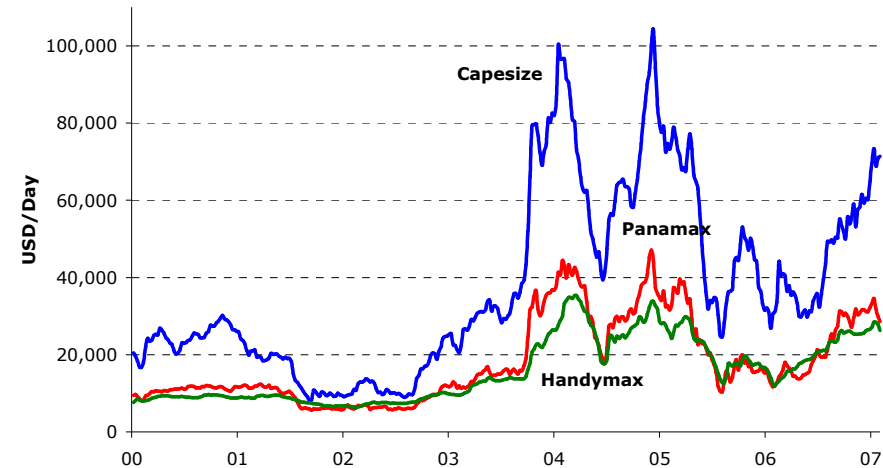
China continued its transformation from importer to exporter

With a 19% growth in 2006 iron ore imports compared to the previous year, China's seemingly insatiable demand for iron ore once again seems to have come to the forefront of this remarkable freight rate comeback in the dry bulk segments.

But although 19% (53 million tonnes) may still be characterized as a remarkably strong growth, it nonetheless marks a clear slowdown from the 31% (65 million tonnes) experienced in 2005 and the 40% (59 million tonnes) experienced in 2004. On this account alone the impressive turnaround in freight rates seems a bit incomprehensible.

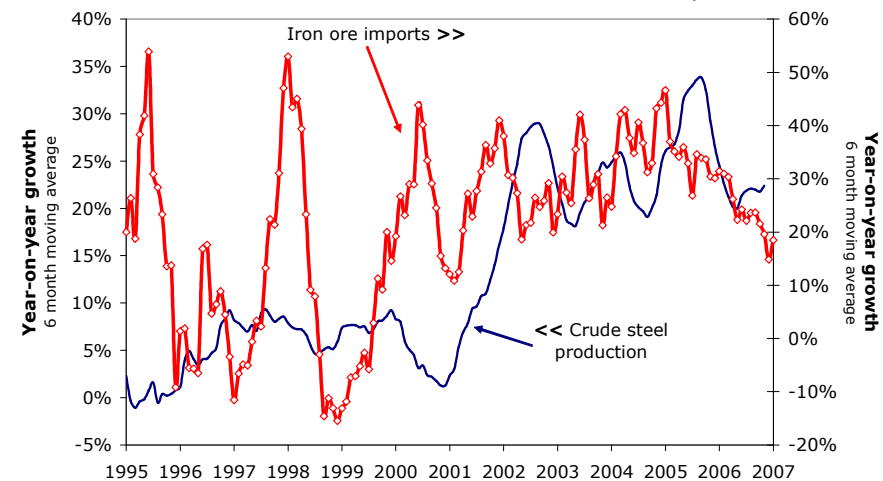
The 3rd quarter market turnaround appears to be the result of a fundamental improvement in the supply/demand balance from a 6.4% quarter-on-quarter rise in China's iron ore imports. But given a 7.6% quarter-on-quarter *fall* in China's iron ore imports the

Dry Bulk Spot Earnings



Source: Clarksons

China's Crude Steel Production vs. Iron Ore Imports



Sources: Reuters Ecwin, Steel Business Briefing, Danish Ship Finance

continued rise in freight rates during 4q06 is a bit harder to find justification for.

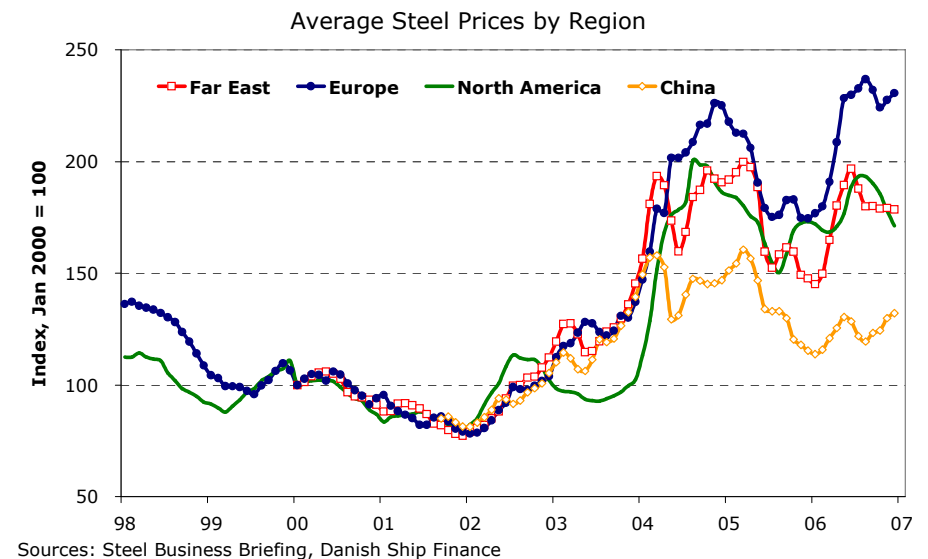
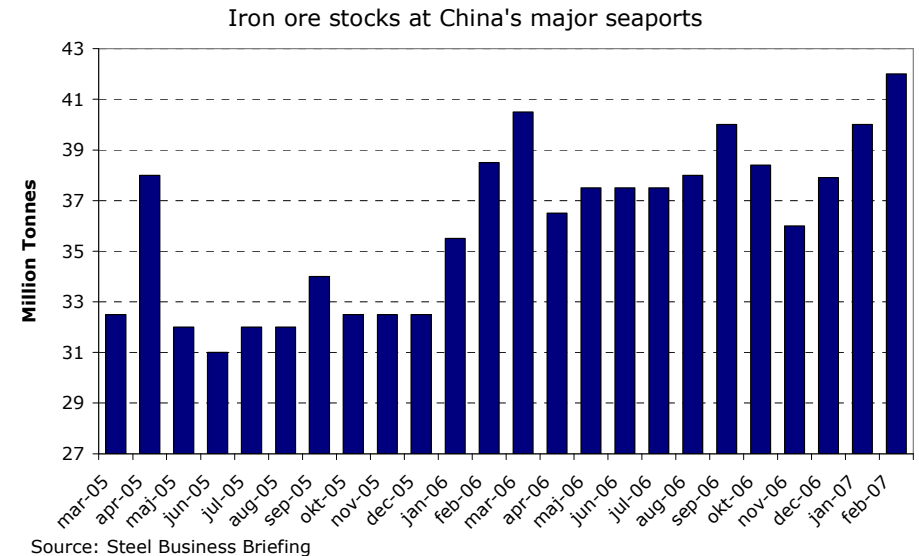
Some have claimed that the 4th quarter drop in imports was due a statistical error rather than an actual fall in physical shipments. But the 4 million tonnes draw on iron ore inventories at China's ports (see upper graph on right) from mid-September to mid-November is confirmation that imports during this period most likely were lower than normal.

The likely draw on inventories that we cautioned against in our previous Shipping Market Review thus did indeed happen. But somehow the temporary fall in imports did not lead to falling freight rates as we otherwise expected it to do.

The apparent extraordinary strength witnessed in the dry bulk markets within the last three months appears to have been caused by much more than just Chinese iron ore imports.

We believe the 4th quarter freight rates boost to be the result of at least two factors: (i) The unexpected turnaround in 3q06 may have left some short positions in the FFA market uncovered, and the subsequent scramble to hedge long in the physical market may thus have caused freight rates to increase irrespective of the underlying demand for transporting dry bulk commodities. (ii) On top of the more sentiment-driven factor explained above, increased port congestion soaked up a significant volume of ships thereby straining the supply/demand balance during an already heated period. From early October to early January congestion at Australia's dry bulk ports increased from seven days to a level close to its all-time record of about 14 days, according to SSY.

In addition to the above mentioned developments, particularly the smaller dry bulk segments continued to experience increasing demand from a massive and potentially destabilizing increase in China's exports of steel products to Europe, rest of Asia, and USA. According to SSY, China's exports of steel products in 2006 have since 2005 increased by more than 88% (24 million tonnes) at the same time as imports have fallen by 43% (8 million tonnes). As



the steel exports to Europe and USA are over long distances they have thus meant significantly greater demand for dry bulk ships.

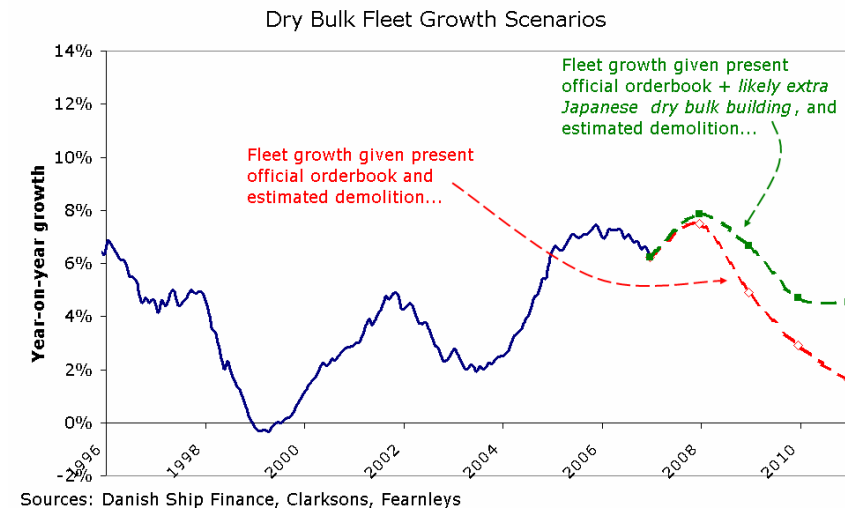
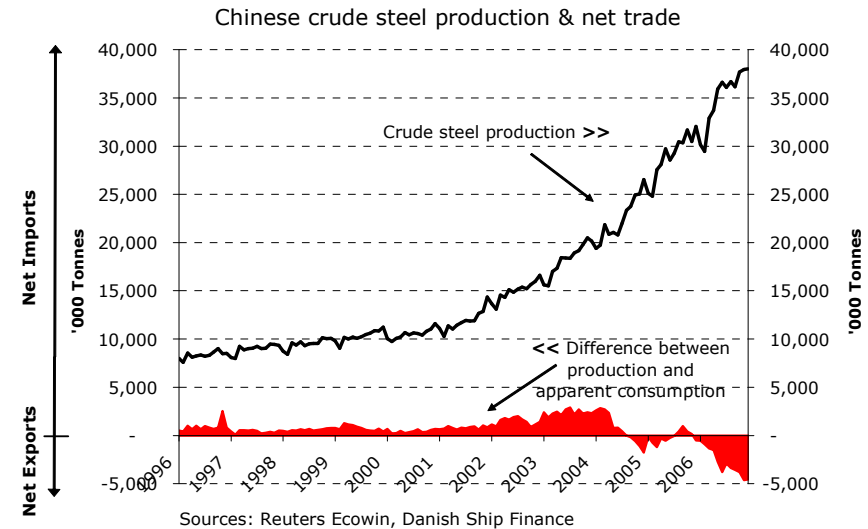
The massive increase in China's steel exports has meant that China's steel exports in 2006 constituted about 33% of all seaborne steel exports – a significant leap from a market share of about 20% just one year before.

China's transformation from net importer to a significant net exporter within just 2-3 years is mainly a result of increasing over-capacity in China's steel production capacity. With widespread over-capacity and a general lack of discipline among the Chinese steel mills, domestic steel prices in China have not increased as much as prices in other large steel-consuming markets. With a continuously greater price-gap to other markets (see lower graph on previous page) and gradual quality improvements in China's steel output, the Chinese steel mills have thus found it increasingly profitable to unload its excess production onto the global market.

Increased Chinese steel exports have meant that China's steel exports now make up 12% of China's total steel production, up from an 8% share in 2005. More importantly, had the 32 million tonnes net increase in China's steel exports *not* happened in 2006, China's steel production would instead of a 21% increase over 2005 have exhibited a much more subdued growth of 12%. I.e. China's domestic apparent consumption of steel only increased by 12% in 2006 – far lower than the 23% growth experienced the year before.

A 12% increase in China's *steel production* instead of the prevailing 21% growth would have implied a much lesser increase of 5-10% in China's *iron ore imports* instead of the actually experienced growth rate in 2006 of 19%.

We thus regard China's transformation from a net importer to one of the world's largest steel exporters as the single-biggest factor behind the sustained boom in seaborne dry bulk trade for yet another year. The bottom line is that it is not China's domestic demand that has propelled freight rates upwards in 2006, but rather a global increase in steel demand.



Of course, we cannot disregard the fact that had China not increased its exports, other steel producers would instead have had to increase their output to meet global steel demand. Consequently the demand for dry bulk seaborne trade would probably have been approximately the same.

But rising US steel inventories resulting in extensive production cutbacks among US steel producers is evidence that China's rising exports to some extent are destabilizing the global supply/demand balance for steel products. According to the US Metals Service Centre Institute, US stockists ended 2006 with a 4.7-month supply which is significantly up from a 3.3-month supply a year earlier.

The risks of a political backlash is also mounting with several attempts among European, American and steel mills to file trade-distorting cases at national and international levels. So far Western steel mills have little political success in their trade-distorting accusations. But with the US Senate and House of Representatives now being run by Democrats instead of Republicans, US trade laws stand a better chance than before of being strengthened.

CONTRACTING & SHIP VALUES

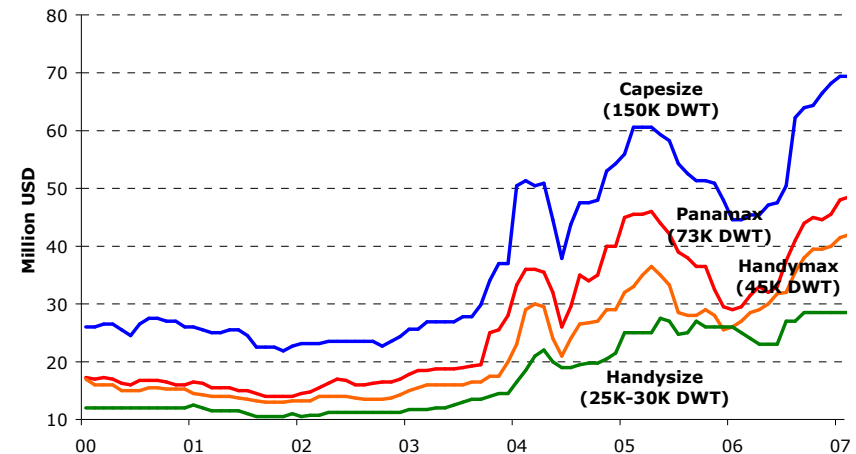
Complete turnaround in contracting activity and ship prices

The impressive turnaround in freight rates have had similarly impressive effects on both dry bulk secondhand prices and on shipowners' desires to order new tonnage.

From the temporary bottom in early 2006, 5-year old secondhand prices have since then increased by 25-60% (see upper graph on the right) and are now at or above previous all-time highs.

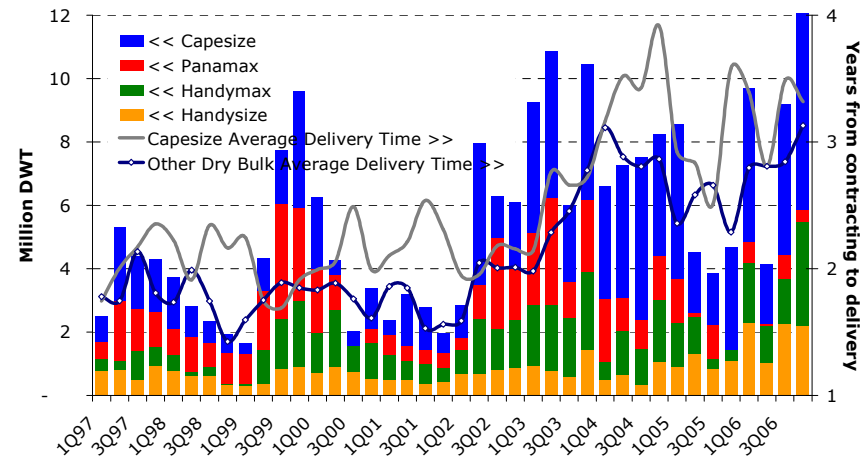
Contracting activity has also rebounded. From 1st half 2006 to 2nd half 2006 contracting activity has increased to 21 million dwt from 13.8 million dwt, according to Clarksons. The 34.8 million dwt contracted during 2006 are equivalent to about 9.5% of the dry bulk fleet at end-2006. By comparison the total *official* orderbook at end-2006 of 80 million dwt is equivalent to about 22% of the current fleet.

Prices of 5 Year Old Dry Bulk Vessels



Source: Clarksons

Dry Bulk Contracting



Sources: Clarksons, Danish Ship Finance

OUTLOOK

Can the Chinese government stem the flood of liquidity?

We have for a long time now argued that the Chinese steel production engine and resulting iron ore imports were set for a significant slowdown. And we would have been right had it not been for the unforeseen rise in China's steel exports.

We believe our basic arguments for a slowdown in China's steel production are still intact, and we are thus concerned that the current freight rate strength may only be a temporary hiccup before a prolonged correction in the market. We do *not* expect the pending correction to be sudden or result in below-average earnings for an extended period, but we do expect the correction to eventually lead to much lower freight rates, ship values and contracting levels than experienced today. Our expectations for a correction do not rest on worries of a flood of ship supply but rather rest on doubts on the sustainability of China's development.

The next few pages include a very detailed description of our views on the Chinese economy and particularly on the markets that drive demand for dry bulk commodities. It may be a bit long. But particularly for those who hold very positive expectations for China's demand for dry bulk commodities it may be worthwhile reading.

Our main arguments for a noticeable slowdown during the coming years in China's steel production, iron ore imports and the general dry bulk market are:

(i) Any further increase in steel exports will be met with reprisals

We do not expect that China's government will allow steel exports to grow much further in concern of an increasingly protectionist stance among foreign politicians, and a belief that steel production for direct export is a highly polluting and an undesirable use of China's limited energy resources. China's government is instead trying to promote exports of more value-added goods.

To limit steel exports, China's government has cut tax rebates on steel exports to 8 percent from 11, and has raised export taxes on

pig iron, steel billet and semi-finished steel products to 10 percent from zero.

The government-backed China Iron and Steel Association (CISA) estimates that the effect from more strict trade taxes will be a 23 percent *fall* in China's steel exports in 2007. If CISA's estimates are correct it would imply a negative effect on the steel production growth rate of about 2 percentage points for 2007. From a positive effect in China's steel production of 9% in 2006 to a negative effect of 2% in 2007, the implications of China's changing role as a steel exporter are thus potentially severe.

But a still large difference in domestic and foreign steel prices makes it somewhat unlikely that the new export taxes will make any meaningful headway in significantly limiting China's steel exports anytime soon. Of course, should Chinese steel prices rise sharply from current levels, or should international steel prices drop similarly, the price gap will close and Chinese steel exports become uncompetitive. But we judge the chances of this happening within the next 6-12 months to be miniscule.

In conclusion, we anticipate China's steel exports to level off at current levels or perhaps grow at a slow pace.

And even though it is not a direct fall in steel exports, the marked slowdown in iron ore import growth may thus be a difficult challenge for the overall dry bulk market in the period ahead.

(ii) The Chinese government is getting tough on steel overcapacity

In addition to raising China's steel export barriers, the Chinese government is to an increasing extent trying to tackle the problem that created the rampant exports in the first place: steel production overcapacity and resulting depressed domestic prices.

According to the 11th Five-Year Plan, China has plans to knock out backward, inefficient and/or polluting production capacity equivalent to 100 million tonnes/year of iron-making capacity and 55 million tonnes/year steel-making capacity before the end of 2007. Additionally, the Chinese National Development and Reform Commission (NDRC) that oversees and designs all government

policies has since 2004 cut severely back on approvals of any new steel mills to be constructed.

But so far these measures have been almost completely unsuccessful in preventing China's steel production from continuing its surge ahead of domestic demand. Instead many of the withdrawn backward, inefficient and/or polluting facilities are recovering production driven partly by strong appetite from domestic house construction projects and by overseas appetite for cheap Chinese steel, according to www.steelhome.cn. More importantly, the phase-out of backward production capacity is being severely complicated by the interests of local municipalities in creating tax revenue and employment opportunities.

In an attempt to fix the problem of lacking local adherence to central government policies, the NDRC has recently begun deploying its own staff to the local municipalities for them to oversee the approval process of new investment projects and scrutinize the viability of previously approved projects. This we expect to have great effect in reducing China's steel over-supply.

Moreover, the Chinese banks have been instructed to only provide credits for projects that live up to certain environmental standards. Unfortunately, as with the phase-out of backward production, the bank's interests are closely tied to the interests of the local municipality and thereby dilute the effects of these otherwise credit-restricting measures.

Finally, the Chinese government has since 2004 continued to raise the standards that China's iron ore importers must live up to. These restrictions have the purpose of lowering the number of licensed importers to a minimum in order to make it more difficult for the smaller steel mills in China to obtain foreign supplies. In that way the government is trying to slowly squeeze the backward steel mills out of production.

In summary, the above actions testify that the Chinese government is increasingly stepping up its attempts to cut overcapacity in China's steel production sector and we expect it eventually to succeed. Specifically it appears that the

restricting measures have led to a perceptible slowdown in China's steel industry investments as they grew by only 1% in 2006. This is a monumental slowdown from 26-27% annual growth experienced in 2004 and 2005.

The implications for the dry bulk market of a reduction in China's steel oversupply are probably higher domestic steel prices, lower incentives to export steel, and less need for iron ore imports. Nonetheless, the last six months have indeed been a perfect example that the timing of the final effect on steel exports, iron ore imports, and the dry bulk market unfortunately is intrinsically difficult to predict.

(iii) Mounting signs of real estate bubbles in many Chinese cities

The next issue we will raise is possibly the most important and potentially the most damaging to the dry bulk market and the Chinese economy as a whole.

As we wrote in our previous "Shipping Market Review", real estate markets in several large Chinese cities are characterized by severe over-investments. According to the Chinese Academy of Social Sciences (CASS) and China's National Bureau of Statistics, a disturbing 26% of all available secondhand and newly constructed floor space across China's urban areas remained unsold or unoccupied in April 2006.

The local newspaper Shanghai Daily reports that in September 2006 the volume of unsold square meters of newly constructed buildings in all of China reached 121 million square meters, up 11.7% from a year earlier, among which unsold newly constructed residencies reached 66 million square meters, up 9.7%. If we were to include the area of unsold properties on the secondhand market, the total number of unsold square meters would be much higher.

The NDRC states in its report "2006/2007: World Economy Analysis and Forecast" that compared to the problems that Japan's real estate market faced before the economy went into a decade long downturn, China's real estate market looks amazingly similar. As the Japanese yen appreciated, investors considered the

property market as the best and most stable to invest in and believed interest rates would not change. It was furthermore easy to get loans from banks as there was a flood of liquidity sloshing around the country. All of the same conditions are amply present in China today.

According to local sources in Shanghai, the extent of the housing over-supply by now is so large that occupants receive discounts on their existing rental agreements out of concern from the landlords that tenants will move to other apartment complexes that now stand empty.

Despite apparent excess supply of houses, prices of newly built properties continue to soar throughout China and investors continue to pour money into property developments. According to the NDRC, the average price of newly built homes in 70 major cities rose 6.3 percent in December 2006 compared to a year ago. And during the first 11 months of 2006, fixed asset investments in China's real estate sector rose an astonishing 24 percent on a year-on-year basis. This is only slightly down from the 26 and 27 percent growth experienced in 2005 and 2004, respectively.

The price increases furthermore happen despite prices already being far higher than most Chinese can afford. According to the Chinese Academy of Social Sciences, a typical new apartment in China is eight times people's average annual income, and in cities like Shanghai the ratio is even more than 50 times. By comparison international standards are at about three to six times the average annual income.

To restrain further construction activity and to limit the probability of a complete market crash, the Chinese government is passing increasingly stricter regulations on the real estate and property development sectors.

Ever since 2005 the Chinese government has introduced a string of restrictions directly aimed at quelling the property development boom: (a) restrictions on foreign ownership of Chinese real estate; (b) starting to enforce a longstanding 20% capital gains tax on real estate; (c) a new 5.5% sales tax on real estate sold within

two years of purchase; (d) raising the required down payment from 20% to 30%; (e) banks are no more allowed to use properties that have been unoccupied for more than three years as collateral; and (f) enforcing a land tax of 30-60 percent of developers' net gains from property deals depending on the size of their profit.

Additionally the Chinese government is trying to limit growth in fixed asset investments by raising the capital requirement ratio of banks and by raising interest rates, although only slightly.

The wide-ranging measures listed above is a clear signal of how dangerous the Chinese government judge the situation in China's real estate market to be.

Had it by comparison been a western real estate market that was subjected to the same drastic regulatory changes, the subsequent reaction on house prices and construction activity is probably too terrible a scenario to even imagine.

As local municipality officials appear to continuously undercut the central government's real estate controls, we can of course always question the effectiveness of these measures. **Consequently we do not expect the slowdown in China's construction boom to happen anytime soon, but rather it will happen gradually and not lead to a sudden stop in construction activity.** But the string of measures indeed testifies that the government is doing its utmost.

But to what extent is potential over-investments in China's real estate market of importance to dry bulk shipowners?

First of all, according to CISA, the Chinese housing construction market constitutes about 35% of all steel demand in China. A temporary or long-lasting reduction in China's construction activity to allow housing demand to catch up with available supplies would thus pose a severe blow to China's overall demand for steel and iron ore imports. The macroeconomic ramifications of a slowing construction sector would furthermore be severe as a large share of China's workforce is reliant on the construction sector, and as

an already shaky banking sector is highly dependent on property prices to remain high.

Second of all, China's urbanization process has long been acclaimed as the single-biggest source of demand on which dry bulk shipowners, steel mills, iron ore producers, and other dry commodity sectors could base their future expansion plans. But if China's increasing demand for dry bulk commodities in the last 3-4 years as much has been a result of over-investments as it has been a result of urbanization, it thus puts into question the viability of this long-term optimism.

Why should we *not* be concerned for a complete crash in China's construction activity anytime soon?

Firstly and most importantly, the flood of liquidity flowing to China from its trade surplus and from foreign direct investments makes it increasingly difficult for the government and the Peoples Bank of China (PBoC) to curb investments.

To a large extent, excess liquidity may also explain why it has been so difficult to slow the expansion of China's steel production capacity.

Given the PBoC's reluctance to raise interest rates or significantly opening up China's foreign account for money *outflows*, the steady stream of cash flowing into China thus acts as a Teflon-like cushion against almost any measure directed at slowing investments.

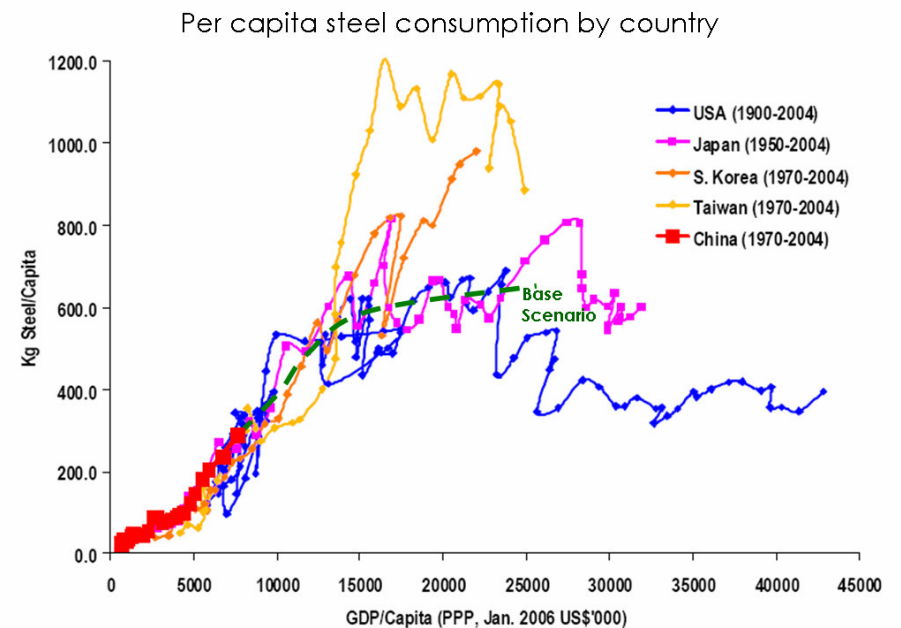
Secondly, as we have highlighted above, the local municipality and banking officials to a certain degree continue to undercut central government policies. Thus unless more drastic measures to control the local authorities are introduced, we will probably not see any significant slowdown in China's construction boom anytime soon.

In conclusion, we anticipate China's construction market to continue to grow resiliently throughout much of 2007. But as we on the other hand expect the Chinese government to be increasingly successful in its attempts to slow real estate investments, construction activity may exhibit much less resilience in late 2007, 2008 and 2009.

(iv) China may within a few years have reached its maximum steel consumption per capita

Our last issue specifically on China's future dry bulk commodity demand is not of immediate concern, but may be of importance a few years from now.

In 2006 China's apparent steel consumption per capita reached about 290-300 kg, and in some of the largest coastal regions the average per capita consumption was higher than 600 kg. By comparison Japan and the USA have a per capita steel consumption of about 600 kg and 400 kg, respectively (see graph below). Consequently it appears that China's total steel consumption has quite a way to go before it reaches its full potential in all of China's regions.

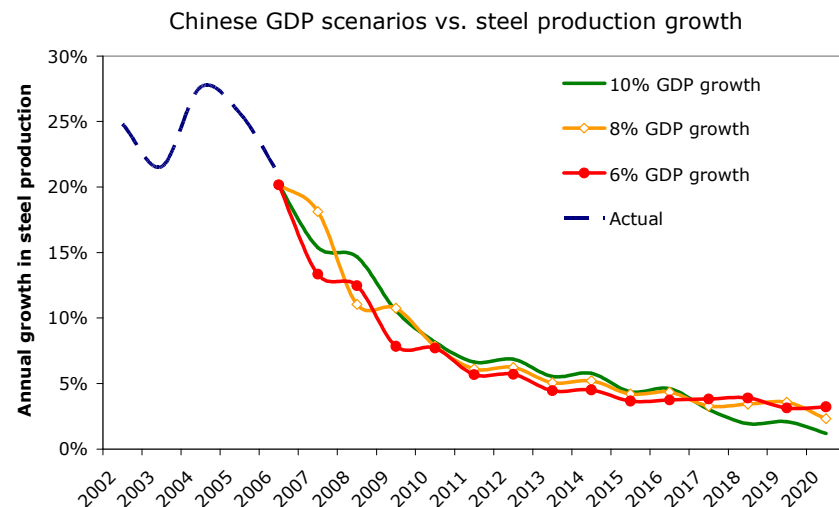


Following along from the seemingly positive implications on dry bulk demand, it does beg the question: How many years before

China will actually have reached the levels of developed economies and demand growth will radically slow?

Under our base case scenario that China's GDP will continue to grow by about 8-10 percent for the next many years, China's steel consumption will already in 2011-2014 have surpassed the 600 kg/capita mark (see green line in graph above). However, under the plausible assumption that China's steel consumption per capita will level off in the region of 600-700 kg even as far away as 2011-2014, the underlying annual growth rate in China's steel production importantly will have slowed years before then.

The below graph depicts the average annual growth in China's steel production given that China's steel consumption per capita will follow our base case scenario represented by the green line in the above graph. From the below graph it is obvious that the **annual growth rate in China's steel consumption could potentially reach 10-15% in 2008, and fall as low as 8-11% already in 2009. From 2011 and onwards China's steel production could exhibit annual growth rates of below 7%.** This certainly is far different than the 21-28% experienced annually since 2002.



Source: Danish Ship Finance

In addition to our questioning the sustainability of China's construction activity, we thus question one of the almost deafening mantras that the dry bulk bulls have been promoting for the last 4-5 years as the single-most important reason why China's insatiable demand for steel and iron ore would continue for many years to come.

Will China soon have reached its full steel consumption potential?

(v) Dry bulk fleet supply growth may be severely understated
The last issue we will highlight with regards to the general outlook for dry bulk freight rates, is the subject that we touched upon in the shipbuilding outlook of a potential substantial underreporting of orders at Japanese shipyards.

The official Japanese orderbook paint a picture of ample uncommitted shipbuilding capacity as early as 2008 (see bottom right graph on page 18). For 2009 and 2010 the amount of uncommitted shipbuilding capacity appears even greater.

This picture stand in stark contrast to the reality when shipowners approach Japanese shipyards and without hesitation are told that the earliest possible delivery that yards can offer is in late 2010. Consequently the Japanese orderbook must be significantly higher than the official figures report it to be, and a future fleet growth based on the *official* orderbook may unfortunately paint too rosy a picture for the future balance between supply and demand.

If instead we work under the plausible assumption that the Japanese shipyards are already completely booked until the end of 2010 and that they in each consecutive year are capable of building at least 18.4 million dwt dry bulk ships, which they did in 2006, the potential under-reporting clearly lifts the annual fleet growth. See bottom right graph on page 29.

From these calculations the lowest possible dry bulk fleet growth that we can estimate for the next four years is a discouraging 7.8%, 6.7%, 4.7%, and 4.5% in 2007, 2008, 2009, and 2010, respectively. Importantly, this is without taking account of the available dry bulk shipbuilding capacity at yards in other countries.

So where does all of the above leave us with regards to the dry bulk outlook for 2007?

We see the current very high freight rates as the combination of strong demand and port congestion. Once demand slows and/or port congestion abates, freight rates could thus drop considerably.

Unfortunately, it is almost impossible to predict anything about port congestion so we will not even venture a guess. By late January 2007, Australia's port congestion have surpassed previous highs thereby soaking up additional ship supply from the market.

Almost all of the above highlighted issues indicate that China's steel production will probably slow significantly in 2007 to about 10-15% from the 21% growth experienced in 2006. Consequently, China's iron ore imports will slow similarly, thus eventually leading to lower freight rates.

But the slowdown in China's construction activities and steel exports is probably not to manifest themselves until the 2nd or 3rd quarter of 2007 and freight rates may remain high until then.

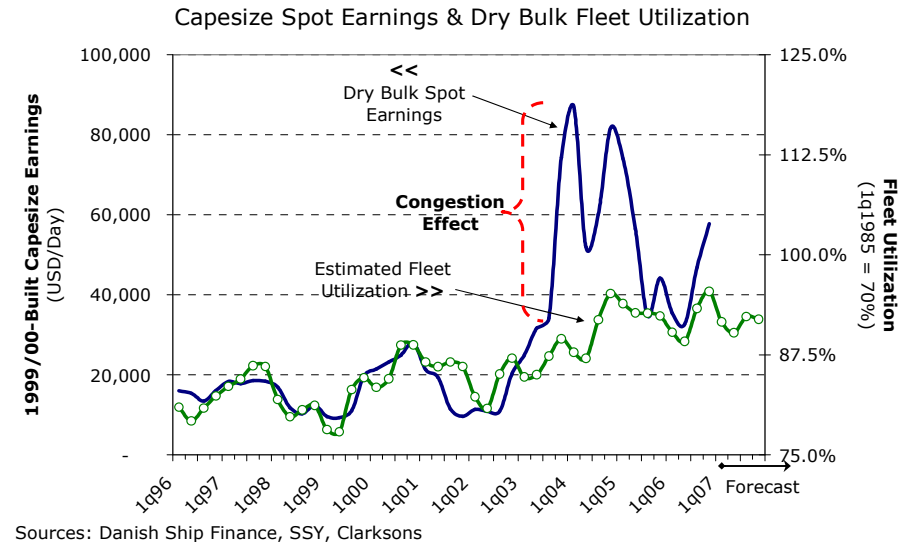
Furthermore, it appears from recent Chinese iron ore statistics that Chinese steel mills and iron ore traders are in a preemptive stock-building of iron ore ahead of the scheduled rise in iron ore prices from April 2007. Therefore, Chinese iron ore imports may show great strength in the early months of 2007, but slow thereafter.

Our supply/demand-index portrayed in the below graph indicates that freight rates for 2007 most likely are to remain above 2006. But the index also indicates that without port congestion, freight rates may drop already during the 2nd quarter only to bounce slightly back during the 3rd or 4th quarter.

What about the dry bulk outlook beyond 2007?

Even though we have not yet been correct in our call on the Chinese construction boom, we will continue to highlight the risks associated with the Chinese real estate market and resulting unsustainable demand for construction steel and hence for iron ore imports. Nonetheless, the flood of liquidity that is sloshing around

China combined with a lack of local adherence to central government policies lead us to suspect that the Chinese construction boom most likely will continue well into 2007 and perhaps into 2008.



On the supply side, we expect ships to steadily outpace demand growth for 2007-2008 – even without additional orders.

Importantly, we do not expect fleet growth to be the reason behind a potential market downturn. Instead, sharp corrections in China's construction activity and investments are our greatest concerns.

Consequently, our base case scenario is that dry bulk freight rates fall steadily to a level close to their historic averages within the coming two-three years ■

Crude Tankers

Unusual seasonal behavior for spot tanker freight rates as 3rd quarter freight rates beat 4th quarter freight rates. This was largely the result of excess inventory build-up during the 3rd quarter, that had to be brought back down in the 4th quarter simultaneously with a fall in US seaborne imports.

FREIGHT RATES

3rd quarter burst followed by 4th quarter disappointment

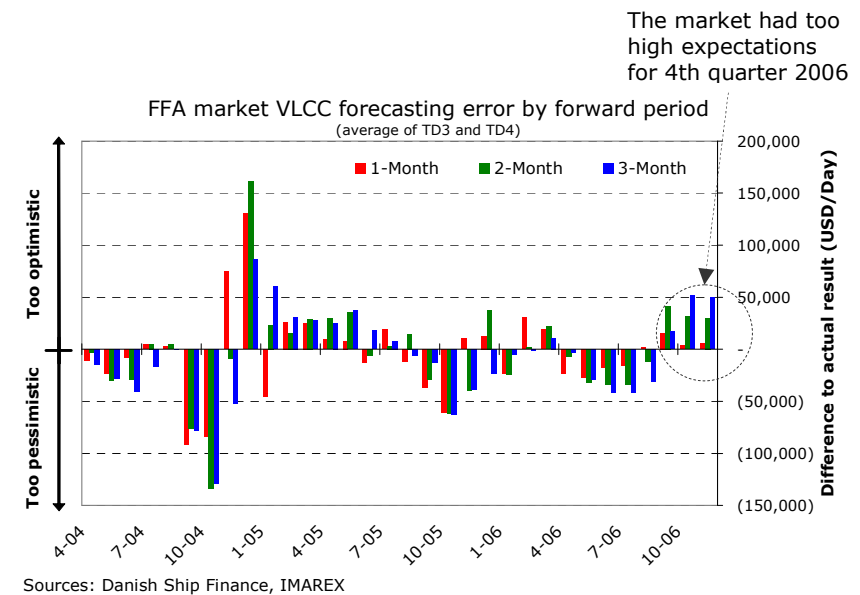
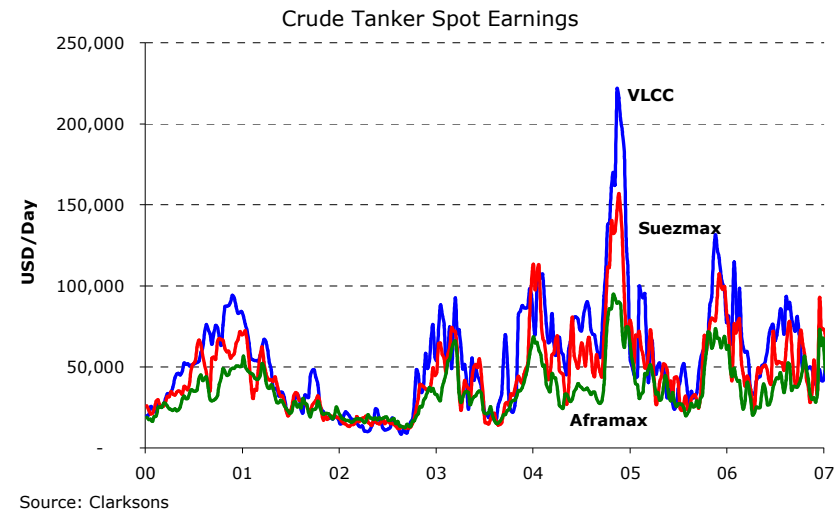
2006 has indeed turned out to be one of the most atypical years ever for the crude tanker markets.

The otherwise seasonally low 2nd and 3rd quarters turned out to be exceptionally rewarding this year, and the same switch holds true for the usually seasonally high 4th quarter, which produced a dreadful turn out in return for the VLCCs.

On the other hand, both the Suezmax and the Aframax segments experienced the usual 4th quarter freight rate rally, ending the year on a high note. The Suezmaxes actually ended up earning more on a USD/day basis during the 4th quarter than the VLCCs earned during the same period.

The bottom right graph confirms how VLCC freight rates during the middle of 2006 turned out considerably higher than the FFA market initially expected. The extent of ours and others' misjudgement of the 2nd and 3rd quarters of 2006 almost equals the market's misjudgement of 4th quarter of 2005 when three hurricanes unexpectedly swept across the Mexican Gulf, wiping out New Orleans and much of USA's energy infrastructure.

Similarly, the much lower VLCC freight rates during the 4th quarter came as an equally big surprise to the FFA market who had expected rates to remain high. But as we wrote in our previous "Shipping Market Review" six months ago, several factors were already then conspiring against the VLCC shipowners thereby significantly increasing the risks of low freight rates during the 4th quarter of 2006 and perhaps into 2007.



SUPPLY & DEMAND

Inventory adjustments and fall in US seaborne imports

The somewhat poor performance of the VLCCs in the 4th quarter proves that trees (or in this instance 'global petroleum inventories') do not grow into the sky and that fundamentals will eventually prevail. Unfortunately it is almost impossible to predict when the trees have grown too tall and need pruning.

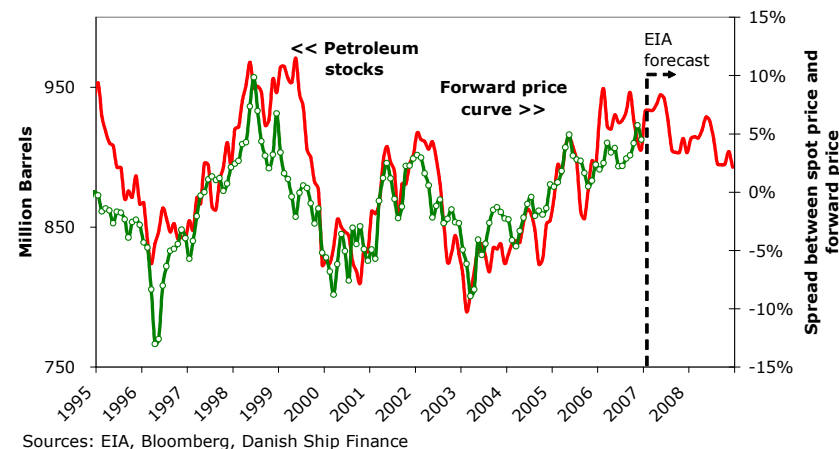
The sign that oil inventories had grown too high came from the significantly falling oil prices which dropped from 70 USD/barrel in August 2006 to about 55 USD/barrel just 1½ months later. This price drop eventually forced OPEC member countries to cut output in order to prevent inventories from rising further and oil prices from falling too low, thereby removing a significant source of demand for crude tankers.

Ever since early 2003, OECD's total petroleum inventories have risen by about 340 million barrels or about 270,000 barrels a day. From September 2005 to September 2006 alone, the OECD inventories have been rising at a rate of 320,000 barrels/day.

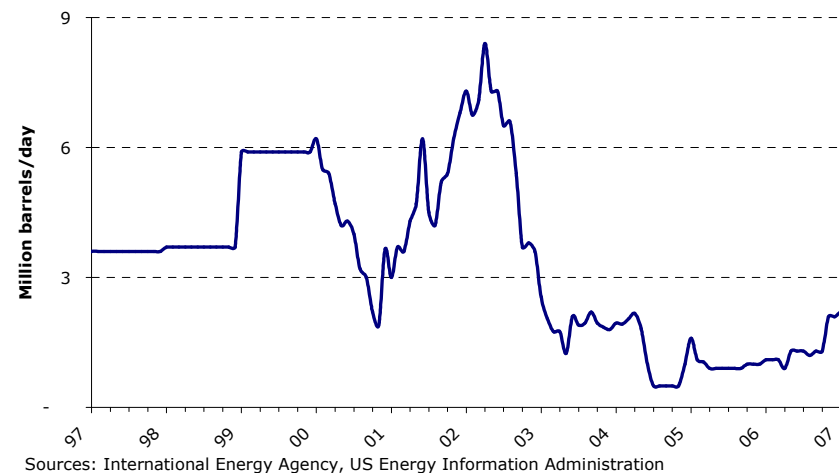
As the process of transporting the oil from the oil well to the inventory site for the most part involves the use of a crude tanker, these large increases in global inventories are not at all insignificant in explaining the high demand and freight rates for crude and product tankers since 2003. Inventory adjustments are thus a significant contributor to the long and short-term cyclicity that tanker markets are witness to. Furthermore, the day when this long-drawn process of building oil inventories reverses, the oil tanker markets are thus to experience fairly less demand.

Assuming a large extent of the 120,000 barrels/day build-up of US petroleum inventories from early 2003 to September 2006 has been sourced from the Arabian Gulf, it equates to about 22 VLCC cargoes a year in addition to the normal increase in actual oil consumption. In the first nine months alone, the US build-up of oil inventories equated to about 25 extra VLCC cargoes. Thus, it is not at all surprising that this period proved to be lucrative for the crude tanker shipowners.

Total US petroleum stocks (ex. Strategic Petroleum Reserves)
vs. WTI crude price forward spread



OPEC Spare Production Capacity



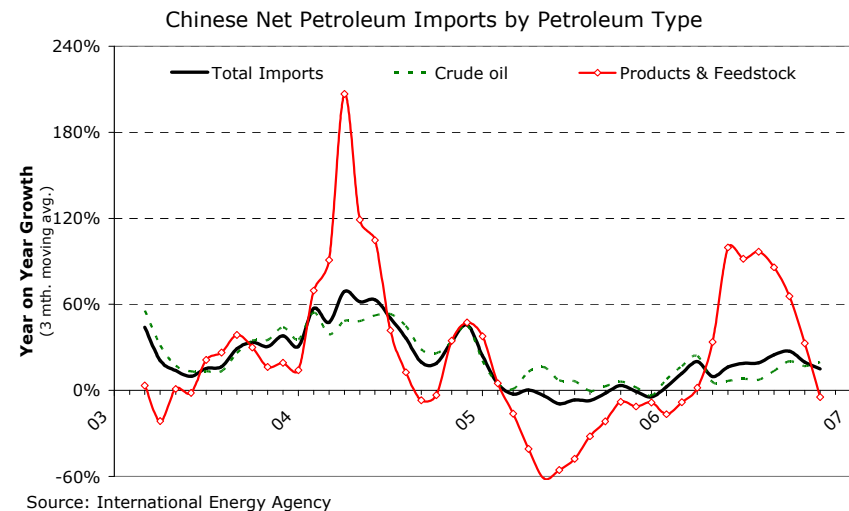
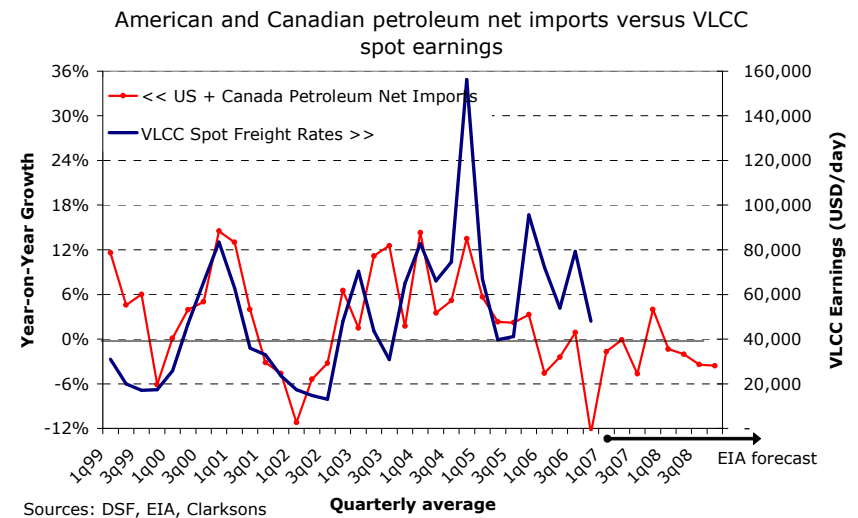
Conversely, the 45 million barrels draw on US inventories during the last three months of 2006 equated to about 22 VLCC cargoes /less during the three latest months, and thus has been a significant influence behind the 4th quarter fall in crude tanker freight rates.

But the large draw on US oil inventories during the 4th quarter is not the only reason behind the relatively poor performance of the VLCCs during this period.

As we predicted about six months ago, the seaborne imports of petroleum to the US during the 4th quarter of 2006 would not only be lower due to the large draw on inventories, but the revival of US crude and gas production in addition to significantly higher Canadian petroleum production all together would lead to much lower requirement for seaborne imports. According to the EIA, North American petroleum net imports fell from about 12.3 million barrels/day in the 4th quarter of 2005 to about 10.7 million barrels/day in the 4th quarter of 2006. This significant fall mainly came on the back of a 200,000 barrels/day year-on-year rise in Canadian petroleum production and an 800,000 barrels/day year-on-year rise in US petroleum production (see upper graph on the right), thereby reducing the need for seaborne imports. By comparison, the 45 million barrels draw on inventories during the 4th quarter were only responsible for about 500,000 barrels/day out of the total 1.6 million barrels/day fall in North American seaborne imports. On this account, OPEC's decision to cut output thus did not deserve as much attention in the tanker market commentaries as it ended up receiving.

But with a VLCC market that, despite of drastically lower US seaborne imports, still managed to produce a highly profitable 47,000 USD/day during the 4th quarter of 2006, it indeed testifies that other factors contributed positively during the period.

In particular China's imports of crude oil were instrumental in keeping freight rates from dropping too low. According to the IEA, China's crude oil imports for the first ten months of 2006 increased by a striking 23% in comparison with the same period of 2005 which is markedly higher than the subdued 1.7% increase experienced in all of 2005 (see lower graph on the right).



CONTRACTING & SHIP VALUES

Yet another record year for tanker contracting and prices

Compared with the astronomical 25.6 million dwt of new crude tanker orders in the first half of 2006, new orders during the second half of 2006 actually managed to surpass this by a small margin, landing on 27.9 million dwt. Consequently new crude tanker orders in 2006 amounted to an astonishing 53.5 million dwt which is a noteworthy 36.2 million dwt more than contracted during all of 2005.

The Common Structural Rules (read previous "Shipping Market Review"), which had a cut-off date on the 1st of April 2006, thus can *not* anymore be regarded as the catalyst behind the extraordinarily high tanker orders in 2006. Instead tanker shipowners either appear to hold extraordinarily high expectations for demand growth in 2007-2009, or they have ordered in advance of the phase-out of non-doublehulled tankers in 2010 – or it is a mixture of the two.

But unfortunately the extreme inflow of tanker newbuilding orders pushed the pricing power firmly in the hands of the shipyards. By end of 2006 shipyards had managed to raise tanker newbuilding contract prices by about 12% above end-2005 levels.

Despite the much higher expected fleet growth and the resulting lower timecharter rates (representing freight rate expectations), **crude tanker secondhand prices appear to have increased over the year.** As the two graphs on the following page are clear evidence of, crude tanker secondhand prices increasingly appear out of tune with the income that the assets are expected to produce.

This seemingly illogical deviation may first of all be the result of much lower risk-aversion because of bulging cash reserves from three years of record earnings.

Secondly, as newbuilding prices constitute the theoretical replacement cost of a ship, secondhand prices are thus likely to

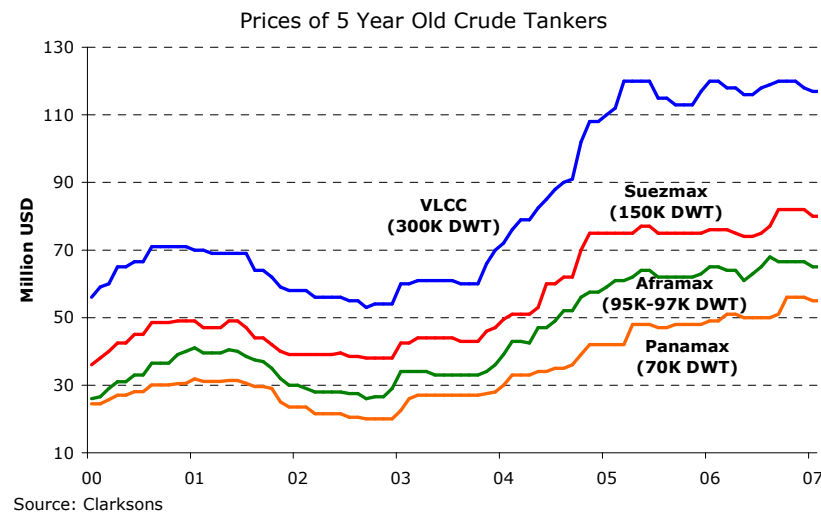
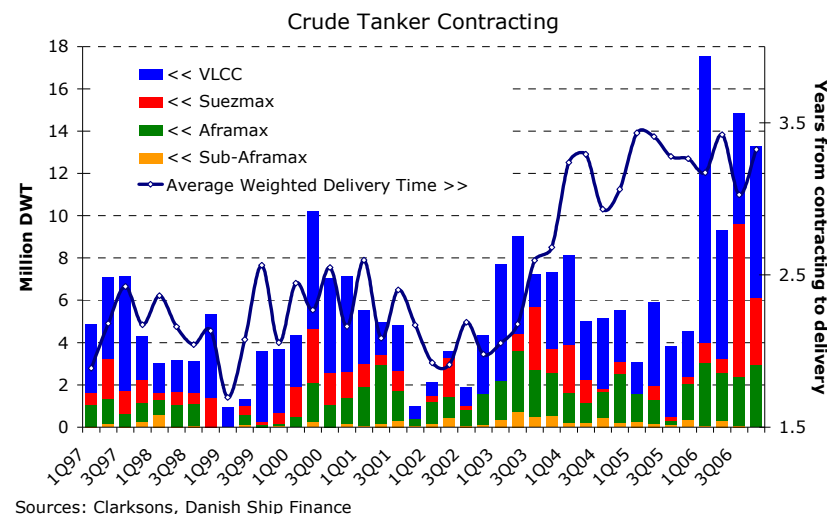


exhibit a close correlation to newbuilding prices. The significant rise in newbuilding prices since 2002 does thus justify a part of the rise in secondhand prices. But high newbuilding prices do *not* justify high secondhand prices if the discounted value of the expected income is well below the secondhand price.

Thirdly, a new-found knowledge and awareness that freight rates in a short period of time can perhaps reach much higher levels than what was previously believed possible does indeed constitute an added "option" value to the ship. Thus secondhand prices may justifiably be somewhat higher than when prices are measured only against current freight rate expectations.

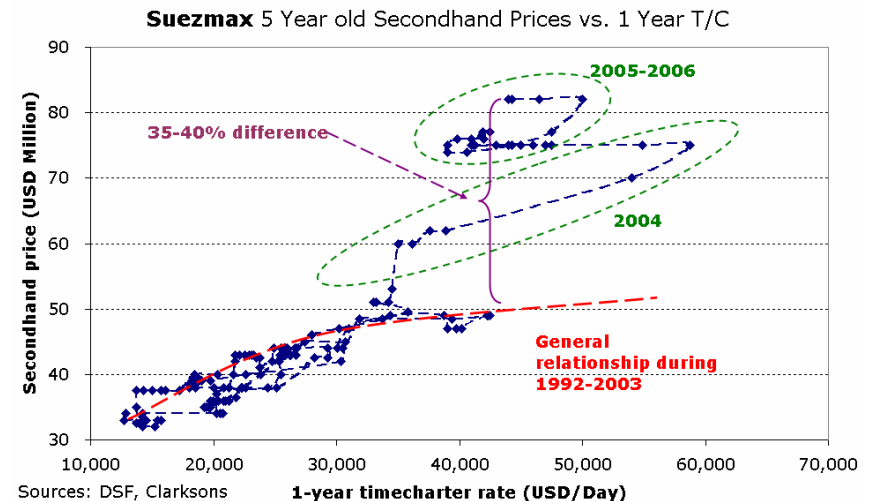
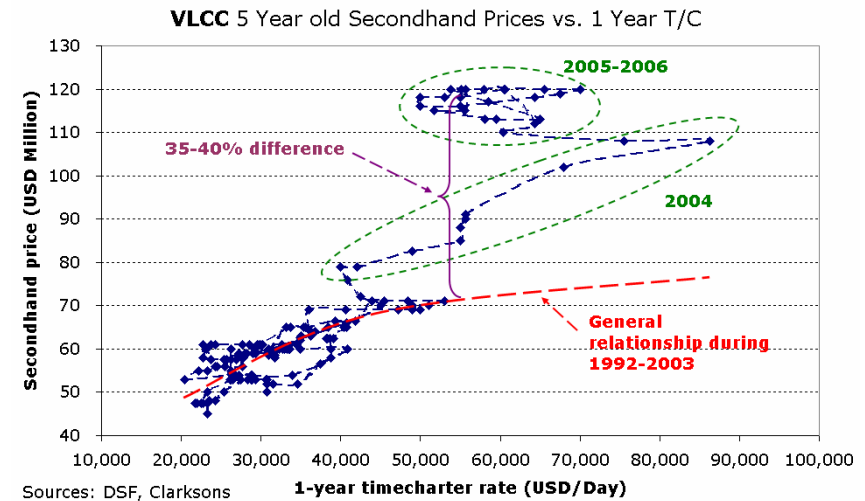
Unfortunately, neither of the three above listed possible explanations to the current price premium are likely to remain constant in the future: bulging cash reserves and investors' risk-willingness may quickly disappear; newbuilding prices are expected to drop in coming years; and the "option value" may fall as the pending onslaught of new ships from the shipyards begins to eat away at any upside volatility in freight rates.

It appears that risk has been almost completely priced out of the equation for almost all tanker segments.

We do *not* subscribe to the wide-held notion that ship prices are fairly priced if current 1 or 3-year timecharter rates are about the same as the rate that the ship price requires for the rest of its operating life to provide a 10% annual return on equity in addition to meeting debt and operating expenses. This pricing method only holds true when there is a small risk that timecharter rates will fall in the future or when current timecharter rates are clearly below the average income that similar ship types have generated within the last 10 or so years.

With the risk of stating the obvious, none of these conditions are present today and ship valuations should thus *not* be based upon expectations that current extraordinarily prosperous conditions will exist for the next 20 years or more.

Crude tanker secondhand prices were 35-40% lower during 1993-2003 than they currently are for the same level of freight rate expectations!



OUTLOOK

Falling freight rates as low US imports and ship supply bite

2006 was a reminder that not all periods of low freight rates are caused by a growing supply of ships and that inventory adjustments are indeed of importance to the tanker markets.

But can we expect inventory adjustments to create additional or less demand for tankers in the future?

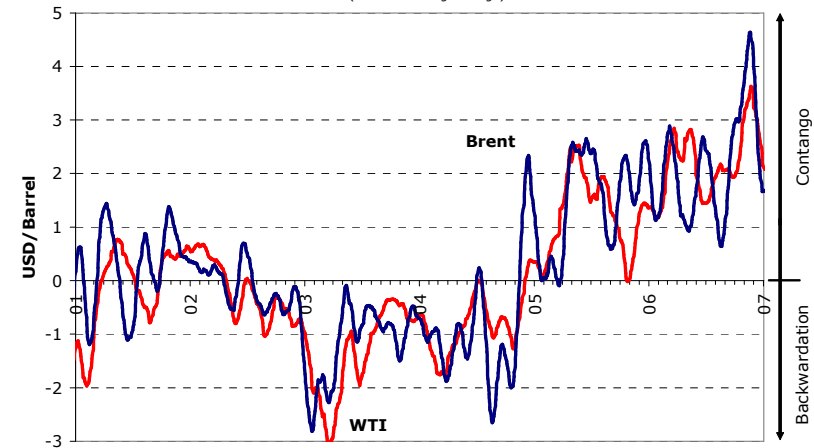
A key reason for the large build-up in oil inventories in both Europe and North America is to be found in the forward pricing structures of the crude oils related to the WTI (USA) and Brent (Europe) crude prices. For the last 2 years, the 1-5 month forward crude oil prices on Brent and WTI have been higher than the spot price (a situation called contango).

With a forward price above the current spot price, the oil market climate is thus supportive for stock building as refiners and traders are able to buy cheap now, store the oil, and finally sell the oil at a later stage at a predefined premium. Even including storage, finance and insurance costs, the forward premium has for a while been supportive of stock building (see upper graph on page 38 and upper right graph on this page).

Several factors have conspired to create the present contango structure and inventory build-up since 2003.

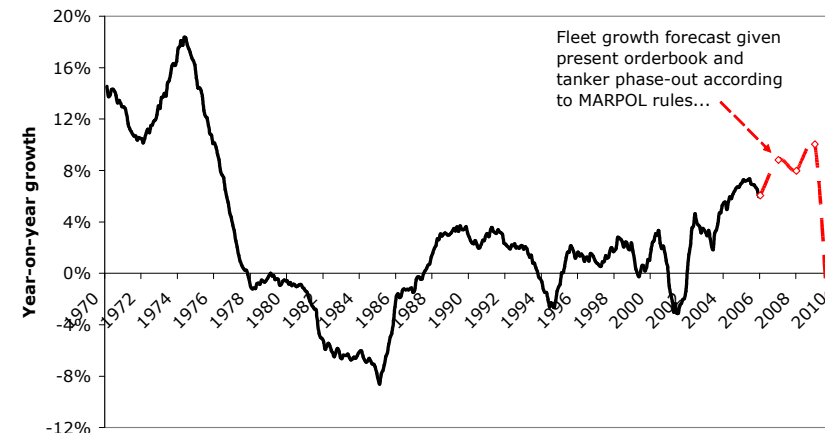
Most importantly is the effect from a global surplus production capacity which since 2003 has been at a historic low (see bottom right graph on this page). This low surplus capacity has increased the likelihood of great upside volatility in oil prices should either demand increase or supply fall unexpectedly. The potential for oil supply interruptions to occur has throughout the period been extensive with great geopolitical uncertainty, emanating particularly from the Middle East region, and increasing fears of weather related disturbances to the global energy infrastructure. Therefore expectations of higher oil prices in the future have been justified throughout the recent four-year period.

Spread Between 3-Month Future and Spot Crude Oil Price
(1 Month Moving Average)



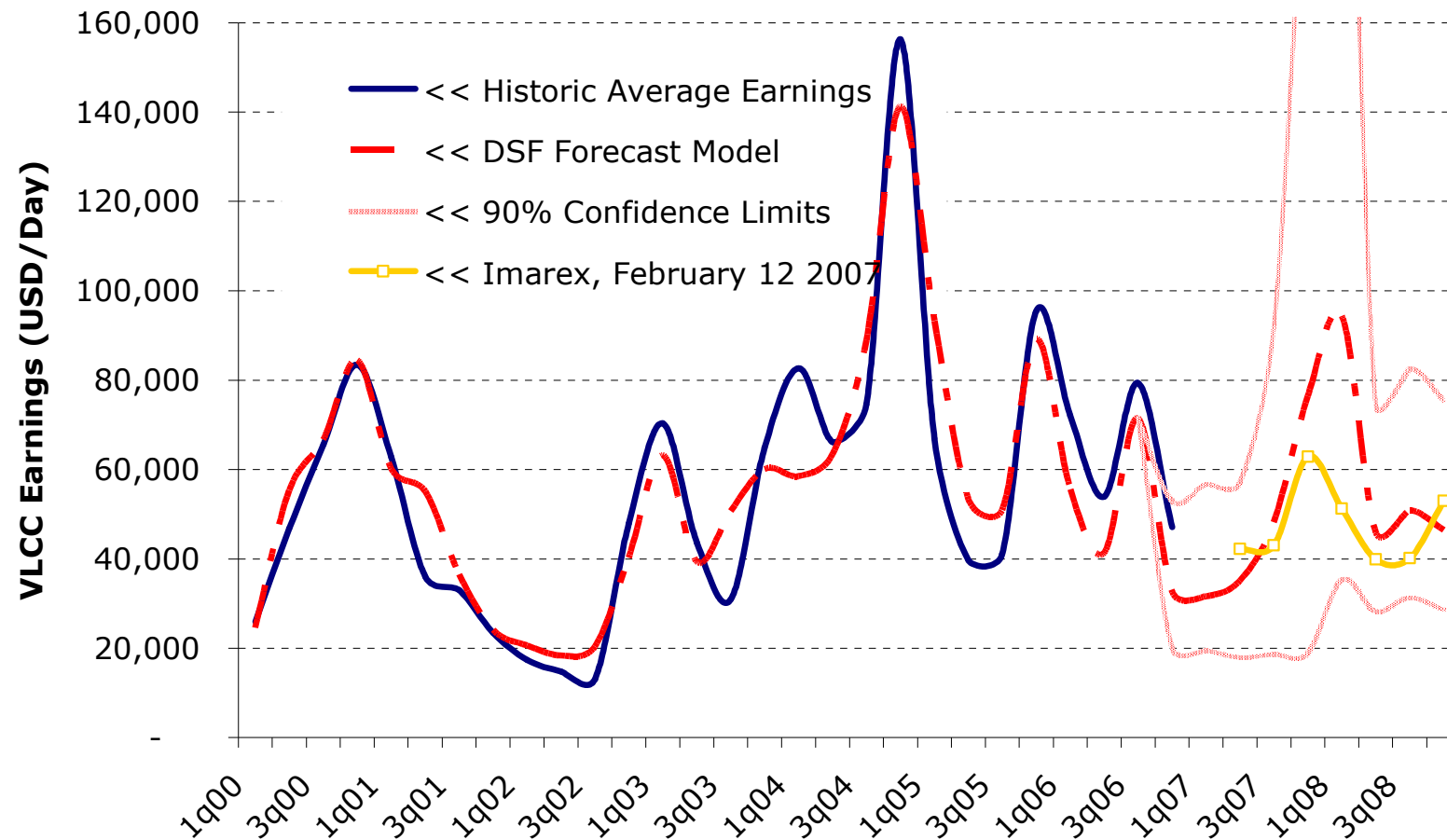
Sources: Danish Ship Finance, Bloomberg

Total Crude and Product Tanker Fleet Growth



Sources: Danish Ship Finance, Clarksons, Fearnleys

DSF forecast model of quarterly average VLCC spot earnings



Sources: Danish Ship Finance, Clarksons, EIA, Imarex

Average Spot Earnings of Modern VLCC, USD/day

Source\quarter	2005	2006	1q07	2q07	3q07	4q07	2007	1q08	2q08	3q08	4q08	2008
DSF Model			31,644	35,126	48,220	76,412	47,850	94,378	45,870	50,831	46,471	59,387
Imarex *	60,816	63,092	51,679	42,226	43,041	62,879	49,956	51,273	39,915	40,162	53,002	46,088

* Forward curve from the International Maritime Exchange as per February 12 2007. Average of routes TD3 (Ras Tanura - Chiba) and TD4 (Bonny - Loop). Grey shaded areas are actually realised historic spot earnings.

Another factor behind the inventory build-up is of course a global increase in oil consumption which naturally stipulates that you hold larger inventories to meet the same number of days of demand. In addition thereto, a greater uncertainty of supplies because of geopolitical and weather related factors have generated a greater need for holding even larger inventories as a buffer against possible supply disruptions.

The important conclusion to reach from the above is that **all of the above factors that have been instrumental in creating high inventories are so far still to a large extent present. We do thus *not* expect the inventory draw to be significant within the next couple of years** (see EIA's expectations for future US oil inventories on the upper graph on page 38).

However, we do not expect inventories to exhibit a significant growth either. The fact that crude oil prices have dropped from 75 USD/barrel in mid 2006 to a price band of 50-65 USD/barrel in the last few months indicates that the increase in OPEC's spare capacity from about 0.5-1 million barrels in late 2004 to about 2-2.5 million barrels today in addition to the higher inventory levels have indeed caused the risk premium to drop. The need for holding larger inventories has thus decreased commensurately.

On the other hand, as some of the reduced risk premium currently is the result of one of the warmest winters ever in the northern hemisphere, a return to normal temperatures next fall or winter in addition to a severe hurricane season could once again justify a larger risk premium, higher inventories and thus lead to a temporary boost to the demand for crude and product tankers.

In conclusion to our inventory debate we expect that **the boost to demand that crude and product tankers have enjoyed since 2003 from globally rising inventories will not be present in the coming years to the same extent as it has been since 2003**. If the global surplus capacity cushion rises further, we may even imagine a prolonged inventory reduction with much lower tanker demand as a consequence.

With inventory considerations now expected to be less of an issue than in previous years, the outlook for crude tanker demand in 2007 and 2008 to a greater extent depends on global fundamental consumption growth.

The Energy Information Administration (EIA) of the U.S. Department of Energy and the International Energy Agency (IEA) of the OECD expect global petroleum demand to exhibit a growth of about 1.6-1.8% in 2007, and about 2% in 2008. This is significantly up from a 1% growth in 2006 and may thus imply that tanker freight rates are likely to be higher in 2007-2008 than in 2006.

Despite these rather strong demand growth expectations, **the expected fall in North American seaborne imports in both 2007 and 2008 may take some of the apparent strength out of these figures**. According to EIA's forecasts, combined net petroleum imports of Canada and USA are expected to fall 0.6% in 2007 and a further 1.1% in 2008 (see upper graph on page 39). That is after having fallen a considerable 4.8% in 2006 and thus marks three consecutive years of import declines for one of the tanker business' most important demand drivers. The continuing fall in North American imports is the consequence of an expected restoration of the hurricane-affected U.S. production in addition to a significant growth in Canada's petroleum production.

The apparently strong global demand growth expectations are unfortunately deceiving in more ways than just the one explained above. Of the 1.4 million barrels/day in expected global demand increase in 2007, **a significant 0.34 million barrels/day are expected to originate from increased consumption in the Middle East region. As the Middle East to a very large degree is self-reliant on its petroleum demand, any growth in Middle Eastern petroleum consumption thus does not create much, if any, tanker demand**. By comparison North American demand is expected to increase by about 0.3 million barrels/day. And this is, as highlighted above, also to be met by increased domestic supplies.

If EIA's and IEA's forecasts turn out to be reasonably correct, **the tanker shipping market is thus for the next two years almost entirely dependent on China and the rest of Asia to create the required growth in demand.**

With regards to China's crude import requirements we wrote in our previous "Shipping Market Review" that the build-up of China's strategic petroleum reserves (SPR) would lead to a boost in China's crude oil imports. But by now we have obtained new information which put into question the extent to which this inventory build-up is of any real significance to the overall tanker market. According to Argus Media Ltd, the first of four SPR sites, which was finished in August 2006, is by now rumoured to contain about 3 million barrels out of a total storage capacity of 32.7 million barrels of crude oil. This leaves unfilled capacity of about 30 million barrels, or equivalent to about 15 VLCC cargoes. Compared to a total crude import in January-November 2006 of about 950 million barrels, imports of 30 million barrels would only constitute about 2-3% of incremental growth in 2007. Furthermore, the remaining three sites of the 100 million barrels SPR are at earliest expected to begin filling in 2008-09. For 2007 tanker demand, this upside may thus not be as large as earlier hoped for.

Despite of a limited effect from China's plans to build an SPR, **overall petroleum demand in China is expected nonetheless to show continued very healthy growth rates in 2007 and 2008.** The IEA forecasts China's overall demand in 2007 to grow by 5.4% and petroleum net imports to grow by 12% (0.4 million barrels/day) compared to 2006. Unfortunately, the increased supply of crude oil via pipelines to China is bad news for crude and product tanker owners. In early July 2006 the first crude oil coming via 200,000 barrels/day pipeline from Kazakhstan was delivered to China, and in 2008 the first stages of a 600,000 barrels/day pipeline is expected to bring crude to China from Russia. Consequently **about half of the increase in China's imports in 2007-2008 may arrive via pipelines.**

Additionally, the tanker market faces a challenging task of absorbing a flood of new tanker ships entering the market for the next three years. As the bottom right graph on page 42 testifies,

the combined crude and product tanker fleet is after a 6.1% growth in 2006 expected to exhibit **an annual fleet growth net of the required phase-out according to IMO's MARPOL regulations in 2007, 2008, and 2009 of 8.8%, 8.0%, and 10.1%, respectively.** These are disturbingly high fleet growth numbers and do indeed warrant toned-down assessments for the likely upside potential in freight rates for coming years.

Much of the fleet growth in 2008-2009 is probably meant for the single-hull phase-out in 2010 of an estimated 62 million dwt. But the orderbook is already a massive 138 million dwt of which 19 million dwt are for 2010 delivery. The orderbook thus leaves ample room for fleet growth compared to today, despite the extensive phase-out schedule in 2010. The estimated phase-out of 62 million dwt is furthermore the highest imaginable phase-out volume assuming the strictest possible interpretation of the IMO regulations. The IMO regulations allow for an extended life beyond 2010 for tankers with double-side or double-bottom and with a sizeable share of these tankers being 20 years or younger in 2010, they may opt for the life-extension alternative.

In conclusion, we expect average tanker spot freight rates in 2007 to be lower than in 2006. But we expect the still strong Chinese imports to be the key factor that will keep market sentiment and crude tanker freight rates from staying at very low levels for an extended period during 2007. Despite the absence of North American import growth and a quickly growing supply of tankers, we thus do *not* believe that the 2007 average spot rates will be much, if at all, below their 10-year historic average.

For 2008, our VLCC freight rate model (see graph and table on page 43) indicates a good chance that we could experience a late 2007/2008 winter revival in tanker freight rates that may last well into the spring of 2008. Unfortunately an extraordinarily high fleet growth for years may increasingly restrict any upside volatility in freight rates and are concerned that the indicated upside by the model 2008 may be too high.

Our tanker freight rate expectations are thus for two more rewarding years, but largely dependant on the Chinese and other Asian economies to continue growing briskly ■

Product Tankers

High freight rates in the third quarter was briefly, but noticeably replaced by much lower freight rates in early part of 4th quarter. As with crude tankers, inventory adjustments caused much of the volatility, but refinery maintenance exacerbated the tendency.

FREIGHT RATES

High freight rates, but with momentary downside weakness

The historically low freight rates that the clean product tanker experienced during the 1st quarter fortunately did *not* return in the second half of 2006.

Particularly the third quarter turned out to be exceptionally rewarding for the product tanker shipowners. On the other hand, freight rates in November hit rather low levels, but soon bounced back. In general, the largest vessel sizes experienced the greatest freight rate volatility.

Timecharter rates are still at rather high levels, implying continued optimistic earnings expectations for the coming 1-3 year period.

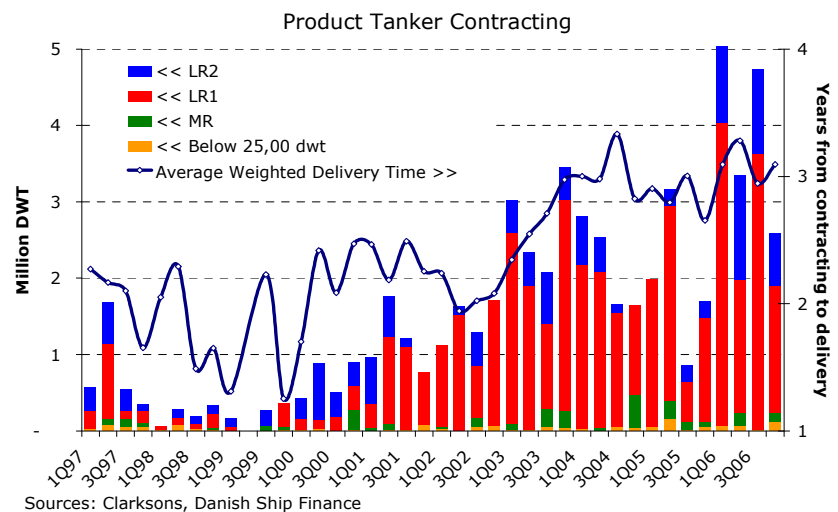
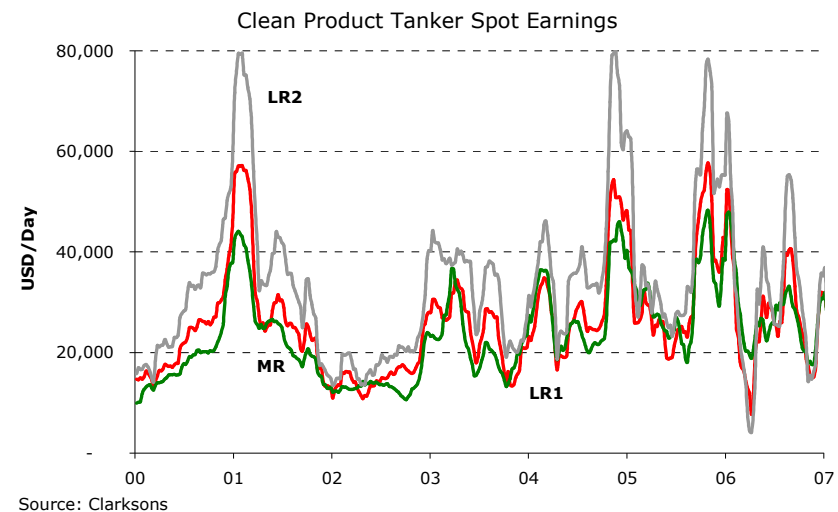
SUPPLY & DEMAND

Inventory adjustments, refinery repairs and little arbitrage

In addition to an extraordinary build-up of storages worldwide, the high freight rates during the 3rd quarter occurred on account of a build-up of fuel oil in the Asian market over the June-August period, bringing storage levels close to full capacity and creating an unseasonal trading boom in the Asian market.

The fuel oil build-up came at a time when stricter sulphur limits on power station and bunker fuel oils reduced the demand for these products in the Western hemisphere thereby flooding the Asian market with excess cargoes.

The stricter sulphur limits are part of a step-up to cut sulphur emissions in the European area. On May 19 the Baltic Sea region was the first area to be classified as a Sulphur Emission Control



Area (SECA), and as of August 11 emissions limits for passenger vessels traveling to or from any EU port came into affect. In 2007 the English Channel and the North Sea will be classified as a SECA, thereby further cutting Europe's demand for high sulphur fuel oil.

The subsequent downturn in freight rates that lasted until early December occurred as storage levels in some of the larger oil consuming regions had grown too high, thereby causing prices, refining margins and the arbitrage trade to fall. This prompted a heavier than usual maintenance shut-down of refineries particularly in Japan and USA and a larger draw on product inventories than usual. With US gasoline and distillate inventories brought back into normal territory by late November, demand for products imports could thus resume – leading to a subsequent bounce-back in freight rates.

CONTRACTING & SHIP VALUES

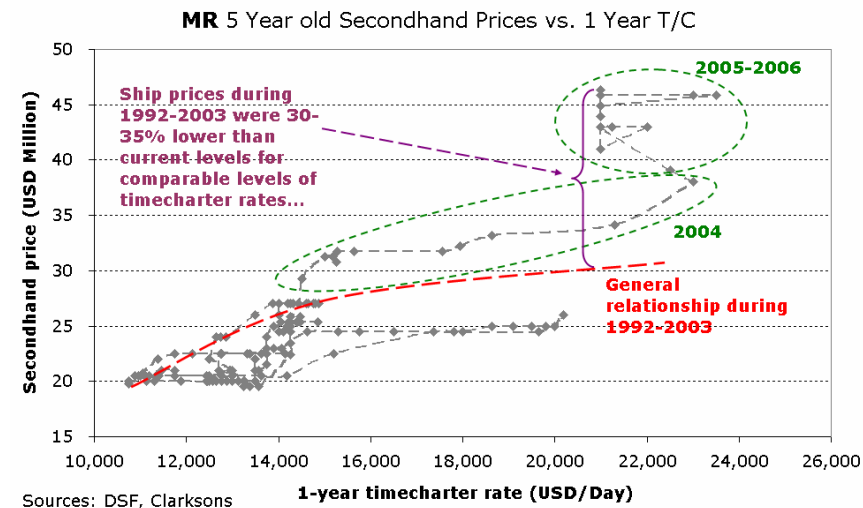
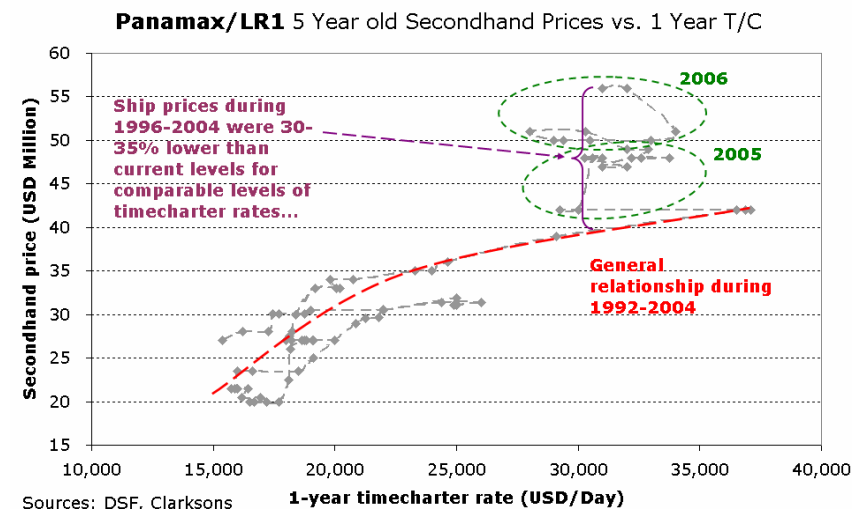
Prices continue up despite falling timecharter rates

Prices of 5 year old product tankers have generally increased by about 5-15% since mid-2006. Newbuilding prices have similarly increased about 5-15% during the same period.

The reason behind higher *newbuilding* prices is to be found in continued extraordinary contracting volumes. During the last six months of 2006 6.3 million dwt were contracted at the shipyards. This is down from 7.8 million dwt in the first half of 2006, but nonetheless marks the second consecutive 6-month period of record-breaking contracting volumes.

As with the crude tanker segments, product tanker secondhand prices are about 30-35% above the level they were during the 1992-2003 period for similar outlook expectations (timecharter rates). See the two graphs on the right.

Given that timecharter rates have fallen slightly over the last 12 months and that secondhand prices nonetheless have continued to appreciate, product tanker secondhand prices are to an increasing extent exposed to the same great downside risk as crude tanker secondhand prices.



OUTLOOK

High fleet growth, larger oil supply cushion dampen volatility

Product tanker operators may be facing a disappointing first half of 2007. With the warmest December and January in living memory, and crude oil, fuel oil, diesel oil, gasoline, and LPG inventories in the US all at high levels, chances of a sudden boost to product imports to the US within the coming 3-6 months seem to be on the low side.

A large share of the short-term volatility that product tanker freight rates exhibit over a year arises from the Transatlantic and other arbitrage windows that open and close with varying force and duration thereby demanding varying volumes of tanker tonnage to close the arbitrage. An arbitrage window is by definition open whenever the difference in petroleum prices supersedes transport costs.

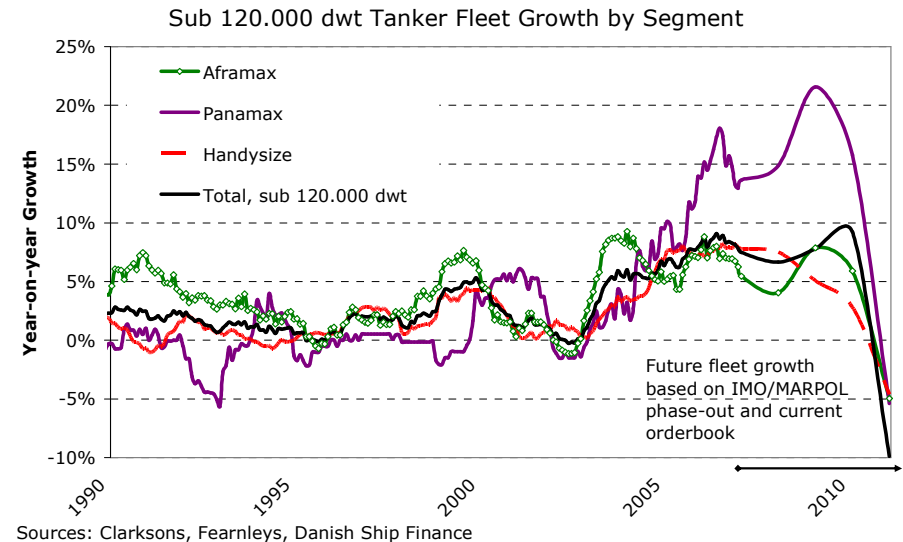
For the forthcoming 6-12 months we expect particularly the Transatlantic arbitrage window to be less volatile than it has been in the last 2-3 year period. And although a lower Transatlantic arbitrage only affects the product tanker markets on the margin, it nonetheless could be the difference between a great year and a good year.

The reasons behind our expectation first of all lie in the inverse relationship between petroleum price volatility and inventory levels: the higher are inventories, the less are the chances that petroleum prices will react drastically to supply disruptions. High inventories act as a buffer against any unforeseen events and smooth out any effect from the disruption. Secondly, some of the factors that helped raise US gasoline price volatility in 2006 are not expected to return in 2007. Specifically, MTBE was almost completely phased out of US gasoline in 2006 leading to a temporary need for higher products imports as US refineries went through a wide-ranging maintenance and upgrading process.

Consequently, with the global supply cushion showing much better signs than last year (please also read chapter on crude tankers)

we expect product tankers to see less demand from arbitrage trade than experienced within the last 2-3 years.

On top of that, fleet growth may increasingly restrict any upside volatility in product tanker freight rates. This is more of a long term consideration than an immediate concern.



As can be seen from above graph, the tanker segments of ships smaller than 120.000 dwt (largely consisting of product tankers) are expected to see an annual fleet growth way above historical levels for the next three years. Consequently we expect this to be an increasing source of worry and lead to lower product tanker freight rates over coming years. Nonetheless freight rates are still expected to remain at healthy levels in the long run as demand growth is anticipated to remain largely positive.

In conclusion, we expect product tanker freight rates in 2007 to be measurably lower than in 2006, but still at attractive levels. Beyond 2007 we expect freight rates to show increasing signs of vulnerability as fleet growth makes its mark. Importantly, the lower freight rates are expected to eventually lead to a correction of the apparently excessive product tanker secondhand prices ■

LPG Tankers

Large LPG vessel freight rates in complete nosedive as inventories prove to be too high, LPG prices fall and LPG producers consequently hold back production. Freight rates of smaller LPG vessels largely held up.

FREIGHT RATES

VLGC freight rates in conspicuous 4th quarter downturn

Similar to the Very Large Crude Carrier segment, the Very Large Gas Carrier (VLGC) segment saw freight rates under severe pressure in the 4th quarter of 2006. The 3rd quarter on the other hand turned out to be one of the best quarters ever for the largest LPG carriers.

Apart from the VLGC segment, other LPG segments saw rates remain at rather high levels throughout most of the second half of 2006 – although on a downward trend over the entire year.

SUPPLY & DEMAND

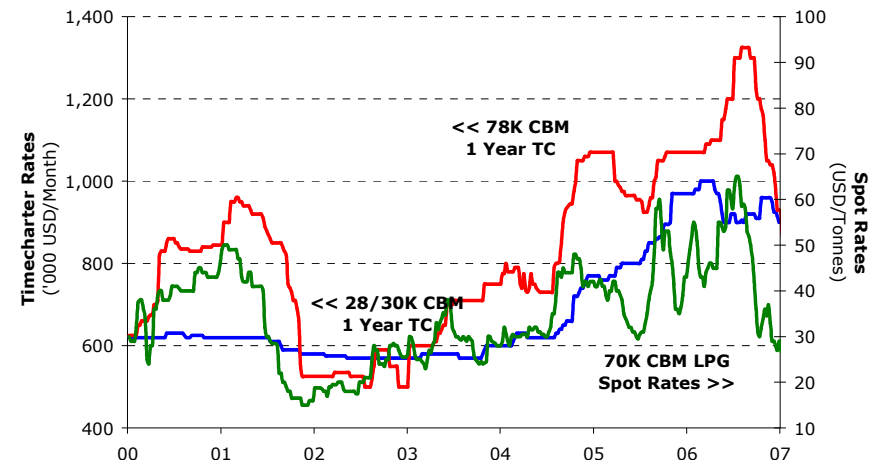
High prices and record mild weather stunt LPG demand growth

At the onset of 3rd quarter 2006 most LPG segments looked set for yet another 3-6 months of highly profitable trading conditions.

Firstly and most importantly, traders world-wide were in a large-scale inventory build-up in anticipation of high autumn and winter LPG consumption, and in the build-up process demanding a high number of LPG vessels to transport the gasses from source to storage site. Moreover, as with crude oil prices, LPG prices were in contango thereby supporting a global inventory build-up.

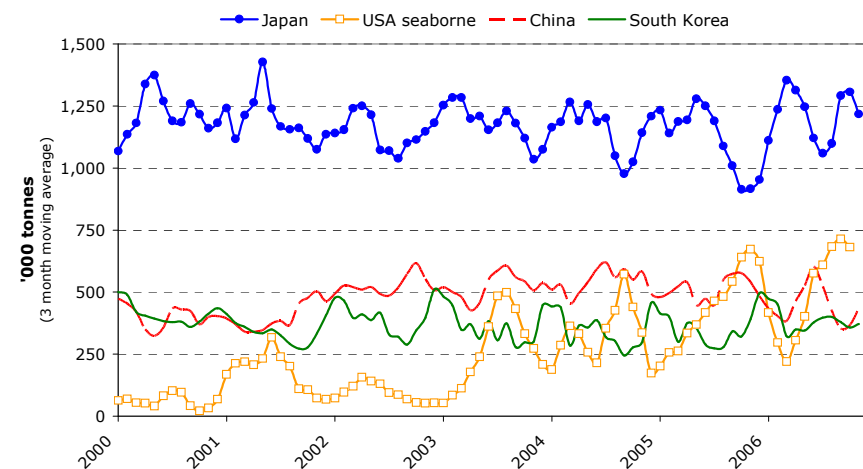
Secondly, in the European LPG market a sudden halt of Russian exports by railcar to Poland led to a temporary boost to demand for coastal and mid-size LPG vessels. Russian LPG exporters were forced to cut exports after a new law on LPG exports came into effect at the start of August. The law was intended for natural gas exports, but confusion over the interpretation of the law led customs officials to ban exports of LPG as well.

LPG Tanker Spot and Timecharter Rates



Source: Clarksons

LPG Imports by Country



Sources: SSY, Argus LPG World, EIA, Danish Ship Finance

As the 3rd quarter ran its course and the autumn weather turned out to be exceptionally mild it became obvious that LPG inventories in Europe, Asia-Pacific and the US had grown too high.

As in the crude and product tanker segments, the sign that demand was faltering and inventories had grown to unsustainable levels came through a clear fall in most petroleum related commodities.

Going into winter this was an unpleasant surprise for most LPG traders and suppliers, who depend on lower prices during summer in order to build their storages for them to sell during the winter when expectedly cold weather lifts demand for heating and consequently prices. **But as New Year quickly approached, the winter weather had still not arrived to any measurable degree in almost all of the largest LPG-consuming regions and storages were still full in Asia-Pacific, northwest Europe and the US.**

The resulting rush to slow LPG output to meet lower demand curbed spot cargo requirements to a significant degree. In addition, the inventory build-up meant that propane prices failed to disconnect from crude and naphtha prices thereby limiting the usual arbitrage winter-trade across the Atlantic Ocean. **By November, at least four older VLGCs were placed into temporary lay-up in hope that it could stem the ongoing rot in freight rates.** But unless the ships are actually scrapped, it may not have the desired effect on freight rates in the short or medium run, as the mere threat of them returning to operation will act as a lid on freight rates.

Although the VLGC segment in particular was hit hard by the lack of spot demand, the situation of plentiful storages in Europe has meant that spot trade mainly has been done in small sub 10,000 cbm vessels capable of discharging at those European ports that lack spare LPG storage facilities. As a result, these vessels have fared better.

The 4th quarter downturn in freight rates is not only a problem caused by mild winter weather – although it did indeed play a big

part. Had it only been a question of mild weather, it would have been a short matter of time before inventories again were brought back down restoring balance and higher prices.

However, **high prices in the last 1-2 year period to an increasing degree have led low-income households back to using traditional cooking fuels**, and domestic consumption in large parts of South America and developing Asia consequently has fallen in 2006. The fall is most noticeable in rural areas where wood and charcoal can sometimes be obtained for free.

Although imports were up in Japan – the most important market for LPG vessels – domestic consumption was down thereby exaggerating the build-up in inventories. Before autumn and winter had set in, the fall in LPG consumption largely came as a result of weaker industrial sector demand as the industry continues to shift towards using lower priced natural gas. Later, as mild winter weather failed to make an impact on demand, the fall in domestic consumption intensified.

Finally, **China's LPG imports fell by nearly 14% in 2006 thereby worsening the downward trend from 2005 when imports fell 3.8%.** Higher domestic prices have pushed end-users toward cheaper coal and natural gas, and in addition to a 4.3% increase in China's LPG output, continued increases in domestic production of natural gas also dampened China's demand for LPG. China's LPG consumption in 2006 grew by just 1.5%. As the Chinese market is expected to be one of the principal outlets of incremental LPG production in coming years, the ramifications of China's falling LPG imports could turn out to be severe for LPG-related sectors.

The importance of the above described global demand reaction to high LPG prices is monumental, as the world's developing countries for quite some time have been pinned to be the future growth driver for LPG demand in years ahead. However this assumption now may be less certain. Also with Japan's LPG consumption in a long-lasting slowdown, not even the world's mature LPG markets may be the necessary outlet for the massive growth in LPG output that is expected on stream in coming years.

CONTRACTING & SHIP VALUES

From boom to bust in contracting activity within just 3 months

The freight rate boom-bust cycle that the VLGC segment experienced in the 4th quarter had an almost disproportional effect on contracting activity. In the 3rd quarter a record setting 1.6 million dwt of LPG vessel capacity were contracted at the shipyards, but in the 4th quarter contracting activity crashed to a measly two ships of 2,300 dwt each.

Although LPG vessel contracting activity effectively disappeared in the 4th quarter, the continued strong contracting of LPG ships up to that period combined with the overly exuberant contracting of oil tankers and a renewed interest in dry bulk ships has pushed the bargaining power safely in the hands of the shipyards. As a result, LPG newbuilding prices remained relatively constant over the second half of 2006 and are about 5% up since beginning of the year.

But newbuilding prices may to an increasing extent be above what timecharter rates require to make a profitable investment case, and if expected income remains low, shipyards will be forced to lower their prices to get any additional orders.

Over the second half of 2006, secondhand prices have remained relatively constant in all segments, but are 10-35% up since the end of 2005, according to Fearnleys.

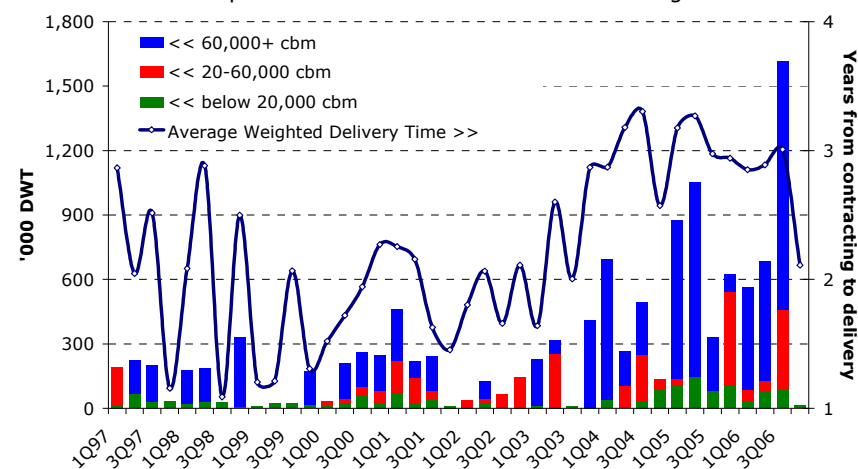
OUTLOOK

All depends on who will buy the surplus LPG production

With global inventories on the high side, the current winter weather that barely has made its mark on consumption, and as nobody wants to be long in LPG products going out of winter, all makes it difficult to be overly bullish on LPG demand and LPG vessel freight rates in coming months.

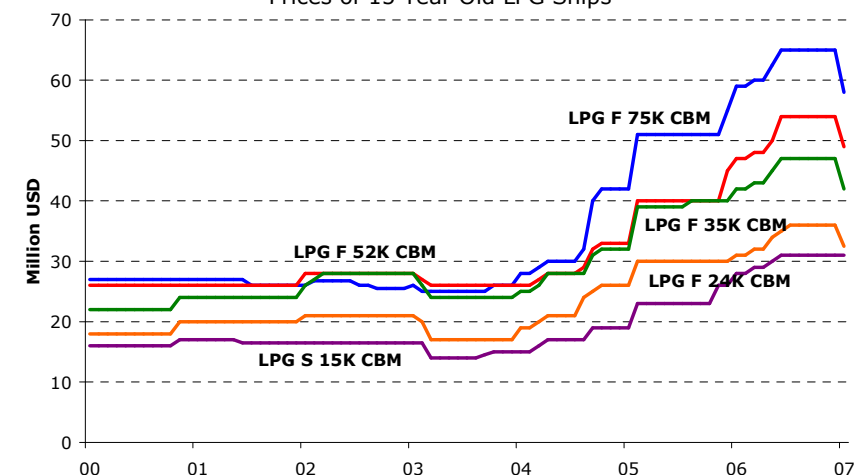
Looking further into 2007, a challenge for LPG vessel freight rates will be the relatively high LPG prices that lead to a long-drawn erosion of markets in mature as well as in developing regions.

Liquefied Petroleum Gas Tanker Contracting



Sources: Clarksons, Danish Ship Finance

Prices of 15 Year Old LPG Ships



Source: Clarksons

Although total fleet growth in 2007 is expected to be a rather high 8-10%, we do *not* expect this to be the factor that will keep freight rates at low levels. Instead, this concern is grounded in uncertain prospects for demand growth.

But all is definitely not dreadful for LPG shipowners in 2007. Given a high economic growth in most regions, demand for petrochemical products in the industrial production is set to expand at a steady pace. Moreover, if LPG prices remain at a discount to naphtha prices, petrochemical plants may to an increasing degree switch to LPG as a feedstock irrespective of the absolute level of LPG prices.

Finally, LPG and other natural gas liquids are not subject to production restrictions under OPEC quotas, unlike crude oil, and LPG can thereby provide a significant extra revenue stream for OPEC member states. We thus suspect that the current cutback in OPEC's LPG exports may not be as severe as OPEC's cutback in crude production. Consequently, the current restraint shown by OPEC regarding its LPG exports and low demand for LPG vessels may only be transitory despite continued low LPG prices.

In the last few years, most petroleum and gas related prices and resulting demand for tanker ships have shown large seasonal swings: high during winter and low during summer. But the summer and fall/winter of 2006 turned out almost completely opposite. Consequently **2006 was a perfect example that the dynamics of commodity prices in petroleum-related sectors (crude, product, and LPG) may gradually have changed from being seasonally demand-led to being supply-led.** The fundamental reason behind this change in commodity price dynamics is probably to be found in the combination of a relatively small but still clear return of a global spare production capacity together with a global build-up of inventories. Evidently, all this was amplified by a record mild fall and winter in 2006.

The implications for LPG ship operators, as well as for crude and product tanker shipowners, of the change in market dynamics may be that: (i) commodity prices, demand for ships, and freight rates may show less volatility in the coming years as supply outstrips

demand; and (ii) demand for tanker ships (crude, product and LPG) is possibly much more dependent on OPEC's actions in response to falling or rising commodity prices. Thus, **the seasonality that we have grown accustomed to in 2003-2005 may not be as visible in coming years as in recent years.**

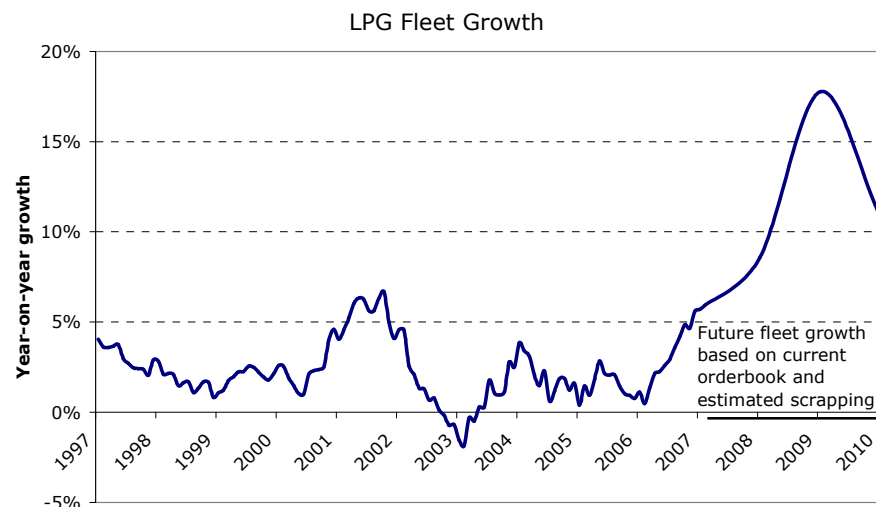
Looking beyond 2007, **the global LPG surplus production is likely to increase until at least 2010, and LPG prices will most likely remain under pressure in comparison to crude oils and natural gas** (read our previous "Shipping Market Review" for a further explanation to this expectation). Consequently, the petrochemical industry will probably be the final taker of a large share of the excess LPG supplies as they switch their naphtha feedstock with LPG instead. Nonetheless, as petrochemical producers have finite capacity to consume LPG, as they need to use different feedstock to produce a wide chemical yield, and as demand for basic chemicals further down the supply chain is not exactly price-sensitive, the ability of the petrochemical industry to soak up the entire excess supply remains limited. Consequently, the extent of **the seasonal volatility in LPG prices and demand for LPG vessels will probably remain under pressure** as well. Also with lower seasonal volatility in LPG shipping demand, freight rates are probably to exhibit less volatility also.

Furthermore, as we highlighted in our previous "Shipping Market Review", it is highly uncertain how much LPG will actually be made available for exports from the producing regions, and how much LPG will be left in the LNG stream before being shipped. If prices and demand for LPG turns out to be depressed, less LPG will be stripped from the LNG stream and consequently less LPG ships will be needed. Unfortunately, the regions that were hoped to hold the largest consumption growth in future years have in recent years exhibited wide-spread consumption slowdown as too high LPG prices have caused a shift towards lower priced alternatives.

Expansion of crude and gas refinery capacity in the *consuming* regions in addition to expansion of petrochemical plants in the oil and gas *producing* regions are additional challenges facing LPG ship operators in coming years.

According to Argus LPG World, China's crude oil refinery capacity is expected to rise by 100 million tonnes of crude oil by 2010, yielding an additional 4 million tonnes of domestic supplies of LPG. Compared to a total Chinese LPG consumption of 20 million tonnes in 2005, 4 million tonnes is thus a significant increase in China's domestic supply of LPG. In addition to China's increasing domestic natural gas supplies and rising LNG imports (read our previous "Shipping Market Review"), the prospects of China's LPG import requirements look increasingly dim.

Furthermore, construction of several LPG-based petrochemical plants in the Middle East will soak up a significant share of the future increase in LPG production. Despite a significant increase in the global LPG production and LPG surplus, demand for LPG ships may *not* rise proportionally because of the LPG feedstock used in the Middle East is sourced directly from the region. Nonetheless, the sub-segment of LPG ships that is able to transport ethylene (most of them between 4,000 and 12,000 cubic meters), is expected to draw benefit from increased Middle East petrochemical capacity as some of the output is likely to be ethylene, of which some of it may be destined for export.



Sources: Clarksons, Drewry, Danish Ship Finance

Finally, the perhaps biggest challenge that LPG ship operators face in coming years is the onslaught of new vessels from the shipyards. Based on current orderbook and estimated scrapping, the total LPG fleet is in 2007, 2008, and 2009 set to expand by about 9%, 17%, and 11%, respectively. See above graph for a graphical illustration of the historic and future LPG fleet growth.

Consequently, **the risk of history repeating itself exists**. LPG vessel newbuilding orders surged in the late 1970s in anticipation of additional LPG production. But new crude sources and associated LPG production were lower than anticipated, leaving LPG freight rates depressed for a decade.

In conclusion, **we expect freight rates in 2007 to be less volatile than in previous years and to be lower than in 2006. Particularly in the early part of 2007, we expect freight rates to remain rather depressed as adequate supplies on hand in most consuming regions limit chances of price volatility and wide-spread arbitrage trading.** Nonetheless, full storage and limited demand may lead to additional sales by companies that stocked up on LPG in anticipation of a cold winter, and this may be the factor that keeps the shipping market and freight rates from going too low.

For all of 2007, the actions of OPEC regarding its exports most likely will have a significant effect on demand particularly for the very large LPG vessels. Given the circumstances explained above, and additionally touched upon in the chapter on *crude* tankers, unfortunately the likelihood of a sudden boost to LPG vessels in 2007 and perhaps into 2008 may be much lower than during the past few years.

For 2008+, the outlook for freight rates is increasingly difficult to call as fleet growth poses a rapidly rising threat. Furthermore, several major uncertainties described above regarding LPG shipping demand growth raise the risk of a return to depressed freight rates for an extended period ahead ■

Chemical Tankers

Steady deep sea chemical tanker freight rates on high levels. Contract of affreightment charter rates were renewed on increased levels as demand is expected to stay strong and uncertainty over access to the right ship quality lift owners' bargaining powers.

FREIGHT RATES

Relatively steady freight rates on high levels

The temporary imbalances in deep sea trading patterns to and from the US because of hurricane related production outages in 2005, gradually receded in 2006. Consequently, freight rates on US chemical exports for instance to Europe showed a clear revival during the second half of 2006. Overall, freight rates on most *deep sea* routes stayed at rather high levels throughout the second half of 2006.

Similarly, freight rates on most *short sea* routes have also remained at rather high levels throughout the period.

Particularly during the latter part of 2006, contract of affreightment (CoA) charter rates were settled at higher levels, as generally high spot rates and a positive outlook for the chemical trades strengthened the bargaining position of shipowners.

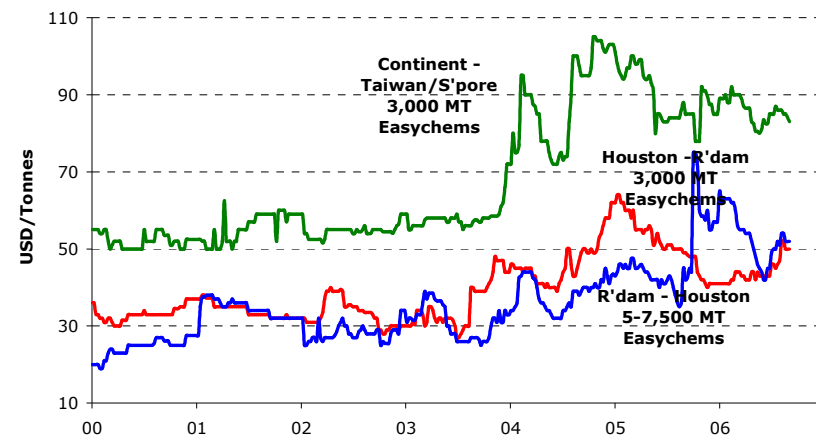
SUPPLY & DEMAND

Revival in US exports, partly due to lower feedstock prices

The rebalancing of deep sea trades continued into second half of 2006 as USA's chemical production facilities slowly regained full speed after having experienced significant outages following the hurricane devastations in 2005.

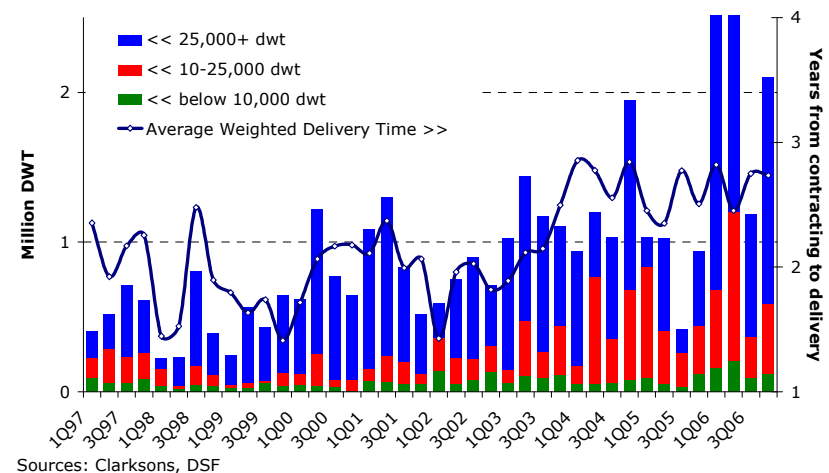
Additionally, a noticeable fall in gas prices, partly due to mild winter weather and partly due to a slowdown in USA's industrial growth, may have boosted US chemical exports as lower feedstock

Chemical Tanker Spot Rates



Source: Clarksons

Chemical Tanker Contracting



Sources: Clarksons, DSF

prices have improved the competitiveness of US chemical producers. Moreover, the European and particularly the German industrial production have gained momentum throughout 2006 thereby providing a fitting outlet for the surplus US chemical production.

CONTRACTING & SHIP VALUES

Slight contracting slowdown, secondhand prices continue up

Although being rather high, the 2.8 million dwt of chemical tanker orders contracted during the second half of 2006 did not even come close to the record-setting 5.6 million dwt tonnes contracted during the first half of 2006.

Despite the slowdown in contracting activity, average delivery time of chemical tankers nonetheless increased to a record-high 2.9 years. This is far from the 2002-level of 1.2 years.

With continuously higher newbuilding prices and a still strong outlook, secondhand chemical tanker prices have increased by about 5-10% since mid-2006.

OUTLOOK

Fair global economic growth sustain freight rates

The outlook for global economic growth in 2007 and for the next few years appears reasonably strong. Consequently, demand for seaborne chemicals is expected to remain robust throughout the foreseeable future.

However, tonnage supply is expected to continue to grow in the same period, and will most likely lead to a gradual fall in the fleet's utilization degree.

Freight rates are despite of a theoretical drop in fleet utilization not expected to fall to any degree as the reclassification by January 1 2007 of almost all chemical products, vegetable oils and animal fats into higher IMO classification grades is expected to lead to

increased uncertainty of ship supply and hence greater willingness to pay higher freight rates.

Due to the reclassification, all IMO 2 tankers and a select part of the double-bottom IMO 3 tankers are expected to see higher demand in 2007 and ahead than in 2006. Conversely, older and single-bottom IMO 3 chemical tankers and elderly product tankers may see less demand in 2007 and ahead than in 2006.

In general, the new classification rules are expected to lead to a more clear-cut boundary between the chemical tanker trade and the product tanker trade. Consequently, the degree of volatility in chemical tanker freight rates may past the reclassification implementation date most likely be greater than before. This may be the case as the reduced ability of chemical and product tankers to change trading pattern and substitute each other lessens the ability of supply to react to changing demand.

An increasing share of deep sea chemical exports is in future years expected to come from the Middle East, whereas China and rest of Asia may become a much larger importing region. Conversely, particularly the US and European chemical exports are expected to lose market share as a comparatively costlier production base prohibits its competitiveness. Not only stricter environmental regulations, but also higher labor costs and more expensive feedstock, all add up to a lower competitiveness of the European and American chemical industries ■

Offshore Support Vessels

All previous records were brushed aside in 2006 as freight rates more than doubled on the levels of 2005. A high number of rig moves pushed demand for offshore support vessels beyond supply, sending rig operators scrambling to secure any available ship.

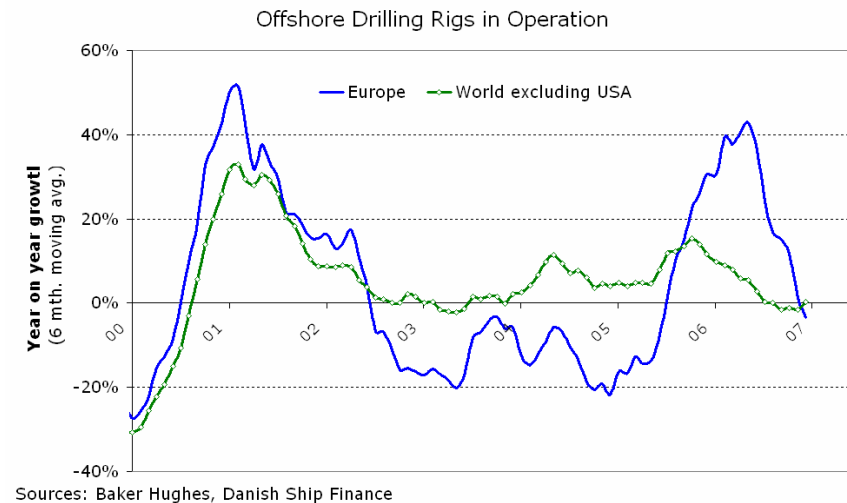
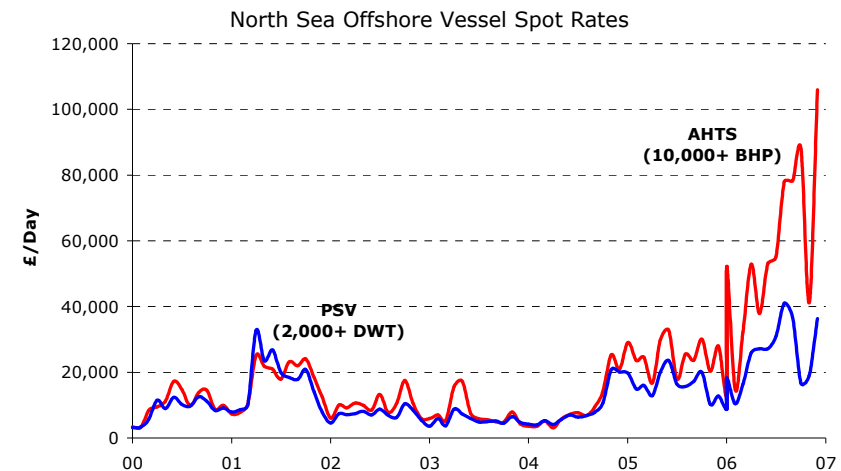
FREIGHT RATES

North Sea AHTS charter rates in new record

2006 turned out to be another remarkable year for offshore supply vessels. The drivers have once again been a favorable mix of high oil prices, growth in spending by the oil companies, and continued under-supply of tonnage in most vessel segments. Thus, almost all types of offshore supply vessels in almost all offshore regions around the world experienced extraordinarily high period rates.

Consequently, the second half of 2006 outperformed even our most optimistic expectations. Average North Sea charter rates in the 2nd half of 2006 for the sub segment of AHTSs larger than 10,000 BHP were 219% above the 1st half 2006 average. By comparison, average AHTS (10,000+ BHP) rates for all of 2006 were double those of 2005. Similarly, PSV (2,000+ DWT) charter rates in the second half of 2006 were 156% higher than average rates in the first half of 2006. Measured as the average 2006 rate benchmarked against the average 2005 level, rates increased 50% in 2006.

High charter rates were obtained through a significant demand growth in the North Sea with a high number of rig moves combined with bad weather. Furthermore, rates were supported by substantial growth outside the North Sea, with demand for offshore vessels growing particularly in India, Malaysia and Indonesia. Secondly, the activity in West and North Africa has continued to contribute considerably to both the exploration activity and subsea construction activity with a direct positive impact on vessel demand. Especially the major drilling operations off the coast of North Africa, and the installation of FPSO vessels off Angola and Nigeria employed large numbers of advanced tonnage and construction vessels.



SUPPLY & DEMAND

Rig operators in bidding war to secure support vessels

Most modern drilling rigs and jack-ups experienced utilization rates close to 100% creating a highly lucrative environment to most offshore vessel segments. Consequently, most offshore vessel segments have had utilization rates close to 90% despite above average fleet growth.

Global supplies of PSVs grew by 14% and global supplies of AHTSs grew by 4.7% in 2006. The supply of ships in the sub segment of AHTSs larger than 10,000 BHP grew 12% compared to a historical annual average of 7%. The same trend was evident in the sub segment of PSVs larger than 2,000 dwt which grew 16%, compared to a historical annual average at about 11%. Supply in the smaller PSV segment (<2,000 dwt) grew by a lesser 4%, and supply in the smaller AHTS segment (<10,000 BHP) grew a much slower 3.6% in 2006.

Apparently, demand for offshore vessels has been greatly stimulated by high oil prices and correspondingly high exploration and drilling profitability which has boosted offshore activity to new unprecedented levels.

North Sea demand for anchor handling vessels reached new highs in October. Periodically there were no AHTS vessels available for as much as 7-10 days, implying that a number of rigs were waiting to be moved. Thus many charters were forced to commit to vessels ahead of time and pay a premium to guarantee tonnage. In consequence, AHTS day rates were pushed to new records with several fixtures beyond £100,000 per day and the highest recorded in the region of £140,000 per day.

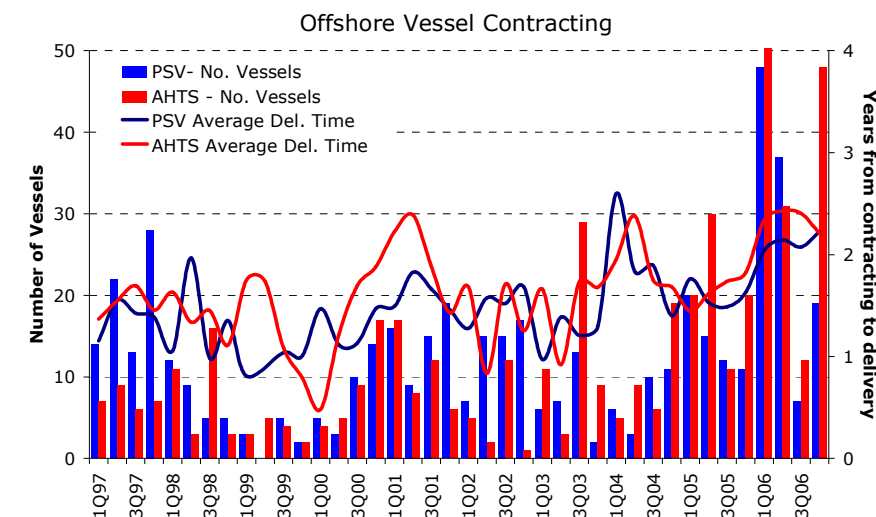
Thus it is evident that world demand for offshore supply vessels have been strong, ensuring continued high fleet utilization and record high charter rates. Especially the North Sea demand has surprised with demand growth sustaining momentum and outpaced supply despite above average fleet growth.

Outside the North Sea, developing offshore markets in India, Indonesia and Malaysia as well as West and North Africa have seen significant activity increases throughout 2006. As the lack of any meaningful spot market in many of these regions forces rig operators to charter more vessels than what they would have done for an equivalent job in the North Sea, increasing drilling and exploration activity in developing regions consequently has a disproportional effect on global vessel demand.

CONTRACTING & SHIP VALUES

New contracting record and clear jump in prices

High market sentiment caused a historically high contracting activity in 2006. According to Clarksons, 185 AHTSs and 111 PSVs were ordered during 2006 with the majority contracted in the first half of 2006. This has by far surpassed the order activity for all of 2005 of 81 and 58 AHTSs and PSVs respectively.



Sources: Clarksons, Danish Ship Finance

Besides from the high contracting numbers, the most noticeable development within the offshore shipyard industry is the clear increase in number of ships built by Asian shipyards. Previously, European yards almost had total domination on building large

AHTSs and large PSVs, but now Asian yards are indeed making headway into these ship segments as well. At the end of 2006, 40% of all newbuildings were on order in Asia.

The much improved charter markets have within the last six months led to an increase in offshore vessel secondhand prices. PSV secondhand prices increased 13-19% throughout the second half of 2006. Interestingly, AHTS secondhand prices increased in the magnitude of 11-31% with the youngest ship gaining the most throughout the second half of 2006. A contributing factor to the secondhand price increase in the second half of 2006 has been the Indian boom, with Indian vessel operators greatly shopping for modern secondhand tonnage.

OUTLOOK

Exuberant sentiment, new markets but large fleet growth

Attempting to foresee anything about freight rates in this environment is bound to fail. All that we will venture as a guess is that freight rates most likely are to stay much above any break-even level for offshore support vessel owners throughout 2007. One thing is for sure: current charter rates are at a historical high, making it a challenge to keep them up for a longer period.

The key element for the exceptional 2006 was a continued under-supply of tonnage in most vessel segments. But in 2007, 130 AHTS and 67 PSV vessels are due for delivery and this alone could cause freight rates to fall.

However, an expected moderate growth in global offshore drilling and exploration activity until 2010 will most likely be able to absorb most of the increase in offshore support vessels supply.

The development of relatively new exploration and drilling regions such as North and West African, India, Indonesia, Malaysia and Australia (commonly regarded to be the next boom area) will in the future require a disproportional share of all new ships being built, thereby maintain high fleet utilization.

The offshore support vessel industry will become much more geographically segmented, with new growth regions dispersed all over the world. The greater dispersion and consequential physical distance between offshore regions will lead to an effective reduction in the global supply of vessels available for charter at any given moments as vessels will have much longer transportation time to change region. Secondly, as these new growth regions lack an effective spot market, rig operators are forced to over-charter to ensure the required supply. In sum, these factors reduce effective supply and increase demand, thereby exerting pressure on overall fleet utilization.

The years beyond 2007 may turn out a greater challenge to charter rates as the offshore industry to the same degree as the rest of the shipping sectors has shown desire to contract new tonnage. In 2008, a substantial 98 AHTSs and 41 PSVs are scheduled to enter service.

An increasing challenge facing vessel operators in coming years is the growing shortage of qualified seamen. This is not only a problem in the offshore sector, but is a growing concern in almost all other shipping sectors as well.

However, the large number of elderly ships is probably in the long term to counteract a rising supply. Specifically when the market at some point in the longer term turns to the worse, it is expectable that the age of the tonnage once again will be a major issue. Throughout 2006 and expectable throughout 2007 the old saying "beggars can't be choosers" has been apparent. However, when supply starts to outpace demand it is reasonable to assume that rig operators once again will put strength behind the age requirement which is likely to result in a substantial scrapping activity of older vessels.

In conclusion, we hold rather positive expectations with regard to offshore supply vessel charter rates in the coming year. However, uncertainty at current high charter levels is proportionally high ■

Glossary

<i>Aframax:</i>	Crude oil tanker or product tanker too large to pass through the Panama Canal and below 120,000 dwt.	<i>Ceu:</i>	Car equivalent unit. Unit of measure indicating the car carrying capacity of a vessel.
<i>AHTS:</i>	Anchor Handling Tug Supply. Offshore vessel used for jobs such as the relocation of oil rigs and anchors of the oil rigs.	<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>ARM:</i>	Adjustable Rate Mortgage. Mortgage loan with a variable interest rate that is being adjusted on a regular basis.	<i>Clarkson:</i>	British ship brokering and research company. www.clarksons.net
<i>Back-haul:</i>	The leg of the 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>Clean products:</i>	Refers to light, refined oil products such as jet fuel, gasoline and naphtha.
<i>Barrel:</i>	A volumetric unit measure for crude oil and petroleum products equivalent to 42 U.S. gallons, or approximately 159 liters.	<i>CoA:</i>	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.
<i>BHP:</i>	Break Horse Power. The amount of engine horsepower.	<i>CSR:</i>	Common Structural Rules. A common set of construction rules agreed by the leading international classification societies to be applied to all new construction contracts from April 1, 2006 between shipyards and shipowners for tankers of 150 m or more in length and bulk carriers of 90 m or more in length. The CSR require the ships to be built at a higher set of standards thus enabling the ships to trade for longer.
<i>Brent:</i>	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.	<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>Bulk vessel:</i>	Description of vessels transporting large cargo quantities, including coal, iron ore, steel, corn, gravel, oil, gas, etc.	<i>Drewry:</i>	Drewry Shipping Consultants Ltd. British shipping and transport research company. www.drewry.co.uk
<i>Bunker:</i>	Fuel for vessels.	<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>Call on OPEC:</i>	Defined as total global petroleum demand minus non-OPEC supply minus OPEC natural gas liquid supply.		
<i>Capesize:</i>	Dry bulk carrier of more than approximately 80,000 dwt; too large to pass through the Panama Canal.		
<i>Cbm:</i>	Cubic Meter.		

<i>Dynamic Positioning:</i>	Special instruments on board that in conjunction with bow thrusters and main propellers enable the ship to position itself in a fixed position in relation to the seabed.	<i>IEA:</i>	International Energy Agency. A subsidiary of the OECD. www.iea.org
<i>EIA:</i>	Energy Information Administration. A subsidiary of the US Department of Energy. www.eia.doe.gov	<i>Imarex:</i>	International Maritime Exchange. www.imarex.com
<i>E&P:</i>	Exploration and Production.	<i>IMO:</i>	International Maritime Organization. An organization under the UN.
<i>Fearnleys:</i>	Norwegian ship brokering and research company. www.fearnleys.no	<i>IMO I-III:</i>	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.
<i>Feeder:</i>	Small container carrier.	<i>Chemical tanker:</i>	Tanker with coated or stainless steel tanks (IMO I-III).
<i>FPSO:</i>	Floating Production Storage Offloading unit. Vessel used in the offshore industry to process and store oil from an underwater (sub-sea) installation.	<i>LOOP:</i>	Louisiana Offshore Oil Port. A deepwater port in the Gulf of Mexico off the coast of Louisiana. LOOP provides tanker offloading and temporary storage services for crude oil transported on some of the largest tankers in the world of which some are too large for U.S. inland ports.
<i>Geared:</i>	Indicates that a vessel is equipped with a crane or other lifting device.	<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>Gearless:</i>	Indicates that a vessel is not equipped with a crane or other lifting device.	<i>LR1, product tanker:</i>	Long Range 1. Product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 meters and length of 289.5 meters) of approximately 50,000—80,000 dwt.
<i>Global Insight:</i>	American economic consulting company. www.globalinsight.com	<i>LR2, product tanker:</i>	Long Range 2. Product tanker too large to pass through the Panama Canal and larger than approximately 80,000 dwt.
<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>Medium, tanker (MR):</i>	Medium Range. Product tanker of between 25,000 and 50,000 dwt.
<i>Handy, tank:</i>	Crude oil tanker, product tanker or chemical tanker of between 10,000 and 25,000 dwt.	<i>MEW:</i>	Mortgage Equity Withdraw. Defined as equity extracted from existing homes via cash-out refinancing, home equity borrowing, and/or housing turnover.
<i>Handymax, dry cargo:</i>	Dry bulk carrier of between approximately 40,000 and 60,000 dwt.		
<i>Handysize, dry cargo:</i>	Dry bulk carrier of between approximately 10,000 and 40,000 dwt.		
<i>Head-haul:</i>	The leg of the 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>Multi-Purpose:</i>	Dry bulk carrier with multiple applications, mainly as a feeder vessel or for special cargo.		Canal (approximately 120,000—200,000 dwt.).
<i>Nautical Mile:</i>	Distance unit measure of 1,582 meters, or 6,076.12 ft.	<i>TCE:</i>	Time Charter Equivalent.
<i>Offshore vessel:</i>	Vessel serving the offshore oil industry.	<i>Teu:</i>	Twenty Feet Equivalent Unit. Container with a length of 20 feet (about 6 meters) which forms the basis of describing the capacity of a container vessel.
<i>OPEC:</i>	Organization of Petroleum Exporting Countries.		
<i>Panamax, container:</i>	Container carrier with the maximum dimensions for passing through the Panama Canal (width of 32.21 meters, length of 291 meters) of approximately 3,000—5,000 teu.	<i>Teu-knots:</i>	Unit of measure that takes account of the speed of the ships when estimating the actual supply of ships within a segment.
<i>Panamax, tanker:</i>	Crude oil tanker or product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 meters and length of 289.5 meters) of approximately 50,000—80,000 dwt.	<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>Panamax, dry cargo:</i>	Dry bulk vessel with the maximum dimensions for passing through the Panama Canal (width of 32.21 meters and length of 289.5 meters) of approximately 60,000—80,000 dwt.	<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>PCC:</i>	Pure Car Carrier. Car carrier built exclusively to transport passenger cars.	<i>Tonnage:</i>	Synonymous with "vessel".
<i>Post-Panamax:</i>	Container vessel of approximately 4,000+ teu that is too large to pass through the Panama Canal.	<i>ULCC:</i>	Ultra Large Crude Carrier. Crude oil tanker above 320,000 dwt.
<i>Product tanker:</i>	Tanker vessel with coated tanks used to transport refined oil products.	<i>VLCC:</i>	Very Large Crude Carrier. Crude oil tanker of between approximately 200,000 and 320,000 dwt.
<i>PSV:</i>	Platform Supply Vessel. Offshore vessel serving the offshore oil installations.	<i>VLGC:</i>	Very Large Gas Carrier. LPG ship with capacity above 60,000 cbm.
<i>Ro-Ro:</i>	Roll On – Roll Off. Common description of vessels on which the cargo is rolled on board and ashore.	<i>WTI:</i>	West Texas Intermediate. Oil price benchmark in the USA.
<i>SSY:</i>	Simpson Spence & Young, British ship brokering and research company. www.ssy.co.uk		
<i>Suezmax:</i>	Crude oil tanker with the maximum dimensions for passing through the Suez		

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