THE YEAR OF THE LEASE (YES, AGAIN)

In late 2005, we proclaimed that 2006 was going to be "The Year of the Lease" and, although it is not in our institutional character to be self-congratulatory, we will indulge ourselves a little and say two words – BINGO BABY!!!

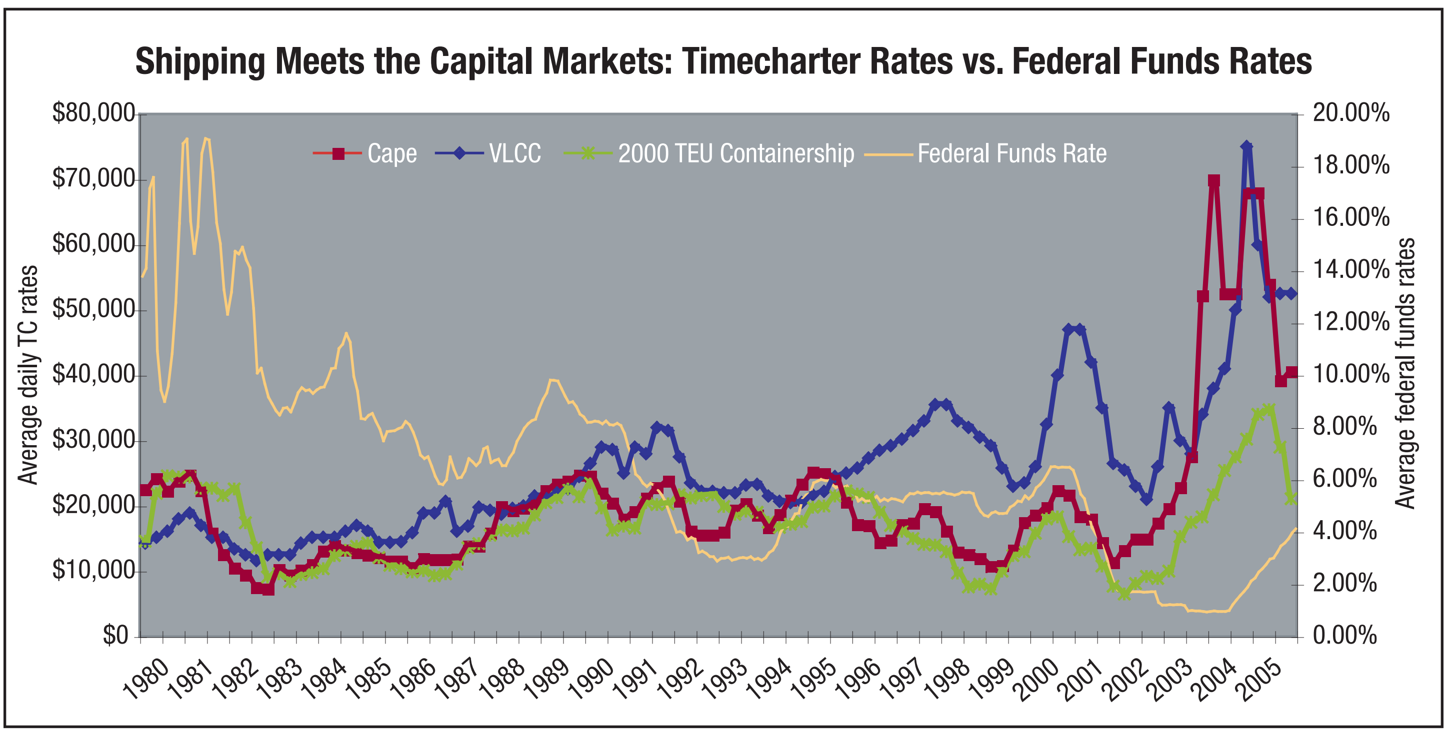
Who would have thought vessel leasing would ever be so fascinating? But it is. What began in 2003 as a way for opportunistic shipowners to extract maximum valuation from yield-starved investors has ended up transforming leasing from an irrelevant conference topic into probably the most interesting method to isolate and price different layers of risk in the capital structure of a vessel.

As we sifted through all of the issues of Freshly Minted that we produced during 2006, trying to refresh our memories so we could write this annual Awards issue, we were startled to find that we actually wrote more about vessel leasing during 2006 than we did any other capital market structure, including commercial bank debt which comprises about 80% of the $100 billion of capital that is formed for shipping related deals annually.
The landscape of leasing deals was so expansive this year thatit was almost impossible to pick a single winner. While we do, and we want to heartily congratulate our winner, we only name them at the end because we believe that those transactions you must read about before getting to our winner deserve up front mention as well.

OK, so our late 2005 prediction was hardly a contrarian one. In fact, vessel leasing has been steadily maturing since 2003 when a spike in freight rates and asset prices came together with historically low interest rates resulting in a spontaneous conception of the modern ship leasing industry. This story is told Figure 1.

As the shipping markets strengthened and interest rates remained at historically low levels throughout 2004, demand for leasing products continued to be strong. Responding to this positive supply and demand environment, new entrants started popping up everywhere offering new, or at least newly spruced up, leasing products.

The dormant KS market sprang back to life with renewed vigor. German KG fundraisers broke record after record, adding more than Euro 2 billion of equity per year for four consecutive years. With the help of Jefferies & Company, Ship Finance International became the world's first public vessel leasing company using the model pioneered by Marriott Hotels whereby property ownership and property management were performed by different companies with



Source: Marsoft, the federal Reserve

FIGURE 1

totally different risk and return parameters. First Ship Lease, which was established by industry giants like Mr. Schoeller, HSH Nordbank and HVB, did its first deal. The Korean government passed the Ship Investment Act to create its own KG-like market. Even shipowners were getting into the leasing game with OSG creating a sale/leaseback of four vintage product tankers and then marketing it to the finance world, rather than just shipbrokers. US lessors jumped from airplanes and railcars into foreign flag ships with Icon Capital buying one of the many Zim sale/leasebacks that seem to always be in the market. Tufton set up an Islamic ship leasing company and popped a quick deal and Navigation Finance continued to enjoy its first mover advantage by closing loads of deals.

Leasing's momentum continued through 2005 with volumes at or near record levels for most every market, except the UK Tax Lease market which registered a volume decline due to the legislative changes that trimmed the certainty of NPV benefits. Arlington Tankers, Double Hull Tankers and Seaspan followed in the footsteps of Ship Finance International by raising more than $1 billion of capital on the New York Stock Exchange - with proceeds ostensibly to be used for offering leasing services to related and third parties that now include, among others, Frontline, COSCO, SeaDrill, CP Ships, CSCL, Horizon Lines, Mitsui OSK, Golden Ocean Group, APL, Hyundai, Maersk and CMA CGM.

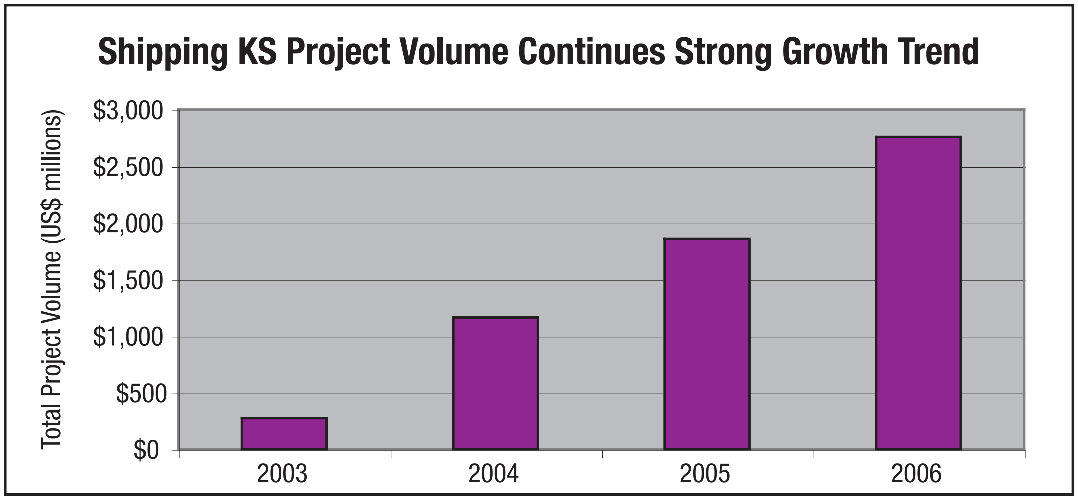


FIGURE 2

Over a period of just a few years, it seems that everything about vessel leasing dramatically changed; the people that offer it, the people that use it, the reasons for using it and the economics and structures associated with it. Once a rigid, long-term type of financing driven mostly by the net present value benefits of accelerated tax depreciation, and therefore appealing only to onshore industrial companies that had no desire to opportunistically buy and sell assets, vessel leasing has evolved into a vibrant, often tax neutral risk management tool and investment vehicle that is being considered, if not used, by every shipping company with a CFO worth his or her salt.

THE YEAR IN REVIEW

Pretty much all of the trends, and all of the providers, that we describe briefly in the paragraphs above continued throughout 2006, and some new things developed as well. The drive toward public leasing companies continued with the IPOs of Danaos, Pacific Shipping Trust and Omega. As you can see from Figure 3, the KG market was down slightly, which might indicate that today's more sober containership market has owners watching their pennies more closely and wanting to control operational costs by entering into bareboat leases rather than the German-managed time charters required by the KG market. Another factor maybe the strength of the Euro, in which KG investors are paid their coupon, relative to the dollar, in which freights are collected. Whatever the case, the Germans logged a very respectable Euro 2.5 billion of equity.

The Korean leasing market had a big year in 2006. During its three year history, the Korean Ship Investment Company (SIC) Act has seen 23 vessels financed for a total of $1.2 billion, but it wasn't until 2006 that a SIC transaction was done for a non-Korean owner (Top Tankers) and did not feature the charterer having a purchase obligation. Put another way, up until the Top Tankers deal, Korean investors have simply been providing domestic companies with very highly leveraged debt.

Building on the success of their first Islamic finance fund, mentioned above, Tufton Oceanic moved on to its second fund in 2006 in which equity is sourced from the Middle East writing more than $100 million in leases. Among others, Tufton did a sale and 7-year leaseback of a newbuilding capesize bulk carrier to Geden Lines for $66 million and another transaction for $48 million for the construction finance and 7-year lease to Marsol of two DP2 AHTS vessels for delivery in 2008. Dubai Islamic Bank, which provided the funding for the initial fund, packaged the mezzanine into investment units and sold it to investors during the summer with a projected yield of 8.5%.

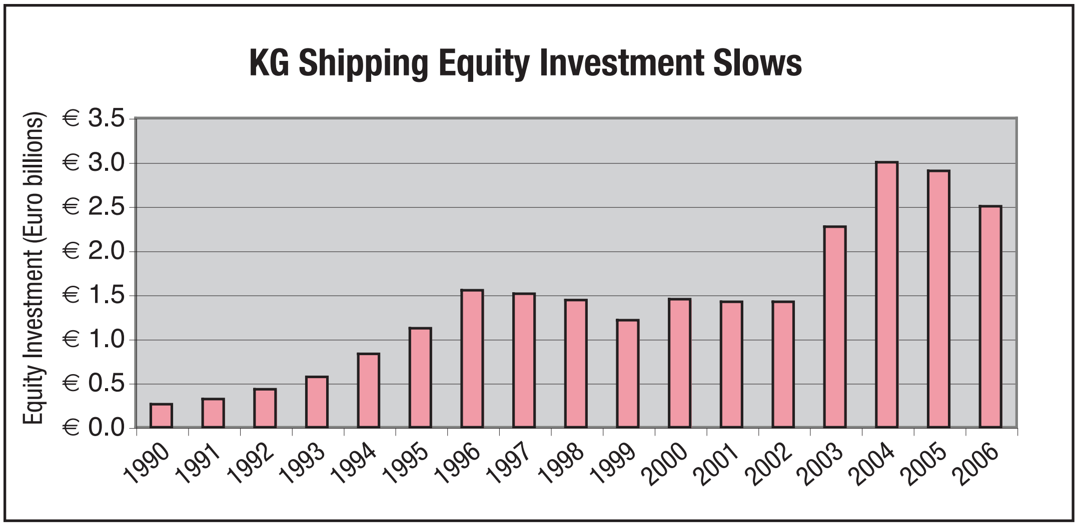


FIGURE 3

Ship Finance, the bellwether public leasing company, continued to evolve in 2006. The company acquired the jack-up rig Seadrill 3 for a consideration of $210 million and leased it back to the seller for 15 years. Seadrill is to make annual payments to Ship Finance of $41.1 million for the first three years, after which Seadrill has the option to repurchase the rig at $135.5 million. Assuming the repurchase is declined, the subsequent four-year period will see annual payments of $18.8 million, with annual payments of $14.9 million for the remaining eight years thereafter. It is noteworthy that the lease here essentially "amortizes" heavily over the first three years, helping to burn off the premium of today's high asset prices.

The Norwegian KS Market, like everything involving money and maritime, functioned extremely well in 2006 with record volumes and happy customers. What was as recently as a few years ago an insiders project market for smallish deals that were most competitive for vintage vessels, the KS market has blossomed into what we think is the most efficient (and reasonably priced) equity market for ships in the world.

There were more deals in 2006 than we can possibly mention in these pages, so we'll hit a few highlights, such as the largest ever KS deal completed. In just 24 hours, DnB NOR Markets raised a whopping $293 million for Westfal-Larsen in the chemical and product tanker sector. The newly established company used proceeds to acquire four IMO II chemical tankers, two of which are newbuildings with delivery in 2009 and two of which are double hull IMO II/III chemical/product tankers purchased from the Martinos family of Greece at very firm prices.

Westfal-Larsen Group, one of the most blue chip shipping companies in Norway, control 35% of the company which gave investors comfort. That deal will have typically high leverage of 85% equating to a total equity raise of $73.5 million in committed capital, $44.1 million of which will be paid in and the balance of which will be uncalled. Of the $73.5 million, the Westfal-Larsen Group underwrote $25.7 million.

Based on the sale of all vessels after eight years for $156 million, returns for the first tranche of the offering, which is liable for the full $29.4 million of uncalled capital, are estimated at 21% annually, while the other two tranches of the offering, which are not liable for uncalled capital, are anticipated to earn an IRR of 14% per annum. It is worth noting that uncalled capital has not been called into a KS deal for many years. Debt providing heavyweight DnB NOR Bank provided a $240 million first priority mortgage facility, priced it at LIBOR + 75 and gave it a 14 year profile and eight year tenor to make the IRRs work.

Figure 6 shows the fleet cost and charter employment. Four

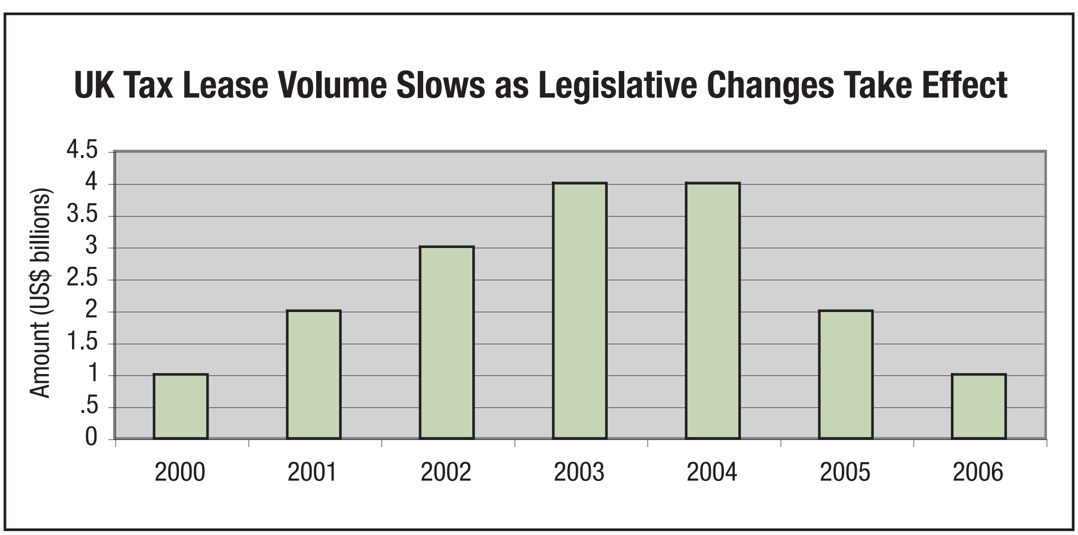


FIGURE 4

2006 KS/DIS Project Volume and Equity Contributions *(Amounts in NOK)*

Arranger	Total Project Price	Paid-in Equity	Uncalled Capital	Total Committed Capital
Fearnley Finans Prosjekt a.s.	3,148,522,650	583,529,500	372,325,000	955,854,500
Ness, Risan & Partners AS	3,156,222,500	726,132,500	594,950,000	1,321,082,500
Pareto Private Equity	5,550,000,000	1,130,392,000	452,650,000	1,583,042,000
R.S. Platou Finans a.s.	5,460,630,000	1,122,382,000	400,912,000	1,523,294,000
	17,315,375,150	**3,562,436,000**	**1,820,837,000**	**5,383,273,000**

Source: Ness, Risan & Partners

FIGURE 5

of the vessels will be on fixed rate bareboat charters to Westfal-Larsen; two of these have a 50/50 profit share agreement on earnings above the fixed rate. The remaining two vessels will earn spot rates. Figure 7 shows forecasts made by Lorentzen-Stemoco that were used in calculating the economics of the deal.

There was a lot of talk in market this year about investors and promoters stretching on their end-of-deal residual value assumptions in order to make the numbers work. One of the deals that was the subject of that conversation was a transaction involving MISC subsidiary AET's sale of four double hull aframax tankers: the 1993-built 102,352 dwt Eagle Auriga, the 1993-built 95,644 dwt Eagle Corona, and the 1992-built 95,644 dwt Eagle Centaurus and Eagle Carina. The vessels were reportedly sold at a price of $42 million each to a Norwegian KS involving Acta ASA and ABG Sundal Collier. The deal included a five to eight year bareboat back at a price between $15,000 and $16,000 per day. Assuming the eight-year bareboat of $16,000 per day, and an 8% cost of capital, the residual value is about $14 million per vessel, which many people we spoke with thought was pretty aggressive for a 22-year-old aframax tankers considering the charterer keeps all the excess cashflow during the charter period.

GERMAN KG MARKET SAGS, BUT REMAINS STRONG

The German KG market registered a decline in equity fundraising from Euro 2.9 billion in 2005 to Euro 2.5 billion in 2006. The volume was down, yes, but it was still outstanding. There were plenty of KG deals done in 2006, too many to talk about, but the real story was that KG entrepreneurs like Tobias König and Torsten Teichert of Konig & Co. and Lloyd Fonds, respectively, proved that they are capable of adapting their products to survive in a market with changing needs and dynamics. As you can read elsewhere in this issue the KG market also gave us two outstanding examples of innovation – Marenave and Open Waters.

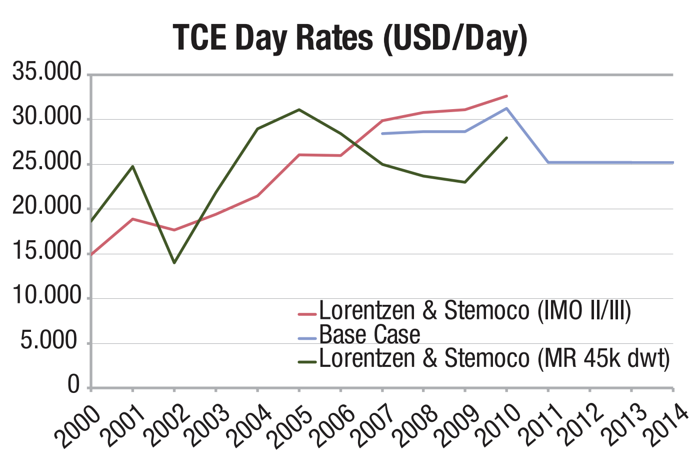
NEW NAMES TRY LEASING

There is real momentum in the leasing market these days. As a result of the increased number of players offering an increased variety of products, the global marketing effort for vessel leases has never been greater. As a result, we are very encouraged to see lots of new names from all over the world in just about every asset class using leasing products for the first time – for different reasons. Take for example the highly ambitious West Asia Maritime (WAM), which undertook a 12.5 year bareboat with purchase options on a 54,000 dwt bulk carrier from Mitsui for $33.5 million. Or Naftotrade Group, which sold four of the group's cement carriers to Navigation Finance Corporation, bareboat chartered them back for eight years and applied the proceeds toward its newbuilding program. First Ship Lease purchased two 19,900-dwt chemical tanker newbuildings with high specifications and 20 stainless steel containers from Berlian Laju Tankers for $90

Westfal-Larsen KS Vessels

Name	Built / Delivery	Type	Size	Price (USD millions)	Yard	Charter Employment
Mauranger	1995	IMO II	40,845	$38.00	Minami Nippon	$16,500 BB
Moldanger	1997	IMO II	39,200	$42.00	Minami Nippon	$16,500 BB
Ravnanger	2000	IMO II/III	46,270	$48.00	Minami Nippon	Pool/Spot
Risanger	2000	IMO II/III	46,270	$48.00	Minami Nippon	Pool/Spot
Hull 2061	2009	IMO II	46,000	$53.15	Minami Nippon	$14,500 BB + 50/50 profit
Hull 2062	2009	IMO II	46,000	$53.15	Minami Nippon	$14,500 BB + 50/50 profit

FIGURE 6



TCE rates history and forecast.

FIGURE 7

million and leased them back for 12 years in advance of their Singapore IPO.

Then there is Ezra Holdings of Singapore, which liked leasing with NFC so much that after concluding a $78 million deal in 2005, this year the company entered into a $181 million sale/leaseback on seven deep-water anchor handling tug supply vessels and two anchor handling tugs with NFC to fuel its aggressive expansion plans. Bergshav Product KS teamed up with Roxana Shipping of Greece to do a deal on three small MR tankers. What was interesting about this deal was that it was sold as having a 15-year charter comprised of 10 years to Roxana and five more years to be arranged in the market at a future date in order to make the math work.

Hong Kong listed handysize bulk carrier operator Pacific Basin continued to use leasing aggressively in 2006, using sale/leasebacks to free up cash and invest it in larger more modern vessels. After doing a

R.S. Platou Finans 2006 Shipping Transactions

Fund	Month	Amount	Comments
Norwegian Shipping II DIS	Jan-06	USD 8.000.000	Fund arranged for investment in 7 different shipping projects
SBS Typhoon KS	Jan-06	NOK 167.050.000	Purchase of a Plattform Supply Vessel on 7.5 years BB charter to European charterers
Japan Offshore DIS	Apr-06	USD 37.150.000	Purchase of three AHTS vessels with 7 year BB charters back to back against a 10 year TC to Asian Charterers
Ugelstad Supply II KS	Apr-06	NOK 155.000.000	Purchase of a Platform Supply Vessel on 2 year BB charters to European Charterers
European Venture DIS	Apr-06	USD 46.325.000	Purchase of two AHTS vessels with 5 year BB charters to European Charterers
NFC Offshore DIS	Apr-06	USD 74.500.000	Purchase of four newbuilding Offshore Supply Vessels
Oceanlink Offshore DIS	May-06	USD 13.250.000	Purchase of a 1984 built AHTS vessel with 5 year BB charters to European Charterers
Panda Chemical Oil DIS	Jun-06	USD 19.545.000	Purchase of a 2004 built IMO II/III chemical tanker with a 5 year BB charter to European Charterers
Western Chemical KS	Jul-06	EUR 32.775.000	Purchase of three Chemical Tankers with 4-5 year BB charters to European Charterers
Singapore Offshore DIS	Aug-06	USD 128.500.000	Purchase of five newbuilding AHTS vessels with 8 year BB charters to Asian Charterers
Oceanlink Offshore II DIS	Aug-06	USD 12.000.000	Purchase of a 1983 built AHTS vessel with a 5 year BB charter to European Charterers
Japan Offshore II DIS	Sep-06	USD 39.075.000	Purchase of three AHTS vessels with 10 year BB charters back to back against a 10 year TC to Asian Charterers
NFC Offshore III DIS	Oct-06	USD 42.046.000	Purchase of two newbuilding offshore supply vessels
Japan Offshore III DIS	Oct-06	USD 47.340.000	Purchase of two offshore supply vessels with 10 year BB charters back to back against a 10 year TC Asian Charterers
Oceanlink Offshore III DIS	Oct-06	USD 28.500.000	Purchase of two 1983 built AHTS vessels with 5 year BB charters to European Charterers
Northern Offshore DIS	Nov-06	USD 39.200.000	Purchase of two resale Anchor Handling Supply vessels
Agder Ocean Reefer II DIS	Nov-06	USD 19.500.000	Purchase of two reefer vessels with 6 year BB charters to US charterers
Norwegian Chemical Oil DIS	Nov-06	USD 32.890.000	Purchase of two Chemical tankers with 8 year BB charters to European Charterers

Source: R.S. Platou Finans

FIGURE 8

Ness, Risan & Partners 2006 Shipping Deals

Project Name	Equity (USD)	Ship Price (USD)	Uncalled Capital (USD)	Vessels	Segment	Lessee	Comment
Beta DIS	3,000,000	7,615,385	1,538,462	1	Offshore	Buksèr & Berging AS	
Eastern Reefer DIS	5,500,000	32,000,000	5,000,000	8	Reefer	Boyang Group	
E-Tanker DIS	3,150,000	20,000,000	3,700,000	1	Chemical	E-Ship	
Inter Carib II DIS	3,065,000	14,265,000	2,500,000	2	Bulk	Inter Caribbean Maritime Ltd	
NRP Fleetfinance III	23,076,923		18,461,538				Fund
Peg Chemical Carrier DIS	1,400,000	6,500,000	5,250,000	1	Chemical	Bryggen, Shipping & Trading AS	
Rem Forza DIS	14,769,231	64,000,000	10,000,000	1	Offshore		Asset play
Rem Norway DIS	14,769,231	53,538,462	7,692,308	2	Offshore		Asset play
Rem Odin DIS	11,076,923	47,000,000	6,923,077	1	Offshore		Asset play
Rem Provider DIS	5,230,769	23,461,538	3,076,923	1	Offshore		Asset play
Rem Songa DIS	14,461,538	63,692,308	10,000,000	1	Offshore		Asset play
Ross Container II DIS	2,000,000	9,000,000	2,000,000	1	Container	Oceanlink Ltd	
Shipbond DIS	14,000,000	56,000,000	19,600,000				Bonds
Swetank II DIS	2,400,000	20,000,000	3,000,000	1	Chemical	Svithoid AB	
Swetank III DIS	1,750,000	11,500,000	2,250,000	1	Chemical	Svithoid AB	
Thor Dahl Containership III DIS	15,140,000	57,000,000	9,000,000	3	Container	COSCON	
Sum 2006	**134,789,615**	**485,572,692**	**109,992,308**	**25**			

Source: Ness, Risan & Partners

FIGURE 9

suite of ships with Royal Bank of Scotland in the past, this year PacBasin circulated a sale/lease-back on the 1995-built 27,860 dwt bulker Patagonia and the 1994-built 28,429 dwt bulker Ocean Logger. The deals ended up going to Danish K/S Danskib 55 and K/S Danskib 54 for a total consideration of $40.8 million with a charter back for 3.5 years.

The sources and uses of proceeds of this deal are typical of why owners enter into such transactions; about $8.2 million of the proceeds were used to repay debt associated with the vessels while about $9.7 million was kept for working capital. The remaining $22.2 million will be used for expansion as it is earmarked to cover 40% of the purchase price

Pareto Private Equity 2006 Shipping Project Overview

Date	Company Name	Type	Number of Vessels	MUSD	Years	Charterparty	Charterer	Comments
January	BCT III	Chemical	1	26.5	NA	Pool	Eitzen City Class Chemcial Pool	New Project - syndicated in '06
February	BCT III	Chemical	1	26.5	NA	Pool	Eitzen City Class Chemcial Pool	New Project - syndicated in '07
April	OC I	Container	2	73.2	5	BB	UK Interests	New Project - syndicated in '08
April	PT III	Tank	5	264.7	7	BB	Top Tankers Inc.	New Project - syndicated in '09
April	BCT IV	Chemical	1	26.5	NA	Pool	Eitzen City Class Chemcial Pool	New Project - syndicated in '10
November	OC II	Container	2	62.1	5	BB	UK Interests	New Project - syndicated in '11
November	BD	Offshore/Rig	1	56.0	1+3	TC	Marathon/Statoil	New Project - syndicated in '12
November	AO	Offshore/AHTS	4	65.3	10	BB	Asian Interests	New Project - syndicated in '13
December	TO	Offshore/MPSV	1	60.7	NA	Asset play	NA	New Project - syndicated in '14
December	M&C	Offshore/Seismic	2	108.1	7	TC	Wavefield Insesis ASA	New Project - syndicated in '15
December	ST	Tank/Product	10	110.1	10	BB	Asian Interests	New Project - syndicated in '16
November	BT	Tank/Product	5	85.0	NA	Asset play	NA	New Project - syndicated in '17
December	TR VI	Reefer	1	13.0	3	TC	Eastwind	sale of 100% of KS Shares
December	CC	Container	2	24.0	3	BB	Schoeller	sale of 100% of KS Shares
Total			**35**	**1,001.7**				

Source: Pareto Private Equity

FIGURE 10

of the 2000-built 32,800 bulkers Aries Forest and Ocean Melody.

PUBLIC COMPANIES

If leasing can be used create valuation arbitrage, then it is no surprise that public companies played a large role in vessel leasing activity. New players on the scene include Danaos Holdings, listed in New York, Pacific Shipping Trust, listed in Singapore, and Omega Navigation, listed in both of those places. These companies raised nearly $1 billion of capital to be used to provide tonnage to third parties on a bareboat and a time charter basis.

DANAOS LISTS – KG MARKET FACES COMPETITION

In November, a deal that some thought would further threaten the near monopoly that the German KG market has had on providing operating lease financing for the global container industry, Danaos Corporation's IPO to raise $205-$226 million through the sale of 10,250,000 shares at a target price range of $20-$22 per share was completed.

The competition that exists between the KG houses and private owners surfaced in public forums, such as the Marine Money's Ship Finance Forum in Hamburg last February, when Danaos CEO John Coustas playfully remarked to owners including Rickmers that he was a "real shipowner because I have my own money at risk," as opposed to German KG funds that are simply promoters paid for creating deals. Although Danaos made it first investment in shipping in 1963, Dr. Coustas took the company from the rather humble fleet of three multipurpose ships with 2,395 TEU in 1993 to a fleet of 27 ships with 116,115 TEU today – a CAGR of about 35% over a period of time that saw both booms and busts. The company has another 16 ships and 84,704TEU on order that will be financing through this deal, implying a guaranteed growth rate of 73%. It is today a billion dollar company built in 20 years. Serious, smart and aggressive.

CAPITAL RESOURCES FOR SHIPPING

Like Ship Finance and Seaspan, transactions such as Danaos show these companies to be capable of using their access to public equity to serve as a capital resource for the shipping industry. AP Moller-Maersk in October completed a sale and five-year leaseback of four containerships to Seaspan, at an identical rate of $23,450 per vessel per day and is showing itself to be acutely interested in the combined availability of capital and containership operating capabilities that both Seaspan and Danaos have demonstrated.

Seaspan announced that it had agreed to acquire four vessels for $160 million en bloc and time charter them back to Maersk for five years at $24,450 per ship per day plus four years of additional options. Following the charters, Maersk will have two consecutive one-year options to re-charter each ship for $22,400 per day for the first year and $21,400 per day for the second year with a further option at $20,400 per day for two additional years. The thing that we found particularly exciting about this deal is that it shows that container lines, or at least Seaspan, are able to locate and execute deals that are accretive to earnings and build shareholder value.

In March, Seaspan announced the signing of a contract to build four new 2500 TEU vessels from Jiangsu Yangzijiang Shipbuilding in China. This order will bring the total number of vessels in Seaspan's fleet to 29. The four new vessels will be delivered between September 2008 and March 2009 and will cost approximately $44.5 million per vessel. In keeping with its strategy, Seaspan simultaneously announced twelve-year charter arrangements for all four vessels to China Shipping Container Lines. CSCL Asia, a subsidiary of CSCL, will pay Seaspan an initial rate of $16,750 per day, increasing to $16,900 per day after six years. China Shipping Container Lines is the world's sixth largest liner company.

In April we saw the role of leasing, and earnings management, in the specter of corporate M&A when BW Gas acquire the 10 vessel ammonia fleet of Yara International for $347 million and then leased the vessels back to Yara for an average of 11 years. BW Gas paid 8X 2008 EBITDA for the 10 year old fleet. For Yara, the world's leading player in the ammonia business, the deal was a way to lock in a gain and move away from the non-core business of ownership while maintaining commercial control over the vessels.

RISK SHIFTING

The most dramatic example of the risk shifting potential of sale and leasing back came in March when Top Tankers sold 13 vessels to the Korea Maritime Fund (KOMARF) and Norwegian KS market for a total of $550 million and took them back on charters ranging from 5-7 years. Although many owners use the proceeds from sale/leasebacks and loan refinancing as a tool to grow, Top used it as way to shrink. Top used $210 million of the $240 million of net proceeds to pay a dividend of up to $7.50 on each of its 29 million outstanding shares – a yield of about 50% for shareholders, based on the price before the announcement and a $25 million divvy for CEO Evangelos Pistiolis-related Kingdom Holdings.

There was also a dark side to the financial engineering that is so inseparable with leasing. Just nine months after announcing the sale and leaseback of 13 vessels, Top Tankers announced the resignation of their auditors, Ernst & Young, as a consequence of disagreements over the accounting treatment of the "seller's credit" related to that transaction.

MPC 2006 KG Investments

Funds	Ship Name	Delivery	Capacity TEU	Date of Placement	Equity Total Mio. Euro	Purchace Price (net) Mio. Euro
MS "RIO ARDECHE" (Containership)						
	MS "RIO ARDECHE"	11/06	2,490	14.02.2006	20.53	43.36
MPC "Offen Flotte" (Containerships)						
	MS "SANTA BALBINA"	10/06	2,824	31.03.2006	12.65	39.18
	MS "SANTA BELINA"	11/06	2,824	31.03.2006	12.65	39.13
	MS "SANTA BETTINA"	11/07	2,824	31.03.2006	12.65	39.18
	MS "SANTA BIANCA"	02/08	2,824	31.03.2006	12.65	38.84
	MS "SANTA BRUNELLA"	04/08	2,824	31.03.2006	12.65	38.84
	MS "SAN ALBANO"	08/07	1,819	31.03.2006	12.65	34.55
	MS "SAN ALBERTO"	09/07	1,819	31.03.2006	12.65	34.56
	MS "SAN ALLESSANDRO"	11/07	1,819	31.03.2006	12.65	34.71
	MS "SAN ALFONSO"	12/07	1,819	31.03.2006	12.65	34.67
	MS "SAN ALFREDO"	12/07	1,819	31.03.2006	12.65	34.61
	MS "SAN ALVARO"	01/08	1,819	31.03.2006	12.65	34.29
	MS "SAN AMERIGO"	02/08	1,819	31.03.2006	12.65	34.35
	MS "SAN ANDRES"	02/08	1,819	31.03.2006	12.65	34.32
	MS "SAN ANTONIO"	03/08	1,819	31.03.2006	12.65	34.35
MPC "Reefer Flotte" (Reefers)						
	MS "Lombok Strait"	2002	626.011 cbft.	19.04.2006	10.27	32.78
	MS "Luzon Strait"	2002	626.011 cbft.	19.04.2006	10.27	32.78
	MS "Comores Stream"	2000	580.754 cbft.	19.04.2006	10.27	27.22
	MS "Polarstream"	1999	564.280 cbft.	19.04.2006	10.27	26.80
	MS "Polarlight"	1998	564.280 cbft.	19.04.2006	10.27	24.33
	MS "Elsebeth"	1998	549.326 cbft.	19.04.2006	10.27	24.33
	MS "Emerald"	2000	548.718 cbft.	19.04.2006	10.27	27.42
	MS "Elvira"	2000	548.666 cbft.	19.04.2006	10.27	27.42
	MS "Esmaralda"	1999	548.643 cbft.	19.04.2006	10.27	29.07
	MS "Timor Stream"	1998	535.109 cbft.	19.04.2006	10.27	20.41
	MS "Southern Bay"	1997	535.109 cbft.	19.04.2006	10.27	20.41
	MS "Eastern Bay"	1997	533.898 cbft.	19.04.2006	10.27	26.60
	MS "Santa Maria"	1999	463.963 cbft.	19.04.2006	10.27	25.16
	MS "Santa Lucia"	1999	463.652 cbft.	19.04.2006	10.27	26.39
MT "Rio Genoa" (Tanker)						
	MT "Rio Genoa"	10/07	179.000 m_	04.09.2006	23.98	56.05
MPC "LPG Tanker Flotte" (LPG Tanker)						
	MT "Auteuil" PP	2007	3.516 m_	13.12.2006	2.06	6.60
	MT "Deauville" PP	2007	3.516 m_	13.12.2006	2.06	6.60
	MT "Coniston" PP	2007	4.002 m_	13.12.2006	2.06	6.60
	MT "Cheltenham" PP	2007	3.208 m_	13.12.2006	2.06	6.60
	MT "Longchamp" PP	2007	3.206 m_	13.12.2006	2.06	6.60
	MT "Malvem" PP	2007	3.205 m_	13.12.2006	2.06	6.60
MS "MERKUR SKY" II (via Austria) (Containership)						
	MS "MERKUR SKY" II (via Austria)	09/97		08.11.2006	3.60	36.15
	Total Shipfunds				**381.35**	**1,051.84**

Source: MPC Münchmeyer Petersen Capital Vermittlung GmbH

FIGURE 11

LIQUIDITY IN "SEASONED" DEALS

As primary markets develop, it is not unusual to see secondary markets develop as well, and that is exactly what has been happening in the world of vessel leasing. In 2006 we saw more examples of the trading of so-called "seasoned", or existing, leasing deals. This is not surprising and such transactions comprise a cottage industry in the mature leasing markets where investors buy and sell leases regularly. One of the main reasons why financial institutions sell performing leases, or ones where the Fair Market Value (FMV) purchase option will be substantially in excess of the balloon payment due at the end of the lease, is to "lock-in" their gain and use the capital gain to produce desired earnings. This action involved a broad range of participants from industry players trading deals amongst themselves to purely financial buyers with a view on the future residual values.

In June, US publicly traded equipment fund ICON Capital reemerged onto the shipping scene with a binge when it purchased from Oceanbulk Maritime four product tankers: Spotless, Doubtless, Faithful and Vanguard, all of which are on bareboat charters to Top Tankers with February 2011 expiration.

The four product tankers, which were originally sold by Top Tankers in a deal arranged by Fortis this past March, were financed in part through a loan agreement between ICON Fund Eleven and Fortis that provides for an $80 million non-recourse term loan maturing in June 2011 secured by a first priority mortgage of the vessels. ICON also assumed $10 million of non-recourse indebtedness secured by a second priority mortgage over the vessels in favor of the charterer. The remaining $22.7 million of the purchase price will be paid in cash, reflecting an equity contribution of around 20%.

Shortly thereafter, ICON acquired all of the issued and outstanding shares of European Container AS and European Container II AS, as well as limited partnership interests in European Container II KS, resulting in the acquisition of four container vessels: ZIM Japan, ZIM America, ZIM Israel and ZIM Hong Kong. These are currently subject to bareboat charters with ZIM Integrated Shipping Services that expire in November 2010 and February 2011. These four vessels are sister ships to three containerships another ICON fund took from ZIM in 2004 for $71 million.

By acquiring the shares in the KS company, rather than the assets themselves, ICON was able to leave the charters in place and assume approximately $93.3 million of non-recourse indebtedness secured by a first and second priority mortgage in favor of HSH Nordbank, approximately $12 million of non-recourse indebtedness in favor of ZIM Integrated Shipping Services, and a circa 25% equity contribution of $35.9 million in cash. Other maritime investments of ICON currently include the above-mentioned ZIM containerships as well as three car-carriers purchased from Wallenius Wilhelmsen for $75.6 million.

CYPRESS LEASING

Cypress Financial Corporation, which has historically been involved in a number of Jones Act transactions, identified the foreign flag vessel market as a growth opportunity in 2006 and made their move into the business in the fourth quarter when they bought all the shares of a KS company that owned two feeder container vessels: the M/V IBN Battotah and the M/V Cape Arago. The vessels were built in Germany in 1993 and 1992 respectively and have a nominal cargo capacity of 1,066 TEU.

The investors in Cape Container KS originated the transaction in the first quarter of 2004, having entered into a sale-leaseback transaction with Schoeller Holdings Ltd who agreed to bareboat charter them back for five years. Cypress has been an active investor for over 20 years and manages 14 equipment leasing funds that invest in multiple transportation, industrial and energy asset classes, including shipping investments. Key to its investment profile is structural flexibility and a willingness to look at complex transactions. Specifically, they manage pools of individual investors' capital whose requirements are flexible. For example, they are indifferent to book earnings and current income. This makes possible highly leveraged transactions, including call option transactions, whose returns are residual dependent.

It wasn't just financial engineers that bought and sold deals in 2006. A R.S. Platou Finans formed fund controlled by the NFC Fund ordered four PSVs with options for four more for delivery in 2008-9. Within four months of the date of acquisition of the contracts, this company sold the contracts for the vessels to a German KG controlled by a publicly traded Emissionshaus, HCI, Peter Dohle and a Greek shipowner, Basil Papachristidis. The KS earned a profit of approximately $15 million in that short period while retaining control of the optioned vessels. The KG, in turn, fixed the vessels on 10-year charters, also doing a good deal.

And the grand master of shipping deals, John Fredriksen paid Torben Jensen $38 million in cash to take over the Clipper Group's bareboat agreement on five panamax bulkers currently owned by an unnamed third party. Fredriksen's Golden Ocean will pay to the third party an aggregate bareboat hire of $28,000/day for the five vessels for a 5-year term. At the end of the term Golden Ocean will have the option to purchase the vessels at $6.4 million each from the third party.

The Winner: Ship Finance International for Horizon Lines

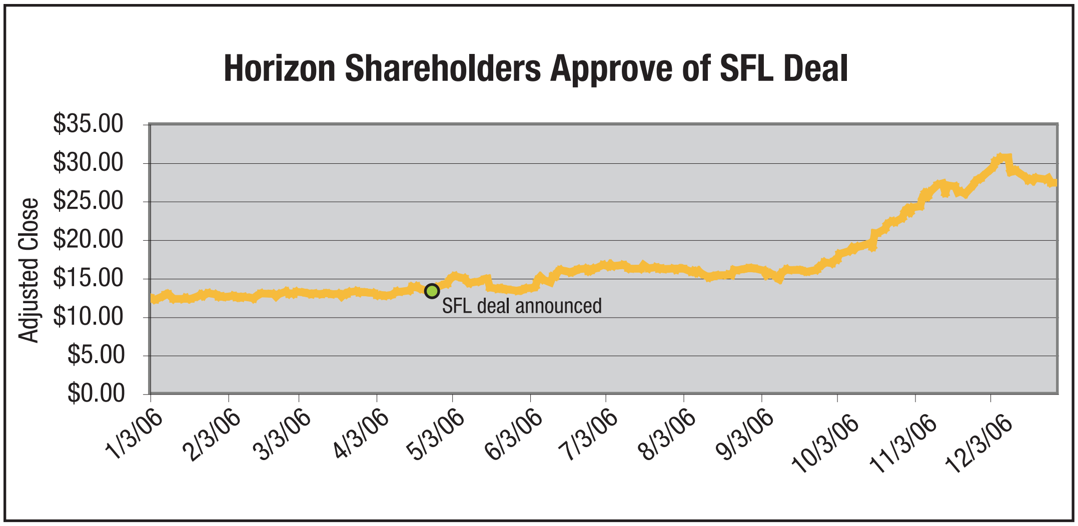


FIGURE 12

When market rumors of this deal came across our desk in March, the first thing we did was scratch our heads and say, "huh?"

An international tanker financing vehicle, Ship Finance International, had apparently acquired five Korean newbuilding containership resales from Germans, Rickmers, and Greeks, Tsakos, and put them on 12 year bareboat charters with a three year extension at charters' option, to a Jones Act operator, Horizon Lines.

Que va? We wondered. But as we peeled back the onion, what emerged was what we think makes our marketplace so beautiful – ideal transaction partners are not always obvious and with creativity and a keen understanding of what the various players are trying to achieve, financiers can put together deals that are both economically sensible, but also really interesting. Although everyone may "know everyone" in international ship finance, there are an exponential number of ways the pieces can be put together and the winner of this year's Deal of the Year Award in the leasing category exemplifies that.

The framework of this deal began to come together in late 2005 when Horizon Lines was out in the market looking to expand and rejuvenate its controlled fleet to upgrade its services. As readers may recall, Horizon Lines had to chop its 2005 IPO in half due to slack demand, so its no surprise that the company turned to the leasing market. Horizon hired Jones Act finance guru Martin Gottlieb of the San Francisco-based Argent Group as an advisor, and he set to work putting together an auction process for the financing of the desired vessels. AMA was brought in to help source the equity with the help of Peter Shaerf, with his containership background, and Paul Leand, who sits on the board of Ship Finance International. AMA quickly drew up a list of potentials that included SFL, Seaspan (which just narrowly missed winning the deal), GATX, and AIG, with First Ship Lease and Northern Navigation also as potentials. Fortis provided the debt on the deal.

The timing proved ideal for SFL, which had recently announced the purchase and 30-year lease back of the drilling rig Safe Concordia to Consafe Offshore and was keen to let the market know that it could buy more than Fredriksen assets and it could buy more than oil tankers.

WHY WE PICKED IT

The criteria for all of the Marine Money Deal of the Year Awards is the same – recognize deals that, through the exceptional work of financial advisors, deliver superior results to the clients and this deal was a pure winner for Horizon. First of all, it allowed the company to bring down the average age of its 29-year-old fleet by a third – and do it without the use of cash equity. Having been forced to cut its 2005 IPO by about 50%, there was not a lot of cash in the kitty for this single B credit to fund fleet renewal. Of the deal, the CEO Chuck Raymond said, ""Horizon Lines is focused on using capital efficient methods to enhance our service capabilities in our Jones Act markets while at the same time upgrading our service to Guam and Asia with assets that are more appropriate for those trades. This initiative is consistent with our tested strategy of obtaining new tonnage at appropriate costs for the trades we serve."

What Mr. Raymond is referring to is the cascading effect that this deal has on the entire business. As the newly leased newbuildings move into the US flag/non-Jones Act Guam Trade, which should also involve a profitable return voyage from Asia under charter with Maersk, the Jones Act vessels currently in that trade will be able to shift onto Horizon's other Jones Act routes, allowing the company to either improve service on these routes, retire older vessels, or more likely some combination of the two. If all goes as hoped, Goldman Sachs analyst Jon Shapiro said at the time that he expected the ships could add 10-15% to the company's current EBITDA level (forecasted at $160.9 million for 2006E) - and Figure 12 indicates that the stock market, the ultimate arbiter of whether a deal is good or bade – demonstrated strong approval.