Danish
Ship Finance

Shipping Market Outlook

Forum for Shipping Economy and Strategy

February 22, 2007

Danish Ship Finance

Agenda

Dry Bulk & China

Container

Tankers

Shipyards

Danish Ship Finance

Additional information

Read our semi-annual market report Shipping Market Review at www.shipfinance.dk.

This presentation is available for download at www.shipfinance.dk.

Danish Ship Finance

Disclaimer

The persons named as the authors of this presentation hereby certify that: (i) all of the views expressed in the research presentation accurately reflect the personal views of the authors about the subjects; and (ii) no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research presentation.

This presentation has been prepared by Danish Ship Finance (Danmarks Skibskredit A/S).

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

This presentation is based on information obtained from sources which DSF believes to be reliable, but DSF does not represent or warrants its accuracy.

The information in this report is not intended to predict actual results, which may differ substantially from those reflected.

This presentation may not be reproduced, in whole or in part, without the prior written permission of DSF.

To Non-Danish residents: The contents hereof are intended for the use of non private customers and may not be issued or passed on to any person and/or institution without the prior written consent of DSF.

Additional information regarding this presentation will be furnished upon request.

Danish Ship Finance

Agenda

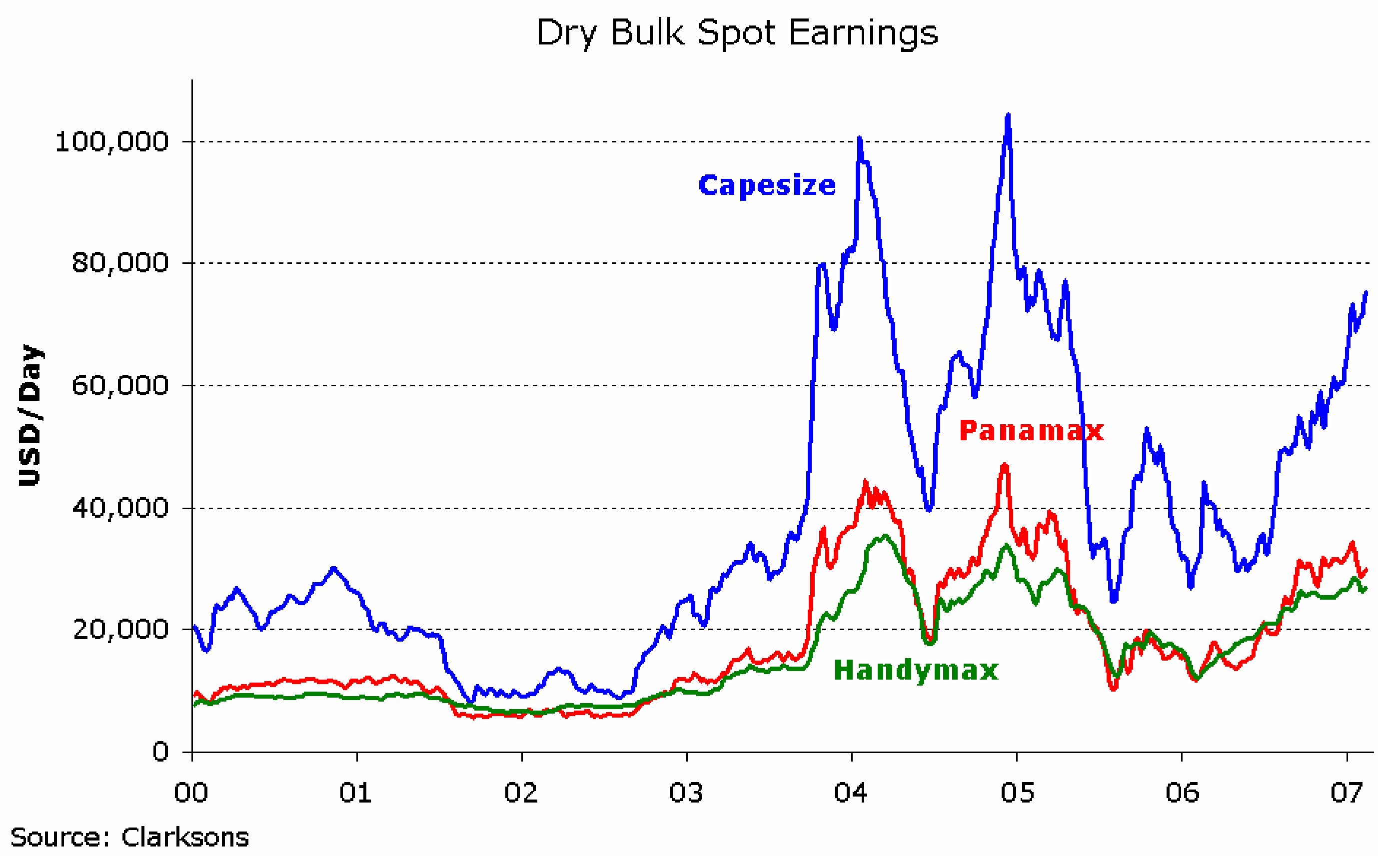
Dry Bulk & China

Container

Tankers

Shipyards

Dry bulk rates in clear turnaround – how much further?

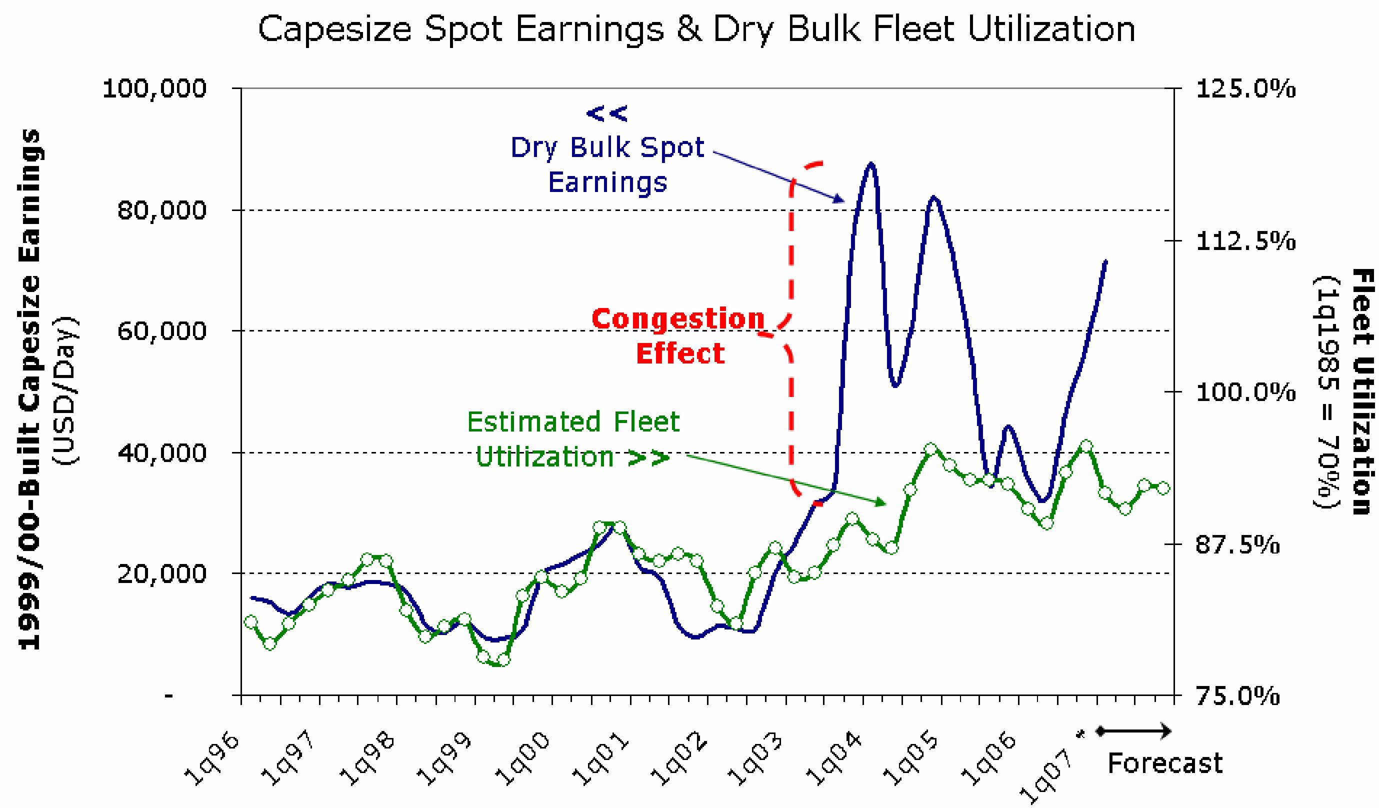


Short term dry bulk ship outlook

Theme 1: port congestion

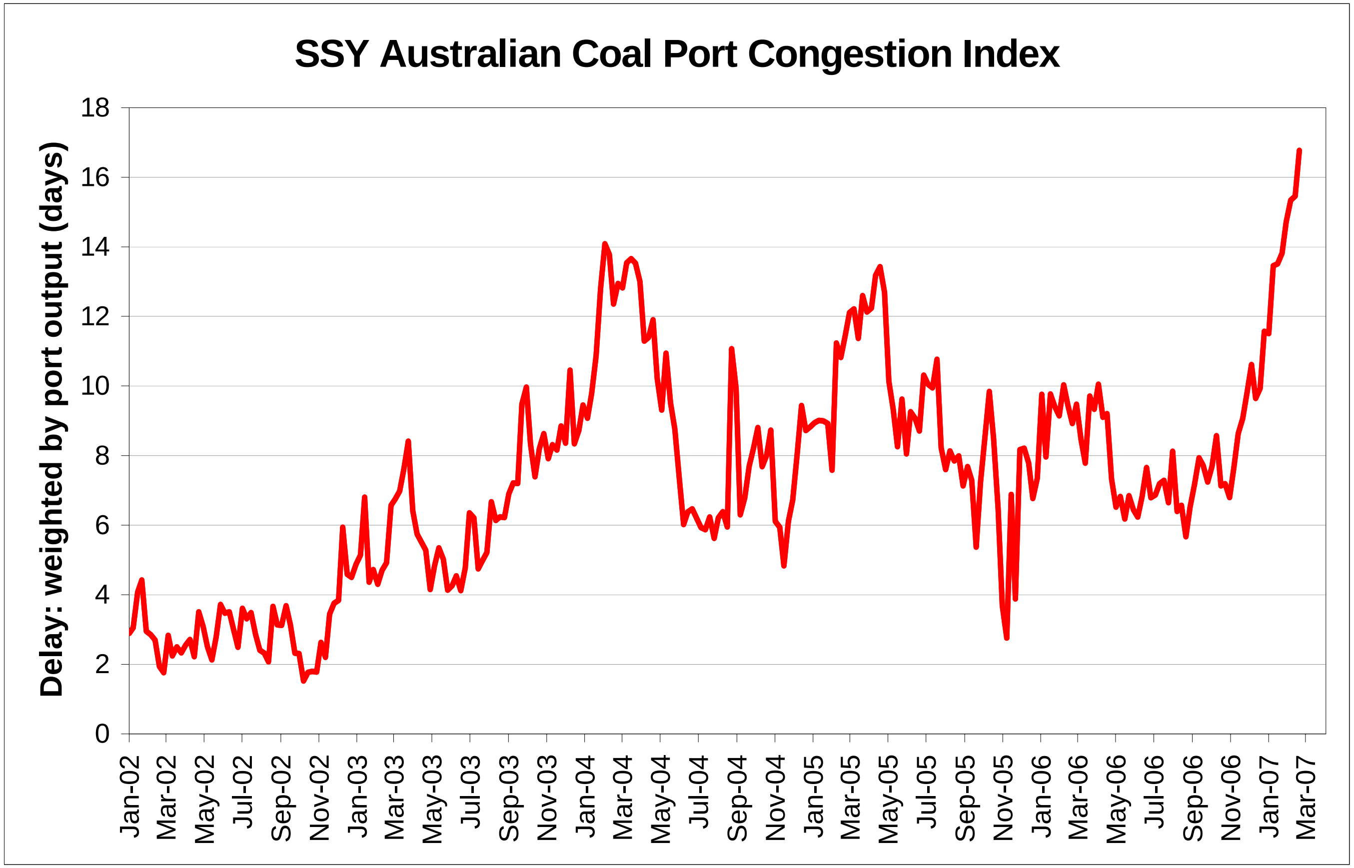
Theme 2: China’s iron ore price negotiations

High demand and port congestion



Sources: Danish Ship Finance, SSY, Clarksons * 1q07 as per February 16.

Port congestion as primary boost factor



Iron ore traders, steel mills in preemptive stock-building

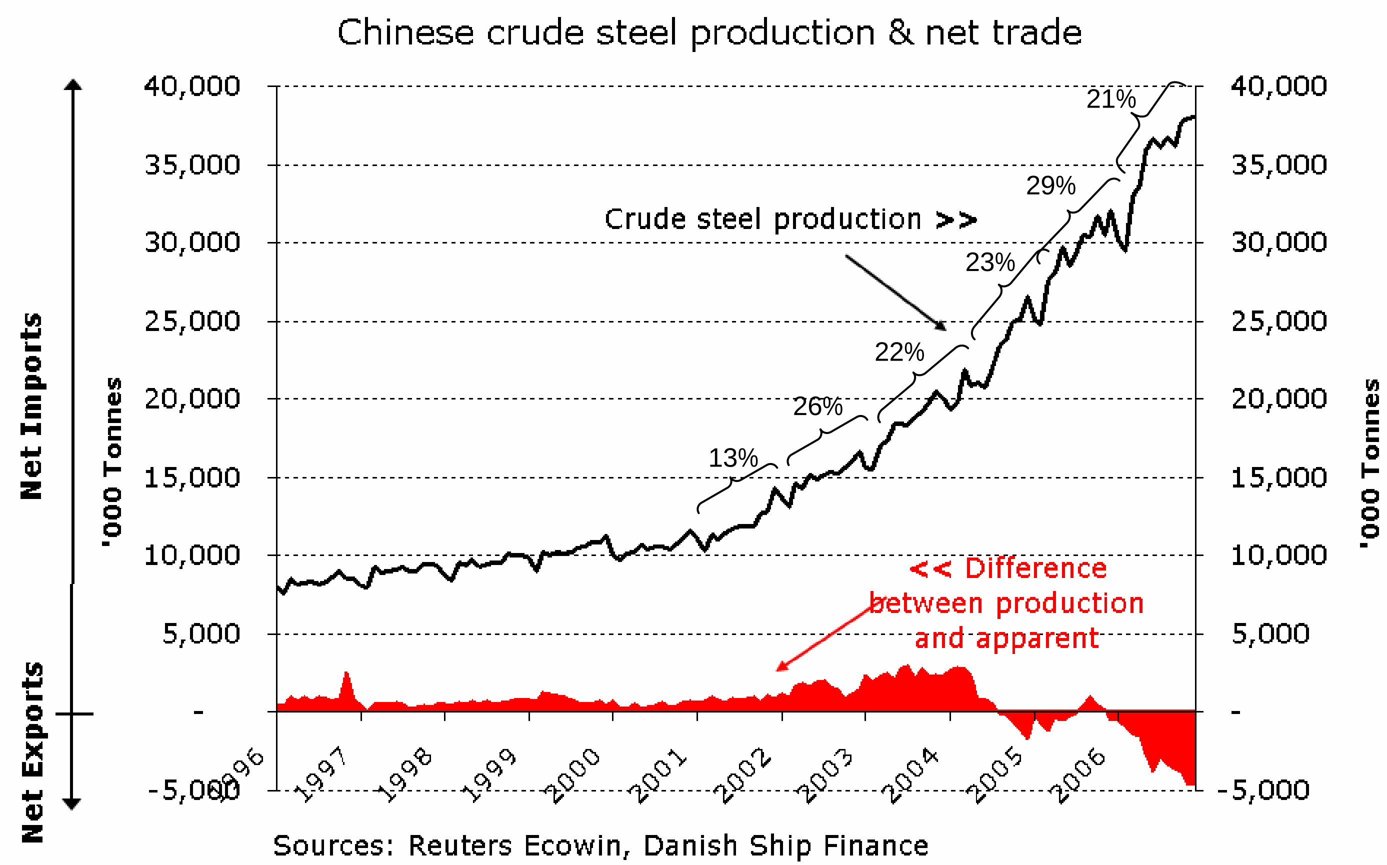
Source: Steel Business

Medium term dry bulk ship outlook

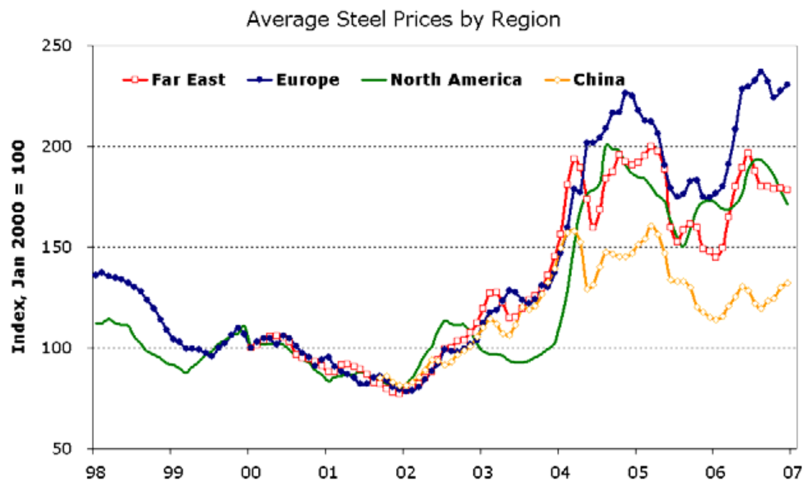
Theme 1: how effective is the squeeze on steel exports/production and iron ore imports?

Theme 2: will we see a slowdown in China's housing construction activity?

China’s production increasingly depends on exports



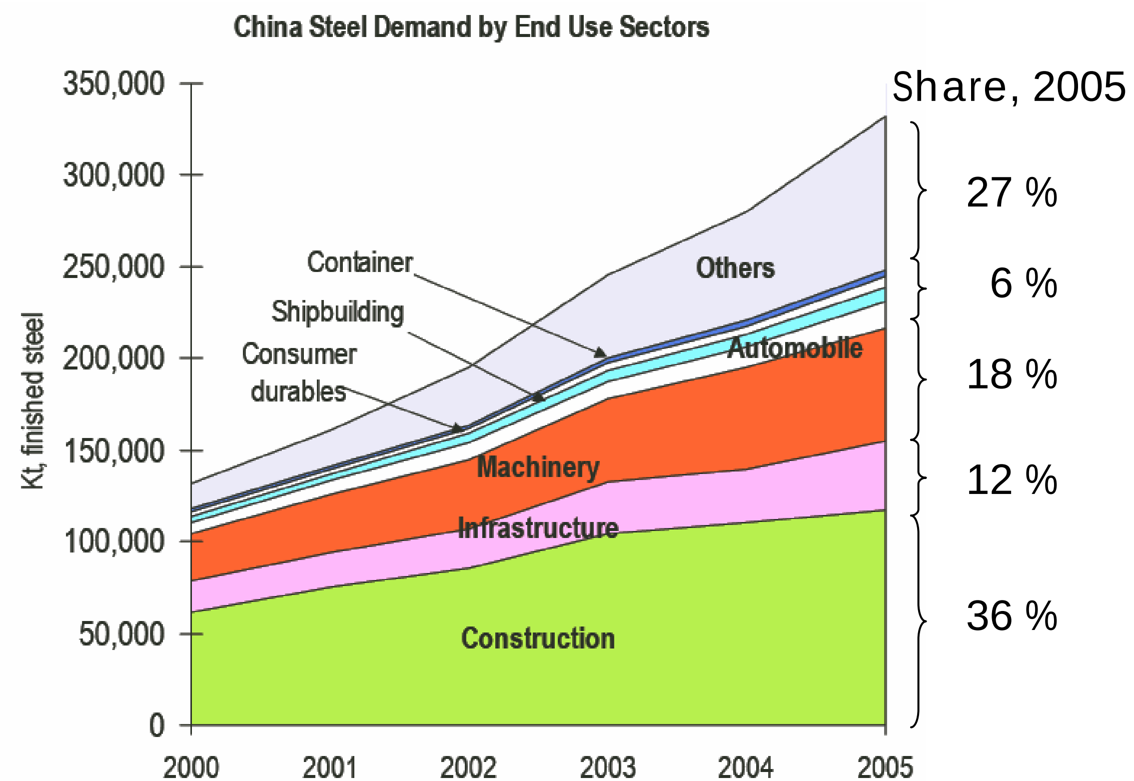
Will the squeeze on the Chinese steel industry be effective in limiting steel output and exports?



Sources: Steel Business Briefing, Danish Ship Finance

- Increased/new export taxes on steel products;
- Reduction in number of authorized iron ore importers;
- Higher input costs and limited capability to raise output prices because of overcapacity domestically;
- Stop to approval of new steel mills (but there are still being new mills constructed that were approved ahead of the new regulations);
- Forced closure of small steel mills by end of 2007 (previous deadline: end 2006);
- Lower export tax rebates (from about 11-13% to about 8%).

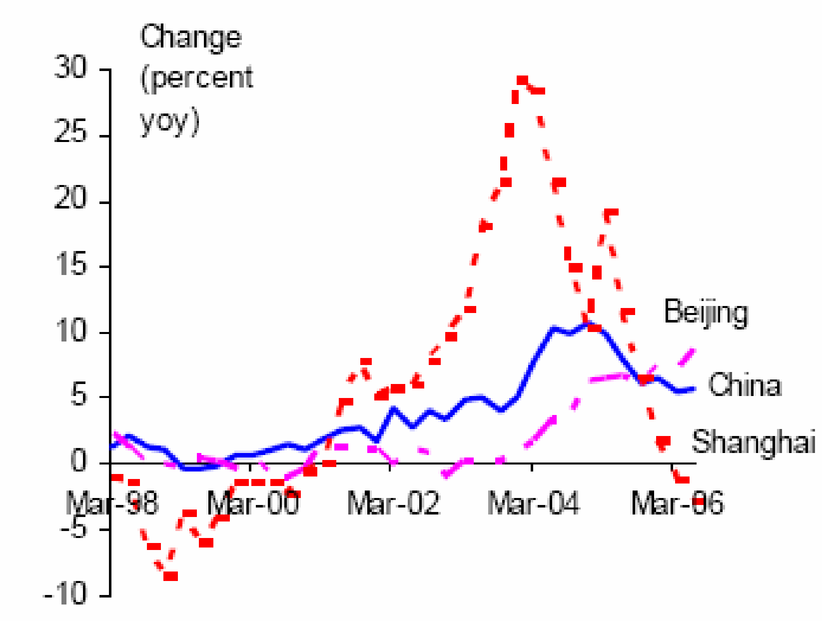
Construction and manufacturing exports are all-important drivers of Chinese steel demand!



Sources: BHPBilliton, CISA

Government concerns over housing bubble

Chinese real estate prices by region



Source: World Bank

- Down-payments for residential units bigger than 90 square meters will be raised to 30% from the current 20% by June 2006;
- If the house is sold after five years of occupation the seller must pay a 5.5% tax on the capital gain;
- If the house is sold before the 5-year period the seller must pay a 5.5% tax on the total sales price;
- Restrictions on foreign ownership of Chinese real estate.
- Enforcement of a longstanding 20% capital gains tax on real estate.
- Restrictions on unoccupied properties as loan collateral.
- Enforcing a land tax of 30-60 percent of developers' net gains from property deals depending on the size of their profit

Long term dry bulk ship outlook

Theme 1: China's new growth model

Theme 2: steel consumption per capita

Theme 3: after China, then what?

What if China succeeds in changing its growth model?

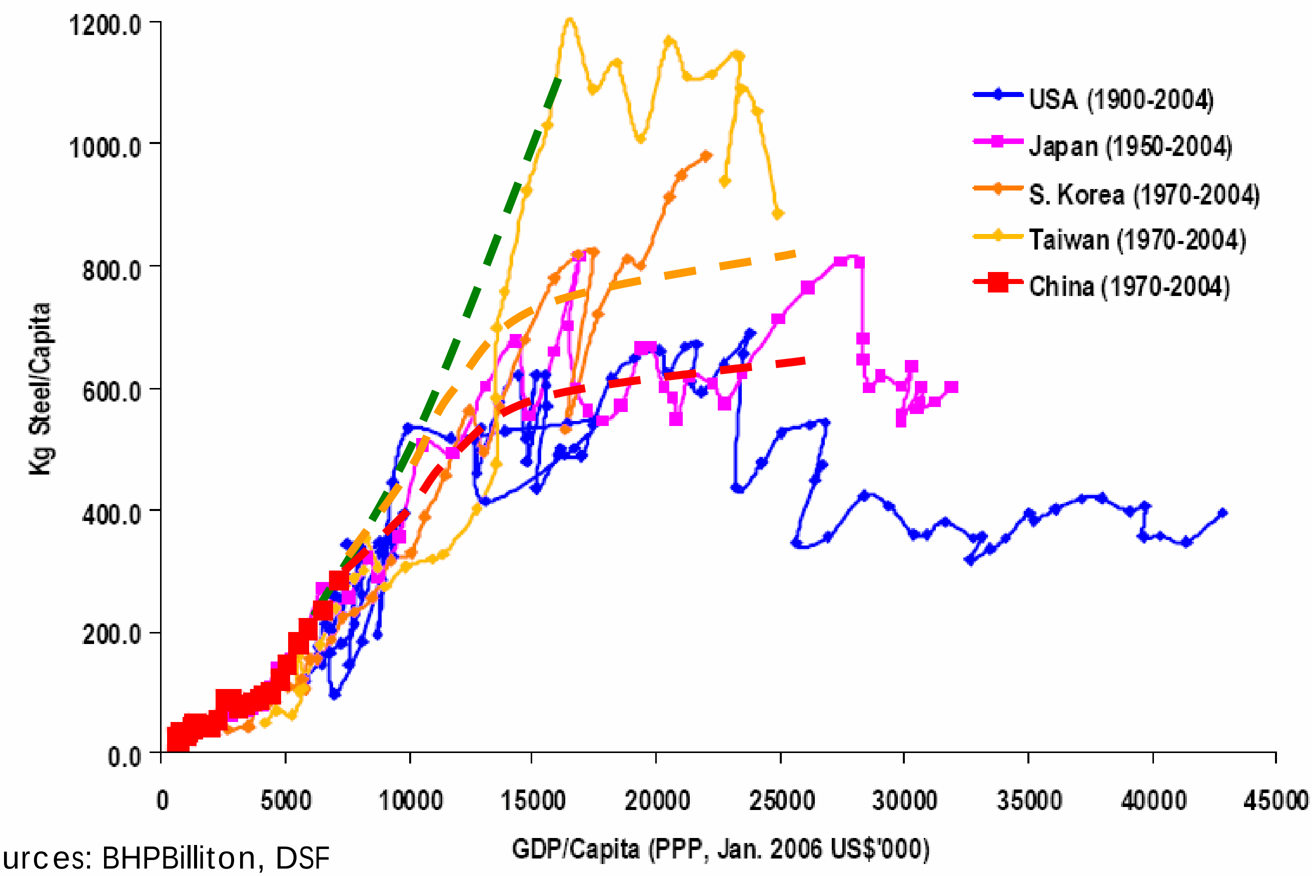
Consequence:

- Despite increased domestic consumption, a less export and trade dependent growth model will significantly slow China's steel production growth!

Timing:

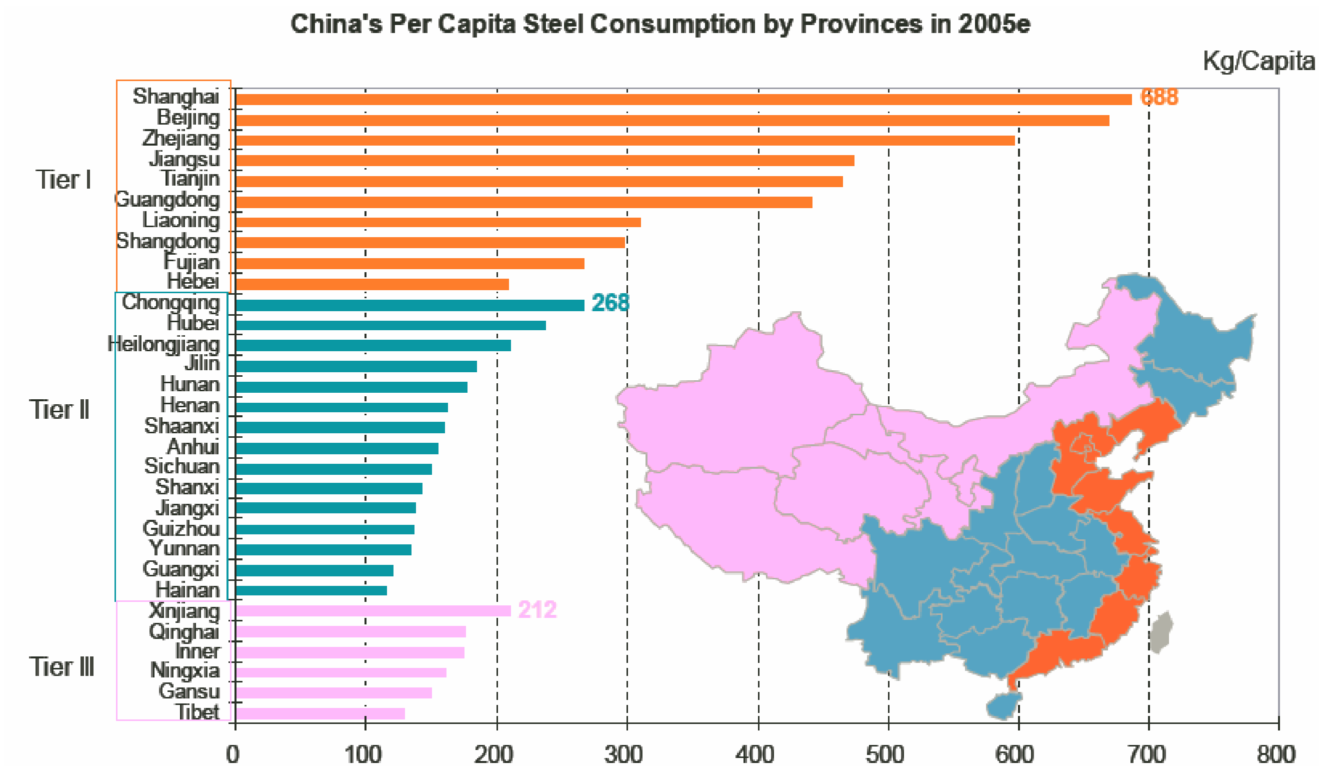
- Boosting/sustaining consumption growth will take time. If other sectors (investments & exports) slow, it may be even harder…
- Local and central governments still have large incentives to continue a construction, manufacturing, and trade dependent growth model – leading to continued high growth in China's steel production;
- However, new/pending property bill (the protection of state, collective and private property) may restrict local government's from selling off land to raise revenue.

The optimists: China is far from fully developed!



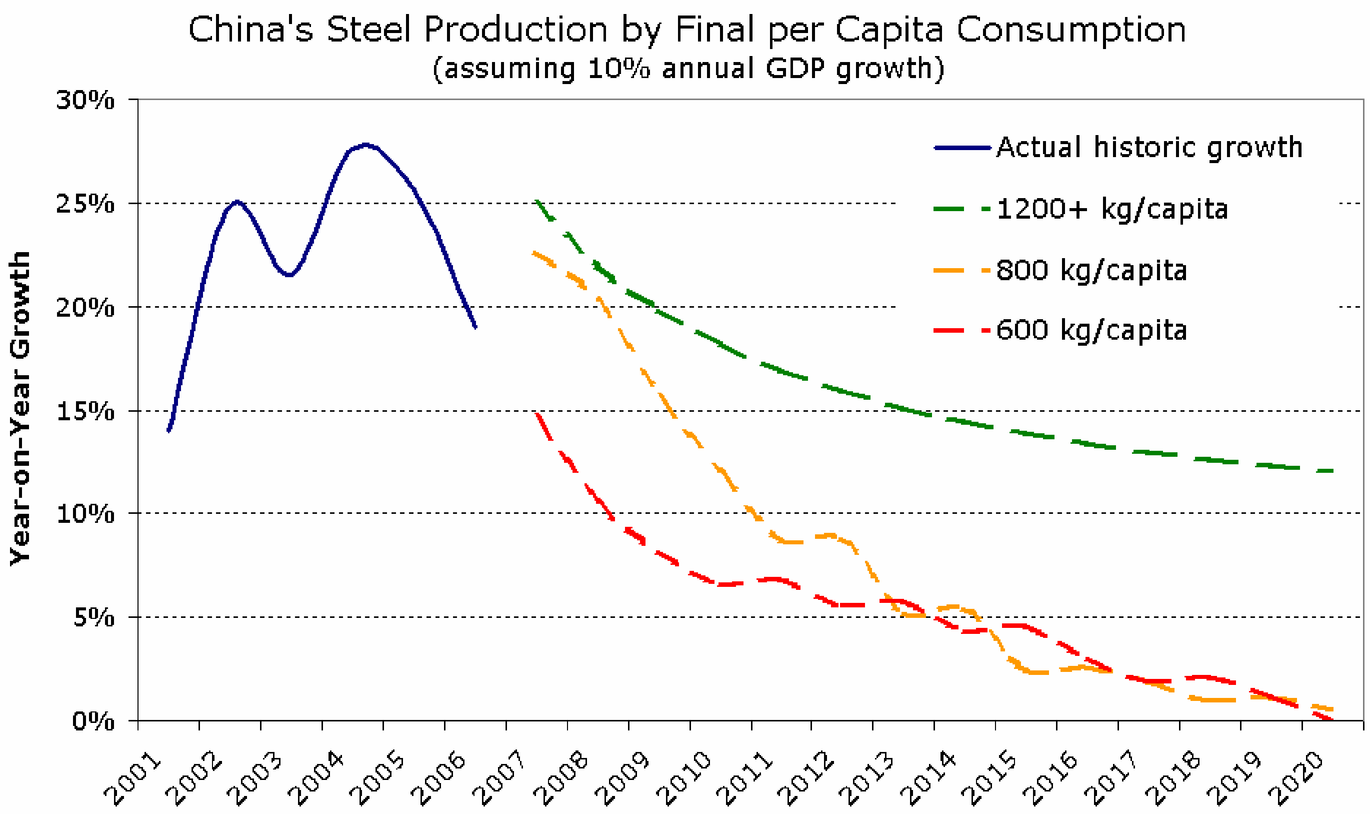
Sources: BHPBilliton, DSF

However, it's increasingly reliant on an economic, export-driven take-off in the inner regions of China...



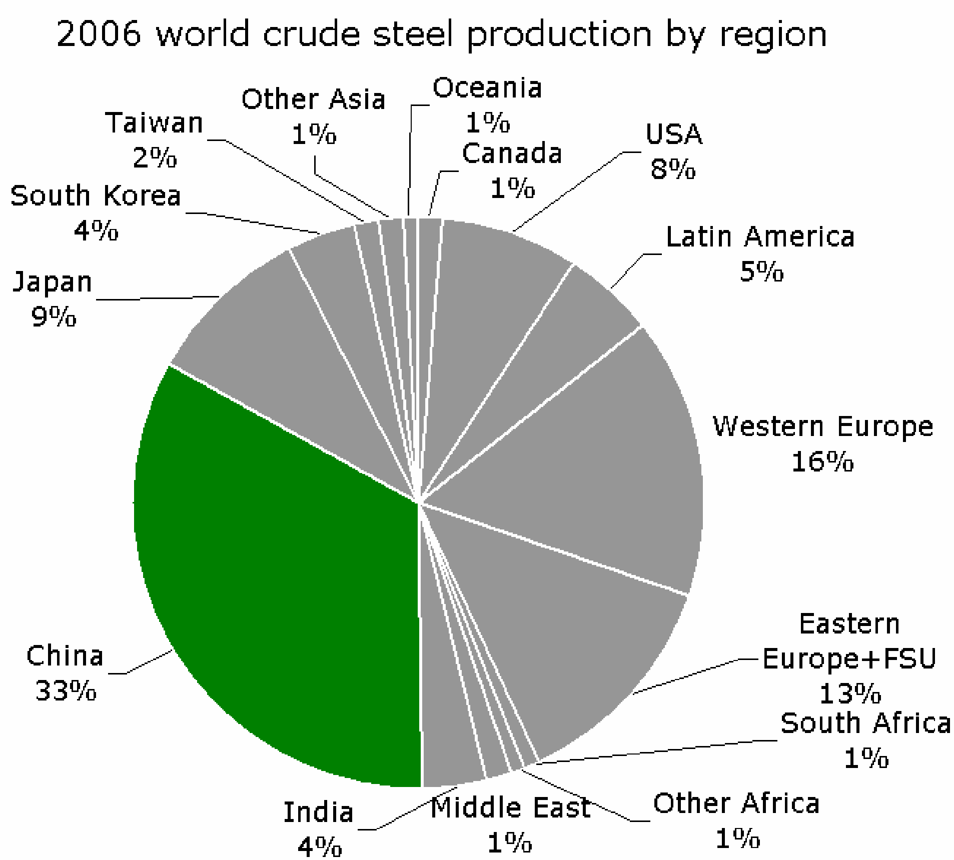
Sources: BHPBilliton, Danish Ship Finance

The steady-state consumption level indeed matters!



Source: Danish Ship Finance

India? Or Eastern Europe / FSU instead?



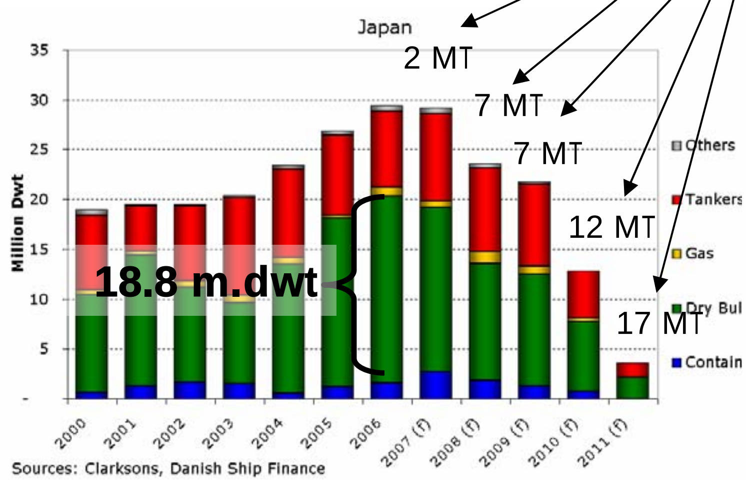
Source: MSI

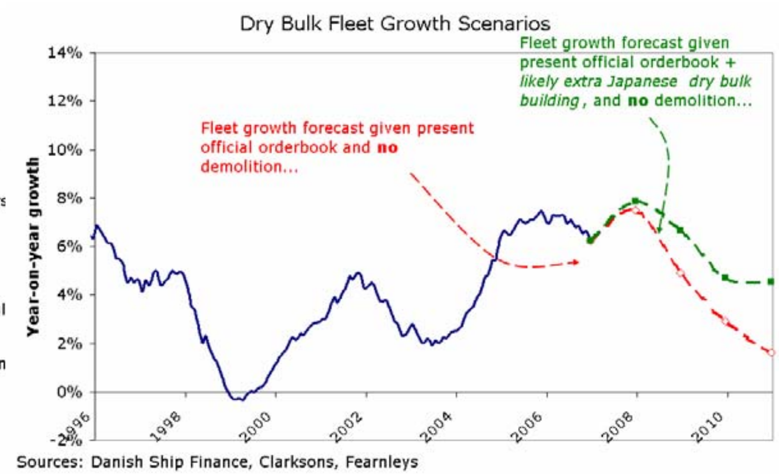
Dry bulk ship **supply**

What about availability at Japanese yards?

Japanese yards have a tendency not to officially register their orders until shortly before the actual shipbuilding takes place. The Japanese orderbook thus may appear smaller than it actually is.

- Likely minimum available dry bulk ship building capacity...





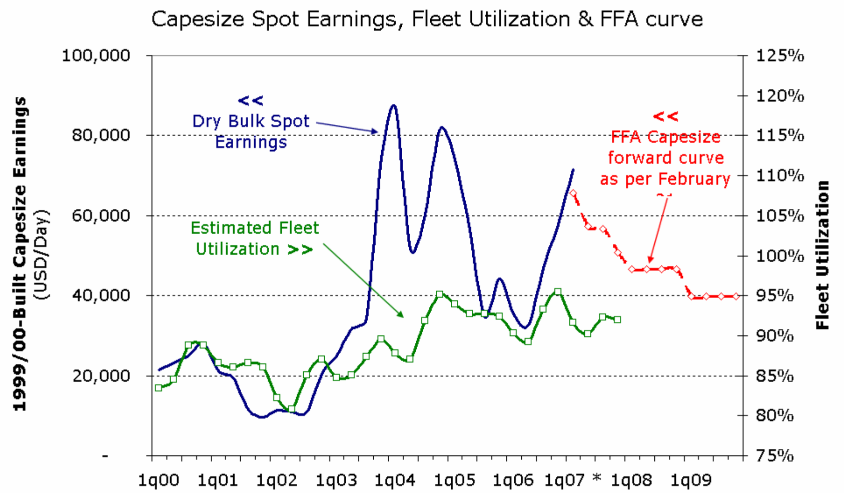
Freight rate **expectations**

Dry bulk & China outlook summary

Short term:
- Abating port congestion and falling freight rates by 2Q07

Medium term:
- Slowing Chinese steel production as steel exports and housing construction slow.

Long term:
- Clear Chinese dry bulk slowdown – even despite still strong GDP growth.
- India may, so far, not be large enough to take up the growth baton.



Sources: Danish Ship Finance, SSY, Clarksons, Bloomberg * 1q07 as per February 16

Danish Ship Finance

Agenda

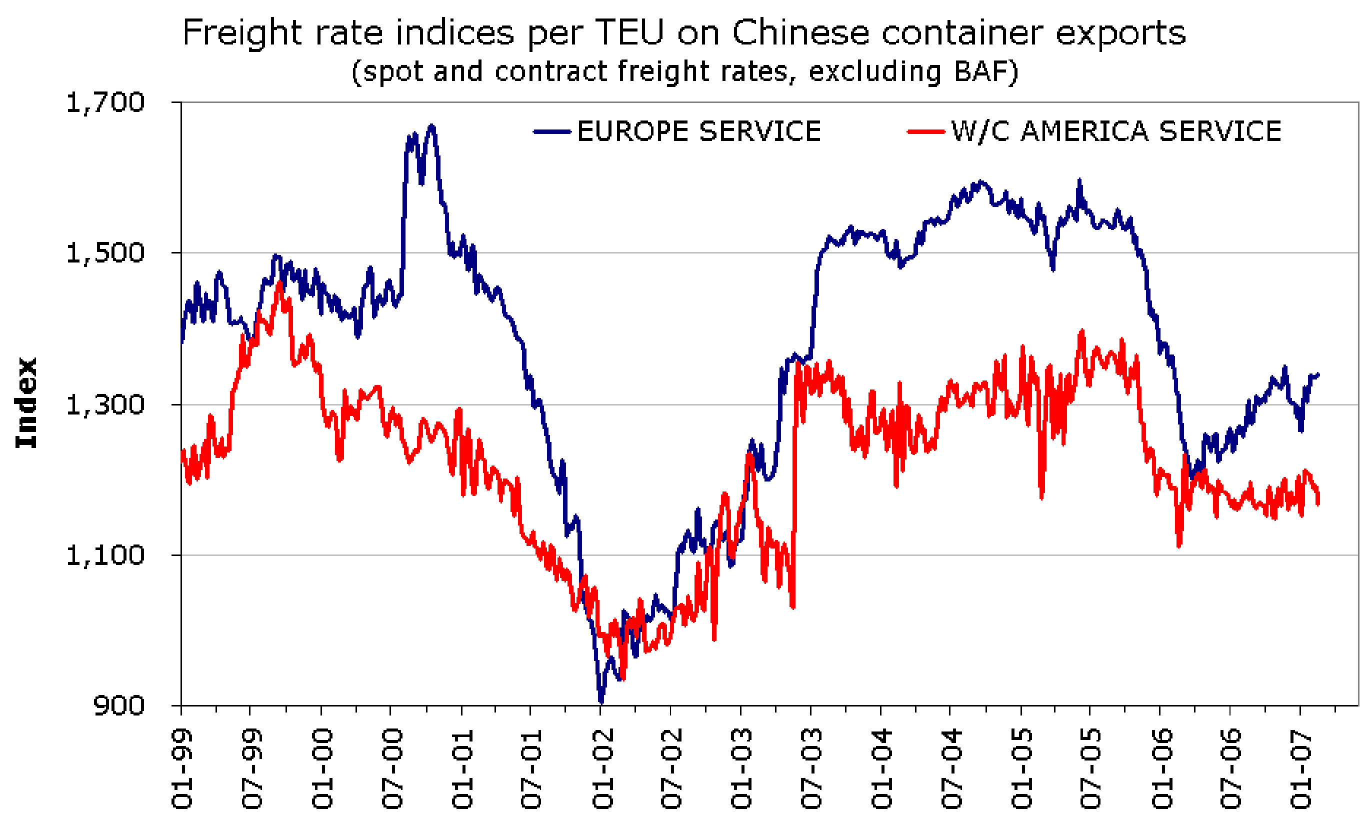
Dry Bulk & China

Container

Tankers

Shipyards

Will freight rates maintain recent gains?



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

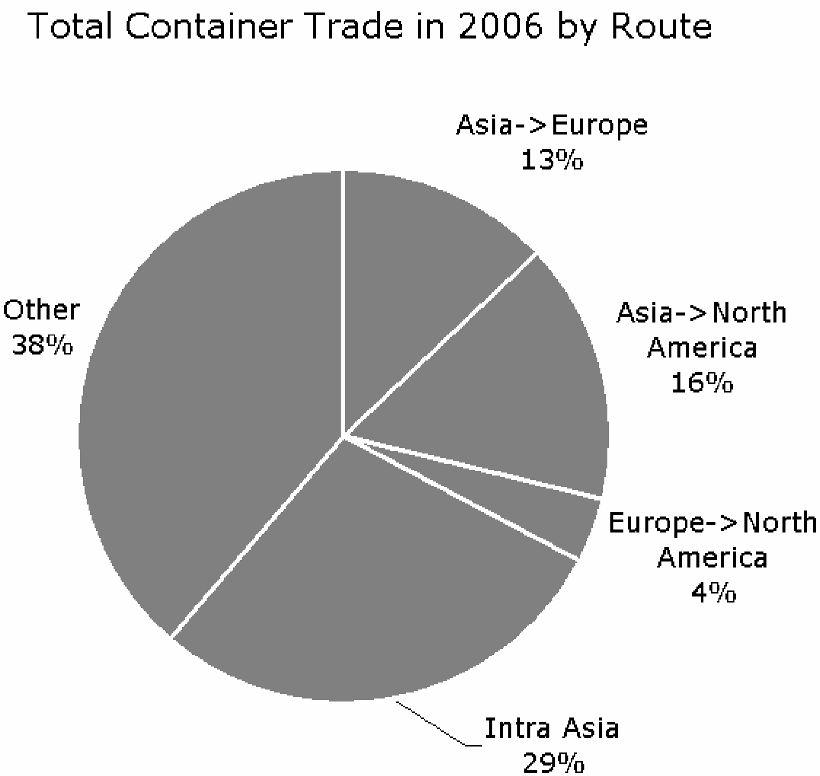
Containership **demand**

Theme 1: which economies determine containership demand?

Theme 2: will intra-Asian trade replace the US?

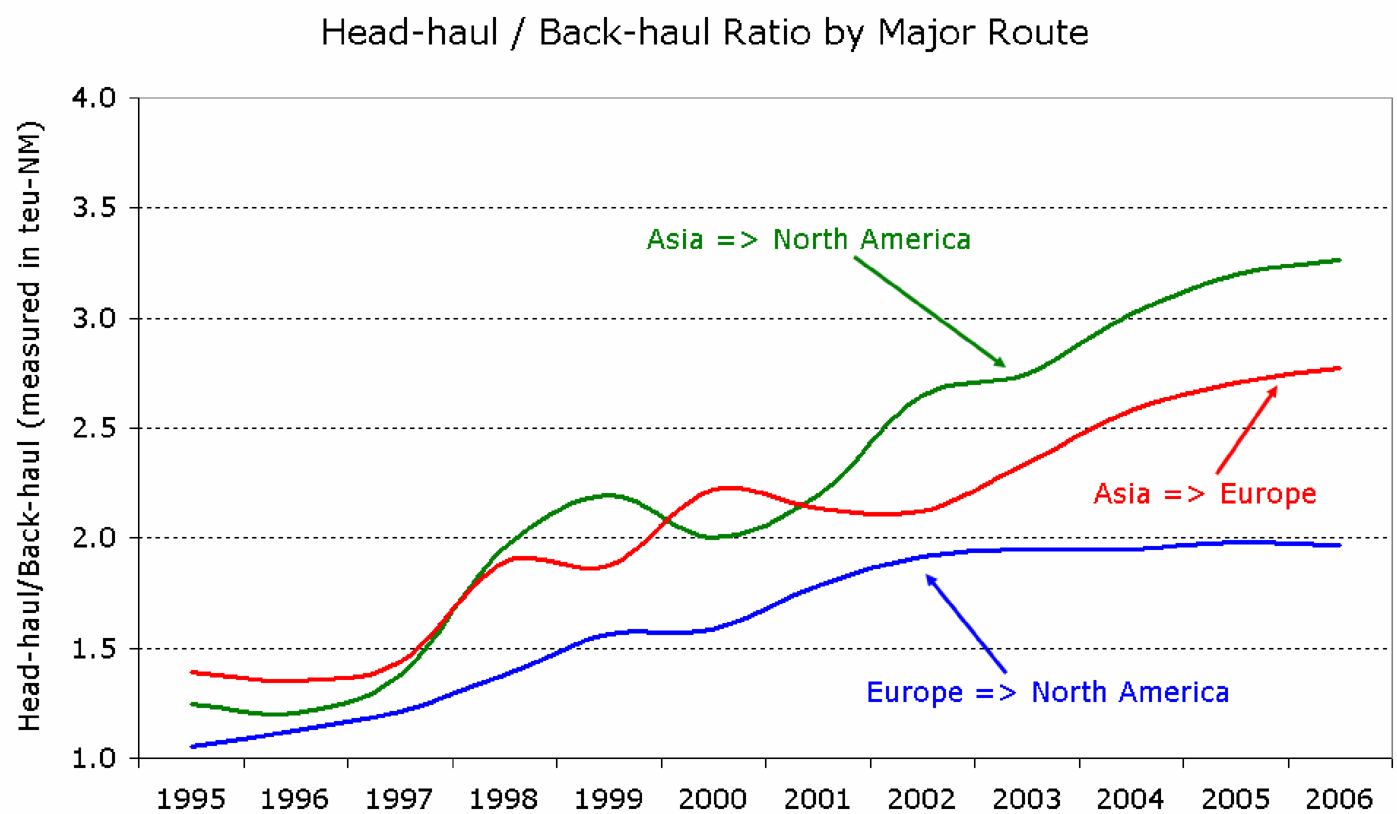
Theme 3: threats to US imports

How to measure containership demand?



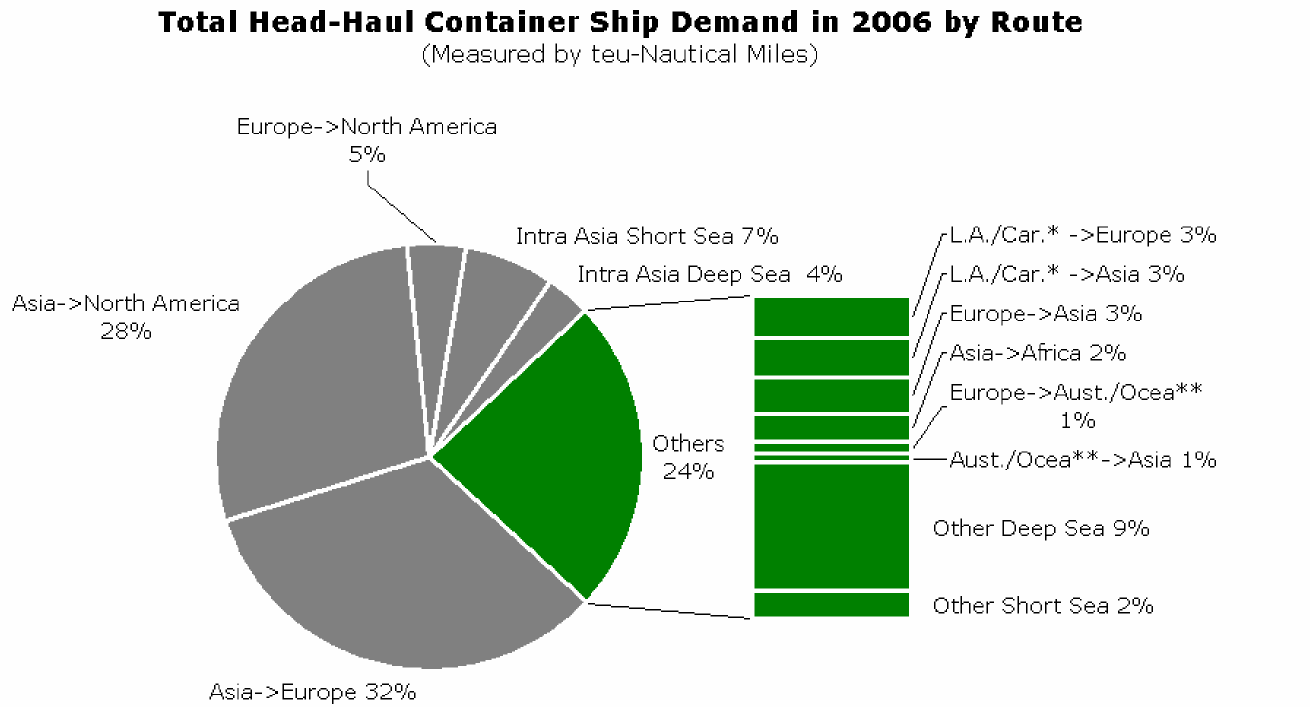
Sources: Danish Ship Finance, Global Insight

...according to the dominant (head-haul) leg...



Sources: Danish Ship Finance, Global Insight

...and adjusted for travel distance (teu nautical miles)!

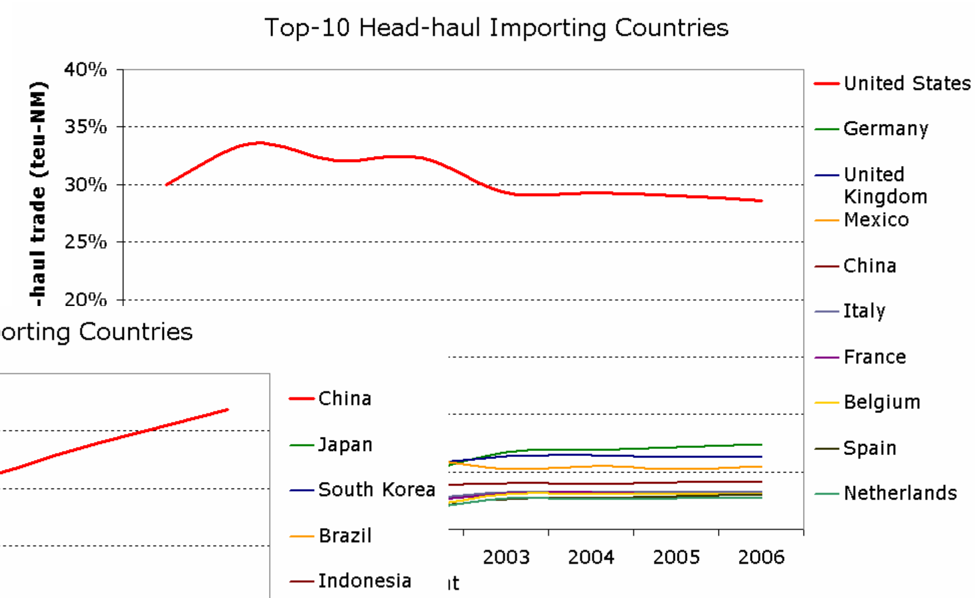


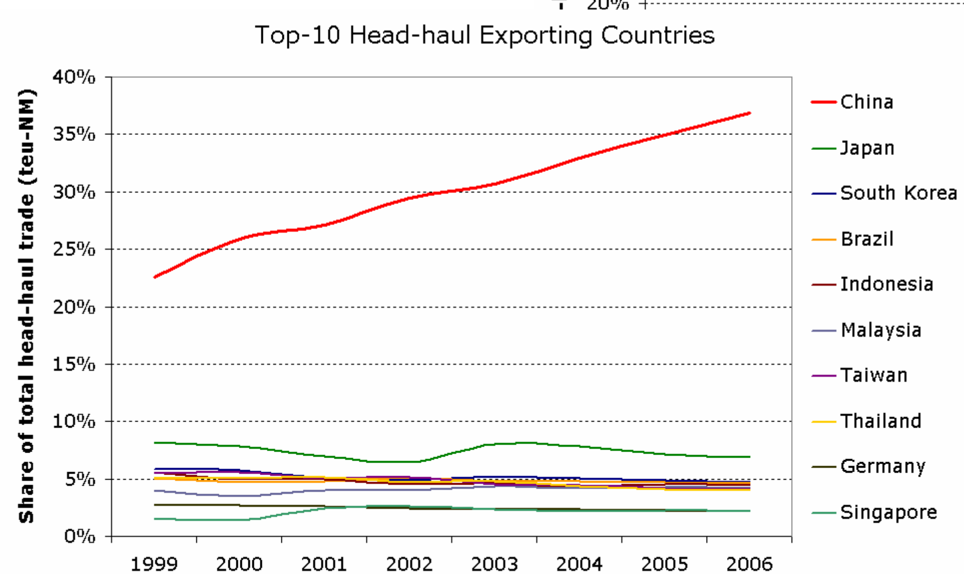
Sources: Danish Ship Finance, Global Insight

** Australia and Oceania
* Latin America and the Caribbean

Trade growth is moving in favor of the **back**-haul leg

<ins>Importers:</ins> Where is Africa, Middle East, and India?

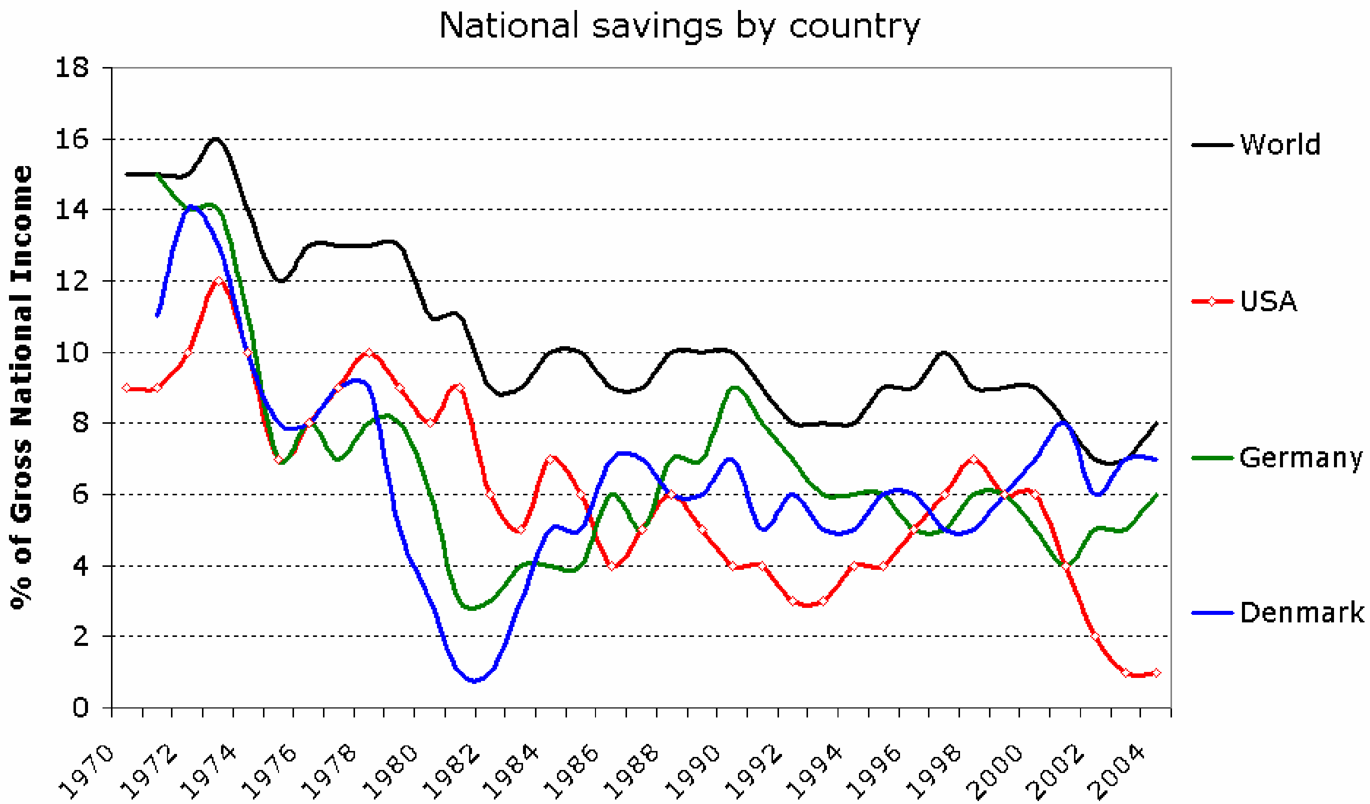




Sources: Danish Ship Finance, Global Insight

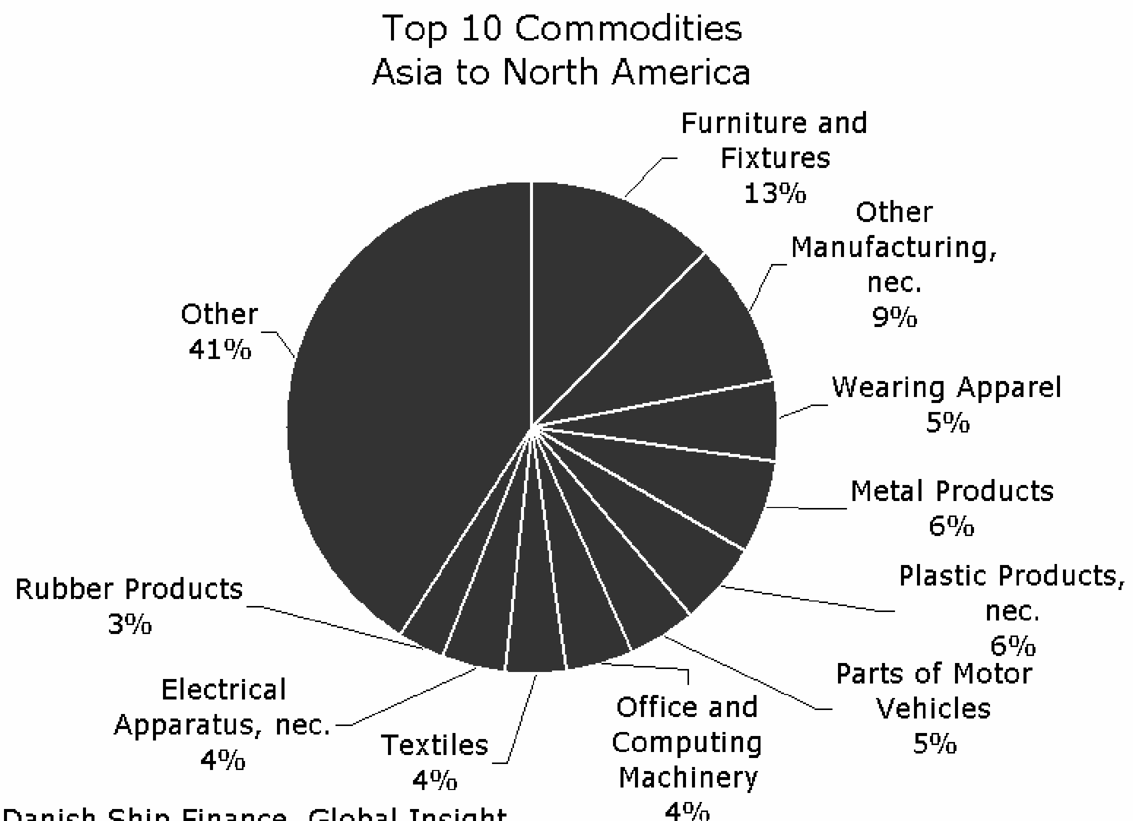
Exporters: Where is India?

Trade threatened by a return to positive US savings...



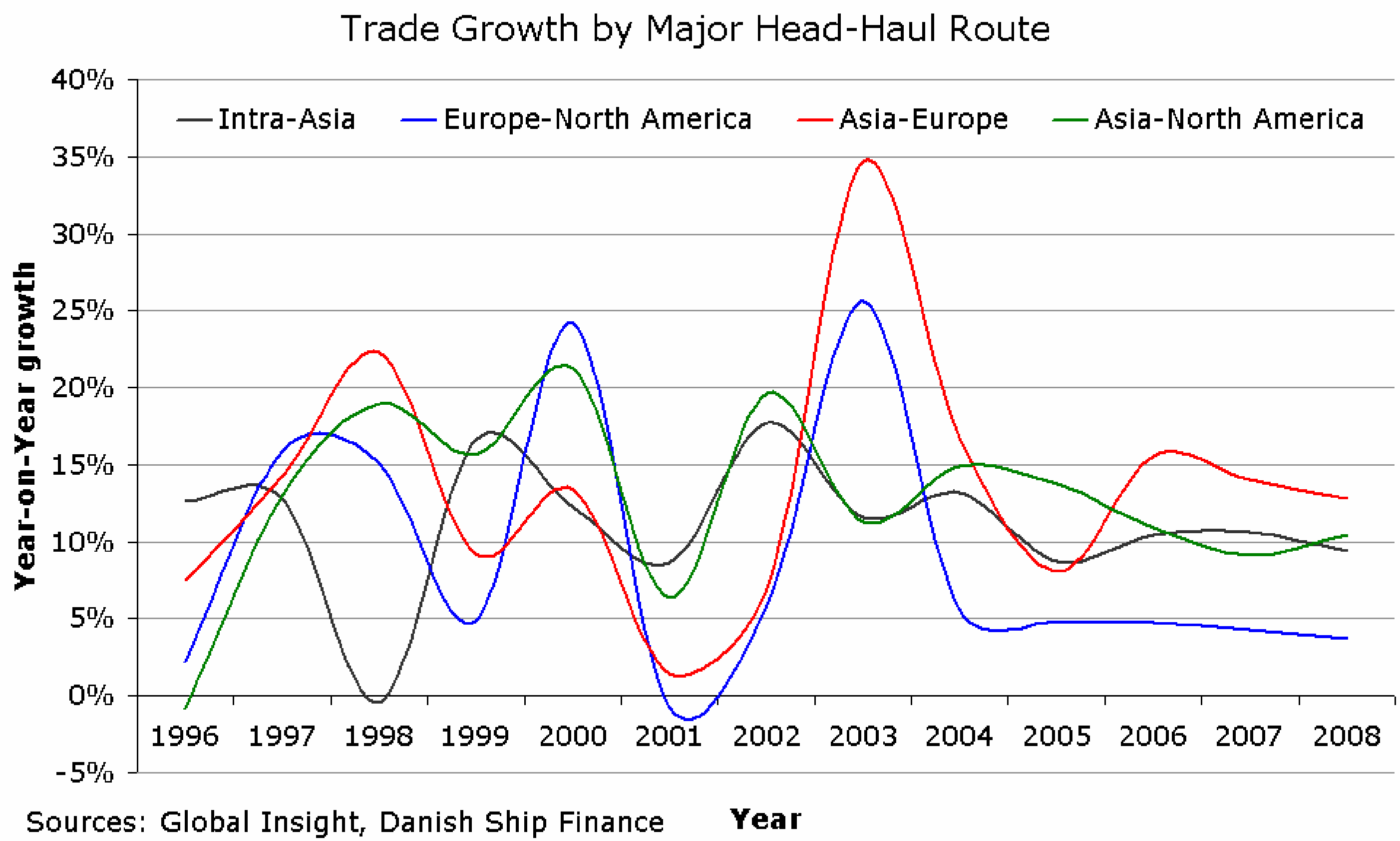
Source: World Bank

…and a housing slowdown!



Sources: Danish Ship Finance, Global Insight

Will Europe outshine a slowing US?



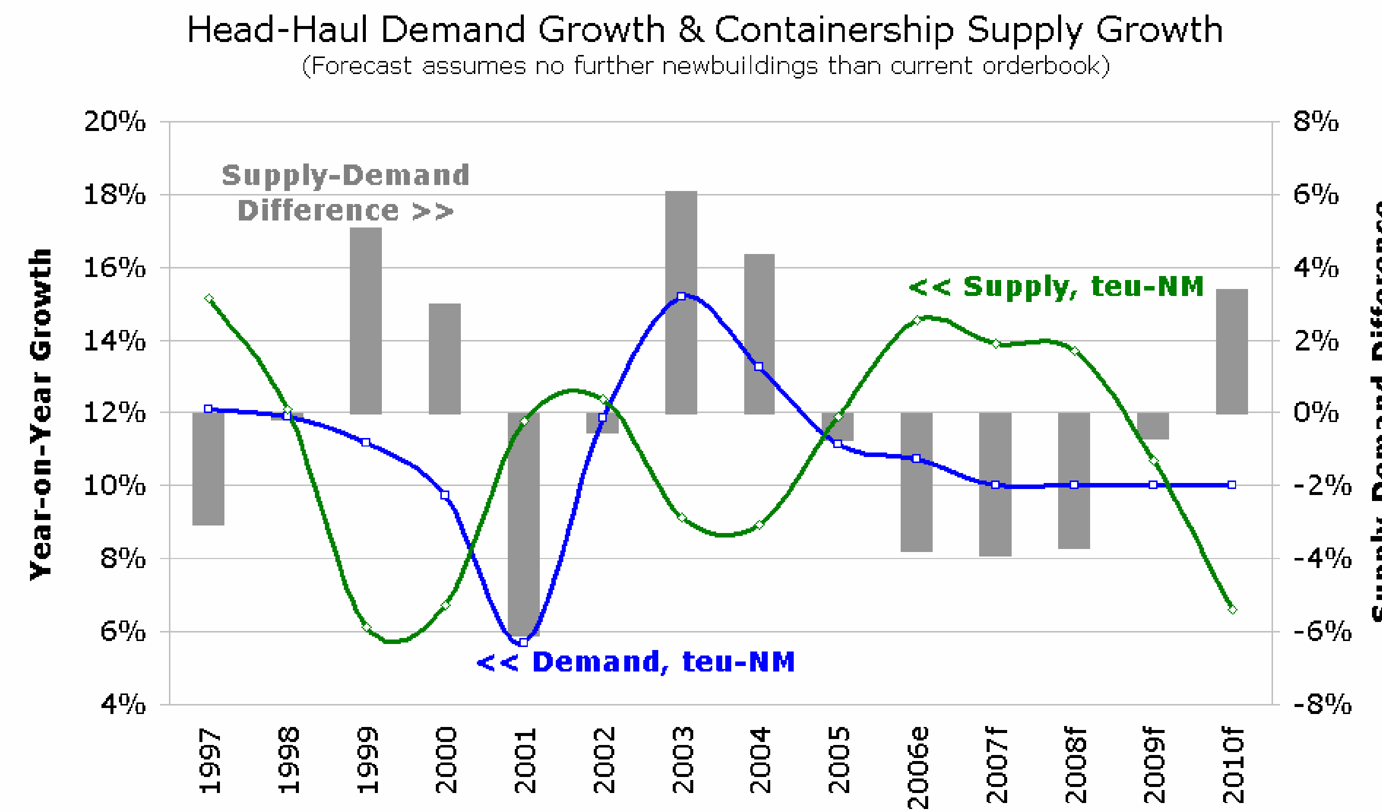
Sources: Global Insight, Danish Ship Finance

Containership **supply**

Theme 1: liner market or charter market oversupply?

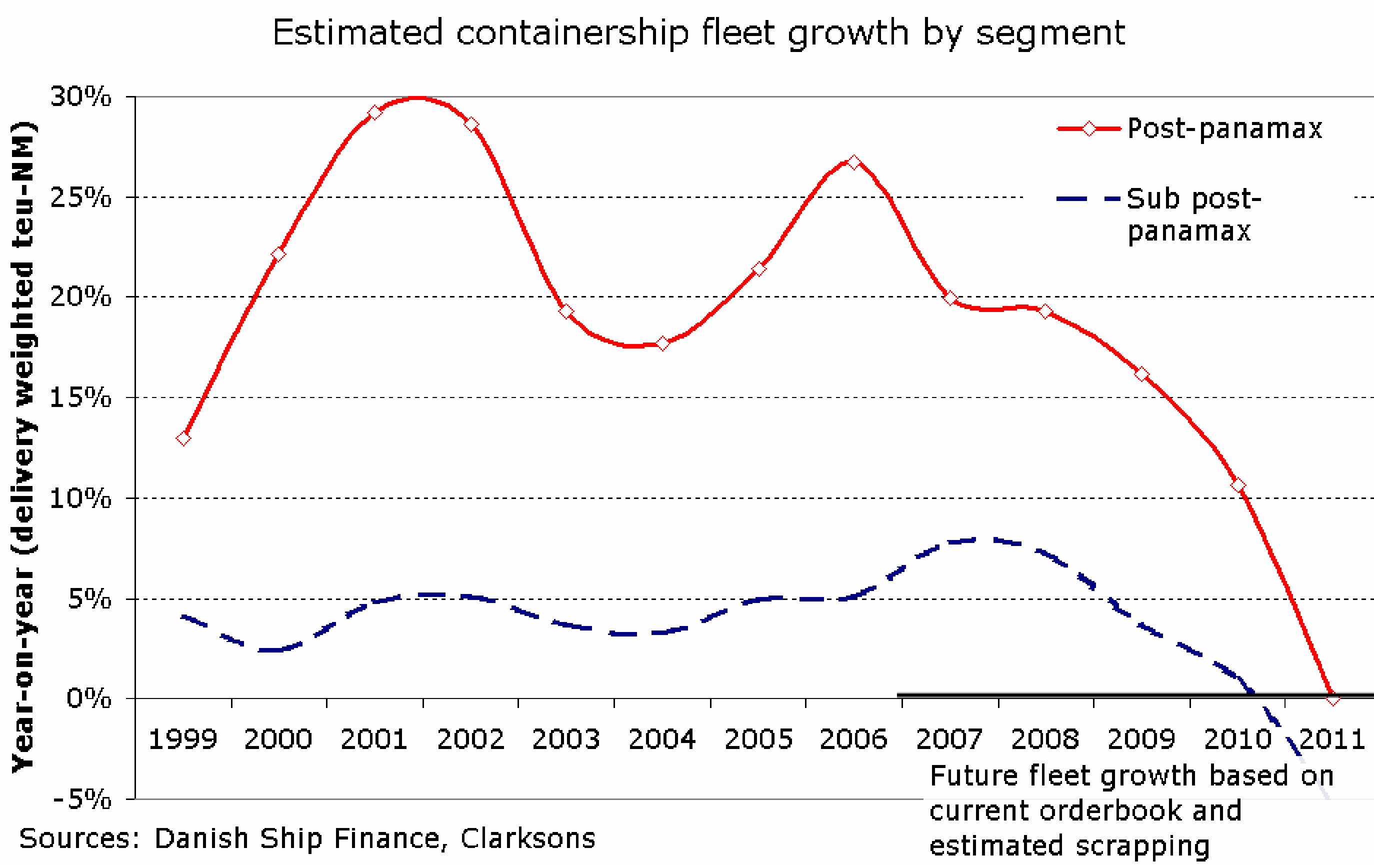
Theme 2: are we too optimistic or too pessimistic?

Oversupply for years ahead…



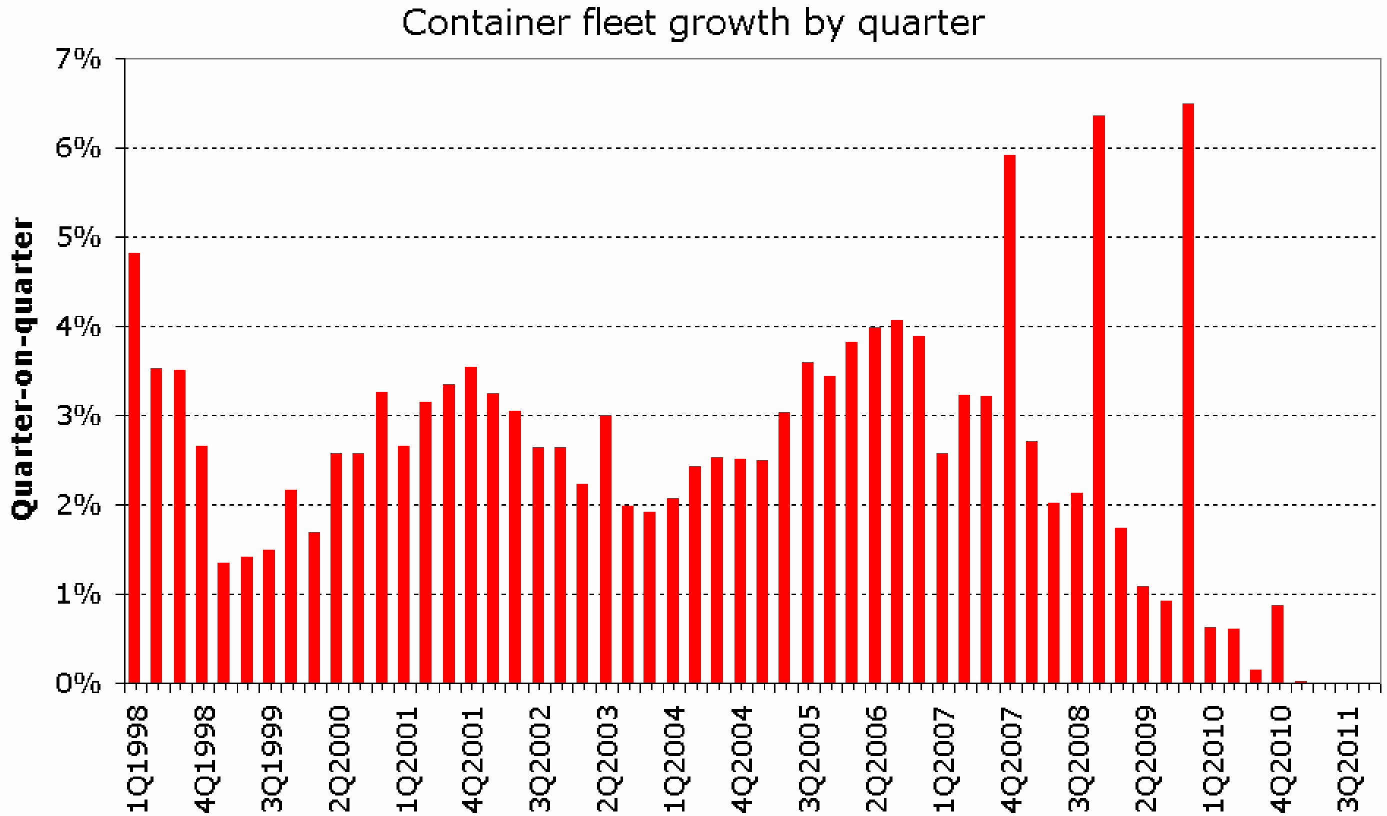
Sources: Danish Ship Finance, Clarksons, Global Insight

Not even strong European imports can soak up supply



Sources: Danish Ship Finance, Clarksons

Will fleet growth surprise again in 2007?

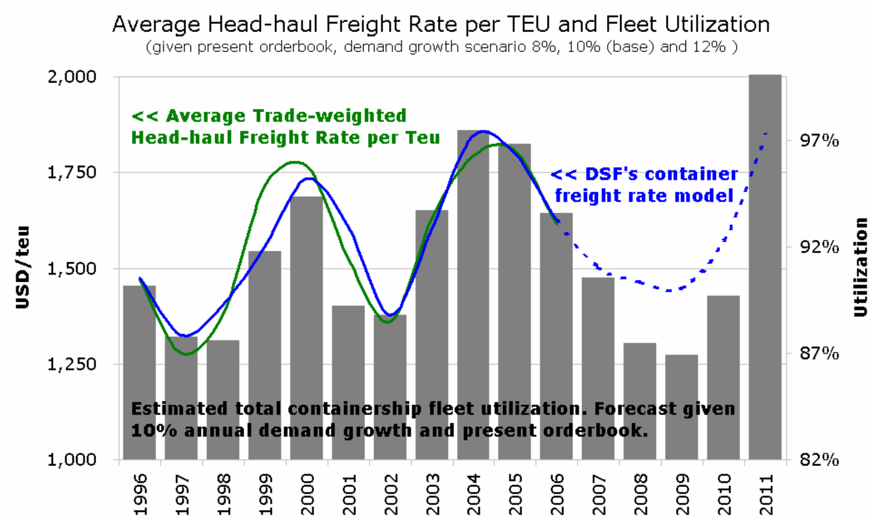


Sources: Danish Ship Finance, Clarksons

Freight rate **expectations**

Containership outlook summary

- Supply may outgrow demand for the next two-three years: falling fleet utilization and freight rates in 2007-2009!
- A potentially large correction in US savings and imports.
- Trade growth moving to short-sea or back-haul routes.



Source: Danish Ship Finance

Danish Ship Finance

Agenda

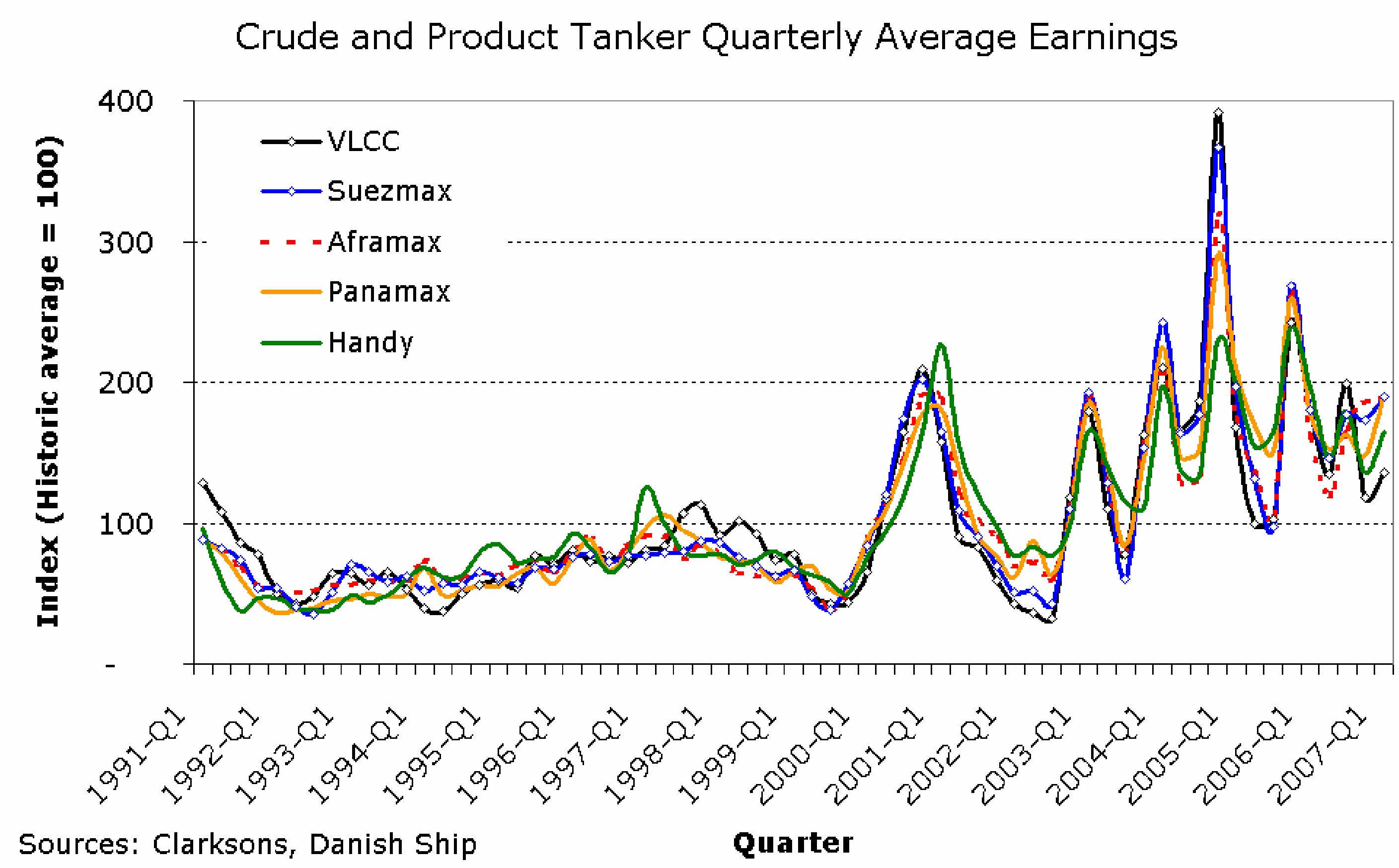
Dry Bulk & China

Container

Tankers

Shipyards

Oil tankers = crude + product

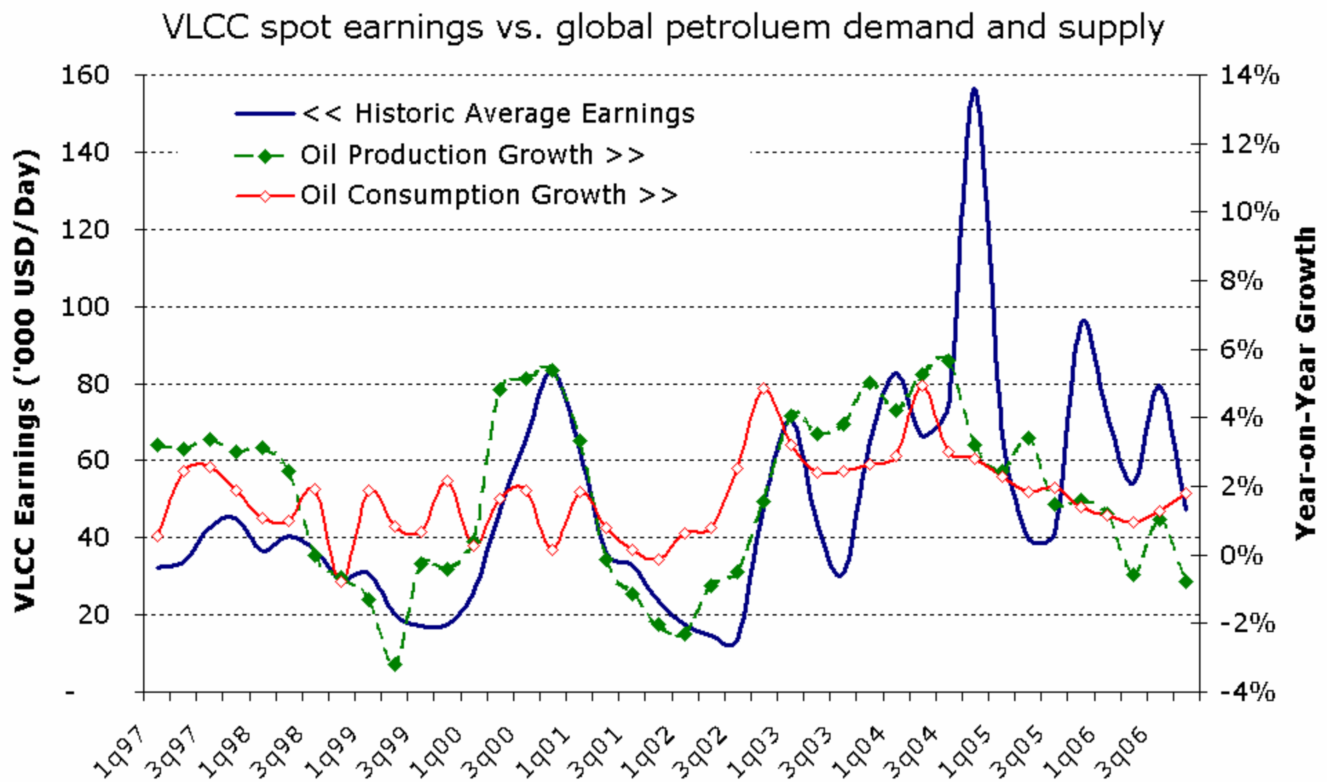


Tanker **demand**

Theme 1: oil inventories vs. tanker demand

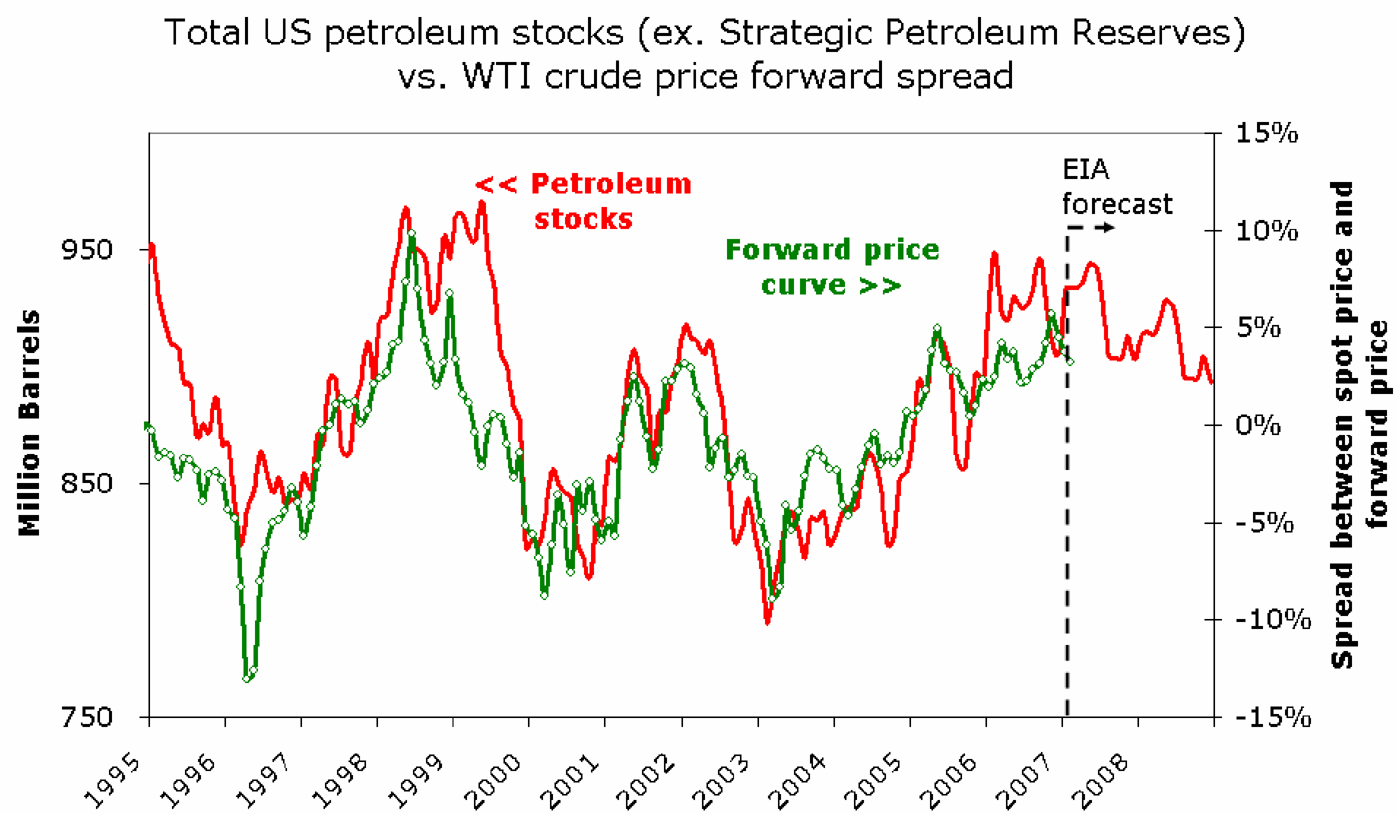
Theme 2: US seaborne imports

Is it petroleum consumption or petroleum production that controls tanker demand?



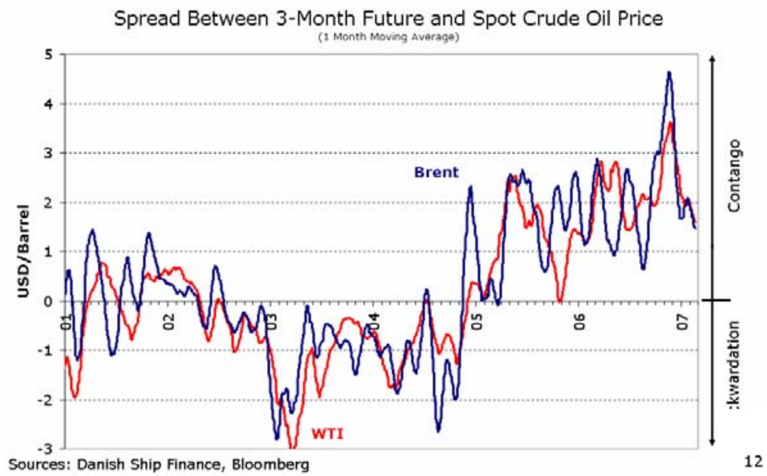
Sources: Danish Ship Finance, Clarksons, EIA

...or is it inventory adjustments?

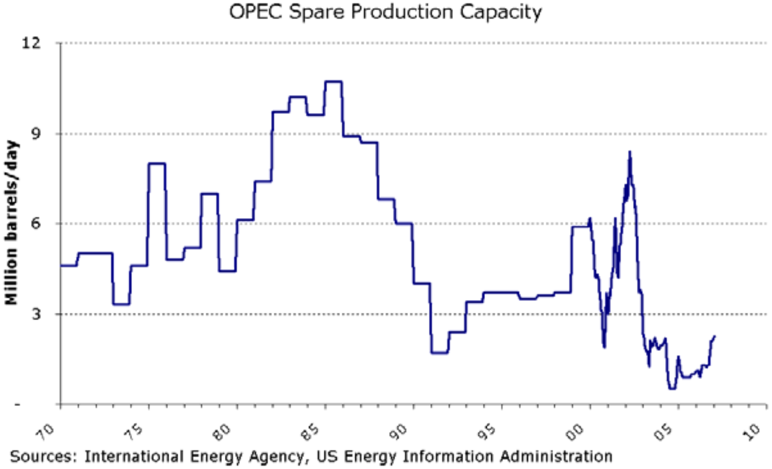


Sources: EIA, Bloomberg, Danish Ship Finance

Will oil prices continue to encourage stock-building?



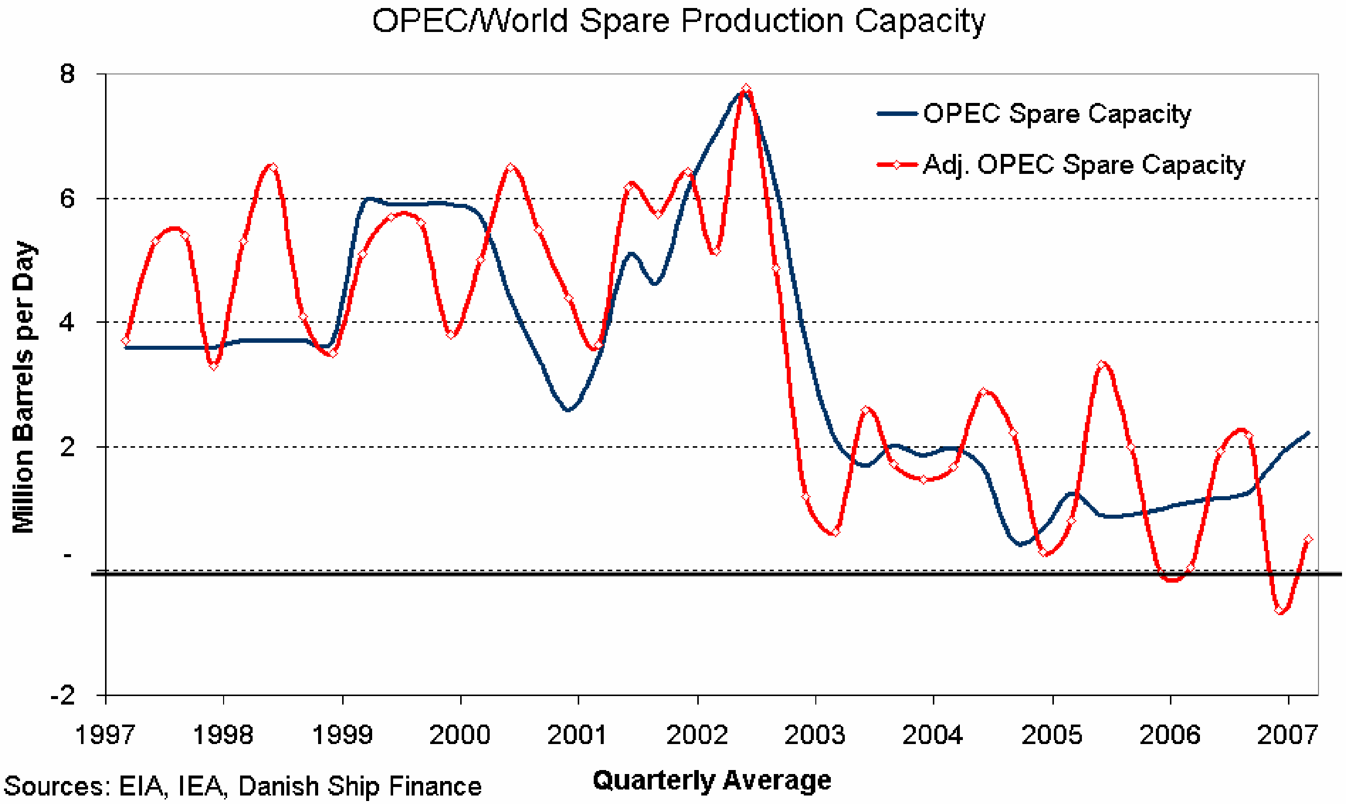
- Uncertainty cover
  - Weather (hurricanes)
  - Geopolitics (terrorism)
  - Technical problems
- Logistical considerations
- Investment bet



When the forward premium falls (and it is NOT because spot prices rise) then tanker demand may reduce as well!

Danish Ship Finance

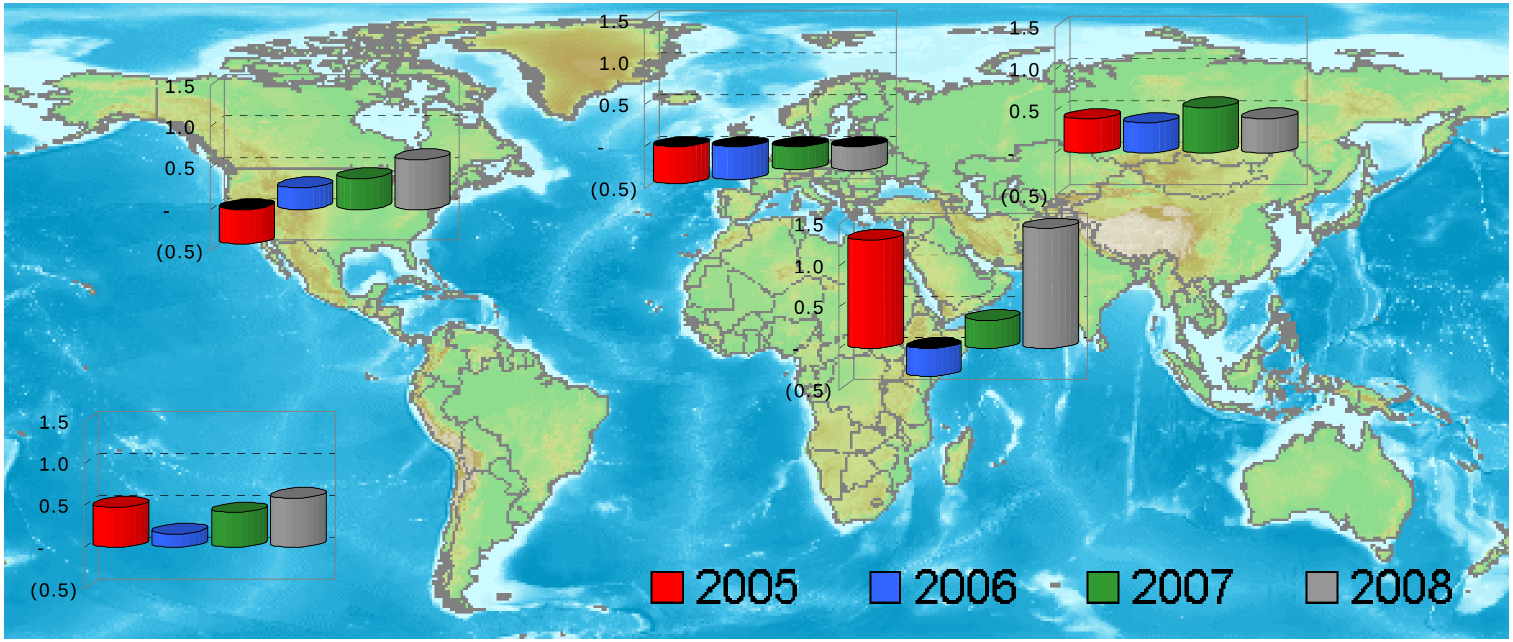
Despite cutting back on production, OPEC's spare capacity may actually not have increased after all...



Sources: EIA, IEA, Danish Ship Finance

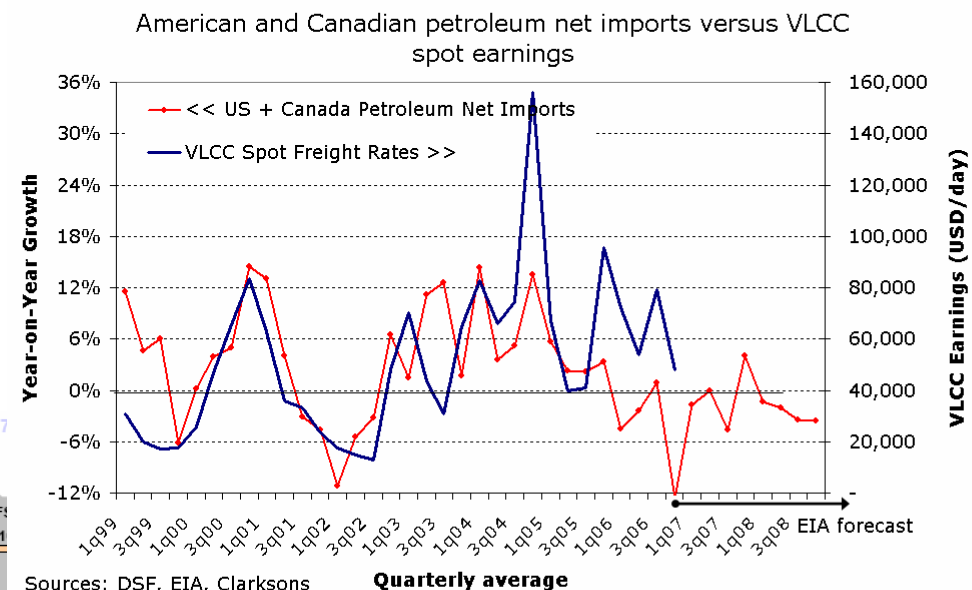
North American oil production in brisk revival...

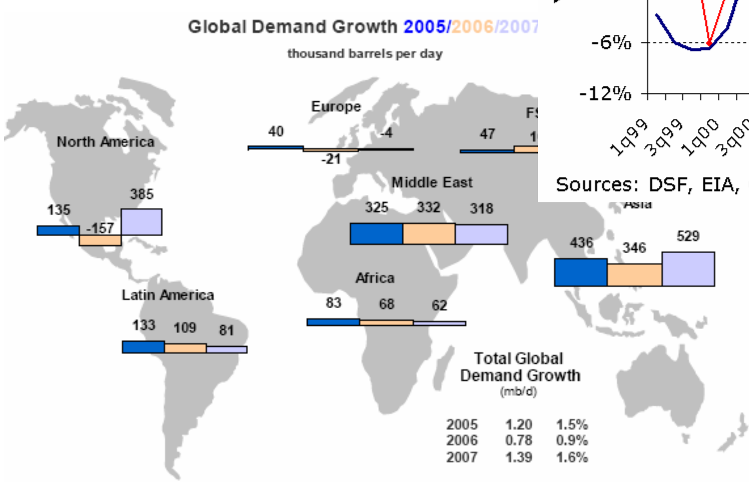
Annual petroleum **production** growth (million barrels per day)



Source: EIA, Short-term Energy Outlook, February 12, 2007

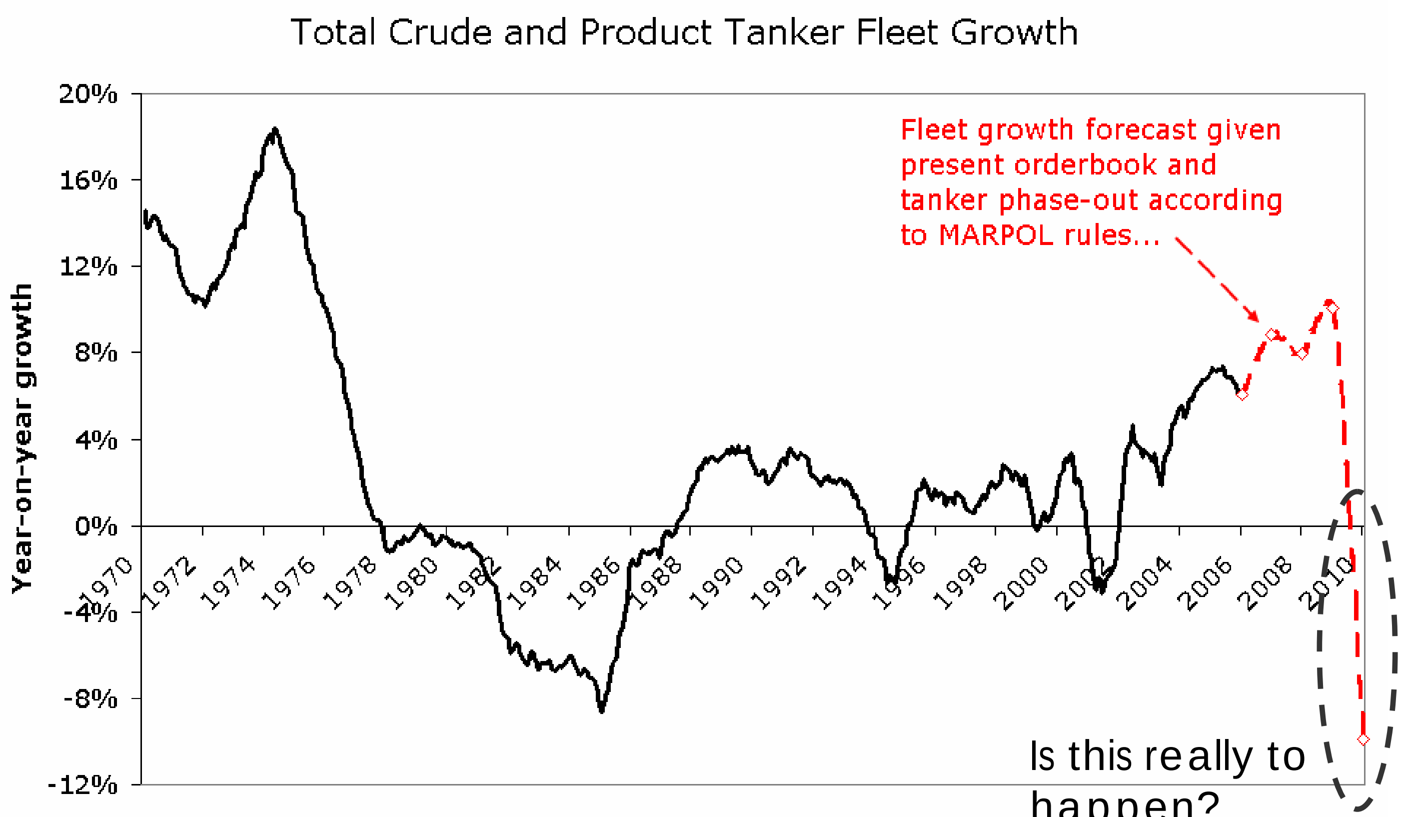
...leading to falling North American seaborne imports!





Tanker ship **supply**

Historically high fleet growth for years to come…



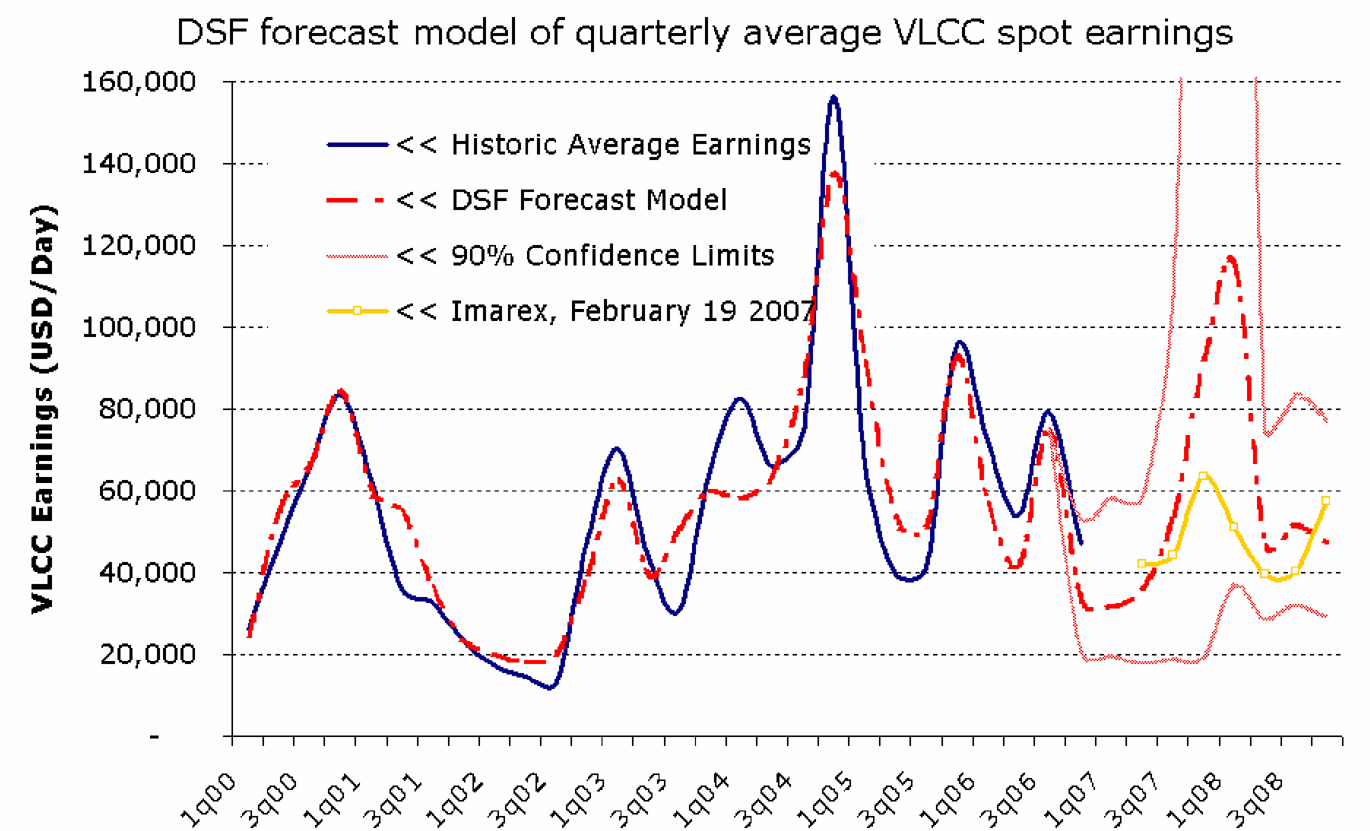
Sources: Danish Ship Finance, Clarksons, Fearnleys

Freight rate **expectations**

Theme 1: changed seasonality?

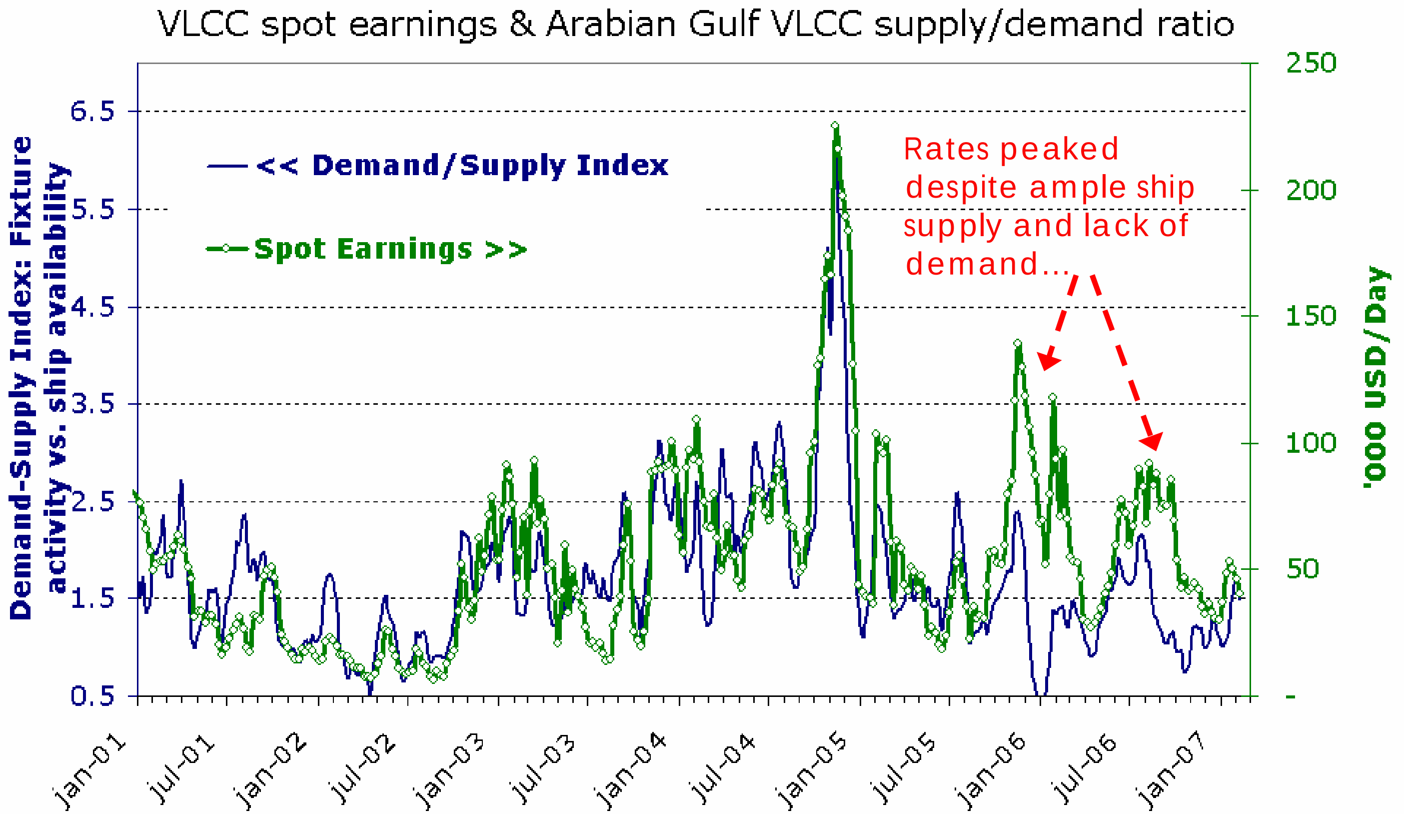
Theme 2: continued ‘irrational’ market behavior?

Will “contango” shift winter to summer?



Sources: Danish Ship Finance, Clarksons, EIA, Imarex

Are we back to normal?



Sources: Danish Ship Finance, Clarksons

Tanker outlook summary

- Will the oil market's 'uncertainty premium' fall in 2007?
- If not, tanker demand may be much stronger in early/middle of 2007 than the normal seasonality prescribes.
- US seaborne oil imports are estimated to fall for the next two years.
- Fleet growth in 2007-2009 at very high levels, and the 2010 phase-out may not be as high as anticipated.
- Can Asian demand counteract all of the above?

Danish Ship Finance

Agenda

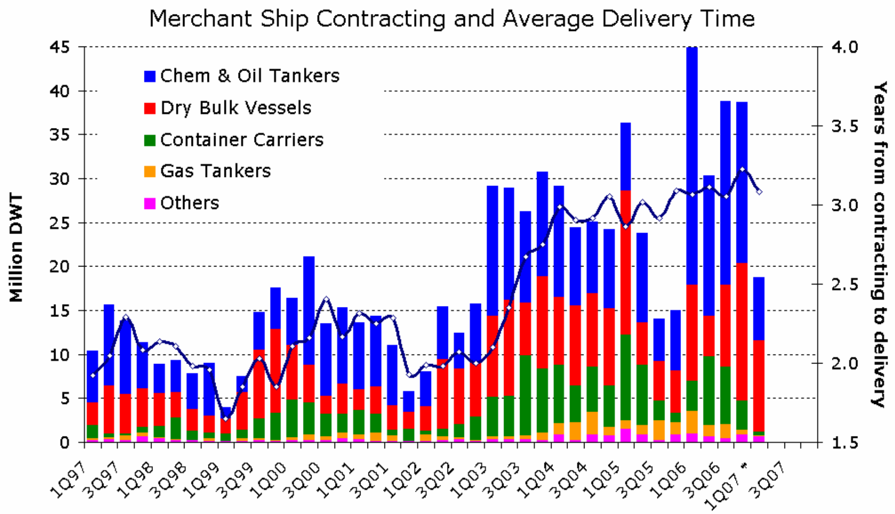
Dry Bulk & China

Container

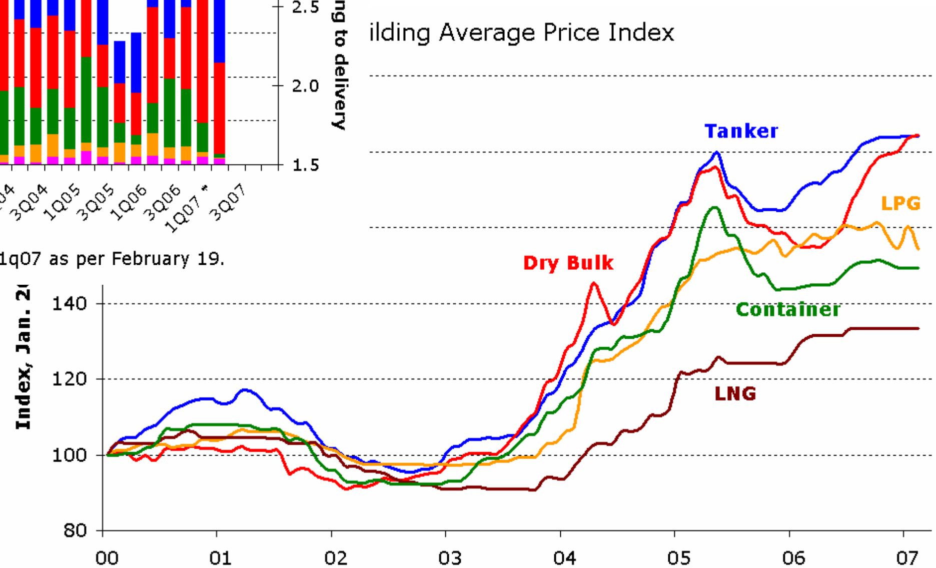
Tankers

Shipyards

Clear revival in contracting volumes and prices



Sources: Clarksons, Danish Ship Finance * 1q07 as per February 19.



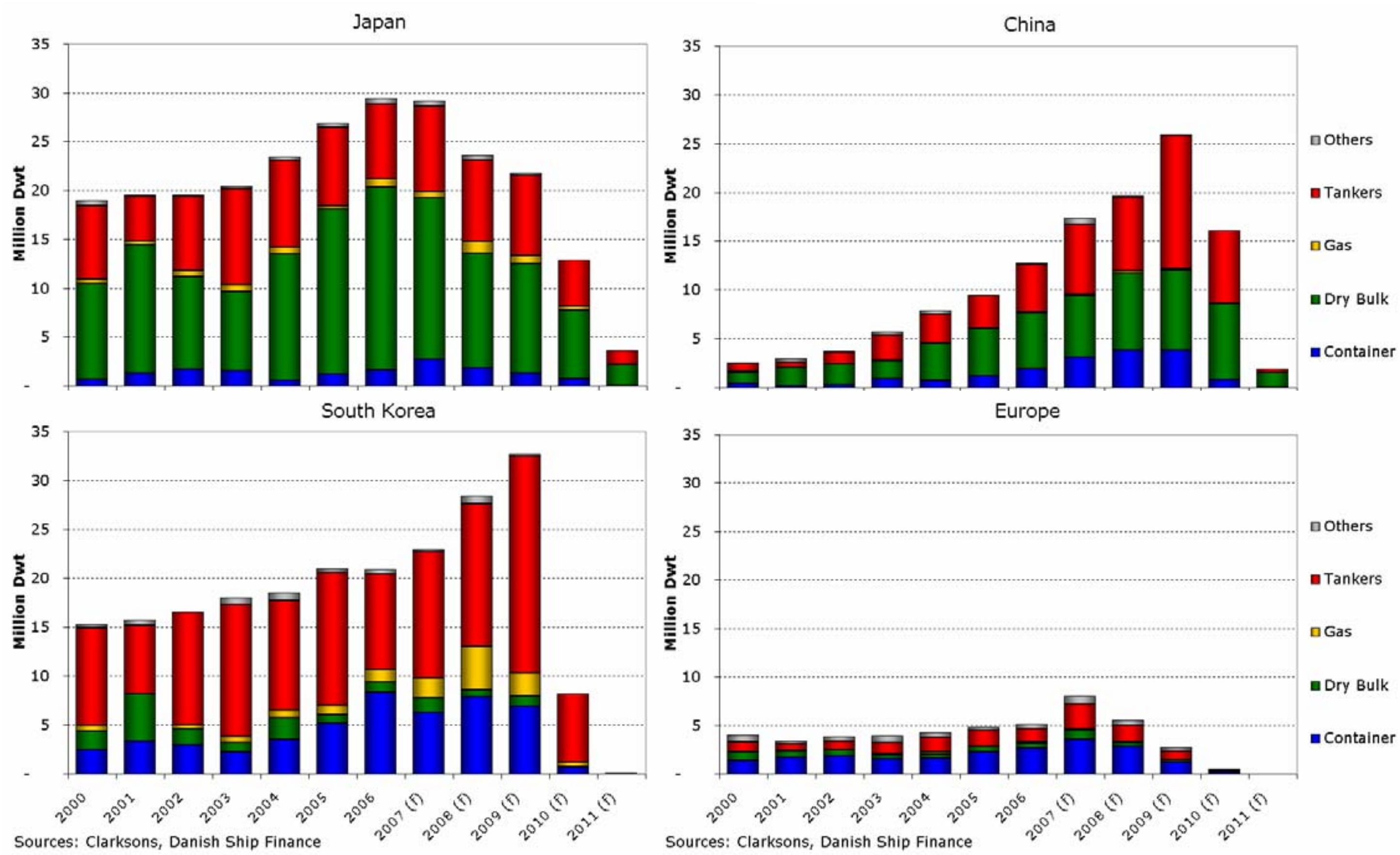
Sources: Clarksons, Fearnleys, Danish Ship Finance

Annual contracting:

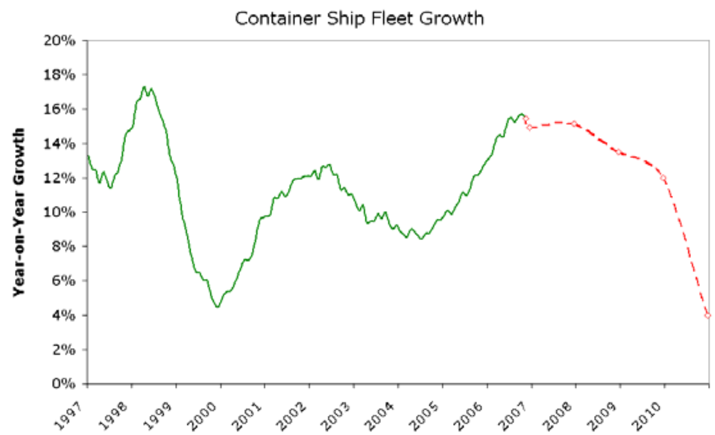
2006: 152 m.dwt
2005: 89 m.dwt
2004: 103 m.dwt
2003: 115 m.dwt
2002: 52 m.dwt

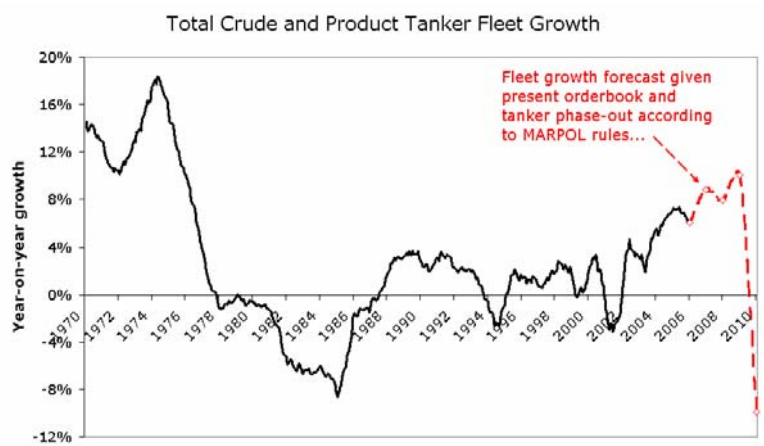
So far, pricing power is still in hands of shipyards...

Current Fleet & Orderbook by Region of Build and Year of Delivery
(Excludes allowances for possible slippage from scheduled delivery dates)

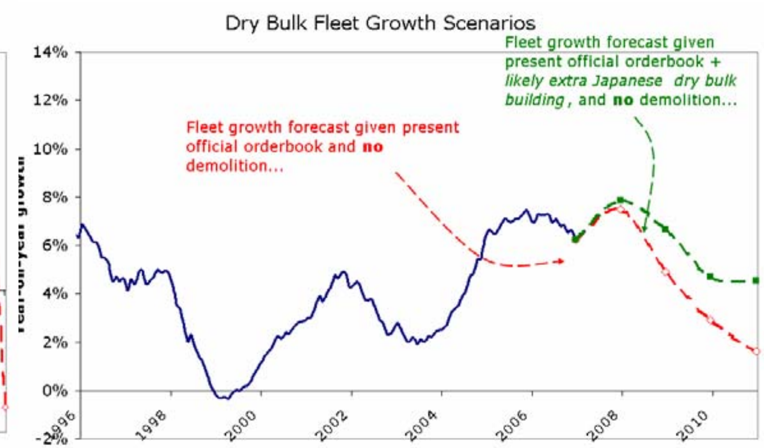


But can yards uphold a high or increasing order intake?



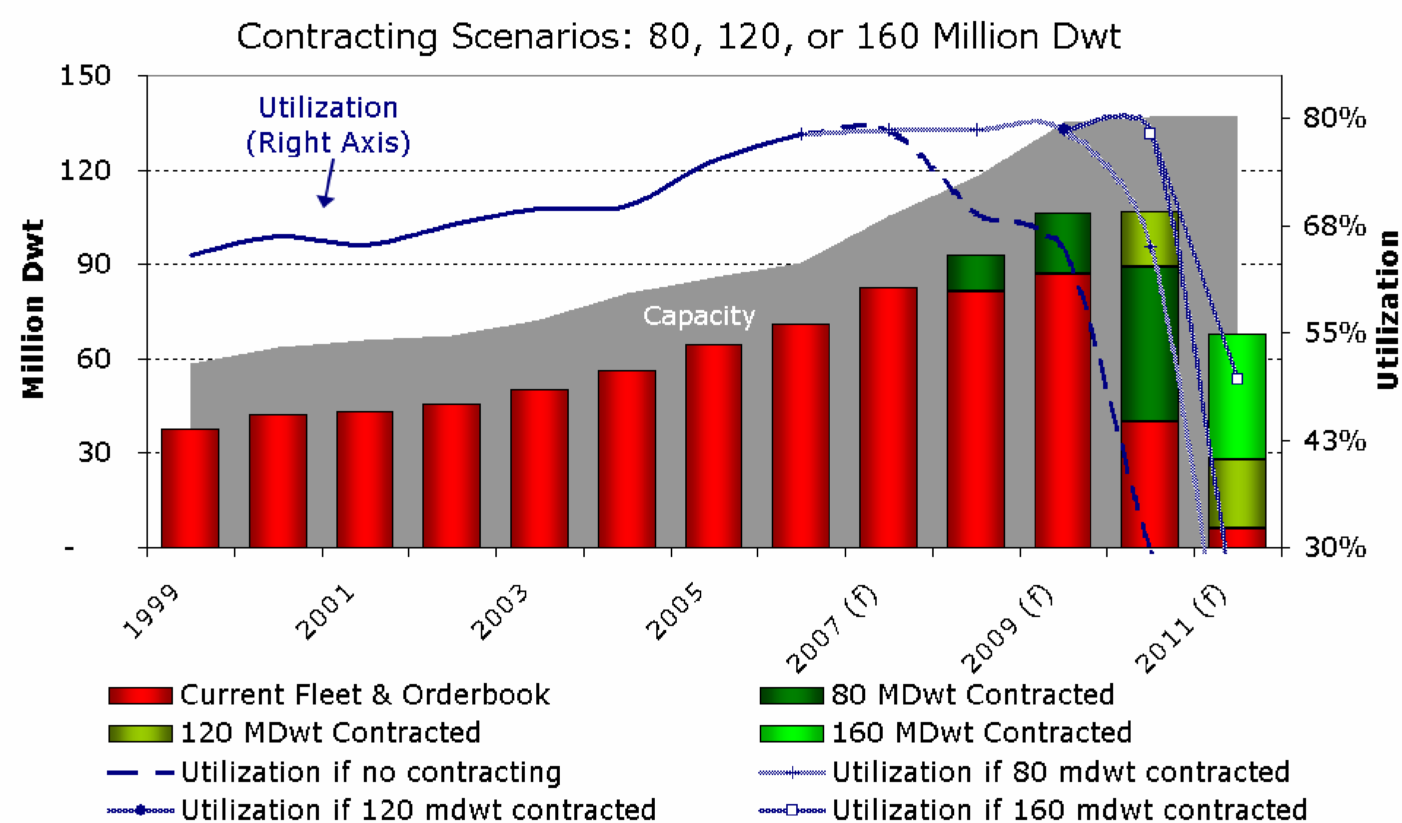


Sources: Danish Ship Finance, Clarksons, Fearnleys



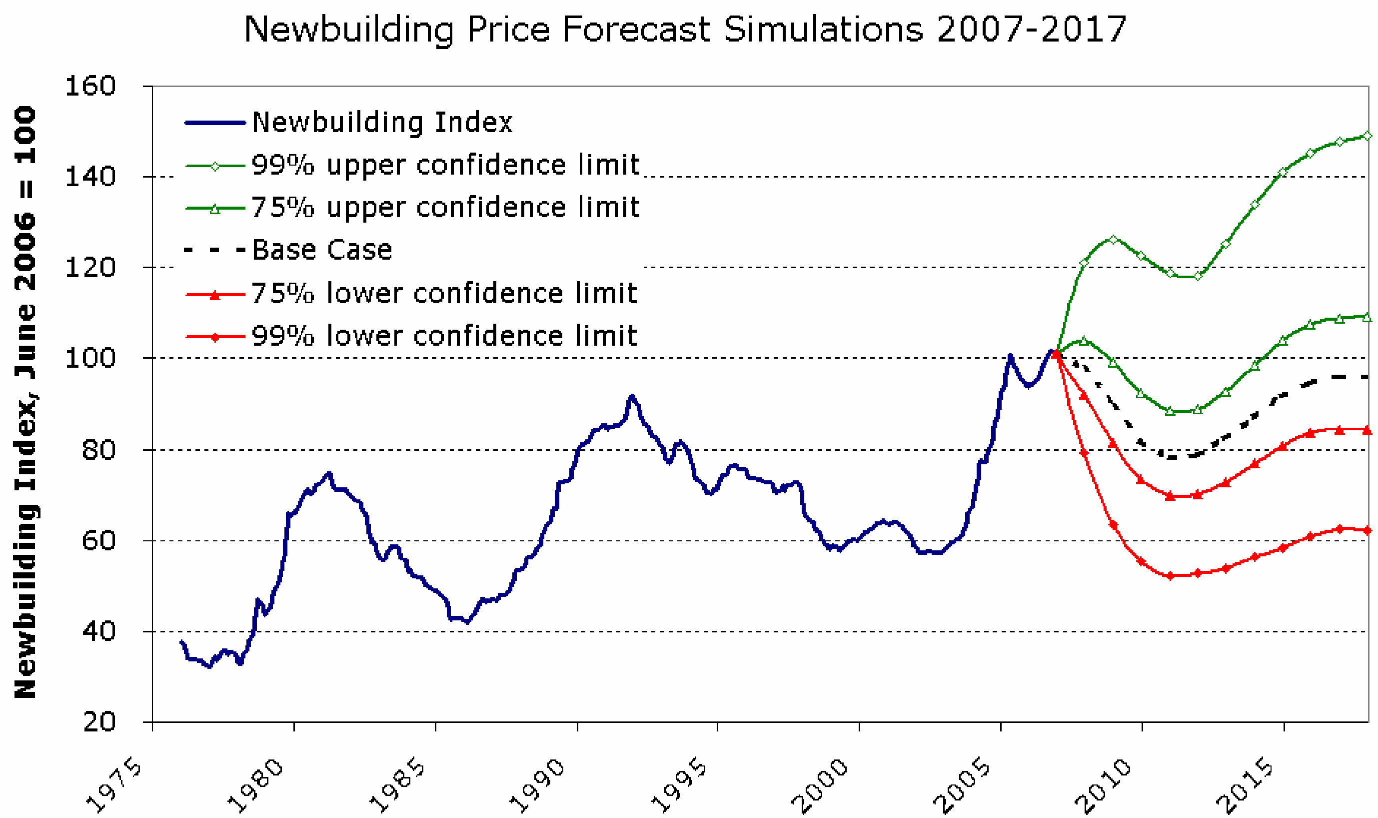
Sources: Danish Ship Finance, Clarksons, Fearnleys

At least 110 m.dwt are needed to uphold status quo!



Source: Danish Ship Finance

Eventually, newbuilding prices will fall (gradually)



Sources: Danish Ship Finance, Clarksons

Danish Ship Finance

Agenda

Dry Bulk & China

Container

Tankers

Shipyards

Summary

Dry bulk & China: strong growth, but not necessarily carried by sustainable demand factors…

Containerships: clear oversupply for the next 2-3 years…

Oil tankers: market uncertainty is still supportive of high stocks or even of further stock-building and good demand for oil tankers…

Shipyards: increasing overcapacity…

Danish
Ship Finance

Thank you for your attention

Danish Ship Finance

Committed to
Shipping