2016 CONTAINER SHIPPING OUTLOOK: ASSESSING THE FUNDAMENTALS

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Philip Damas, Director, Drewry Supply Chain Advisors
Agenda

- Global container shipping supply: fleet and order book
- Effect of canceled sailings
- Effect of idle fleet
- Global supply-demand (im)balance
- Impact on average east-west freight rates
- Impact on BCO contract freight rates
Global container shipping supply: fleet and order book
2015 saw record ship deliveries; 2016 and 2017 will see fewer deliveries

- Supply growth CAGR 2010-15 = 5.8% (vs. demand growth 4.6%)
- Drewry estimates that there is now 2 million TEUs of excess capacity
- Large-scale ship demolitions in 2009, 2013 and 2014 helped contain fleet growth, but not anymore
Global container shipping supply: fleet and order book
Rapid move toward bigger ships; upsizing a major driver of fleet growth

The largest containership in the fleet has nearly tripled since 2000.
The average size of new ships has doubled since 2009 to 8,000 TEUs
89% of the current order book is made up of vessels that are larger than the current average of 8,000 TEUs
Effect of canceled sailings
Canceled sailings have become common on the east-west trades and result in reducing (over-)capacity

- Up to 53 canceled sailings per month on the 4 major east-west routes
- Missed sailings in October 2015 resulted in the reduction of monthly capacity of 2% to 7%, depending on the trade

Source: Drewry Container Forecaster 4Q 2015
Effect of idle fleet

Some 5% of containerships are idle. Owners must choose between scrapping the ships and parking them until the market improves.

- Global idle fleet close to 1 million TEUs
- Today’s idle fleet still accounts for only about 5% of the global fleet of 20 million TEUs.
- In 2009, the idle fleet accounted for 11% of the global fleet.

Source: Drewry Container Insight Weekly
Global supply-demand (im)balance

2015 saw a 7% excess of supply growth over demand growth; Drewry does not forecast a return to balance during 2016

* Not taking into account canceled sailings and idle fleet

Source: Drewry Container Forecaster 4Q 2015
East-west supply-demand balance
Despite canceled sailings and the increased idling of ships, ship load factors declined in 2015

Utilization of ships on east-west headhaul routes

East-west trade routes include Asia-N. Europe, Asia-Med, trans-Pacific and N. Europe-N. America

Source: Drewry Container Forecaster 4Q 2015
Impact on average east-west freight rates
Lower ship load factors and reductions in carrier unit costs will lead to lower average rates in 2016

East-west freight rate ($/TEU) including fuel charges

East-west trade routes include Asia-N. Europe, Asia-Med, trans-Pacific and N. Europe-N. America

Source: Drewry Container Forecaster 4Q 2015
Impact on BCO contract freight rates
We see further downward pressures on BCO port-to-port contract rates in 2016

• Recent trend:
  – Contract freight rates declined 14% between Feb. and Nov. 2015
  – 5% fall between Aug. and Nov.
  – Based on contract freight rate data
  – Provided by Asian, American and European retailers and manufacturers
  – Across Paper & Pulp, Industrial, Chemical and FMCG/retail sectors
  – Shipping annual volumes from 3,000 to 300,000+ TEUs

• Outlook:
  – Further reduction in fuel costs
  – Surplus capacity
Thank you.

enquiries@drewry.co.uk
www.drewry.co.uk

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</tr>
</thead>
</table>
| 15-17 Christopher Street  
London  
EC2A 2BS  
United Kingdom | 209 Vipul Square  
Sushant Lok - 1  
Gurgaon 122002  
India | #13-02 Tower Fifteen  
15 Hoe Chiang Road  
Singapore 089316 | Unit D01, Level 10,  
Shinmay Union Square  
Tower 2, 506 Shang Cheng Road  
Pudong, Shanghai 200120 |
| T +44 20 7538 0191 | T +91 124 497 4979 | T +65 6220 9890 | T +86 21 5081 0508 |