GOLDEN DESTINY

GDSA WEEKLY SECONDHAND / DEMOLITION / NEW BUILDING MARKET ANALYSIS

Week Ending: 27th July 2012 (Week 30, Report No: 29/12)

(Given in good faith but without guarantee)

Summer season and the upcoming Olympic Games leave the secondhand purchasing momentum at a slow pace with investors waiting further drop in asset prices, while demolition activity keeps roll on at firm levels. The ordering activity has slowed down in the offshore segment during July bringing the tally of newbuildings orders to less than 20 vessels on average per week, while the constant miserable earnings for dry bulk carriers and tanker units hampers the survival of medium to small sized shipyards, which suffer from the distressed newbuilding demand in the main conventional vessel segments. In the container market, the fragile US and European economies do not allow the full recovery of the freight market with signs of downward trend as the summer peak season remains disappointing, while investors' appetite for secondhand or newbuilding investments is not yet firm even the alluring asset prices.

Overall, 36 transactions reported worldwide in the secondhand and demolition market, down by 32% week on week with a 47% downfall of secondhand activity, similar volume of scrapping removals and 90% lower newbuilding transactions in the tanker segment. At similar week in 2011, the total S&P activity was 25% lower than the current levels, when 27 transactions had been reported and secondhand ship purchasing activity was 65% lower than the ordering business.

SECONDHAND MARKET

There has been intense strong purchasing sentiment in the bulk carrier segment for resale units in large sized segments at discounted sale prices. Norwegian owner Golden Ocean renegotiated the price of two kamsarmax and one capesize newbuildings after the Chinese shipyard, Jinhai Heavy Industries, failed to meet the cancelling date. The aggregate contract price for M/V "GOLDEN NANTONG"of 176,000 dwt and M/V "GOLDEN EXCELLENCE" with M/V "GOLDEN EXPLORER" of 79,600dwt is now at about $86,7mil from original $174,75mil. The price for the capesize unit is said to be at $36mil and $25mil each for the kamsarmax units for delivery in the fourth quarter of 2012.

In the post panamax segment, a 98,967dwt bulker built by Tsuneishi Zhoushan for delivery in the middle of next month has been reported sold to Greek owners for a price in the region of $25mil, while in July 2011, a postpanamax unit of 92,500dwt built 2011 Jiangsu New Yangzijiang had been reported resold for about $37,3mil.

In the capesize segment, a 180,000dwt unit, HULL 1111 built at Sungdong 2012 report resold to Chinese buyers for $37,5mil, while in April a 179,000dwt unit built 2011 Hyundai Heavy Industries of South Korea, had been reported sold for a price in the region of $44mil.

Overall, 17 vessels reported to have changed hands this week at a total invested capital in the region of US$ 286,1 mil, 4 deals reported at an undisclosed sale price, with bulk carriers holding the lion's share, 47% of S&P activity, and tankers 41%. In terms of the reported number of transactions, the S&P activity is down by 47% from last week's activity due to 56% weaker purchasing momentum in the tanker segment, while is up by 13% comparable with previous year's weekly S&P activity, when 15 vessels induced buyers' interest at a total invested capital of about $184 million, with bulk carriers holding 60% of the total volume of S&P activity. In terms of invested capital, the bulk carrier appears the most overweight by attracting about 69% of the total amount invested from firm resale buying appetite in large sized segments, from capesize to post panamax and kamarmax carriers.

NEWBUILDING MARKET

In the **newbuilding market,** the business remains subdued following last week's enbloc order for 20 coastal ethanol tankers by Transpetro of Brazil that pushed the total volume of ordering activity to more than 30 transactions. The ultramax bulk carrier design of 64,000 dwt with supramax of 56,000dwt remains the most popular newbuilding investment, while the car carrier segment has jumped in during July with some substantial business reported. The offshore segment is still on the spotlight with boxship units being the least attractive, while there has been a quiet period in LNG newbuilding transactions. Notable order has been in the bulk carrier segment for a newcastlemax unit of 207,000dwt by Polaris Shipping of South Korea as an opportunity under the current plunge of newbuilding prices. General Manager of the company confirmed the order in Tradewinds by saying that the company has already secured a long term of 15 years contract of affreightment from Korea Electric Power Co stat to be started on 2016.

Overall, the week closed with 24 fresh orders reported worldwide at a total deadweight of 721,850 tons, posting a 25 % week-on-week decline, with a 90% decline in tanker newbuilding business, while bulk carriers with offshore support vessels grasped the lion share, 66% of this week's newbuilding business. At similar week closing in 2011, the newbuilding business was up by 79%, when 43 fresh orders had been reported with tankers and containers grasping 58% and 25% share respectively of the total ordering activity. In terms of invested capital, the total amount of money invested is estimated at region $307,6 mil with 63% of the total number of orders being reported at an undisclosed contract price. The offshore segments keeps to be the most overweight by holding 47% of this week's total invested capital, with dry bulk carriers to follow by attracting 33% of the total amount invested for new units.

In the **bulk carrier** segment, Polaris Shipping of South Korea has ordered a newcastlemax bulker of 207,000dwt at STX Dalian for delivery in September 2014 at a price believed to be close to $50mil. In smaller sized segments, Australian mining magnate Clive Palmer's newly established shipping company, Asia Pacific Shipping Enterprise, has sealed an order for four 64,000dwt ultramax bulkers in China's CSC Jinling Shipyard for delivery in the first half of 2014, at an undisclosed contract price. The contract includes an option for four more units. The vessels will be used to transport nickel to a refining plant bought from BHP Billiton by Palmer.

In the **tanker** segment, South Korean shipbuilder Hyundai Mipo Dockyard has won a new order for two MR tankers 40,000dwt from d'Amico of Italy. The vessels are being built to a new shallow-draught design and are due for delivery in 1Q 2014. They have been priced at about $61M en bloc. D'Amico holds options for a further two ships as part of the contract.

In the **gas tanker** segment, K Line of Japan is said to have ordered a very large gas carrier (VLGC) at domestic shipyard Kawasaki Heavy Industries for delivery in the first quarter of 2014. The deal has been concluded in yen as Japanese shipyards are currently not viewed as competitive for international contracts.

In the LNG segment, Greek owner ALMI Gas is going to drop slots for two 160,000cbm LNG carriers at Daewoo Shipbuilding and Marine Engineering set for delivery in July and September 2014, after failing to secure time charters for the units. ALMI Gas head Costas Fostiropoulos said in Tradewinds that they have not been able to secure time charters for their two LNGC slots in 2014 as a result these slots will expire on 30 July. However, he stresses that the 2015 slots remain firm as they believe that the market at that time will be more active. Furthermore, Swedish owner Stena told Lloyds List that it had allowed two orders for 173,400 cum LNG vessels at Daewoo Shipbuilding Marine Engineering lapse due to poor financial markets. Stena LNG chief executive Kim Ulman said that the project had been put on hold because it had been contingent on initial public offering plans that the group had hoped would launch this spring in Oslo.

In the **Ro-Pax** segment, Norway's Fjord Line is said to have ordered two 31,000gt ro-paxes to be powered only by LNG, making them the first major passenger ships to be run on the fuel. The units will be built at Bergen's Fosen yard, while their hulls are being constructed in Gdansk, Poland. "While other shipping companies base their natural gas operations on 'dual-fuel engines,' Fjord Line is going one step further by using a 'single LNG engine' to reduce emissions and protect the environment," the group said. Fjord chose Rolls-Royce as the engine supplier of the LNG engines, explaining: "This is a well-proven technology, produced in Norway that has been used on a number of ferries and ships used in the offshore industry. "In addition to meeting important environmental considerations, natural gas operation will be more cost-effective than heavy fuel oil," Fjord's Ingvar Fardal said. In addition, Croatian yard Brodotrogir said it has signed a deal with an unnamed Swiss company to build two passenger vessels. According to a company statement, the vessels will each be about 90m in length and will be able to accommodate 44 passengers. Delivery of the newbuildings is scheduled for 2014.

In the **car carrier** segment, Glovis of South Korea has signed an order for three 7300 cars vessels for construction in Hyundai Samho of South Korea at an undisclosed contract price for delivery in 2013-2014.

In the **offshore** segment, Sinopacific Shipbuilding Group has signed a newbuilding contract with Nigerian shipowner SLOK, a leading player in Nigeria's oil and gas industry, to build four SPP35 style PSVs, while the two parties have also signed a letter of intent for building two SPP50 style PSVs. The six vessels are scheduled to be delivered by the end of 2014. Sinopacific's Dayang yard will build the vessels and marks the first movement of the yard in the offshore segment and the first transaction with African company The design for the new vessels employs fully diesel electric propulsion system and applies the most advanced efficient azimuth thruster driven by variable frequency power, combined with the dynamic positioning II system (DP-II), to effectively enhance the vessel handling and reliability of vessel positioning. The two newly contracted types will be built at SINOPACIFIC's Dayang Shipyard. "Dayang has been focusing on efficiently building bulk carriers. This time, the building of high value-added OSVs is a major strategic initiative taken by SINOPACIFIC to transform and upgrade Dayang in the downturn of the current shipbuilding market," said Wang Jianding, general manager of Dayang Shipbuilding, "In the future, Dayang will continue to build upon the Group's design and market advantages to adjust our product mix accordingly, fully leverage our strength in production capacity and manufacturing efficiency, to ensure it to become one of the manufacturing bases which SINOPACIFIC will use to carry out its OSV strategy - leadership in niche market."

In addition, ATLANTIC Offshore of Norway is said to have ordered two offshore support vessels from Spanish builder Zamakona in a €50M ($60.6M) deal. The Havyard 820-class vessels are due for delivery during 2014, with options for two more ships as part of the contract. According to an Atlantic Offshore statement: "The vessels are tied to the contracts Atlantic Offshore have entered with oil companies Total and Shell United Kingdom, and will operate in both Norwegian and British sectors." The Spanish yard will involve Norwegian subcontractors in the construction of the vessels. Furthermore, GulfMark Offshore plans to build a pair of platform supply vessels for the US Gulf of Mexico. The US listed owner expects the cost of the 300 Class, dynamic positioning DP2. fire fighting certified vessels to be below $100mil, with delivery set for the fourth quarter of 2014 and early 2015.

Jaya Shipbuilding and Engineering, wholly owned by Jaya of Singapore has signed an agreement to build high specification offshore vessels for IHC Merwede, a 5,150 bhp AHTSV and a 16,000 bhp AHTS, for about $84 mil. The company's wholly owned subsidiary Jaya Shipbuilding and Engineering will build the vessels at its yards in Singapore, Batam, Indonesia, while IHC Merwede will provide design and engineering support services to Jaya.

DEMOLITION MARKET

In the demolition market, the potential closure of Indian ship recycling industry and the drop in steel prices keeps the scrap price momentum at low levels with some signs of recovery, while currency in India is again loosing ground against dollar. Offered prices are now around at $370-$380/ldt for dry/general and $400/ldt wet cargo in the Indian subcontinent region, while China offers levels below $350/ldt for dry/general and about $350/ldt for wet cargo. India keeps winning some demo sales for its scrap yards given the uncertainty of the pending Supreme Court ruling in the coming days for banning vessels entering Alang unless any hazardous or toxic wastes had been removed. The court is due to rule on Monday whether the 214,000dwt M/V "ORIENTAL NICETY" (ex-Exxon Valdex) built 1986 would be allowed for disposal in Alang. There are hopes that the Indian shiprecycling industry will remain open and will not face long term closures as Bangladesh with potential stricter regulations imposed.

The week ended with 19 vessels reported to have been headed to the scrap yards of total deadweight 739,621 tons. In terms of the reported number of transactions, the demolition activity is down by 10% from previous week's business with 70% lower dry bulk carrier disposals, while In terms of total deadweight sent for scrap, there has been a decline of 49%, while tankers are holding the lion share, 32% of the total demolition transactions. India is on the frontline by winning 9 of the 17 total demolition transactions. In terms of scrap price levels, notable demo deals in the wet and container markets for vessels disposals at levels $422/ldt including bunkers.

At a similar week in 2011, demolition activity was 37% lower than today's levels, in terms of the reported number of transactions, when 12 vessels had been reported for scrap of total deadweight 557,302 tons with bulk carriers 66% of the total number of vessels sent for disposal. Scrap prices were floating at stronger levels with India offering $525/ldt for dry and $550/ldt for wet cargo, while Bangladesh market was inactive.

GREEK PRESENCE

There were no investments by Greek owners in the newbulding arena the last two weeks following their strong presence on week ending July 13th. In the secondhand market, Greek owners have invested $25mil for a post panamax resale of 98,000 dwt built Tsuneishi Zhoushan, while in the tanker segment have bought two MR units of about 50,000dwt built 2008 at a price in the region of $25,5mil each.