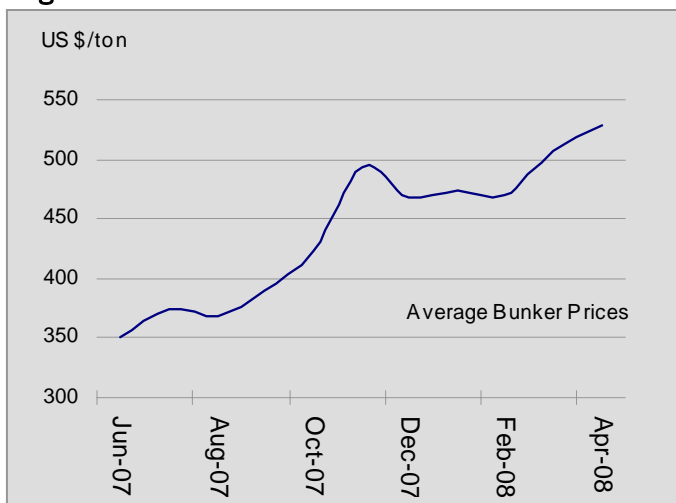




We define tanker market behavior as an interaction of tanker supply and demand fundamentals. At any given time there are a considerable number of elements impacting the market behavior and most can be attributed to either the supply or demand side of the equation. Historically, tanker supply and demand interaction has shown a high correlation to the freight rates in the clean and dirty tanker sectors. Therefore, using historical trends as guidance we can identify certain market elements that, conspired together, effect today's marketplace.

Currently, crude and dirty product spot freight markets have been unusually high for the second quarter of the year. In our assessment of the marketplace we attribute the present strength of the market to changes in the supply side of the equation rather than demand. Although natural instincts may tell us that the reason for market spikes lays in increased demand, it may not always be the case. In fact, we believe oil demand may be down by 500,000 bpd from our January, 2008 expectations and we note multiple supply factors that, conspiring together, place supply in deficit to the current demand figures.

Figure 1: Bunker Prices



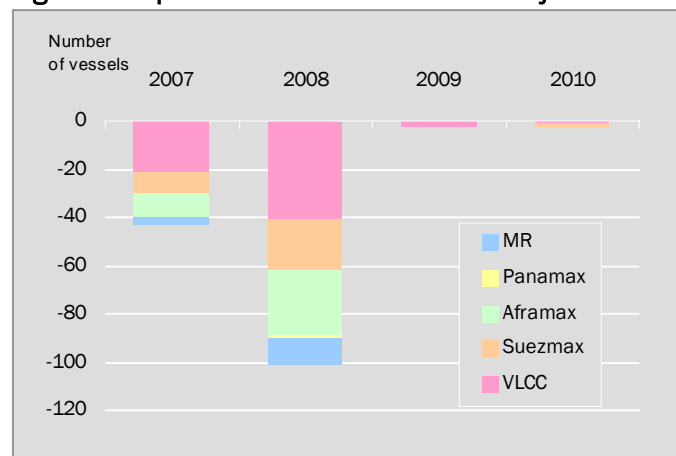
Recent high oil prices have caused the price of bunkers to increase. April average bunker prices were at a high of US \$528/ton (Figure 1) prompting slower steaming of the fleet, whenever possible, in order to reduce bunker consumption. Our deployment models indicate that one

knot of speed reduction in the VLCC fleet absorbs about 10 – 20 vessels of supply. Therefore, at the present time we believe the fleet slow-down is one of the factors contributing to the recent tightness in tonnage supply which puts an upward pressure on the freight rates.

Furthermore, increasing delays in loading and discharging of vessels, reported in the present marketplace, absorb additional tonnage. Our model suggests that one incremental day of delay across the fleet results in removal of tonnage supply equivalent to 10 VLCCs, 11 Suezmaxes, 23 Aframaxes and 7 Panamax size vessels. Delays caused by unavailability of tankage on shore, strikes in ports or cargo timing issues, among other reasons all conspire to be another element constraining tanker supply.

A record number of conversion projects are expected to take place in 2008 (Figure 2). Presently we estimate that around 15 VLCCs have exited the fleet for various conversion projects since the beginning of the year while 3 VLCCs were sold for scrap in the same time period. Vessel exits impact the market dynamics by constraining supply and thereby putting an upward pressure on freight rates.

Figure 2: Expected Exits for Conversion Projects



*Excludes conversions to double hull

We have also observed that Iranians are utilizing tankers for crude storage purposes in the Arabian Gulf. We currently estimate around 15 vessels, of one and two million barrel capacity, to be employed in this manner, with as much as 25 million barrels on board. Floating



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storage using trading vessels reduces tonnage supply, in much the same way as port delays, in the short term which in turn provides an upward pressure in rates.

The last supply factor observed in the present marketplace is the post Hebei Spirit impact. Ever since the Hebei Spirit accident, deployment of single hull VLCCs has been more difficult. In addition to certain charterers who will not charter single hull vessels at all, the single hull charterers also prefer a double hull if the rates are favorable. Coupled with trading restrictions of single hull vessels, the deployment of the VLCC fleet is increasingly inefficient. In general, a more compartmentalized trading scheme is less efficient, and it requires more tonnage to accomplish, than

the more efficient deployment of the fleet where every tanker can go to every port required. This also contributes to tonnage constraints which cause the rates to surge.

While we recognize that tonnage demand plays a major role in the rate behavior observed, we do not think that demand is driving the present market levels. We believe that the mentioned supply factors are conspiring together causing a significant reduction in tonnage availability in the loading regions around the world. That is causing tanker demand to outstrip supply and result in historically high freight rates for this time of the year.