THE PLATOU REPORT

2014

RS Platou

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SHIPPING & OFFSHORE:

BACK TO THE FUTURE

SHIPPING

"The reports of my death have been greatly exaggerated"
– Mark Twain

There has always been a strong correlation between charter rates and ordering activity. Based on an historical R squared of close to 75 percent, shipping day rates in 2013 would suggest a new order volume of around 26 mill cgt placed at yards over the course of the year. However, at the end of 2013, in excess of 40 mill cgt of new ships had been ordered - a 60 percent higher ordering volume than relative historic averages.

So, why did we get more newbuild orders than expected? We believe several elements were at work here; The combination of low newbuilding prices and new Eco designs on the hand and negative cash returns on secondhand vessels on the other hand worked in favor of the former. In addition, the financing "window" was at least partially open for public and private equity with the right ideas.

However, while these factors are important, we believe the main reason for increased ordering was a renewed confidence in the outlook for the world economy and more stable financial markets.

Some analysts have stated that the shipping markets were structurally damaged and comparable to the situation in 70s and 80s. Yet according to RS Platou estimates, the dry and wet markets did not have capacity utilization below 80-85 percent during the last few years, implying this was "just" a strong cyclical correction.

There are risks that are not resolved, like China's local government debt of around 3 trillion USD, but, with the exception of the container liner market, the outlook for our industry appears brighter.

OFFSHORE

"Keep on trucking" *– Anonymous*

With escalating costs and flat oil prices, public oil companies face the challenge of maintaining dividend payments to their shareholders, while continuing to increase their E & P budgets. Global E & P is still expected to grow by approximately 6 percent to 700 – 750 bill USD, but growth in real oil service purchasing power will be relatively modest.

Nevertheless, there are potentially prolific areas where we will see increased offshore drilling activity during the next few years:

- Mexico is not a new area for the offshore industry, but the PEMEX monopoly on oil and gas will be liberalized, opening up this market for international oil companies.
- The Arctic frontiers are seeing more activity. The Barents and Kara seas, Canada and Greenland should all create demand for rigs and large supply vessels with capabilities to handle icy conditions in the coming years.

PETER M. ANKER, MANAGING PARTNER & CEO

Drilling in Arctic areas, with tough weather conditions, large distances and poor infrastructure does create a much higher relative demand for larger and more sophisticated Offshore Support Vessels (OSV).

During 2014 there will be an increase of about 250 percent in deliveries of deepwater rigs (34 in 2014 versus 13 in 2013), and this should drive demand for high-end OSVs. Over the next 12-24 months we could see a somewhat challenging market for offshore drilling rigs, but longer-term this segment still looks firm.

We expect the oil price will continue to perform better than current analyst consensus expects. Geopolitical risks are likely to continue to affect the supply side, and we expect to see oil demand surprise on the upside as the global economy, hopefully, gathers long-sought after momentum.

Yours Sincerely,
Peter M. Anker,
Managing Partner & CEO, RS Platou ASA

THE WORLD ACCORDING TO RS PLATOU

OSLO

ABERDEEN

NEW YORK

LONDON

GENEVA

HOUSTON

RIO DE JANEIRO

ACCRA

MOSCOW

SHANGHAI

DUBAI

SEOUL

SINGAPORE

PIRAEUS

CAPE TOWN

SYDNEY

PERTH

MELBOURNE

SHIPBROKING OFFSHORE INVESTMENT BANKING PROJECT FINANCE

THE SHIPPING MARKET ENVIRONMENT

WORLD SHIPPING 2013: ON THE PATH TO RECOVERY

Although 2013 was yet another weak year for the world economy and global shipping markets, the year will, in hindsight, be seen in a positive light. There are two principal reasons for this. First of all it ended on a significantly better note than it began, as fundamentals visibly improved. Secondly, surprisingly dynamic freight market trends for both dry bulk and tankers strongly suggested that industry overcapacity was moderate and not structural, as it was in the 1970's and 1980s. We estimate that world fleet capacity utilization improved by about 1 percentage point during 2013 to 85 percent overall.

A TURNING POINT FOR FUNDAMENTALS...

2013 was very much a year of two halves, for the world economy as well as for the shipping markets. Economic activity slowed further, from a none-too-impressive, level in the first half of the year, while sustained robust fleet expansion continued. The result was predictably negative for all major shipping segments and led to tumbling freight rates (to twenty-year lows for some).

In retrospect, a turning point took place midway through the year. The world economy began to move forward, causing tonnage demand to improve. The US led the economic improvement, while stronger Chinese import growth was the main factor behind improving tonnage demand. At the same time, gradually fewer newbuilding deliveries, indeed fewer than expected, caused fleet growth to slow notably and capacity utilization to improve.

... FROM A STARTING POINT THAT WAS BETTER THAN MANY FEARED

We argued last year that "cyclicality is not dead", asserting that even the volatility seen in 2012 argued against the notion of structural overcapacity. In our view, tonnage demand has been growing above trend in recent years, as more and more developing countries have become important contributors. This has caused more complex trading patterns and, in many cases, longer port times, reducing fleet productivity. In particular, we believe that the increase in bunker prices in recent years must be seen as a structural change, as this has effectively introduced some very real "speed limits", thereby adding to the effective demand. The point is that real tonnage demand has increased significantly more than one would expect if only looking at pure trade volume numbers. Consequently, only container shipping has developed a level of overcapacity that could be called structural. For dry bulk, tankers and most industrial shipping segments we estimate that overcapacity is between 5 and 10 percent. The exceptions are LNG and LPG, which have no overcapacity to speak of. Set against that background, a recovery that restores profitable conditions should be achievable over the next couple of years.

TONNAGE DEMAND GROWTH AGAIN RELATIVELY STRONG CONSIDERING WEAK WORLD ECONOMY

Total tonnage demand grew by an estimated 6 percent in 2013 but it is hard to put this performance into perspective. On the one hand it was a relatively weak year as this was only the second time in a decade that growth was this low. On the other hand it could also be seen as a relatively strong year, as the previous time world GDP growth dipped below 3 percent, in 2001-2002, tonnage demand growth was only around 2 percent. This demonstrates how the shipping "intensity" of the world economy has increased over the past decade.

All main segments contributed with dry bulk and LPG leading the way, each with an impressive increase of 9 percent. LNG was the only exception, showing no growth in tonnage demand. Keep in mind, however, that this figure came on the heels of exceptional demand growth in recent years in the wake of the Fukushima disaster.

FLEET GROWTH SLOWING, AT LAST

Very high fleet growth, which has been a major depressant on freight markets during the past five years, began to slow down in 2013. Newbuilding deliveries are now on a trend of marked decline and were about one third lower than in 2012. Total demolition figures were somewhat lower than in 2012, but still remained relatively elevated compared to previous years. Total fleet growth reached 5 percent against 2012, the lowest figure since 2004. Growth slowed in all major segments, except for containers. The dry bulk fleet continues to have the fastest growth at 8 percent, but it also registered the biggest slowdown from last year when the increase was 12 percent.

SLIGHT INCREASE IN CAPACITY UTILIZATION TO 85 PERCENT, AFTER STRONG FINISH

Average fleet utilization inched up by less than 1 percentage point to 85 percent. Although this is still a low number compared to the average of 90 percent between 2003 and 2008, veteran market observers will appreciate that it is a very far cry from the 70 percent, or even lower level, which existed in the 1970s and 1980s. Utilization rose for all main segments, except for LNG, but that segment had the highest utilization rate by far to begin with. The largest increase was seen for the LPG segment, which improved by 3 percentage points to 87 percent.

ASSET VALUES ON THE REBOUND

It was a very active year for asset transactions. Newbuildings led the way as relatively low prices, new eco-design vessels and increased private equity capital availability caused the order intake to tripple from 2012, although it remained well below that of the heydays of 2007. Newbuilding prices increased, gradually at first but with a more pronounced trend in the second half. Dry bulk and container vessels led the way, but tanker prices were also on the rise in the second half of the year.

The secondhand market was relatively quiet during the first six months of 2013, but picked up significantly in the second half as freight rate recoveries in various sectors illustrated that the gap relative to newbuilding prices had become too large. The tanker segment was the most active, by far, with the number of transactions increasing by nearly 30 percent from 2012. Overall, the total volume of S&P transactions increased by about 10 percent.

TANKERS IN 2013: TERRIBLE START, STRONG FINISH

Of any shipping segment, the crude tanker market most clearly showed how the shipping industry turned the corner in 2013. The first half of the year was marked by a decline in the global oil trade of more than 3 percent, as all main importing countries reduced imports due to weak demand and/or too-high inventories. Fleet capacity, meanwhile, expanded by 5 percent. The result was a predictable market collapse, with fleet utilization falling to an estimated 80 percent, the lowest level in 15 years.

However, fundamentals began to slowly improve during the summer, as rising oil demand spurred seaborne trade while fleet capacity flattened out. When stronger seasonal demand kicked in during the fourth quarter, VLCC rates rose to nearly $40,000 per day on average, up from $13,000 in Q3.

For the full year we estimate that tonnage demand increased by more than 3 percent - all of the increase coming in the second half of the year - while fleet capacity rose by 4 percent. Overall fleet utilization fell by less than 1 percentage point to 83 percent.

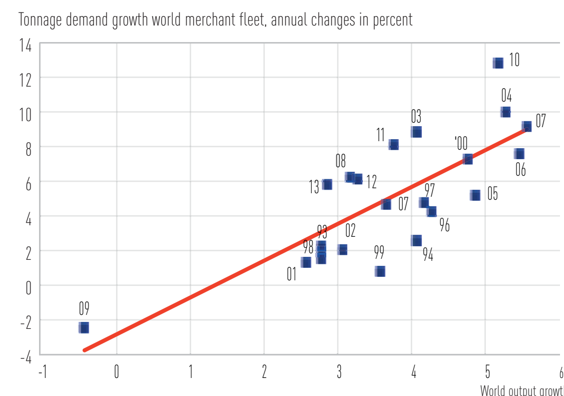
DRY BULK IN 2013: STRONG CHINESE IMPORT GROWTH LIFTS RATES

Dry bulk freight rates improved in 2013 from the miserable levels of 2012. We estimate tonnage demand to have increased about 9 percent, driven by a new record in Chinese dry bulk imports and a substantial recovery in global grain trade in the latter part of the year. The fleet increased slightly less than 8 percent. Fleet utilization thereby rose by around 1 percentage point calculated on a yearly average basis.

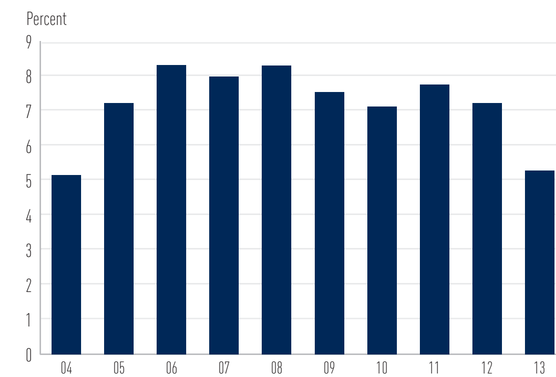
The dry bulk market followed a similar pattern as the tanker market, with a weak first half of the year and a rebound in the second half. China reduced iron ore inventories in the first half and thus needed to import more in the second half. On top of this, a remarkable recovery in grain shipments from the US and Black Sea created a significant contribution to tonnage demand for medium size tonnage.

For the full year, our weighted dry bulk index rose from $9,400 per day in 2012 to $12,800 per day for 2013, a rise of 34 percent. The largest increase came in the Capesize sector, where average earnings rose from $9,800 per day in 2012 to $16,600 in 2013, a rise of 69 percent. Panamaxes obtained $9,500 per day against a meager $8,100 the year before, still a 17 percent rise. For Supramax tonnage, average earnings increased less than 10 percent – or, more precisely, from $9,400 to $10,300 per day. The improvement in the Handy sector was even more moderate, with a daily rate rise to $8,200 for 2013 set against $7,600 in 2012.

TONNAGE DEMAND GROWTH VS WORLD ECONOMIC GROWTH 1992–2013



WORLD MERCHANT FLEET 2004–2013 ANNUAL CHANGES



CONTAINERS IN 2013: DOWNWARD PRESSURE PERSISTS

The container ship market was characterized by continued downward pressure on box rates for most of the year. Carriers failed in their multiple attempts to raise freight rates. The uplift in box rates in the last two months of the year was driven by stronger year-end demand and capacity withdrawals in major services. Charter rates were also under constant downward pressure apart from smaller geared tonnage, which experienced healthy demand and falling fleet growth over the year. Preliminary data suggests a slight drop in fleet utilization resulting from higher fleet growth relative to tonnage demand increase.

LNG IN 2013: CONTINUING TO OUTPERFORM

The LNG shipping market remained one of the very few segments in the shipping industry where owners made money throughout the whole year in 2013. A combination of very little new liquefaction capacity coming on stream, continued low production at some liquefaction facilities and reduced transport distance resulted in a status quo for shipping demand growth. The high ordering activity in the previous two years started to impact upon fleet growth towards the end of 2013, causing a modest increase in average fleet capacity, thereby contributing to a decline in the utilization rate. Short-term rates thus fell from $125,000 in 2012 to $98,000 per day in 2013.

LPG IN 2013: OWNERS' WINNING STREAK CONTINUING AND PICKING UP STEAM

The LPG shipping market registered its third consecutive year where spot rates for the largest ships, VLGCs, gave the owners a healthy return on invested capital. Preliminary data suggests that seaborne trade for LPG increased by 6 percent, driven by a surge in US exports, while ammonia trade fell by almost

3 percent. Delivery of new tonnage picked up significantly in 2013 with 1.3 cbm of new carrying capacity causing the fleet to expand by 4 percent this year, leading to a 5 percent hike in the utilization rate. This lifted spot rates for VLGCs by $6,000 from 2012 to $36,000 per day.

CAR CARRIERS IN 2013: STATUS QUO

2013 was a rather uneventful year in the car carrier market. Demand growth was supported by strong US car sales and healthy export volumes out of India, Thailand and Europe. However, main exporters Japan and Korea reported a 3 percent reduction in volumes, mainly caused by weaker demand in Europe. Global demand growth is estimated to have been below 3 percent in 2013. Combined with fleet growth of slightly above 3 percent, this caused a marginal reduction in fleet capacity utilization to around 86 percent.

WORLD ECONOMY AND WORLD SHIPPING

Through the first half of 2013, the development of the world economy mirrored the disappointing performance of recent years with a resulting weak development of tonnage demand. In contrast with previous years, however, the economy was able to pick up speed on its own during the second half, without a financial crisis triggering extra stimulus from Central Banks. The result was an upturn in trade growth and the main commodity shipping segments all responded with a rebound in freight rates.

MATURE ECONOMIES SURPRISING ON THE UPSIDE....

However, the key change taking place in 2013 was that the mature economies turned out to be capable of rising from the ashes and resuming a leadership role, which in turn helped to break the downward momentum of the emerging economies. The US economy, buoyed by its comparative advantage of lower energy costs and of continued heavy monetary stimulation, began to pick up speed as the negative effects of automated tax hikes and spending cuts at the start of the year gradually wore off. The Eurozone economy ended two years of contraction in the spring, helped by the combination of increased competitiveness through lower wage growth and more stable financial conditions, which together contributed to stimulating overall activity. The result was an upswing in activity, coupled with the need to rebuild depleted inventories, causing production and imports to strengthen. The improvement must be kept in perspective, however, as GDP growth only improved on a quarter-to-quarter basis. Measured on a year-on-year basis, the economy continued to contract through the year. The Japanese economy also improved, as new Prime Minister Shinzo Abe introduced fiscal stimulus, as well as a more aggressive monetary policy in order to weaken the Yen and increase the economy's competitiveness.

... WHICH HELPED AVOID A DEEPER SLUMP IN THE EMERGING ECONOMIES

This was a much-needed development, as the pace of growth in emerging economies slowed precipitously in 2013, including that of China. Although Chinese growth figures remain the envy of virtually all other countries, the pace of growth has been slowing consistently since 2010. The slowdown deepened in the first half of 2013, with virtually all sectors of domestic activity decelerating in response to tighter credit conditions and weaker exports. As a result the economy slowed to an estimated 7.5 percent growth rate, the lowest figure for more than a decade. The economy appeared to stabilize during the second half of the year, however, as exports rebounded and there was a moderate uptick in private sector spending.

Other emerging markets, from India to Indonesia and Turkey to Brazil, also experienced slowdowns, as authorities were forced to fight off the inflationary pressure that had built up after the Financial Crisis.

The strengthening in the US, and the stabilization of China, prevented a potentially accelerating slowdown in emerging markets from taking place. For the first time since 2010, leading economic indicators were uniformly in expansion mode and heading higher at the end of the year.

2014: THE END OF THE DAWNS OF FALSE RECOVERY?

Like the preceding three years there was a sense of optimism as the New Year got underway. This time around, however, there is more convincing data to support that something positive is going on. 2013 was a year devoid of any kind of crisis and the uniform strength seen in financial markets during the second half of last year indicate a greater degree of conviction.

Nevertheless, there are still plenty of reasons for caution as 2014 begins. Equity markets have begun the year on a wobbly note, fearing that a new financial crisis could be brewing in emerging markets as the prospects for monetary tightening draw nearer. Mature economies continue to have their own challenges. The present macro-economic situation is very different from "normal" due to the challenging mix of high debt levels, fragile banking systems and volatile capital flows amid continuing very high unemployment. These are all still potent triggers for continued macroeconomic volatility, which, inadvertently, will be negative for tonnage demand.

We look for the world economy to overcome these challenges. The fiscal "drag" in the US and Europe should be smaller and we believe Chinese authorities have the will and ability to handle domestic challenges. With authorities in all regions seemingly willing to err on the side of too much stimulus in the short-term, this should help emerging markets overcome their challenges and in sum we expect that 2014 will be the first year since 2010 in which global growth forecasts will have to be upgraded, and that should be good news for all of shipping.

SHIPPING MARKET PROSPECTS: CRISIS, WHAT CRISIS?

With the world economy on an upswing and a significantly lower orderbook, shipping should be able to begin saying goodbye to the Financial Crisis and its aftershocks. We expect an upswing in capacity utilization and moderately higher rates in most segments.

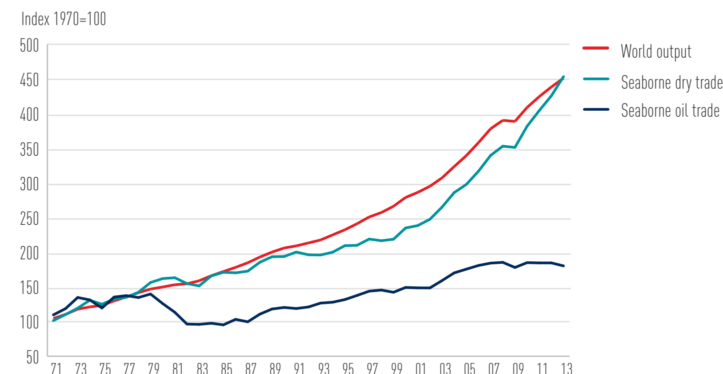
The single biggest risk factor hanging over the shipping industry is China. The Middle Kingdom was important before the Financial Crisis, but has become even more important since the Crisis, generating more than half of total seaborne trade growth since 2009. Speculations abound that the country could be facing its own financial crisis as a result of imbalances following the infrastructure boom. The shipping industry must be alert if a slowdown begins to gather momentum in 2014. While the less-dynamic, mature economies helped avert a deeper slump in 2013, tonnage demand growth would likely suffer if the emerging economies are replaced as growth leaders. That in turn would delay the shipping's return to profitability.

There are also challenges within the industry itself. The biggest one being how to manage the combination of underutilized shipyards and the seemingly abundant availability of private equity capital searching for attractive "yield".

For the new market up-cycle to broaden and blossom, the industry must continue to pursue a path of prudent capacity expansion. The next two years should give us precisely that, which means that shipping is poised to regain some of its losses in 2014 and 2015. The duration of the new up-cycle is of course unknown, but, to a great extent the fate of the industry lies in its own hands.

Ole-Rikard Hammer
Head of Research, RS Platou Economic Research

WORLD SEABORNE TRADE AND ECONOMIC GROWTH 1970-2013

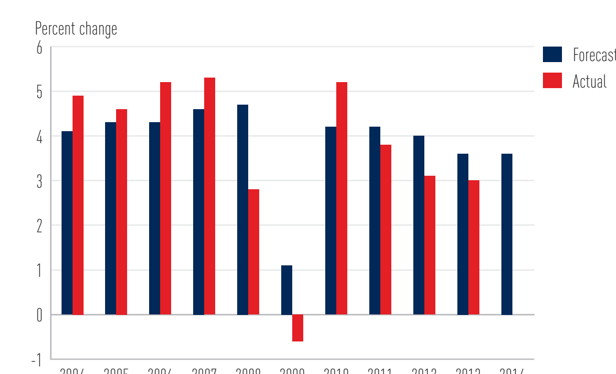


ANNUAL GROWTH IN REAL GDP PERCENTAGE CHANGE FROM PREVIOUS YEAR

	Jan 2013 Forecast 2013	Jan 2014 Actual 2013	Jan 2014 Forecast 2014
USA	2.0	1.9	2.8
Japan	1.2	1.7	1.7
Euro area	-0.2	-0.4	1.0
C. and E. Europe	2.4	2.5	2.8
Russia	3.7	1.5	2.0
China	8.2	7.7	7.5
India	5.9	4.4	5.4
ASEAN-5	5.5	5.0	5.1
M. East and N. Africa	3.4	2.4	3.3
Sub-Saharan Africa	5.8	5.1	6.1
L. America	3.6	2.6	3.0
World	3.5	3.0	3.7

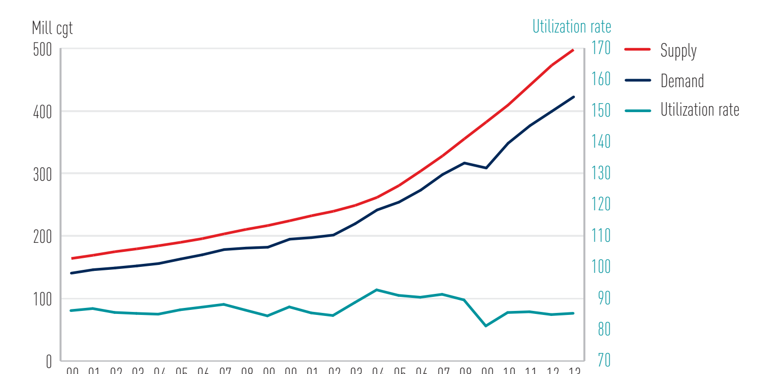
Source: IMF

GLOBAL ECONOMIC GROWTH 2004-2014 FORECASTS AND ACTUAL GROWTH RATES



Source: IMF (Forecast per Oct. the year before)

SUPPLY, DEMAND AND UTILIZATION RATE 1990-2013 WORLD MERCHANT FLEET



ORDERING ACTIVITY HIGHER THAN EXPECTED

Shipyard activity in 2013 was characterized by a large volume of new orders compared to the previous years. Private equity supported demand for new vessels, which shifted across segments in conjunction with variations in freight markets throughout the year.

New orders came in at almost 42 mill compensated gross tons (cgt), which is an increase of more than 150 percent from 2012. Yards in Japan, Korea and China all claimed their share of the contracts, and top-tier yards have now filled their orderbooks to a comfortable level, enabling them to raise prices. Our newbuilding price index increased by 12 percent during the year, with prices in some segments climbing by up to 20 percent. However, in a historical perspective prices are still low and below the average in 2011.

DEMAND FOR NEW TONNAGE

Demand for newbuildings increased in 2013, with 8 mill cgt registered per quarter in the first half, and close to 13 mill cgt per quarter in the second half of the year. Compared to an estimated building capacity at the time of delivery of around 9 mill cgt, total orders came in higher, meaning that average delivery time has been prolonged. Consequently, yards achieved higher prices for further orders throughout the year.

Influxes of new orders have historically been linked to our freight rate index, which is based on earnings for tankers, bulk carriers and container ships. The index ended at $13,800 per day in 2013, and based on this we would have expected new orders to come in at about 26 mill cgt. However, reported new contracts amounted to 42 mill cgt, around 60 percent higher.

Many traditional shipowners are facing financial constraints following weak freight markets in recent years, while the banks are still restrictive with regards to financing. Other, new players have therefore seen opportunities emerging, with institutional investors becoming instrumental in many of 2013's deals. Prices at historically low levels, attractive payment terms and short delivery time have made shipping an interesting playground. Furthermore, the so-called eco designs promoted by yards have been well received, with expectations of improved competitiveness due to continuing high fuel prices and compliance with future industry environmental regulations.

In absolute terms, new orders reached the same levels as in 2006 and 2008, only outpaced by the 78 mill cgt contracted in 2007. However, measured against the existing fleet it is not exceptional in historical terms. 2013 orders represented 8 percent of the existing fleet, which is higher than in the two previous years, but well below the activity seen in 2003-2007. In those years new orders averaged 15 percent of the fleet and peaked at 24 percent in 2007.

Rough estimates indicate that around 65 bill USD was invested in new, conventional ships during 2013, compared to 30 bill USD in 2012.

42 percent of all orders in 2013, measured in cgt, were signed at Chinese yards, with 21 percent of these on domestic account. Korean yards secured 35 percent of the contracts, but only 10 percent of these were backed by Korean owners. 14 percent ended up at Japanese yards, with one third registered as domestic orders.

TANKERS

New orders of tankers reached 32 mill dwt, of which 59 percent went to Korean yards and 30 percent to China. This volume is double of what was reported in 2012. 21 mill dwt of tonnage was delivered, with the orderbook at year-end standing at 54 mill dwt, corresponding to 11 percent of the existing fleet.

Ordering activity within the various segments varied during the year, in tandem with the fluctuations in freight rates. Clean carriers performed well in the first half, at a time when many such vessels were also contracted. The revival of the crude carrier market towards the end of the year resulted in a relatively large number of VLCC contracts in the fourth quarter.

BULK CARRIERS

Ordering activity within dry bulk was fairly constant during the first three quarters, and peaked in the last quarter. It was characterized by a large number of Capesize orders in March/April, and again towards the end of the year when Capesize freight rates peaked. Ultramax and Kamsarmax vessels gained popularity through the entire second half on the back of improved earnings.

In total, new orders represented 73 mill dwt and almost quadrupled from 2012. 59 mill dwt of new ships entered into operation, leaving the orderbook at 118 mill dwt at the end of the year. This corresponds to 17 percent of the existing fleet. Chinese yards claimed 66 percent of the dry bulk orders, whereas 20 percent and 10 percent went to Japan and Korea, respectively.

CONTAINER SHIPS

Despite a continuously weak freight market for container ships, ordering also quadrupled from 2012, to 2 mill TEU. Almost 90 percent of this volume came within the large vessel segments, above 8,000 TEU. Korea secured half of the volumes, recapturing the position as the dominant builder of container ships, while 28 percent went to Chinese yards.

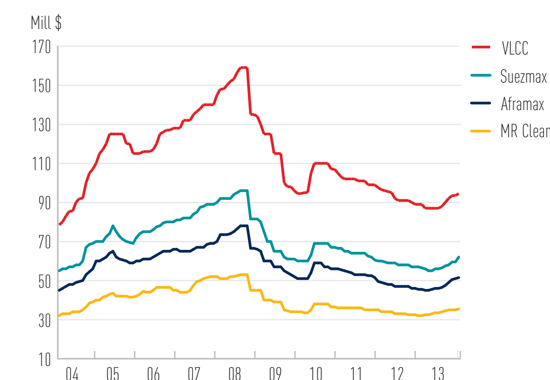
During 2013 some 1.4 mill TEU of capacity was delivered from yards. At the end of the year the orderbook stood at 3.8 mill TEU, or 22 percent of the existing fleet.

BUILDING CAPACITY AND SLIPPAGE

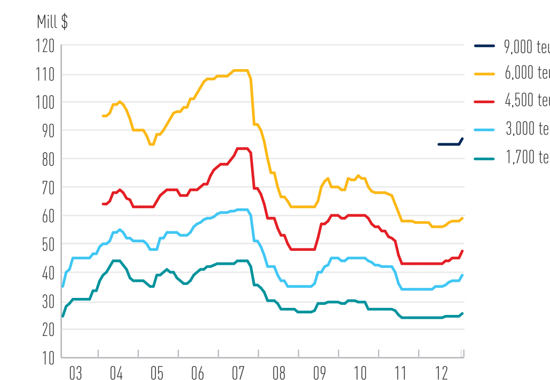
Quarterly deliveries have gradually declined since hitting a peak in mid-2012, and are now approximately 50 percent down on that record high. Monthly deliveries averaged 2.6 mill cgt in 2013 and total deliveries were reported at 31 mill cgt. As a

BUILDING PRICES FOR BULK CARRIERS 2004–2013

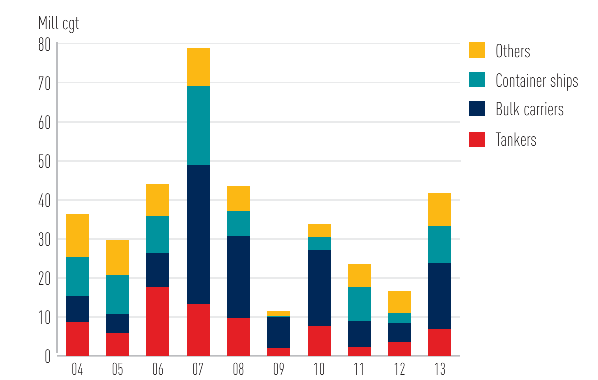
BUILDING PRICES FOR TANKERS 2004–2013



BUILDING PRICES FOR CONTAINER SHIPS 2004–2013



NEW ORDERS IN MILL CGT 2004–2013



consequence of the reduction in orderbook volumes and newbuilding prices since 2008, yard margins have decreased and the yards have therefore cut building capacity. Facilities have been closed and productivity has been reduced through smaller workforces, primarily by less use of subcontractors, and shorter working hours.

In 2015-16, when the orders taken in 2013 will be delivered, we estimate the global shipbuilding capacity to be around 37 mill cgt annually, which will be the lowest level since 2008. As new orders amounted to 42 mill cgt, i.e. above estimated capacity at time of delivery, average delivery time is prolonged and yard supply is tighter. As a consequence, yards may first claim higher prices and, secondly, some will likely seek to expand capacity as higher prices normally trigger yards to reactivate idle building capacity. However, prices are still relatively low, so we would not expect any dramatic changes in building capacity.

Japanese yards are also benefiting from the weaker Yen, which means that export contracts are expected to contribute substantially to profits. However, Japanese yards are already at the high-end of the productivity scale, which does not leave the same room for capacity gains as for Korean and, in particular, Chinese yards.

The tanker orderbook at the beginning of 2013 indicated delivery of 33.1 mill dwt during the year. Reported deliveries ended up at only 21.5 mill dwt, which means that 35 percent of the vessels scheduled for delivery never left the yards. Current records indicate that 20 percent of 2013 deliveries were postponed, while 15 percent were most likely cancelled.

Dry bulk deliveries were scheduled at 81.4 mill dwt in 2013. 58.9 mill dwt, or 72 percent, were actually delivered, and that includes 6.6 mill dwt of vessels that were not in the orderbook and are therefore registered as 'new' contracts. 21.5 mill dwt of the original contracts were postponed to 2014 or later, whereas 7.8 mill dwt, or close to 10 percent, were cancelled or removed.

The trend was quite similar for container ships, where 73 percent of the 1.88 mill TEU scheduled for delivery was actually delivered. This includes 3 percentage points of 'new' orders. 25 percent of the original orders have been delayed, while 5 percent were cancelled or removed from the orderbook.

BUILDING COST

Currency fluctuations have a major impact on shipbuilders' costs. While Japanese yards have benefitted from a 20 percent weakening of the JPY against the USD from 2012 to 2013, Korean and Chinese yards have seen local currencies appreciate. The share of hull components and equipment sourced locally is being gradually increased, particularly in China, so exposure to currency fluctuations is becoming an increasingly important factor in shipbuilding cost.

Our steel plate price index fell by 8 percent during 2013. In contrast to currency fluctuations, Chinese and Korean yards profit from lower steel cost, while the Japanese are forced to source steel domestically and are therefore not exposed to, this time lower, world market prices.

Generally, we estimate shipbuilding cost to have been reduced by 5-10 percent in Japan during the last year, while the cost in Korea and China has been cut by up to 5 percent, with variations among segments.

OUTLOOK

Demand growth for the global merchant fleet is estimated at 6 percent in 2013, which is in line with our expectations one year ago. World GDP growth is estimated to be 3 percent in the same period. GDP growth is forecasted to be higher in 2014, while we expect global tonnage demand growth to remain in the 5-6 percent range, based on our segment analyses.

DELIVERIES, NEW ORDERS AND ORDERBOOKS BY VESSEL TYPE

Type	Capacity	Deliveries 2013	New orders 2013	Order book end 2013	Percent of fleet end 2013
Tankers	Mill dwt	21.3	33.2	51.4	10.9
Bulk carriers	Mill dwt	58.9	73.0	117.8	16.5
Container ships	Mill TEU	1.37	1.97	3.779	21.9
LNG	Mill cbm	2.55	6.18	17.274	30.3
LPG	Mill cbm	1.33	4.42	5.45	30.4
Car carriers	1,000 CEU	111	285	434	11.5
Chemical carriers	Mill dwt	0.2	0.631	2.12	5.8
Cruise	1,000 berths	13.5	6.7	63.3	12.4

WORLD MARKET PRICE FOR HEAVY STEEL PLATES 2004–2013 10 MM+

The global merchant fleet is expected to grow by 4 percent in 2014, down from 5 percent in 2013. Consequently, average fleet capacity utilization is likely to improve from 85 percent in 2013 to 86 percent in 2014. Fleet growth in 2015 is expected to remain moderate, and below tonnage demand growth, with improved freight markets as a likely result.

Capacity utilization at such a level indicates freight rates below break-even within the major shipping segments, and will likely prevent traditional ship owners from ordering large volumes of newbuildings. By using the historical correlation between freight rates and new orders, and seen against our forecasts for the major shipping markets, our estimates for new orders in 2014 is around 30 mill cgt, which is 25 percent below reported 2013 volumes. This forecast indicates volumes of new orders coming in below our estimates for yard capacity at the time when the ships will be delivered.

The question is whether 'unconventional' ship owners, i.e. institutional investors, will remain active in the contracting arena also in 2014. The combination of low prices and short deliveries is not as obvious anymore, at least not at the yards fulfilling such players' requirements to counterparty risk. However, in early 2014 we experience continued interest in shipping from private equity, indicating that our forecast may be conservative.

While our base case forecast indicates orders below estimated capacity in 2014, volumes could end closer to, or even above, building capacity if private capital continues to find its way into shipping. Should this become the case prices should remain at the level seen at the end of 2013, or even increase further, particularly as yards have now filled their order books well into 2016 and their appetite for new orders at lower prices would be limited.

Ole Gustav Eriksen
RS Platou Economic Research

THE TANKER MARKET

BACK FROM THE DEAD

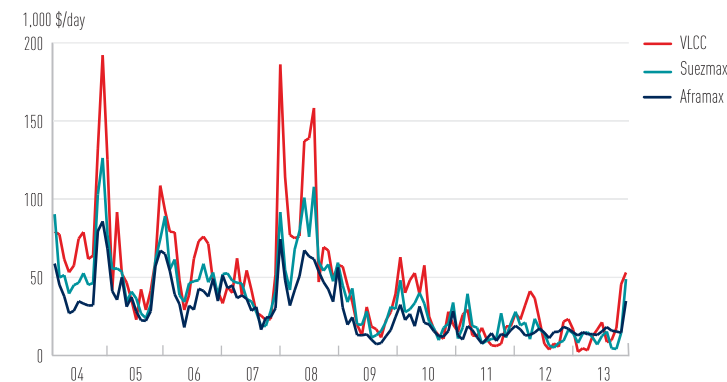
The tanker market began the year with falling freight rates and very weak sentiment. It finished it on an upbeat note, as rates responded sharply to a moderate improvement in fundamentals, laying to rest the fear that the market was mired in structural overcapacity.

Going into 2013, only the container market could match the crude tanker market in terms of negative sentiment. Collapsing US oil imports and high fleet growth were seen as insur-mount-able hurdles for a market recovery.

Certainly, the first half of the year performed in line with those downbeat expectations, with average freight rates through the first nine months of 2013 being the lowest in more than 20 years. In a classic shipping market surprise, however, the market made a stunning turnaround and rates soared in the fourth quarter to levels not seen since the floating storage boom in 2010. Although some sorting out of the details of what caused the year-end boom remains, we estimate that it kept the full year decline in fleet utilization to less than 1 percentage point at, 83 percent.

While fleet capacity growth exceeded tonnage demand growth on an annual average basis, there were important intra-year turning points for both. Tonnage demand picked up markedly during the second- half of 2013 in line with a stronger world economy and the end of Chinese de-stocking. Fleet capacity, meanwhile, peaked at mid-year and slowed sharply during the second half, principally due to much fewer newbuilding deliveries.

FREIGHT RATES – SINGLE VOYAGE 2004–2013
CRUDE CARRIERS



THE CLEAN MARKET: SOLID, BUT NOT CLEANING UP

The clean market had a solid, if unspectacular, year and continued the outperformance of the crude market that began in 2012. For the first half of the year, clean tankers outperformed crude tankers on an absolute basis, not just on a relative one, which was highly unusual. An expanding clean trade though the year made this possible. Growth moderated during the second half, however, reflecting the slowdown in global crude production in the first half, and there was no year-end demand boom like there was on the crude tanker side. Fleet capacity continued to expand at a steady rate of 6 percent through the year, absorbing most of the increase in demand growth.

FREIGHT RATES: STRONG FINISH WIPED OUT MOST OF THE DROP FROM 2012

For the first 10 months of 2013 the crude tanker market was on course for its weakest performance in 20 years, with rates routinely dipping below the levels of operating costs.

It all changed from November onwards as increased spot market activity reduced tonnage availability. This resulted in fewer available vessels and a spike in VLCC rates, which topped $50,000 per day, averaging nearly $40,000 per day for the quarter, compared to a third quarter average of $13,000 per day. Suez- and Aframax rates followed suit in December

Fundamentally, it is difficult to explain such a sharp improvement in so little time. While all the data is not in yet, it is clear that tonnage demand increased due to higher Asian imports and fleet capacity was essentially flat. Still, this is not sufficient to explain such a drastic improvement in rates on fundamental grounds alone. Charterers, as well as owners, appear likely to have been caught off guard and that may in itself have contributed to a tighter market if, for instance, fleet speed, was slow to respond to the improvement in market conditions.

AVERAGE FREIGHT RATES $1,000 PER DAY
SINGLE VOYAGE

	2011	2012	2013
VLCC	14.9	20.9	17.6
Suezmax	16.7	14.7	14.1
Aframax	12.9	15.4	16.3
LR2 product	12.5	14.3	13.5
MR product	11.3	13	16.3

Thanks to the exceptional finish to the year, our tonnage weighted Tanker Index barely budged in 2013, slipping by an almost negligible 4 percent from 2012 to $16,500 per day. However, for a long time, it looked like it would be much worse, with the index down nearly 40 percent at the half-way point. The market surge during the fourth quarter repaired much of the damage though. VLCCs, which had consistently traded below $10,000 per day during the first half of the year wound up at $18,000 per day for the year, virtually in line with our prediction at the start of 2013, but some 15 percent below the 2012 average. Suezmaxes weakened slightly to $14,000 per day, while Aframaxes improved from $15,000 per day to $16,000 per day. On the clean side, MRs averaged $16,000 per day, in line with our expectations and a solid improvement from $12,000 per day in 2012.

ASSET VALUES: FIRMER NEWBUILDINGS. U-TURN ON SECONDHAND.

It was a mixed year for asset values. Newbuilding prices flattened out during the first half and firmed during the second half, as high activity in all other sectors but crude tankers cleared out available yard capacity well into 2016. Shipowners with the financial capacity to order new vessels soon sought to take advantage of what was seen as the bottom part of the price cycle, and a very dynamic private equity capital market added push to the owners' shove. Newbuilding prices thus bounced off the lows during the first half of the year and by year-end were recorded at 6 to 13 percent higher.

Second hand prices experienced a much more dramatic shift. Having traded at increasing discounts to newbuilding parity through the last couple of years, due to an expected poor earnings situation, a sharp re-pricing began to take place as soon as it became clear that freight rates were gaining traction. Values for five-year old vessels rose by around 5 percent during the fourth quarter, while older vessels rose by 10 to 30 percent, (although there were relatively few benchmark transactions).

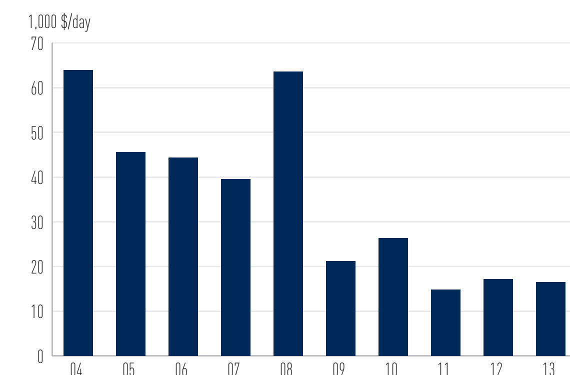
A CHALLENGING OIL MARKET

Following 2012's global surge in oil production, last year represented a clear letdown. World oil production increased by 0.5 mbd, or below 1 percent, less than half the rate of the previous year. In addition, the changes that did take place were mostly in the wrong areas for tonnage demand growth. The most obvious problem was the 1 mbd reduction in OPEC production that took place. Having peaked at a 30-year high in 2012, we correctly warned of lower output growth in 2013, as oil demand looked insufficient to support such a volume.

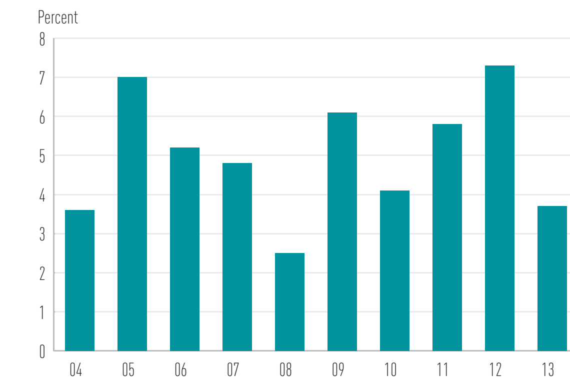
On top of this, US light, tight oil producers had another banner year and total output grew by 1 mbd to 7.5 mbd. However, little of this benefited the seaborne crude oil trade.

Oil demand growth remained relatively static at around 1 percent for the third consecutive year, although there were signs

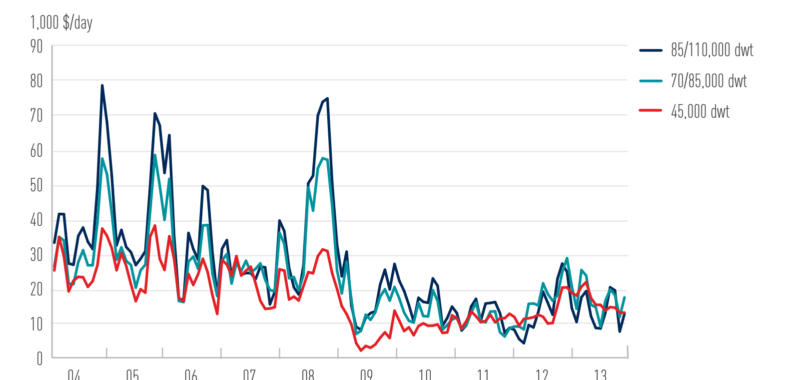
TANKER MARKET INDEX 2004–2013
ANNUAL AVERAGES (WEIGHTED BY DWT)



TANKER FLEET 2004–2013
AVERAGE ANNUAL CHANGES



FREIGHT RATES – SINGLE VOYAGE 2004–2013
CLEAN CARRIERS



of improvement in the second half. Effectively, the relatively stagnant oil market meant that displaced US imports were not being "recycled" into the global market and in reality remained in the ground in the Middle East. This caused seaborne crude trade to contract for the year.

TONNAGE DEMAND GROWTH: THAT SINKING FEELING THROUGH MOST OF THE YEAR

While it was indeed a weak year for ton-mile demand growth, it was not that bad for tonnage demand, a metric which also takes fleet productivity into account. Indeed, 2013 will stand out as another example of how easy it is to underestimate this increasingly complex entity.

The crude oil trade, which is the most transparent part of the global oil trade, was on a declining trend through the first half of the year, for several reasons. The most obvious being the ongoing reduction in seaborne imports to the US, which declined by more than 15 percent to 5.2 mbd, for reasons explained above. The pressure was most acute early in the year with seaborne imports hitting a trough in February before staging a modest comeback. Predictably, European imports also shrank as a further decline in North Sea production failed to make up for falling refinery demand in response to weaker local consumption and loss of market share to Indian and US refiners.

The problem for the tanker market was that other large importers were cutting back at the same time. This was particularly apparent in Asia. Chinese import demand slowed sharply, as a softer economy made destocking necessary after the 7 percent import jump of 2012. Japanese and Korean imports were down because of weaker domestic demand and lower refinery margins. While India increased imports in response to its growing refinery capacity, this was not enough to offset the decrease in other countries and crude imports to the region suffered a highly unusual decline in the first half of the year, albeit by only a modest 1 percent.

Preliminary estimates show the crude trade declining by 2 percent for the year, following a rebound during the second half.

The clean trades fared better, expanding by an estimated 2 percent. Asian oil demand continued to expand, drawing in more imports, while the problems for European refiners described above resulted in a surge in clean imports. European refining capacity is shrinking faster than end-user demand. The latter is heavily skewed towards one product, diesel, making the refiners' task even more difficult and leaving higher imports as the balancing item.

LONGER DISTANCES AND LOWER PRODUCTIVITY OFFER SOME REPRIEVE

Average trading distances have been steadily increasing and that trend continued in 2013. We estimate that average distance increased by about 1percent. On the crude side, the main driver of this trend is China. It has an exceptionally diversified import base resulting in the country having the longest average trading distances, by far. They extended further last year as imports from West Africa, North Africa and Latin America all increased.

It may come as a surprise to some, perhaps, but the US is also experiencing longer average distances. The heavy sour crudes from the Middle East remain an important feedstock for sophisticated US refiners. The light, sweet crudes from Atlantic Basin producers are, yet again in 2013, taking the biggest hit, but short haul producers Venezuela and Mexico both saw exports falling. The Middle East exporters thus increased their share of the US market yet again and average trading distances increased by an estimated 1 percent. Overall, we estimate that the increase in average trading distances offset the decrease in seaborne trade, keeping ton-mile demand flat vs. 2012.

Average trading distances are estimated to have increased somewhat for the clean market as well, as US, Indian and Middle East refineries continue to take market share at the expense of European refiners, which in general have been short haul suppliers.

Fleet productivity continued to decrease during 2013, effectively adding to tonnage demand. Measuring and interpreting changes in fleet productivity is a complex task, as discussed in previous reports. We estimate that fleet productivity declined by nearly 4 percent in 2013. The decline is mainly attributed lower fleet speed, mainly in response to higher bunker prices, and more time in port.

FLEET TRENDS: A TURNING POINT AFTER YEARS OF EXCESSIVE GROWTH

2013 was supposed to be a year of noticeably lower fleet growth following the hefty expansion during the previous three years, when growth averaged 6 percent. A slowdown did take place, but for different reasons than expected. Deliveries of crude tanker newbuildings, which were expected to moderate, fell by one third from 2012. This was particularly evident during the second half of the year, when the decrease was enough to actually lower fleet capacity slightly from its June peak. While it is hard to single out particular reasons with any great confidence, it seems clear that deepening financial problems at several Chinese yards became increasingly important through the year, causing deliveries to fall well behind schedule.

Demolition, which was supposed to pick up, actually did very little for most of the year. By mid-year, recycling figures were trailing 2012's modest total by a wide margin. A trend shift took place during the second half of the year on the back of some sales from benchmark owners. By year-end total demolition had caught up with 2012's total of 11 mdwt, the vast majority of which was crude tankers.

For the year, the average crude tanker fleet expanded by 4 percent, well below the 7 percent growth rate in 2012. Even more telling, by the end of the year the year-on-year growth rate had come down to 2 percent, less than one third of where it had started the year.

The clean tanker fleet experienced few of these problems. No major yards were in trouble and actual deliveries came in pretty close to schedule. Demolition was modest, as expected, given the healthy level of earnings and young fleet. In total, the clean tanker fleet increased by 6 percent for the year.

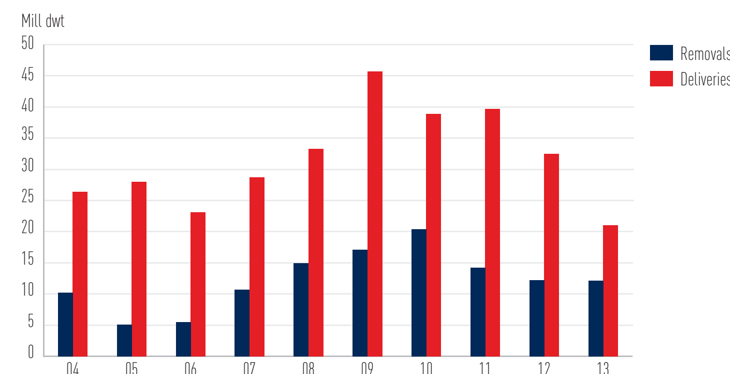
MARKET OUTLOOK: ON THE RISE, BUT DON'T EXPECT 2014 TO BE EASY

2013 turned out to be just as tough as expected, and needed the year-end spike to meet even those low expectations. On the other hand, that very spike makes us more confident to stand by our forecast for an improving market in 2014. In our view, it confirms that overcapacity is moderate rather than massive, which means stronger fundamentals should impact rates.

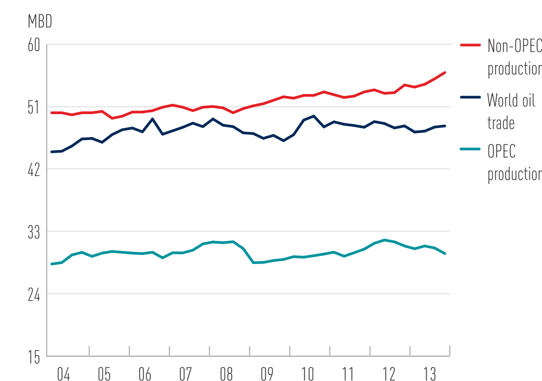
We expect that 2014 will mark the end of a series of false dawns for the world economy. If that proves to be correct, we expect that oil demand will surprise on the upside. Current forecasts assume that demand growth, while not dead, has lost all elements of cyclicality. We expect that the gradually stronger demand numbers built up during 2013 will continue in 2014, and that it should be the best year for oil demand since the Financial Crisis recovery year in 2010. It would not be the first time that mainstream forecasters get caught out at market turning points. We are therefore looking for a recovery in volume growth and a further lengthening of average distances. A stronger economy will create room for displaced US oil imports, in contrast to recent years, and both volume and average distances are expected to increase in 2014.

What is fairly clear about 2014 is that fleet growth will continue to moderate. The delivery schedule is in line with the 2013 actual level, but we expect some delays and possible cancellations due to well-publicized problems at certain yards. Demolition is

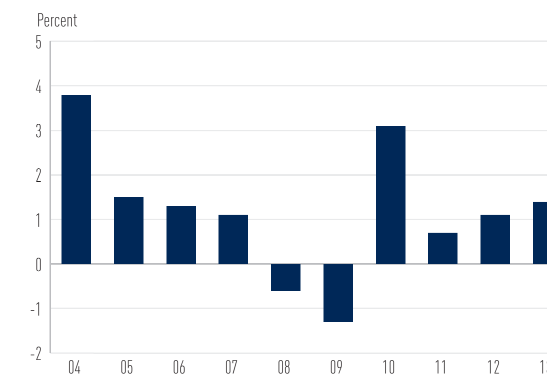
DELIVERIES AND REMOVALS OF TANKERS 2004–2013 EXCLUDING CHEMICAL CARRIERS



WORLD OIL PRODUCTION AND TRADE 2004–2013

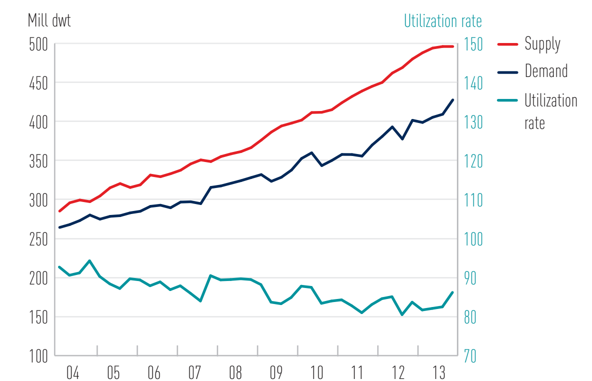


WORLD OIL CONSUMPTION GROWTH 2004-2013



Source: IEA

SUPPLY, DEMAND AND UTILIZATION RATE 2004–2013 TANKER FLEET



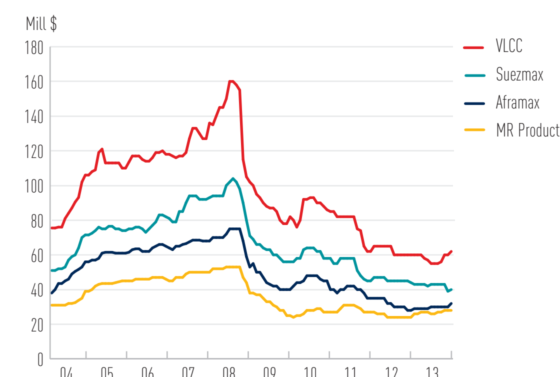
expected to ease back, in line with firmer rates, but the increasing number of vessels having to pass third or fourth special survey will find the economics challenging and may decide to call it quits. We foresee average fleet growth of 2 percent in 2014, the lowest level in more than a decade.

Combined with a firmer demand outlook this should yield an increase in fleet utilization. Freight rates are thus expected to be higher, on average, than in 2013, but it is still unlikely to be a very satisfactory year from a profitability standpoint.

THE CLEAN MARKET; STEADY AS SHE GOES

A firmer world economy will benefit clean tanker demand as well, and longer haul imports from the Middle East, India and the US should continue to displace European exports. On the other hand, newbuilding deliveries will be around 7 percent of the fleet and scrapping is likely to remain modest. Most of the demand increase is thus likely to be absorbed by higher fleet capacity, however, and we expect a relatively modest improvement in rates. That said, current levels are relatively healthy.

MARKET VALUES OF TANKERS 2004–2013
5 YEARS OLD



WHERE WILL SURPRISES STRIKE IN 2014?

We will repeat what we said a year ago, that China and Iran are the countries most capable of surprises. China can go either way; a slower economy could get derailed by an unexpected financial "event" and thus turn into a slump. On the other hand, it may also surprise on the upside if indeed the world economy visibly improves and the planned increases in Chinese refining capacity and strategic inventories are able to move forward.

Iran took steps in 2013 to return to the oil market. So far it has received an apprehensive welcome, but that may change in 2014. The country appears very intent on taking back its market share in OPEC and a return of Iranian exports is no longer unrealistic. It must be added, though, that any return of Iranian flows would represent somewhat of a double-edged sword for the tanker market: More transportation volume, but also more vessels available, due to reduced floating storage. In addition, a likely drop in oil prices could filter through to lower bunker prices, potentially unlocking some reserve capacity in fleet speed. Stay tuned.

The bottom-line from our perspective is that the starting point for a recovery is better than feared as overcapacity is moderate rather than structural. Slowing fleet growth is essentially a given over the next two years. That leaves the onus on the world economy to perform, which we believe it finally will, and 2015 should offer more of the same. The market should thus have a two-year window of opportunity to claw back some of the losses from previous years., Beyond 2015, we foresee the tanker industry embarking on a period of more normal demand and supply trends than we have seen in recent years, which should be good news from the standpoint of restoring profitability.

Ole-Rikard Hammer
Head of Research
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THE DRY BULK MARKET

SPIKE IN TONNAGE DEMAND OFFERS RECOVERY IN FREIGHT RATES

Dry bulk freight rates improved in 2013 from the miserable levels of 2012. We estimate tonnage demand to have increased about 9 percent, driven by a new record in Chinese dry bulk imports and a substantial recovery in global grain trade in the latter part of the year. The size of the fleet increased by slightly less than 8 percent. Fleet utilization thereby rose about 1 percentage point calculated on a yearly average basis.

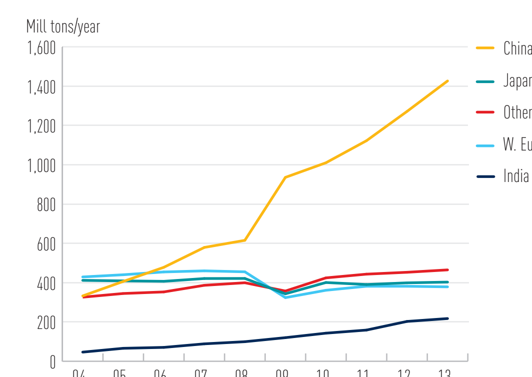
The year was split in two regarding earnings. Freight rates were very weak over the first seven months, especially for Capesizes. China utilized its inventories of iron ore considerably in this period and, combined with stagnating Brazilian exports to Asia, ton-mile growth was very weak for the largest size. Other segments were negatively affected by falling grain trade and slack activity in minor bulk commodities. In the second half of the year, an upswing in Chinese economic activity, combined with a strong surge in global grain shipments, created a very strong recovery in tonnage demand and increased freight rates.

For the full year, our weighted dry bulk index rose from $9,400 per day in 2012 to $12,800 per day, a rise of 34 percent. The largest increase came in the Capesize sector, where average earnings increased from $9,800 per day in 2012 to $16,600 in 2013, a rise of 69 percent. Panamaxes obtained $9,500 per day against a meagre $8,100 the year before. For Supramax tonnage, freight rates rose from $9,400 per day to $10,300, while the Handy sector daily rate improved from $7,600 to $8,200.

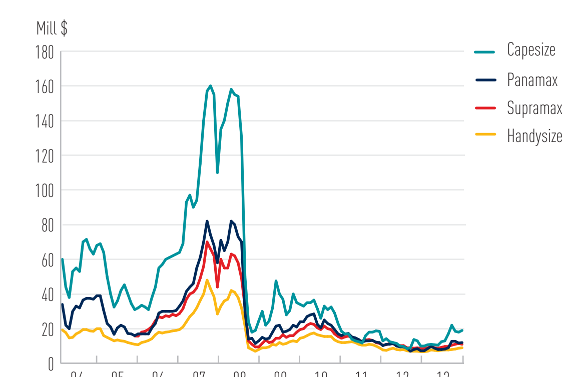
AVERAGE FREIGHT RATES $ 1,000/DAY
TRIP CHARTER

	2011	2012	2013
Capesize	16.2	9.8	16.6
Panamax	14.6	8.1	9.5
Supramax	14.4	9.4	10.3
Handysize	10.5	7.6	8.2

DRY BULK IMPORTS BY COUNTRY/REGION
2004–2013



T/C RATES BULK CARRIERS 2004–2013
12 MONTHS



STRONG INCREASE IN ASSET VALUES

Ship values increased steadily throughout the year in response to the improving earnings. The number of transactions jumped around 10 percent compared to 2012. While newbuilding prices rose between 15 and 20 percent across-the-board, secondhand values climbed at a higher rate and were more diversified depending on size and age.

The strongest upturn was registered for 10-year old Panamaxes, with a 44 percent jump from year-end to year-end. Prices in other size categories jumped between 25 and 30 percent, apart from modern handysizes, which gained around 20 percent.

STRONG GROWTH IN TONNAGE DEMAND

Preliminary data suggests that the seaborne transportation of dry bulk commodities measured in ton-miles rose about 7 percent against the previous year. Fleet productivity appears to have dropped around 2 percent and real tonnage therefore climbed about 9 percent.

China increased its dry bulk imports by an impressive 12 percent. Iron ore imports escalated by more than 10 percent and coal by 17 percent. Among other commodities, we noticed an extraordinarily strong jump in bauxite imports, with 60 percent higher volumes than last year. Imports of nickel ore and manganese ore jumped 10 and 35 percent, respectively. This must be seen in light of the ban on Indonesian mineral ores from January 12 this year, which forced Chinese industries to fill up inventories before the ban was implemented. Transportation of logs and woodchip to China rose strongly, while steel products, ferrous scrap and fertilizers all noticed lower imports due to higher domestic supply.

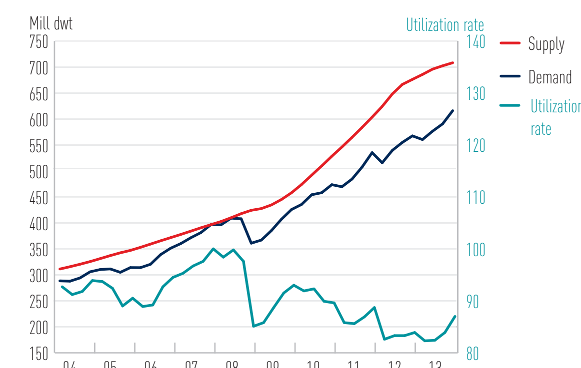
In the rest of the world, dry bulk import rose by around 3 percent from the year before. India raised its imports by 7 percent, while Middle East countries imported 10 percent higher volumes in total. Japan's imports were up 1 percent, while Far East Asian countries, excluding China and Japan, recorded 3 percent higher total imports. The US dry bulk imports recovered by about 8 percent, mainly driven by higher amounts of steel products and fertilizers. European dry bulk imports were, as a whole, basically unchanged from the year before.

Among key exporters, Australia raised its market share in minerals export. Iron ore shipments rose by 8 percent, while coal consignments escalated 15 percent from the previous year. Brazilian iron ore export was basically unchanged, while South Africa, the Middle East, Peru and Chile all raised overseas shipments. Indonesia again achieved impressive growth rates in mineral exports, with 16 percent higher coal shipments, a 50 percent escalation in bauxite export and a 15 percent jump in nickel ore shipments. In the grain sector, US and Black Sea exporters raised their exports substantially as a result of bumper crops and low inventories in major importing countries.

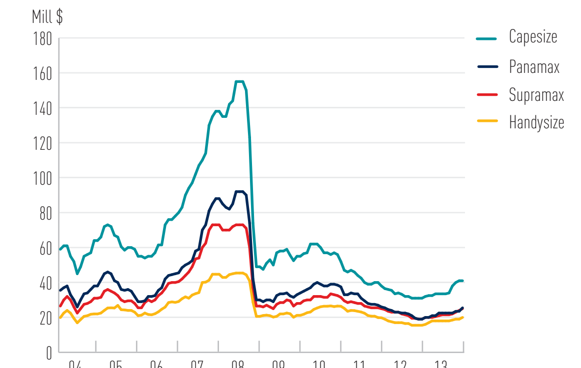
SAILING DISTANCES

Trading patterns in iron ore and coal showed a stronger increase in intra-Pacific loads than in cross trade between the Atlantic and Pacific Basins, thereby causing a moderate reduction in sailing distances. In grain, soybean, forestry and sugar, distances grew due to a more rapid increase in South American exports to long-haul destinations in relation to other exporters.

SUPPLY, DEMAND AND UTILIZATION RATE 2004–2013
DRY BULK FLEET



MARKET VALUES OF BULK CARRIERS 2004–2013
5 YEARS OLD



REDUCED FLEET PRODUCTIVITY CONTRIBUTED TO DEMAND GROWTH

The worsening imbalance in cross trade between the Atlantic and the Pacific Basins resulted in higher ballasting. Average speed is estimated to have fallen by less than one knot. Port congestion increased moderately, measured on a global average basis, but with some divergences on a regional basis. Australia and China remained congested for most of the year, while Brazil's iron ore ports reduced waiting time significantly. This was a result of stagnating shipments combined with expanding port capacity. However, Brazilian ports handling grain and soybean export and inbound fertilizer became significantly more congested over 2013.

FLEET GROWTH

Deliveries of new ships amounted to 59 mill dwt, while removals totaled 23 mill dwt. Softer scrap prices combined with higher freight rates gave less of an incentive for ship owners to send ships to the beaches. Calculated as an average for the year, the dry bulk fleet increased in size by slightly less than 8 percent from 2012 to 2013.

By segment, the Panamax/post Panamax fleet was enlarged by 11 percent, while the Supramax fleet size expanded 7 percent. The Capesize and Handysize fleets increased by 5 percent and 0.5 percent, respectively.

Ship owners were active in ordering new ships, with 73 mill dwt of new orders placed. The orderbook thereby increased in size from year-end to year-end, growing from 14.8 to 16.5 percent of the existing fleet.

MARKET PROSPECTS

Last year turned out better than expected thanks to a stronger than anticipated increase in Chinese dry bulk demand. The spike in freight rates in the latter part of the year also clearly indicate that the surplus of capacity is less dramatic than feared.

The prevailing predictions for the world economy going forward suggest higher growth than in 2013. For dry bulk demand, China's economic growth rate will be of vital importance as it accounts for more than 40 percent of the world deep-sea trade in dry bulk commodities. Forecasts for Chinese economic growth going forward suggest slightly lower growth than in previous years, but still in the 7 percent p.a. range. A crucial development would be the advent of arbitrage in iron ore and coal prices, as will the extent to which Chinese authorities attempt to reduce local pollution. Stricter regulations in domestic mining could be a stronger driver in Chinese iron ore and coal imports, as increasing overseas mining capacities will take priority over domestic low quality and high pollution capacities.

The transportation of bulk commodities, especially in the minerals sector, should, in general, expand in tandem with economic growth. However, the substantial build-up of Chinese inventories in bauxite and other high quality mineral ores in the final part of 2013 will most likely reduce the trade growth potential over the first part of 2014. It is premature to say anything certain about the grain and soybean trade; nevertheless, the bumper crop in 2013 has contributed to a strong revival of trade since last fall, and this is expected to last until spring this year. Grain trade in the second half of the year will largely be dependent on grain production and trends in grain prices.

A continued expansion of arable land in South America is expected to raise demand for fertilizers quicker than local production will expand. Fertilizer imports are therefore the most likely segment identified for further growth in the coming years.

In forest products, wood pellet transportation is anticipated to escalate further, especially from North America to Europe. We also predict a further increase in wood transportation to China, both in woodchips and logs. Enlarged paper production capacity and higher construction activity will most likely require higher imports of these products. A substantial part of the expected expansion of wood pulp export capacity in South America should be taken by Asian importers, with longer sailing distances as a result.

In total, we predict seaborne dry bulk trade to increase in the region of 5 - 6 percent from over the next coming years. Sailing distances in grain, soybeans and forestry products are expected to rise further due to a stronger relative increase in South American exports to Asia, compared to other exporting countries. In iron ore and coal, we assume small changes in the sailing distances. World logistical capacity is projected to expand by around 5 to 6 percent and port congestion is therefore expected to remain more or less unchanged. A continued increase in the ballasting factor seems also plausible. In total, we foresee an increase in real tonnage demand of some 7 - 8 percent.

FLEET TREND

The delivery schedule in 2014 and 2015 is lower than the 2013 actual level. We should, however, expect some delays and possible cancellations due to well-publicized problems at certain yards. We should also take into account there might still be orders and options placed in the final quarter last year which not yet are reported, and might influence the 2015 delivery program. We estimate deliveries both this year and next to reach about 50 mill dwt. Adjusted for some 13/14 mill dwt of estimated scrapping each year, a net fleet growth rate of around 5 percent can be expected in this period of time.

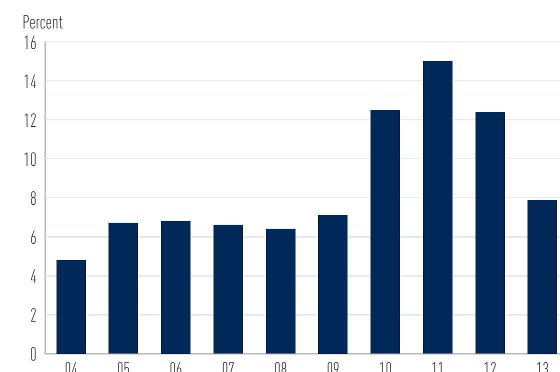
CONCLUSION

With a fleet growth of around 5 percent p.a. combined with 7 – 8 percent increase p.a. in tonnage demand the market fundamentals point to a further strengthening in the next coming years. We expect however, a slow start of this year, but we anticipate a recovery in freight rates during the course of the year when China has depleted huge inventories in iron ore, bauxite and nickel ore. A potential upside would be stricter regulations on Chinese domestic mining, which will support stronger growth in raw material imports than anticipated in our base case scenario. On the supply side, limited spare capacity at yards will prevent the likelihood of much higher than already anticipated deliveries up to end of 2015.

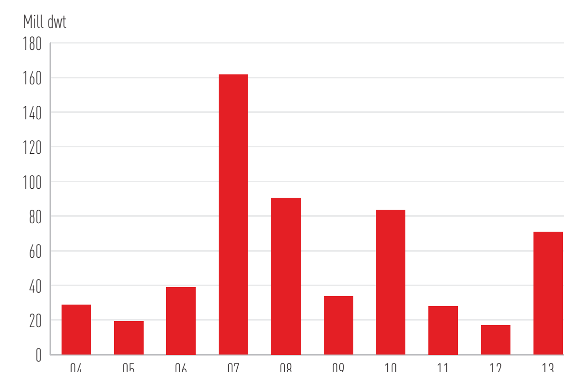
The main downside risk to the above scenario will be a much weaker than anticipated economic growth in China with slower increase in commodity imports as a result.

Bjørn Bodding
RS Platou Economic Research

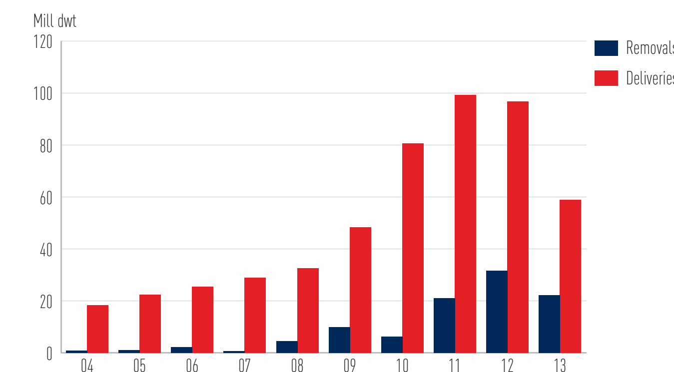
BULK CARRIER FLEET 2004–2013 AVERAGE ANNUAL CHANGES



NEW ORDERS OF BULK CARRIERS 2004–2013

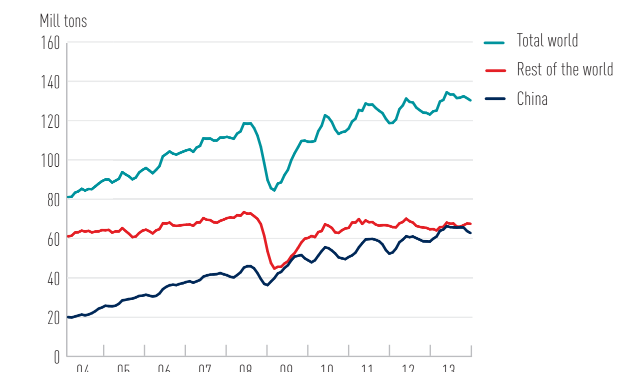


DELIVERIES AND REMOVALS OF BULK CARRIERS* 2004–2013



*Incl. conversions

WORLD STEEL OUTPUT 2004-2013



THE CONTAINER SHIP MARKET

HITTING THE BOTTOM

The container ship market in 2013 was characterized by continued downward pressure on box rates throughout most of the year. Carriers failed in their multiple attempts to raise freight rates. The uplift in box rates in the last two months of the year was driven by stronger year-end demand and capacity withdrawals in major services. Charter rates were also under constant downward pressure, apart from smaller geared tonnage, which experienced healthy demand and falling fleet growth across the year. Preliminary data suggests a slight drop in fleet utilization, resulting from fleet growth that was higher than the corresponding increase in tonnage demand.

FREIGHT RATES AND CHARTER RATES

Freight rates per TEU decreased about 5 percent from the previous year, calculated on a yearly average basis. However, strong volatility was registered, especially on the Asia to Europe string, with a firm start to 2013 followed by a significant drop in the middle of the year. In the final months, box rates rose significantly driven by somewhat stronger demand, withdrawals of sailings and increasing lay-up.

Charter rates were on average around 10 percent lower than the year before for gearless tonnage, while geared tonnage between 1500 and 2500 TEU obtained around 10 percent higher rates. The steady inflow of newbuildings reduced demand for gearless charter tonnage, while increased demand for feedering in emerging markets gave a positive boost to geared ships.

CONTAINER MOVEMENTS AND TONNAGE DEMAND

Preliminary statistics suggest global container ship demand increased by slightly less than 6 percent from 2012 to 2013. Global container movements increased by some 5 percent. Assessing trends by region, in the US containerized imports were up around percent 3 compared with the previous year. The volume of laden boxes from Asia was up 2 percent, while container traffic from South America rose only1 percent. On the Europe-US route, an increase of 2 percent was recorded.

Container traffic into Europe climbed 2 percent from the previous year. Traffic was stagnant in the first half of the year, but a significant rise was noticed in the latter part of the year, as the economic situation stabilized. Far East Asian volume to Europe was up 3 percent year-on-year, while traffic from the USA and South America increased only marginally. The strongest rise in European imports came from India, with an 8 percent escalation.

Within Asia, container shipments jumped 8 percent, while Far East Asia raised containerized exports to the Middle East by 7 percent. In other emerging market trades, we registered an 11 percent escalation in box movements from the Far East to East Coast South America and a 17 percent jump to West Africa.

FLEET PRODUCTIVITY

Fleet productivity decreased further in 2013, but at a slower pace than in recent years. A couple of services that had not introduced slow steaming in previous years introduced this in 2013.

FLEET EXPANSION

Some 1.4 mill TEU of new container ship capacity entered operation in 2013. This was nearly 500,000 TEU less than anticipated. Removals totaled 435,000 TEU of capacity, a new record. However, the net fleet expansion was still 6.6 percent across the year.

The idle fleet increased at the end of 2013 due to withdrawals of capacity and adjustments ahead of the winter season. The number of larger ships not operating increased with 13 vessels above 7500 TEU and 27 ships from 5000 to 7500 TEU reported as idled. At year-end, the total idle fleet stood at 780,000 TEU, equivalent to 4.5 percent of the total cellular fleet.

MARKET PROSPECTS

Historically, container traffic has increased at a rate that is around double the world GDP growth. In 2013, the ratio was only 1.7. This is probably related to continued low economic activity in the Euro area and slower economic growth within some emerging Asian economies. Despite an improved US economy, container import growth was lower than this economic indicator would normally suggest. One explanation could be that falling energy prices have improved the competiveness of US domestic industries, thereby reducing import growth in certain commodities.

The prevailing forecasts for world GDP in 2014 suggest an increase in world container traffic of some 6 - 7 percent. This is based on a factor to GDP of 1.8, assuming there is a relatively limited need to replenish global inventories in the short-term.

On a regional basis, the most important trade lane in the container market, measured in TEU-miles, is Asia to Europe. GDP growth in Europe is forecast to increase moderately, which suggests an associated increase in container imports. US container imports seem likely to increase due to expected stronger economic activity, but the growth rate might be more moderate relative to GDP than earlier, due to higher domestic supplies of certain commodities. The biggest gains in world container traffic are expected in Intra-Asian trades and on the routes from Asia to the Middle East, West Africa and South America. We also expect to see a further strong export and import growth between India and Far East Asia as well as India and Europe. No dramatic changes in fleet productivity are expected because major services have already implemented slow steaming.

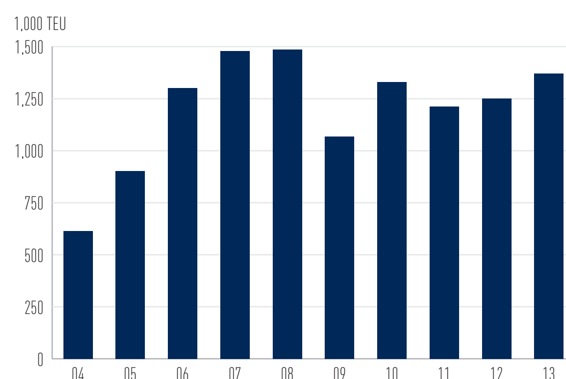
New ships with a capacity of around 1.8 mill TEU are scheduled for operation in 2014. Continued weak market conditions could cause some slippage. Proportionally speaking, a very large part of the new ships entering service this year are within the largest size categories. These ships are destined to operate on the Asia to Europe service, which will generate a cascading effect on other trades. Ships currently operating on this trade will be replaced with even bigger ships, causing the original vessels to be transferred to other trades. This pattern will impact negatively on medium size tonnage, especially gearless vessels.

Scrapping is expected to increase further, and the size of ships being removed is also expected to increase. We also anticipate a further decrease in the age of ships sold for breaking. We expect the fleet will see a year-on-year enlargement of 5 - 6 percent from 2013 to 2014.

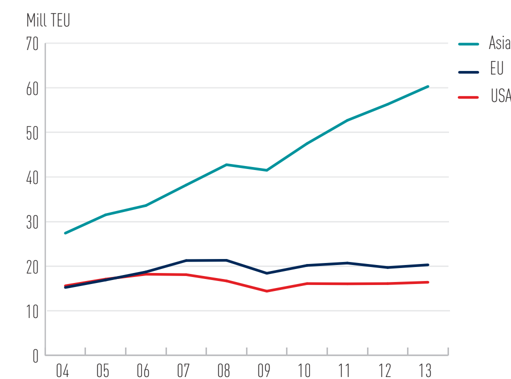
In conclusion, the anticipated tonnage demand growth in 2014 could exceed the increase in fleet capacity and result in a moderate increase in the total fleet utilization rate. However, with a significant capacity in idle and less potential for further reductions in fleet productivity, we do not expect to see a very quick recovery in the yearly average box and charter rates. One option for container carriers to restore profitability is to adjust the operating fleet size. This will require a further idling or withdrawals of capacity in low volume seasons. The build-up of alliances will also lead to stronger competition for increased market shares and this could delay the recovery process. The main upside potential in this sector is a quicker than expected economic recovery, especially in the Euro area, which will boost tonnage demand significantly, especially in the large sizes.

Bjørn Bodding
RS Platou Economic Research

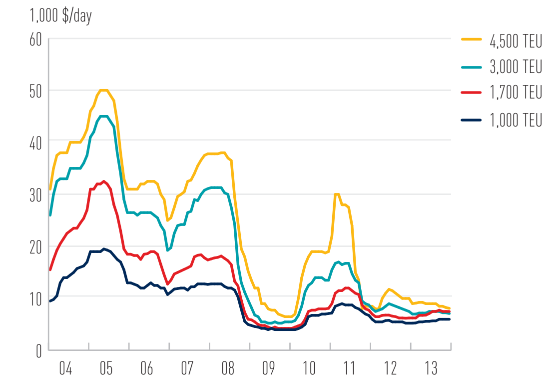
DELIVERIES OF CELLULAR CONTAINER SHIPS 2004–2013



CONTAINER IMPORTS - SELECTED REGIONS 2004–2013



**T/C RATES CONTAINER SHIPS 2004–2013
12 MONTHS**



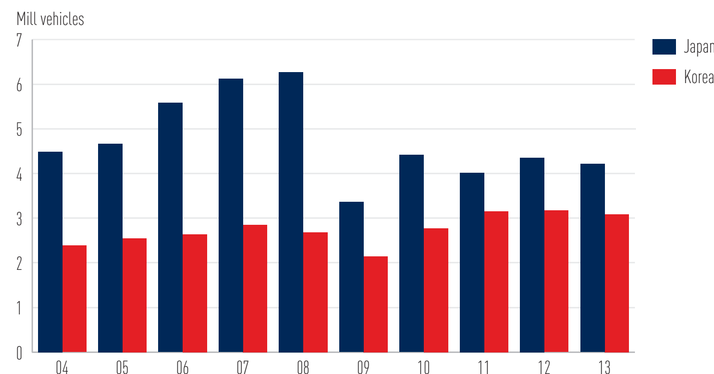
THE CAR CARRIER MARKET

STATUS QUO

The car carrier market was a rather uneventful one last year. Trends from late 2012 continued into the first half of 2013, with US auto sales on the rise and European sales sliding. Those who had hoped to see Japanese exports booming as a result of the weak Yen were disappointed and Korean exports also suffered. The time charter market weakened throughout the summer with 12-month T/C rates for 6,500 cap. carriers as low as $23,000 per day. However, higher volumes in the fourth quarter restrained vessel availability and rates climbed towards $25,000 per day. The operators' appetites for medium-sized tonnage remained limited, preventing rates from reaching $17,000 per day for a modern 5,000 cap. vessel. Such a large gap in rates between large and medium ships does not reflect the difference in investment, and 2013 was therefore challenging for owners exposed to the mid-size segment.

US auto sales surpassed expectations and ended at 15.6 mill light vehicles, up 8 percent from 2012. Sales of imported cars increased by 7 percent, providing welcome support to seaborne volumes into North America. Europe provided a contrasting picture; Western European sales were down 2 percent and Eastern European sales, including Russia, declined by 4 percent. There are, however, expectations of a minor growth in Western European sales in 2014, and Russia is expected to return to growth as well. Growing sales in China and South-East Asia supports intra-Asian trade.

JAPANESE AND KOREAN AUTOMOBILE EXPORT 2004–2013



As a consequence of growing demand, North American car production is expanding, particularly in Mexico. Japanese and European automakers are establishing or expanding Mexican assembly, benefitting from low labor cost, a reliable supply cluster and the proximity to US and Canadian markets. European production is a different story; Southern European plants run at very low capacity utilization and further closures are being negotiated with labor unions.

The situation in Europe is reflected in Japanese and Korean export volumes, which are down 3 percent from 2012. Korean production and exports were also constrained by labor conflicts in 2013, along with sharply reduced demand for imports to Russia and Latin America. Those lost seaborne volumes were compensated for by increased volumes out of India, Thailand, EU and NAFTA.

Demand growth in 2013 is estimated at a modest 2.5 percent, limited primarily by reduced Japanese and Korean volumes. Our expectations for 2014 are a slightly higher annualized demand growth of around 3.5 percent, based on steady volumes from Japan, a slight increase from Korea and the continuation of trends in other export markets.

The car carrier fleet counted 717 vessels at year-end. 18 vessels entered into operation and 13 were removed throughout the year, resulting in a fleet growth of 3.4 percent. The order book stood at 62 vessels, or 11 percent of the fleet, of which 37 are Post-Panamaxes. 40 newbuildings were added to the list in 2013. Fleet growth is estimated at a modest 2.2 percent in 2014.

Fleet capacity utilization has been estimated at around 86 percent in 2013, on an annualized average basis. That is slightly less than in 2012, and in line with our expectations one year ago. Our forecast for 2014 indicates a marginal improvement in capacity utilization to around 87 percent, mainly due to the small fleet growth. In this short-term perspective we still expect a growth in US car sales, as well as a small improvement in European sales. Longer-term, however, demand growth is likely to originate from emerging markets, as growth potential in mature markets is limited. An improvement in market conditions relies on a continued modest fleet growth, as key drivers for demand remain fragile..

Ole Gustav Eriksen
RS Platou Economic Research

THE LNG SHIPPING MARKET

CONTINUING TO OUTPERFORM

The LNG shipping market remained one of the very few segments in the shipping industry where owners made money throughout the whole year in 2013. With a status quo for shipping demand growth and a 2 percent fleet growth this year, the utilization rate fell to 91.5 percent. Short-term rates thus fell from $125,000 in 2012 to $98,000 per day.

Preliminary estimates show that the LNG trade grew by 1 percent in 2013. Only two liquefaction trains were inaugurated, but added very little to trading volumes this year. We also estimate below capacity LNG production at several export facilities this year. Technical issues and feedgas problems resulted in an estimated 86 percent utilization of the total liquefaction capacity in 2013. Transport distance has been a major contributor to demand growth in LNG shipping since 2010, but in 2013 this trend turned. Increased Middle East production contributed to a reduction in the number of cargoes shipped from the Atlantic basin to Asia. We estimate this trade to be 17 mill mt in 2013, a 20 percent reduction from peak volumes the previous year. Consequently, transport distance is estimated to have fallen by 2 percent in 2013. Adjusted for fleet productivity and the fact that some of these vessels are used for storage, i.e. regas terminals, we have estimated that LNG shipping demand experienced only a negligible growth in 2013.

During 2013 we registered 18 LNG carriers delivered from the shipyards. This added 2.5 mill cbm of carrying capacity, while four vessels were removed from the fleet. However, as most of the new ships were delivered in the second half of the year, the average fleet growth for 2013 only amounted to 2 percent. The orderbook for LNG carriers continued to grow in 2013, with 42 new vessels added. This left the total number of orders at 106 vessels, or 31 percent of the existing fleet, by the end of the year.

With a fleet growth of 2 percent seen against an only marginal growth in demand for LNG shipping, the utilization rate fell by 2 percent to an estimated 91.5 percent during 2013. This resulted in a fall in the short-term day rate level from $100,000 at the beginning of the year to $90,000 at its end. We registered a seasonal upward shift in the rates from the summer, with the average for the year ending up at $98,000 per day.

In 2014, we expect seaborne trade to grow by 2 percent and reach 244 mill mt. Three new LNG projects are scheduled to start production this year. However, they are not expected to add a lot of new production in 2014, as they start towards the end of the year.

Similar to last year, we believe transport distance to be the wild card in the coming year's tonnage demand growth for LNG shipping. One of the most important factors behind increases in recent years has been the shutdown of Japanese nuclear power plants and the subsequent hike in inter-basin trade between the Atlantic and the Pacific basins. It seems to be taking longer than expected to restart the Japanese nuclear power plants and the first reactors are likely replace oil-burning generating capacity which is more expensive than gas-fired power plants. Combined with the start-up of a number of new gas burning power plants in Japan, which should further increase demand for natural gas, we believe the inter-basin trade should remain at the current high level and thus increase transport distance slightly in the coming year. We therefore anticipate LNG shipping demand to grow by 4 percent in 2014. We expect 34 new LNG carriers to be delivered and, coupled with an assumed increase in removals, fleet growth should reach 7 percent in 2014.

In conclusion, we foresee a 3 percentage point drop in the utilization rate for the LNG carriers to 89 percent in 2014. This should result in an average short-term freight level of $75,000 per day for a modern steamship in 2014. Compared with the current level of a one-year T/C rate of close to $80,000 per day, this seems to be quite in line with what the market expects.

Jørn Bakkelund
RS Platou Economic Research

SHORT TERM RATE FOR LNG CARRIERS 2005 - 2013

SMALL-SCALE LNG

CONTINUED STRONG GROWTH

In 2013, the small-scale LNG market continued to develop strongly, albeit from a very limited base. A number of new small-scale LNG vessels were delivered, while the world consumption of LNG as a marine fuel grew by approximately 130 percent year-on-year, totaling around 0.2 mill tons per annum at year-end. For 2014, we predict growth of 50 percent, leading to a total consumption of 0.3 mill tons per annum at year-end. All data presented here is based on RS Platou Shipbrokers' own estimates.

In 2013, we have experienced the following notable events:

- The world's first LNG bunkering vessel Seagas entered into service in the Port of Stockholm. Last year this vessel, which is owned by AGA, safely completed more than 230 ship-to-ship LNG transfers, delivering LNG fuel to the Ro-Ro passenger ferry Viking Grace.
- Three small LNG carriers were delivered, increasing the world fleet by 15 percent to a total of 19 vessels with cargo capacity less than 30,000 cbm.
- A significant number of large ships capable of running on LNG were ordered. North American projects ordered the largest vessels.

In 2014 the new Skangass terminal in Lysekil, Sweden will enter into operation. This terminal's throughputs of more than 200,000 tons of LNG per annum will more than double the amount of small-scale LNG shipped in Northern Europe.

Image courtesy: Skangass

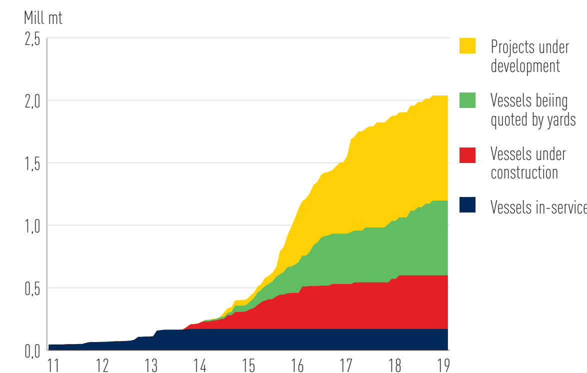
From 1 January 2015 the new regulations for sulfur content in fuel in the SECA area will enter into force. From this date, charterers and shipowners will experience an overnight hike in their fuel-bills as they change to the more expensive low-sulfur fuel. It is possible that this will increase interest in obtaining more fuel-efficient vessels, capable of burning natural gas rather than marine diesel oil.

We also expect several small-scale LNG companies to announce new marine LNG bunkering capacity that will become available on-keel in both Europe and North America.

It is our understanding that players in the industry are welcoming the LNG marine fuel revolution. However, there are also some challenges; a chief one being the lack of transparency in the pricing of LNG, which is not as transparent as ship owners are used to from the liquid fuel markets. This is one of the challenges we hope the LNG industry will try to tackle in 2014.

Egil Rokstad
RS Platou Shipbrokers

GLOBAL CONSUMPTION OF LNG AS MARINE FUEL



THE LPG SHIPPING MARKET

SHALE-PLAY REVOLUTION

The LPG shipping market registered its third consecutive year where spot rates for the largest ships, VLGCs, gave the owners a healthy return on invested capital. Preliminary data suggests that LPG shipping demand increased by 9 percent. Delivery of new tonnage picked up significantly in 2013, with 1.3 cbm of new carrying capacity causing the fleet to expand by 4 percent. In turn, this led to a 5 percent hike in the utilization rate, which reached 87 percent. This lifted spot rates for VLGCs by $6,000 over 2012 prices to $36,000 per day.

Preliminary figures for seaborne LPG trade in 2013 suggest a 6 percent increase in volumes to 63 mill mt. The US shale oil and gas revolution continued to influence the LPG market; exports were up almost 60 percent from 2012 to a total of 10 mill mt in 2013. Most of this export volume remained in the Americas, but an increasing share was shipped to other markets. Asia accounted for 11 percent of the 2013 export, up from 6 percent in 2012, while Europe increased its share from 11 to 15 percent. LPG export from the Middle East slumped by an estimated 8 percent in 2013, as Iranian exports almost ceased due to the embargo. Combined with a growth of 1 percent in transport distance, we have estimated the ton-miles demand to have grown by 7 percent in 2013.

Seaborne Ammonia trade is estimated to have fallen by 3 percent in 2013, mainly driven by lower Indian, American and Moroccan imports. These figures reflect the decline in export from Trinidad & Tobago and Saudi Arabia. We estimate an increase of just over 3 percent in the transport distance, resulting in only a slight increase in ton-mile demand for the Ammonia trade.

By adding together demand for LPG and Ammonia shipping, and adjusting for reduced fleet productivity, we have estimated demand growth at 9 percent in 2013.

The LPG fleet of semi- and fully refrigerated tonnage over 10,000 cbm increased by 4 percent in 2013. 26 vessels with a capacity of 1.33 mill cbm were delivered and only two midsize ships were reported sold for scrap. During the year a new record of 83 orders for new ships was recorded, of which 40 were VLGCs above 70,000 cbm. At the end of the year the orderbook amounted to 5.45 mill cbm, representing 30 percent of the existing fleet.

The balance in LPG shipping therefore tightened even further in 2013. A 9 percent growth in shipping demand seen against a 4 percent increase is supply, resulted in the 5 percent higher utilization rate of 87 percent this year.

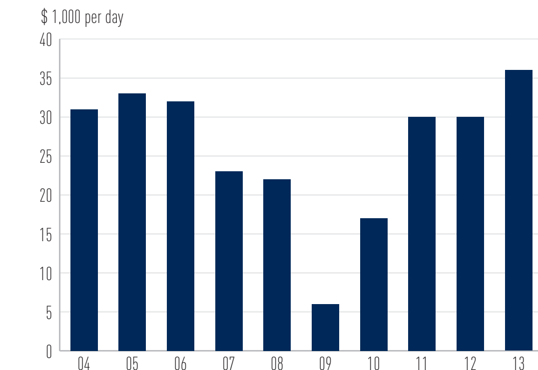
In 2014, we expect seaborne LPG trade to increase by 8 percent, driven by a continued surge in US exports. In the last couple of years the US export volume has been restricted by export capacity, which we believe will still be the case in 2014, given the huge price difference of LPG between the USA and other markets. Assuming a high utilization rate of the US export plants, we believe the export could reach 13 mill mt in 2014. We have also factored in a rebound of export activity from the Middle East from the previous year's lower than expected level. More exporting from the USA to Asia and Europe is expected to result in an increase in transport distance.

Ammonia trade is expected to grow by 4 percent on the back of higher African and Asian imports. The negative trend in US imports is likely to continue, but the anticipated large drop in Ammonia import due to increased domestic gas production is expected to take place beyond 2014. We do not foresee any significant changes in transport distance for Ammonia this year.

Shipping demand for LPG carriers is therefore expected to increase by 10 percent in 2014. The orderbook, in conjunction with limited anticipated scrapping in a tight market, indicates that the supply side is set to grow by 7 percent this year. This should result in a 3 percent higher utilization rate in 2014 at 89 percent, indicating VLGC spot rates of $38,000 per day.

Jørn Bakkelund
RS Platou Economic Research

YEARLY AVG. SPOT RATE FOR VLGC 2004-2013



THE DEMOLITION MARKET

ANOTHER BUSY YEAR

2013 was another busy year for recycling. Tonnage removed reached 44 mill dwt, which is a reduction of 22 percent from 2012, but nevertheless the second highest annual volume ever reported. An improvement in freight rates for tankers and bulk carriers provided less incentive for scrapping, and despite a marked reduction in deliveries, demolition activity could not prevent the annual average fleet growth from reaching 4 percent and 8 percent in those segments, respectively.

Demolition prices fluctuated throughout the year, with the highest variations seen in China where prices for tankers varied between $310 and $400 per ldt, and prices for bulk tonnage moving within the same interval. Fluctuations were comparatively smaller in India/Pakistan, where tanker prices were reported between $390 and $445 per ldt. However, currency fluctuations of up to 25 percent against the dollar gave cause for concern among local breakers.

Tanker demolition ended at 104 vessels and 10.6 mill dwt last year, a reduction of 13 percent from 2012. Single-hull scrapping amounted to 1.6 mill dwt, almost half of 2012, indicating the relatively small fleet of single-hull tankers still floating. The average age for tankers scrapped was 23 years, but it is worth noting that 15 double-hull VLCCs with an average age of 18 years were taken out, the two youngest being only 14 years old.

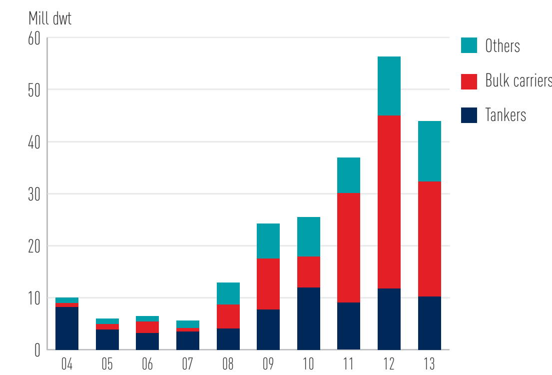
The volume of bulk carriers sold for scrap was reduced by one third from 2012, to 22.6 mill dwt. The tonnage was quite evenly distributed among segments, with the scrapping age averaging 28 years, which is the same as the previous year. 48 Capesizes were taken out, representing 8.5 mill dwt. At the same time, 94 new ones were delivered, adding 5 percent to tonnage in this particular segment.

The only increase in recycling was seen in the container fleet, with 184 vessels and 435,000 TEU removed. More than 80 percent of these were vessels below 4,000 TEU, but 15 ships in the 4,000-6,000 TEU range were also scrapped and this is the first time that we have seen any quantity of such large vessels being taken out. Average age continued to shrink from 23 years in 2012, to 22 years in 2013. With 1.4 mill TEU of new capacity being delivered, the scrapping could not prevent a fleet growth of nearly 7 percent during the year.

Demolition activity in 2014 is likely to be influenced by the incentive program introduced by China, whereby shipowners will receive 750 CNY per gross ton of Chinese-flagged vessels sold for recycling at approved yards in China. Furthermore, another 750 CNY per gross ton is granted if the owners re-invest in newbuildings of a similar type at Chinese yards. Around 40 vessels have been sold in this program so far, but we expect more than the current five yards to be approved for this scheme in 2014, leading to an escalation in activity.

DEMOLITION PRICES TANKERS 2004–2013

TONNAGE SOLD FOR RECYCLING 2004–2013



MOBILE OFFSHORE DRILLING UNITS

2013: RETURN OF SHALLOW WATER

DAY RATES/UTILIZATION: REVIEW OF THE YEAR

Oil and gas companies have, in recent years, renewed their focus on shallow water oil and gas assets. This trend continued unabated in 2013, resulting in a further tightening of the jackup market. We observed that modern Independent Cantilever units (built >1998, modern units) were enjoying basically full active utilization in 2013, while the active utilization of older Independent Cantilever units (built <1998, standard units) rose on average 3.5 percentage points from 2012 to 2013, averaging 94 percent in 2013. As the total active jackup fleet approached full utilization, day rates of both standard and modern units continued to increase. Global average day rates of standard units averaged USD 127,000 in 2013, an increase of 25 percent compared to 2012, while global average day rates of modern units averaged USD 164,000 in 2013, an increase of 15 percent compared to the previous year.

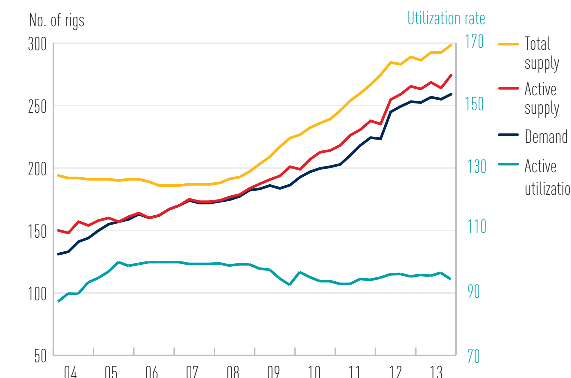
The floater market remained tight in 2013, albeit with a weakening underlying trend, as indicated by significantly reduced fixing activity (measured in rig years). Our records show that floater fixing activity declined by 41 percent from 2012 to 2013 and totaled 178 rig years. Despite reduced floater fixing activity, the still substantial contract backlog of rig owners helped to keep the active utilization of floaters at elevated levels. Our records show that active floater utilization remained flat in 2013, compared to 2012, and averaged 95.9 percent (+0.2 percent). A further breakdown of the floater fleet shows that there was also limited movement in the active utilizations of the floater sub-segments. Ultra-deepwater (UDW) units were still fully utilized, while the active utilization of Mid-water (MW) and Deep-water (DW) averaged close to 93 percent in 2013, which is unchanged compared to 2012. Day rates reflected the active utilizations and were largely unchanged.

DEMAND

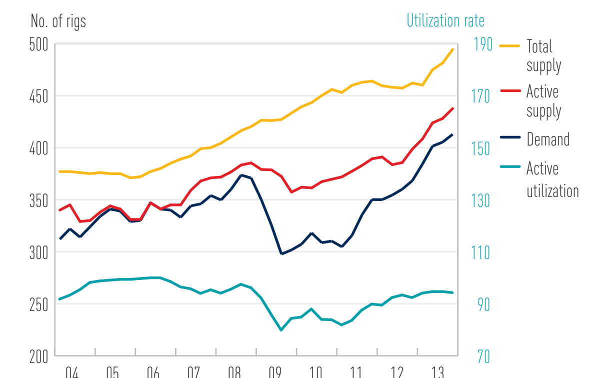
The strong link between oil and gas companies' incomes and the level of Mobile Offshore Drilling Units (MODUs) fixing activity was confirmed again in 2013. A small decrease in oil/gas revenues in 2013 produced a predictable decline in fixing activity of close to 9 percent in 2013, ending at 642 rig years. However, the modest decline in fixing activity hides divergent trends in the jackup and floater market:

Jackup fixing activity increased substantially and the end of year tally shows that contracts with a total duration of 465 rig years were fixed in 2013, an increase of 16 percent compared to 2012. The higher fixing activity helped to propel jackup demand significantly higher. The number of jackups on contract averaged 401 units in 2013, which is a 12 percent jump compared to 2012. Demand increases for jackups in the same period were observed in most regional markets, but were particularly strong in South East Asia (+29.5 percent), Middle East (+17 percent) and Mexico (+17 percent). Over the last few years jackup demand has clearly accelerated. The rise in activity is, on the surface, contradictory. Most shallow water basins have been extensively explored and developed for many years and

MARKET DEVELOPMENT 2004–2013
FLOATERS



MARKET DEVELOPMENT 2004–2013
JACK-UPS



are becoming increasingly mature. Discoveries in shallow water basins have also become fewer and smaller in recent years. As expected, shallow water fields under development were also falling in 2013 (after surging in 2011 and 2012 as a consequence of the oil price bouncing back after the financial crises). Jackup demand is, however, likely to have been driven by the significant efforts of many oil and gas companies to stabilize production in already producing oil and gas fields (e.g. Mexico and Saudi Arabia).

Floaters on contract increased in 2013, but at slower pace than 2012. We estimate the number of floaters on contract increased by 5 percent in 2013, down from 12 percent in 2012. The main limiting factor to growth was supply side constraints. Only 13 floaters were delivered in 2013, compared to 20 in 2012. Floater demand grew unevenly across the regions. For example, the previous booming growth in Brazil turned to negative growth of nearly 10 percent in 2013. On the other hand, floaters on contract grew most notably in Gulf of Mexico (20 percent) and West/East Africa (10 percent). Fixing activity of floaters (as measured in rig years), which is a more forward looking indicator, decreased significantly in 2013 by 41 percent compared to 2012. The accumulated length of contracts signed in 2013 was only 178 rig years, below the 265 floaters on contract at the end of 2013. Fixing activity in the different floater segments was generally negative. We estimate fixing activity of UDW units decreased 44 percent, while fixing activity of MW and DW units (aggregated) declined 37 percent.

So why did the floater fundamentals become more uncertain in 2013? Again this seems contradictory, as (especially UDW) demand is supported by a long string of major discoveries in many geographical regions that are likely to be highly profitable to oil and gas companies.

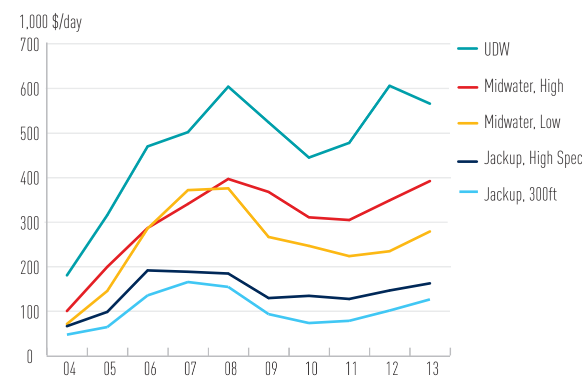
It is likely that the investors' focus on the dwindling returns on upstream investments has affected the priorities of oil and gas companies. The effect of flat/marginally declining oil prices and increasing exploration and production cost is squeezing the profitability of many oil and gas companies. Oil companies have reacted to this by increasing capital discipline. As always, it is oil service sectors with short lags, such as land rigs and sectors exposed towards exploration, which are experiencing the oil and gas companies' capital discipline first. In the context of the floater market, we understand a large proportion of UDW units are drilling exploration wells. The number of deepwater developments is increasing and will continue to do so, but from a relatively low base. Therefore development activity is not yet able to drive floater demand alone.

FLEET TREND

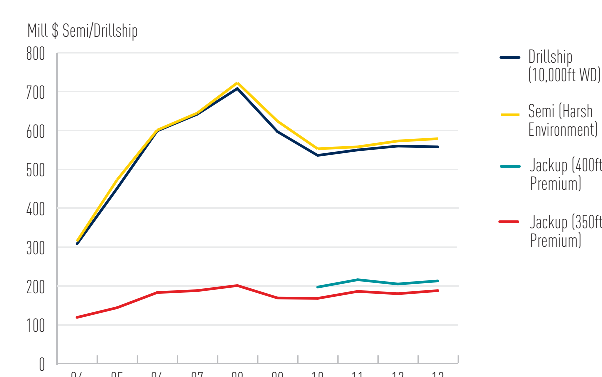
Jackup fleet growth accelerated in 2013 due to increasing deliveries. We recorded 42 actual deliveries in 2013. A large number of units were still being delayed. It must, however, be said that many units had delivery scheduled for the end of December and were conveniently pushed into 2014. The tight market led to less removals/scrapping in 2013. In 2013, only three jackups left the fleet as compared with 15 units in 2012. By the end of 2013, our figures indicate that the active jackup fleet increased by 35 units, or 8 percent, in 2013. The process of jackup renewal accelerated in 2013 and we recorded 74 new orders, substantially up from the 24 orders made in 2012. Interestingly, many new Chinese yards were signing contracts and achieved a market share of nearly 60 percent in 2013.

We estimate the floater fleet to have expanded by 12 units, or 5 percent, in 2013. Some delays of newbuilds were noted, mainly as a consequence of bottlenecks among key equipment manufacturers, such as BOP manufacturers. We note that only 13 of 23 units were delivered according to schedule. However, as with the jackups a number of late December deliveries were pushed back into January 2014. The newbuilding market for floaters was less active in 2013, with 15 drillships and seven semisubmersibles ordered, compared to 23 drillships and nine semisubmersibles in 2012.

DAY RATE OF RIGS 2004–2013



NEWBUILDING PRICE OF RIGS 2004–2013



MARKET PROSPECTS

FIXING ACTIVITY AND RIG DEMAND

Given the current economic climate and oil supply dynamics, oil prices are expected to remain largely unchanged in 2014. As in previous years oil prices are, unsurprisingly, vital to rig demand, as the link between oil and gas companies' incomes and the level of rig fixing activity has historically been strong (R2=0.92). Total rig fixing activity is therefore expected to decline by 5 percent in 2013.

Jackup fixing activity and the resultant demand seems to be facing a higher degree of risk in 2014/15. Exploration drilling is likely to stay muted as a consequence of the maturity of the shallow water basins. Although, shallow water fields under development have been rising in recent years, flat oil price is slowing down new fields entering the development stage. By 2012 we had already observed a peak in shallow fields under development. Continued increases in jackup demand hinges therefore on increased focus on the redevelopment of older fields to generate incremental demand. The redevelopment of oil and gas fields can give oil and gas companies a relatively faster increase in returns as the infrastructure is already in place. This type of activity is therefore more in tune with the increasing capital discipline oil and gas companies are trying to enforce. Given the above, demand is expected to increase 5-6 percent in 2013, which is still solid growth in a historic perspective, but down from last year's 12 percent increase.

Floater fixing activity is likely to rise from the dismal levels seen in 2013. As the development of deepwater fields rises, fixing activity will also increase. High profitability in deepwater fields is still attractive to oil and gas companies. The fixing activity is, however, not likely to rise above the growing actively marketed fleet, which will reduce the average backlog per rig. Nevertheless, the still large backlog means most units without contracts will find new employment opportunities. Therefore the growth in floater demand in 2014 will be, as in recent years, mostly dimensioned by the deliveries of newbuilds.

FLEET TREND

The current jackup orderbook is indicating that 41 units will be delivered in 2014 and 62 units will be delivered in 2015. A large proportion of units will be delivered from established/experienced yards in 2014 and therefore chances of delays are diminished. It is, as ever, difficult to estimate the scrapping/removal of older standard units. In 2013 only three units were removed, but we will not be surprised if that number is higher in 2014. Ultimately, scrapping/removals will be a function of the tightness of the market. We estimate the total jackup fleet to grow by 8 percent in 2014, and to 7 percent in 2015.

The current floater orderbook is indicating 35 units will be delivered in 2014 and 24 units in 2015. Despite some delays being recorded in 2013, mainly caused by key equipment manufacturers, fewer delays at floater yards are expected in 2014 and 2015. Scrapping/removals are also expected to be insignificant. The floater fleet should therefore grow by 9 percent in 2014 and by 8 percent in 2015.

CONCLUSIONS

Active jackup utilization in 2014 is expected to average 92 percent, which is 2-4 percentage points below the active utilization rate of 2013. Modern units are still likely to command high utilizations, but as older units come off contract, day rates are likely to come under pressure, for both types of assets.

Active utilization for floaters is also expected to remain at a high level in 2014. Fixing activity should be sufficient to fully employ most units in 2014. Close to full utilization is expected in most segments, in particular the UDW segment. However, as fixing activity is forecast to remain below the growing active fleet, the floater fundamentals are expected to weaken. Contract lengths and lead times are therefore likely to come down and day rates will come under some pressure, but not undue pressure. Rig owners still have a buffer in a large contract backlog. UDW day rates, for example, are therefore not expected to drop more than 10 percent on a year-on-year basis.

Sven Ziegler
RS Platou Offshore Research

RIG MARKET KEY FIGURES

Average year	1990	1995	2000	2005	2008	2009	2010	2011	2012	2013
Oil price (Brent, $/barrel)	24.0	17.2	28.1	55.2	97.4	61.9	79.4	111.0	112.0	108.5
Gas price (Henry Hub, $/bcf)	1.6	1.8	4.6	9.0	8.8	3.9	4.4	4.0	2.8	3.7
Oil consumption (mbd)	66.6	70.0	76.6	84.0	85.7	84.9	88.2	88.8	90.0	91.2
Total rig demand	417	387	424	487	540	504	509	599	601	652
Total rig supply	546	517	553	565	605	642	681	743	742	763
Rig utilization (on total supply)	76.4%	75.0%	76.7%	86.1%	89.5%	79.2%	75.3%	80.6%	81.1%	85.5%

THE OFFSHORE SUPPORT VESSEL (OSV) MARKET

BETTER THAN EXPECTED

NORTH SEA PSV MARKET

Increasing offshore activity in the North Sea helped to boost PSV demand and also tighten the North Sea PSV market in 2013. We estimate PSV utilization to have risen 2 percent in 2013, averaging 90 percent through the year. Large PSVs achieved a utilization rate of 96 percent, while medium-sized vessels averaged 81 percent in 2013. The rising utilization rates were reflected in day rates. Term rates and spot rates for large PSVs increased 11 percent and 18 percent respectively in 2013 compared to 2012.

The rise in North Sea offshore activity could be observed through the rising rig count. In 2013, an additional five floaters and two jackups came on contract in the North Sea. The number of wells drilled in the North Sea increased in parallel with this, with figures revealing that 389 wells (UK and Norway) were drilled throughout the year, an increase of 10 percent compared to 2012. A potential sharp rise in PSV utilization was, however, diluted by significant growth in the PSV fleet. The North Sea PSV fleet increased by 24 units, a rise of 11 percent year-on-year.

INTERNATIONAL OSV DEMAND (PSV>1000DWT + AHTS 4-9,999 BHP)

Rising offshore activity was not restricted exclusively to the North Sea. On a global basis the rig count increased by 8 percent, with jackups on contract rising 12 percent and floaters climbing 5 percent. Increasing offshore activity clearly contributed to the absorption of significant OSV fleet growth. The global OSV fleet is estimated to have grown by 9 percent in 2013. A further breakdown shows the PSV fleet grew 13 percent and the AHTS 4-9,999 bhp fleet (cargo work being the mainstay of this type of vessels) increased by 4 percent in 2013. At the same time day rates in most regions were relatively unchanged, but there were some regional differences:

Term rates in the US Gulf of Mexico across the PSV vessel categories climbed by close to 18 percent across the year. Demand was driven by a rising UDW rig count. Floaters on contract rose in the US Gulf from 31 units on contract in 2012 to 37 units on contract in 2013. At the same time the Jones Act effectively blocked international vessels from entering US waters, thus limiting supply growth.

One market, which is in some respects stagnating, is Brazil. The floater rig count , for example, dropped by nearly 10 percent in 2013. However, our figures show that the number of fixtures concluded in Brazil in 2013 has, started to recover, but remains substantially below figures recorded in 2010 and 2011. Term-rates are still languishing and dropped 4 percent in 2013 (in an inflationary environment), with some vessels even leaving Brazil to trade in other regions.

FUTURE OSV DEMAND DRIVEN BY AN EXPANDING MODU FLEET

Both shallow and deepwater offshore activity is likely to propel PSV demand further in the period 2014 and 2015. As is well known, discoveries of oil and gas in deep-water (>3000ft) have been bountiful. As a result, significant investments in mobile offshore drilling units (MODUs) to help explore and develop deep-water oil and gas resources have been made. In total, more than 100 units have been delivered in the last five years and the orderbooks are currently indicating that 35 and 27 units will be delivered in 2014 and 2015, respectively. Having said this, the floater market is facing some headwinds (as described in the rig section), but the large contract backlog of rig owners should keep floater utilization at a high level. In shallow water we also expect increases in demand, with the redevelopment of older fields being the main driver (see rig section).

NORTH-SEA AHTS MARKET (>12,000BHP)

Expectations concerning the North-Sea AHTS market are being raised once more, in tandem with increases in day rates. Spot rates of the 16,000+ bhp units averaged nearly GBP 36,000 in 2013, an increase of 50 percent compared to 2012. Term-rate estimates on an annual average basis were flat in 2013 compared to 2012. The annual averages hide, however, that term rates bottomed out early in the year and rose 20 percent by the end of the year. Term-rates for a 20,000+ bhp unit are estimated to have moved from GBP 29,000 in January to GBP 35,000 by the end of the year.

It is anticipated that North Sea AHTS demand will strengthen going forward. High rig fixing activity, as seen on the Norwegian Continental Shelf, has given excellent visibility in terms of rig activity over the next few years. We estimate that the rig count on the NCS will rise by seven jackups and six floaters by the end of 2015. The UK jackup sector also looks promising after high fixing activity in 2013. An increasing rig count is likely to generate further rig moves and hence AHTS demand.

It must, however, be noted that many of the new floaters entering the North Sea are both Dynamically Positioned (DP) and conventionally moored. These rigs tend to have a lower AHTS intensity. Offshore construction activity, as a result of increased upstream investments and new projects being sanctioned, will also generate further seasonal demand for the AHTS vessels in the period 2014-15.

THE ARCTIC POTENTIAL

AHTS demand (but also PSV demand) is expected to receive a significant boost from increasing offshore activity in the oil and gas basins of the Arctic. Due to the remote nature of the region and Arctic-specific challenges, the vessel intensity per rig is much higher than in other regions. Past experience from the Cairn Greenland campaigns indicates that each rig operating in Greenland will require three suitably sized and specified AHTS vessels for ice management. Due to the challenges in the Arctic, charterers will generally require top-end tonnage, which will, in most cases, be sourced from the North Sea market.

Although the timing of offshore activity in Arctic basins can be challenging to estimate, some Arctic campaigns for 2014 and 2015 have been booked already. The Exxon-Rosneft campaign in the Kara Sea will run in both 2014 and 2015. Other Russian projects are also planned, but new Greenland campaigns will probably not occur before 2015. AHTS vessels representing nearly 15 percent of the North Sea fleet are already booked for Arctic activity in 2014.

NEW JACKUPS AND FPSOS DRIVING MEDIUM-SIZED AHTS DEMAND

As with the North Sea, parts of the global AHTS market are also emerging from cyclical lows. Term rates for medium-sized tonnage (e.g. 12,000bhp) averaged USD 22,300 in 2013 in South East Asia, an increase of nearly 20 percent compared to 2012. Jackup demand, which is a main driver for such tonnage, has also grown considerably in South East Asia, where many of the vessels are located. Moreover, these assets are likely to see a further demand boost as they will be required to service the more than 130 new jackups, which according to the orderbook, will enter service in the period 2014-16. Generally speaking, the new jackups are larger than before and will also require larger service vessels.

At the same time, medium-sized AHTS vessels are being utilized for tanker assist duties in connection with floating production units. The increasing use of FPSOs and subsea solutions for deepwater developments is driving demand for this segment. We expect the FP fleet to expand by 5 percent in 2014 and 6 percent in 2015.

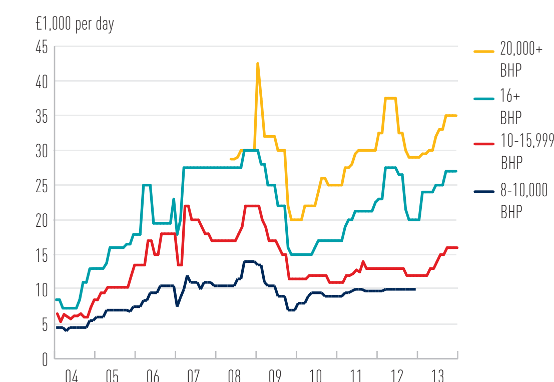
FLEET GROWTH MITIGATED BY DELAYS

Excessive supply growth, especially of the PSV fleet, has been the concern of many OSV owners and investors. These concerns are based on the considerable PSV orderbook. Last year (2013), for example, 229 PSVs of various sizes were scheduled for delivery. Vessel deliveries from yards were, however, extensively delayed.

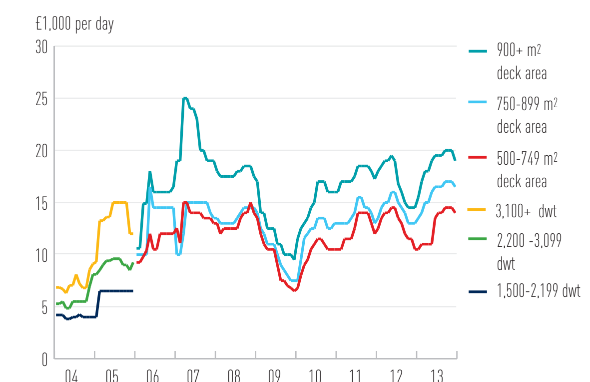
Inexperience, especially at new Asian yards and especially in the final construction stages, is cited as the main reason for delays. Furthermore, anecdotal evidence suggests that labor rotation at yards is high, thus preventing many yards from progressing along the 'learning curve' at the desired rate. The latest quarter is, however, showing a rise in deliveries. If this is an actual lift in productivity, then PSV fleet growth could be accelerating further.

The scrapping/removal of AHTS vessels picked up in 2013 and we recorded 16 vessels scrapped, representing just below 1 percent of the total fleet. Scrapping/removals remains therefore in-

NORTH SEA TONNAGE 2004–2013
AHTS AVERAGE T/C RATES (REPORTED AND ESTIMATED)



NORTH SEA TONNAGE 2004–2013
PSV AVERAGE T/C RATES (REPORTED AND ESTIMATED)



significant, despite the aging fleet and increasing focus on vessel age and specification. Only two PSVs were recorded scrapped in 2013.

With this in mind, and if the trends continue, we can expect 170-180 PSVs to be delivered in 2014/15. In addition, 60-70 smaller AHTS vessels (<10,000bhp) are likely to be launched. In other words we expect the OSV fleet to grow by 7-9 percent in both 2014 and 2015. The current AHTS orderbook (>10,000bhp) is indicating that 35 units will be delivered in 2014, with nine more following in 2015. Given the above trends in delays and scrapping/removals, we expect the total AHTS fleet will probably grow by close to 4-5 percent in 2014 and 2015.

THE OSV MARKET IS FAIRLY BALANCED

The global OSV market balance is expected to remain stable through 2014 and 2015. However, some regional variations are expected, due to local regulations and content requirements. The main driver of demand will still be the large number of new UDW floaters entering service through 2014 and 2015. The new UDW drillships, are likely to be serviced by larger sized DP II PSVs. Oil and gas companies' safety concerns are also driving demand for high specification modern units. Such vessels are likely to command a premium in contract terms.

In the North Sea, the PSV market is expected to tighten due to continued demand growth emanating from increases in rigs on contract and a slowdown in PSV fleet growth. Increasing demand in Arctic regions will add to demand in 2014 and 2015. Relocation of vessels to the North Sea may be a risk to this scenario.

AHTS FLEET UTILIZATION IS EXPECTED TO CLIMB

The estimated global AHTS utilization (>10,000bhp) is expected to tighten in 2014 and 2015. The different AHTS vessel size categories will, however, be exposed to the expected growth in varying degrees.

The prospects for medium-sized AHTS vessels seem very good, as the renewal of the jackup fleet will continue in the period 2014-15, and further floating production units will enter service. At the same time the number of vessels on order for this asset class is relatively low and we therefore expect utilization to keep rising in the period 2014-15. However, the larger AHTS vessels, which are mostly in service with conventionally moored floaters, may face some headwind due to a softer floater market. This may lead to increased substitution through the asset classes and a more modest increase in day rates for the mid-size AHTS vessels.

Smaller sized AHTS vessels are not seen to have the same demand drivers in place. These vessels are often too small, for example, to support the new and larger jackups that are being delivered. At the same time this asset class is meeting increased competition from PSVs and therefore we expect day rates to remain largely unchanged in 2014 and 2015.

The North Sea AHTS market balance is expected to tighten considerably in 2014 and 2015. As mentioned earlier, Arctic exploration campaigns will absorb considerable tonnage in 2014 and 2015. The Exxon-Rosneft campaign alone will absorb nearly 10 percent of the North Sea AHTS fleet. Day rates are likely to rebound to previous highs, and as the increases in activity are during the summer season, the market is likely to become more seasonal.

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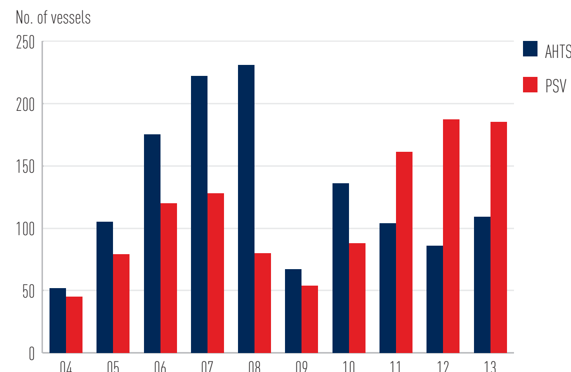
AHTS/PSV NEW ORDERS PER YEAR



AHTS/PSV FLEET OVERVIEW, END 2013

No. of vessel	In Service	Orderbook
AHTS 4-7,999 bhp	1,189	109
AHTS 8-9,999 bhp	220	17
AHTS 10-15,999 bhp	323	20
AHTS 16-19,999 bhp	116	10
AHTS 20,000+ bhp	74	14
AHTS total	**1,922**	**170**
PSV <500 m2	393	81
PSV 500-749 m2	472	68
PSV 750-899 m2	123	91
PSV 900+ m2	307	142
PSV total	**1,295**	**382**
Grand total	**3,217**	**552**

STRONG VESSEL APPETITE

2013 has been an active year in the subsea market, especially in terms of the number of newbuilding orders at Norwegian and foreign yards. Contractors are demonstrating a real desire to advance in the subsea hierarchy - a trend that started to materialize after the merger between Subsea 7 and Acergy. The continued growth in the subsea market is expected to boost this trend in 2014 and beyond. Market expansion and the contractors' segment ambitions will lead to a growing number of vessels and an increased relative complexity of these vessels. The main driver of the market growth is greater water depth and larger subsea structures, as well as an increased need for maintenance and the rejuvenation of existing installations.

Compared to 2012, the number of subsea, fixed platform and floating platform installations has increased. There has been high activity in all regions, with the Gulf of Mexico area now back on track after the Macondo incident.

A strong development of the subsea and floating production installation market is anticipated in the next few years. There has been high drilling activity in the deep and ultra-deep water segment over the last five years and many of these fields are now poised to reach the development stage.

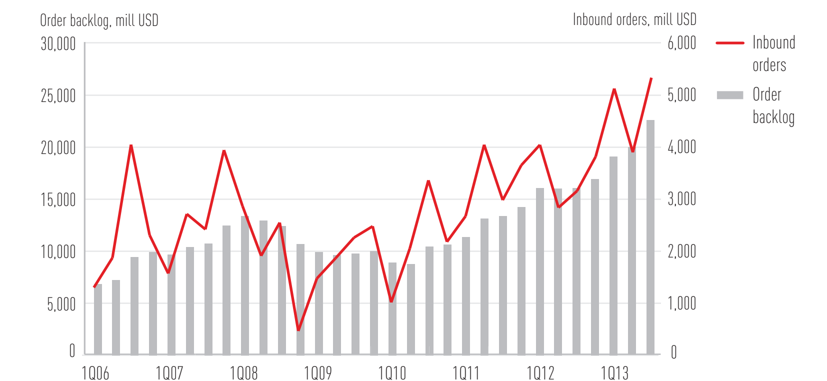
Order intake for subsea contractors has been very strong during 2013, and was particularly so in the first and third quarter. We anticipate a very robust fourth quarter in 2013, the same as we predicted last year, based on several large contract awards for the two main contractors (Technip and Subsea 7). Order backlog has continued to increase after the record from 2007/2008 was broken. On a more negative note, Saipem, the third musketeer, has been struggling during 2013, with reduced inbound orders and losses on projects in Algeria, Mexico and Canada. In its profit warning in June 2013 (the firm's second profit warning in five months), expected total loss for the full fiscal year was 300 – 350 mill EURO, Our perception is that the problem Saipem is experiencing is company-specific, rather than a warning of a slower subsea market in the years to come.

The current DP construction fleet consists of 384 vessels in service and 67 vessels on order. 13 vessels were delivered in 2013, producing a fleet growth of almost 4 percent. Scheduled delivery for 2013 was 22 vessels, but nine slipped to 2014. Newbuilding activity has increased compared to 2012 and is at a historically high level. It is believed that this is a result of the combination of the drive into deeper waters and the positive overall outlook for the subsea market.

Day rates for modern subsea tonnage have been stable in 2013, with the exception of the Diving Support Vessel segment where the day rates have been increasing. Vessels with 150 to 250 ton cranes have achieved rates of around $45,000-65,000 per day. For vessels with a 400 ton crane, rates are in the range of $90,000-110,000 per day. There is a significant disparity in the specification of the different Diving Support Vessels, but day rates for modern tonnage are around $110,000-160,000 per day. The 250 ton market has been surprisingly strong considering the many deliveries in the second half of 2013 and the first half of 2014. The subsea market seems to have taken a step up from 150 ton to 250 ton cranes for an "industry standard" vessel.

The most significant move on the newbuilding side was Petrobras' award of 10 new PLSVs for the Brazilian market. The winners of the PLSV contracts were DOF/Technip, Subsea 7 and

ORDER BACKLOG AND INBOUND ORDERS SELECTED SUBSEA COMPANIES



SapuraKencana with four, three and three vessels, respectively. The DOF/Technip vessels will be built at Vard shipyards in Norway and Brazil, and the Subsea 7 and SapuraKencana vessels will be built at the IHC Merwede shipyard in Holland.

Norwegian yards have yet again had a year with high order intake in the subsea segment. In total, 23 subsea vessels (with LOA over 80 meters) were ordered. Vard won a substantial proportion of the new subsea vessel orders in 2013, in total nine vessels (including two built in Brazil), and is strengthening its position as the top shipyard in the subsea segment.

During 2013, five new subsea vessels were ordered in the United States with LOA over 80 meters. The recent high order activity could allegedly be due to the attempted enforcement of the Jones Act on the subsea vessel market, which it is currently exempt from.

Last year we predicted that a significant proportion of the larger vessels (LOA >150m) would be built in Asia, but this has not happened due to the high adaptability of the Norwegian yards and reduced appetite from quality yards in Asia.

In 2014, 20 vessels are scheduled for delivery, plus the nine vessels that were delayed from 2013.

As the subsea market develops and grows larger there seems to be demand for more contractor's contractor. This has been common for the major contractors, but it is becoming more common for the mid-sized contractors as well. The award of the Normand Reach to DOF Subsea is a good example of this development. For the major contractors, the capital-intensive field development vessels (500-800 mill USD) seem to be the next step in terms of the "industry standard" vessel. Borealis was the first of its kind in this segment and has been followed by several other similar vessels. We also understand that Petrofac is in the market for a field development vessel.

Island Ventures (Island Offshore and Edison Chouest Offshore) has been one of the most active players in 2013, ordering two new vessels, one will be built at Ulstein Yard and the other one at an Edison Chouest Offshore yard in the United States. Both vessels are Ulstein design (SX 165) and are 145.7m long and will have 400 ton crane installed. Island Ventures has the option for two more of the same vessels.

In 2013, several noteworthy entrances to the market were made, with Daya Offshore taking two Siem newbuilds, which they fixed to Technip on a multi-year seasonal charter. In addition, DeepOcean entered the flexible pipe laying market with a new Østensjø vessel, being built at Kleven yard. Daya Offshore also announced they had taken control of SBM Installer, including the organization, but this was later canceled due to internal issues.

Dof and Technip made a significant agreement in 2013, with a joint venture (50/50) that won contracts for four new pipelay support vessels (PLSVs) for Petrobras. Dof will be responsible for the marine operations and Technip will manage the pipelay equipment on the vessels. In the subsea industry as we know it today, this kind of deal, where the vessel owner enters a partnership with the contractor, is unique.

The alliance between McDermott and Ocean Installer on the rigid pipe laying in the North Sea was terminated during 2013.

In terms of pure sale and purchase deals, the most noteworthy of the transactions were the sale of Skandi Bergen from Dof to COOEC, Normand Clough from Solstad to SapuraClough, Seven Sisters from Siem to Subsea 7, and the Otto Explorer 3 from Otto Marine to RY Offshore.

With stable E&P spending and a high oil price, global oil and gas companies are expected to take on new projects and increase activity in the subsea construction market. Deep-water demand is expected to be particularly strong as the trend for larger and more subsea equipment being put on the seabed will continue. Offshore wind farms are being placed further offshore and thus will demand more subsea vessels in the years to come. We have seen several vessels being absorbed during 2013. In 2014 and 2015 several tidal projects are reaching the start of the construction stage and this will require subsea tonnage. In recent times, many oil companies have turned their focus on the escalation of costs, which is seen as a major threat for several projects. However, we believe that the field economics are still sufficient to continue developing deep-water subsea fields, where oil companies have reported higher return on the employed capital than in the shallow and medium water segments. To conclude, we expect the subsea vessel market will see a healthy growth across the coming years, but timing will still be crucial in this relatively "young" market.

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OFFSHORE WIND

A VERY ACTIVE YEAR

The offshore wind market has been extremely active in 2013 in terms of construction activity, but this will change for the worse in 2015 and 2016. The UK dominance in the offshore wind market is now being, and will continue to be, challenged by Germany in 2014 and 2015. Germany saw a tremendous level of construction activity during 2013, with most of the projects set to be finalized in 2014 and 2015. New megawatts are being lined up in Europe, Asia and North America, but a significant proportion of the megawatts added are pilot projects and not commercial wind farms. Delays in current and future projects continue to be due to cabling issues, but in addition to that there have been several delays due to fabrication and installation problems.

Global installed capacity to date is 6.8 GW, which is equivalent to the annual consumption of almost 3.9 mill European households. Added capacity is almost 1.9 GW, which amounts to an annual growth rate of approximately 38 percent. The added capacity originates mostly from the UK, where London Array (the World's biggest offshore wind farm), Lincs, Thornton Bank phase III and Teesside were the biggest projects to come on-stream in 2013. BARD Offshore 1 is probably the second most challenging offshore wind farm after Greater Gabbard, and was supposed to have been on-stream in 2010, but was not fully commissioned before 2013 in Germany. Another commercial project finalized in Northern Europe during 2013 was the 400 MW Anholt project in Denmark. Belgium, China and Japan also had some pilot projects coming on-stream in 2013.

Going forward, Germany and the UK will drive growth, but it will require more time than first anticipated. Other countries that will supplement the expected growth in Northern Europe will be Belgium, Denmark and the Netherlands. In Asia, China is the only country with planned commercial projects coming on-stream by 2017. In the US, Block Island (30MW) will be the first project coming on-stream, with Cape Wind likely to be the second. In 2014 and 2015, few projects will be initiated (build gap), which will have a negative effect on the sector's overall development.

The prevalent market driver in the offshore wind sector is, and will continue to be, government subsidies. In order to reach grid parity, technological progress, which is driven by large-scale government support, is essential.

After several years with problems due to delays and cost overruns, especially in Germany, the industry seems to have shifted from euphoria towards a more realistic view on its future growth prospects.

The UK boosted subsidies for offshore wind in December 2013 and, at the same time, reduced the subsidy for wind farms built onshore. The government agreed to pay offshore wind developers the difference between wholesale power prices and a fixed strike price of 140 pounds per megawatt-hour (MWh) for the 2018/19 fiscal year, five pounds more than its provisional subsidy figures in June. This is great news for those with projects coming on-stream within this decade and it enables the developers to calculate the return on their projects with certainty. Before the new provision was announced, there was significant uncertainty concerning the subsidy for wind farms coming on-stream after 2017, this has now been pushed back to 2020. Players in the market are worrying that a five year horizon is not sufficient in order to build a healthy supply chain, which will be a major hurdle for lowering the cost of energy.

RWE announced in December 2013 that it is pulling out of the planned Atlantic Array offshore wind farm. The reason being that the technical challenges posed by the 1.2-GW project in the Bristol Channel between England and Wales were so large that the associated extra costs make the project uneconomical. On the same note, Scottish Power decided to shelve the Argyll Array project. At the same time as Scottish Power announced this cancelation, they announced that Dong will buy the rights for the Race Bank wind farm.

Despite the delays of the UK's Round 3 projects, most of the projects look like they are being pushed forward. Compared to what we wrote last year with regards to these projects, most seem to be delayed by the time that has passed, one year.

2013 has been a breakthrough year for the next generation of offshore wind turbines (6-8MW). Installations of note include: the new Alstom Haliade 6MW in Belgium; Siemens SWT – 6.0-154 turbine onshore at SSE's Hunterston facility in Scotland;

Samsung's 7MW prototype in the Firth of Forth in Scotland; Gamesa's G128-5MW turbine onshore on the Canary Island; and Areva's installation of an onshore prototype of the beefed-up M5000 turbine onshore in Bremerhaven. The commercialization of these turbines is a very important step in terms of reducing the cost of offshore wind in deeper waters and for wind farms that are farther from the shore.

The charter of two dedicated Service Operations Vessels (SOV) by Siemens from Esvagt is believed to increase turbine access and reduce the overall energy cost. The vessels will be built at Havyard Shipyard in Norway.

TIV & CTV – DAY RATES

Earnings for third generation Turbine Installation Vessels (TIVs) have been in the range of €120,000 to €160,000 per day for short-term contracts, with long-term rates anticipated to be between €100,000 and €130,000 for 2013. Similar to 2012, there have not been many fixtures in the long-term segment. First generation TIVs earned between €60,000 and €100,000 per day last year, which means there has been pressure on the day rates. In the next year and the 2015 season, we expect there will be overcapacity in the market. There is hope that the situation will improve in 2016 and onwards, subject to projects progressing according to schedule.

Spot day rates for the Crew Transfer Vessels (CTVs) that are classified to work in international waters have been fairly steady in 2013, with day rates for 12 pax vessels in the range of €2,800 to €4,500 (depending on 12/24 hours service). However, there was a significant fall in activity after the summer season, mainly due to bad weather for an extended period of time. Vessels that are only fit to work in the UK have been trading at between €1,500 and €2,500 per day. The biggest difference from last year is that the UK market has been requiring more vessels specified for international water (larger and higher specified vessels). These vessels have been achieving similar day rates to those specified above. Bigger vessels with 24 pax (LOA above 20 meters) have achieved day rates in the range of €4,500 to €6,000 for long-term rates, with even higher earnings for spot jobs.

TIV & CTV – FLEET TRENDS AND NEWBUILDING

There are currently 28 dedicated Turbine Installation Vessels (TIVs) in service and five on order. Five TIVs were delivered during 2013, facilitating a fleet growth of more than 20 percent. During 2013 there was only one new order placed - the Seajacks Scylla at Samsung Heavy Industries in South Korea. The TIV market is expected to be soft up to 2016, due to the very few projects being started up in 2014 and 2015. Due to increased turbine size, we expect that the market will be split into two segments whereby the third generation TIVs will achieve higher day rates than the first and second generations.

OFFSHORE WIND - TRANSACTIONS

In September 2013, Vestas, the Danish turbine manufacturer, and Mitsubishi Heavy Industries of Japan agreed to form a joint venture in the offshore wind segment. Mitsubishi Heavy Industries will inject 100 mill EUR into the joint venture and has the option to increase its ownership share to 51% in 2016.

Bård Thuen Høgheim
RS Platou Offshore

RS PLATOU MARKETS

TAKING THE BULL BY THE HORNS ON WALL STREET

After an extremely bumpy ride in 2012, major stock markets around the world rebounded in 2013. US equity markets registered their strongest year since 1997, with the S&P 500 finishing off 30 percent higher than at the end of 2012. European stock markets also experienced their strongest annual performance since 2009, as the single currency area emerged from recession.

2013 can be characterized as significantly calmer than 2012 and 2011. Except for a short period of wobbly markets in the middle of the year where eyes were on Fed chief Ben Bernanke and worries that monetary tapering would come too soon, markets were steady and grew stronger paired with the further tightening of credit spreads. For the high-yield market, credit spreads tightened to levels not seen since 2007. An interesting point however, is that even though spreads have been tighter in the past, the absolute interest cost high-yield borrowers have to pay has never been lower as rates are remaining low and far below the levels experienced in 2005-2007. Absolute interest cost for high-yield issuers in USD was below 5 percent at the end of 2013. During the previous cycle (pre-2008) the low point was reached at around 6 percent (both figures implied from the iTraxx Xover). The low interest cost should persuade more companies to utilize the high-yield bond market to issue debt.

The high Brent oil price climbed further in January 2013 to approximately USD 120 per barrel, and really never dropped below that point during the year. Prices ended on approximately USD 110 per barrel at the end of the year, as we predicted in 2012, despite news of the resumption of Libyan oil exports.

For RS Platou Markets, 2013 was a very good year, especially within the shipping sector. Fleet growth slowed down, which had a positive effect on freight rate development. Combined with ship values at a 20-year low, the stage was set for revaluation of shipping stocks. At the end of the year, RS Platou Markets had raised a total of USD 3 billion to shipping companies globally during 2013 out of a total of USD 6.8 billion constituting a 44 percent market share of all public equity raised in the shipping sector.

From a strategic perspective, focus during 2013 was to secure additional underwriting licenses for our US operations and to build and strengthen relationships with both US corporate clients and institutional investors in order to offer our services to a broader platform. RS Platou Markets raised approximately USD 1.7 billion in equity and has participated in raising USD 2.5 billion in bonds for US listed companies during 2013, challenging established players in the US markets.

The Norwegian OTC market has played a significant role in the success of 2013, and a large number of companies have raised billions in equity in the Oslo markets. Risk appetite has been growing, especially during the second half of 2013, and investors have regarded Oslo as a legitimate alternative to other stock markets. RS Platou Markets was one of the largest contributors on the Norwegian OTC market and managed and raised approximately 50 percent of the total amount raised, while also continuing to hold the number one spot in market share with regards to the total volume traded.

Supported by the improvement in equity returns, global IPO issuance rebounded in 2013. Annual IPO proceeds increased 37.5 percent to USD 137 billion. North America was the largest contributor to the improvement in IPO issuance, as increased activity in the United States led to a 28.9 percent gain in proceeds raised in the region. Europe and Latin America also experienced a jump in IPO proceeds after being hindered in recent

years by sovereign debt concerns and economic instability. Meanwhile, IPO issuance in Asia stagnated due to the complete shutdown of China's A-Share IPO market. Among the Nordic countries, the Oslo Exchanges were the most active stock exchanges in 2013, with the most IPOs and most lively capital markets. 12 new companies were listed in Oslo this year, compared to 17 new companies on all the other Nordic exchanges combined. In addition, companies listed on the Oslo Exchanges used the capital markets more actively than the other Nordic exchanges, raising approximately NOK 20 billion compared to NOK 18.5 billion raised in 2012.

Overall, RS Platou Markets participated in 30 transactions, divided over 19 equity deals and 11 debt transactions, compared to eight transactions during 2012. In addition, RS Platou Markets managed a total of five M&A transactions of various structures. One deal of note was the USD 300 million IPO of Scorpio Bulkers Inc. on NYSE in December 2013, being the first NYSE IPO performed by RS Platou Markets since the receipt of our underwriting license in January.

OUTLOOK FOR 2014

We believe that 2014 will see continued global economic growth, with both Europe and the US playing an influential role. We expect investors to retain their risk appetite, as low interest rates and financial repression will influence the year. Corporate profits will drive the stock markets and as investors are currently underweight in equities this will further support continued price increases. With issuance accelerating and returns strengthening, we expect to see the global IPO markets continue to gain momentum and grow in 2014.

Corporations may take advantage of a fixed income market returning to more healthy interest rates, both for investment grade and high-yield issuers. At the time of writing, high-yield bond market spreads are at their lowest level since 2011. This may lead to new, first time issuers of corporate bond debt entering the market. Banks are reducing their balance sheets to stay compliant with new regulations and risk measures, which leads to corporations seeking other financing sources. As the new regulations are becoming tighter rather than looser, we may expect to see this trend continuing through 2014. With "risk-free" interest rates expected to stay subdued, investors should continue to inject funds into risky asset classes such as equities and high-yield bonds. Furthermore, at some point we are bound to see a reversal of the unconventional relationship of tight safe-haven yields combined with high returns in equities and tighter high-yield spreads.

We expect an average oil price of USD 110 per barrel for 2014 - in line with the 2013 average. IEA has since early 2013 increased its 2014 global oil demand, now at 1.2 mill barrels per day. This is still below the projected supply growth of 2 mill barrels per day, but with an expected recovery in the global economy we anticipate further upward revision in oil demand going forward. This will eventually lead to a neutral supply/demand picture and flat development in the oil price for 2014.

The flat development of the oil price will lead to only modest E&P spending growth of ~3 percent. We believe this is not sufficient to drive additional investments into the oil services sector. A recovery in the global economy, combined with slower fleet growth in the commercial shipping fleet, will continue to fuel investments within various shipping segments. We expect this to translate into an active 2014 in both primary and secondary equity markets.

RS PLATOU FINANS SHIPPING

PROJECT FINANCE; WHERE ARE THE SHIPPING BANKS?

2013 has been an eventful year for the shipping industry, characterized by growing optimism as freight rates in several segments of the product, chemical, dry bulk and crude oil tanker markets have visited to profitable levels.

This year, the spotlight has been on the capital markets, where risk appetite for shipping among both institutional and retail investors has come back strong. While shipping stocks have, on average, performed better than the exchange indices, it has also been a refreshing year in terms of equity raised for shipping companies through the stock exchanges and the OTC market.

Private equity firms have been increasingly active in teaming up with shipowners to jointly expand their fleet at today's low newbuilding prices. The major players in private equity have been US-based firms, while the shipowners involved have varied from Americans and Greeks to Germans.

The main challenge in the KS market has been that even though investors are interested in picking up quality assets at historically low price levels, banks are still unwilling to lend to new projects.

Instead, shipping banks have been actively competing for large shipowners using a "low-margin/more ancillary services" strategy. At this point in time, most banks are still reluctant to take more risk and are instead focusing on syndication and existing clients.

There are still a few active banks that are interested in projects with higher margins, and we are expecting more banks to increase their activity levels as their liquidity improves and the shipping markets recover.

As freight rates have climbed in the second half of 2013, we have noticed a growing interest from our investors.

For Offshore projects, we see that there is an interest in long-term bareboat projects to a strong counterpart, with a solid cash flow and dividend yield.

In traditional shipping, we have noted that the interest lies in 100 percent equity financed "asset play" projects, with a time horizon of two to three years.

RS Platou Finans Shipping believes there will be several interesting investment opportunities in 2014. Even though there are overcapacity challenges ahead and bunker prices remain high, there are positive indicators of a near-term recovery for industrial shipping.

The popularity of Eco-design has contributed to lower second-hand prices for non-eco modern industrial shipping assets that still have most of their economic life ahead of them. This year we have seen the world economy picking up steam led by increased growth in the US, EU and Asia. As markets recover, we believe these assets will be employed at profitable levels and that their second-hand value will increase significantly.

The Offshore market is forecasted to remain strong in 2014, due to a stable high oil price and a projected growth in global E&P spending of 6.1 percent.

A substantial number of semi's, jack-up rigs, and drillships are scheduled to be delivered over the next three years, which will also have a positive impact on OSV demand.

RS Platou Finans Shipping will continue to explore interesting opportunities in Offshore for our investors.

THE NORWEGIAN "KS" MARKET IN 2013

The reported project value among the top four KS houses was in excess of 700 mill USD in 2013. This is a 15 percent increase from last year's numbers, continuing the positive trend over the last three years. The level of activity is still limited compared to the top year of 2007, when total investments reached 5 bill USD.

Of the completed projects in 2013, about 50 percent were offshore related, with the remainder of the projects in the container, chemical, product and dry bulk segments.

Recently, we have seen modern KG financed container ships being sold by banks at low prices and we are expecting to see more of this in 2014. Analysts are predicting this segment will start to recover in 2015, which makes it an interesting opportunity for asset plays.

RS PLATOU FINANS PORTFOLIO OF PROJECTS

This year, RS Platou Finans Shipping has successfully placed three new projects in the container, offshore and chemical tanker segments with a combined project value totaling 487 mill NOK.

In total, RS Platou Finans is now the corporate manager for 66 vessels in 30 different projects.

The corporate management also includes some projects limited to pure accounting services. There is a market for professional independent corporate management services and RS Platou Finans has been appointed by several domestic and foreign shipowners to perform this job.

The current portfolio consists of 30 offshore supply vessels, 11 chemical tankers, 10 product tankers, six bulk carriers, four multipurpose vessels, three cable layers, one container ship and one veteran passenger ship.

The majority of our existing projects are performing well, and we have seen improvements in the estimated residual value of some of our projects that were initiated both before and after the financial crisis. This year, ten of our existing projects have been concluded.

CO-OPERATION AGREEMENT WITH CIT MARITIME LEASING

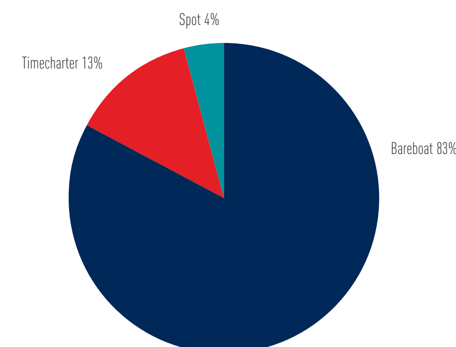
In October this year, RS Platou Finans signed a co-operation agreement with CIT Maritime Finance, to assist the company in building a ship leasing portfolio, as well as providing corporate management services for their future fleet. CIT is a leading US-based leasing bank that specializes in leasing to the transportation industry. The company has approximately 30 bill USD of assets in the Air and Rail Transportation industries and is currently in the process of building up a Maritime leasing portfolio.

The deals done with CIT will not be in competition with our KS activity, as these deals are of much larger scale to solid counterparts, with good credit ratings or long-term contracts to oil majors and major commodity traders.

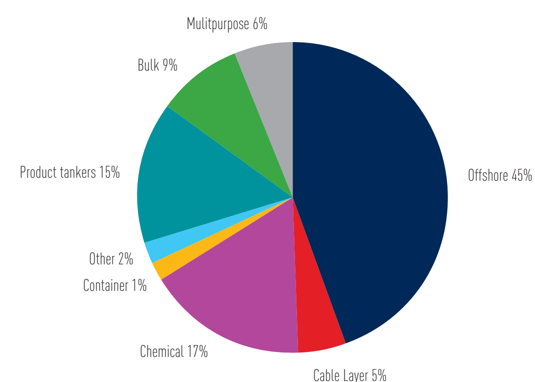
There has been a lot of activity in lease financing this year, especially for modern offshore support vessels, LNG carriers and container ships. It is apparent that large shipowners are starting to consider leasing as a competitive source of long-term financing that provides added benefits over traditional bank financing.

There are a handful of large companies that can compete with CIT for business, but it is our experience that CIT can outcompete these companies while delivering a time-effective and flexible leasing solution.

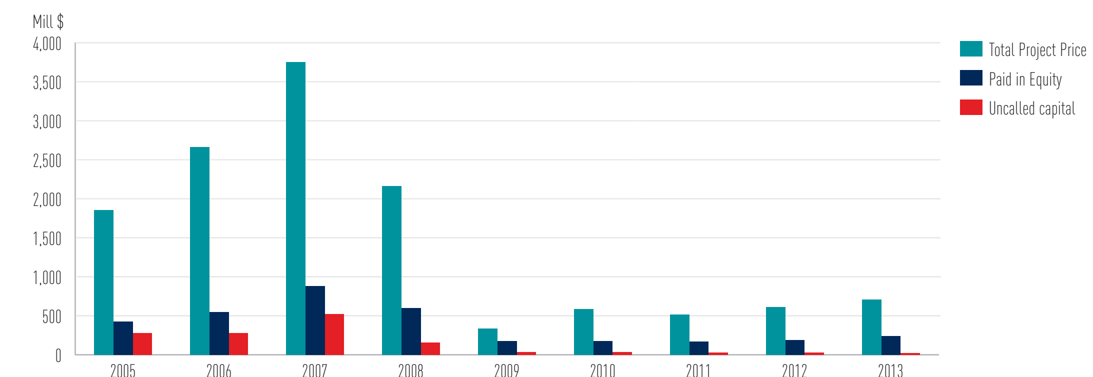
TOTAL PROJECTS BY EMPLOYMENT



TOTAL PROJECTS BY SEGMENTS



SUMMARY KS-HOUSES 2005 - 2013 (FEARNLEYS, NRP, PARETO, PLATOU)



RS PLATOU REAL ESTATE

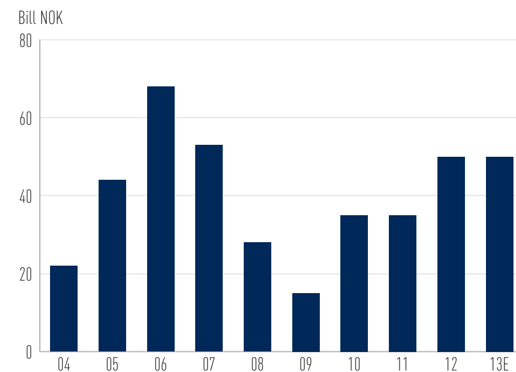
2013 TRANSACTION MARKET DOMINATED BY MID SIZE TRANSACTIONS

NORWEGIAN MARKET 2013

In 2013, Platou Real Estate concluded 12 projects (with one in final SPA negotiations to finalize in Q1 2014) with an investment value of 2.1 bill NOK. This result made us the second largest syndicate-player in the market. The total transaction market is expected to end up just below previous expectations, estimated at 45 bill NOK, giving RS Platou Real Estate 5 percent of the entire market. The Primo 2013 consensus expected a transaction volume above 50 bill NOK, but this did not happen due to the absence of large single asset transactions and/or large corporate finance real estate transactions.

During 2013 RS Platou Real Estate AS sold RS Platou Fund Management AS to Agasti Holding ASA. A tightening regulatory framework, most recently with the new AIFMD Directive, makes it more difficult for mid/small size property funds. RS Platou Fund Management's assets are too small and we expect to see several other smaller niche players eventually coming to the same realization. With this in mind, RS Platou Real Estate entered into the agreement with Agasti, one of the largest fund managers in the Norwegian market. RS Platou Real Estate will, going forward, focus on core strategy and scale on its existing platform.

ANNUAL NORWEGIAN TRANSACTION VOLUME



Source: RS Platou

Even though the overall transaction volume was below expectations, the activity in the market was high in terms of the number of transactions. The banks are more willing to lend and this makes capital available to real estate investors. The bank margins have furthermore decreased by approximately 25-50 bps during 2013, fueling market activity.

In 2013 we saw foreign investors become more interested in the Norwegian market, with many of them making their first investment here. One of the largest new equity investors in a RS Platou Real Estate project is a UK-based fund. Our view is that foreign investors want to have direct ownership in the assets, rather than indirect ownership through listed companies. Hopefully we will see an increase in their investment appetite in the upcoming year.

As in previous years, the equity market has been dominated by professional investors. The investment scope has changed somewhat through the year, from focusing on high-risk residential conversion projects, to a greater focus on yielding assets and ordinary refurbishment projects. As we communicated last year, the strong housing market over recent years made many investors focus on residential conversion projects with a higher potential return, and Platou Real Estate was involved in several projects of this nature. The weaker outlook in the residential market has, however, reduced investment appetite. This is likely to continue until we see a reduction in the construction cost, which has now started.

Østensjøveien 27, Oslo. Nominated MIPIM Awards 2014: "Best Innovative Green Building".

Going forwards, RS Platou Real Estate will focus on both yielding and operational projects. Regarding yielding assets, investors focus on the annual equity dividend, and preferably high quality buildings that have yet to be constructed. We seek operational projects where an underlying cash-flow is combined with the opportunity to further develop and/or refurbish.

FINANCING

The financing difficulties we experienced in 2012 - where some of Norway's largest industrial real estate players did not get traditional bank financing - have come to an end. In general, it now appears that the banks are more comfortable with the new EU regulations regarding risk and equity. The improved financial climate has resulted in a decrease in margins, given a solid ownership structure. The LTV has, however, gone down, from the historical 70-75 percent average to a 60-70 percent average. This can in turn pose a potential problem for syndicates established in the period 2005-2008, with an ongoing LTV of 75-80 percent, which they are using to refinance the coming year(s).

Bond financing is still an attractive financing alternative, and can be competitive on price compared to traditional bank financing. This applies primarily for large industrial real estate companies e.g. Olav Thon and Norwegian Property. The volume of bond financing is, however, lower in 2013 due to more competitive banks. RS Platou Real Estate combined bank and bond financing on one of the projects completed in December 2013 (Østensjøveien 27).

STATISTICS

1 WORLD FLEET DEVELOPMENT

Mill dwt

Start	Tankers	Chemical carriers	Bulk carriers*	Combined carriers	Others	Total
2004	279.1	25.0	299.2	12.1	189.6	805.0
2005	295.0	25.7	317.4	11.6	200.5	850.1
2006	317.7	26.9	339.3	11.6	213.3	908.8
2007	334.7	29.0	362.4	11.2	232.5	969.9
2008	352.3	31.7	386.5	11.2	253.5	1 035.1
2009	369.0	34.0	413.4	10.4	273.1	1 099.9
2010	396.2	35.8	454.9	9.6	294.9	1 191.3
2011	413.1	36.1	532.5	6.8	309.9	1 298.4
2012	439.0	36.5	615.7		305.3	1 396.6
2013	460.5	36.6	681.1		280.7	1 458.9
2014	**471.3**	**36.3**	**718.7**		**293.2**	**1 519.4**

* From 2012 combined carriers incl. in bulk carrier fleet

2 DELIVERIES

Mill dwt

	Tankers	Chemical carriers	Bulk carriers	Combined carriers	Others	Total
2004	26.4	0.8	19.2	-	11.9	58.3
2005	28.0	1.5	23.1	-	13.8	66.4
2006	23.0	2.4	25.5	-	20.3	71.2
2007	28.7	3.0	24.8	-	23.0	79.5
2008	33.2	2.9	31.8	-	28.4	96.4
2009	45.7	2.2	51.7	-	28.4	128.0
2010	38.9	1.7	84.6	0.6	22.7	148.4
2011	39.7	1.0	101.2	1.0	22.7	165.5
2012	31.4	0.5	99.5		19.2	150.7
2013	**21.3**	**0.2**	**58.9**		**21.5**	**101.9**

3 NEW ORDERS

Mill dwt

	Tankers	Chemical carriers	Bulk carriers	Combined carriers	Others	Total
2004	34.0	2.2	28.7	-	28.1	92.9
2005	24.0	0.9	16.9	-	25.9	67.7
2006	74.7	6.8	36.7	-	25.7	143.8
2007	42.1	10.1	158.3	3.4	52.4	266.3
2008	47.4	2.7	90.4	-	20.4	160.9
2009	10.3	0.8	33.6	-	1.5	46.2
2010	38.5	1.6	82.3	-	10.8	133.2
2011	9.2	0.5	27.9		25.7	63.2
2012	14.2	0.9	17.8		11.1	44.0
2013	**31.0**	**1.2**	**73.0**		**29.8**	**135.0**

4 ORDER BOOK

Mill dwt

Start	Tankers	Chemical carriers	Bulk carriers	Combined carriers	Others	Total
2004	65.1	10.2	48.4	-	41.2	164.8
2005	72.0	11.6	60.6	-	56.2	200.4
2006	76.5	3.3	61.4	-	68.1	209.3
2007	128.7	11.0	78.9	-	80.0	298.6
2008	147.7	19.0	216.1	3.4	105.7	491.9
2009	164.0	18.4	286.3	3.4	92.2	564.3
2010	120.6	13.9	268.7	3.4	70.5	477.1
2011	113.4	9.7	246.5	2.76	53.7	426.0
2012	75.0	1.4	191.5		53.7	321.5
2013	49.4	1.6	105.4		54.6	211.0
2014	**51.4**	**2.1**	**117.8**		**62.2**	**233.6**

5 TONNAGE SOLD FOR SCRAPPING, LOST AND OTHER REMOVALS

Mill dwt

	Tankers	Chemical carriers	Bulk carriers*	Combined carriers	Others	Total
2004	10.6	0.1	1.0	0.5	1.0	13.1
2005	5.3	0.3	1.2	0.0	1.0	7.8
2006	6.0	0.2	2.5	0.3	1.1	10.1
2007	11.1	0.4	0.7	0.0	2.1	14.2
2008	16.6	0.5	4.9	0.8	8.8	31.6
2009	18.4	0.5	10.2	0.9	6.7	36.7
2010	22.0	1.3	6.9	0.1	7.7	38.0
2011	13.8	0.6	23.4		6.3	44.1
2012	11.7	0.8	33.9		11.4	57.8
2013	**11.6**	**0.5**	**22.8**		**9.0**	**43.8**

* From 2011 incl. combined carrers

6 TANKER FLEET BY SIZE (incl. chemical carriers)

Mill dwt

Start	10-69,999	70-119,999	120-199,999	200,000+	Total
2004	66.0	69.9	37.5	130.9	304.1
2005	68.8	75.6	39.7	136.6	320.7
2006	73.4	83.5	42.9	144.6	344.5
2007	79.4	89.6	46.2	148.6	363.7
2008	85.9	97.1	48.4	152.6	383.9
2009	93.6	103.6	47.8	157.9	403.0
2010	106.5	108.5	59.4	157.6	432.0
2011	109.1	116.0	62.6	161.5	449.3
2012	112.2	121.0	68.2	174.2	475.6
2013	114.3	123.8	72.8	186.2	497.1
2014	**116.9**	**123.7**	**76.5**	**190.5**	**507.6**

7 TANKER DELIVERIES BY SIZE (incl. chemical carriers)

Mill dwt

	10-69,999	70-119,999	120-199,999	200,000+	Total
2004	5.8	8.6	3.7	9.1	27.2
2005	6.7	9.6	4.0	9.1	29.5
2006	8.1	7.9	4.0	5.5	25.4
2007	9.4	8.6	4.2	9.5	31.7
2008	11.2	10.3	2.2	12.4	36.1
2009	16.4	7.3	13.3	11.0	48.0
2010	8.4	9.9	5.7	16.6	40.5
2011	5.9	8.4	7.0	19.4	40.7
2012	3.4	5.8	7.4	15.4	32.0
2013	**4.6**	**2.7**	**4.7**	**9.5**	**21.5**

8 NEW ORDERS OF TANKERS BY SIZE (incl. chemical carriers)

Mill dwt

	10-69,999	70-119,999	120-199,999	200,000+	Total
2004	7.8	10.9	4.5	13.0	36.2
2005	7.0	5.8	1.1	11.0	24.9
2006	16.2	21.6	13.3	30.3	81.5
2007	15.4	13.5	8.3	15.0	52.2
2008	6.3	5.3	5.8	32.8	50.1
2009	1.4	0.6	3.3	5.8	11.1
2010	2.1	6.8	11.3	19.9	40.1
2011	2.7	1.9	2.8	2.2	9.6
2012	6.1	1.1	2.5	5.3	15.1
2013	**10.8**	**7.1**	**0.6**	**13.6**	**32.2**

9

NEW ORDERS OF TANKERS BY SIZE - QUARTERLY (incl. chemical carriers)

Mill dwt and number of vessels

		10-69,999		70-119,999		120-199,999		200,000+		Total	
		Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt	No
2012	1	1.0	23	0.3	3	0.2	1	1.3	4	2.8	31
	2	1.3	27	0.6	6	0.3	2	0.6	2	2.8	37
	3	1.3	26	0.1	1	0.2	2	0.3	1	1.9	30
	4	2.6	56	0.1	1	1.8	14	3.2	10	7.7	81
2013	1	2.6	57	1.4	12	0.2	1	3.5	11	7.6	81
	2	1.7	35	2.0	18	0.5	3	0.0	0	4.2	56
	3	1.9	45	1.8	16	0.0	0	2.2	7	5.9	68
	4	4.7	114	1.9	17	0.0	0	7.9	25	14.5	156

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TANKERS SOLD FOR SCRAPPING BY SIZE (incl. chemical carriers)

Mill dwt

	10-69,999	70-119,999	120-199,999	200,000+	Total
2004	2.8	2.6	1.3	1.5	8.2
2005	1.9	1.5	0.4	0.0	3.8
2006	2.0	1.2	0.0	0.0	3.2
2007	2.6	0.7	0.2	0.0	3.5
2008	1.8	0.8	0.2	1.3	4.0
2009	3.0	1.3	1.1	2.4	7.7
2010	5.3	1.8	1.4	3.4	11.9
2011	2.4	2.6	1.0	3.0	9.0
2012	1.1	3.7	3.2	2.8	10.8
2013	**2.2**	**2.8**	**1.1**	**4.4**	**10.6**

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BULK CARRIER FLEET BY SIZE

Mill dwt

Start	Handysize	Handymax/ Supramax	Panamax/ Kamsarmax	Post Panamax	Capesize	Total
2004	68.3	67.6	64.3	4.5	94.2	299.2
2005	69.6	71.2	69.7	5.0	101.6	317.4
2006	70.8	76.4	75.9	5.7	110.5	339.3
2007	71.4	81.0	82.6	7.2	120.2	362.4
2008	73.4	86.0	87.5	9.0	130.6	386.5
2009	74.7	92.1	92.4	10.7	143.5	413.4
2010	74.3	100.5	96.4	14.4	169.3	454.9
2011	79.8	117.9	104.3	22.6	207.8	532.5
2012	83.8	134.6	116.3	34.8	242.5	612.0
2013	86.8	145.8	132.8	44.4	268.4	678.3
2014	**86.5**	**153.8**	**146.6**	**48.3**	**280.9**	**716.0**

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BULK CARRIERS DELIVERIES BY SIZE

Mill dwt

Start	Handysize	Handymax/ Supramax	Panamax/ Kamsarmax	Post Panamax	Capesize	Total
2004	1.8	3.9	5.6	0.5	7.4	19.2
2005	1.8	5.5	6.3	0.9	9.0	23.1
2006	1.6	4.9	7.2	1.4	10.3	25.5
2007	2.3	5.2	4.9	1.8	10.5	24.8
2008	3.1	7.0	5.6	1.8	14.3	31.8
2009	5.1	10.8	4.9	3.9	27.0	51.7
2010	8.4	18.1	8.3	8.4	41.5	84.6
2011	9.2	21.0	13.7	12.8	44.6	101.2
2012	10.1	19.5	20.8	10.5	38.6	99.5
2013	**5.7**	**12.4**	**15.3**	**4.5**	**21.1**	**58.9**

* Incl. converted tonnage

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NEW ORDERS OF BULK CARRIERS BY SIZE

Mill dwt

Start	Handysize	Handymax/ Supramax	Panamax/ Kamsarmax	Post Panamax	Capesize	Total
2004	2.8	6.5	5.9	0.6	12.8	28.7
2005	1.8	4.2	3.0	0.9	6.9	16.9
2006	4.8	7.5	5.5	0.9	18.0	36.7
2007	10.5	27.2	18.5	21.9	80.2	158.3
2008	12.8	19.7	8.5	9.2	40.2	90.4
2009	4.0	7.8	5.0	2.2	14.6	33.6
2010	8.3	12.7	28.1	5.7	27.5	82.3
2011	3.1	5.3	8.1	1.5	9.8	27.9
2012	3.7	5.4	4.4	0.4	3.9	17.8
2013	**8.6**	**21.1**	**11.4**	**0.7**	**31.3**	**73.0**

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NEW ORDERS OF BULK CARRIERS BY SIZE - QUARTERLY

Mill dwt and number of vessels

		Handysize		Handymax/ Supramax		Panamax/ Kamsarmax		Post Panamax		Capesize		Total	
		Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt	No	Dwt	No
2012	1	0.3	11	0.4	7	0.9	12	0.2	2	1.7	9	3.5	41
	2	1.4	39	1.5	26	1.2	15	0.0	0	0.0	0	4.1	80
	3	1.2	37	2.3	42	1.4	17	0.0	0	1.0	5	5.9	101
	4	0.8	22	1.1	20	1.0	12	0.2	2	1.3	7	4.3	63
2013	1	1.1	36	2.0	35	1.0	13	0.1	1	8.9	47	13.2	132
	2	2.2	63	3.1	51	3.0	37	0.4	4	7.3	37	15.9	192
	3	2.1	60	7.1	117	2.6	32	0.2	2	4.5	23	16.5	234
	4	3.2	92	8.8	141	4.8	59	0.0	0	10.7	54	27.4	346

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BULK CARRIERS SOLD FOR RECYCLING BY SIZE

Mill dwt

Start	Handysize	Handymax/ Supramax	Panamax/ Kamsarmax	Post Panamax	Capesize	Total
2004	0.5	0.3	0.1	0.1	0.0	1.0
2005	0.6	0.2	0.1	0.1	0.1	1.2
2006	0.9	0.4	0.4	0.0	0.7	2.5
2007	0.4	0.2	0.1	0.0	0.0	0.7
2008	1.8	0.9	0.7	0.1	1.4	4.9
2009	5.5	2.4	0.8	0.2	1.3	10.2
2010	2.9	0.6	0.4	0.2	2.9	6.9
2011	5.2	4.3	1.7	0.6	9.9	21.6
2012	7.1	8.3	4.3	0.8	12.7	33.2
2013	**6.2**	**4.8**	**2.6**	**0.4**	**8.6**	**22.6**

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AGE PROFILE FOR TANKERS

Mill dwt (incl. chemical carriers) - 1.1.2014

	Year of built					
	-93	94-98	99-03	04-08	09-13	Total
10-69,999	13.2	9.3	18.6	42.0	33.8	116.9
70-119,999	6.1	9.1	22.8	45.9	39.9	123.7
120-199,999	2.6	7.7	15.8	18.3	32.1	76.5
200,000+	3.0	14.0	50.0	45.9	77.6	190.5
Total	**24.8**	**40.2**	**107.1**	**152.1**	**183.4**	**507.6**

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AGE PROFILE FOR BULK CARRIERS
Mill dwt - 1.1.2014

	Year of built					
	-93	94-98	99-03	04-08	09-13	Total
Handysize	21.2	9.3	7.3	10.4	38.3	86.5
Handymax/Supramax	13.3	16.8	16.6	25.9	81.3	153.8
Panamax/Kamsarmax	11.3	20.3	22.5	29.2	63.3	146.6
Post Panamax	1.9	0.9	1.9	5.5	38.1	48.3
Capesize	25.0	29.1	23.4	45.7	157.6	280.9
Total	**72.6**	**76.4**	**71.7**	**116.8**	**378.5**	**716.0**

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ORDERBOOK BY YEAR OF DELIVERY - TANKERS
Mill dwt (incl. chemical carriers)- 1.1.2014

		Delivery schedule		
Size	Total on order	2014	2015	2016+
10-69,999	17.2	6.9	6.5	3.8
70-119,999	11.0	4.3	4.2	2.5
120-199,999	3.9	2.8	1.1	0.0
200,000+	21.5	9.2	5.1	7.2
Total	**53.6**	**23.2**	**16.9**	**13.5**

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ORDERBOOK BY YEAR OF DELIVERY - BULK CARRIERS
Mill dwt - 1.1.2014

		Delivery schedule		
Size	Total on order	2014	2015	2016+
Handysize	13.2	6.3	5.4	1.4
Handymax/Supramax	26.1	11.4	10.0	4.6
Panamax/Kamsarmax	27.1	16.0	7.2	4.0
Post Panamax	3.5	2.2	1.0	0.3
Capesize	48.0	22.5	15.0	10.5
Total	**117.8**	**58.4**	**38.6**	**20.9**

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ORDERBOOK BY YEAR OF DELIVERY - CONTAINER SHIPS
1,000 teu - 1.1.2014

		Delivery schedule		
Size	Total on order	2014	2015	2016+
Below 1,000	1.8	1.8	0.0	0.0
1,000 - 1,999	102.9	63.2	33.0	6.7
2,000 - 3,999	231.1	113.6	92.4	25.1
4,000 - 5,999	278.0	217.8	50.3	10.0
6,000 - 7,999	112.8	85.4	27.4	0.0
8,000 - 9,999	1 073.2	448.6	480.1	144.5
10,000 +	1 990.8	867.3	1020.5	103.0
Total	**3 790.5**	**1797.6**	**1703.6**	**289.2**

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SECOND HAND PRICES OF 5 YEAR OLD TANKERS
Mill $

Start	MR Product	Aframax	Suezmax	VLCC
2004	28.0	38.0	48.0	72.0
2005	39.0	56.0	71.5	106.0
2006	45.0	61.5	75.0	113.5
2007	45.0	64.0	81.0	118.0
2008	50.0	68.0	93.0	136.0
2009	38.0	53.0	71.0	102.0
2010	25.0	40.0	56.0	82.0
2011	27.0	40.0	58.0	85.0
2012	27.0	35.0	45.0	62.0
2013	24.0	28.0	44.0	60.0
2014	**28.0**	**32.0**	**40.0**	**62.0**

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SECOND HAND PRICES OF 5 YEAR OLD BULK CARRIERS
Mill $

Start	Handymax	Panamax	Capesize
2004	20.5	27.5	45.0
2005	31.0	38.0	64.0
2006	25.5	29.0	55.0
2007	40.5	45.5	80.0
2008	73.0	88.0	138.0
2009	26.5	30.0	49.0
2010	28.0	34.0	55.0
2011	31.5	37.5	52.0
2012	25.0	26.0	38.0
2013	19.0	19.0	31.0
2014	**25.0**	**25.5**	**41.0**

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