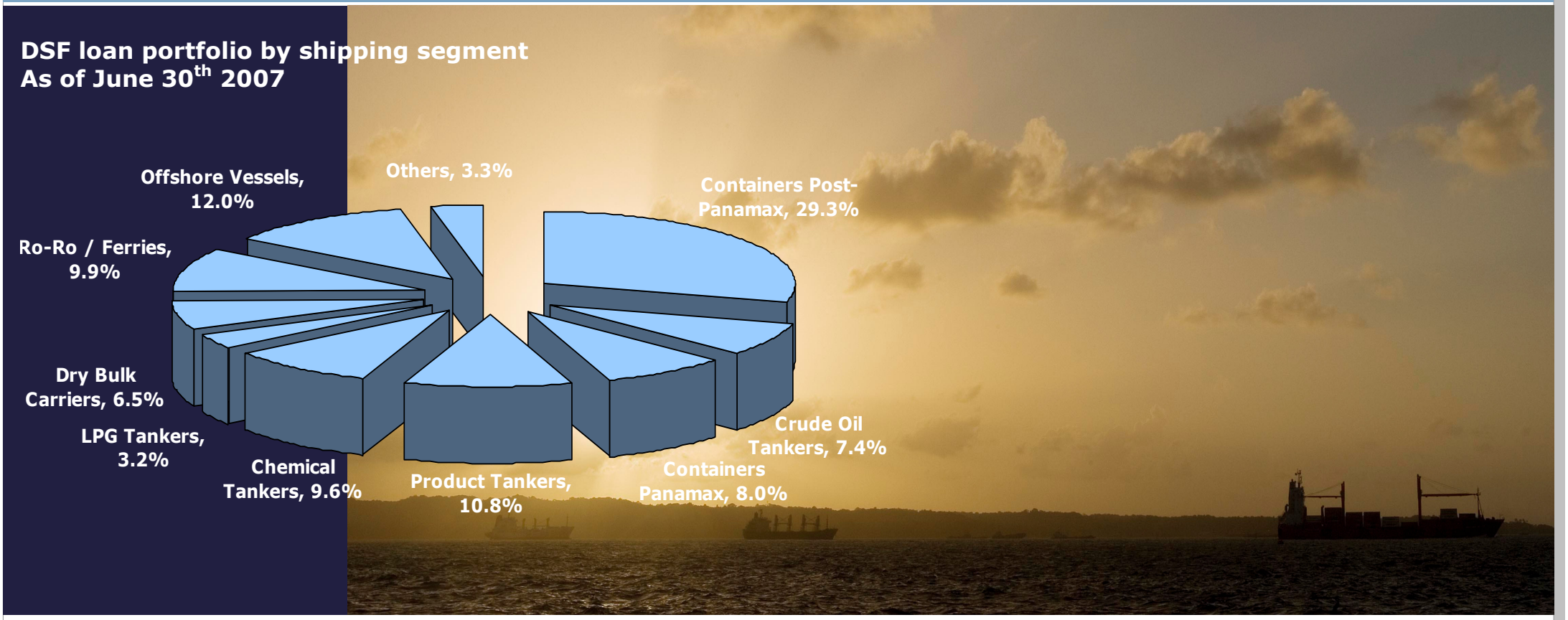
SHIPPING MARKET REVIEW – AUTUMN 2007

DSF loan portfolio by shipping segment
As of June 30th 2007



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Danish Ship Finance

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EXECUTIVE SUMMARY

- Ship Building: The world orderbook stands at 460 million dwt, or 45.5% of the current world fleet in a time where world GDP growth seems to tremble. Accordingly, we expect the high orderbook to put pressure on future ship prices and daily earnings.

- *Container:* Freight rates have revived during winter 2007 from a two-year low to record-high levels as demand growth apparently exceeds supply growth. Contracting activity has reached an all-time high, with huge orderbooks for Panamax and Post Panamax vessels, confirming the current demand for a larger size container fleet.

- *Dry Bulk Ships:* Freight rates have been steadily increasing during the year, greatly supported by port congestion and sparkling economic key figures, especially from China. Contracting and ship values have reached new record highs. Are we witnessing a boiling hot bull market or maybe a market fighting (temporary?) infrastructural bottlenecks and commodity supply shortages?

- *Crude Tankers:* In contrast to dry bulk carriers and container ships, tankers ended third quarter 2007 with decreasing earnings. Particularly VLCC freight rates experienced heavy falls with third quarter levels seen at a five-year low. The VLCC bear market clearly emphasizes the segment's exposure towards reduced Middle East Gulf supply and US refinery utilization (US demand). New building prices are still showing a steady upward momentum, regardless of a significant decrease in contracting activity for crude and product tankers during the first three quarters 2007, compared with same period last year.

Ship Building

High freight rates are supporting high ship values and the record-high contracting activity. The total world orderbook stands at 460 million dwt, or 45.5% of the current world fleet. The high orderbook is expected to press future ship values and freight rates.

FREIGHT RATES

Tanker and dry bulk newbuilding prices at an all time high
All major ship segments have experienced solid increases in newbuilding prices during 2007, continuing their upward move from 2006 at an even more rapid pace. Especially dry bulk and tanker vessels have peaked during 2007.

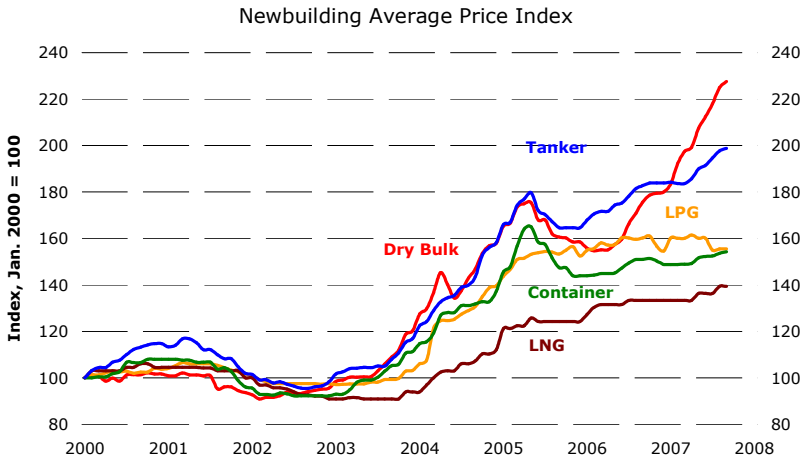
The newbuilding average price index for **dry bulk vessels is about to repeat the 2003-05 jump** with a further 25% increase YTD (October 2007) and an annual increase of 27.1%. Since the turning point, summer 2006, newbuilding prices have increased by 45%.

Despite the low contracting activity (down 40% in 2007), **the newbuilding average price index for crude tanker vessels has increased 9% during 2007.**

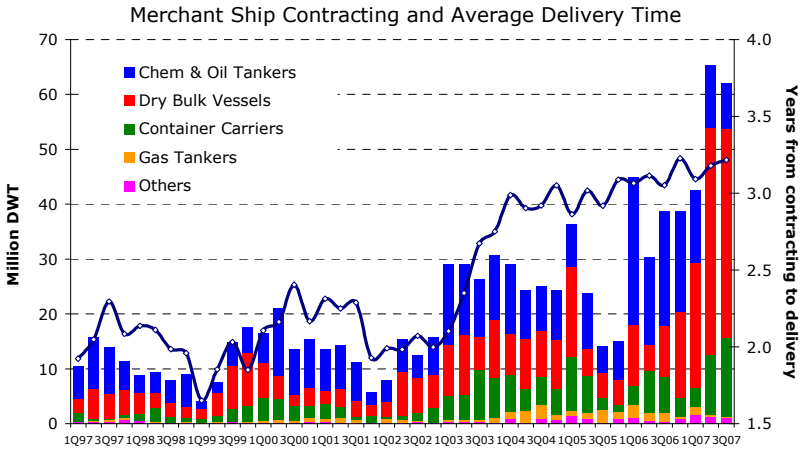
The container newbuilding average price index increased 5% during 2007 and is determinedly approaching 2005 record levels.

Historically speaking, growth in new building prices have been linked to growth in contracting activity. Another interesting aspect is the relationship between weighted average earnings and contracting activity. The lower graph to the right shows that increasing freight rates are supportive of increasing contracting activity.

The container newbuilding average price index increased 5% during 2007 and is determinedly approaching 2005 record levels.



Sources: Clarksons, Fearnleys, Danish Ship Finance



Sources: Clarksons, Danish Ship Finance

CONTRACTING ACTIVITY

In our previous "Shipping Market Review", we expected a drop in order levels to a range of 55-100 million dwt in 2007. Instead, we will see annual increase in the range 70-80 million dwt for year-end 2007, compared with 2006. The great economic boom in China has led to further extraordinary demand for dry bulk ships in 2007. Accordingly, more than 55% of all new vessels contracted in 2007 are dry bulk carriers.

Container and dry bulk orders escalating during 2007
The world fleet is at a historically high level, with current total fleet capacity at more than one billion dwt and a total orderbook of 460 million dwt (November 2007).

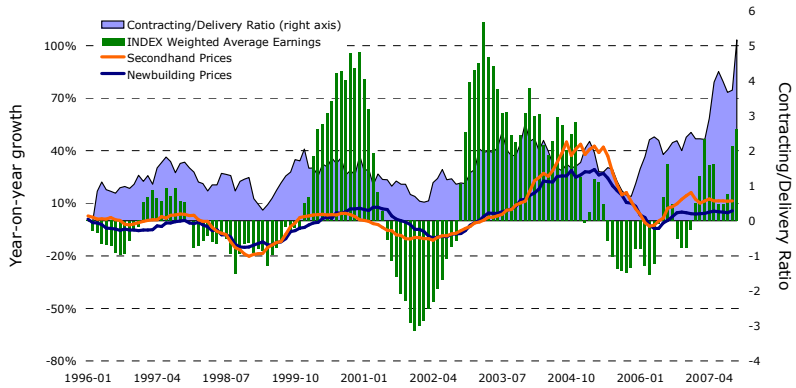
The overall contracting level has increased by an amazing 45.1% during the first nine months of 2007, compared with the same period in 2006. Impressively, **the global shipyard capacity seems to have kept pace with the enormous contracting level** leaving delivery times relatively stable around 3 years.

Despite the enormous expansion in actual and planned capacity, shipyards seem to honour their delivery schedules. In the first nine months of 2007, we saw deliveries of a total of 69 million dwt and a total contracting activity in same period of 188 million dwt, giving a contracting/delivery ratio of 2.7. **The contracting/delivery ratio is increasing and indicates an almost insatiable demand for tonnage.**

However, nearly all major yards are fully booked for a minimum of 3 years, and we have seen an increasing trend since summer 2004 (lowest graph).

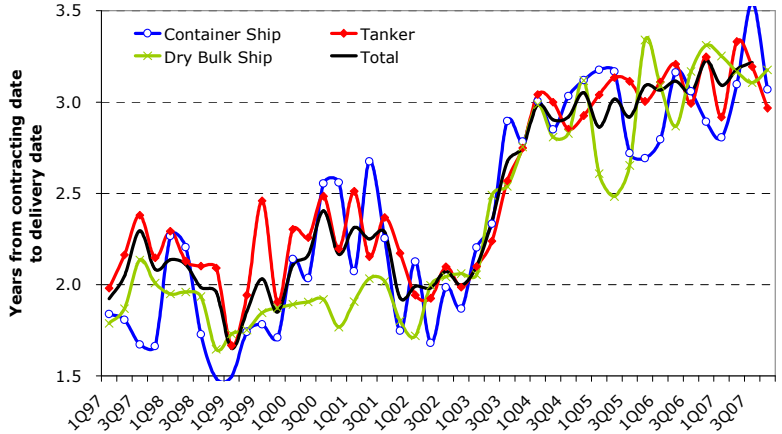
The uncertain factor regarding shipyard capacity is China. China has seen a tremendous boom in new shipyard capacity. During the first nine months of 2007, Chinese yards accounted for 34.8% of the total world intake. China and South Korea are

Development in World Fleet, Prices and Earnings



Source: Clarksons, Danish Ship Finance

Average Weighted Delivery Time by Shipping Segment



Source: Danish Ship Finance

behind 73.3% of all new contracts (measured in total dwt) during 2007, edging out Japan (based on reported orders) from its former role as a leading player in the ship building market with 11.5%. In this period, Chinese shipyards have accepted contracts equal to 42% of the total dry bulk newbuilding program. **Consequently, China is expected to be the biggest dry bulk building nation by 2009, leaving Japan and South Korea behind.**

These indicators partly substantiate that the shipbuilding industry is enjoying its most sustainable boom on record. It will be interesting to see for how long this escalating demand for shipping capacity will last.

SHIP VALUES

Huge increase in secondhand values

Secondhand prices have followed freight markets up and saw an average increase of 15.9% during the first nine months of 2007. Seen over a five year perspective, secondhand prices have increased 212% from the turning point in November 2002. The highest increases during 2007 were seen in Capesize and VLCC segments with **Capesize bulk carriers increasing on average 64%**. More moderate increases were seen in the VLCC tanker market, with 5- and 10- year-old VLCC increasing by 12.8% and 14.6% respectively, and 15-year-old VLCC prices increasing by 35.9% during 2007. This significant age-related difference in VLCC secondhand values cannot be explained by the present demand but rather by upcoming outphasing caused by the IMO rules and conversion of existing single hulls VLCC's into other vessel types.

That current tanker ship prices seems to have decoupled from the traditional pricing structure can be explained by three factors. First of all, newbuilding prices are mainly being held up by shipyards prioritizing dry bulk carriers and to lesser degree container vessels. Secondly, the upcoming out-phasing of single hulled tanker vessels, caused by the IMO regulations, seems to support current secondhand prices and hence newbuilding prices. Thirdly, the conversion of VLCCs into dry bulk vessels is also supportive for secondhand prices. We expect the decoupling to continue until the end of the outphasing program which coincides with the peaking delivery years in 2009-10.

Now, let us examine the fundamentals behind the pricing structure. From a theoretical point of view, secondhand prices go hand in hand with expected future earnings. However, it seems as the current years record high freight rates have changed the pricing structure as some secondhand values are somewhat difficult to explained by the traditional price-earning valuation method.

We can point to three potential factors explaining the current disconnection from fundamentals.

First, the apparent decoupling between price and earnings might be a reflection of cash-rich asset players having a **tendency towards lower internal rate of return (IRR) requirements**. [In general, if the IRR is greater than the investment's hurdle rate, the investment will add value to the investor(s). What often happens in situations of cash richness is that investor's risk-aversion lowers.] Secondly, as newbuilding prices constitute the theoretical replacement cost of a ship, and hence is more than just a discounted cash flow, it might be that **fleet maintenance and strategic positioning** is more significant than discounted cash-flows, in times of cash richness. Thirdly, **increased freight rate volatility**. 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's value. Using standard option theory, increased volatility increases the value of the option. Translated into ship values, increased freight rate volatility adds an option value to the secondhand price. Thus secondhand prices may justifiable be somewhat higher, when prices are measured not only against current freight rate expectations.

As a simple backtest, we have calculated the implicit lifetime-earnings-requirements per day and compared these earnings with historical earnings. We have looked into two segments: VLCCs and Capesize bulk carriers.

The lower right graph on this page shows that **VLCC secondhand prices seems to have decoupled from T/C-rates since winter 2004**. The upper graph on the next page shows that Capesize bulk carriers, seems to follow the traditional relationship between T/C-rates and secondhand prices.

The second graph on the next page shows the historical development of implicit required return for VLCC- and Capesize vessels respectively. It is remarkable to see that **required earnings per day for a VLCC vessel have increased by 87% since January 2002**. **The required earnings per day for a Capesize carrier has on the other hand *only* increased by 27%.**

Seen from a price-earnings point of view, the relative risk has become significantly higher on the VLCC market than for example for the Capesize market.

Outlook

The current all-time-high contracting activity and record-high medium-term time charter markets offering quick amortizations of purchase prices and are still held out as the main explanation of the bullish new building market.

However, we predict a bumpy ride in the short to medium term in order to produce and absorb approximately 45.5% of the current world fleet within four years.

Estimating required earnings per day

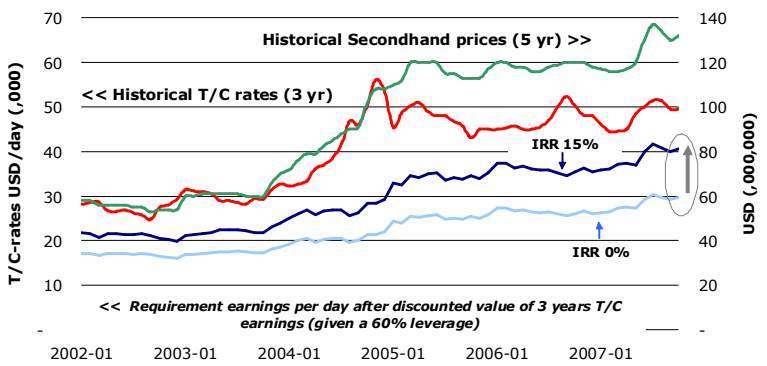
- Secondhand price – 5 years
  - VLCC – USD 130 million
  - Capesize – USD 136 million
- T/C rate – 3 year
  - VLCC – 40,000 USD/day
  - Capesize – 105,000 USD/day

From a bankers perspective, we are interested in the residual earning reqirement **after** the three year time charter period.

Thus, we estimate the breakeven rate after year eight by subtracting the value of the three year time charter rate (adjusted by expected OPEX) from the current secondhand price and calculate the implicit required earnings per day for the vessel's remaining lifetime (25 years).

We base our calculation on a 60% leverage and investors required return (IRR=15%).

Required Earnings on a VLCC Tanker
Secondhand Prices (5 yr) versus 3-year T/C-rates



Sources: Clarksons, Danish Ship Finance

In a scenario with expected full delivery of the current total orderbook by 2012, the market will inevitably experience a significant downward shift caused by oversupply, even with an ongoing strong Chinese economic growth.

The dry bulk market will particularly be under pressure, with new vessels entering service equivalent to 53% of the current world dry bulk fleet in the coming three to four years. More than 117 million dwt has been contracted during the first nine months of 2007 on the basis of a substantial and lasting Iron Ore and Coal story. The only positive story to the supply side will eventually be scrapping of the oldest part of the fleet and secondly, the possibility of delivery slippage.

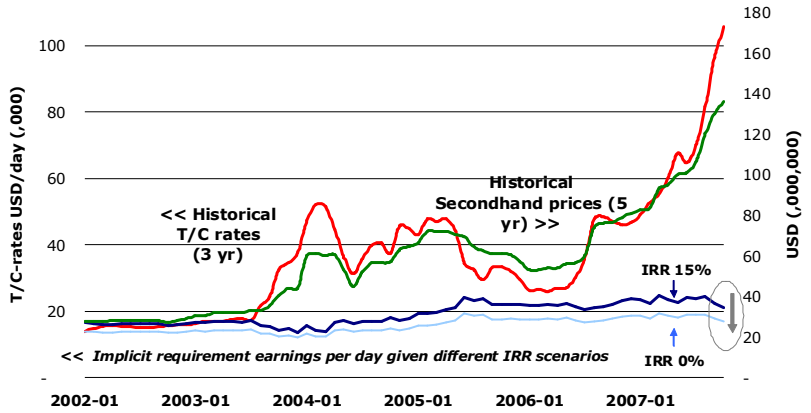
Is it realistic to expect a full and on-time delivery scenario for the total orderbook? We have looked into the implicit assumptions behind the scenario (a physical extension of the total fleet of more than 45% within five years) and have identified **three critical factors**.

First, the inexperienced new shipyards. Nearly all major shipyards are fully booked four years forward. In order to keep up production, the huge new building program is relying on a continued increase in additional shipyard capacity. **This is equal to say, that a significantly part of the current orderbook is dependent on (Chinese) shipyards of which some are inexperienced or have not even been built yet.**

China has announced its intention to be the leading ship building nation in 2015, supported by an amazing endeavor of the Chinese government to establish new shipyards.

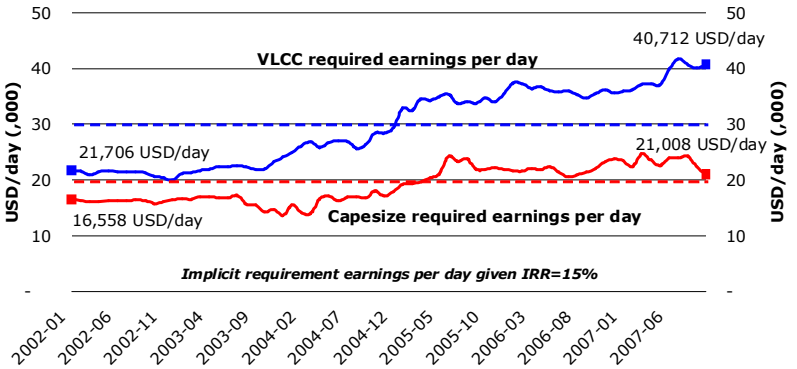
China has become a strong and effective construction nation when it comes to construction of infrastructure and houses, but new shipyards are heavily dependent on know-how and skilled labour. With China as a new shipbuilding nation, **we already now see a lack of qualified workforce and**

Required Earnings on a Capesize Bulk Carriers
Secondhand Prices (5 year) versus 3-year T/C-rates



Sources: Clarksons, Danish Ship

Required Earnings on Capesize & VLCC vessels
Secondhand Prices (5 year) versus 3-year T/C-rates



Sources: Clarksons, Danish Ship Finance

know-how gained from previous shipbuildings (according to Clarksons) and hence a potential obstacle to deliver the necessary capacity in time. Nevertheless, shipowners, in particular from Japan, South Korea and Europe, have gained success in doing joint-venture agreements with local Chinese governments and Chinese workers. These joint-venture agreements bring in some of the required know-how to the Chinese shipbuilding industry.

Especially non-dry-bulk sectors requires skilled employees. **Thus we foresee delivery problems, especially with technically complicated vessel types being built at inexperienced yards.**

Second, steel prices have increased more than 110% during the past five years, which can be a threat to shipyards that have long term new building contracts with floating steel prices. Higher steel prices can be an impediment to future expansion in ship building capacity mainly because they higher new building prices and increases economic exposure to shipyards.

According to Argus Media Ltd., Chinese steel producers have been stockpiling iron ore reserves since summer 2007 in anticipation of price increases in early 2008. Higher steel prices are expected in short-term and will put upward pressure on new building prices and thus reduce future order intake.

Scrapping steel is also at historically high levels, however scrapping activity remains at a negligible level and we expect it to stay that way until 2009-10 as deliveries mount in 2009.

Third, the financial markets. During 2007, we have seen a shift in the international financial markets and thus a shift in the funding structure of the newbuilding program. The US originated credit crunch may not have direct impact on ship values, but it is contributing to drying out liquidity and hence increasing the cost of capital. This becomes highly relevant as it seems as only 25% of the current orderbook has been financed, according to Petrofin.

In a scenario with newbuilding projects that have difficulties being viably financed, the requirements for injection of more equity will be stricter and the risk of cancelled contracts will increase. **Thus it is inevitably that a (significant?) part of the new building projects will end up in the resale market or ultimately be cancelled.**

To sum up, during the past three years, the contracting/delivery ratio has been increasing and thereby indicating that fleet growth has not peaked yet (in a scenario with no scrapping). Last year, 2006, provided the yards with orders of 1.8 times more than the total volume that the yards delivered. This number has increased to 2.6 during the first nine months of 2007.

We expect the contracting/delivery ratio to peak during winter 2007-2008 and newbuilding prices in the primary segment to stagnate in short term, with a 3-6 months lag period to turn in contract activity growth.

When deliveries mount in 2009, we expect new building prices to fall, with dry bulk as the most volatile segment.

Taking into account these various obstacles to shipbuilding, **we expect a significant delivery slippage from Chinese shipyards**, and hence we do not expect a full delivery of 460 million dwt by 2012. However the delivery slippage is not enough to prevent rapid turn in shipbuilding balances. **We expect a significant fall in newbuilding prices during 2009-2010, when delivery mounts, primarily caused by oversupply** ▮

Container Ships

Freight rates have revived during winter 2007 from a two-year low to record-high levels as demand growth apparently exceeds supply growth. Contracting activity has reached an all-time high, with huge orderbooks for Panamax and Post Panamax vessels, confirming the current demand for a larger size container fleet.

FREIGHT RATES

Higher freight rates in a bullish freight market

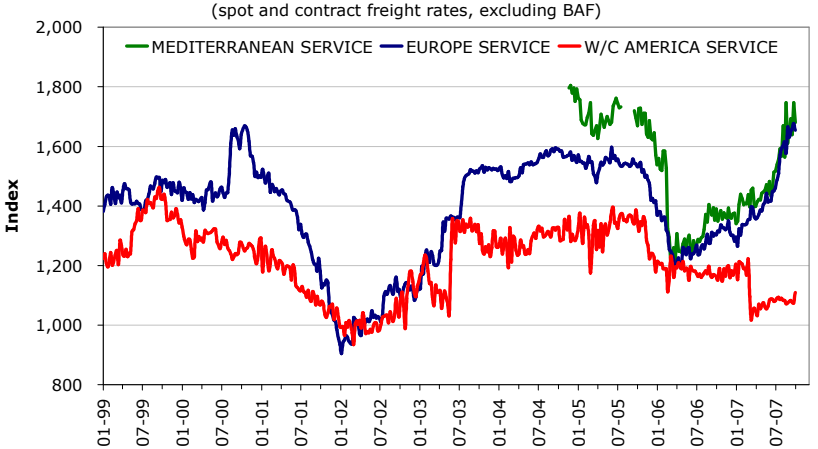
In the previous Shipping Market Review (2nd half 2006), we estimated an 8% drop in average freight rates during 2007 on the three main head-haul routes: Asia-Europe, Asia-North America and Europe-North America.

Undoubtedly, we were wrong. Freight rates on the main head-haul route Asia-Europe have surged 32.5% YTD, most likely caused by infrastructural bottlenecks (congestion), the high EUR against the USD and stronger-than-expected growth in Germany and Italy.

However, supporting our forecast, we have seen a 5% freight rate drop on the Asia-North America routes and a 7% freight rate drop on the Europe-American routes.

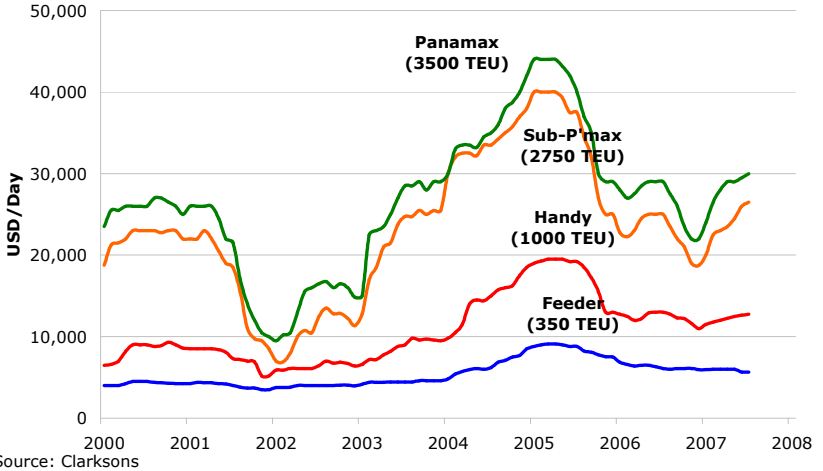
T/C rates have risen on average 22.8% YTD, with rates for the biggest ships raising the most. Average fixture periods have been extended by approximately five months throughout 2007, signalling improved market confidence. However, the latest data from Drewry's September report indicates a "wait-and-see" strategy, with slightly shorter fixture periods than the August figures.

Freight rate indices per TEU on Chinese container exports
(spot and contract freight rates, excluding BAF)



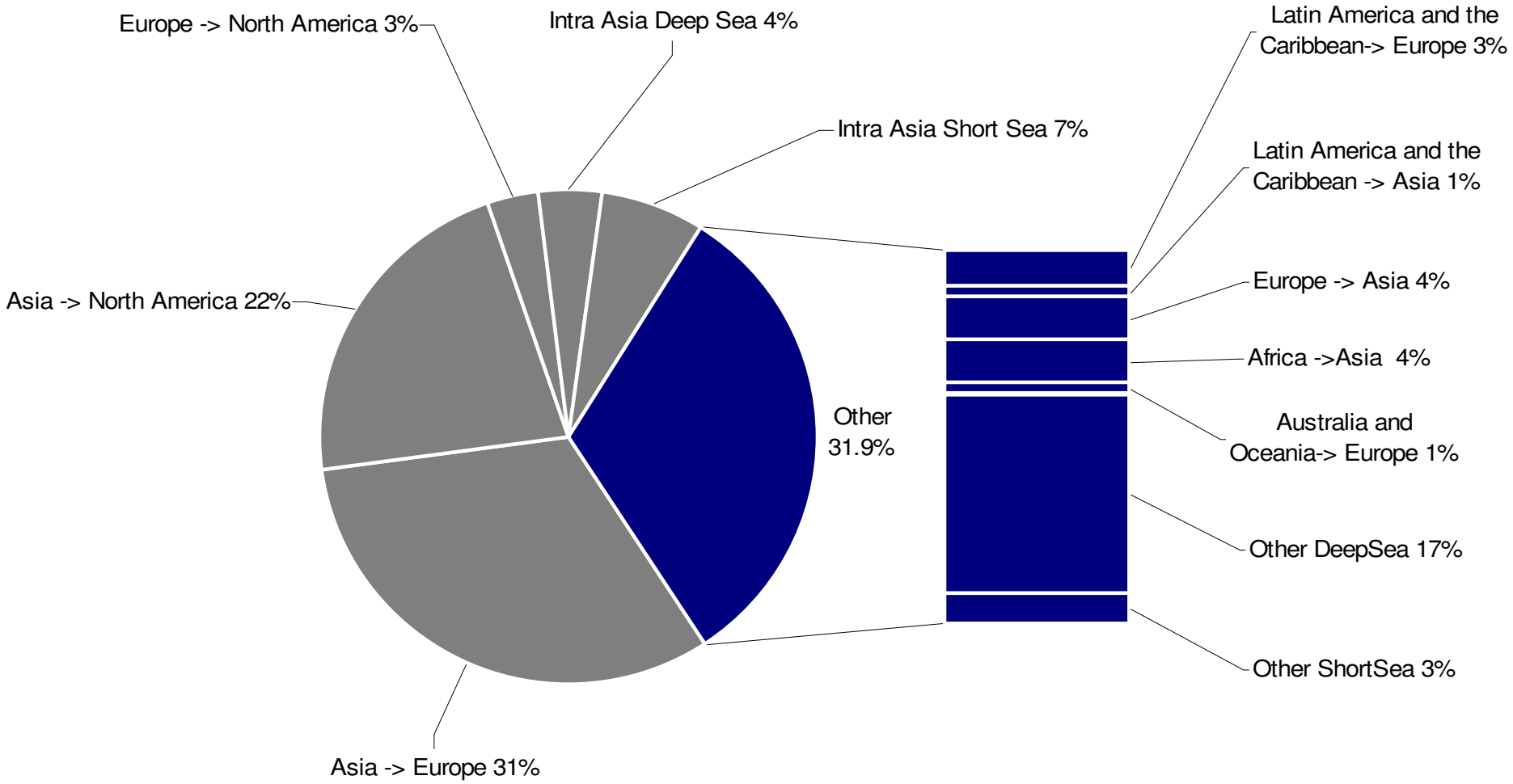
Source: Ministry of Communications of the People's Republic of China

Container Ship Timecharter Rates



Source: Clarksons

Total Head-Haul Container Ship Demand in 1st Half 2007 by Route



A continued strong fleet supply growth and a stronger than anticipated demand growth

Once again, we have to admit it: global demand growth has outpaced our expectations. In our latest Shipping Market Review, we expected global head-haul demand to increase by 10%. Instead, demand growth for 2007 seems likely to end close to 12%.

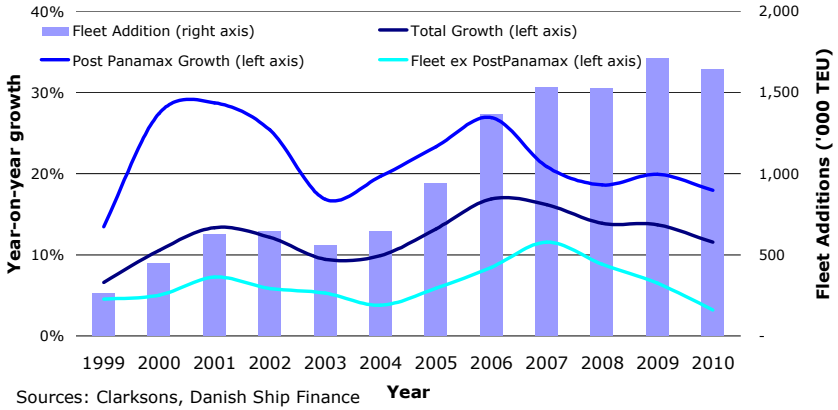
The total fleet has increased 16%, compared to same period last year. Accordingly, the total cargo carrying capacity has now, for the first time, surpassed 10 million teu, distributed over more than 4,000 vessels.

We have seen a trend towards bigger ships and fewer weekly services on the major head-haul routes during 2007. The aim has been to lower the marginal costs per teu and to increase the utilization rate. The average vessel size on the main head-haul routes has on average increased by 8% (Asia-Europe routes by 13%).

Activity on the demolition markets has been low, mainly kept down by high freight rates and the strength of the current charter market. Scrapping prices are approaching 500 USD/LDT, caused by a shortage of ships ready to be scrapped. Nevertheless, we consider it unlikely that ship owners will scrap older tonnage as long as freight rates are covering the maintenance costs.

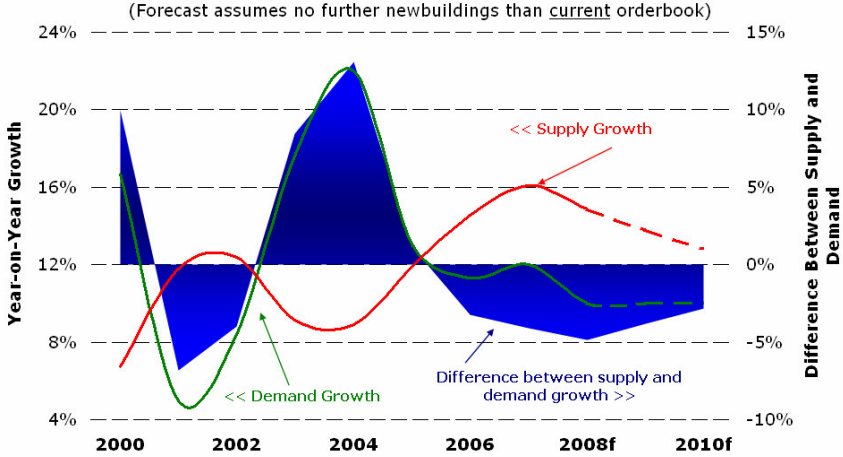
The demand surprise was especially supported by stronger-than-anticipated European demand for Asian produced goods, kept up by strong European consumption growth and a favourable foreign exchange relation between the Chinese RMB and the European EUR. European imports from Asia are expected to have increased by 17% through 2007.

Container Fleet Growth
(Forecast assuming no further new buildings than current orderbook)



Sources: Clarksons, Danish Ship Finance

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



Sources: Global Insight, Clarksons, Danish Ship Finance

North American demand growth has slowed in tandem with lower North American GDP growth. The US economy shows points of weakness, with lower consumption figures, falling housing prices, poor job figures, record high oil prices and a historically-low USD – all factors hampering North American consumption growth and hence import demand growth on the second and third largest head-haul legs. **Therefore, North American import growth from Asia has lost 6%-points from 2006 (down from 12%) and is expected to close at about 6% for the year 2007**, whereas North American imports from Europe are expected to remain stable at about 2% for 2007.

Intra-Asian head-haul demand growth seems to remain fairly robust with growth rates around 10% per year.

In conclusion, it seems that the current drivers behind the current head-haul demand growth are to be found outside the US economy. The debate over whether world GDPs' possible decoupling from the US growth engine is thus becoming evermore relevant. This is one of the key issues in the Outlook section.

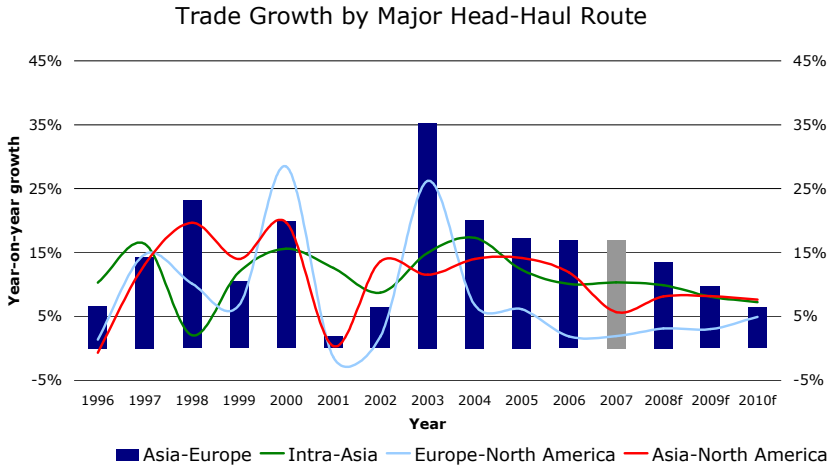
CONTRACTING & SHIP VALUES

Record high contracting activity, sticky newbuilding prices and rising secondhand prices

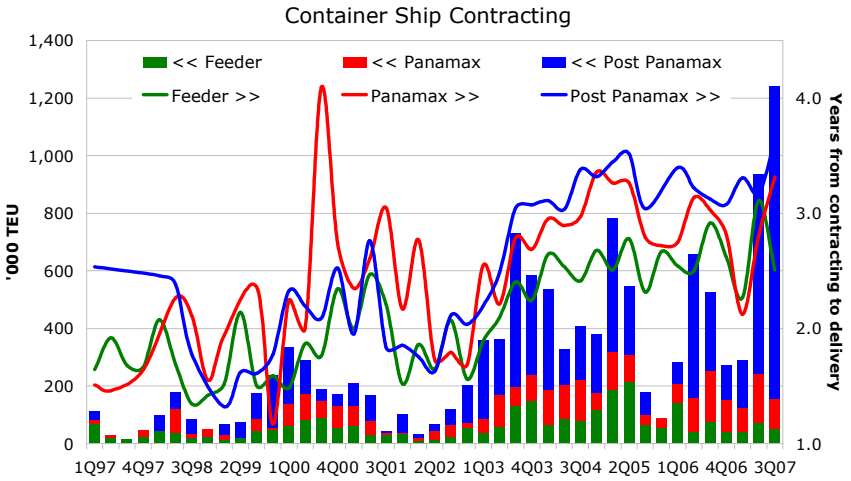
Contracting activity set a new record in 2007, as total contracting reached 2.5 million teu in the first three quarters, with 1.8 million teu contracted in the post panamax segment.

However, despite the almost insatiable hunger for newbuildings, especially for Post Panamax vessels, newbuilding prices have so far increased by only a modest 5-6% during 2007. Secondhand prices, on the other hand, increased on average 13%, with the Panamax segment gaining approximately 17%.

The relationship between one-year time charter rates and the secondhand prices, appears to show that risk has been almost completely priced out of the equation.



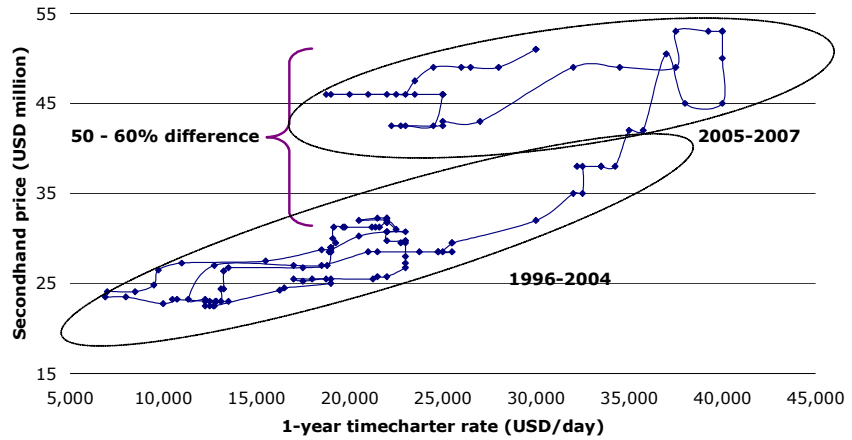
Sources: Danish Ship Finance, Glabal Insight



Sources: Danish Ship Finance and Clarksons

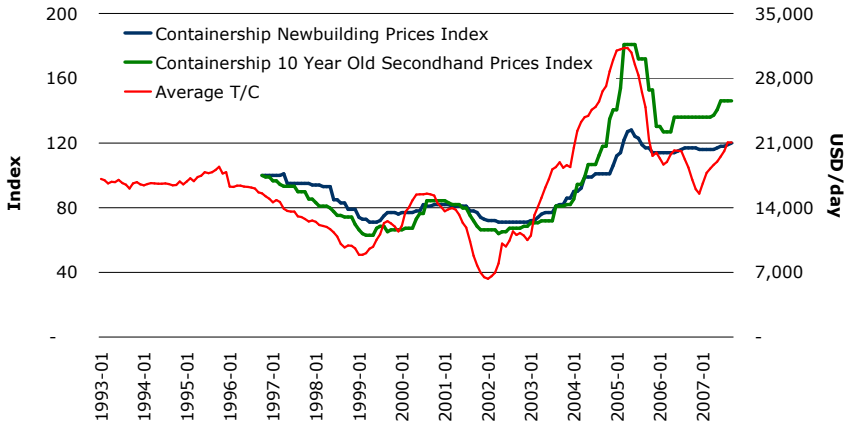
In any case, the structure of the secondhand price seems to have changed considerably during the last 2-3 years. Secondhand tonnage is currently being traded approximately 50 % above its 2004-level for the same time charter rates, as can be seen from graph to the right.

Sub-Panamax 5 Year old Secondhand Price vs. 1 Year T/C



Sources: Clarksons, Danish Ship Finance

New Building versus Second Hand Prices



Sources: Clarksons, Danish Ship Finance

A strong fleet growth and a potentially weak head-haul future demand growth is set to test future freight rates

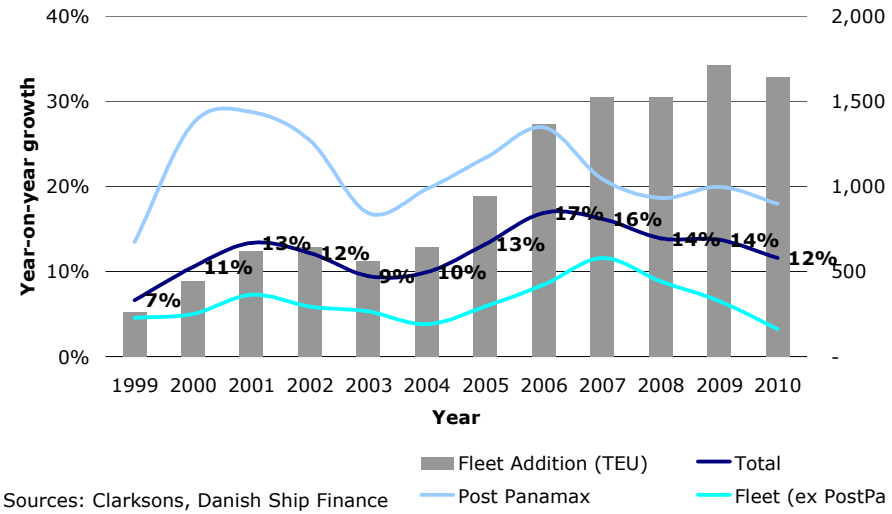
Market participants are telling a story about a strong and apparently decoupled world economy, robust world GDP growth (driven by Asia), resilient US consumers, and hence a bright outlook for the container sector.

We also see the same factors, but we are hesitating to conclude that these factors are proper input factors to forecast future container demand and hence freight rates. The current large orderbook, and the fact that the most positive growth story is being told by importers on back-haul routes, makes it difficult for us to believe in further significant freight rate gains on the major head-haul routes.

The container fleet is currently growing at 14-17% per year, with the Post Panamax segment growing approximately 20% per year. The current orderbook stands at 6.1 million teu or approximately 58% of the current fleet. This is equivalent to approximately 1.5 million additional teu entering the container fleet each year for the next 3-4 years. **Therefore, for freight rates to stay at current levels, demand has to grow at or more likely above present levels.**

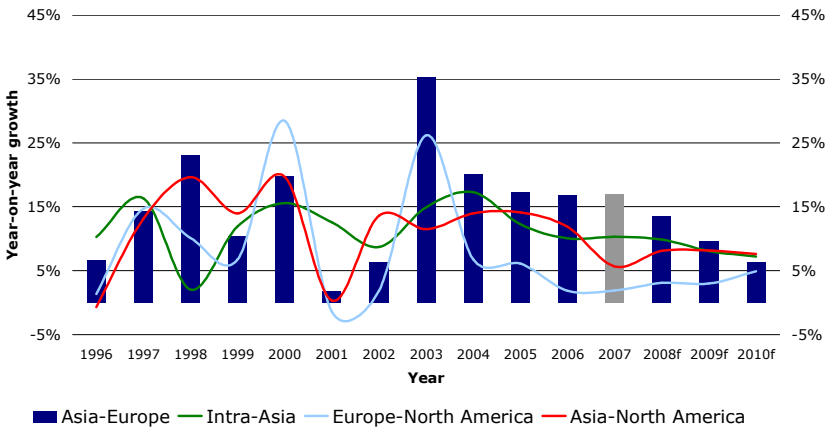
However, before turning to our demand expectations, and hence our freight rate forecast, we will elaborate on the basics behind freight rate formation. As in many other shipping segments, two factors are keys in determining the impact on freight rates from demand growth: 1) nautical miles, 2) whether the demand growth is on the head-haul or the back-haul leg.

Container Fleet Growth



Sources: Clarksons, Danish Ship Finance

Trade Growth by Major Head-Haul Routes

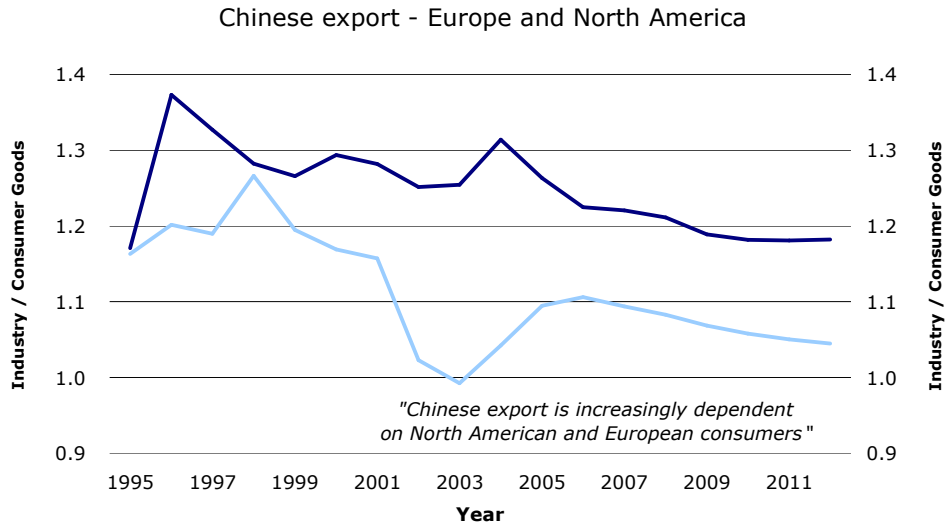


Sources: Glabal Insight, Danish Ship Finance

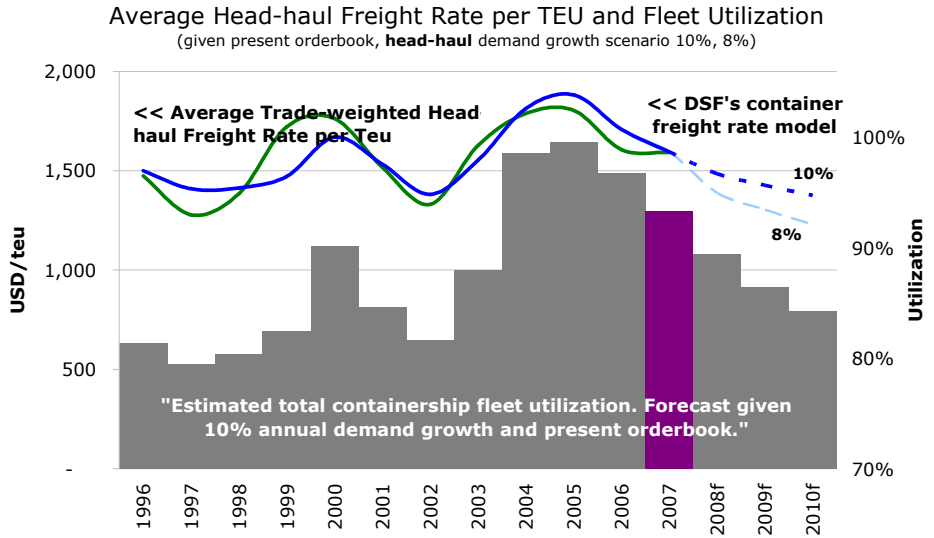
Thus, the essential issue regarding global demand for containerships is not, for example, whether a slowdown in the US economy can be counterbalanced elsewhere, but rather a question of whether higher GDP growth in other regions will have a material impact on head-haul container demand and hence impact freight rate formation.

Looking ahead, the most prosperous outlook for global container demand growth lies in Asia, the Middle East and Latin America. But as Indian and Chinese imports of containerized consumer goods are most likely to come from other Asian countries (and thus on the relatively short-distance head-haul routes), or alternatively from Europe or North America (and thus on the irrelevant back-haul routes), the impact on freight rates may turn out to be modest. Secondly, these economies' share of global trade is still rather modest, compared to North America and Europe. For example, increasing Latin American imports from Asia will, of course, have an positive impact on head-haul demand and hence an impact on the freight rate formation. But as Asia to Latin America is a much smaller head-haul route than Asia to North America a 1% drop in North American imports from Asia requires a 44% increase in Latin American imports just to counterbalance the effect on head-haul teu-neutical miles demand. **Accordingly, at the end of the day, the three (four if Intra-Asian head-haul is included) main head-haul routes stand out clearly as the main drivers of the level of freight rates.**

As already mentioned in the Supply-Demand section, the Asia to Europe trade has been the main growth driver behind recent years' head-haul demand growth and hence positive freight rates formation. The puzzle, looking forward, is therefore whether or not Europe will continue this trend, i.e. whether the European economy will have become decoupled from future slowdown in the US economy. In case of a significantly European economic slowdown, the discussion regarding European port congestion becomes highly irrelevant.



Sources: GlobalInsight, Danish Ship Finance



Source: Danish Ship Finance

Before going into this puzzle, we have to understand the underlying logic behind the successful European import story. Why has European import growth remained fairly stable whereas US import growth has been declining? GDP growth could be the key, but US GDP has grown faster than the European in recent years. **Thus, the puzzle is that there is no real evidence that the economic prospects of Western Europe have suddenly improved, compared with North America**. We expect that a key explanation is in the international FX scheme.

In terms of the EUR/USD exchange rate, the EUR has gained significantly against the USD for the last few years. Therefore, it seems straight forward to conclude that this may explain the recent European import growth (i.e. the Chinese RMB is still regarded to be undervalued relative to the dollar; hence European imports from China are getting even cheaper). Therefore, it might be tempting to conclude that the decline of the USD against the EUR is the main explanation behind the strong European import. However, **our view is that it is not as much a question of the currencies that have gained against the dollar, but rather a question of those that have not**.

Therefore, the outlook for European import is as much a question of Asian (Chinese) monetary policy as a question of European consumption growth.

Combined with a rather bearish outlook for the dollar and the overall outlook for the US economy, the discussion of whether the European economy is decoupled or not becomes highly relevant in terms of expected future container demand.

We do not agree with the logic of the argument that the US economy is no longer a significant driver of the world economy. In a globalized world, where emerging market economies have primarily pegged their currencies to the USD or to a USD-dominated basket, it seems unlikely that the world economy would remain unaffected by a US economic slowdown. The global impact of the current US subprime debt crisis and the latest evidence of a slowdown in both the German and the Italian economy emphasise the importance of the issue and questions whether the apparent decoupling is better expressed rather a manifestation of an extended lag period.

Further, focusing on the composition of the Asian exports and especially on the expectations regarding the composition of the exports, it is striking that the import growth is expected to be driven by further consumer-related products rather than industrial-related products. This assumption is highly optimistic given the current US households saving scheme and the outlook to a US economic slowdown.

For the last five years, US households have preferred an "asset based saving approach" (i.e. as opposed to income-based saving) where their savings have been positively influenced by the sky-high valuation of financial assets). The flip side of this approach occurs when liquidity dries up and the value of the financial assets depreciates. This is what we expect to see in the coming 6-12 months.

We therefore question the assumptions behind further consumer driven US import (depicted by the graph), and are consequently expecting a slowdown in US import growth.

Consequently, our expectations for North American and European imports from Asia and especially from China are less positive than presented in the head-haul demand forecast graph. However, current leading indicators do not unambiguously support our concerns, explaining our decision not to change our demand input to our freight rate forecast model.

How does this impact freight rate forecast? We have chosen not to incorporate our uncertainties into our demand indicators, as we do not have a comprehensive overview of the microeconomic assumptions behind Global Insight's data. Thus our forecast model is likely to be more optimistic

regarding European and US imports (head-haul demand) than what we may actually see.

However, before turning to a concrete freight rate forecast for 2008 and 2009 we will elaborate on the basic assumption behind our forecast model. Our freight rate model is basically a top-down model (as opposed to a general equilibrium model) that estimates on the basis of aggregated figures and general trends solely on the head-haul routes (as we assume that freight rates are driven by head-haul demand rather than aggregated demand). Thus, it is not possible directly to transfer the conclusion from the aggregated level to a specific route, as freight rates on individual routes are determined not only by the aggregated supply-demand gap but also by the utilization of the specific routes. **Our forecast model is therefore to be regarded as an aggregated indicator rather than a route specific freight rate indicator.**

We expect freight rates to stay at or slightly below current levels for the remaining months of 2007.

In 2008, we expect average freight rates on the three major head-haul routes to decline by 7%, based on a 10% head-haul demand growth and a fleet growing by 15%. If the head-haul demand growth drops to 8%, freight rates are expected to decline by 13%. We expect the average head-haul utilization to drop by approximately 4% points to 90%.

In 2009, we expect average freight rates on the three major head-haul routes to decline by 4%, again based on a 10% head-haul demand growth and a 14% fleet supply growth. The 10% head-haul demand growth may turn out to be highly optimistic and hence the 2009 average freight rate level may turn out to decline by more than the 4%. In the case where head-haul demand growth increase by 8%, freight rates are expected to decline by 6%. Given a 10% head-haul demand growth, average head-haul utilization is expected to fall to 86% (80% given a 8% head-haul demand growth).

One significant factor that we have omitted from our freight rate forecast is intra-Asian head-haul demand. Intra-Asian head-haul demand (11% of total head-haul trade) may turn out to be the single factor that can prevent freight rate from falling as much as predicted.
Last but not at least, in situations where ship owners are struggling to defend market positions, and thus, it is strategic considerations that are driving route capacity decisions; it becomes unpredictable to forecast freight rates. In these cases, freight rates on specific routes may completely unpredictable according to our freight rates models.

In conclusion, we expect demand growth to slow in years to come and thus, with a record high orderbook, we expect a supply surplus that will put utilization under pressure and hence average freight rates ▮

Dry Bulk Ships

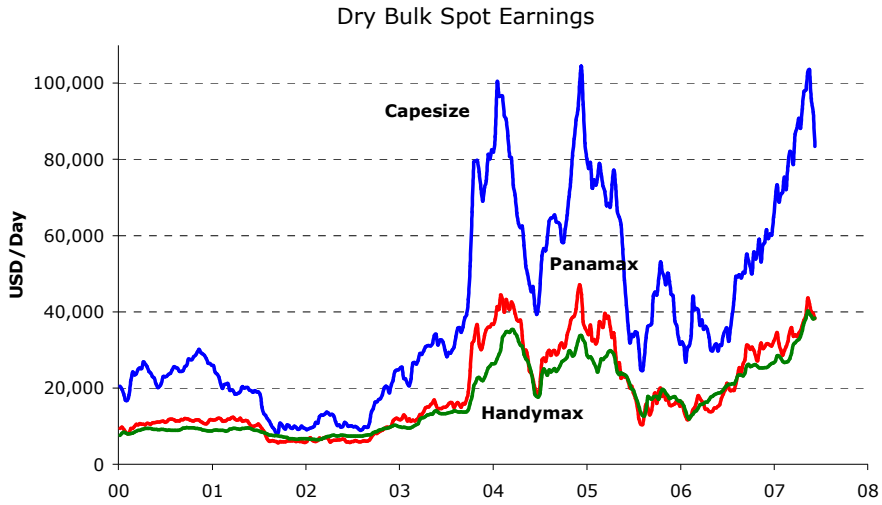
Freight rates have been steadily increasing during the year, greatly supported by port congestion and sparkling economic key figures, especially from China. Contracting and ship values have reached new record highs. Are we witnessing a boiling hot bull market or maybe a market fighting (temporary?) infrastructural bottlenecks and commodity supply shortages?

FREIGHT RATES

Strong freight rate upturn for all segments, underpinned by strong GDP growth and port congestion in Australia

Freight rates increased significantly in the first quarter of 2007, accelerating throughout the second quarter, closing 1H07 (on average) 125% above 1H06. The heavy increase in freight rates was significantly underpinned by a strong global GDP growth and the severe port congestion in Australia.

Timecharter rates saw similarly impressive gains. For instance, the 1-year timecharter rate of a modern 170,000 dwt Capesize rose from about 40,000 USD/day in mid-2006 to an impressive 88,000 USD/day by mid-2007, according to Clarksons.

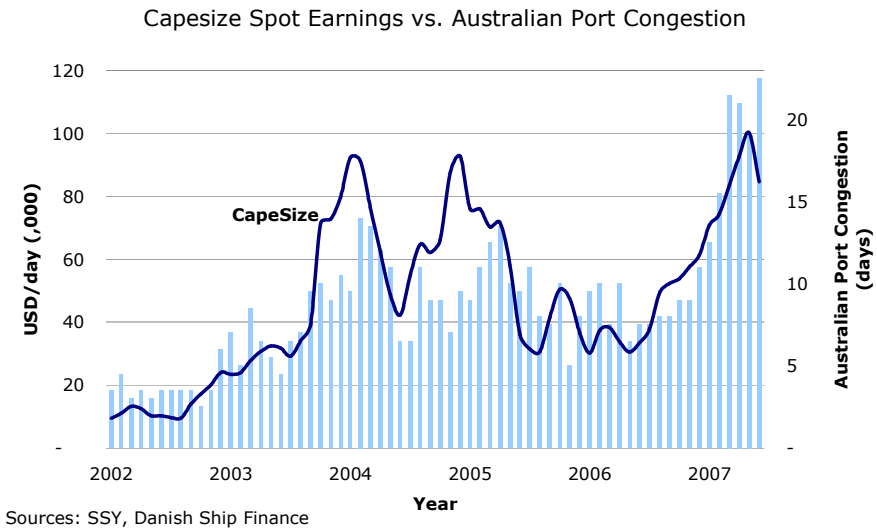


Source: Clarksons

SUPPLY & DEMAND

Port congestion curbs the effects of the strong fleet growth

Studying the freight rate history of 1st half 2007, it is evident that this was yet another buoyant period for the dry bulk market. However, analysing the fundamental balance between supply and demand, it is difficult to locate the underlying demand driver justifying the recent positive Capesize freight rate trend. Undoubtedly, there has been a sound demand growth in all segments, but whether the specific demand growth for Capesize carried commodities has been sufficient to justify the magnitude of the freight rate hikes is questionable. Thus, we believe that there is more to the Capesize story than just demand growth.



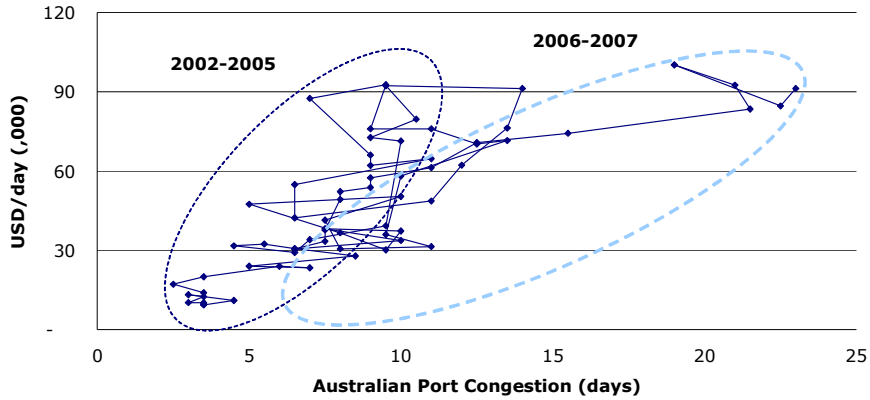
Sources: SSY, Danish Ship Finance

From our perspective, it seems as if the dry bulk market, and especially the Capesize segment, has been hit by structural inefficiencies that, materializing through infrastructural bottlenecks, have had the effect of reducing the cargo carrying capability of the fleet.

Let us look into the issue. Certainly, the greatest demand side boost to the dry bulk sector in the first half of 2007 was China's turning into a net coal importer. This single event has added considerable tonne-miles to world dry bulk demand and changed the supply chain pattern. Combined with a persistent high demand for iron ore, port facilities and linking infrastructure has been stretched to its limit or beyond. Consequently, the changed world supply chain for coal has considerable supported the surge in Capesize freight rates but what turned China into a net coal importer?

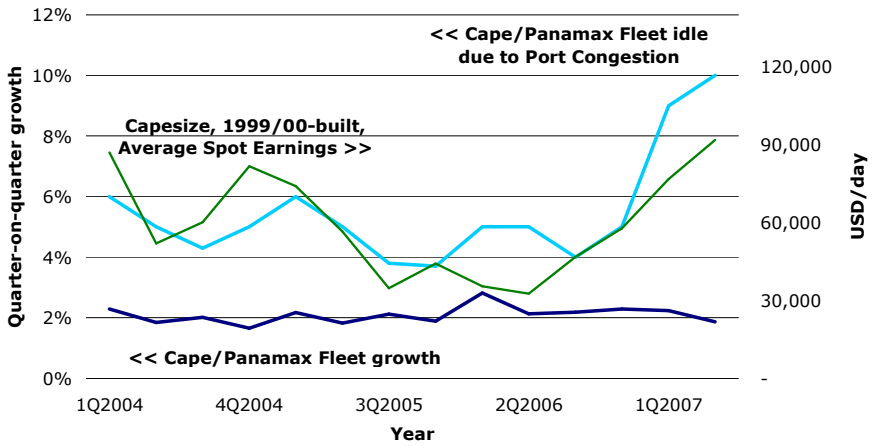
Two major factors facilitated the shift. First, since December 2006, the Chinese authorities have eased the regulation of coal prices, allowing the domestic price to outpace the international market price. The price change has facilitated a coal supply chain switch, from northern domestic suppliers to imported coal, for some of China's largest power generators in the south and east of the country. Secondly, the restructuring of the coal industry aims to improve the environmental situation in China by moving coal production from smaller mines to larger ones. The reason for this is that smaller mines do more harm to the environment and have poorer safety facilities than newer larger ones. Accordingly, the National Development and Reform Commission (NDRC) aim to shut down 4,000 small mines during 2007. During the 11th Five-Year Plan, only mines with a production capacity of more than 300,000 tons will be given building permits. Thus, the current restructuring of the Chinese coal industry has created a coal supply vacuum, which needs to be filled by coal imports. Yet, an important component has to be added to this story. **That China is a net coal importer does not imply that China no longer exports coal.** China's emerging domestic infrastructure complicates the process of transporting the coal from the mines in

Capesize Spot Earnings vs. Port Congestion
2002-2007



Sources: Clarksons, SSY, Danish Ship Finance

Capesize spot earnings vs. Port congestion



Sources: Howe Robinson, Clarksons, Danish Ship Finance

the North and North West to the end users mainly concentrated in the south eastern coastal regions. Thus we see coal export in northern China and import in southern China.

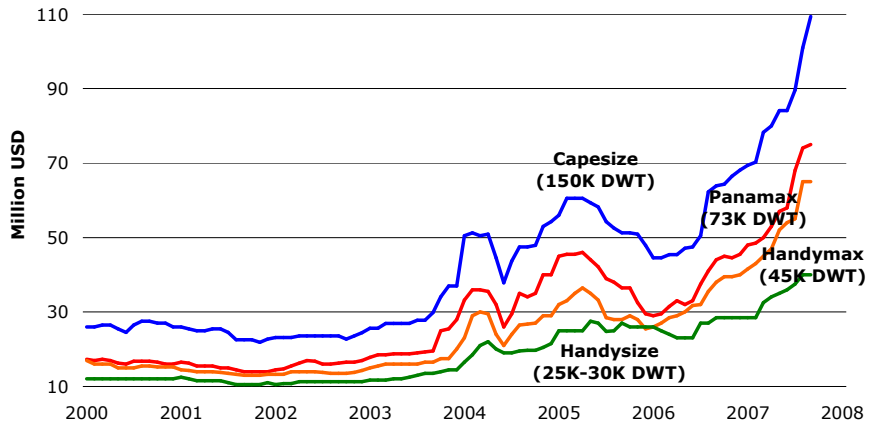
The shift from China being a net exporter to a net importer of coal has not only impacted China but the entire coal supply chain. Basically, it had a highly positive tonne-miles effect on global dry bulk demand as not just Chinese coal imports has to be sourced from overseas but as importantly, other far eastern demand has to be imported from much longer distances. The consequence has been a pressure on the remaining international coal supply chain close to its capacity or maybe even beyond. This has resulted in rapid price increases and effective coal supply shortages. Until now, it seems that coal has joined iron ore as a "sold out" commodity.

Hence, even though overall volumes of the global coal trade has not shown any startling changes, the changes in the supply chain have had tremendous effects on freight rates.

From a theoretical perspective the conclusion is not that surprising. As demand exceeds supply (as in both the iron ore and coal trade), even minor supply obstacles will have major impact on prices when systems are running at or even ahead of rated capacity. Thus, under these conditions, it is to be expected that port congestion will come about with greater frequency and thus impact freight rates beyond the implicit effect from demand growth.

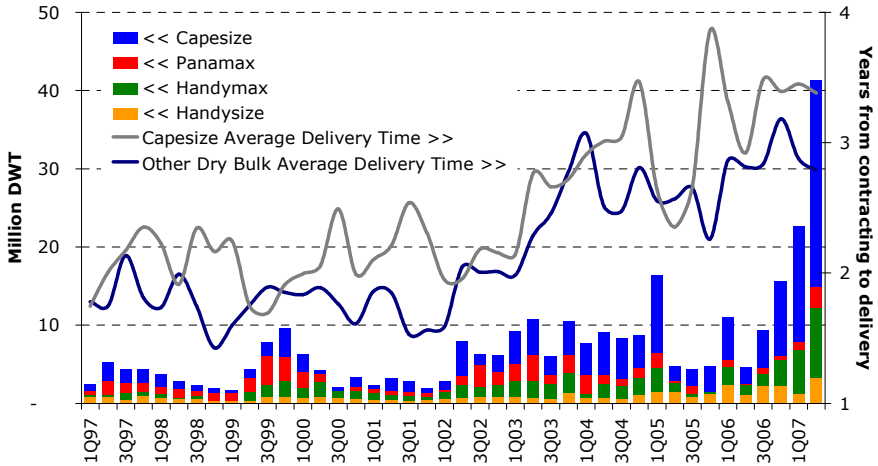
The British ship broker Howe Robinson, has elaborated on the impact of port congestion on effective fleet supply. They have studied the effective supply reduction of the Capesize and Panamax fleet due to port congestion. The interesting feature regarding this study is to see whether the amount of idle tonnage, due to port congestion, as a percentage of the combined Capesize and Panamax fleet, is smaller or bigger than actual fleet growth and thus whether the effective combined fleet is increasing or not.

Prices of 5 Year Old Dry Bulk Vessels



Source: Clarksons

Dry Bulk Contracting



Sources: Clarksons, Danish Ship Finance

They show that during 2006 there was a relative constant congestion condition, with average quarterly levels around 4-5% of the fleet. Whether this is to be regarded as an expected level in times of high demand and high capacity utilisation is difficult to substantiate, but it is remarkable that the figure has been within that range for three years. In 2007, the figure rose to 9% in the first quarter and 10% in the second quarter.

Measured against the aggregated Cape/Panamax fleet growth (approximately 2% per quarter), the net effect is actually a reduction of the Cape/Panamax aggregated fleet in the range of 7-8 % per quarter, removing potentially as much as 15-18 mt per quarter of cargo carrying capacity from an already overstretched fleet.

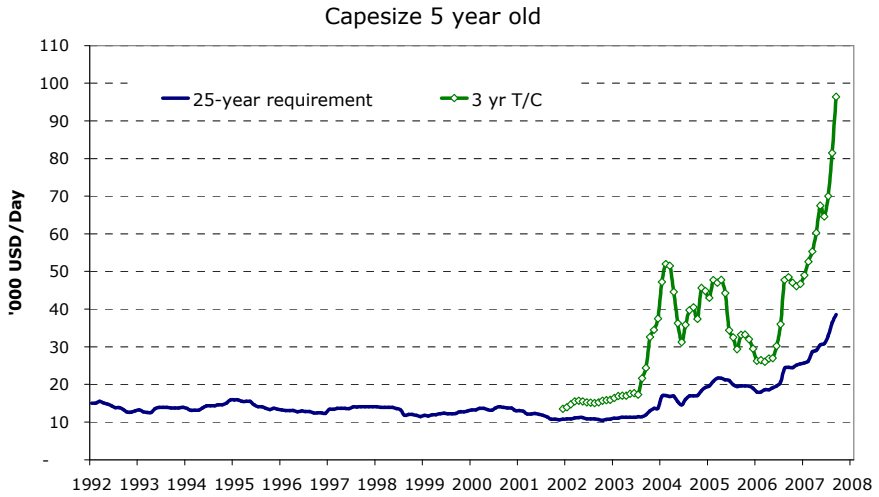
Accordingly, it is our conviction that the increase in port congestion at Australian and Brazil's iron ore and coal terminals has played a major role explaining the recent trends in Capesize freight rates, as the runaway bull market took hold. Consequently, we regard the underlying supply demand ratio more in balance (or even with a slightly supply surplus) than the current freight rate indicates.

CONTRACTING & SHIP VALUES

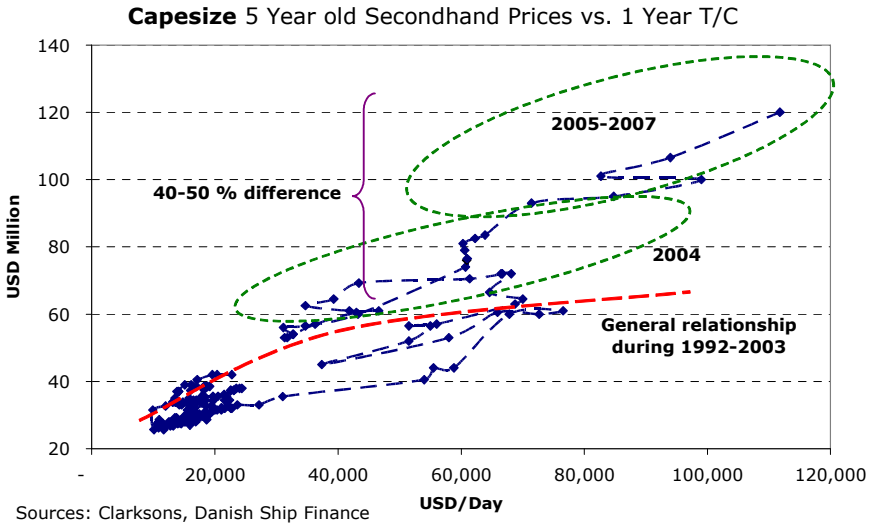
Record high contracting activity and historical high ship prices

The impressive growth in freight rates have had a corresponding impressive effect on both dry bulk secondhand prices and on shipowners' desire to order new tonnage.

Accordingly, 1st half 2007 broke all contracting records with 41.32 million dwt contracted. Especially the Handymax and Capesize segment experienced extraordinary contracting activity with 4.58 million dwt and 41.23 million dwt contracted respectively.



Sources: Clarksons, Danish Ship Finance



Sources: Clarksons, Danish Ship Finance

Despite decreasing delivery times for non-Capesize dry bulk vessels, average dry bulk newbuilding prices have gained 4% during 1st half 2007. The heavy contracting activity in the Capesize segment has driven up delivery times and newbuilding prices by as much as 35%.

As studied in "Ship Values" and illustrated by the graph, dry bulk secondhand prices reached new record levels, increasing on average 57% from January 2007. **Studying the relationship between a one-year timecharter rate and the secondhand price, it appears that risk has been almost completely priced out of the equation**, especially for the capesize segment. In any case, the structure of the secondhand price seems to have changed considerably during the last 3 years. Secondhand tonnage is currently being traded approximately 50 % above their 2003-level for the same timecharter rate, as can be seen from the graph on the lower right.

OUTLOOK

Blurred outlook for effective fleet supply as port congestion remains an unknown factor

The recent years' bull market has apparently increased investors risk willingness. As the last two years dry bulk freight rates have shown, the dry bulk sector has fully enjoyed the benefit from this "globalisation" boom. Various factors have facilitated the booming dry bulk sector, but there is little doubt that the development of the Chinese economy has been one of the main drivers.

We have, for a long time, argued that China's dry bulk demand growth should level off, as we expect China's GDP growth to change, if not significantly by size, then by pattern. The Chinese growth has been investment pulled (export driven) rather than consumption driven, what many observers regard as an unsustainable growth path, due to the implicit inefficiencies related to such long-term growth paradigm.

Nevertheless, as the past two years have shown, we have been wrong in our expectations, at least with the timing. The main issue here is that it might be that we are right in our concerns regarding the structural inefficiencies, but as long as there is both a sell side and a buy side willing to engage in contracts the inefficiency may persist or even worsen.

We still see the structural inefficiencies, at least from a theoretical perspective, but whether they materialise into a growth slowdown this year, in 2008, or later on are difficult to predict. However, it remains our key concern for the dry bulk market that China's growth will level off in years to come. It is important to stress that we are not predicting a doomsday scenario. What we do expect is that the current GDP growth level is "unwelcome" from Beijings point of view as the characteristics are too similar to an unmanageable bubble. Thus, we expect that Beijing will pursue a growth target between 6-9% per year. The lower limit is regarded as the minimum growth rates where the unemployment rate will not increase.

In any case, the slowdown will most likely be initiated by an external shock to the Chinese economy, through, for example, a broadening of the current disturbance on the US financial markets.

In the absence of an external demand shock we expect no dramatic changes in the Chinese demand structure as we expect that the local Chinese authorities will try to maintain the powerful image of the Chinese growth miracle as long as possible, and if possible at reasonable cost (i.e. measured in for example non-performing loans, increased risk of trade barriers, monetary / FX issues or not to forget social unrest) well beyond the Olympics in 2008.

On the supply side, we do not see any major events coming up in 2nd half of 2007. The dry bulk fleet is expected to grow by 4%, which is slightly below the 1st half fleet growth. However,

year-on-year the dry bulk fleet is expected to increase by 7.2 % in 2007.

As can be seen from the graph to the right, the dry bulk fleet is expected to expand heavily over the next three years, with the Capesize segment outperforming the average fleet growth, and the Handysize segment growth significantly below the fleet average, but significantly stronger than in recent years.

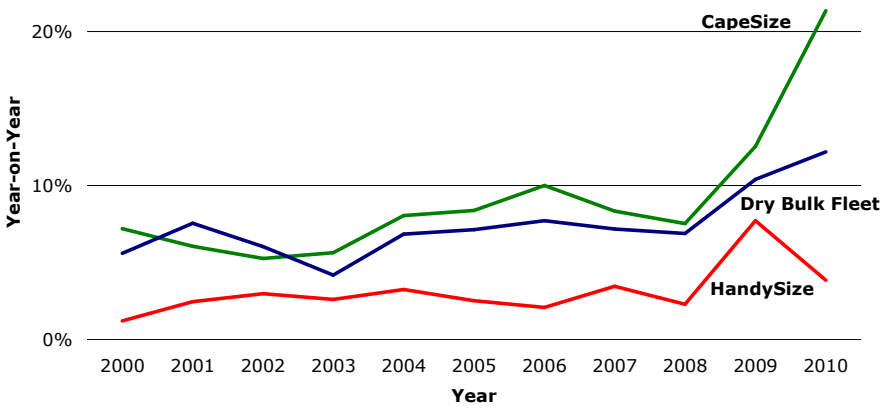
However, as we cannot predict, on a statistically acceptable basis, the timing of the expected slowdown, we have not made a conservative assumption about scrapping. As can be seen from the
graph below, the current fleet is old in a historical perspective, especially in the Handysize segment. Hence, scrapping will be an issue in years to come, but the timing will depend of the average freight rates and maintenance costs. If the current bull market persists we consider it unlikely that ship owners will scrap old tonnage in the next year or so.

What is the outlook for freight rates? The high contracting in the Capesize segment may turn out to be a problem if demand growth declines and/or if the fleet utilization increases as port congestion eases (exacerbated by the conversion of VLCC into VLGC). The "high" expected fleet growth in the Handysize segment is not regarded as a problem, as the fleet is old and hence relatively adjustable to changes in earnings. Thus, the critical issue for future freight rate expectation is, at the end of the day, infrastructural inefficiencies (i.e. materializing through port congestion).

According to our discussion initiated in "Supply and Demand" above, we see the current Capesize freight rate level as a reflection of port congestion rather than as a result of a particularly strong demand growth.

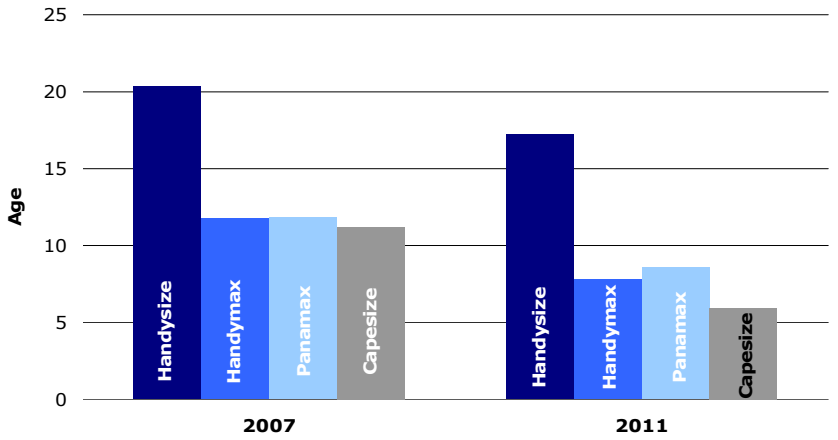
Port congestion has been present for some time now, but we have never seen it to such an extent as we are currently witnessing.

Dry Bulk Fleet growth



Sources: Clarksons, Danish Ship Finance

Average Age of the Dry Bulk Fleet



Source: Clarksons

HandySize Handymax Panamax Capesize

Before concluding anything, let's dwell on the implication of the fact that the combined Capsize and Panamax fleet is growing at a slower pace than port congestion is idling the fleet. This implies that even with a zero demand growth, freight rates might still improve due to the fleet's reduced cargo carrying capacity.

As earlier mentioned, the recent peak in port congestion was caused by China turning into a net importer of coal. The question is then whether China will continue to be a net coal importer in the future. We believe not.

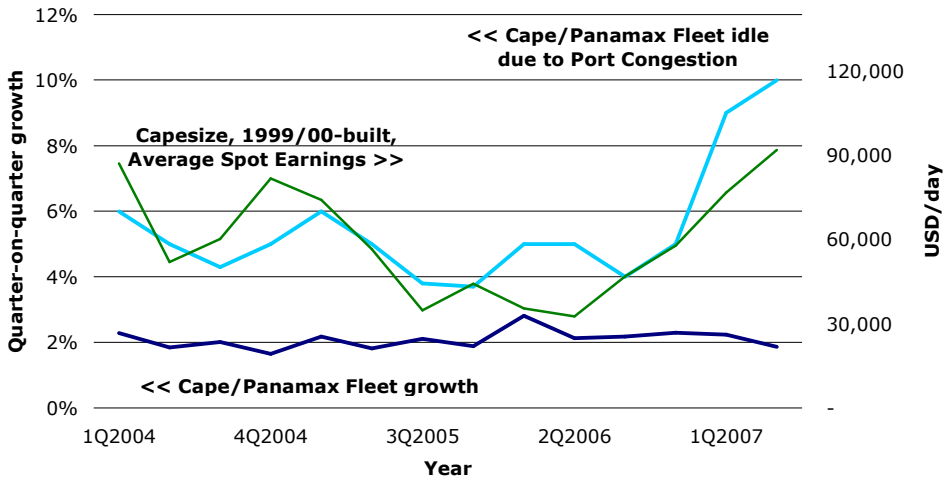
The recent shift came as old smaller mines were being closed and domestic coal prices were being liberalised. However, China holds one of the world's largest coal reserves and invests heavily in domestic coal production. Thus, it is not given by fundamentals that China should continue to be a net coal importer when production has been adjusted.

Accordingly, it might be that the current market situation will last in the short run, but we do not believe it to be long lasting. Still, even if it should turn out to be lasting in the medium term, (i.e. if China's domestic coal demand should turn out to increase even more than production can meet), it is unlikely that the current infrastructural bottlenecks will persist in the long run.

Thus, an important lesson to be learned from the current market situation is that freight rates do not necessarily peak only if demand beats supply. Theoretically, it is possible to have a supply surplus and low or even declining demand growth and still see increasing freight rates, due to significant structural inefficiencies, in this case materialized through port congestion.

Our expectations for the short term are therefore a fairly unchanged outlook notwithstanding the fact that China in June turned back to a coal exporter by a small magnitude. For the medium and long term we expect a strong market, with freight rates expected at a moderate average level, as in the period from late 2005 to beginning of 2006.

Capesize spot earnings vs. Port congestion



Sources: Howe Robinson, Clarksons, Danish Ship Finance

As a closing remark, we would like to address the absence of a discussion of iron ore and steel demand. For the near term future we still expect iron ore to be "a sold out commodity" and hence we expect that world demand equals available supply.

The steel story is more complex. We will concentrate on the expected Chinese steel exports. Recently, the Chinese authorities have removed the last steel export rebate, effectively eliminated the attractiveness of further Chinese steel export growth. We do therefore expect China's steel export to stay at current levels for the next year or two and hence we do not expect any China driven demand miracle for the handysize and handymax segment ▮

Tankers

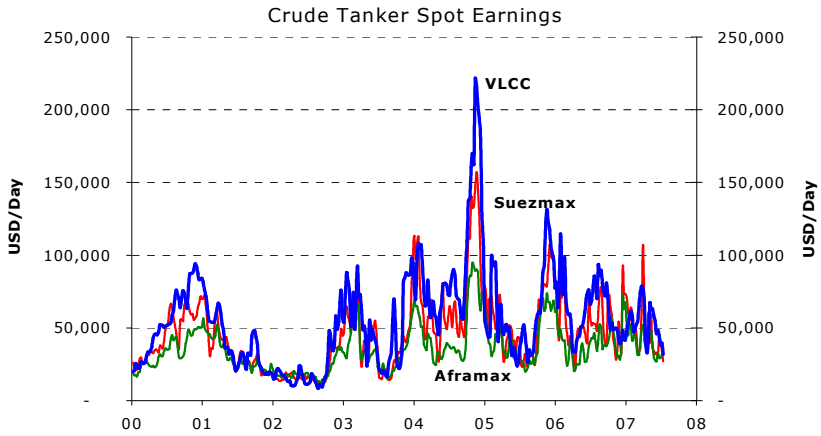
In contrast to dry bulk carriers and container ships, tankers entered 2007 with decreasing earnings. Particularly VLCC freight rates experienced heavy falls with third quarter levels seen at a 4-year low. The VLCC bear market clearly emphasizes the segment's exposure towards reduced Middle East Gulf supply and US refinery utilization (US demand). New building prices are still showing a steady upward momentum, regardless of a significant decrease in contracting activity for crude and product tankers during first three quarters 2007, compared with same period last year.

FREIGHT RATES

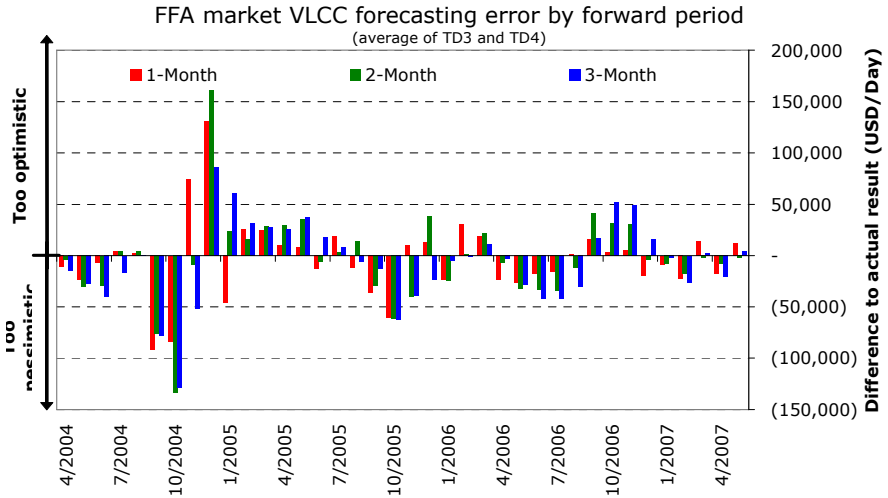
Bearish Tanker market with dropping VLCC freight rates

As revealed in our previous Shipping Market Review 2nd half 2007, fourth quarter freight rates turned out highly disappointing for the VLCC fleet. **The first nine months of 2007 continued the downward-sliding trend with third quarter VLCC freight rates down on average 61.5% compared to same quarter 2006.** In nominal terms, VLCC freight rates dropped USD 12,000 per day from same quarter last year, closing on average at USD 59,000 per day. Second quarter VLCC freight rates continued the downward trend, closing on average 5% below same quarter 2006, earning an average of USD 51,000 per day and third quarter VLCC earnings slipped down to a five year low average at USD 30,000 per day.

In contrast to latest declining freight market, demand has been stronger in the Atlantic, given the tightening of US oil market. Where Suezmax actually traded above VLCC in the last part of December 2006, rates found a more typical height in the first quarter, with average rates slightly below same period last year. Despite slightly depreciating freight rates, Suezmax still traded with significantly lower spread to VLCCs than in previous first quarters. Surprisingly, Aframax rates have gained terrain 2007, up on average 10% in first quarter and 22% in second quarter, but



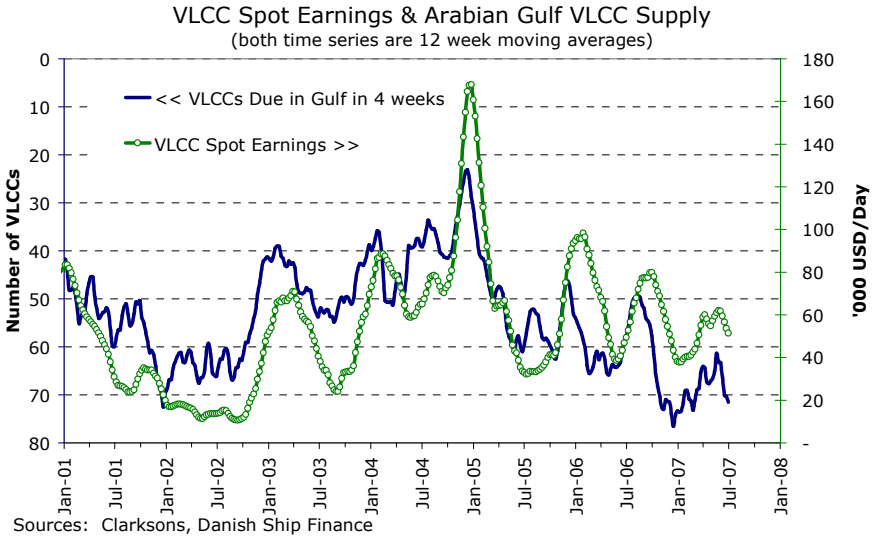
Source: Clarksons



Sources: IMAREX, Danish Ship Finance

followed the sour tanker market down in third quarter with an average drop by 44.6% compared to same quarters last year. Despite of the significant falls in freight rates, we have not yet seen impact on timecharter rates or prices, witnessing solid future expectations to the tanker market.

The bottom right graph shows how market sentiments for first half 2007 have been too pessimistic as actual VLCC rates turned out higher than their two- and three-months-forward curved predicted. The one-month-forward curve seems to have slightly overcorrected lately.



Sources: Clarksons, Danish Ship Finance

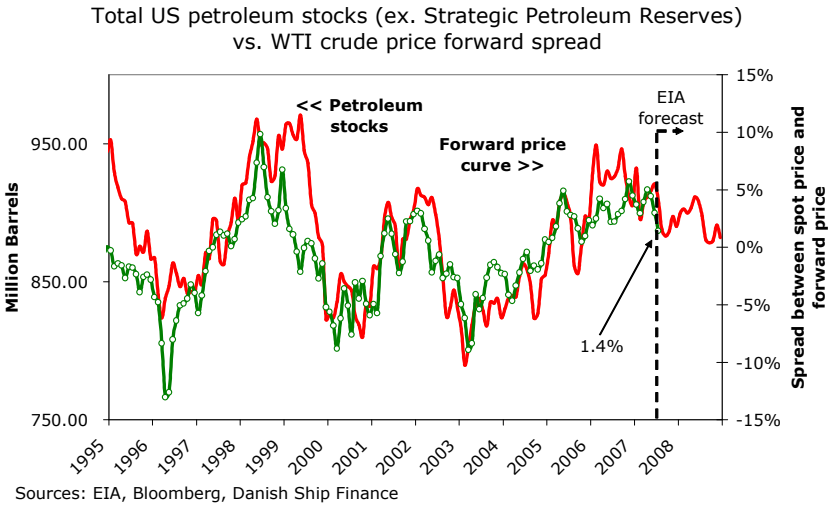
SUPPLY DEMAND

Declining US oil inventories, low OPEC production growth and low VLCC fixing activity in Arabian Gulf.

The build-up of oil inventories is now behind us. Today's tanker market is characterized by low fixing activity and abundance of VLCCs in Arabian Gulf.

The somewhat poor performance of VLCC's in 1st half 2007 was the consequence of a considerable draw on OECD inventories (approximately 20 million barrels, equivalent to 110.000 barrels per day) and low OECD demand due to extraordinary refinery maintenance in EU and the US.

European demand was down by 2.1%, dominated by the unseasonably mild weather at the beginning of first quarter, further strengthened by seasonal downtime maintenance and outright refinery problems. Japanese demand for petroleum decreased by 5.2%, despite strong economic growth, mainly due to the mild weather.



Sources: EIA, Bloomberg, Danish Ship Finance

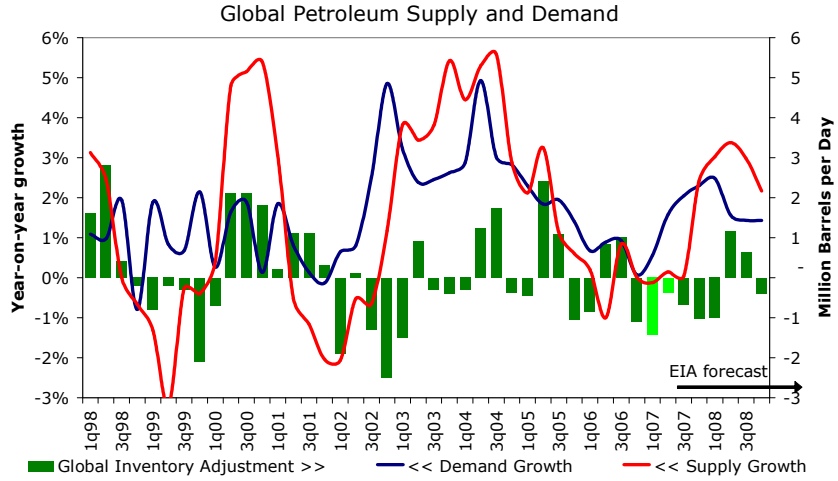
US petroleum demand increased 1.5% in first half 2007, indicating relatively resilient economic conditions, despite early signs of a

gradual economic slowdown. However, as some US refineries were out of action because of technical or safety problems at a time when many were undergoing seasonal maintenance refinery utilization fell to 86.3 % of capacity as of March 16, 2007, the lowest for this time of year since 2002. This explains a significant part of the fact that US petroleum stocks (ex. strategic petroleum reserves) declined by 4% in the first quarter, despite a continuing positive (but significantly declining) spread between the 3-month forward price and the current WTI spot price (this price structure is called contango, and is traditionally conducive to stock building).

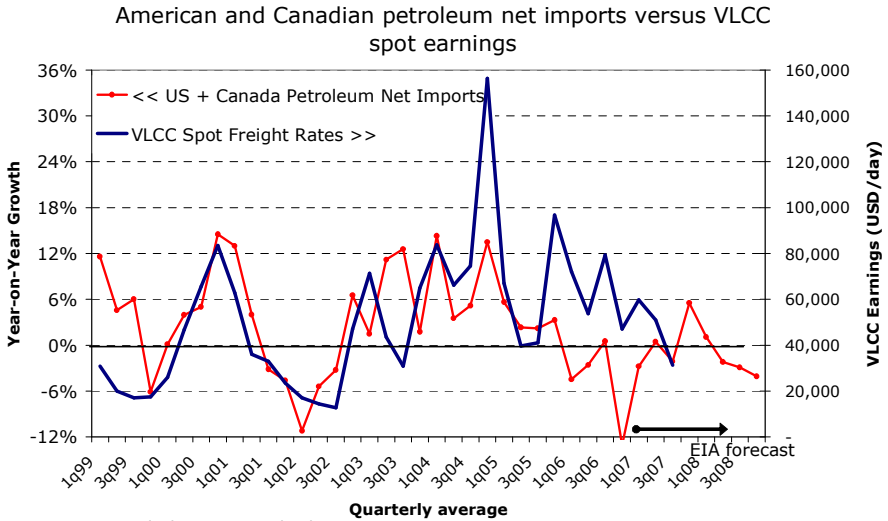
The significant declining US oil inventories is a key factor explaining the low VLCC fixture activity in the Arabian Gulf and thus low VLCC freight rates. Generally speaking, declining oil inventories are conducive to lower freight rates, as the process of transporting the oil from the oil well to the inventory site for the most part involves the use of crude tankers.

Not since 2002 have we seen so many VLCCs available in the Arabian Gulf during the traditional high season of fourth and first quarter. As depicted by the blue line in the upper graph on the right at page 21, fourth quarter 2006 ended with a record number of VLCCs available in the Arabian Gulf (notice that the left axis is inverted). The situation improved slightly during the first quarter of 2007, but second quarter ended by crossing the 2002 critical level of 70 ships available. Surprisingly, freight rates remained high compared to the 2002 position.

Is this contradictory to our basic economic theory that tells us that prices will decline when supply outperforms demand, until a new equilibrium is reached? Basically not, as the **fundamental supply-demand balance from 2002 has changed due to a substantial fleet growth**, changed preferences in favour of double hulled ships and changed trading patterns (especially the emergence of China as a major oil importer).
This was substantiated, by the demand for VLCCs outside the Middle East Gulf. First of all, the trend towards greater use of VLCCs in West Africa, for example, has been around for so



Sources: EIA, Danish Ship Finance



Sources: EIA, Clarksons, Danish Ship Finance

me time, but this year's demand has switched back to within the
Atlantic Basin. Undoubtedly, the US gasoline squeeze has played a role here, as the West Africa crude in general is light with a high gasoline yield. Similarly, there is a clear improvement in VLCC fixtures from Algeria, as US refiners are seeking suppliers to replace or back-up the volatile Nigerian crude volumes. Finally, **Venezuela's desire to sell more oil to China and less to the US has added significantly to the long-haul demand for VLCCs outside the Middle East Gulf**. Global petroleum supply was largely unchanged despite a 3% production cut from OPEC that was largely offset by a production leap in the Former Soviet Union. The OPEC production decline seems more involuntary than as the result of a proactive action, as the reduction was largely centered on Nigeria and Iraq. In April, Nigerian crude production fell to its lowest level since early 2003, mainly due to 'security concerns'. In Iraq, the supply issue is highly dependent on access to pipelines, as exports remain concentrated on the southern ports of Basrah and Kor al-Amaya. The cross-boarder pipeline into Syria exports only 10kb/day and the northbound pipeline into Ceyhan (Turkey) remains offline due to repeated attacks by insurgents.

Despite the apparently plausible explanation for the OPEC production shortfall, some observers have argued that key OPEC suppliers such as Saudi Arabia, Kuwait and the United Arab Emirates are using the supply troubles in Iraq and Nigeria as an excuse to let OPEC production fall and hence holding back supply growth in order to curb the negative consequences on their purchasing power caused by the weaker US dollar. Without drawing any conclusions on this matter, it is interesting that Kuwait, for example, has recently left its monetary dollar peg and Iran has proposed that Japan pays for oil in yen. However, concluding that OPEC is holding back production to shelter their purchasing power on behalf of the above examples is not possible.

Altogether, the wider geographical distribution of the fleet contributes to a lower sensitivity to ships available in the MEG. Whether this supports freight rates through a more fragmented market and thus freight rate stickiness is hard to say. However, it is evident from the upper graph on page 21 that, all else being equal, freight rates seem less. sensitive to VLCC availability in the Middle East Gulf than in 2002.

CONTRACTING & SHIP VALUES

Average contracting activity but record high secondhand prices

Declining freight rates seem to have led to lower contracting activity. Compared with the sky-high contracting of 1st half 2006, this year's first two quarters fell 41% short, with 16 million dwt contracted. However, in a historical context 16 million dwt is a fairly high activity and well above the historical average for the first two quarters.

Despite the declining contacting activity and heavy investments in shipyard capacity, it seems that the shipyards are able to sustain their pricing power. By end 1st half 2007, shipyards had managed to raise tanker newbuilding contract prices by 5% compared to year end 2006.

Regardless of continuing high fleet growth and declining timecharter rates, crude tanker secondhand prices appear to have increased over the first two quarters (on average +3%). The two graphs on the following page provide clear evidence that crude tanker secondhand prices appear overpriced compared to the expected income they are likely to generate throughout their remaining lifetime. Previously,

we presented three factors substantiating some potential factors partly explaining the current disconnection from fundamentals: 1) the IRR approach, 2) fleet maintenance, and

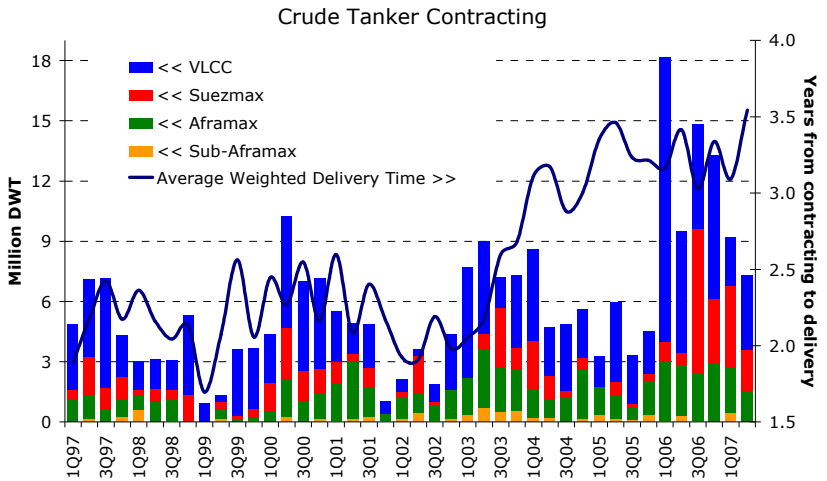
3) increased volatility. Unfortunately, neither of the three factors are likely to remain constant in the future. **Thus, we expect newbuilding prices to drop in coming years.**

Studying the relationship between a one-year timecharter rate and the secondhand price, **it appears that risk has been almost completely priced out of the equation for almost all tanker segments.** The structure of the secondhand price seems to have changed considerable during the last 3 years. As can be seen in the upper graph to the right secondhand tonnage is currently being traded 50-60% above their 2003-level for the same timecharter rate.

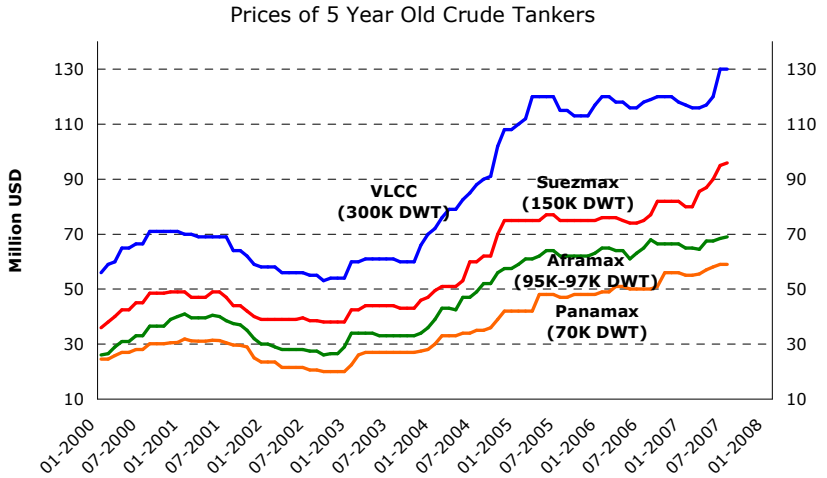
Equally, interesting is the lower graph to the right. The blue line illustrates the discounted cash flow requirement for a 5-year-old Suezmax from 1992 to present. The green line illustrates the market's expectations for freight rates through a 3-year timecharter rate. It is noteworthy to see that the market expects future freight rates to increase even further. We do not agree with these expectations, as current levels are sky-high in a historical perspective, and the expected tanker fleet growth generates at best a challenging outlook regarding future freight rates. Thus the graph shows us that current secondhand prices require record high freight rates for the next 20 years for the investment to pay off.

Furthermore, we do *not* subscribe to the widely 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 for example 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 probability of default (i.e. a low 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, **we do not believe that tanker ship values have a bright future** as we do not subscribe to the hypothesis that ship valuations should be based upon



Sources: Clarksons, Danish Ship Finance



Source: Clarksons

expectations that current extraordinarily prosperous conditions will persist for the next 20 years or more.

OUTLOOK

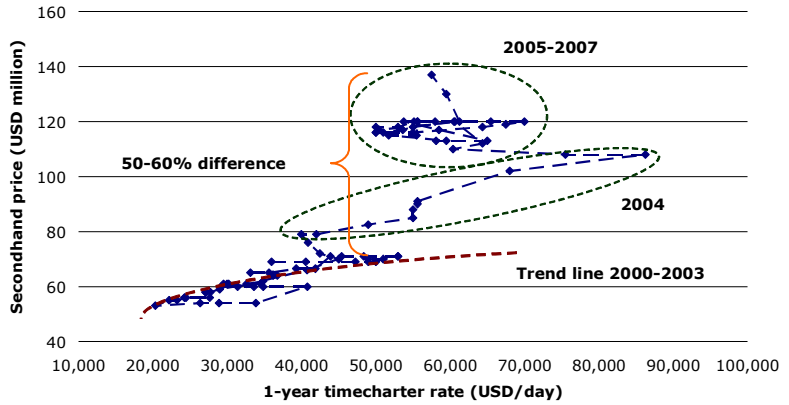
Increased supply growth and firm tanker demand for 2008 and 2009.

The Energy Information Administration (EIA) of the U.S. Department of Energy expects world petroleum demand to increase by 2.2% in 2nd half of 2007, compared to same period the year before. The bulk of the increase originates from an expected increase in Chinese petroleum demand of additional 1,120 barrels per day, equivalent to a 7.5 % increase.

However, taking into account the demand figures for North American and Canadian seaborne petroleum import, the apparent positive impact on the tanker market of the strong demand figures seems less attractive. As evident from the lower graph at page 22, the growth in US and Canadian petroleum net imports has been declining in recent years, turning red since 1st quarter 2006. EIA expects North American and Canadian petroleum imports for 2007 to close 2.15 % below 2006 level, further weakening one of the tanker market's most significant demand drivers.

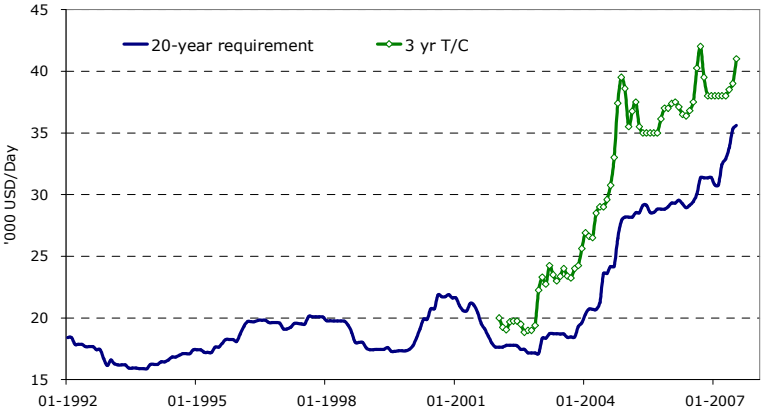
Nevertheless, the National Oceanic and Atmospheric Administration (NOAA) of the US Department of Commerce predict an **above-normal 2007 Atlantic hurricane season**. It is noteworthy that the warning has been reviewed since May, and reiterates the expectation for a sharp increase in activity from the near-normal hurricane season observed last year. The 2007 outlook calls for a likely range of 7-9 hurricanes and 3-5 major hurricanes in the Atlantic basin. The vast majority of the activity in 2007 is expected during the peak month of the season – August through November. Past evidence indicates that, an above normal hurricane season might significantly increase US oil demand and thus a brighter outlook for the tanker market.

VLCC 5 Year old Secondhand Price vs. 1 Year T/C



Sources: Clarksons, Danish Ship Finance

Suezmax 5 year old



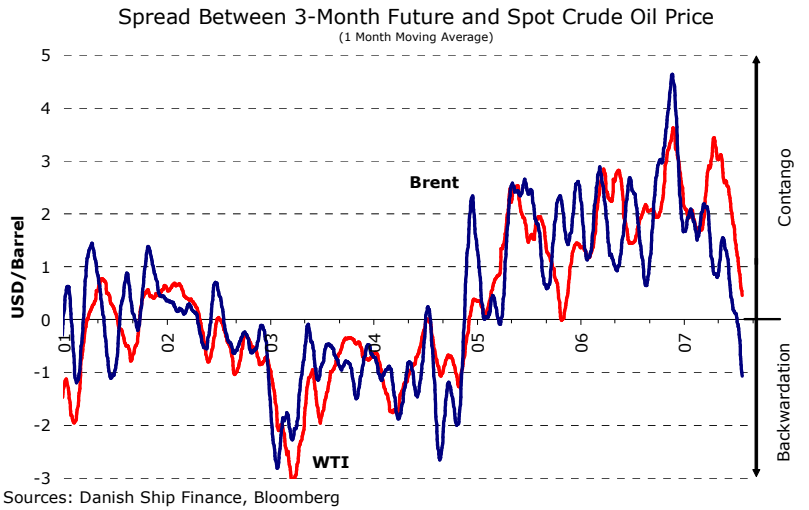
Sources: Clarksons, Danish Ship

Moreover, a significant contributor to the last 8-10 quarters demand growth has been the build-up in oil inventories in North America and Europe (as well as China). **A key factor behind the large build-up in North America and Europe is to be found in the futures price structure of crude oil.** As can be seen from graph to the right, there has been a positive spread between the futures price and the spot price, making stock building profitable (the situation is called contango). Recently, the pricing structure has changed to backwardation, where spot quotes are above futures. While we are resisting the temptation to take comfort in the pricing structure of the future crude quotes, **we nevertheless believe that the shape of the curve reflects market expectations and influences behaviour**. Tanker owners are therefore hoping that OPEC will meet the demand pressure by increase production quotas in time for them to benefit from a seasonal final quarter boosting freight rates. However, for the time being, we have seen little or no evidence indicating that OPEC at its 17-18 November meeting will decide to increase production. In fact, it seems as if OPEC is taking a much more optimistic view about non-OPEC production growth than, for example, the IEA and EIA, making it less likely that it should strengthen production growth.

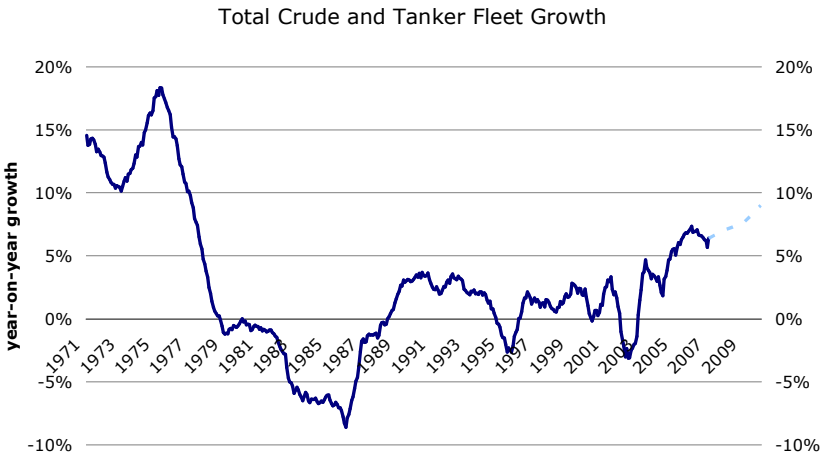
Thus, with a market in backwardation, the willingness to hold stocks is likely to decline, further worsened for Europeans by a weak, non-stable and declining US dollar (relative to the Euro), adding to the weak tanker market outlook for at least third quarter 2007. The tanker outlook for 2nd half of 2007 may, however, be positively affected by, for example, a tough hurricane season, a cold winter and/or increased OPEC production.

For 2008, EIA expects continued strong demand growth, especially outside OECD countries, with world petroleum demand up 1.6-1.8% (approximately an additional 6,000 barrels per day). Once again, **world demand is dependent on emerging Asia, with China as the principal consumer**.

The outlook of 2008 is slightly above 2007 level but 0.2%-point below the 5-year average of 2% demand growth.



Sources: Danish Ship Finance, Bloomberg



Sources: Clarksons, Fernleys, Danish Ship Finance

However, we should add that we consider the 5-year average demand growth surprisingly low, considering the strength of the global economic growth.

Taking all these factors into consideration, we are confident that oil producers realize this long term risk and we are therefore **expecting oil producers to increase supply growth in 2008 above the 5-year average of 2%.** Accordingly, EIA expects 2008 supply growth around the lower end of 3%, with OPEC production growth contributing the most.

Nevertheless, if the current forward pricing structure persists into 2008, the outlook for the tanker sector seems challenging for at least as long as the market is in backwardation, as a negative spread between spot prices and future prices gives oil producers no incentive to step up production.

Consequently, if EIA and IEA turn out to be fairly accurate in their expectations for the oil market, the tanker market for the next year or two will be heavily dependent on emerging Asia, especially China, to create the required growth in tanker demand.

The buoyant scenario for China is focusing on the tanker demand emerging from China's plan to construct its strategic petroleum reserve (SPR) intended to provide 90 days' import cover. At current consumption, this requires approximately 500 million barrels. Although the construction of the storage tanks is progressing, the high cost of China's oil imports and its insatiable demand for oil is slowing the process.

Filling at the current rate of 100,000 barrels per day, it would take until 2020 to reach the 500 million barrel level. Adding further to the glamour, by 2020, 90 days' import cover would require approximately 720 million barrels, according to EIA. All together, this sounds like extremely good news for the tanker market. According to Argus Media Ltd., Chinese officials have said that as long as international oil prices remain high, buying for the SPRs will be gradual.

A further challenging factor comes from the fact that an increasing share of China's oil imports comes from the Former Soviet Union transported both by train and with a rapidly increasingly share through pipelines.

Concluding on the buoyant scenario for China, we consider it important to emphasis that, disregarding of whether China is importing for the SPRs or not, **China's petroleum import growth is expected once again to be, if not the most important, then one of the most important drivers behind global tanker demand growth in 2008.** As states above, Chinese imports are expected to grow by 6 % in 2007, 1 %-point down from 2007 level, but still about 4 %-points above the expected global demand growth for 2008.

The cumulative impact on freight rates is obviously dependent on the tanker fleet growth. A considerable amount of money being invested in the tanker fleet was attracted by the last year's heavy demand for tankers. As evident from the graph on page 27, the combined crude and product tanker fleet is expected to exhibit an annual fleet growth (net of the required phase-out according to IMO's MARPOL regulations) in 2008, 2009 and 2010 of 7%, 7.6%, and 9%, respectively. These are alarmingly high fleet growth numbers and do indeed burden the upside potential in freight rates for years to come. However, we expect much of the fleet growth for 2008 and 2009 to be assigned for the single-hull phase-out in 2010. Still, the current orderbook is high, with additional 141 million dwt, of which 58 million dwt is expected for delivery alone in 2009. A mitigating circumstance for the freight rate outlook is (based on unsubstantiated rumours, by the way), **an apparent increasing tendency towards age limitations on vessels approaching Indian and other Asian ports.** According to broker gossip, Indian port authorities are endeavouring to impose a maximum age of 20 years for tanker vessels approaching Indian ports. If this apparent tendency spreads to the rest of Asia, it would effectively limit the tanker fleet.

In conclusion, as it would be foolhardy to attach too much certainty to the above factors we have not forecasted average

tanker spot earnings for years to come. However, **we do see the gap between supply and demand to be quite sizable and thus we maintain a quite bleak outlook for 2007 and 2008**. On the other hand, we do see some potential upsides, despite the high fleet growth. First, we expect a strong Chinese demand in years to come more or less independent of the global economic growth. Second, we expect OPEC to increase production to meet demand, despite the negative consequences on their monetary policy. Third, deletion of tankers (IMO phase out) may commerce much earlier and maybe more considerable than first anticipated. In sum, on average, we expect 2007 and 2008 to become much weaker than 2005/2006 ▮

Glossary

Aframax:	Crude oil tanker or product tanker too large to pass through the Panama Canal and below 120,000 dwt.
AHTS:	Anchor Handling Tug Supply. Offshore vessel used for jobs such as the relocation of oil rigs and anchors of the oil rigs.
ARM:	Adjustable Rate Mortgage. Mortgage loan with a variable interest rate that is being adjusted on a regular basis.
Back-haul:	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'.
Barrel:	A volumetric unit measure for crude oil and petroleum products equivalent to 42 U.S. gallons, or approximately 159 litres.
BHP:	Break Horse Power. The amount of engine horsepower.
Brent:	Term used for crude oil from the North Sea. Brent oil is traded at the International Petroleum Exchange in London, and the price of Brent is used as a benchmark for several other types of European oil.
Bulk vessel:	Description of vessels transporting large cargo quantities, including coal, iron ore, steel, corn, gravel, oil, gas, etc.
Bunker:	Fuel for vessels.
Call on OPEC:	Defined as total global petroleum demand minus non-OPEC supply minus OPEC natural gas liquid supply.
Capesize:	Dry bulk carrier of more than approximately 80,000 dwt; too large to pass through the Panama Canal.
Cbm:	Cubic Meter.
Ceu:	Car equivalent unit. Unit of measure indicating the car carrying capacity of a vessel.
Cgt:	Compensated Gross Tonnage. International unit of measure that facilitates a comparison of different shipyards' production regardless of the types of vessel produced.
Clarkson:	British ship brokering and research company. www.clarksons.net
Clean products:	Refers to light, refined oil products such as jet fuel, gasoline and naphtha.
CoA:	Contract of Affreightment. Contract between shipping company and shipper concerning the freight of a predetermined volume of goods within a given period of time and/or at given intervals.
CSR:	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.
Dirty products:	Refers to heavy oils such as crude oil or refined oil products such as fuel oil, diesel oil or bunker oil.
Drewry:	Drewry Shipping Consultants Ltd. British shipping and transport research company. www.drewry.co.uk

Dwt:	Dead Weight Tons. Indication of a vessel's cargo carrying capacity (including bunkers, ballast, water and food supplies, crew and passengers).
Dynamic Positioning:	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.
EIA:	Energy Information Administration. A subsidiary of the US Department of Energy. www.eia.doe.gov
E&P:	Exploration and Production.
Fearnleys:	Norwegian ship brokering and research company. www.fearnleys.no
Feeder:	Small container carrier.
FPSO:	Floating Production Storage Offloading unit. Vessel used in the offshore industry to process and store oil from an underwater (sub-sea) installation.
Geared:	Indicates that a vessel is equipped with a crane or other lifting device.
Gearless:	Indicates that a vessel is not equipped with a crane or other lifting device.
Global Insight:	American economic consulting company. www.globalinsight.com
Gt:	Gross Tons. Unit of 100 cubic feet or 2.831 cubic meters, used in arriving at the calculation of gross tonnage.
Handy, tank:	Crude oil tanker, product tanker or chemical tanker of between 10,000 and 25,000 dwt.
Handymax, dry cargo:	Dry bulk carrier of between approximately 40,000 and 60,000 dwt.
Handysize, dry cargo:	Dry bulk carrier of between approximately 10,000 and 40,000 dwt.
Head-haul:	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.
IEA:	International Energy Agency. A subsidiary of the OECD. www.iea.org
Imarex:	International Maritime Exchange. www.imarex.com
IMO:	International Maritime Organization. An organisation under the UN.
IMO I-III:	Quality grades for tankers for the permission to transport different chemical and oil products. IMO I are the most hazardous products, IMO III the least hazardous.
Chemical tanker:	Tanker with coated or stainless steel tanks (IMO I-III).
LOOP:	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.
LPG vessels:	Liquefied Petroleum Gas. Vessels used to transport ammonia and liquid gases (ethane, ethylene, propane, propylene, butane, butylenes, isobutene and isobutylene). The gases are transported under pressure and/or refrigerated.
LR1, product tanker:	Long Range 1. Product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 50,000—80,000 dwt.
LR2, product tanker:	Long Range 2. Product tanker too large to pass through the Panama Canal and larger than approximately 80,000 dwt.
Medium, tanker (MR):	Medium Range. Product tanker of between 25,000 and 50,000 dwt.

MEW:	Mortgage Equity Withdraw. Defined as equity extracted from existing homes via cash-out refinancing, home equity borrowing, and/or housing turnover.
Multi-Purpose:	Dry bulk carrier with multiple applications, mainly as a feeder vessel or for special cargo.
Nautical Mile:	Distance unit measure of 1,582 meters, or 6,076.12 ft.
Offshore vessel:	Vessel serving the offshore oil industry.
OPEC:	Organisation of Petroleum Exporting Countries.
Panamax, container:	Container carrier with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres, length of 291 metres) of approximately 3,000—5,000 teu.
Panamax, tanker:	Crude oil tanker or product tanker with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 50,000—80,000 dwt.
Panamax, dry cargo:	Dry bulk vessel with the maximum dimensions for passing through the Panama Canal (width of 32.21 metres and length of 289.5 metres) of approximately 60,000—80,000 dwt.
PCC:	Pure Car Carrier. Car carrier built exclusively to transport passenger cars.
Post-Panamax:	Container vessel of approximately 4,000+ teu that is too large to pass through the Panama Canal.
Product tanker:	Tanker vessel with coated tanks used to transport refined oil products.
PSV:	Platform Supply Vessel. Offshore vessel serving the offshore oil installations.
Ro-Ro:	Roll On – Roll Off. Common description of vessels on which the cargo is rolled on board and ashore.
SSY:	Simpson Spence & Young, British ship brokering and research company. www.ssy.co.uk
Suezmax:	Crude oil tanker with the maximum dimensions for passing through the Suez Canal (approximately 120,000—200,000 dwt.).
TCE:	Time Charter Equivalent.
Teu:	Twenty Feet Equivalent Unit. Container with a length of 20 feet (about 6 metres) which forms the basis of describing the capacity of a container vessel.
Teu-knots:	Unit of measure that takes account of the speed of the ships when estimating the actual supply of ships within a segment.
Teu-nautical mile:	Unit of measure indicating the volume of cargo, measured in teu, and how far it has been transported, measured in nautical miles.
Ton-nautical mile:	Unit of measure indicating the volume of cargo, measured in ton, and how far it has been transported, measured in nautical miles.
Tonnage:	Synonymous with "vessel".
ULCC:	Ultra Large Crude Carrier. Crude oil tanker above 320,000 dwt.
VLCC:	Very Large Crude Carrier. Crude oil tanker of between approximately 200,000 and 320,000 dwt.
VLGC:	Very Large Gas Carrier. LPG ship with capacity above 60,000 cbm.
WTI:	West Texas Intermediate. Oil price benchmark in the USA.

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