CONTAINER SHIPPING: STATE OF THE INDUSTRY
MLAANZ, QUEENSTOWN

David Goodwin
4 September 2009
The view from Singapore – February 09

Source: DNV, March 2009
Recent industry developments

Carriers have suffered huge losses - although there are some positive signs in terms of freight rate restoration.

Difficult times ahead for box lines
The Business Times 12th August 2009

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Revenue $m</th>
<th>% Change</th>
<th>Operating Profits $m</th>
<th>EBITDA $m</th>
<th>Liftings</th>
<th>TEU</th>
</tr>
</thead>
<tbody>
<tr>
<td>APL</td>
<td>2,477</td>
<td>-37%</td>
<td>-379</td>
<td>-254</td>
<td>1,840,000</td>
<td></td>
</tr>
<tr>
<td>Hanjin</td>
<td>1,998</td>
<td>-34%</td>
<td>-342</td>
<td>-257</td>
<td>1,399,953</td>
<td></td>
</tr>
<tr>
<td>OOCL</td>
<td>2,053</td>
<td>-35%</td>
<td>-224</td>
<td>-128</td>
<td>1,999,000</td>
<td></td>
</tr>
</tbody>
</table>

THE half-year results released by Neptune Orient Lines (NOL) last week - showing a core loss of US$379 million - are a stark reminder of the dire condition of the container trade.

CSAV sprints into the red
by Martin Dixon

CSAV, the embattled Chilean shipping line, reported heavy losses for the first half of the year, blaming an unprecedented slump in demand. Revenue for the first six months sank 37% to USD1.5 billion, sending net earnings into a loss of USD413 million for the first six months. This compares with a net profit of USD18 million for the same period last year.

Glimmer of hope as rates on key routes start to rise
Janet Porter - Wednesday 12 August 2009

Freight rates are finally heading in an upwards direction on the world's two biggest trade routes as container lines keep capacity under tight control. Spot rates for cargo moving eastbound across the Pacific have risen sharply over the past week, while recent modest gains in the Asia-Europe trades are holding.

Trans-Pacific Spot Rate Jumps 57 Percent
Peter T. Leach | Aug 12, 2009 5:08PM GMT

Index climbs above $1,000 first time in three months. The index, which excludes terminal handling charges, compiled by Drewry Shipping Consultants in London, of average spot prices for shipping a 40-foot container from Hong Kong to Los Angeles jumped by 57.4 percent in the week ended Aug 9.

Another rate hike from Maersk
by ci-online staff

Ahead of its group H1 09 results next week, the world's biggest ocean carrier, Maersk Line, is continuing on its rate restoration crusade with another raft of rate increases. The latest trade lanes to have rate increases imposed are 1 the Middle East and Red Sea to the Mediterranean and North Europe and 2 South Asia [India, Pakistan, Bangladesh and Sri Lanka] to the Mediterranean and North Europe.
Major Independent Operators (3 main East-West trades)

Maersk Line
- 169 Vessels
- 22 Strings
- 994,532 TEU

Evergreen Group
- 90 Vessels
- 16 Strings
- 444,584 TEU

China Shipping
- 44 Vessels
- 9 Strings
- 282,218 TEU

Multi Carrier Alliances

Grand Alliance
- 145 Vessels
- 20 Strings
- 815,787 TEU

CHKY Alliance
- 187 Vessels
- 29 Strings
- 971,823 TEU

New World Alliance
- 119 Vessels
- 18 Strings
- 632,231 TEU

Cooperates in selected trades

UASC
- 29 Vessels
- 7 Strings
- 96,045 TEU

MSC
- 109 Vessels
- 14 Strings
- 678,175 TEU

Maersk Line
- 106 Vessels
- 22 Strings
- 525,285 TEU

China Shipping
- 44 Vessels
- 9 Strings
- 282,218 TEU
Container Shipping – a highly cyclical industry
NOL Five Year Financial Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (US$M)</th>
<th>EBIT (US$M)</th>
<th>Core EBIT (US$M)</th>
<th>EBIT Margin</th>
<th>Core EBIT Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>6,545</td>
<td>940</td>
<td>401</td>
<td>14.6%</td>
<td>14.4%</td>
</tr>
<tr>
<td>2005</td>
<td>7,271</td>
<td>898</td>
<td>401</td>
<td>12.5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>2006</td>
<td>7,264</td>
<td>592</td>
<td>401</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>2007</td>
<td>8,160</td>
<td>813</td>
<td>592</td>
<td>7.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2008</td>
<td>9,285</td>
<td>213</td>
<td>213</td>
<td>1.7%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

EBIT Margin 14.6% 12.5% 5.5% 7.5% 1.7%
Core EBIT Margin 14.4% 12.4% 5.5% 7.3% 2.3%

Revenue CAGR 9%
The world has become an uncertain place

• Managing through current market conditions is a major challenge

• Fundamental changes to the world economy and resulting trade patterns may be underway

• Risks are high - how they are managed will be critical to success

• Building flexibility into business models has become critical

• The industry faces complex near term challenges … but there will be opportunities for those with foresight
World GDP and containerized trade – will the pattern of linked growth alter?
Negative containerized growth is expected for the first time in two decades

Source: IMF Apr 2009; Clarkson’s
APL Vol & Av Revenue/FEU (2000-1H 2009)

Volume growth over period

Source: APL

Average Rev/FEU decline -20%
Asia-Europe

Europe inbound/outbound volume declines Q209

Source: European Liner Affairs Association (ELAA)
Asia-Europe
Asia-Europe

ELAA’s price index compares container freight rates for April and May with last year’s rates. The data clearly shows the market decline.

<table>
<thead>
<tr>
<th>Price index</th>
<th>Apr-09 To</th>
<th>Apr-09 From</th>
<th>May-09 To</th>
<th>May-09 From</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Far East</td>
<td>50%</td>
<td>64%</td>
<td>49%</td>
<td>65%</td>
</tr>
<tr>
<td>North America</td>
<td>80%</td>
<td>74%</td>
<td>78%</td>
<td>71%</td>
</tr>
<tr>
<td>Australasia</td>
<td>93%</td>
<td>75%</td>
<td>92%</td>
<td>75%</td>
</tr>
<tr>
<td>Middle East/ISC</td>
<td>57%</td>
<td>70%</td>
<td>58%</td>
<td>72%</td>
</tr>
<tr>
<td>Africa, Sub Saharan</td>
<td>n/a</td>
<td>72%</td>
<td>n/a</td>
<td>68%</td>
</tr>
<tr>
<td>Latin America</td>
<td>80%</td>
<td>71%</td>
<td>78%</td>
<td>70%</td>
</tr>
<tr>
<td>EastMed-N.Europe</td>
<td>82%</td>
<td>78%</td>
<td>80%</td>
<td>76%</td>
</tr>
</tbody>
</table>

Source: European Liner Affairs Association
China’s shift to infrastructure is a booster - increased demand in the ‘backhaul’

**CHINA’S STIMULUS PACKAGE**

- A breakdown of spending in the $585 billion plan.

- Sustainable Development: $29
- Rural Development: $53
- Technology Advancement: $53
- Social Welfare: $59
- Public Infrastructure: $222
- Post-Quake Reconstruction: $146
- Educational/Cultural Projects: $23

Source: National Development and Reform Commission, China
Industry capacity rationalization

Almost all major carriers have responded to declining demand and freight rates by reducing capacity.

Note: * East-West trades – Transpacific, Asia Europe & Transatlantic
APL capacity adjustment and idled vessels

APL vessel deployment is adjusted according to market dynamics, including seasonality.

Note: Figures are as of end of the respective quarters.
The number of idle vessels continues to increase, though it has fallen from a high of 11% in March to 10%, indicating bigger new builds are being deployed into service and older and smaller tonnage is being idled.

**Industry Idle Ships Estimate**

<table>
<thead>
<tr>
<th>TEU range</th>
<th>No. of ships</th>
<th>Idle TEU</th>
<th>% TEU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥7,500</td>
<td>4</td>
<td>31,455</td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td>5,000-7,499</td>
<td>51</td>
<td>301,040</td>
<td>10.7%</td>
<td></td>
</tr>
<tr>
<td>3,000-4,999</td>
<td>86</td>
<td>330,618</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>2,000-2,999</td>
<td>142</td>
<td>359,481</td>
<td>19.8%</td>
<td></td>
</tr>
<tr>
<td>1,000-1,999</td>
<td>148</td>
<td>219,620</td>
<td>12.3%</td>
<td></td>
</tr>
<tr>
<td>500-999</td>
<td>101</td>
<td>72,389</td>
<td>11.8%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>532</strong></td>
<td><strong>1,314,603</strong></td>
<td><strong>10.3%</strong></td>
<td><strong>1,310</strong></td>
</tr>
</tbody>
</table>

10.3% of the existing capacity
World containerized supply outlook

No orders have been placed in 2009, but current order book is extremely large with 5.65 million TEU on order, equivalent to 45% of existing capacity.

Source: Clarkson's Research Services, April 2009
Industry capacity – rise of scrapping

Scrapings to hit 350,000 Teu in 2009

Scraping of cellular tonnage for the year to date will reach the 250,000 teu mark this week, with full year scrapping level expected to exceed 350,000 teu – the figure could have been higher if some elderly ships were not locked into charters expiring in 2010 or later.

Evergreen to Scrap Old Ships

Joseph Bonney | Jun 23, 2009 3:23PM GMT
The Journal of Commerce Online

Chairman calls excess of new buildings 'gruesome'
Evergreen Line plans to withdraw 31 of its oldest ships from service and scrap many of them to help chip away at what its chairman, Chang Yung-fa, described as a “gruesome” excess of vessel capacity in the container ship industry.

Projected fleet growth set to decline
by Matthew Beddow, 07/04/2009

Recent research from Howe Robinson suggests that vessel capacity growth this year will be much less than previously expected, leading to fewer vessels having to be laid up.

Paul Dowell, the ship broker’s director of research and consultancy, said: ‘Although scrapping has been negligible in recent years, we expect as much as 211,000TEU to be demolished this year, which will be equivalent to around 1.7% of the world’s cellular fleet capacity on January 1, 2009.'
After falling below $250 per MT in December 2008, bunker prices have started regaining lost ground, rising by about 87% since the beginning of the year.
Actions being taken to manage through downturn

- **Pace of decision making**
- **Shareholder funding injections**
- **Carrier/Shipper collaboration**
- **Focus on productivity**
- **Management of costs** – choices being made about deploying assets or laying-up tonnage
- **Review of business models**
- **Renewed focus on innovation**
- **Asset flexibility**

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- **Review of business models**
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- **Asset flexibility**
NOL undertook US$1Bn share rights issue

<table>
<thead>
<tr>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strengthen balance sheet of the Group to enhance financial flexibility</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Use of Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Repayment of debts of the Group (approximately 50%)</td>
</tr>
<tr>
<td>• Balance to be used for:</td>
</tr>
<tr>
<td>- Investments (if opportunities arise)</td>
</tr>
<tr>
<td>- General corporate and working capital purposes</td>
</tr>
<tr>
<td>- Further repayments of debt</td>
</tr>
</tbody>
</table>
Severe global recession

Global credit and capital markets close down and remain volatile

Battered, but resilient

Globalization revives

Long drought

Stalled globalization

Source: McKinsey Global Institute
Conclusions

- Some stability in operating environment in latter part of 1H09
- Rates continue to be at unsustainable levels
- Softness in global demand continues to affect volumes for container shipping and related businesses
- Supply overhang remains but signs the future order book is at risk due to delays and cancellations
- Great stress on the vessel financing sector
- Large scale contractual disputation can be anticipated
- Lines continue to focus on cost discipline
- Lines with presence and positioning in Asia are benefiting from Asia being the engine of global trade
- M&A activity and business restructurings may increase as players look to take advantage of opportunities that may arise
End of Presentation