

3rd Indian Ocean & Ports Logistics Conference

Recent developments and medium-term prospects for the container market and the liner shipping industry

March 2010



... from turnaround to growth



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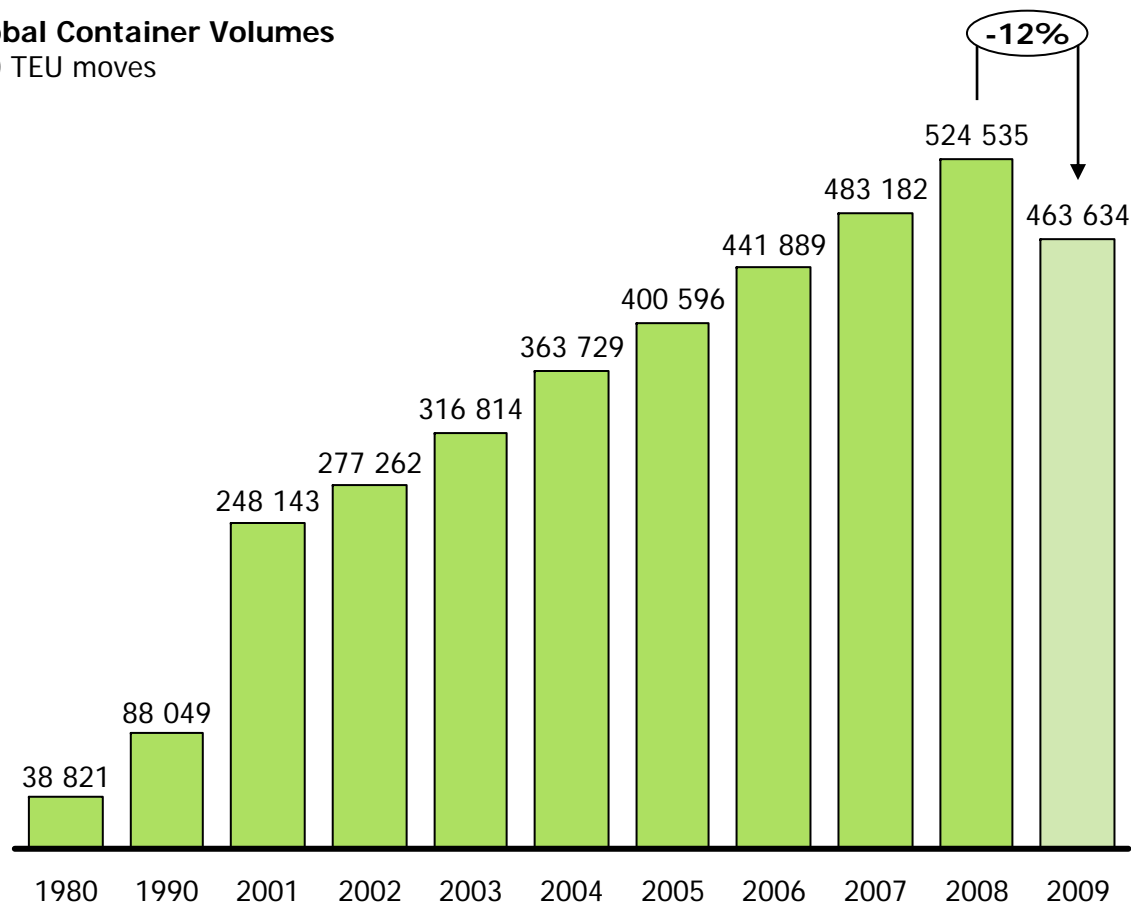
GLOBAL CONTAINER VOLUMES

Key Issues

- Tentative recovery of volumes in some routes, but US consumer spending remains weak
- Freight rates rising on some east west routes, but this is due to capacity cuts, not rising demand
- Owners continue to seek deferrals on vessel deliveries rather than outright cancellations
- Complex financial issues have now overtaken even the huge problems caused by weak demand and vessel overcapacity
- Slow steaming will help with supply, but this will still not be enough to absorb all the new capacity

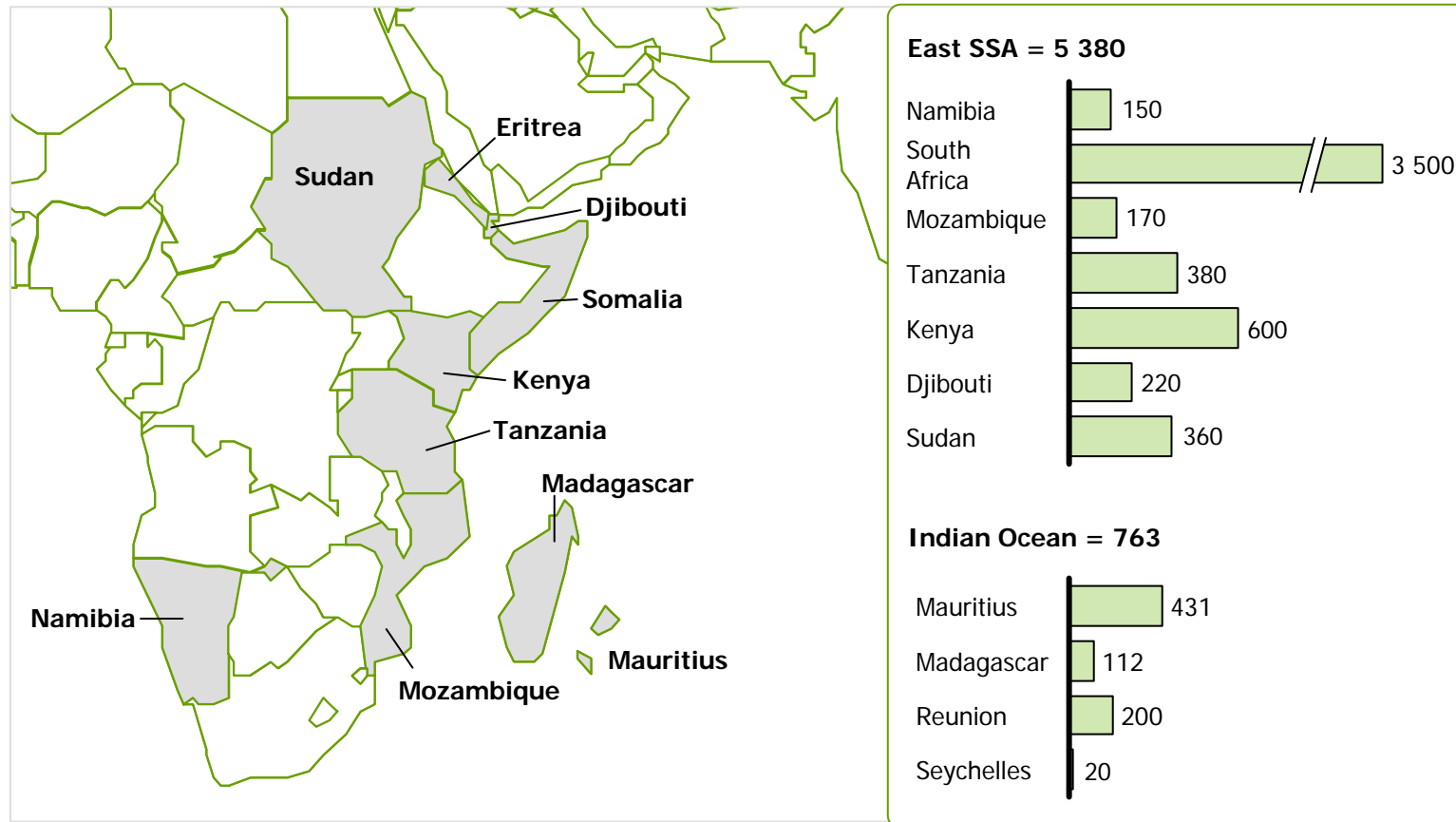
Global Container Volumes

000 TEU moves



Port volumes in East Sub Saharan Africa

Throughput* (thousand TEU)



* 2008 or most recent year available

Source: Containerisation International, MDS Transmodal

THE CURRENT SITUATION COULD RESHAPE THE LINER INDUSTRY

The industry is facing its worst crisis ever

- Speed and severity of the current crisis unseen to date
 - Gradual recovery not expected before 2010-2011
 - Effects accentuated by restricted access to capital
- All shipping segments are affected, in particular container and bulk shipping
- Ripple effects on all participants in the value chain (ship leasing companies, terminals, etc.)

Potential consequences

- All lines expected to post large losses in 2010 and potentially even in 2011
 - Overshadowing the profit realised in “good years”
 - Long-term average returns below cost of capital
- Bankruptcy of known players becomes a likely scenario
 - Shipping lines
 - Ship owners
- Industry consolidation with the creation of mega players

The Strategies of Shipping Lines and Terminal operators

Time to reconsider...

- Business strategies:

- Shipping lines and terminal operators have tailored their business strategies under the premises of strong growth in container trade, fuelled by the globalization process and the large-scale adoption of the container.

- Pricing and investments:

- The economic crisis seems to shake the fundamentals of the pricing and investment strategy of shipping lines and terminal operators and their broader involvement in value chains.

Capacity deployment strategies in liner shipping

- Changes in fleet operations, TEU-mile supply (Drewry/GS)

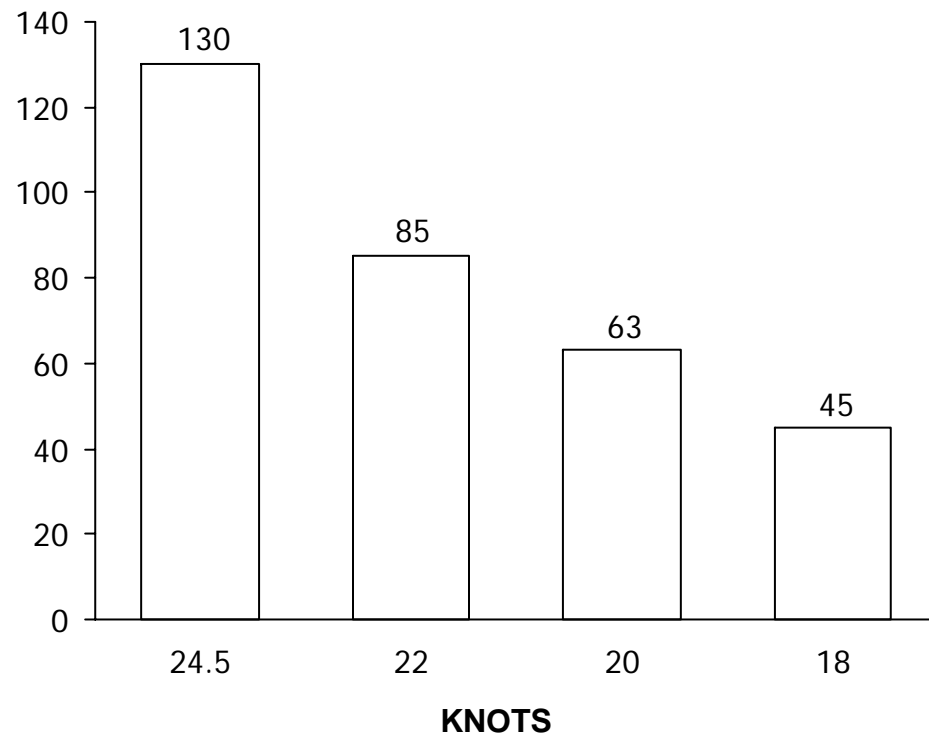
	2009	2010E	2011E
– Deliveries	15.6%	23.6%	20.4%
– Delays from previous years	1.2%	5.0%	5.0%
– Scrapping	-2.0%	-2.0%	-1.0%
– Newbuilding delivery deferrals	-5.0%	-5.0%	-5.0%
– Newbuilding cancellations	-2.0%	-5.0%	-10.0%
– Lay-ups/service suspensions	-10.0%	-5.0%	-2.5%
– Slow-steaming/re-routing	-7.5%	-5.0%	-5.0%
– EFFECTIVE SUPPLY GROWTH	-9.7%	6.6%	1.9%
– EFFECTIVE DEMAND GROWTH	-12.4%	10.1%	4.6%

- Total slot capacities will continue to climb until 2014.
- Market may not see an increase in the maximum vessel size for the next five years.

SLOW STEAMING BECOMES POPULAR

Shipping lines have resorted to slow steaming to save on operating costs - Reducing speed saves energy

Fuel consumption* (tons/day) at different speeds



- Significant potential to reduce energy consumption by lowering speed
- Problem of overcapacities can be reduced
- However, longer travel times mean higher costs of capital and labour

Source : * 4,250 TEU container ship
Seaspan

SHIPPING LINE STRATEGIES ADOPTED UNDER THE FINANCIAL CRISIS

Operational cost savings and Asset management

Actions considered by shipping lines

- Layup of capacities (currently 8-9% of world fleet)
- Reorganisation of networks, products
- Terminal assessment and re-negotiations
- Delays and cancellations of capital investments (new buildings)
- Return of chartered capacities
- Improve velocity, off-line equipment

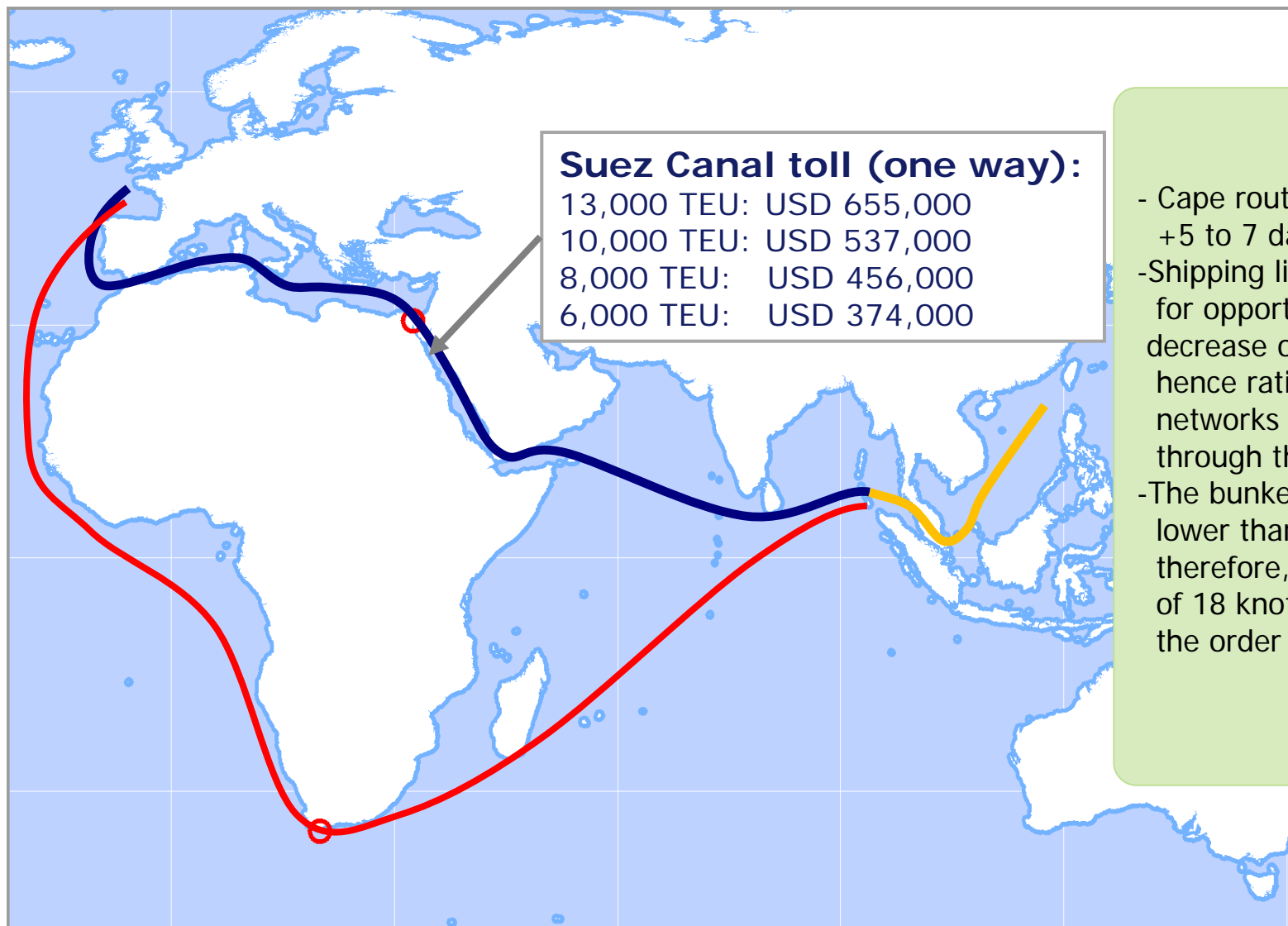
Revenue improvement efforts

- Drive to restore rates irrespective of absence of supply/demand equilibrium
- Identification of new value drives for customers

Is the terminal operating industry losing its appeal ?

- Cash problems among many companies.
- Fear for structural overcapacity in the market:
 - On average only 65% utilization by 2013 based on the March 2009 forecasts, while the September 2008 still predicted 90%.
- Cancellation/delay of capacity expansions plans.
- Renegotiation of existing concession agreements inevitable?

REDISCOVERY OF THE CAPE ROUTE



- Cape route transit time +5 to 7 days
- Shipping lines are seeking for opportunities to decrease operating costs, hence rationalising their networks and sailing through the Cape route.
- The bunker fuel costs are lower than previous years therefore, slow steaming of 18 knots have been the order of the day



RECENT M&A ACTIVITY IN THE TERMINAL OPERATING INDUSTRY

- No major terminal transactions
- Max 8 to 10 times EBITBA
- Shipping lines' divestment in terminals?

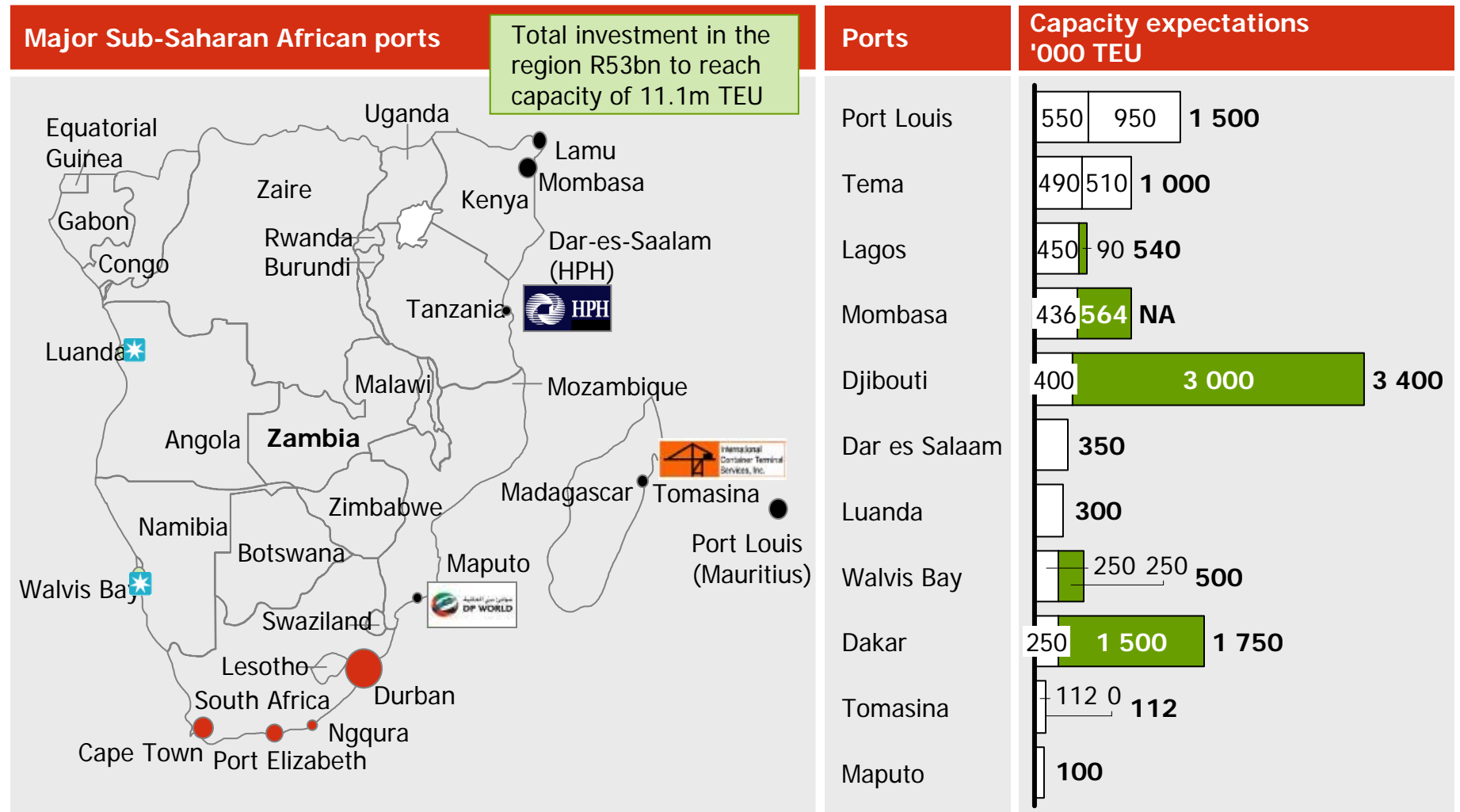
Reaction of the Terminal Operating Industry to the Downturn

- Stalling of vertical integration
 - From an hinterland strategy to seaport terminal operations.
- Hedging the risks
 - Revisiting dedicated terminal joint ventures
 - Revisiting long term contracts to shipping lines with gain sharing clauses.



THERE HAS BEEN SUBSTANTIAL PORT CAPACITY PLANNED BUT THE ECONOMIC CRISES HAS BROUGHT IN A RE-THINK ABOUT THE PLANNED PORT CAPACITY DUE TO REDUCED GLOBAL TRADE.

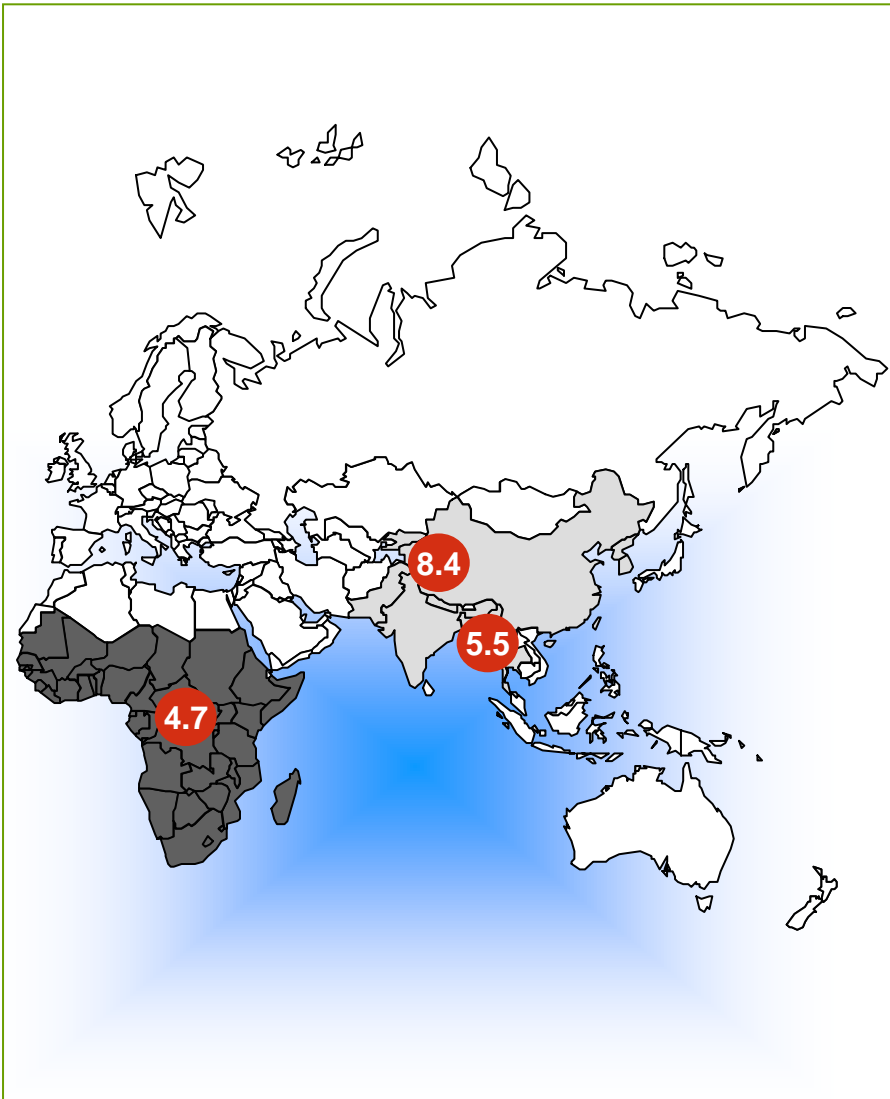
The question that has been asked is how will this additional port capacity be financed given the decreased container volumes ?



* Future capacity point

The Indian ocean is surrounded by high-growth countries

%, real 2000-2009 GDP CAGR



- Trade will intensify around the Indian ocean basin
- New routes and trade patterns will emerge
- The need for additional high performing port capacities becomes essential

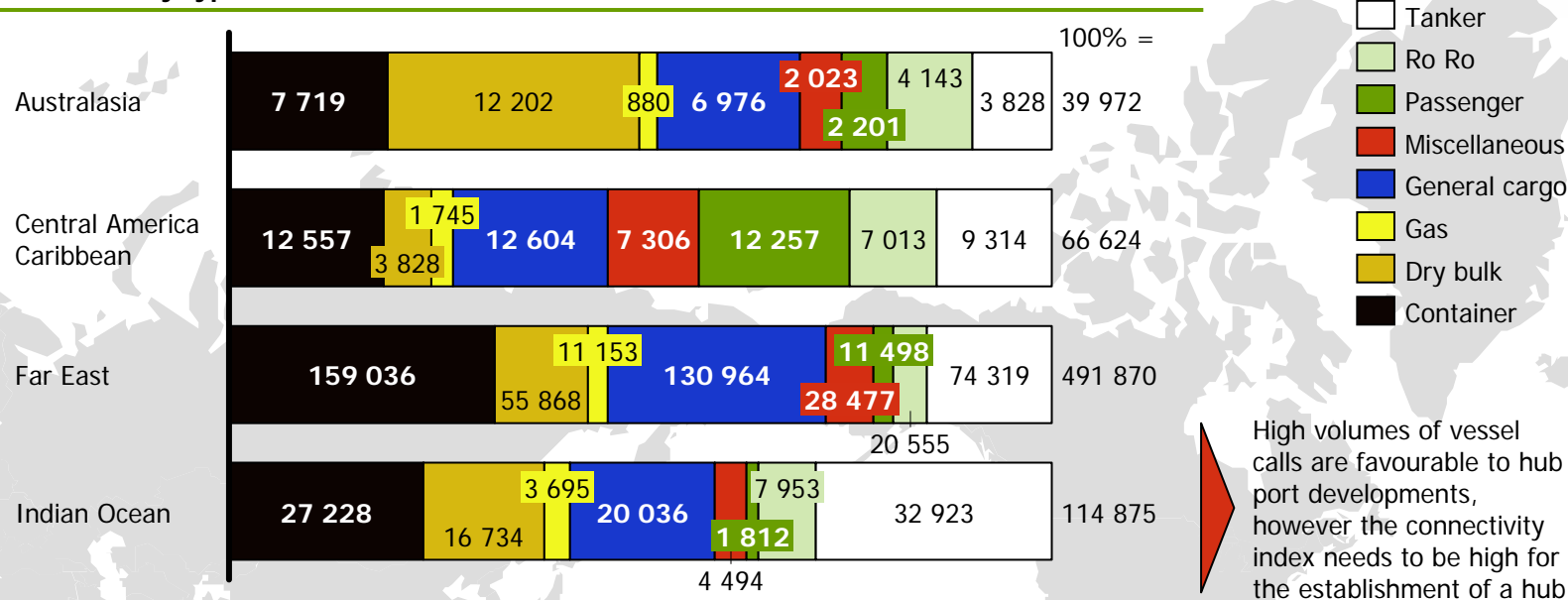


Thank You



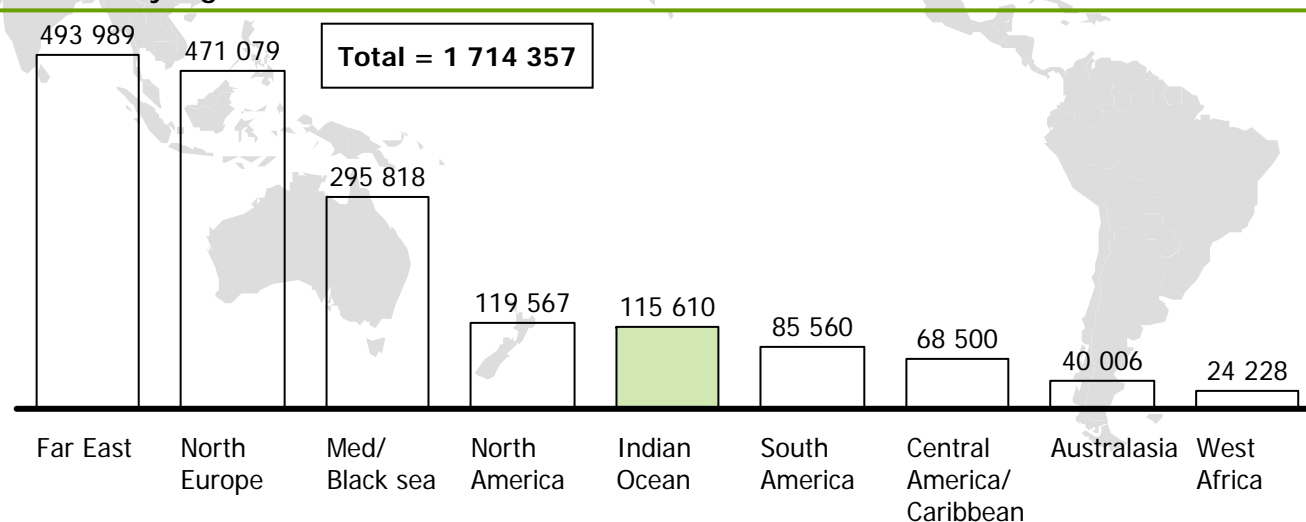
Sub-Saharan Africa and Indian ocean vessel calls

Vessel call by type in 2006*



High volumes of vessel calls are favourable to hub port developments, however the connectivity index needs to be high for the establishment of a hub

Vessel call by region in 2006*



- The Indian Ocean region represents around 7% of total vessel calls
- There were over 27,000 container vessel call in the Indian Ocean region in 2008

* Lloyds Maritime Atlas

Source: Team analysis

Trade volumes per route to/from Europe

Sub-Saharan Africa trades show small decline

Year on year change 2009 in trade volumes (basis = TEU)

	Q1	Q2	July	August
Europe-SSA Northbound	-4%	-4%	-10%	-2%
Europe-SSA Southbound	-1%	-3%	-2%	-3%
Europe-Asia Westbound	-22%	-22%	-18%	-11%
Europe-Asia Eastbound	-16%	-2%	0%	10%
Europe-North America WB	-17%	-22%	-17%	-16%
Europe-North America EB	-29%	-35%	-28%	-26%
Europe-India/Middle East WB	-13%	-9%	-8%	-2%
Europe-India/Middle East EB	-5%	-4%	-3%	-2%
Europe-South/Latin America NB	-13%	-12%	-19%	-22%
Europe-South/Latin America SB	-27%	-26%	-25%	-24%
Europe-Oceania NB	-6%	-8%	-25%	-12%
Europe-Oceania SB	-15%	-27%	-20%	-21%

Source: based on data EELA