

remainder of the company. This would value DryShips' current holding of Ocean Rig, which is as of today 55.6%, at NOK 4,363 million (\$838 million) and the remaining 44.4% of the company at NOK 3,404 million (\$669 million – this includes Cardiff's 4.4% stake). Ocean Rig also has outstanding debt of around \$700 million, which will ultimately be absorbed by DryShips assuming the acquisition is completed.

The two drillships DryShips has ordered will cost a total of \$1.6 billion and be delivered in the third quarter of 2011. The initial 15% payment (\$240 million) is due promptly, the next in September/October, while the rest will be closer to the delivery date of the rigs. Fortunately DryShips has close to \$600 million in debt lined up – and \$500 million of equity, thanks largely to the \$352 million the company has raised in open market equity raises so far this year, according to Mr. Nokta.

As to what all this for shareholders, Mr. Nokta expects that the acquisition of Ocean Rig alone would push up DryShips' cash flow in 2009 from \$15.54 to \$17.65 per share and in 2010 from \$13.34 to \$17.10 per share – if, of course, it were to hold onto those assets for that long, which at this point is unlikely.

In a conference call Mr. Economou touted the supply demand imbalance and skyrocketing day rates currently seen in the ultra deepwater industry. He views Ocean Rig as a necessary platform to

execute their strategy of developing a pure deepwater rig play. He also points out that the company boasts high levels of contracted cash flow – and no anticipated significant expenditures going forward. He put forward how the economics of acquiring an ultra deepwater rig for \$1 billion and putting it out on a 5-year charter for \$625,000 per day compare favorably to those of acquiring a panamax bulk carrier for \$95 million and putting it out on a 5-year charter for \$40,000 per day. As to dry bulk economics Mr. Economou also noted that he is considering adopting a more conservative strategy for DryShips, putting out ships on longer term charters rather than simply trading them in the spot market. His intentions are to leave Ocean Rig fully intact, offering incentives to employees and management – the acquisition is intended as a play on an attractive market and is not a search for synergies.

As far as Ocean Rig's shareholders, analyst **Ingolf Gillesdale** from **Nordea Markets** wouldn't necessarily view a takeover as a bad thing. In a recent report on the company, he put a NOK 45.5 price target and Hold rating on the company, saying he foresees "another quarter with a less than satisfactory operational performance." In fact, the upside potential from his target price comes from the possibility of M&A activity. He called Ocean Rig an "interesting play" for "the right industry player" with two attractive – and fully crewed – ultra deepwater rigs. He also considers its fleet "small and vulnerable" and anticipates the need for larger investments. The company may have found its suitor.

People & Places

Mukemmel Bir Forum

Last Thursday, the 5th annual Marine Money Istanbul Ship Finance Forum took place within sight of the Bosphorus at the Swissotel. In our mind, there could not be a more appropriate setting for this or any shipping conference.

After greetings from Marine Money's **Mia Jensen** and **Kevin Oates**, Mr. Metin Kalkavan, as Chairman of the **Turkish Chamber of Shipping** gave brief introductory remarks which included interesting numbers on the Turkish shipbuilding industry. He was followed to the podium by Mr. **Lucien Arkas**, the Chairman of **Arkas Holdings**, who gave the keynote address. Mr. Arkas provided a concise history of his 44 years in shipping. But more importantly, he attributed the Turkish owners' success in this industry to their high level of entrepreneurship, courage and self-esteem.

In the first panel, moderated by Mr. **Hansruedi Winter** of **Bayside Services**, owners and bankers sought to provide answers as to how to deal with today's uncertain world. Mr. Arman, of **Credit Europe**

Bank, expressed, in one of the best lines of the conference, his uncertainty as to where the excess liquidity came from and where it went. He also made the interesting observation that the US is not as important as it was and that the emerging markets have taken on a more important role. In any event, the fallout was that deposit rates were up as banks stopped lending to each other and passed on their higher cost of funding to its clients.

Mr. **Vedat Mungan** of **Finansbank** remains optimistic and noted how the banking crisis of 2001 helped strengthen the local banks and the financial system by improving risk management and capital structures. At the end of the day, the banks were less vulnerable to today's events, which have not impacted availability but only cost. They, too, were one of the first local banks to expand beyond pre-delivery construction finance to permanent post-delivery lending.

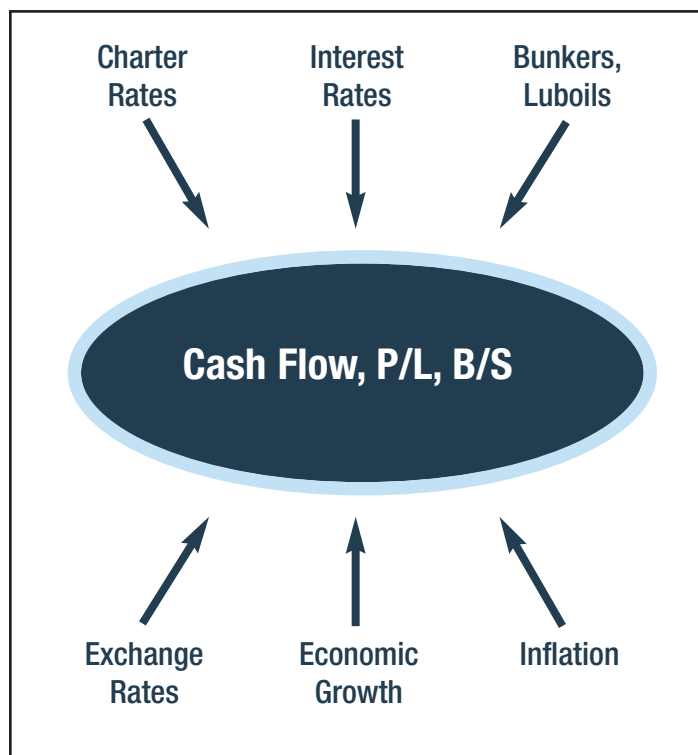
The shipowners were next. Mr. **Servet Yardimci** of the **Yardimci Group** was also optimistic but recognized the uncertainties of tighter credit and higher costs, particularly labor and steel. But as

Mr. Yardimci recognized this is normal in shipping. His shipyard will continue to build a series of niche chemical carriers. If they cannot get the right price they have the capability of operating them, through their **Chemstar Tankers** vehicle, until they find a buyer.

Geden Line's Managing Director, **Tugrul Tokgoz**, seemed to be the most comfortable of all the panelists. Acknowledging the likelihood of corrections this year, Mr. Tokgoz believes that the markets will remain healthy for the next four years and that the financial markets will improve in 2009. He suggested that owners be more cautious in ordering for 2011, particularly at today's prices, but believes the orderbook up to 2010 will be absorbed albeit with some correction.

For **Sadan Kaptanoglu** it is all about risk management since shipping has always been full of surprises. Cash and diversification outside of shipping are paramount in her thoughts. We apparently are not the only ones who think highly of her. We learned that just this week she was named the Seatrade Young Person in Shipping 2008. Congratulations.

Next it was time for the **HSH Nordbank** show starring Dr. **Cyrus de la Rubia**, an Economist, and Mr. **Jan-Peter Firnges**, Deputy Head of Sales Shipping and Transport. Despite my jovial tone, Messrs. de la Rubia and Firnges had the difficult task to answer respectively the key questions on whether Asia can continue to support the world economy and managing risk in a changing environment. Separately, they did a great job but we wonder whether it might be even better done jointly.



Dr. de la Rubia reminded the audience that we were now in the 10th month of a financial crisis that started with the bursting of the housing bubble, and the drying up of the financial markets, culminating in \$240 billion in write-offs to date. In discussing the impact of the U.S. economy on Asia, Dr. de la Rubia identified four channels of contagion. Generally, the impact is not large because the structure of the global economy has changed. The four identified areas include: trade, financial markets, bank assets and liquidity, and inflation. Dr. de la Rubia sees minimal risks in the first three but is greatly concerned about inflation and its impact on social stability due to rising energy and food prices. Ultimately, he sees little impact since Asia in his view is disconnected from the U.S. On the positive side, he noted that consumption is losing its importance as a driver of the U.S. economy and is being replaced by net exports. Based upon this, he envisions a low growth scenario in the U.S. of 1.5% to 2%. To go along with this view, Dr. de la Rubia is projecting the Federal Funds rate falling to 1% by June 30th and increasing in the 2H 2008 to 1.25%.

Economics was followed by risk. We were genuinely intrigued by the fact that a marketing person addresses risk on behalf of a bank. But then again it makes perfect sense. Based upon the quality of the presentation, it is clear that the HSH Nordbank inculcates the subject in depth among its employees. Mr. Firnges first presented his model of risk management shown here.

In concise pithy statements, Mr. Firnges noted that the price for liquidity remains high, people remain vulnerable to market distress and the market will price risk individually. Finally he concluded with the important message that one needs to know the risks and to do nothing about them is not an option.

If one needs detailed analysis, graphs and data on the shipping markets, Dr. **Phillip Rogers** of **Gabraith's** is an excellent source. From the mass of data it is hard to be selective but we found the following of interest:

- Seaborne trade in 2007 is estimated to be 2,968 +/- 30 million metric tons of which 50% is steel related.
- The dry trades grew 4.3% between 1960 and 2000 and 4.7% between 2000 and 2007.
- The current values of 5, 10 and 15 year old handymax/supramax vessels are all trading above the current newbuilding price.

He concluded by reiterating the questions on everyone's mind regarding the supply side:

- Will the greenfield yards be built?
- Where will the skilled workers come from?

- Will the main engines be delivered on time?
- Will financing be available?
- And, will there be enough crew?

And finally in response to the last question he provided an interesting perspective by noting that there are 4.3 ships delivering each day and it takes 10 years to train senior crew. Clearly the gap is huge.

Mr. **Christian Nieswandt**, who is responsible for southern and eastern European clients for HSH Nordbank was asked the challenging question of whether debt finance has become the weak link in the shipping growth story? Based upon the numbers, there seems to be enough capacity. Loan volume in 2006 was \$76.4 billion, which increased to \$93.8 billion in 2007. Of the latter, HSH Nordbank's share was \$26 billion or 28%. And even in these difficult times, Mr. Nieswandt noted that in the first quarter HSH Nordbank funded \$4 billion, which included eight transactions in Turkey. In an attempt to provide perspective into the future financial requirement, Mr. Nieswandt calculated that based upon \$500 billion worth of vessels to be delivered through 2012, there was a requirement for \$325 billion based upon a 65% loan to value. In addition to increased costs of 25 to 35bps, borrowers seeking financing are also faced with the choice of a fully underwritten loan with market flex or club deals with the latter preferred.



Ms. **Anne Dovigen** of **Jefferies** provided her insights into the capital markets. In an excellent presentation, Ms. Dovigen described three ways to access the market. A new company can either be “normal,” a partial dividend payout or a full dividend model. Although the yield orientation supports higher valuations, the downside is funding future growth.

The important takeaway from **KKR's Mr. Ahmet Faralyali's** presentation was that local banks did the financing of the **UN RO-RO** transaction. Not only were they competitive with the international banks in the midst of the credit crisis, they had the special distinction of understanding the business making it easier all around.

First Ship Lease's Ron Dal Bello presented the advantages of leasing which include 100% financing including equity obviously, off-balance sheet treatment, a competitive lease cost versus the operator's WACC and transfer of residual risk. We learned later that Ron is obviously a great marketer as subsequent to the conference First Ship Lease announced a deal with Geden Lines, which is discussed in greater detail earlier in this issue.

The perspective of the local Turkish banks was provided by Mr. **Bruno Accou** of **DenizBank**, who was warmly received as he began his speech in Turkish. With the credit market turmoil, he anticipates





that de-leveraging is inevitable. He also reiterated the credit mantra including the need for liability management and the fact that cash is king.

The conference concluded with a lively panel discussion led by Mr. **Stefano Ambrogi**, a Senior Correspondent from **Reuters** on an expectation of a major downturn in 2010 – 2011. Panelists included Mr. **Nieswandt**, Mr. **Theo Xenakoudis** of the **Marshall Islands Registry** and Mr. **Sina Kinay** of **Kinay Shipping S.A.**

The conference adjourned to the foyer where much needed cocktails were served along with networking opportunities. We now have a full appreciation for a Mia and Kevin conference.

Marine Money Brings the Ship Finance Industry to Imabari City, Shikoku Island

We are pleased to announce that the 3rd annual Japan Ship Finance Forum will take place May 14-15 at the Imabari Kokusai Hotel in Shikoku Island. Together with our official partner **Sumitomo Mitsui Banking Corporation** (SMBC), we have put together a program that we believe will be of value to the local Japanese ship owners and financiers as well as foreign players looking at Japan.

This year's forum will be more important than ever considering the global financial volatility, USD/JPY exchange rate and nervous shipping markets. The forum will provide the Japanese shipowners and operators with funding opportunities post sub-prime as well as other measures for reducing cost. We will be examining many topics close to the hearts of the shipowners such as ship management costs and bunker costs. Shikoku Island and its surrounding regions is the home for Japan's shipowners who control 14 percent of the world fleet and we pay tribute and respect to them by delivering this successful forum in their back yard.



The forum will also be an excellent opportunity for foreign charterers and owners to visit their tonnage providers and shipyards as well as for foreign financiers to develop new business. With the Japanese bankers requiring more equity from shipowners in their lending, this may potentially open up opportunities for foreign financiers to play a more active role in providing the funding shortfall for the Japanese shipping industry. The forum will be concluded with a panel of Japanese mega carriers who will discuss on their funding situation today.

For the first time, the forum will include a shipyard tour of Saijo Shipyard followed by the Official Opening Dinner sponsored by **Imabari Shipbuilding Co., Ltd.** We are also very honoured to have Mr. **Yukito Higaki**, President, of Imabari Shipbuilding delivering the keynote speech for the forum. To register for the forum, please visit our website using the following link <http://www.marinemoney.com/forums/JAP08/index.html> or send us an email at Asia@marinemoney.com.

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