GDSA WEEKLY SECONDHAND / DEMOLITION / NEW BUILDING MARKET ANALYSIS

Week Ending: 29th June 2012 (Week 26, Report No: 25/12)

(Given in good faith but without guarantee)

The week has been marked with a record high demolition business surpassing the number of 20 disposals, while a vast majority of deals are old that just came to light, while owners do not loose their momentum for scrapping and eyeing on secondhand units as asset prices remain at the bottom low. The highest activity has been seen in the newbuilding market with offshore units monopolizing investors' interest and a quite firm business in the construction of bulk carriers due to the evolution of new eco designs.

Overall, 46 transactions reported worldwide in the secondhand and demolition market, up by 4.5% week on week with an 81% increase of activity in the demolition market and 125% increase in the secondhand buying appetite of dry bulk carriers. At similar week in 2011, the total S&P activity was 46% lower, when 25 transactions had been reported and secondhand ship purchasing activity was 70% lower than the ordering business.

SECONDHAND MARKET

Dry bulk carrier segment is on the spotlight with interesting capesize transactions. A capesize of 176,000dwt built 2012 China reported sold for $38mil, when in October 2011 a capesize units of 177,000dwt built 2011 China had been reported sold for $49,5mil. In addition, a capesize of 172,846dwt built 1999 South Korea reported sold for $15,2mil, when in March of 2011 a 171,846dwt vessel built 1996 Japan had been reported sold for $23mil.

Overall, 17 vessels reported to have changed hands this week at a total invested capital in the region of US$ 186,8 mil with bulk carriers holding the lion's share, 53% of S&P activity, and tankers 18%. In terms of the reported number of transactions, the S&P activity is down by 39% from last week's activity due to zero reported deals in the offshore segment, and up by 6.2% comparable with previous year's weekly S&P activity, when 16 vessels induced buyers' interest at a total invested capital of about $118 million, with bulk carriers holding 44% of the total volume of S&P activity and tankers 19%. In terms of invested capital, the bulk carrier appears the most overweight by attracting about 66% of the total amount invested from firm buying appetite in all vessel sizes and ages, from handysizes to capesizes.

NEWBUILDING MARKET

In the **newbuilding market,** one notable corporation deal came to light this week with OAO United Shipbuilding Corp. planning to start construction of a 60 billion-ruble ($1.8 billion) shipyard with South Korea's STX Corp. next year, said Roman Trotsenko, the head of the Russian state company. The facility will be able start building oil and liquefied- natural-gas tankers in 2015, drilling platforms in 2018 and military ships in 2020, Trotsenko told reporters today at the St. Petersburg International Economic Forum. STX will acquire 25 percent of the St. Petersburg shipyard, which will be set up as a joint venture, Trotsenko said. United Shipbuilding will provide most of the funding, and STX will deliver technological know-how, Trotsenko said.

In terms of volume of transactions, there has been also a week with hot business in the offshore segment and interesting deals in the main conventional vessel segments. South Korean yards are still winning high valued ordering activity leaving behind Chinese and Japanese counterparts, while in the bulk carrier segment the eco friendly design has been very popular for construction giving a boost of ordering in the struggling shipyards. South Korean yard STX O&S is said to have clinched newbuilding contracts for up to 10 boxships of 5,000 TEU and one LNG carrier 160,000 cu.m at a total value of $650mil. One more notable order has been viewed in the offshore segment with South Korea's Samsung Heavy Industries confirming that it has received an order for an additional DP3 ultra deepwater drillship, like its sister ships, from US offshore operator Ensco, at a value of $645mil, being the seventh Samsung DP3 drillship in the Ensco fleet, for delivery during the fourth quarter of 2014. Chairman, President and CEO Dan Rabun said, "Our decision to order two ultra-deepwater drillships over the past three months is predicated on detailed analysis of several important factors. Customer demand has continued to rise and has become even more broad-based due to new discoveries in emerging basins. The near-term supply of deepwater rigs is limited and we believe supply-demand dynamics will continue to support favourable day rates, which have risen sharply over the past year. Significant interest in our latest-design drillships gives us confidence that customers recognize the technological advantages of our drillships relative to competitors and the benefits we provide from rig standardization." In the passenger/cruise segment, Xiamen Int. Cruise has sealed an order for a passenger unit of 100,000gt at Xiamen SB of China with delivery in 2018 at a cost of $487,6mil.

The week ended with 36 fresh orders reported worldwide at a total deadweight of 442,700 tons, posting a 35% week-on-week decline with a 300% increase on LNG ordering activity and 43% lower volume of offshore newbuilding contracts. Special project vessels are holding for one more week the lion share, 47%, of the total newbuilding activity, while dry bulk carriers follow with a 19% share. This week's total newbuilding business is down by 33% from similar week's closing in 2011, when 54 fresh orders had been reported with containers grasping again the lion share, 46% of the total newbuilding business, bulk carriers 26% and special projects were holding 18.5% of the business compared with 47% share today's levels. In terms of invested capital, the total amount of money invested is estimated at region $1,8 billion with 66% of the total number of orders being reported at an undisclosed contract price. The offshore segment is the most overweight by holding 50% of this week's total amount of money invested due to the high valued order of $650mil for an ultra deepwater drillship from US owner Ensco and passenger cruise follows with the $487,6 mil from Xiamen Int. Cruise of China.

In the **bulk carrier** segment, Oldendorff group is quietly planning an initial public offering to build 16 or even 28 newcastlemax units at Shanghai Waigaoqiao Shipbuilding of China at a total price of over $1,3billion if all 12 options are exercised. In addition, Japan's Mitsui OSK Lines is planning to order the first of a new generation super efficient 200,000dwt ore carrier with domestic shipyards as a new design the so called "Handy Ore Carrier" (HOC). The HOC would focus on "3S": Shallow Draft, Swift Unloading and Save Energy. Unlike very large ore carriers of 300,000-400,000dwt, the HOC with a draft below 17meters intends to call at shallow water harbors worldwide. MOL officials indicate that the order could be for up to 10 ships despite the distressed freight market status and the added technical characteristics could lift the newbuilding price at excess of $47mil.

In the kamsarmax segment, Chartworld Shipping of Greece is said to have inked a letter of intent with Cosco Dalian Shipyard of China for two bulkers of 82,500dwt scheduled for delivery in March 2014, with option for two more sister vessels to follow. In the supramax segment, Swiss Marine of Greece is said to have increased the size for a pair of 57,000dwt units ordered in Jinling of China to 64,000dwt for delivery in 2014. The deal has been placed late last year, but it never reported and the vessels is said to cost around $25-$26mil each. In the handymax segment, Shanghai Yinhua Shipping, a subsidiary of China Shipping Development Company, has added a 47,500 dwt vessel at China Shipping Industrial Jiangsu, wholly owned by China Shipping Development Company, at a cost of $28,7mil for delivery by September 2013. Hong listed CSDC said: "In view of reasonable cost of constructing the bulk vessel, the directors are of the view that the construction and ownership of the bulk vessel is low risk, efficient and will increase the competitiveness of the group in the shipping market."

In the handysize segment, Chinese shipbuilder Guangzhou Wenchong has announced it latest order for four eco 28,000 dwt units from US owner Seaboard Marine designed to burn low-sulphur fuel so they can enter emission controlled waters in Europe and the US. Main particulars of this vessel type are length 175m, a beam of 27m and draft of 8m. The vessels are stemmed for delivery in 2014/2015. In addition, German dry bulk owner, Oldendorff Carriers, has ordered two 35,000 dwt eco bulkers at South Korean run Samjin Shipbuilding Industry for delivery in October and December 2013, with an option of two more for delivery in 2014. Oldendorff Carriers stated that ships will have a 35-ton cranes, strong tanktops, a water ballast treatment system and be fully fitted for logs.

In the **container** segment, Shanghai Jinjiang has ordered four feeder box ships of 1,100TEU in JIANGNAN Shipyard of China for delivery in 2014. The vessels will be used for Chinese coastal cabotage and Shanghai Jinjiang has also arranged options for further ships as part of the deal. Last week's reported order by UK's Zodiac Maritime Agencies for five 5,000TEU large panamax boxships, with an option for five more, for construction at Hanjin Subic Bay is now said to have been ordered at STX's Dalian yard for delivery by the third quarter of 2014 at a value of $45M each.

In the **tanker** segment, serious doubts exist for the delivery of 12 very large crude carrier newbuildings from Chinese shipyards ordered by Iranian tanker owner NITC amid ongoing European Union sanctions against the Middle Eastern state. NITC officials said that they are not going to take immediate delivery of the vessels due to poor market conditions causing serious issues in Chinese shipyards. Six 318,000dwt vessels were ordered at Dalian Shipbuilding Industry and further six at Shanghai Waigaoqiao Shipbuilding in August 2009.

In the **gas tanker** segment, STX Offshore & Shipbuilding has singed a contract with Russian shipowner Sovcomflot to extend the number of optional LNG carrier newbuilding slots it holds with the South Korean yard with delivery a total of 10 newbuildings to Sovcomflot.. The vessels will be all constructed at STX O&S' Jinhae based yard with the participation from United Shipbuilding Corp, the Russian conglomerate that will build a yard with STX Group in St Petersburg. Sovcomflot has already signed agreement to lease out the four firm orders, which will be delivered between late 2013 and early 2015, to Shell and Gazprom on two separate long term contracts. In addition, Alpha Tankers & Freighters is said to have placed an order for a 160,000 cu.m LNG carrier, with an option for one more, at STX O&S's Jinhae facility at about $200mil with delivery by the end of March 2015. In the LPG segment, HYUNDAI HI of South Korea has won a new order for two LPG/Ammonia carriers of 38,000 cu.m capacity from a Turkish shipowner, Negmar Denizcilik for delivery 3Q and 4Q 2013 at an undisclosed contract price.

In the **car carrier** segment, South Korean player Hyundai Glovis is said to have firmed up a plan to order three 6,700 car equivalent (ceu) vessels for delivery from late 2013 to early 2014 at a price around $71mil each. The yard is understood to be Hyundai Heavy Industries as it has already delivered to the owner two other 6,500 cue units this year and will deliver two more in the middle of next year.

In the **offshore** segment, the buoyant activity seems to have no end with subsea construction vessels, platform supply, drilling rigs and anchor handing tugs being on the spotlight for new construction. Olympic Shipping agreed construction of one MT 6022 MK II subsea support construction vessel from Kleven Ulsteinvik for delivery in August 2013 at a price of NOK 600 million ($101 million), with option for one more unit. The small yard of Fjellstrand will build six plus optional four windfarm support vessels for Denmark's World Marine Offshore with deliveries throughout 2013. Italian builder Rosetti received a repeat order from Augustea Ship Management for another Rolls-Royce UT 712 CD anchor handler for delivery in June 2014 at $28.39 million. A letter of intent was signed by Bumi Armada Navigation, Malaysia with local builder Nam Cheong for four plus optional four DP2 platform support vessels at $130 million with deliveries within 2014. In addition, Norway's Stavanger based Simon Mokster Shipping has ordered in Astilleros Gondan of Spain its latest UT776 WP designed platform supply vessel for delivery in summer 2014. The vessel is purpose built for a three year fixed charter with Statoil with 3 x 1 year options attached. This latest order is the second placed by Mokster within a month after placing a contract with compatriot builder Simek for one 85m Subsea vessel.

DEMOLITION MARKET

In the demolition market, the downward revision of scrap prices seems that will persist as owners are still offering a high supply of vessels for disposal under the dire freight market conditions with the upcoming monsoon season and local fundamentals, currency and steel prices, adding in the current status of prices offered in the Indian subcontinent region. Scrap prices have fallen by 20% from early February, when they were $475-$485/ldt in the Indian subcontinent region for dry/general cargo and $490-$500/ldt for wet cargo. Price levels of India remain the same with China as Indian rupee is still suffering against dollar and there are not signs of a firmer rebound. Bangladesh and Pakistan offer levels of $370-$380/ldt for dry units and $400/ldt for wet, while India with China $350-$360/ldt for dry and $370-$390/ldt for wet.

The record scrapping volumes kept in the bulk carrier segment alleviates the oversupply plain, but it is still not enough to correct the imbalance of the freight markets. According to DVB Group's research division, scrapping volumes need to at least triple to counterbalance the newbuildings entering the market. DVB emphasizes that today's scrapping volumes are near those achieved in the previous highs of 1986, but the volume of ships scrapped this year accounts 3% of the existing fleet compared with 7% in 1986.

The week ended with 29 vessels reported to have been headed to the scrap yards of total deadweight 1,426,373 tons, while 8 scrapping removals are old deals that just came to light. In terms of the reported number of transactions, the demolition activity is up by 81% from previous week's business with dry bulk carrier disposals attracting 34% of scrapping business, while In terms of total deadweight sent for scrap there has been an increase of 75%. China is on the frontline by winning 6 of the 29 total demolition transactions. In terms of scrap price levels, notable demo deal in the bulk carrier, the disposal of M/V "B AMERICA" of 43,575dwt built 1984 ldt 8,105 for $383/ldt Bangladesh, while in the wet market, the disposal of M/T "ISI OLIVE" of 163,055dwt built 1995 ldt 20,608tons for $407/ldt Pakistan.

At a similar week in 2011, demolition activity was 69% lower than today's levels, in terms of the reported number of transactions, when 9 vessels had been reported for scrap of total deadweight 497,674 tons with bulk carriers and tankers grasping 44% and 22% respectively of the total number of vessels sent for disposal. Scrap prices were floating at stronger levels with Bangladesh and India offering $480-$495/ldt for dry and $510-$520/ldt for wet cargo.

GREEK PRESENCE

There was one more week with strong investments of Greek owners in the secondhand and newbuilding business. Their total amount of money invested in the secondhand market is estimated to be in the region of $108,2mil for the purchase of a capesize 176,000dwt built 2012, a capesize of 169,963dwt built 1999, a panamax of 77,075dwt built 2005 and a large containership of 5,610 TEU. In the newbuilding market, Alpha Tankers & Freighters is said to have placed an order for a 160,000 cu.m LNG carrier, with an option for one more, at STX O&S's Jinhae facility at about $200mil with delivery by the end of March 2015. In the kamsarmax segment, Chartworld Shipping of Greece is said to have inked a letter of intent with Cosco Dalian Shipyard of China for two bulkers of 82,500dwt scheduled for delivery in March 2014, with option for two more sister vessels to follow.