NAVIGATING THROUGH ROUGH SEAS-The Greek Paradigm

Presentation of

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GREEK SHIPPING

- Greeks control probably the biggest fleet in tdw. The average size of our ships is the biggest.
- In the 19th century Greeks were mostly merchants who had fleets to service their trade
- Now we mostly have ships to service other peoples' trades
- In this way we are much more vulnerable to trade and asset price fluctuations

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This is both a benefit and a disadvantage

The benefits:

- Lower overheads and capital requirements, as we do not need to have cargo trading offices
- We can take advantage of opportunities on good markets. If our ships are charter free we prosper

The disadvantage:

- On a downturn shipowners are more exposed since they do not control the cargo. The risks are therefore higher
- Owners, urged by their bankers, make attempts to minimize risks through charters. This way they limit their upside potential but do not reduce the downside risk. Time charterers in a downturn renegotiate or fold.
- Requires better insight and judgment on ship prices and potential earnings. If this is lacking, greater cash reserves guarantee survival

Shipping is self correcting. Hence its cyclicality. Better times will always come

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Do time charters offer security?

- A time charter limits a shipowner's upwards potential but does not ensure downside protection
- A charterer who has 100 ships on charter on which he is loosing $10,000/day per ship, faces a loss of $ 350 million/per year. A vast sum
- Time charterers have every incentive to try to wiggle out of such charters
- Charter rate renegotiations, filing for protection and resurfacing as a restructured entity are very likely to occur. This has been seen time and again
- Shipowners are left with the same capital exposure and less income

Financiers who insist on such "security" boycott the shipping investments they finance. They should instead rely on the abilities of their client, the shipowner. Demand for shipping at a price will always exist. The market will always recover to reasonable levels

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ALL BUSINESSES ARE A FINANCIAL EXERCISE

- THE PRINCIPAL DRIVER IS PORFIT (ROI)
- THE RISK/REWARD RATIO MUST BE WELL UNDERSTOOD AND ASSESSED
- OVERALL PRODUCTIVITY MUST BE HELD HIGH. COSTS, INCLUDING DOWNTIME, MUST BE HELD AS LOW AS POSSIBLE COMPATIBLE WITH THE QUALITY REQUIRED
- PROPER EDUCATION AND TRAINING IS A VERY IMPORTANT ELEMENT OF PRODUCTIVITY
- UNDERSTANDING THE BUSINESS MODEL IS IMPERATIVE

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Shipping serves an integrated transport system

- Ultimate client : The receiver
- Client requirements : Stable prices, cost efficient and timely cargo throughput. The receiver will choose the lowest CIF cost at his door for equivalent domestic or imported goods
- Shipping added value : Cost efficient seaborne leg
- System evolution driver : Lower overall transport cost, trade-offs

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Goods and services :
Must be cost competitive, not cost plus

- Containerisation in 1956 reduced load costs from $ 5.83/ton to $ 0.158/ton.
- 300,000 TDW bulk carriers reduces transport cost by $ 5 to $ 7/ton compared to 180,000 TDW Capesize on the Brazil-China run. The 400.000 tdw Vale Chinamax ore carrier design reduces cost by $7 to $10/ton
- 60 cm greater draft in the River Plate reduces cost by about $ 4 to 5/ton making Argentine exports more cost competitive.
- Energy efficient ships are clearly more profitable in a high energy cost environment.

Because the above helped reduce overall transport cost they all materialized

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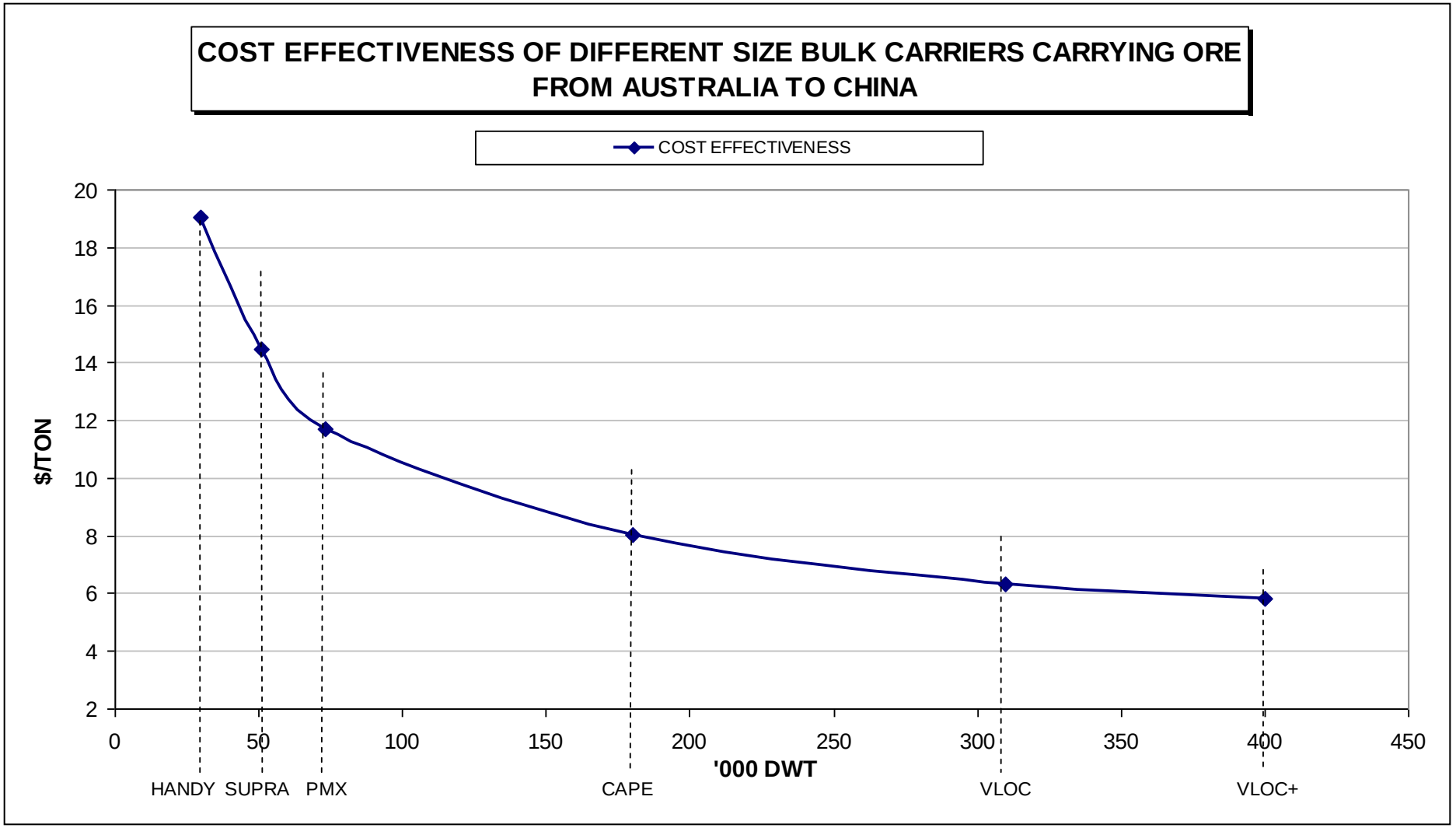
COST EFFECTIVENESS OF DIFFERENT SIZE BULK CARRIERS CARRYING ORE FROM AUSTRALIA TO CHINA
COST EFFECTIVENESS
$/TON
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18
16
14
12
10
8
6
4
2
0
50
100
150
200
250
300
350
400
450
'000 DWT
HANDY
SUPRA
PMX
CAPE
VLOC
VLOC+

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LARGER vs MORE FLEXIBLE

- Larger, longer and wider ships are more cost efficient but they can visit less ports, therefore their flexibility is reduced.
- On the other hand port infrastructure is continuously improving in order to reduce transport cost, especially in emerging populous countries which invariably create large trade.

Assessment of trends is necessary in order to have the right ship

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BASIC PRINCIPLES

- Supply and demand trends influence the freight rate
- Freight has historically been a fraction of the cargo value. Market forces will eventually ensure it in the medium term
- In shipping, aberrations and imbalances will self correct
- Decisions should be based on good understanding, not “animal spirits”
- It is important to understand the parameters and the risk element of decisions
- See the big picture

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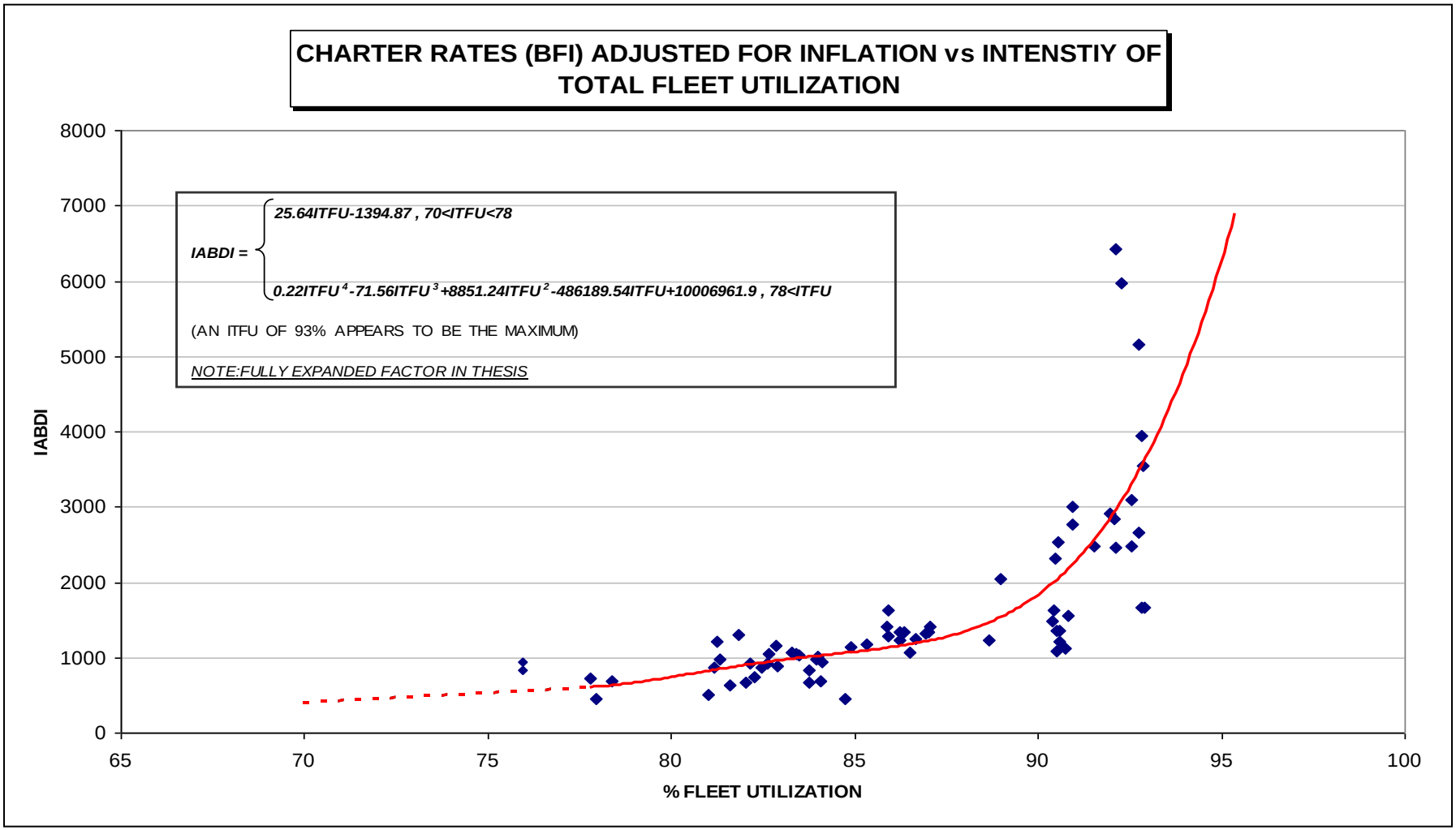
Understanding the cargo receivers' requirements and options is key to understanding freight market dynamics and ship prices

FREIGHT MARKET RESPONSE CURVE



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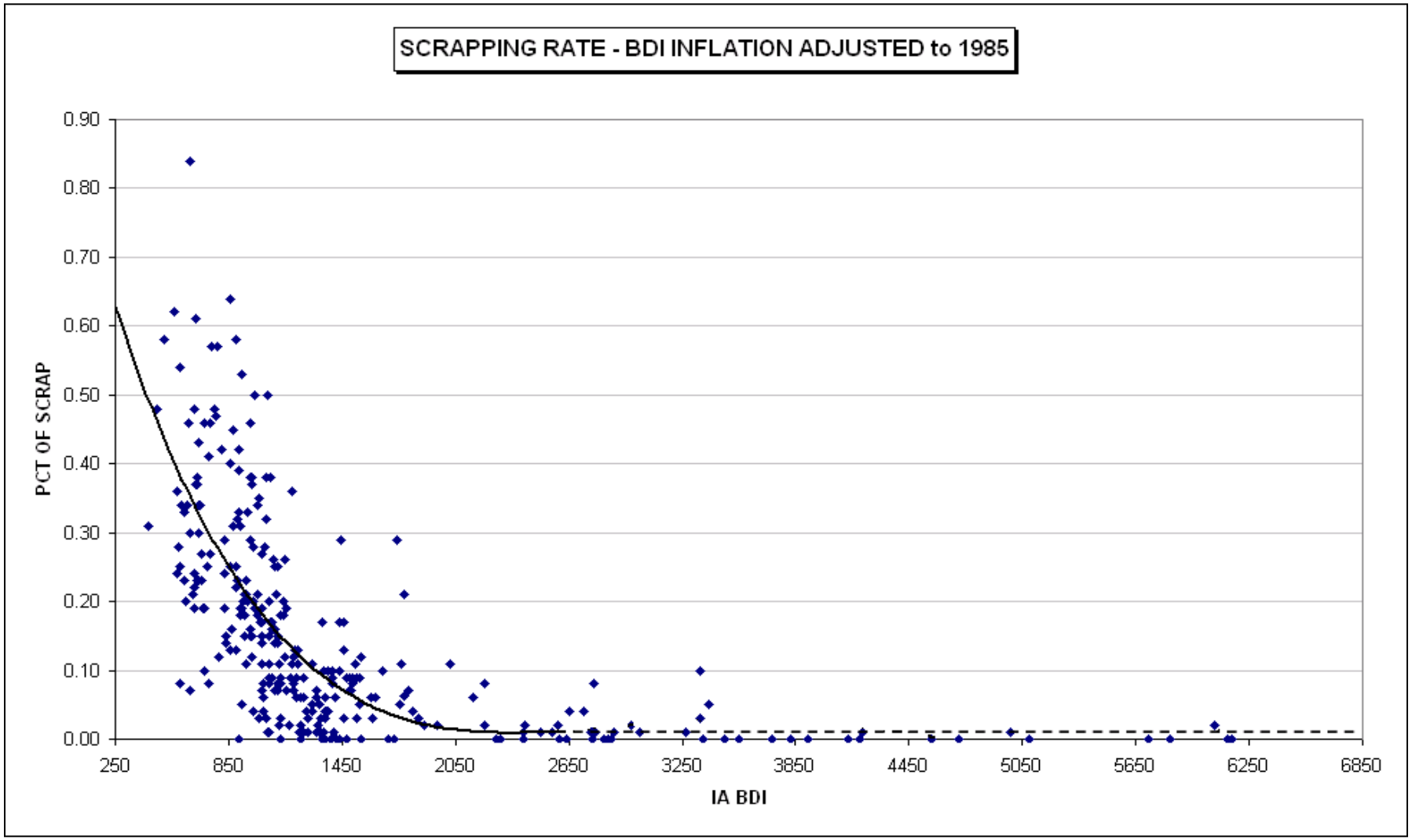
SCRAPPING RESPONSE CURVE



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The Price of Ships

A large part of a ship's price consists of market sentiment and scarcity value. Both can be controlled with shipyard capacity

- For newbuildings a reasonable floor is the last low price adjusted for inflation in steel, machinery as well as general inflation
- The floor for scrap is a percentage of the price of new steel

Other ship/age/price combinations can be interpolated

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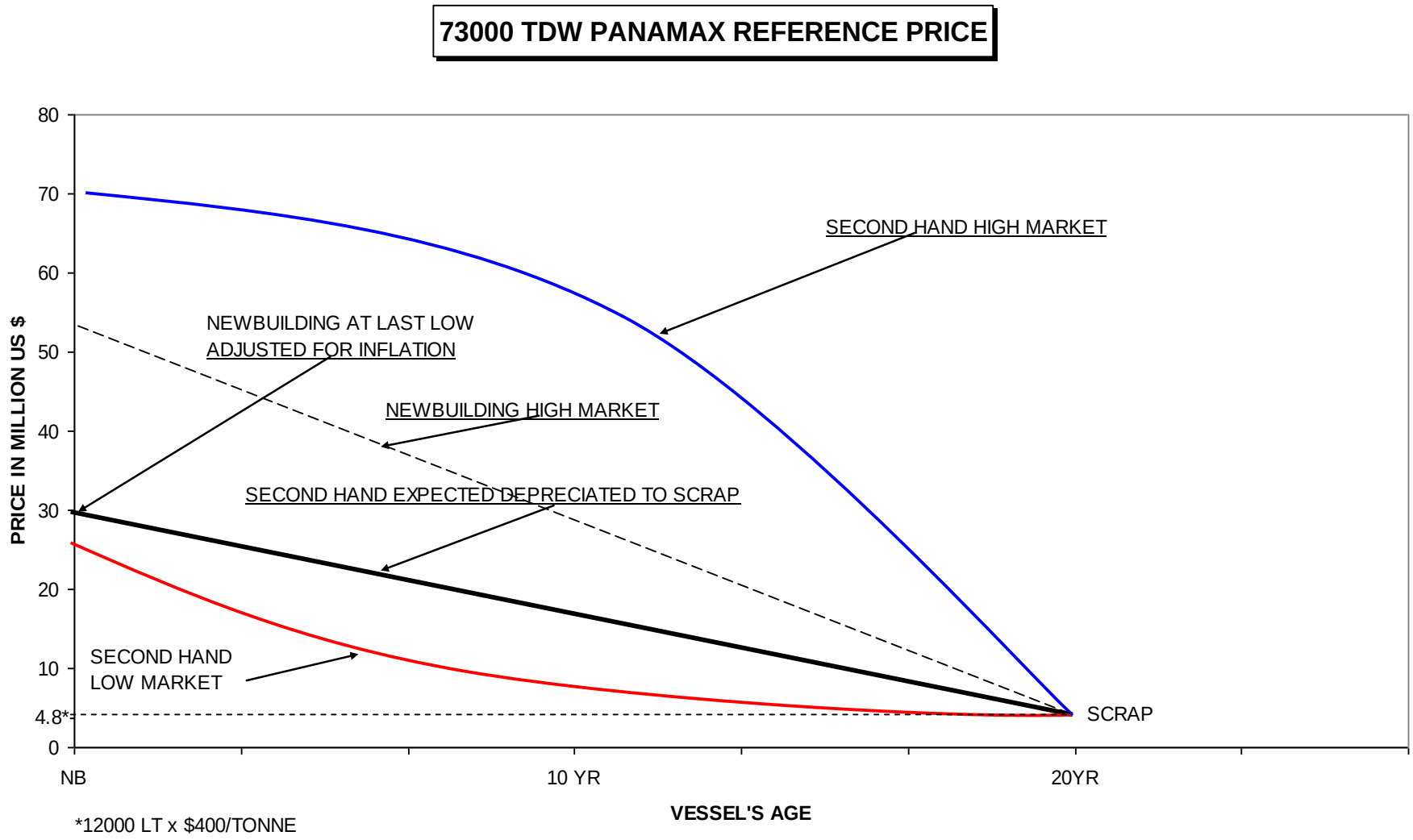
TIMING OF PURCHASES MUST ALSO BE RIGHT



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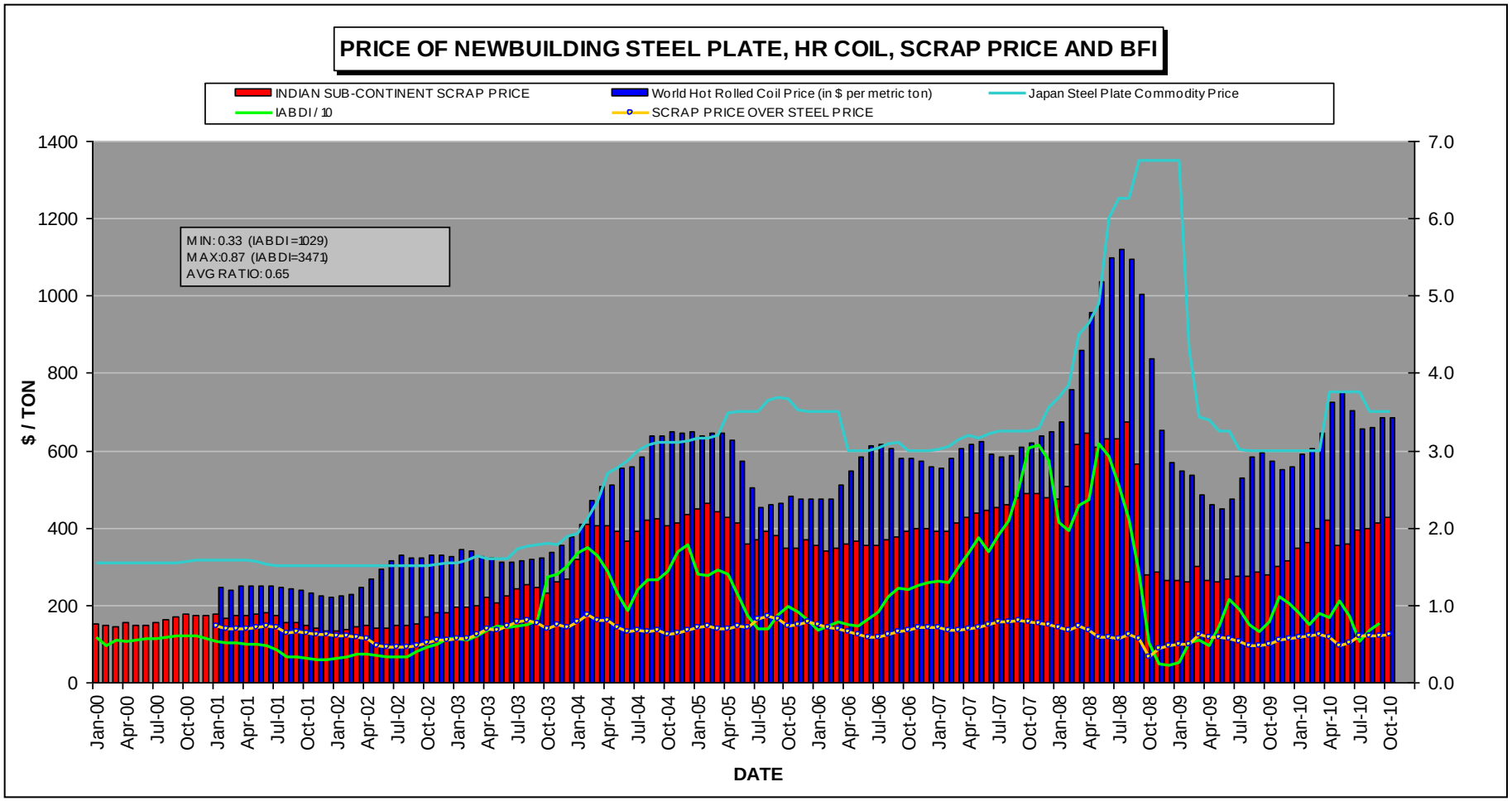
PRICE OF NEWBUILDING STEEL PLATE, HR COIL, SCRAP PRICE AND BFI
INDIAN SUB-CONTINENT SCRAP PRICE
World Hot Rolled Coil Price (in $ per metric ton)
Japan Steel Plate Commodity Price
IABDI / 10
SCRAP PRICE OVER STEEL PRICE
MIN: 0.33 (IABDI =1029)
MAX:0.87 (IABDI=3471)
AVG RATIO: 0.65
$ / TON
DATE
0
200
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800
1000
1200
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SHIP FINANCE

- Ships have a floor price below which it is very unlikely that their price will fall
- Higher leverage in a low value shipping environment has a substantially smaller risk element
- Risks increase as charter rates rise and ship values escalate
- Shipowning risks are minimized by the better understanding and the abilities of the shipowner rather than on the reliance on the integrity and abilities of charterers
- Ship financiers, when relying on charters for security, improve the charterers' business model and disadvantage the owners who they finance

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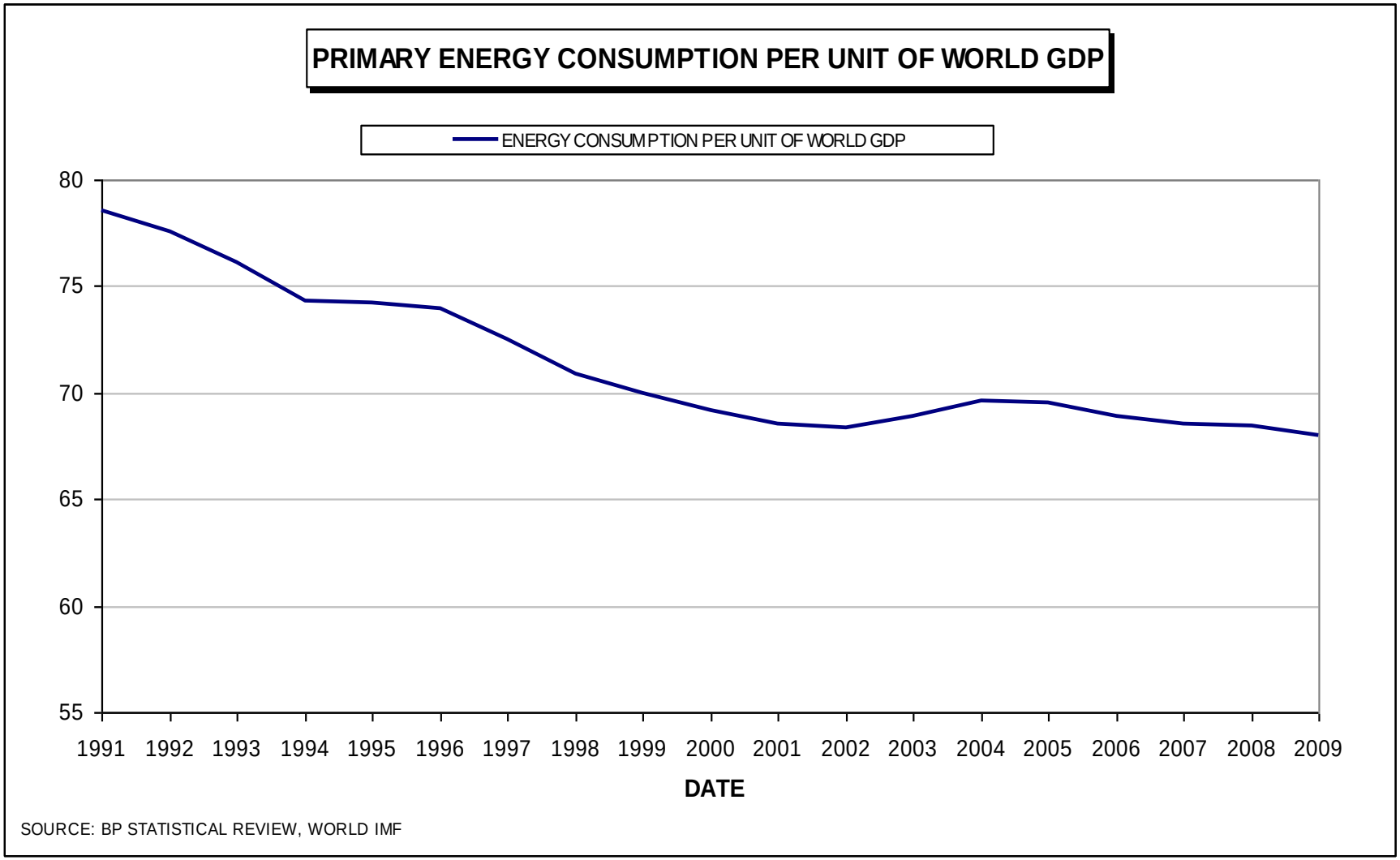
THE WORLD IS BECOMING MORE ENERGY EFFICIENT PER UNIT OF GDP



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CHANGES IN DRY BULK SHIPPING DEMAND

From shipping demand expressed in tonnes and tonne-miles per unit of World GDP, we note that:

- There is an inflection point of the trend in 2002 when Chinese imports appear to have started accelerating
- The rate of increase in tonne-mile demand per unit of World GDP is greater than the rate of increase of the tonnes of cargo transported, indicating the trend of obtaining cargoes from further a-field.
- A further inflection point may be forthcoming when Indian imports start accelerating.
- Greater efficiency will reduce the rate of increase.

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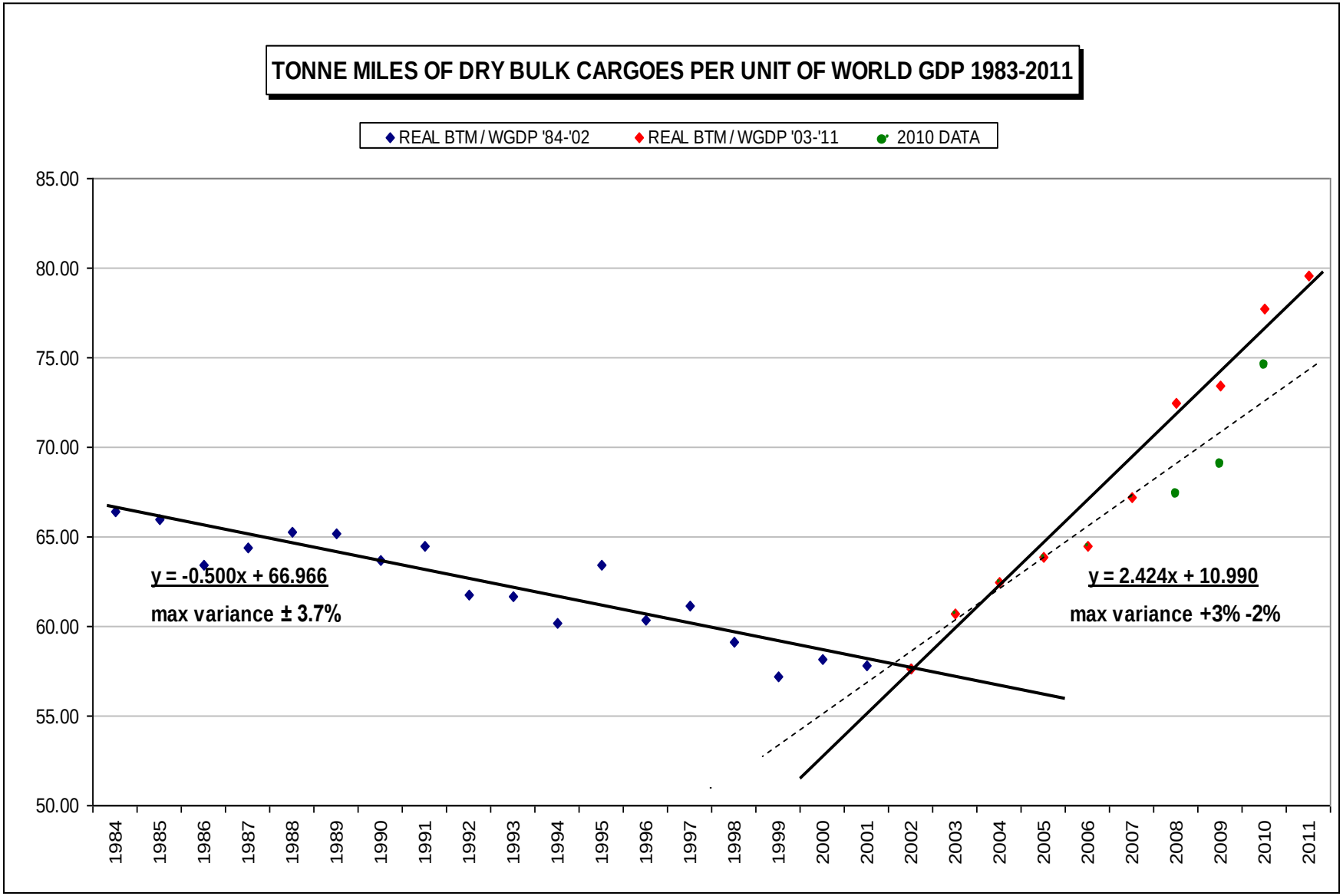
BULK CARGO TRANSPORT DEMAND



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INDUSTRIAL POLICY
(Universally applicable)

- To be cost effective, export and create wealth an economy must be competitive. To achieve this it needs low input costs. Shipping costs have historically been a fraction of the cargo value.
- High dry bulk freight rates increase input costs and decrease any economy's competitiveness.
- Building more ships is an effective "freight market destruction mechanism". New shipyards are therefore created to build these ships
- Long period charters and ship export financing are used to facilitate the process

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A cost benefit example

- If the freight rates paid between October 2007 and June 2008 were reduced by 60% for Chinese dry bulk imports, China would save about $ 15 billion in freight costs per year

- This would represent a cost differential of $ 30 million per ship for 500 ships

It would therefore make sense for China to build new ships at or below cost

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Regardless of any increase in demand, more shipyards, overbuilding, better infrastructure and logistics will reduce average freight rates over time

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Thank you

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