CONTAINER SHIPPING: STATE OF THE INDUSTRY

MLAANZ, QUEENSTOWN

David Goodwin

4 September 2009

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The view from Singapore – February 09

Source: DNV, March 2009

Recent industry developments

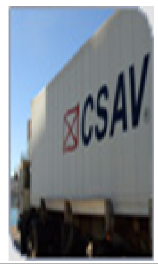
Carriers have suffered huge losses - although there are some positive signs in terms of freight rate restoration

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

Carrier	Revenue $ m	% Change	Operating Profits $ m	EIBTDA $ m	Liftings TEU
APL	2,477	-37%	-379	-254	1,840,000
Hanjin	1,998	-39%	-342	-257	1,399,953
OOCL	2,053	-35%	-224	-128	1,999,000

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 sinks into the red
by Martin Dixon



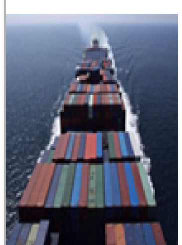
CSAV, the embattled Chilean shipping line, reported heavy losses for the first half of the year, blaming an unprecedented slump in demand. Revenue for the first six months sunk 37% to USD1.5 billion, sending net earnings into a loss of USD413 million for the first six months. This compares with a net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

HMM falls into red for H1
Containerization International 12th August 2009

South Korean Hyundai Merchant Marine (HMM) is the latest ocean carrier to release a disastrous set of H1 2009 financial results.

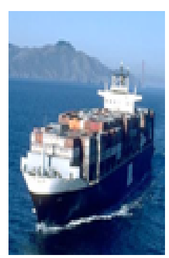
Revenue slumped 45% compared to H1 last year, to USD1.7 billion and net profit fell into the red at a deficit of USD1.9 billion, according to company estimates

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

MAERSK LINE

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

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Container carrier alliances - overview

Multi Carrier Alliances

Grand Alliance

NYK LINE, OOCL, Hapag-Lloyd, MISC

145 Vessels
20 Strings
815,787 TEU

CHKY Alliance

COSCO, "K" LINE, YANG MING LINE, HANJIN SHIPPING, SENATOR LINES

187 Vessels
29 Strings
971,823TEU

New World Alliance

APL, MitsuiOSK Lines, HYUNDAI

119 Vessels
18 Strings
632,231 TEU

Cooperates in selected trades

UASC

29 Vessels
7 Strings
96,045 TEU

Major Independent Operators (3 main East-West trades)

Maersk Line

MAERSK LINE, Safmarine

169 Vessels
22 Strings
994,532 TEU

MSC

109 Vessels
14 Strings
678,175TEU

Evergreen Group

EVERGREEN MARINE, LLOYD TRIESTINO DI NAVIGAZIONE S.P.A.

90 Vessels
16 Strings
444,584TEU

CMA CGM

106 Vessels
22 Strings
525,285TEU

China Shipping

China Shipping

44 Vessels
9 Strings
282,218TEU

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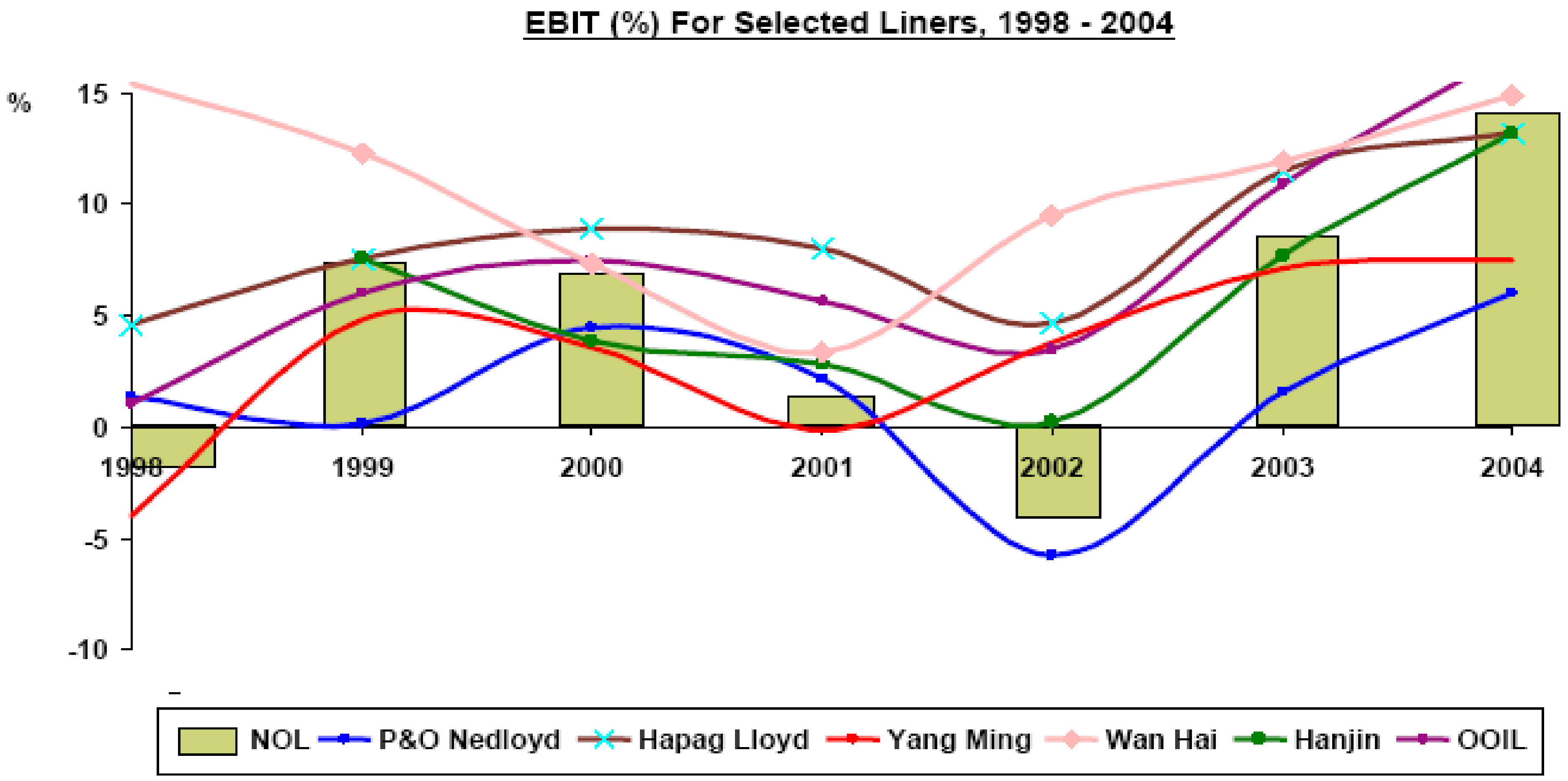
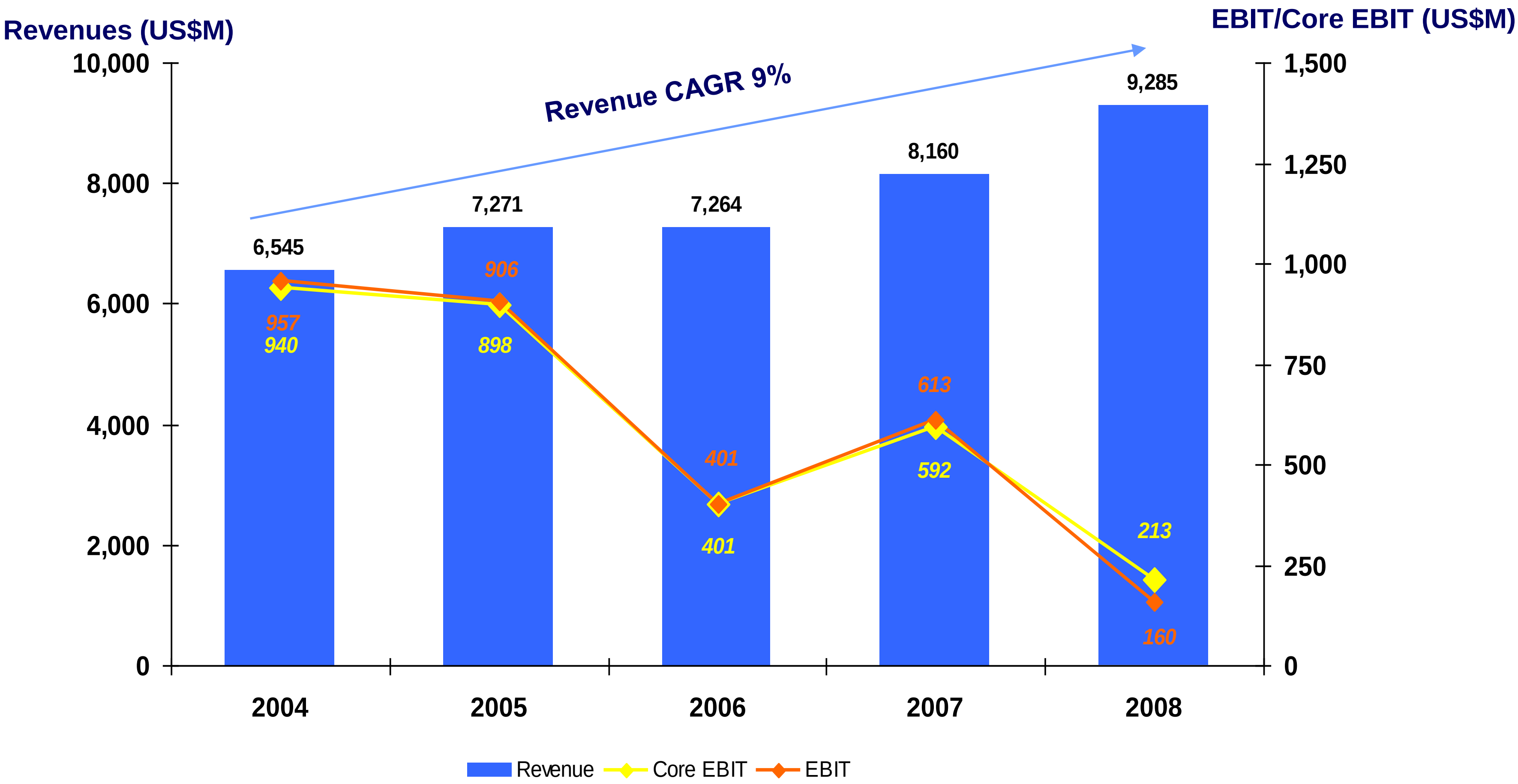
Container Shipping – a highly cyclical industry



NOL Five Year Financial Performance



	2004	2005	2006	2007	2008
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%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HONG KONG

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

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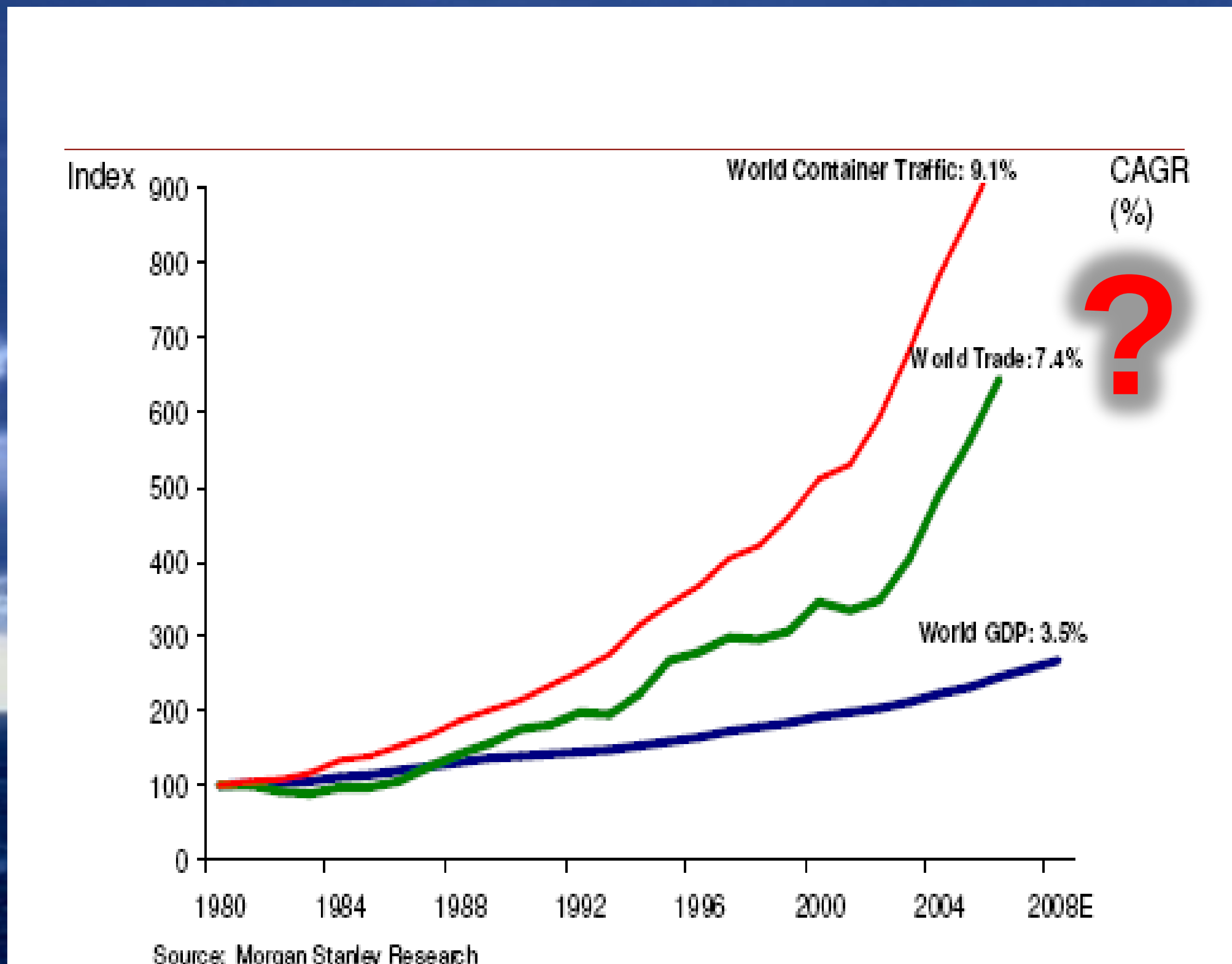
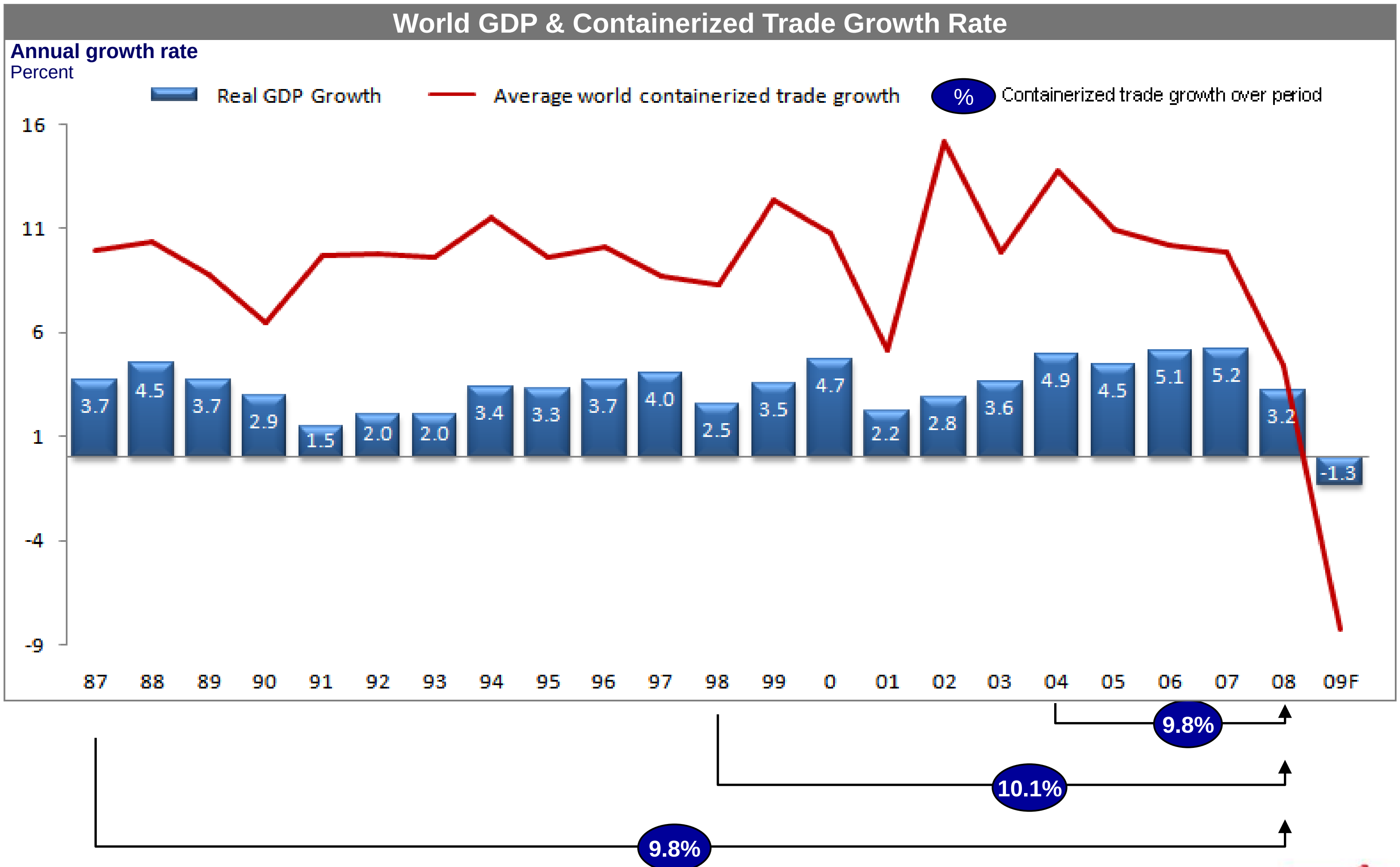
World GDP and containerized trade
– will the pattern of linked growth alter?

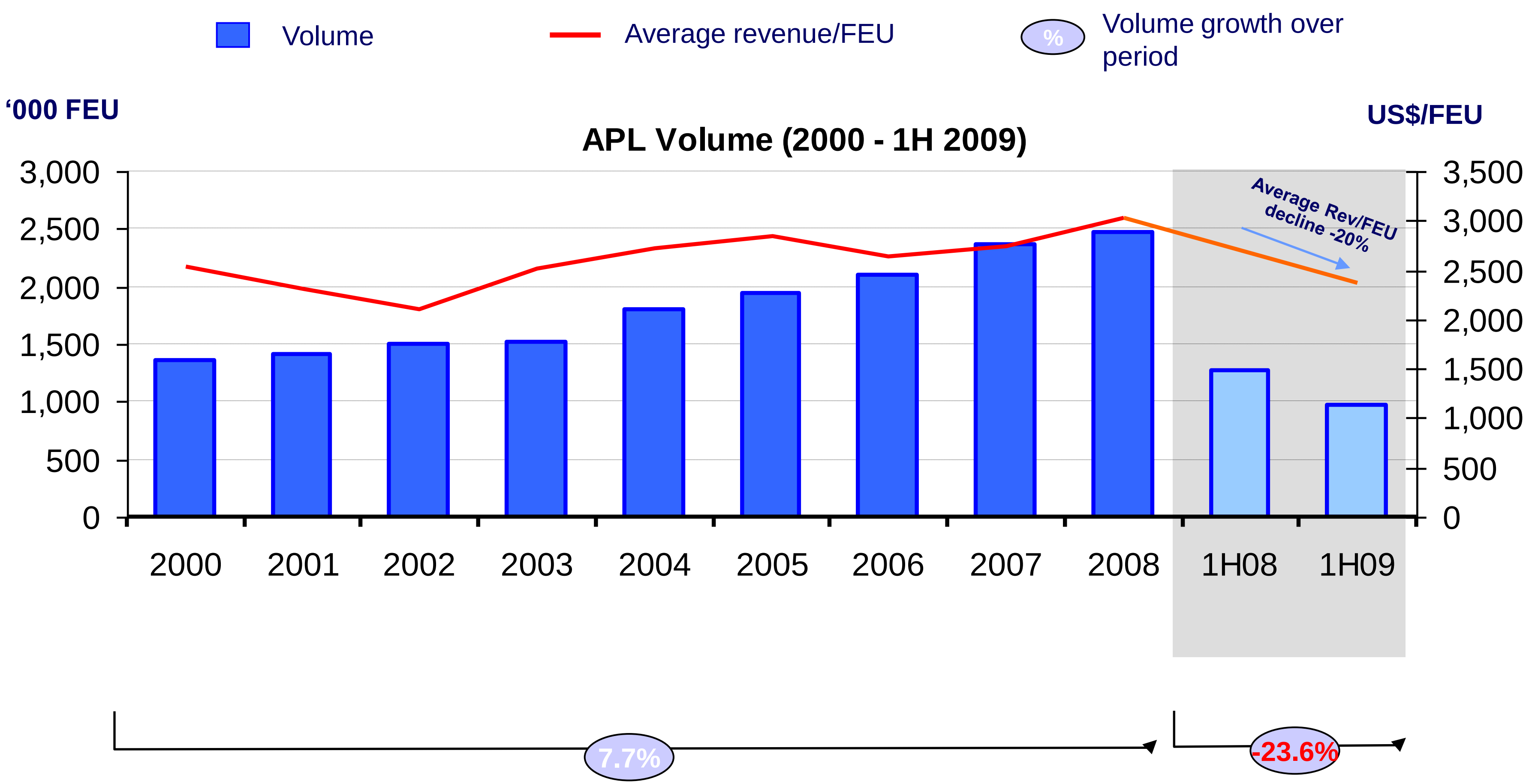


Negative containerized growth is expected for the first time in two decades



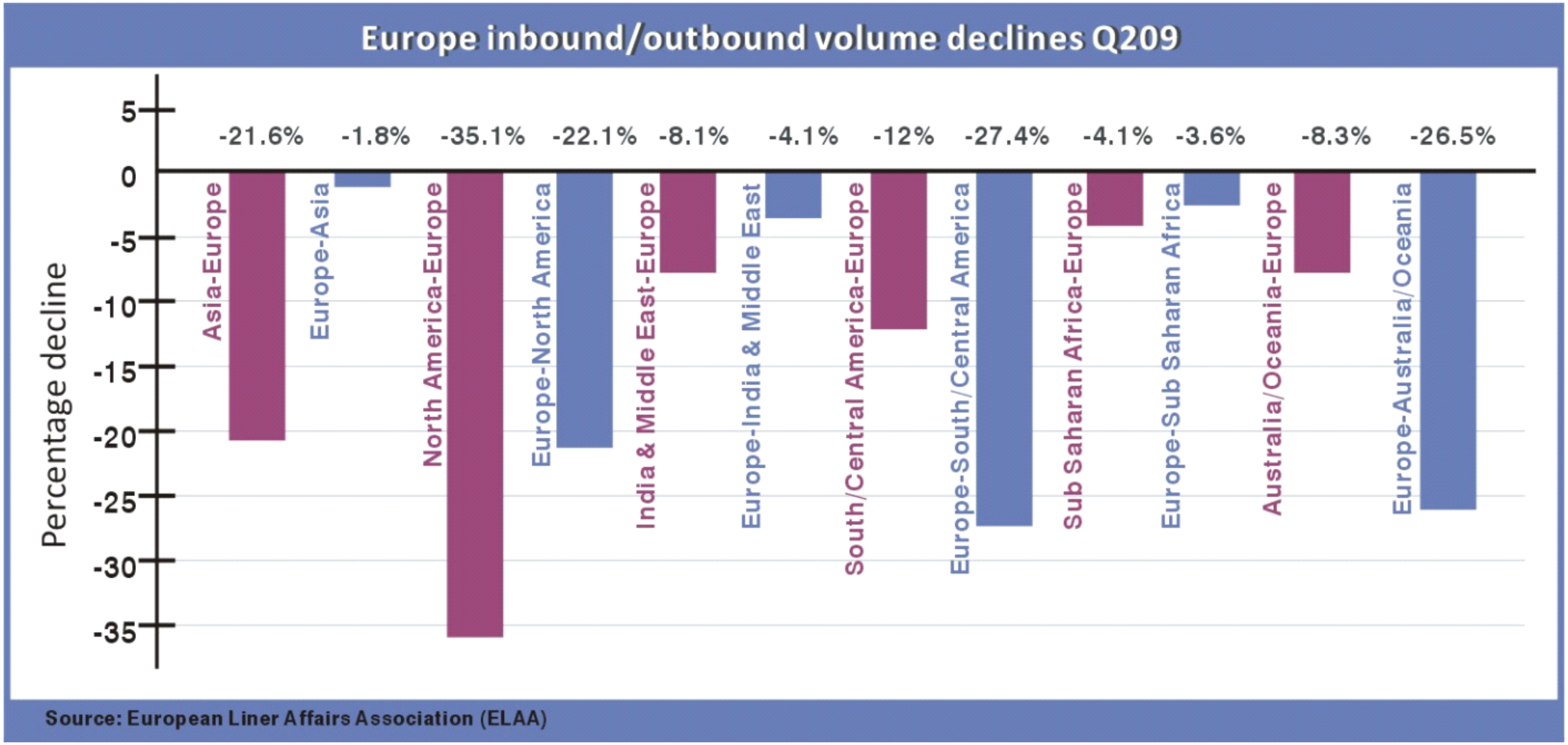
Source: IMF Apr 2009; Clarkson's

APL Vol & Av Revenue/FEU (2000-1H 2009)



Source: APL

Asia-Europe



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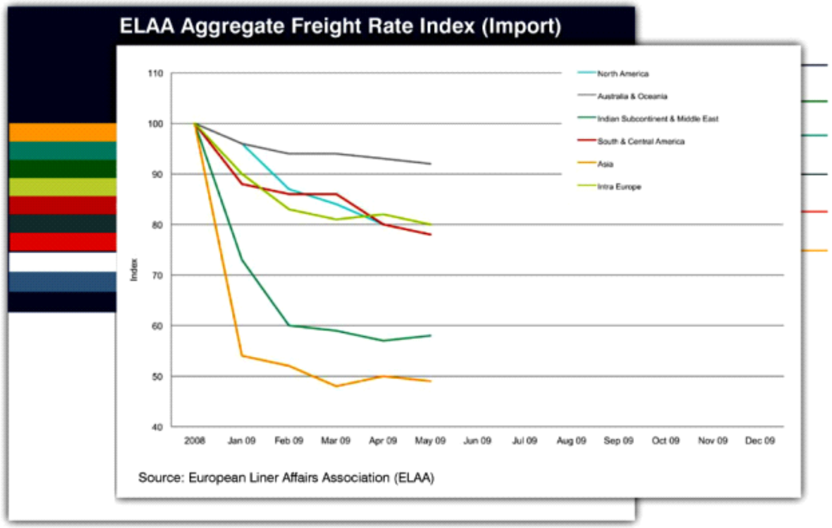
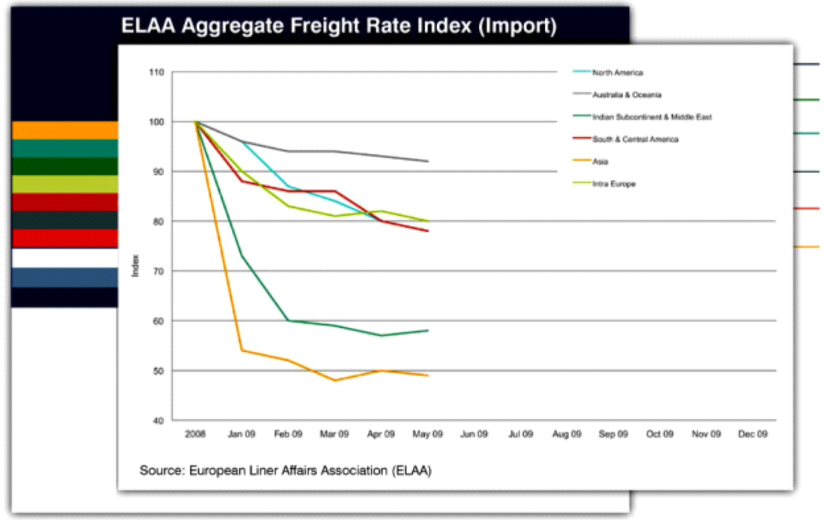
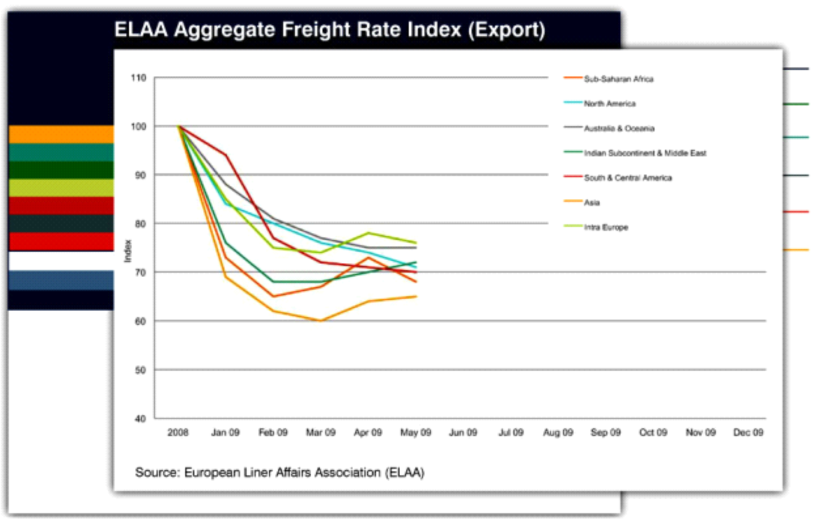
Asia-Europe







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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

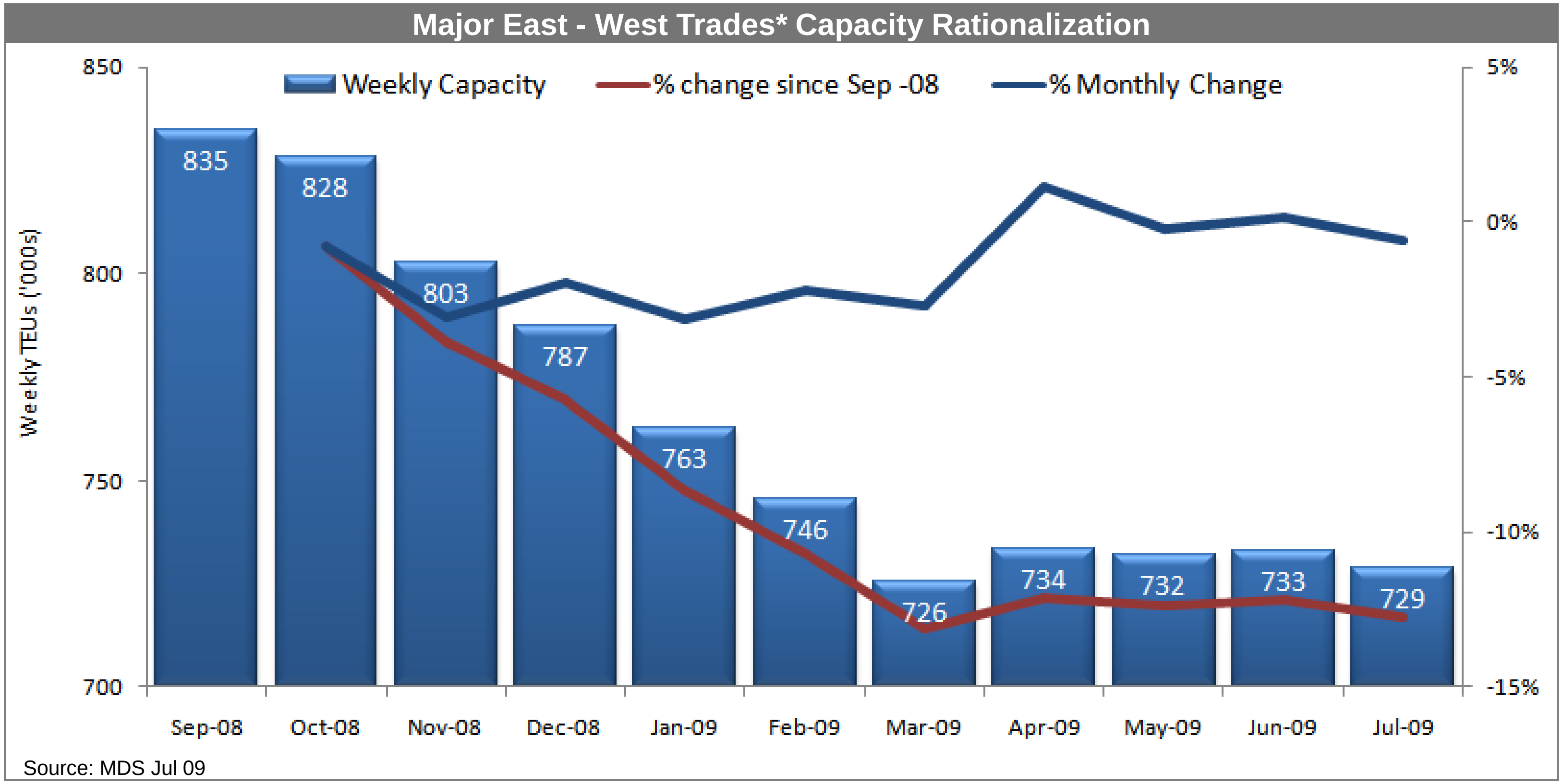
Price index	Apr-09		May-09	
Europe	To	From	To	From
Far East	50%	64%	49%	65%
North America	80%	74%	78%	71%
Australasia	93%	75%	92%	75%
Middle East/ISC	57%	70%	58%	72%
Africa, Sub Saharan	n/a	72%	n/a	68%
Latin America	80%	71%	78%	70%
EastMed-N.Europe	82%	78%	80%	76%

Source: European Liner Affairs Association

China's shift to infrastructure is a booster
- increased demand in the 'backhaul'

Industry capacity rationalization

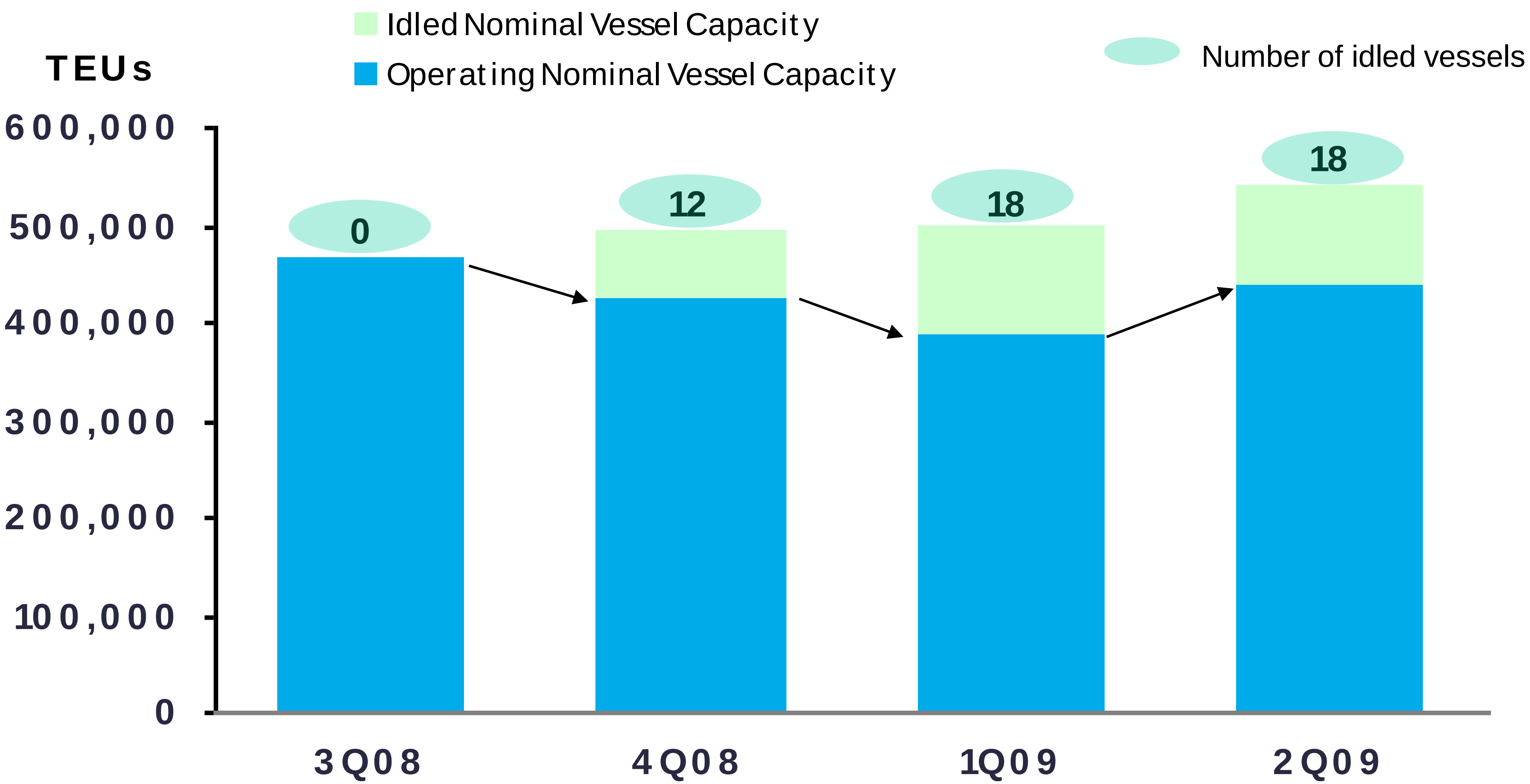
Almost all major carriers have responded to declining demand and freight rates by reducing capacity



Note : * East- West trades – Transpacific, Asia Europe & Transatlantic

APL capacity adjustment and idled vessels

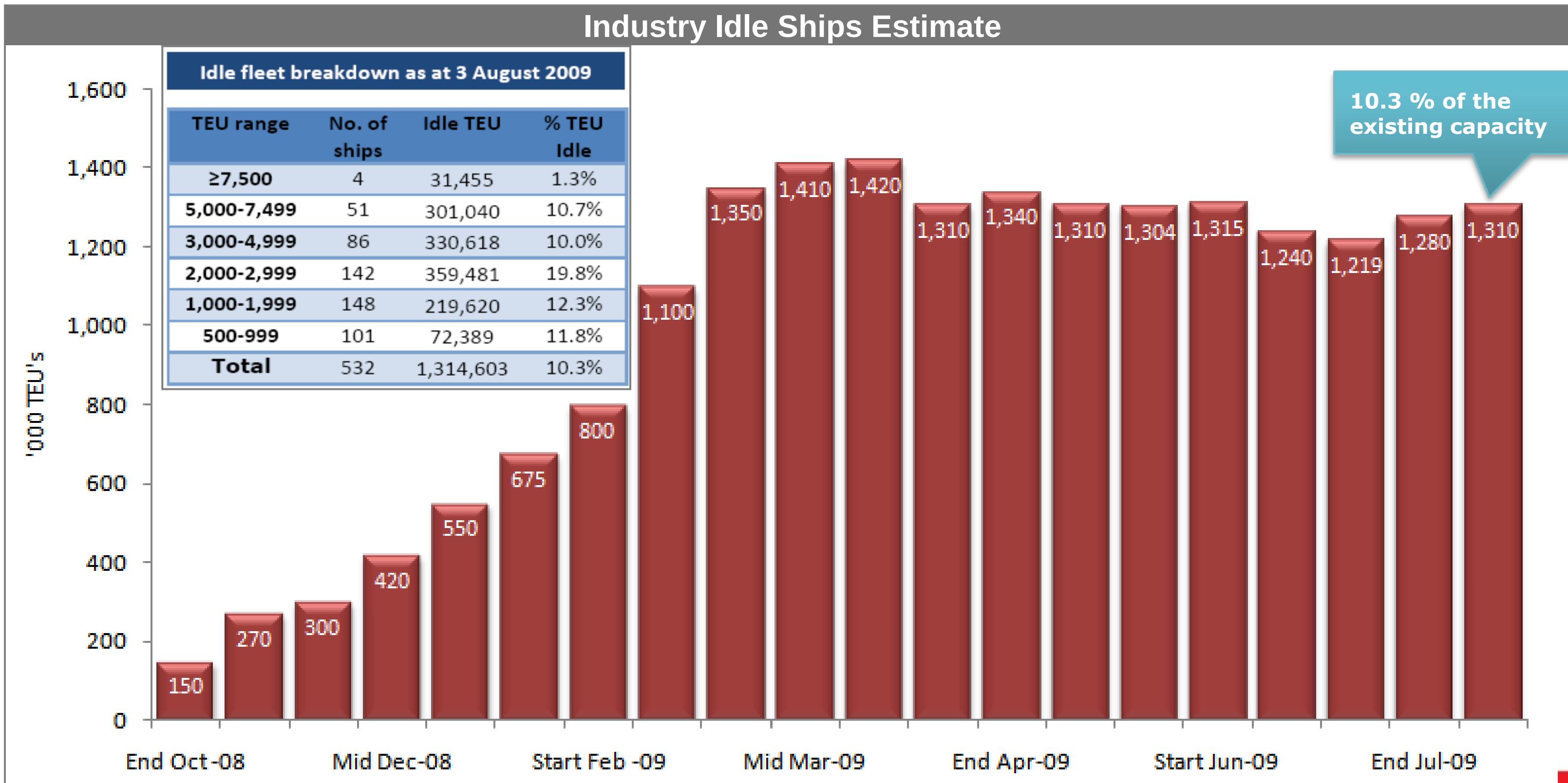
APL vessel deployment is adjusted according to market dynamics, including seasonality



Note: Figures are as of end of the respective quarters.

The world's idle fleet

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



Idle fleet breakdown as at 3 August 2009

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

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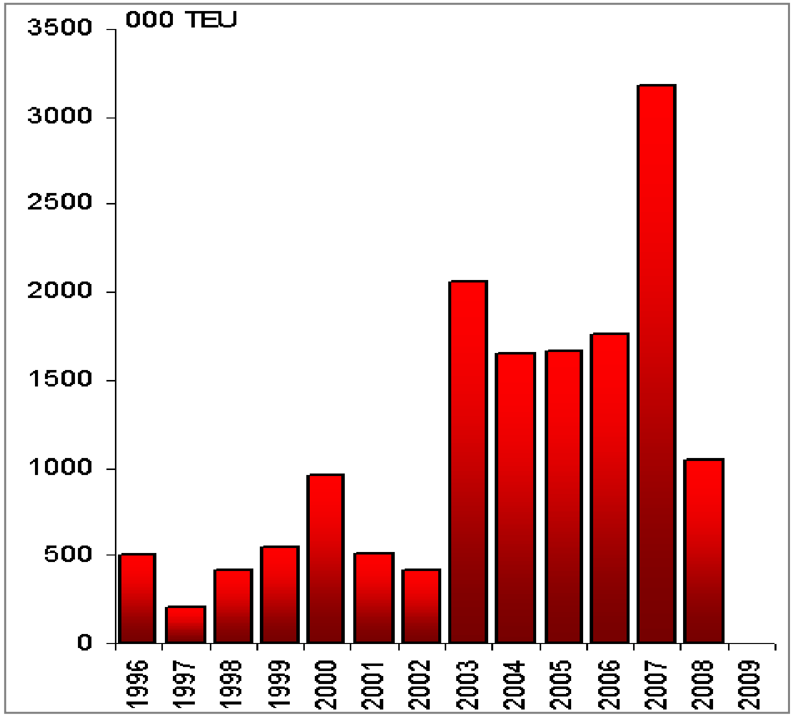
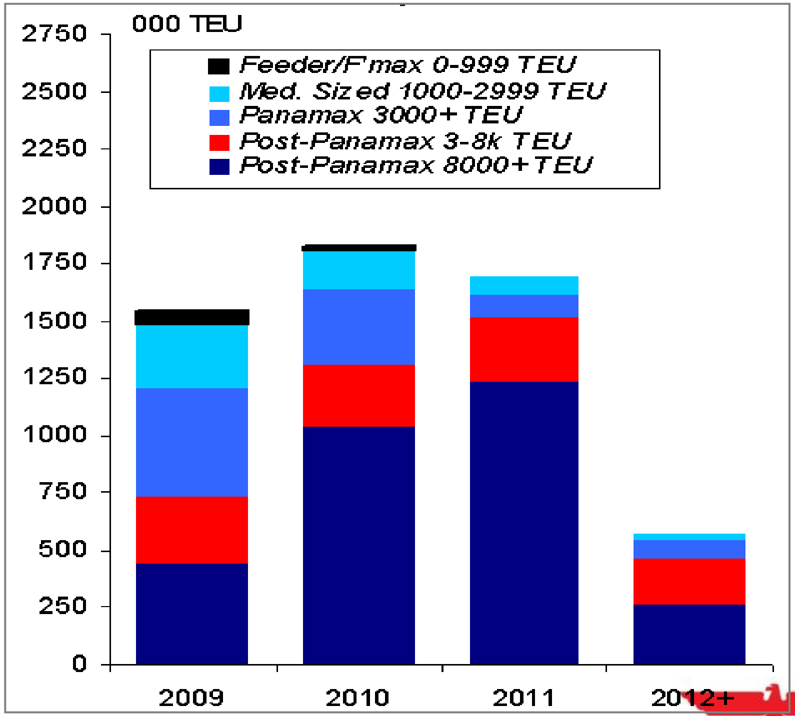
World containerized supply outlook

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

Containerships Orders

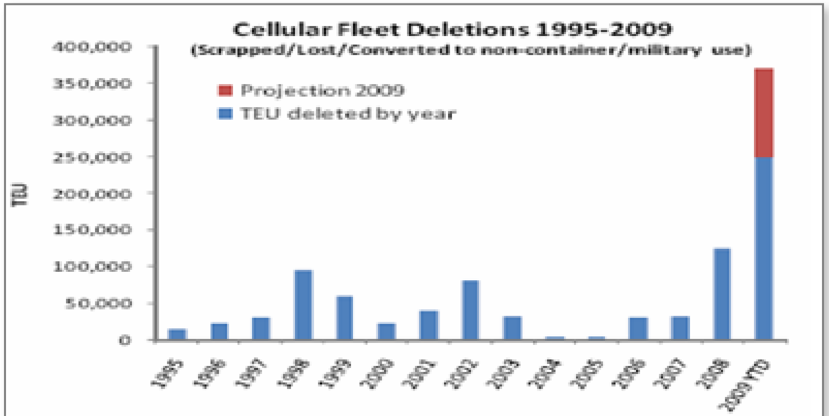


Containerships Orderbook



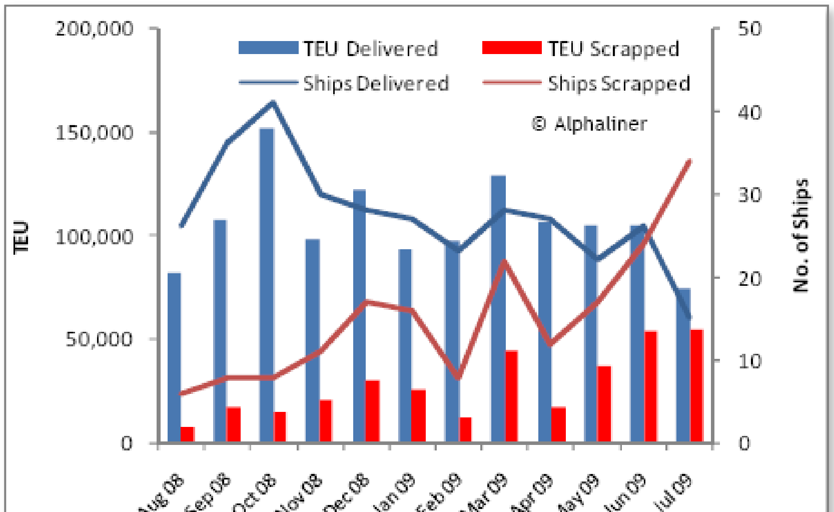
Source: Clarkson's Research Services, April 2009

Industry capacity – rise of scrapping



Scrapings to hit 350,000 Teu in 2009

Scrapping 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.

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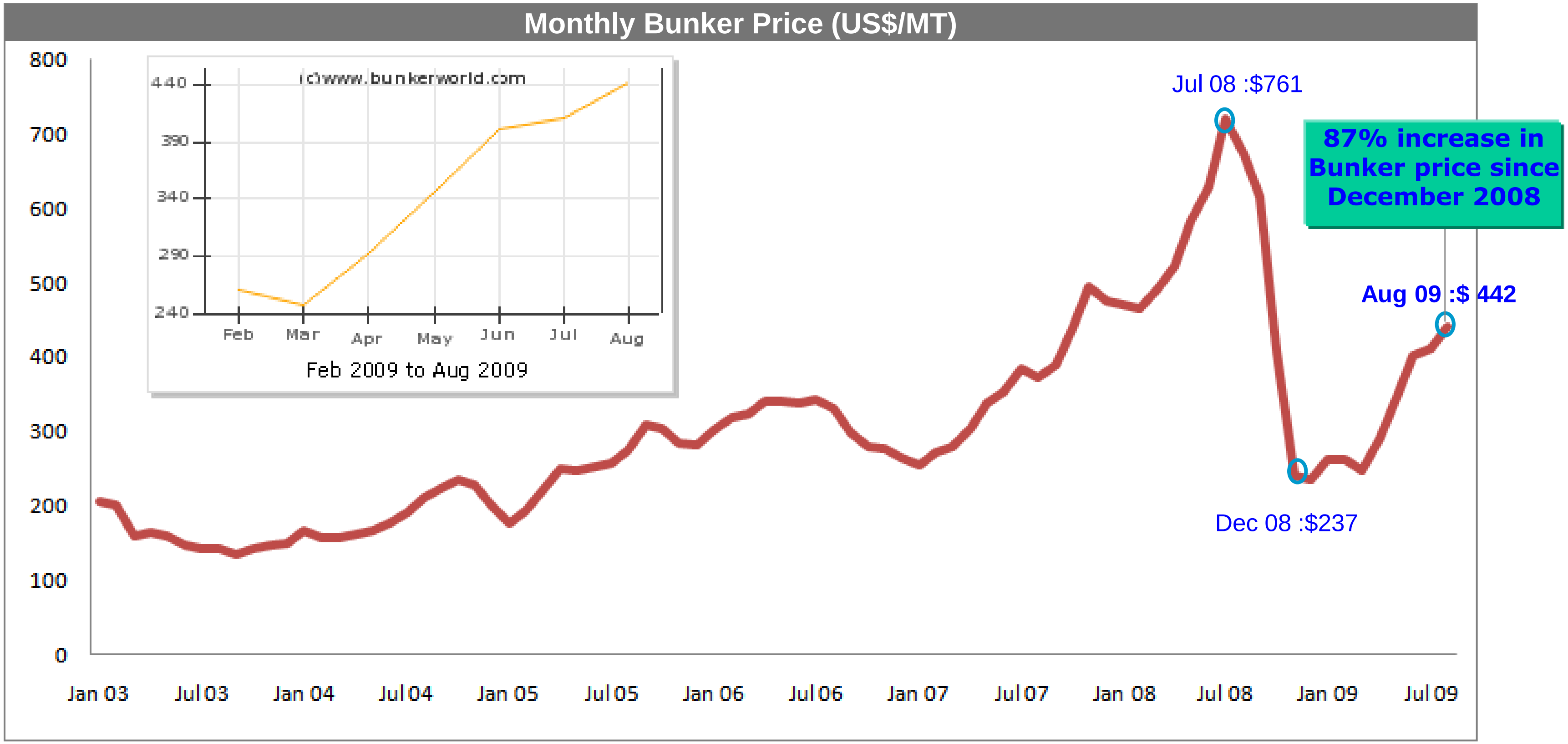
Bunker fuel - spot prices

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



Source: Bunker world (IFO 380 Grade)

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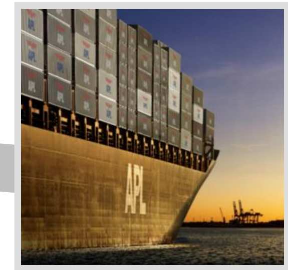
Actions being taken to manage through downturn

Pace of decision making



Management of costs – choices being made about deploying assets or laying-up tonnage

Shareholder funding injections

Review of business models

Carrier/Shipper collaboration

Renewed focus on innovation

Focus on productivity

Asset flexibility

NOL undertook US$1Bn share rights issue

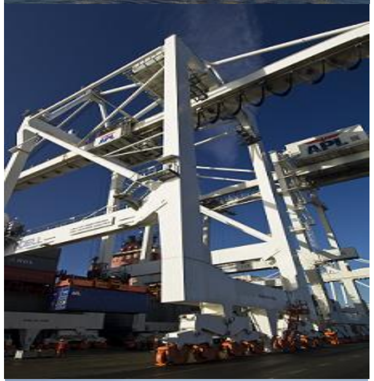
Rationale
• Strengthen balance sheet of the Group to enhance financial flexibility

Use of Proceeds
• Repayment of debts of the Group (approximately 50%)
• Balance to be used for:
- Investments (if opportunities arise)
- General corporate and working capital purposes
- Further repayments of debt

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

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End of Presentation