Opportunities and Challenges in the Current Shipping Market Environment

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Executive Summary

Key Challenges

- The shipping rates and asset values are off their lows but the recovery is somewhat fragile and will take time to complete
- The industry is continuously trying to mitigate the wall of overcapacity – in the form of large newbuild programmes – which is nonetheless putting constant pressure on sector fundamentals
- The container sector exhibits the biggest supply/demand imbalance, will take longest to recover, and is most vulnerable to shocks
- Traditional sources of funding, mainly shipping loans backed by ECAs, are more difficult to arrange in size and more expensive to obtain
- Liquidity is scarce and a number of players are facing significant funding gaps, mainly driven by unfunded newbuild order books and heavy short-term debt service profiles
  - Likely to be cleared through a holistic combination of rescheduling, restructuring and alternative sources of funding

Main Opportunities

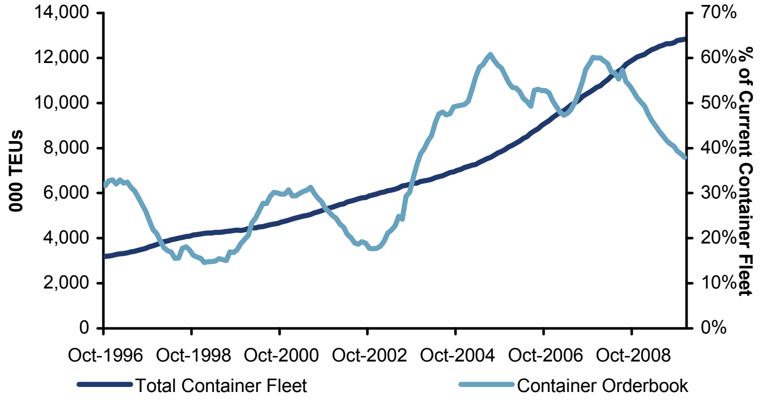
- Depressed asset values, and a perceived low point in the cycle for charter rates, are creating a unique value opportunity
  - Existing companies looking for expansion
  - External investors looking to enter
- Alternative sources of capital, which were not available 12-18 months ago, have appetite to gain exposure to the sector
- Capital markets-driven solutions – public debt and equity markets – are open to finance at sensible levels and replace traditional bank financing to a certain extent
- Private equity is focusing on an opportunity to invest at or near the trough of the cycle and is keen to find appropriate structures/vehicles with the right partners
- Pressure of shipping banks' existing commitments can be used to restructure finances to achieve long term stability and sustainable capital structures

Industry Conditions Present Both Challenges and Opportunities

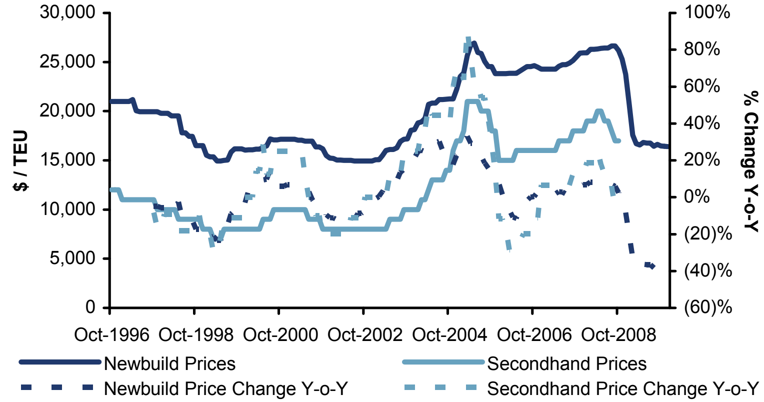
Container Shipping Continues to Exhibit the Biggest Supply-Demand Imbalance

Depressed Asset Prices Offer Good Value But Traditional Financing Sources are Constrained & Liquidity is Scarce

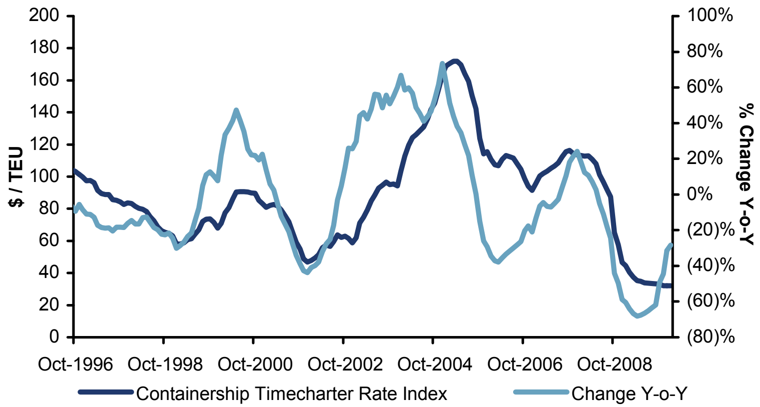
Capacity



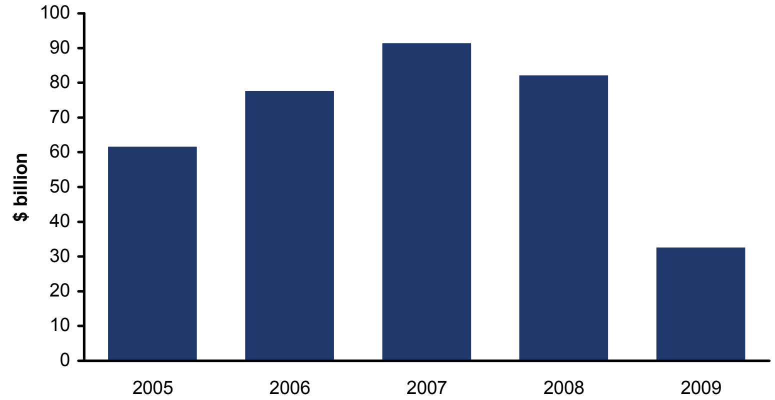
Asset Prices



Rates



Syndicated Lending to Shipping

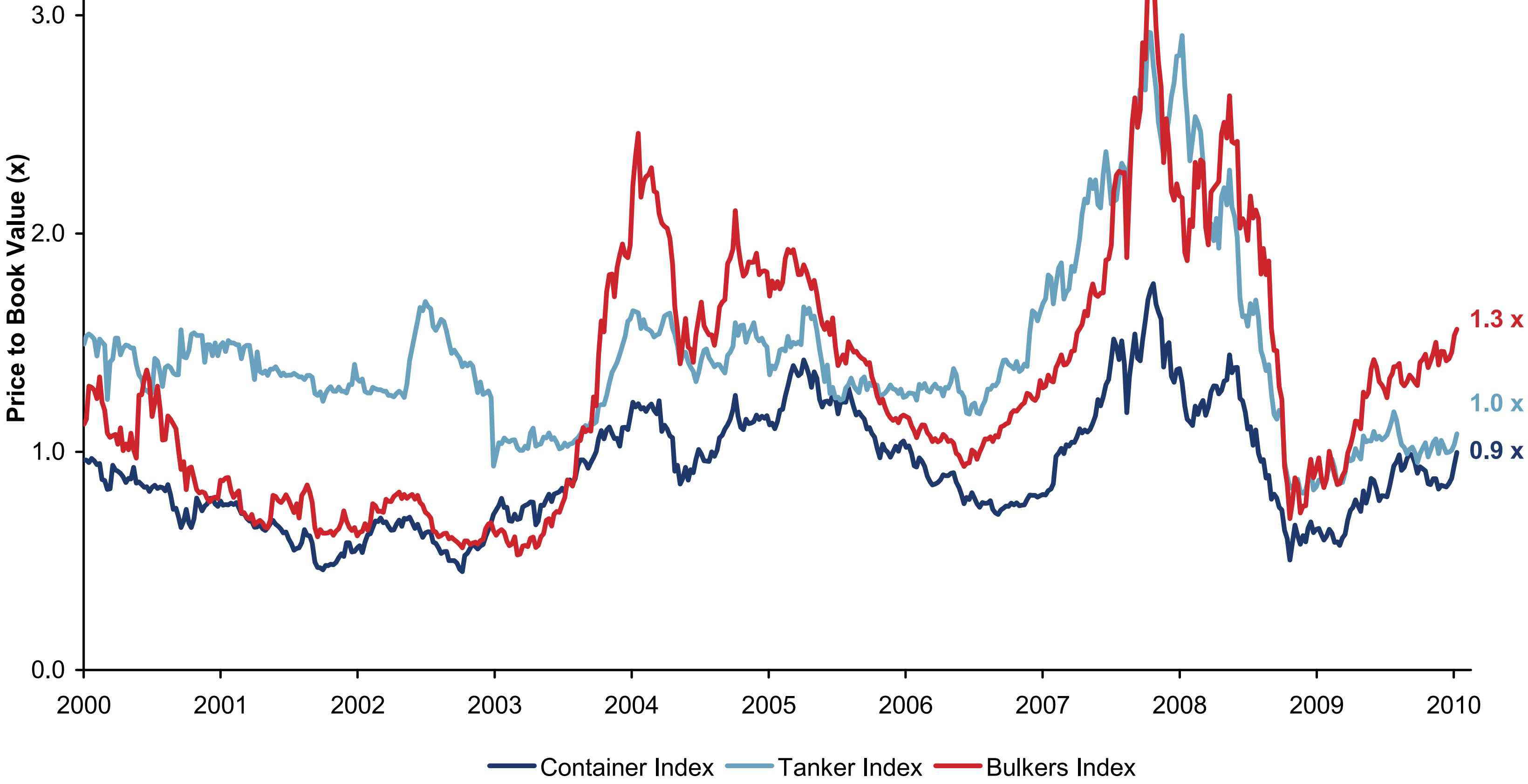


Source: Clarksons, Dealogic

The Sector Has Recovered from its Lows …

… But Valuations Are Still Relatively Depressed and Investors Are Apprehensive

Averages	10 Year	5 Year	3 Year	LTM	Current
Container	0.9 x	1.0 x	1.0 x	0.8 x	0.9 x
Tanker	1.4 x	1.5 x	1.5 x	1.0 x	1.0 x
Bulkers	1.3 x	1.5 x	1.5 x	1.3 x	1.3 x

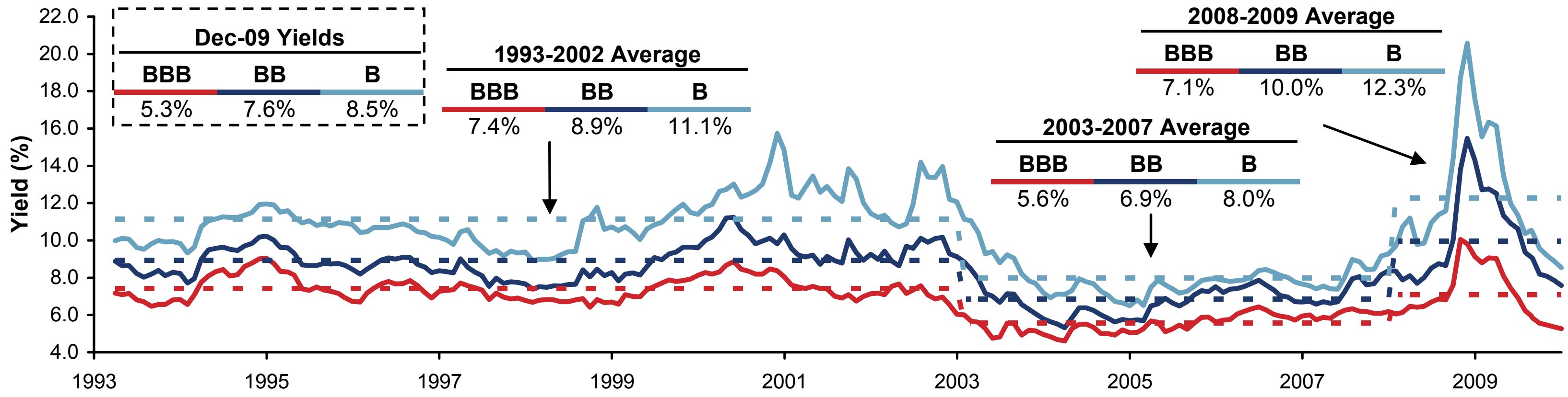


Source: Datastream, GS Research

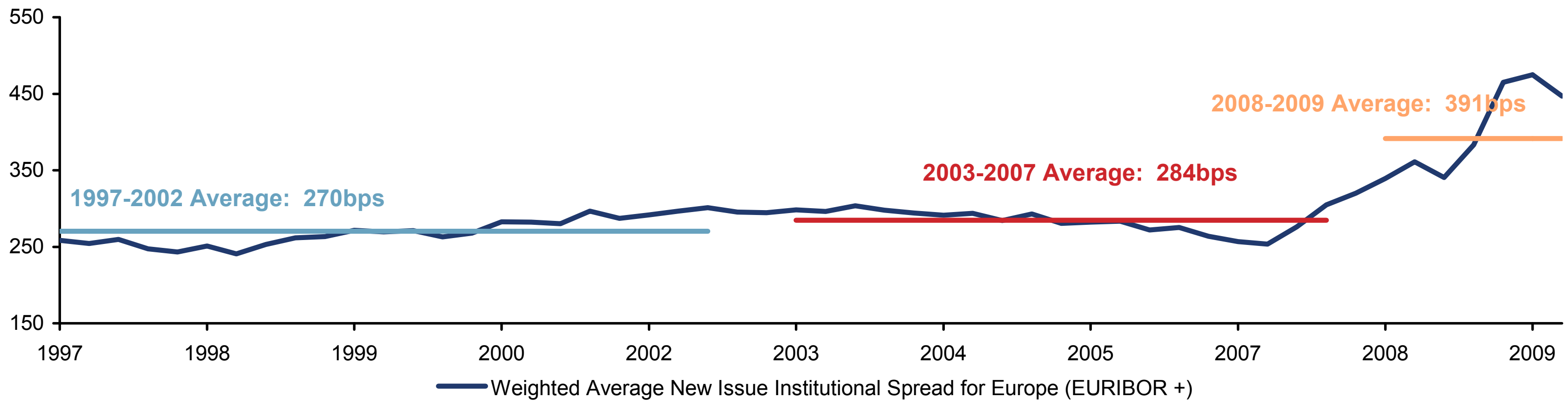
Leveraged Capital Markets Wide Open for Strong Credits

Overall Financing Rates Remain Favourable Compared to Historical Context

Bonds: Current Markets Are Tight to Normalised Levels



Loans: After Rising Through 2009, The New Issue Spreads Have Started to Improve in Q4 2009

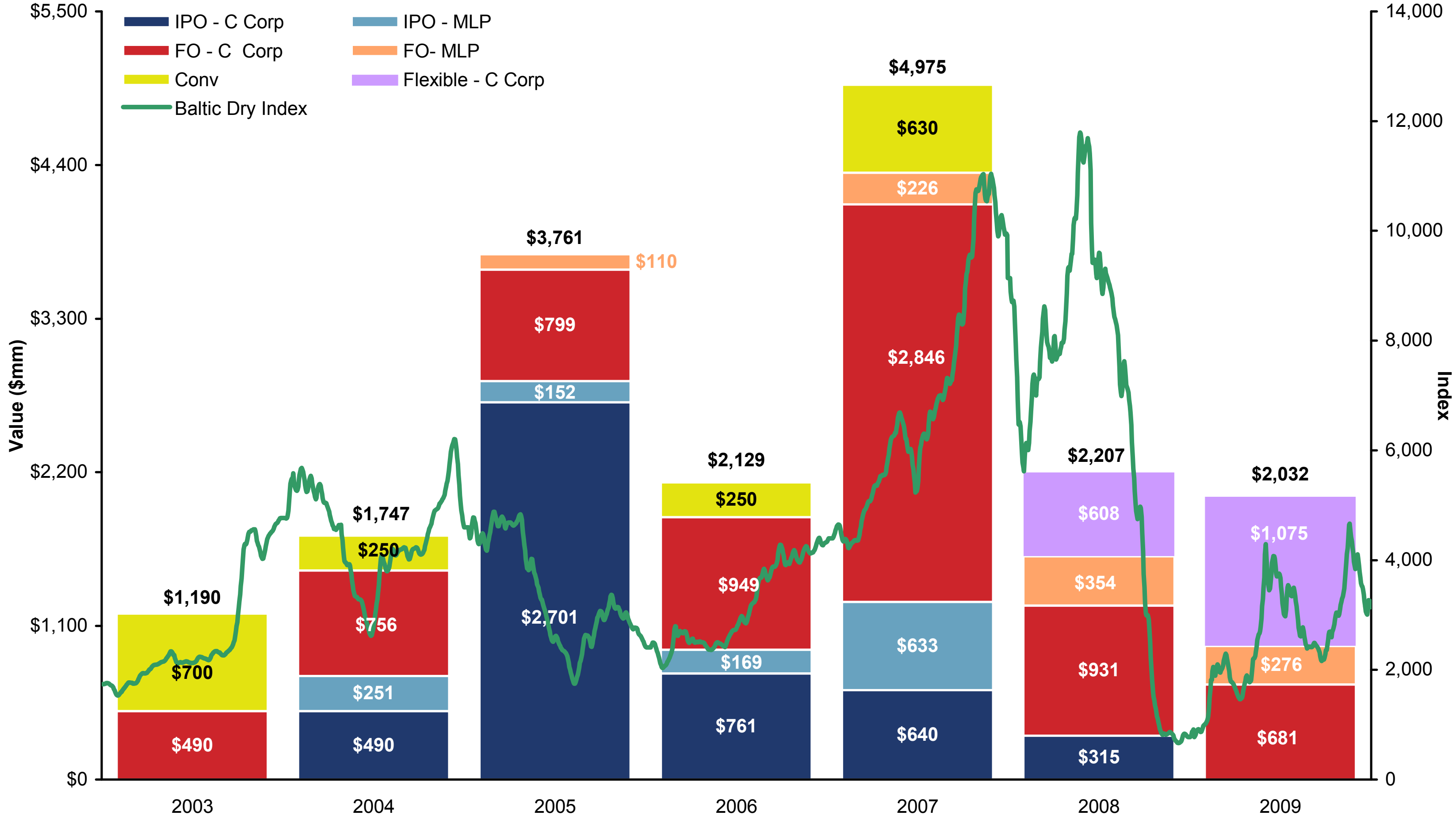


Note: Average secondary spreads to maturity of large institutional flow names rated BB or below, including effect of LIBOR floor if applicable.

Equity Capital Markets an Alternative to Finance Expansion

Issuance Expected to Recover in 2010

Shipping Sector Issuance

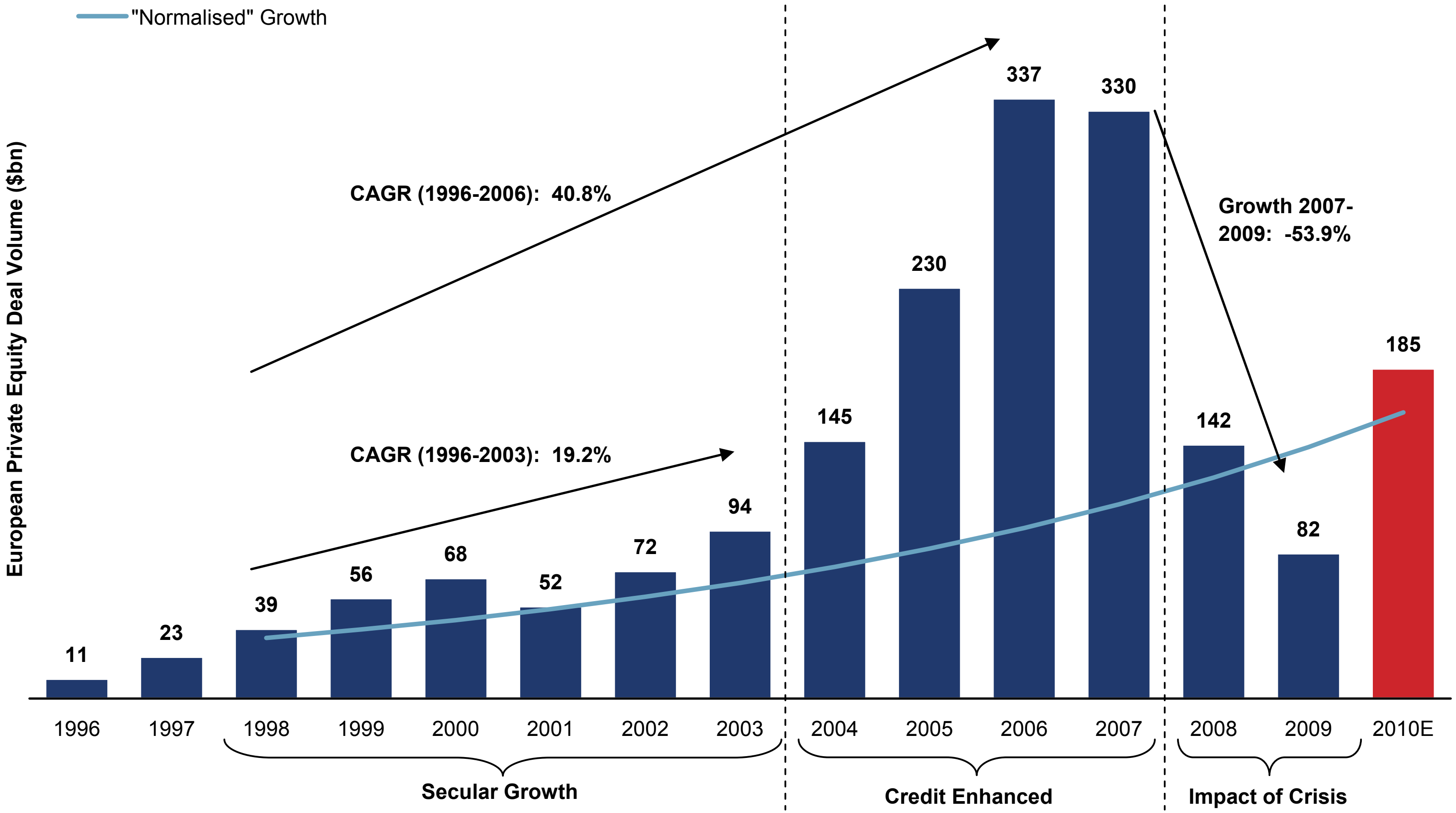


Private Equity Increasingly Looking for Value in Shipping

European Private Equity Has the Potential to Double Volumes in 2010

Structure, Basis, Governance, and Exit Strategy are the Keys to Bringing on Private Capital

Evolution of Private Equity Deal Volumes Over Three Cycles



Source: Historical numbers from Thomson Financial. 2010E GS internal projections.

Private and Public Capital Only Accessible for "Fixed" Companies

Almost All New Capital Injections Require Some Recourse to the Parent's Credit Profile

Key Perceived Challenges of Stressed and Distressed Shipowners

1. Counterparty Risk	■ End-market demand weakness is leading to charter parties defaulting on contracts ■ Most parties trying to renegotiate contracts given significant decline in rates
2. Declining Asset Values	■ Overcapacity and depressed rates have lead to significant declines in asset values ■ Leads to LTV covenant breaches, and contracts for newbuilds being underwater
3. Covenant Breaches	■ Large number of operators in breach of LTV covenants – this is usually the first step ■ Becomes evident when preparing full year financials and undertaking vessel valuations ■ Leads to drawstopping of committed but undrawn facilities financing newbuilds
4. Debt Repayment & Refinancing	■ Struggling to repay maturing debt obligations due to liquidity constraints ■ Most traditional shipping banks becoming more selective and strict in underwriting terms — Existing or pending events of default make loan renegotiations tougher — Reduced asset values makes it harder to refinance full amount
5. Cash Flow Liquidity	■ Significant c/f pressure due to renegotiation of charter contracts, and rechartering risk ■ Covenant waivers, short term refinancing, and deposit payments for new orders ■ Asset disposals unattractive given depressed valuations; shareholders cash strapped
6. Unfunded Capex	■ Significant unfunded capex commitments with no secured financing or equity available — Large increase in projected capacity and no charter attached to many vessels — Leads to large overhang on cash flow liquidity
7. Depressed Equity Valuations	■ Equity valuations depressed, with stocks pricing in the cash flow liquidity risk ■ Limits currency with which operators can use to fund liquidity crunch / unfunded capex

A Fully Funded Business Plan is Key to All Successful Stakeholder Negotiations

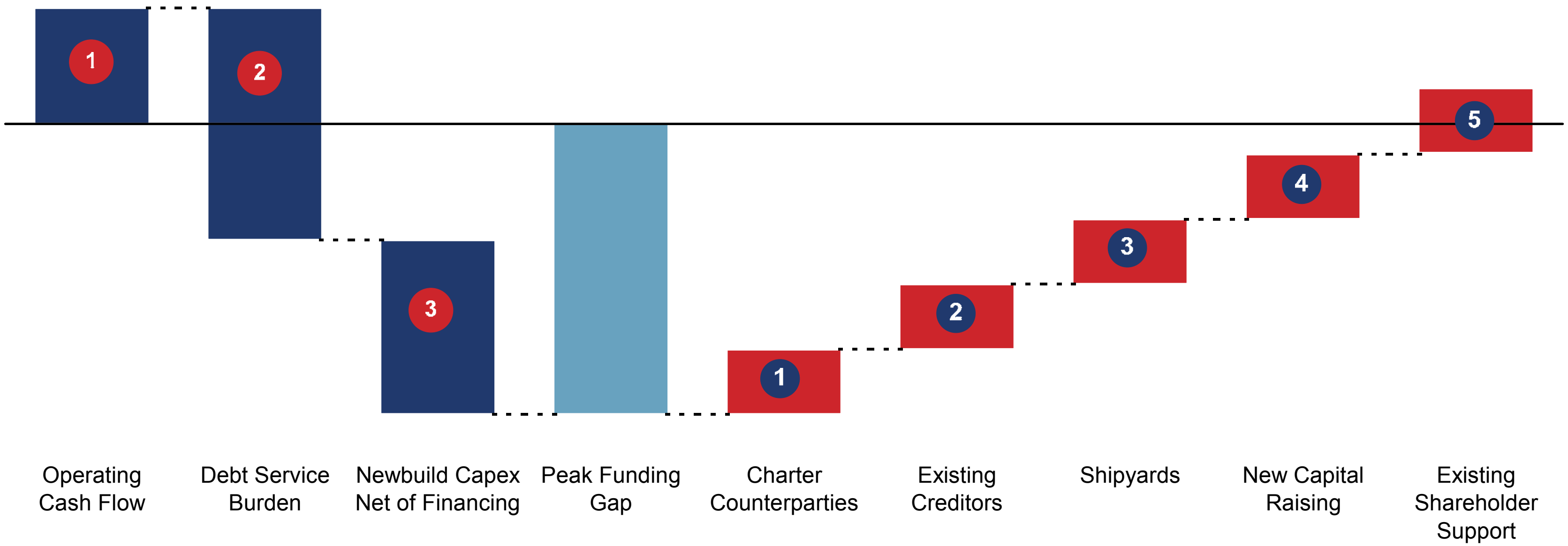
Illustrative Scenario

Peak Funding Gap (3~5 Years)

1. Conservative operating business plan based on management's view on volumes and rates
2. Short- to medium-term amortisation pressure and other finance costs
3. Significant newbuild orders with no committed post-delivery financing

Cumulative Impact of Concessions to Bridge Funding Gap

1. Defend revenue line and mitigate rechartering risk
2. Waive EoD's and amend & extend
3. Defer deliveries and seek vendor financing
4. Introduce new investors across the capital structure
5. Implicit or explicit support from existing owners



Key Lessons Learnt from Recent Shipping Restructurings

Business Plan & Valuation	■ Develop a defensible business plan covering the funding gap period ■ Coordination and early delivery of independent business review (IBR) is key ■ Establish through-the-cycle valuation to justify investments across the capital structure
Shipyards	■ Distinct negotiation style and leverage points over major shipyards in Korea, China, and Japan ■ Important for yard to “see the overall picture” and believe that owner has exhausted all alternatives ■ Outright cancellations and price reductions are generally not acceptable ■ Significant deferrals, vendor financing, and deposit transfers are possible
Export Credit Agencies	■ ECAs in Korea and China are generally very influential in financing packages for newbuilds ■ ECAs act very commercially, looking for market terms, and are stricter than banks in certain terms ■ Collateral backing is key, and optimising unencumbered or underlevered assets is important
Shipping Banks	■ Most major shipping banks becoming more conservative and selective in absolute terms ■ Banks favour organised and disciplined processes and overall “fair and transparent” terms ■ Writing off exposures, debt-for-equity exchanges, and selling at discounts not generally acceptable ■ Waiving breaches and EoD and deferring amortisations significantly is viewed more favourably
Charter Counterparties	■ One of the very few levers to support the operating cashflow generation of the business ■ Charter terms and form of payback vary: maturity optimisation, debt / equity claims, market upside ■ Scenario analysis is essential to account for “elephants” that can disrupt the sector (e.g.CMA CGM)
New Capital Raising	■ New investor groups looking for value in shipping: Securitisation structures, Mezzanine financiers, High Yield capital markets, Public and Private equity providers ■ Key is to understand the risk-adjusted return requirements and structuring considerations as the parent level credit risk will need to be mitigated / compensated for

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Critical to Develop a Holistic Plan

Coordinating All Elements of the Process is Key