Shipping Market Overview
29 October 2013 – Moore Stephens Opcost Launch

Steve Gordon, MD, Clarkson Research Services Limited.
About us

**Broking**
Clarksons’ shipbroking services are unrivalled: for the number and calibre of our brokers; breadth of market coverage; geographical spread and depth of market intelligence; analysis and support. We aspire to be best-in-class and market leaders in all key sectors.

**Support**
Clarkson Port Services provides the highest level of support to vessel owners, operators and charterers at strategically located ports in the UK and Egypt. Offering ship’s agency services, we are also engaged in stevedoring and warehousing at UK ports and support to the Offshore industry.

**Financial**
From derivative products that have been pioneered at Clarksons to full investment banking services and tailored debt solutions, we help our clients manage risk and fund and conclude deals that would often be impossible via more traditional routes.

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Up-to-the-minute intelligence is the cornerstone of any shipping organisation and Clarksons Research Services is recognised worldwide as the market-leading provider of comprehensive and reliable maritime information.
Research

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The leading provider of data to the offshore industry for more than 30 years. Providing clients with the key information they need to operate their business more effectively. Market intelligence is available on more than 25,000 structures, vessels and companies and 6,000 oil and gas fields.

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Market leaders in providing timely and authoritative information on all aspects of shipping. Data is available on over 100,000 vessels either in service or on order, 10,000 companies and 600 shipyards as well as extensive trade and commercial data, and over 100,000 time series.

**Valuations**
The world’s leading provider of valuations to the shipping industry and financial community. More than 20,000 valuations are handled annually, covering the full range of vessel types.
Market Overview

Agenda:

1. Market Cycle
2. Seaborne Trade
3. Fleet & Shipbuilding
4. Ownership Dynamics
5. Summary
Shipping Cycle 1965-2013: ClarkSea Index

(ClarkSea Index is a weighted average of earnings by tankers, bulkers, containerships & gas carriers)

- Index avg value 90s: $12,018/day
- Index avg value 00s: $21,690/day
- Index avg value 2012: $9,957/day

2008
- $48,000/day
- 2004
- c.$40,000/day
- 2000
- c.$24,000/day
- 18th October 2013
- $12,286/day – highest level this year, driven by improved Capesize market.

October 2013 www.clarksons.com
1. Huge Cash Pressures & Cost Focus
2. Surplus in the Volume Markets
3. Cash is King
4. Wide Spread Of Trading Regions & Demand OK
5. Some Sectors Have Done Better
6. Ships Still Trading & Slow Steaming but Not Laid Up
7. Big Change in Ship Economics – Fuel & Regulations
8. Financing Squeeze

Five Years of Shipping Downturn

ClarkSea Index 2008-13

$000/day

18th October - $12,286/day but fell as low as $7,920/day in February

OPEX – weighted using ClarkSea assumptions
## Earnings versus OPEX

<table>
<thead>
<tr>
<th>Year</th>
<th>ClarkSea Index $/day</th>
<th>Opex Index $/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>32,947</td>
<td>6,861</td>
</tr>
<tr>
<td>2009</td>
<td>11,407</td>
<td>6,636</td>
</tr>
<tr>
<td>2010</td>
<td>15,345</td>
<td>6,830</td>
</tr>
<tr>
<td>2011</td>
<td>12,463</td>
<td>6,976</td>
</tr>
<tr>
<td>2012</td>
<td>9,586</td>
<td>7,185</td>
</tr>
<tr>
<td>2013</td>
<td>9,539</td>
<td>7,400</td>
</tr>
</tbody>
</table>

- The Opex index is generated using the same assumptions as the ClarkSea Index for comparison purposes.

- In February 2013, the two indexes reached their smallest differential in the downturn – just $508 per day across the 20,000 ships in the “ClarkSea fleet”.

- In May 2008, the differential was $40,633 per day and equated to $680 million dollars a day across the “ClarkSea” fleet.

Source: Clarkson Research, October 2013
This chart shows average 1 year TC rate for each ship type as at October 2013 compared to the average 1 year TC rate during the last 10 years.

- VLCC
- Suezmax
- Aframax
- MR
- Capesize
- Panamax
- Handymax
- Handy
- Container 3,500 teu
- Container 1,700 teu
- Offshore - Jackups
- Offshore - Floaters
- LPG
- LNG

- Crude still struggling but Products & Chemicals better
- Some signs of improvement but rates still low by historical standards
- Earnings remain close to historic lows
- Gas and Offshore more positive

Earnings remain close to historic lows.
# Earnings Since the Big Crash – Who’s Top Dog?

## Who Did Best Since the Crash?

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLGC</td>
<td>438%</td>
</tr>
<tr>
<td>Capesize</td>
<td>300%</td>
</tr>
<tr>
<td>Suezmax</td>
<td>243%</td>
</tr>
<tr>
<td>Supramax</td>
<td>234%</td>
</tr>
<tr>
<td>VLCC</td>
<td>223%</td>
</tr>
<tr>
<td>Aframax</td>
<td>190%</td>
</tr>
<tr>
<td>Panamax Bulk</td>
<td>179%</td>
</tr>
<tr>
<td>Products Dirty</td>
<td>154%</td>
</tr>
<tr>
<td>Ctnr 3500 teu</td>
<td>144%</td>
</tr>
<tr>
<td>Products Clean</td>
<td>141%</td>
</tr>
<tr>
<td>Ctnr 1700 teu</td>
<td>140%</td>
</tr>
</tbody>
</table>

(Notes: 
- Shows earnings since October 2008 divided by rough OPEX.)

## Who’s Doing Best at Present?

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLGC</td>
<td>562%</td>
</tr>
<tr>
<td>Capesize</td>
<td>429%</td>
</tr>
<tr>
<td>Suezmax</td>
<td>207%</td>
</tr>
<tr>
<td>Supramax</td>
<td>174%</td>
</tr>
<tr>
<td>VLCC</td>
<td>219%</td>
</tr>
<tr>
<td>Aframax</td>
<td>188%</td>
</tr>
<tr>
<td>Panamax Bulk</td>
<td>108%</td>
</tr>
<tr>
<td>Products Dirty</td>
<td>100%</td>
</tr>
<tr>
<td>Ctnr 3500 teu</td>
<td>110%</td>
</tr>
<tr>
<td>Products Clean</td>
<td>145%</td>
</tr>
<tr>
<td>Ctnr 1700 teu</td>
<td></td>
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</tbody>
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(Notes: 
- Shows earnings on 18th October 2013 divided by OPEX.)
Secondhand & Newbuild Prices

Newbuilding Prices

![Graph showing newbuilding prices over time with different lines representing different categories.]

5 Year Old Prices

![Graph showing 5 year old prices over time with different lines representing different categories.]

Source: Clarkson Research, October 2013
World Seaborne Trade Growth

- Historically, world seaborne trade expansion has generally been relatively well correlated to global economic growth.
- In 2003, trade exceeded more than a tonne for every person on the planet.
- 2009 was the first year of significant trade contraction since 1983 but trade has recovered well.
- Sea trade cycles generally follow cycles in world GDP – but not precisely. 2013 – 2.9% GDP growth and 3.6% growth in trade.
- In 2014, we expect trade to exceed 10 billion tonnes for the first time.
Growth in world seaborne trade in last decade led by:

- Iron Ore
- Containers
- LNG
- Coal
- Vehicles

Average per annum rate of around 4% per annum.
We expect trade to grow by 3.5% in 2013 but risks remain given economic developments/uncertainty and there is a lag on trade data.

- China accounts for over 40% of the growth in imports in the past decade.

- For planning purposes, 4% per annum growth in trade over the next decade does not seem unreasonable, backed by continued development of the globalised world economy.
Where Will The Trade Growth Be?

- Growth in world seaborne trade likely to be led by import into
  - China
  - Other Asian economies
  - Developing regions
- According to approximate projections Chinese import growth could account for 46% of the growth in tonnes in global seaborne imports, with other Indian imports accounting for 11% and other Asian economies 19%.
<table>
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<th>Structural Patterns</th>
<th>Wildcards?</th>
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<tr>
<td>US energy balance</td>
<td>Globalisation vs Protectionism;</td>
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<tr>
<td>China and India</td>
<td>‘Reshoring’</td>
</tr>
<tr>
<td>Containers: Asia and Panama</td>
<td>Political instability</td>
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<tr>
<td>Offshore energy contribution</td>
<td>Fuel prices</td>
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<tr>
<td>Africa: energy and minerals</td>
<td>Infrastructure and supply</td>
</tr>
<tr>
<td>Unlocking the Arctic</td>
<td>Global economic growth story</td>
</tr>
<tr>
<td>Wildcards</td>
<td></td>
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</table>
World Offshore Producing Regions

Offshore Oil Production – 2013 Forecasts

1. N. America
Offshore: 4.0 m bpd
Growth: 0.2% pa

2. S&C America
Offshore: 2.8 m bpd
Growth: 2% pa

3. West Africa
Offshore: 4.2 m bpd
Growth: 3% pa

4. Europe
Offshore: 2.9 m bpd
Growth: -5% pa

5. Med/ Caspian
Offshore: 2.1 m bpd
Growth: 0.2% pa

6. M East & India
Offshore: 7.1 m bpd
Growth: 2% pa

7. Asia Pacific
Offshore: 3.4 m bpd
Growth: 1% pa
The World Fleet: GT

- From 1990 to 2004 the fleet grew at 2-3% but then surged to 7-9%. Fleet growth is now starting to slow.
- Merchant Fleet – August 2013:
  1. 87,369 vessels over 100 GT
  2. 1,125 million GT
  3. $868 billion in value
Orderbook As & % Of Fleet

Orderbook % Fleet By (Dwt), Start Year

O/B as at August 2013 is 242m dwt

Orderbook x 3.8 of Production but number of active yards declining

Orderbook x 1.5 of Production

O/B as at August 2013 is 242m dwt

$280bn
World Fleet Growth Development

Fleet growth peaked at c. 9% in 2010

Projected deliveries based on current orderbook.

By 2023 our forecasts suggest the fleet will top 1.5 billion GT

Shipbuilding production down 20% in 2013 in dwt and 2012 a record demolition year.
Regional Market Share Development

Global Shipbuilding Share of Contracting (CGT)

- China
- South Korea
- Japan
- Europe
- Other

Global Shipbuilding Share (2013 ytd Contracting in CGT)

- Japan 13%
- Other 7%
- Europe 5%
- South Korea 37%
- China P.R. 38%
Offshore & Marine Orderbook – by estimated contract value

**Marine $163bn**
- Tankers: 16.0%
- Bulkers: 31.3%
- Other: 16.2%
- Gas: 14.5%
- Cont’ship: 21.4%

**Offshore $182bn**
- Mobile Offshore Drilling: 52%
- Mobile Offshore Production: 20%
- Construction: 11%
- Logistics: 4%
- AHFS: 8%
- Supply: 1%
- Utility Support: 1%
- Rescue & Salvage: 0%
- Survey: 2%
Rising Fuel Costs

- MR 1 Year Timecharter Rate
- MR Bunker Cost $/day

October 2013
Environmental Regulation Timeline

- Baltic Sea ECA in Effect
- Global Tier I NOx Limit
- 1.0% ECA Sulphur Limit
- EEDI for Newbuildings Formally Adopted
- North American ECA Entered into Force
- Expected Ratification of Ballast Water Convention
- US Caribbean ECA Enters into Force
- 0.1% ECA Sulphur Limit
- Potential Entry into Force of Hong Kong Convention
- 0.5% Global Sulphur Limit (Pending Review: Possibly 2025)
- North Sea ECA in Effect
- Global Tier II NOx Emission Limit
- 3.5% Global Sulphur Limit
- EEDI & SEEMP Mandatory (Phase 0)
- Ballast Water Convention Enters into Force (If Ratified)
- Lower EEDI Reference Line (Phase 1)
- ECA Tier III NOx Emission Limit Takes Effect
- Lower EEDI Reference Line (Phase 2)
- Lower EEDI Reference Line (Phase 3)
<table>
<thead>
<tr>
<th>Region</th>
<th>Fleet (No)</th>
<th>Fleet (GT)</th>
<th>Value ($bn)</th>
<th>2013 Growth</th>
<th>OB (GT)</th>
<th>OB %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>29,945</td>
<td>501.2</td>
<td>366.4</td>
<td>1.7%</td>
<td>69.9</td>
<td>13.9%</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>36,308</td>
<td>448.1</td>
<td>295.1</td>
<td>4.1%</td>
<td>61.2</td>
<td>13.7%</td>
</tr>
<tr>
<td>Americas</td>
<td>8,982</td>
<td>91.5</td>
<td>129.2</td>
<td>0.9%</td>
<td>17.3</td>
<td>18.9%</td>
</tr>
<tr>
<td>Africa, Mid-East, S. Asia</td>
<td>7,993</td>
<td>75.2</td>
<td>55.2</td>
<td>4.3%</td>
<td>4.8</td>
<td>6.3%</td>
</tr>
<tr>
<td>Greece</td>
<td>4,673</td>
<td>157.5</td>
<td>78.6</td>
<td>4.2%</td>
<td>23.3</td>
<td>14.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>8,600</td>
<td>157.3</td>
<td>104.0</td>
<td>2.0%</td>
<td>13.6</td>
<td>8.6%</td>
</tr>
<tr>
<td>China</td>
<td>6,236</td>
<td>110.8</td>
<td>68.9</td>
<td>4.6%</td>
<td>22.6</td>
<td>20.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>4,316</td>
<td>96.5</td>
<td>60.4</td>
<td>-1.5%</td>
<td>8.4</td>
<td>8.7%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2,657</td>
<td>54.4</td>
<td>27.9</td>
<td>5.8%</td>
<td>6.8</td>
<td>12.6%</td>
</tr>
<tr>
<td>Others</td>
<td>60,589</td>
<td>543.7</td>
<td>510.8</td>
<td>2.6%</td>
<td>92.1</td>
<td>16.9%</td>
</tr>
<tr>
<td>Total</td>
<td>87,071</td>
<td>1,120.2</td>
<td>850.6</td>
<td>2.7%</td>
<td>166.8</td>
<td>14.9%</td>
</tr>
</tbody>
</table>
Regional Ownership – Europe v Asia

- During the market boom, European ownership grew strongly and maintained market share with around 45% of global fleet by GT.
- There has been a long term trend towards Asia Pacific ownership which topped 40% in 2013.
- Will changes in cargo base and financing impact this trend further?
- Greece and Japan the two biggest fleets and “neck and neck”. China has overtaken Germany to take third position and the fleet is growing rapidly.
- In the past five years, Brazil, China, Turkey, South Korea and Indonesian fleets have grown the most in % terms.
- 70% of the world fleet is in Open registries compared to under 30% in the 1980s.

Source: Clarkson Research, October 2013
World Fleet by Company Size

- The “average” shipping company runs 5 ships but this is dragged down by thousands of owners only owning one or two ships.
- 28% of world tonnage is controlled by owners running 21 to 50 ships.
- 30% of world tonnage is owned by owners running over 50 ships.
- There is a lot of noise in the data so identifying clear trends towards consolidation is difficult.

Source: Clarkson Research, October 2013
World Fleet by Type

- Approximately 56% of the world’s tonnage is still owned by independent private companies.

- Approximately 37% of the world fleet by tonnage is owned by corporates but this includes listed oil companies and other cargo interests.

- The share of the stock listed fleet has been steady following strong growth from 2003 to 2008 but there is some more activity at present.

- With the difficulties in securing finance and the current private equity interest there may be drivers towards larger and more corporate companies.

- Others includes state owned shipping companies and state owned oil companies and other cargo interests.

Source: Clarkson Research, October 2013
Capital Market Activity

- NYSE exchange is the largest exchange with 60 companies operating 104m gt, (9% of the world fleet).

- 2005 was a record year for IPOs with 25 placed globally.

- Activity hit a low in 2012 with only 4 IPOs and 5 Follow On offerings.

- Activity has increased recently with a number of IPOs placed.

- Bond activity was strong in the period 2009 to 2012.
Summary

• In 2013, we have been at the bottom of the cycle and market conditions are still challenging but there are a few encouraging signs. Some of the niche sectors have been better positioned – Offshore, Gas, Chemicals, Products.

• Following the demand shock in 2009, trade has recovered well and we expect 3.5% growth in 2013. In 2014 we forecast trade will top 10 billion tonnes for the first time. 4% is a reasonable base case for the future assuming globalisation.

• Fleet growth is slowing, from 8% in 2011 to 5% in 2012. We expect growth to drop to 4% in 2013 and below 4% in 2014 but keep an eye on ordering.

• Despite the difficult spot market conditions, we have seen newbuild interest from investors in 2013.

• Regulatory Economics & Fuel Economics are important to current investment. Financing remains difficult and has limited investment but there are new sources such as Private Equity and Capital Markets.

• Asian owners growing market share with double the fleet growth of Europeans in 2013. Greeks and Japanese the largest owners but China has surged past Germany. Norwegian’s, Greeks and Chinese have topped the investment charts in recent years.
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