



The present environment is overwhelmingly defined by financial difficulties and high commodity prices causing a slow down in the world economy. Conversely, dry and wet shipping markets are booming and prices of vessels are at historical highs. Furthermore, newbuilding tanker orders are continually being placed in spite of the present financial turmoil. In order to place this into perspective, we have analyzed recent tanker contracting in parallel to the price of vessels and tried to understand the driving factor behind current tanker newbuilding contracts.

One way to assess future market sentiment is by analyzing newbuilding contracts being placed presently. In the first five months of 2008 we have observed 28% more VLCCs ordered than the total VLCC orders recorded in 2007. At the same time, VLCC newbuilding prices were 12% higher on average in 2008 YTD as compared to the 2007 average price basis South Korea. Fifty-one VLCCs ordered so far this year represent an approximate cost of US \$7.8 billion of which we assume US \$4.7 billion was financed (assuming 60% LTV ratio).

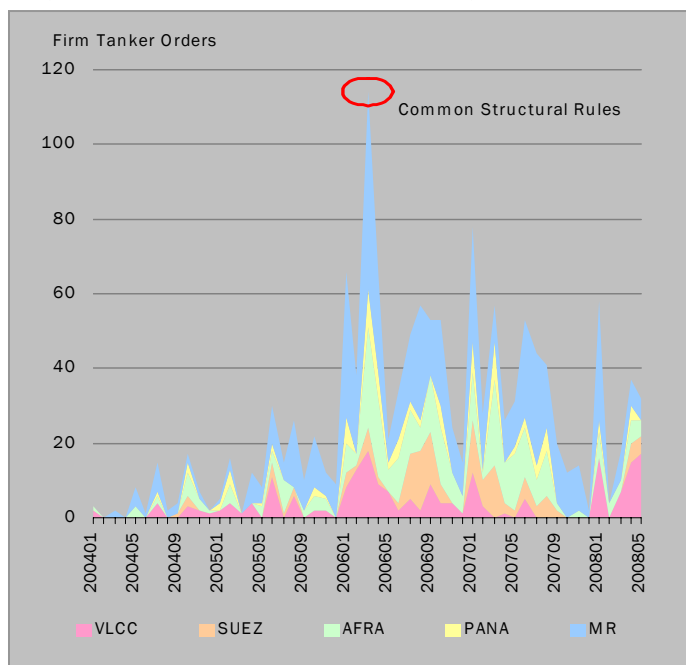
In the present environment a US \$155 million VLCC can be ordered for delivery in late 2011 / early 2012. Based on current voyage costs (AG / East), with a financing structure of 40% equity and a 60% LTV ratio on 7-year note at 6% interest, such a VLCC will bear a US \$55,000 / day financing cost. If operating cost of US \$11,000 / day is added, US \$66,000 / day or WS 109 is needed in order to breakeven. If we assume a project life of ten years and US \$62 million resale value (1997 – 2007 average) the project would generate a 12.7% rate of return (assuming US \$70,000 / day TCE earnings - the 2008 average 1 year TC rate - remain every day for the next ten years).

The above numbers indicate an approximate financing calculation that 51 VLCCs were presumably ordered against in 2008. An expectation of average VLCC earnings of around US \$70,000 / day for the next ten years in order to achieve a two digit annual rate of return is quite bullish, to say the least. Historically, the average daily TCE earnings for the last ten years were US \$40,500 / day.

Figure 1 illustrates that the overall monthly tanker contracting resulted in 30 vessels in 2008 YTD (27,500 dwt and higher). That number is 12% lower than the 34

monthly tanker orders observed in 2007 and 39% lower than the 49 monthly orders observed in 2006. That is in line with tanker newbuilding prices that are 7% higher in

Figure 1: Monthly Tanker Contracting (27,500 dwt <)



2008 YTD average from 2007 average across five tanker sectors, and 19% higher from 2006 averages. However, the VLCC sector remains an anomaly.

It appears that the VLCC ordering is primarily driven by the strong markets and high earnings observed in the last seven months. During moderate market conditions in most of 2007, VLCC ordering averaged in 2 vessels per month, which is 9 vessels less than the monthly average observed in 2008 YTD at 12% higher prices.

Therefore, despite current financial turmoil and reported difficulties in access to capital, there are still owners interested in and funds available for tanker contracting. It appears that bullishness in future market expectations as well as cash in hand continues to motivate owners to place new orders. This resulted in significant VLCC newbuilding contracts in spite of presently record high asset prices. Whether there will be enough demand to absorb the new deliveries at expected rates remains to be seen.