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Seabury Maritime

Seabury perspective on current maritime industry dynamics

Executive summary

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Maritime shipping requires immediate and decisive restructuring through current crisis to minimize losses and avoid downward spiral

- Robust economic growth in developed economies between 2002-2007 and the expansion of the "Asian Tiger" engine spurred a boom cycle in the shipping industry
  - Vessel values in certain sectors increased as much as 400%
  - In an effort to catch up with demand, industry over-ordered tonnage with sharp increase in scheduled deliveries starting 2009 ($500B+ in outstanding orders through 2011)
- However, the global economy entered a deep recession (with a contraction in developed countries) causing sharp fall in demand for shipping
  - Freight rates in the dry bulk and container sectors are 75% and 85%, respectively, lower than peak levels in 2008
  - Ship values in all sectors have fallen forcing many companies to breach LTV covenants and incur asset impairment write downs
  - The financial crisis started in Q3'08 resulted in a freeze and now sustained shortage of credit "colliding" with global recession
  - Despite orchestrated government efforts to revive the world's credit markets, public debt and equity markets are frozen and banks are still unwilling to lend
- The shipping industry could be in the worst crisis ever from confluence of several drivers resulting in a permanent erosion of invested capital due to the collapse of asset prices
  - As owners scramble to preserve liquidity, banks will be faced with significant requests for debt restructuring and ultimately be forced to mark to market the value of their own lending portfolios
- Forward oversupply, deep decline in demand and credit unavailability for either new deliveries or bridge liquidity to continue operations will have a more dire impact than that of previous crises
- With the unprecedented need for capital Seabury can provide access to private equity and turnaround and restructuring solutions

Agenda

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- State of the industry
- Restructuring imperative and Seabury approach
- Seabury expertise and team

Global shipping demand

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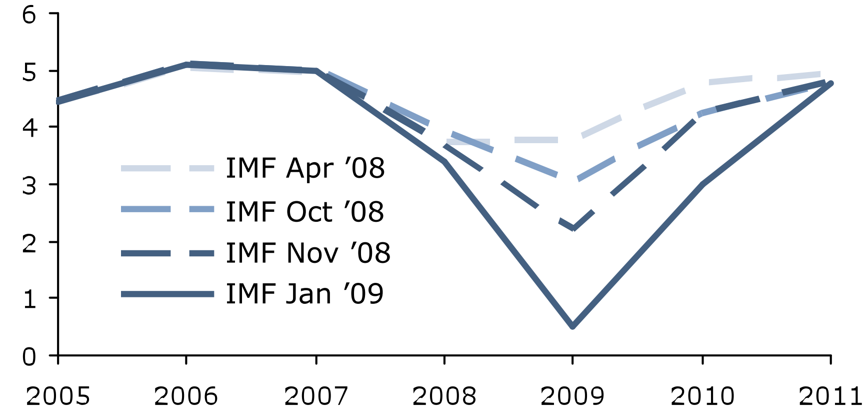
After 5 years of robust growth, the global economic crisis has driven a sudden and dramatic decline in shipping volumes and, consequently, rates

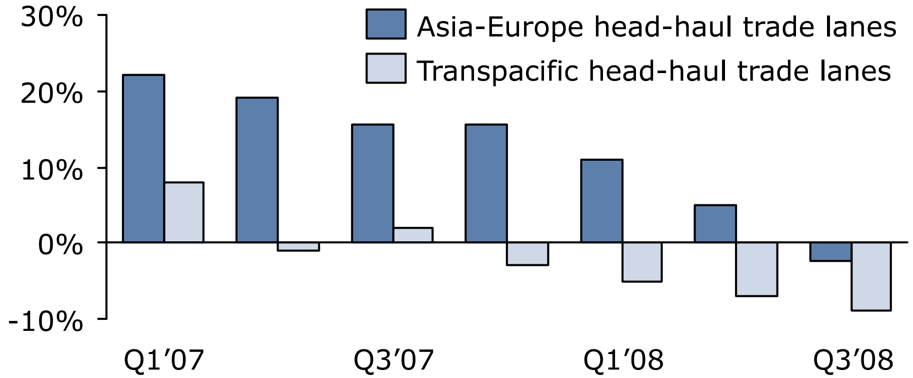
IMF economic outlook progression

(% real GDP growth)



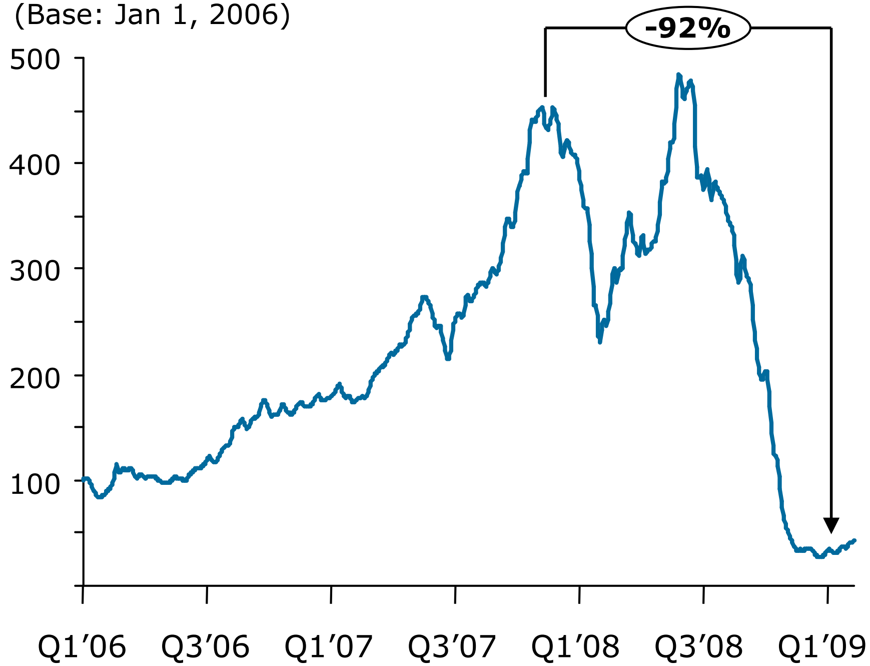
Demand for shipping

(% growth YoY)



BDI index

(Base: Jan 1, 2006)



- Shipping industry has started to see signs of slowing to negative growth on major shipping corridors in Q2'07
- Worldwide recession forecast to last through H1'10 in some regions likely to destroy demand even further
  - Developed economies[1] to see -1.5% to -2.5% economic contraction in 2009

Note: [1] Including North America, EU, and Developed Asia
Source: Seabury analysis; JOC and FEFC; IMF, Bloomberg

Oversupply in the industry

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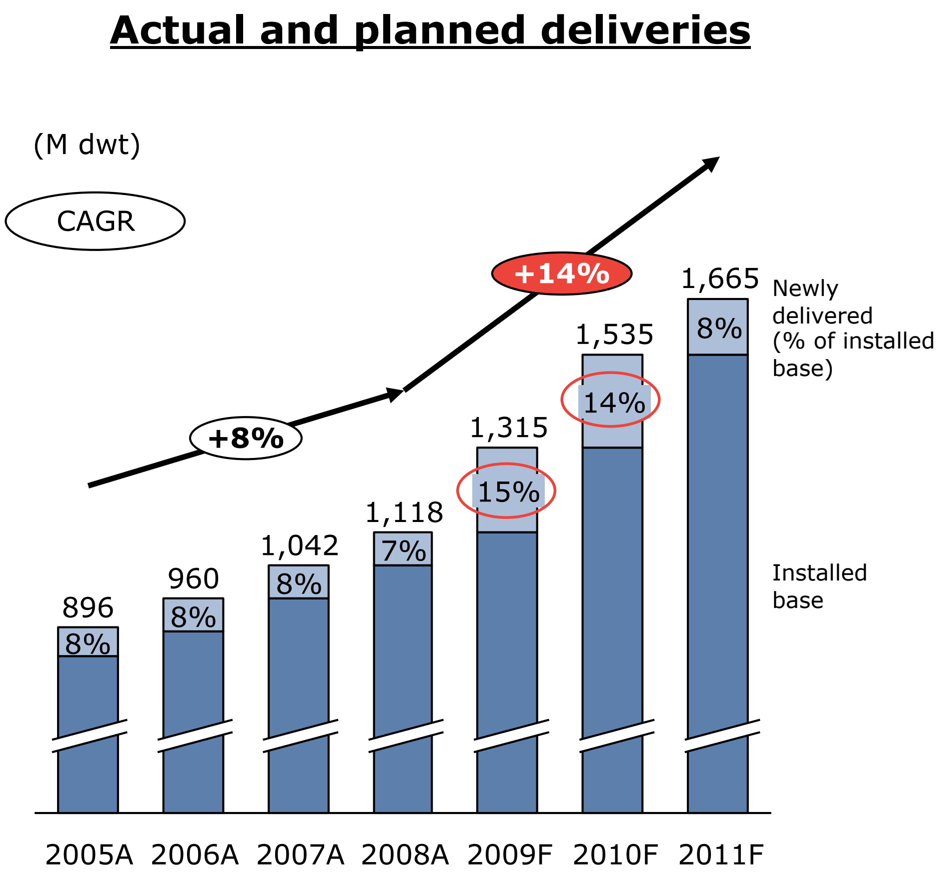
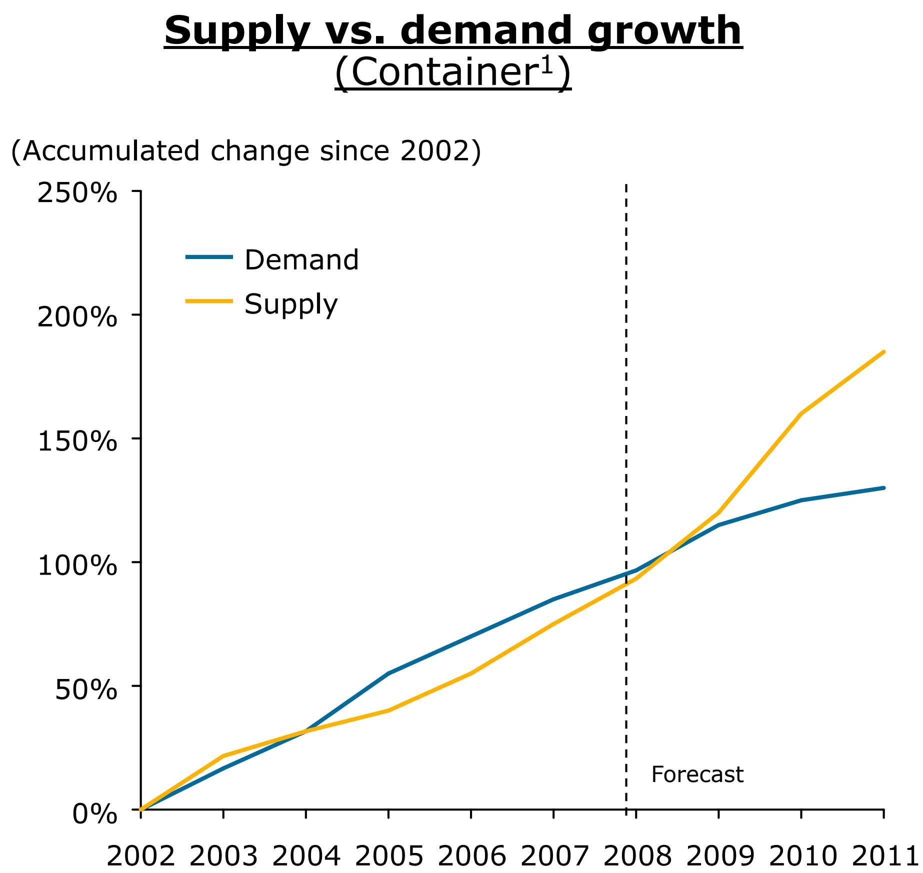
Even before the economic crisis, the maritime industry was facing a massive oversupply of capacity, that will place further downward pressure on rates





The industry over-ordered during the boom cycle

Note: [1] Similar dynamic in other modes of shipping (dry bulk and tanker). Demand forecast based on sample of leading shipping lines' forecasts pre-crisis; Assumes no scrapping and no cancellation or deferral of orders.
Source: Boletin Maritimo CEPAL United Nations, Jan 2009

Inflation in asset values

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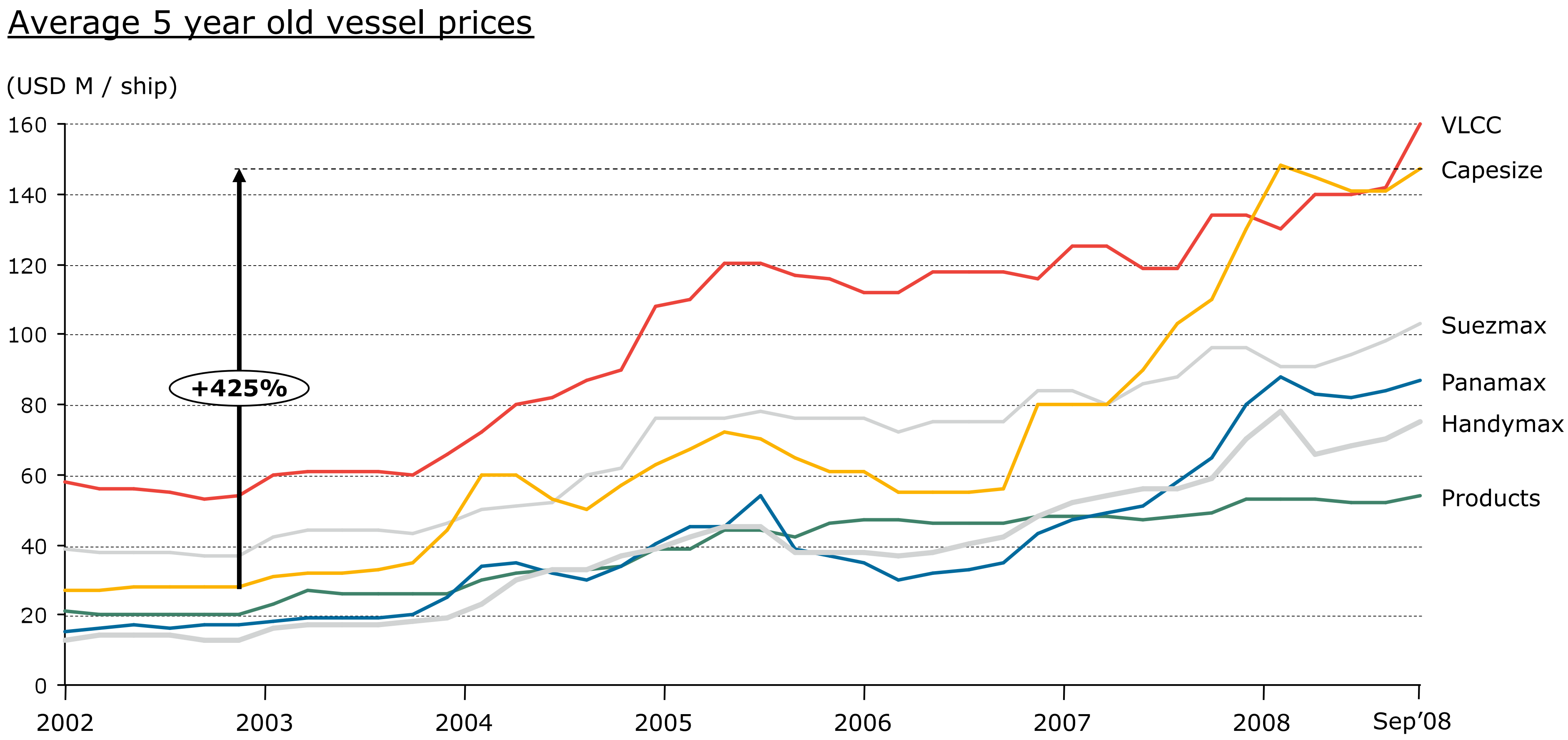
The past 5 years of irrational exuberance drove up asset values and dropping operating cash flows may be insufficient to service debt going forward



The owners overpaid for vessels during the boom cycle

Source: Nordic Shipping; Pareto Securities

Covenant risk

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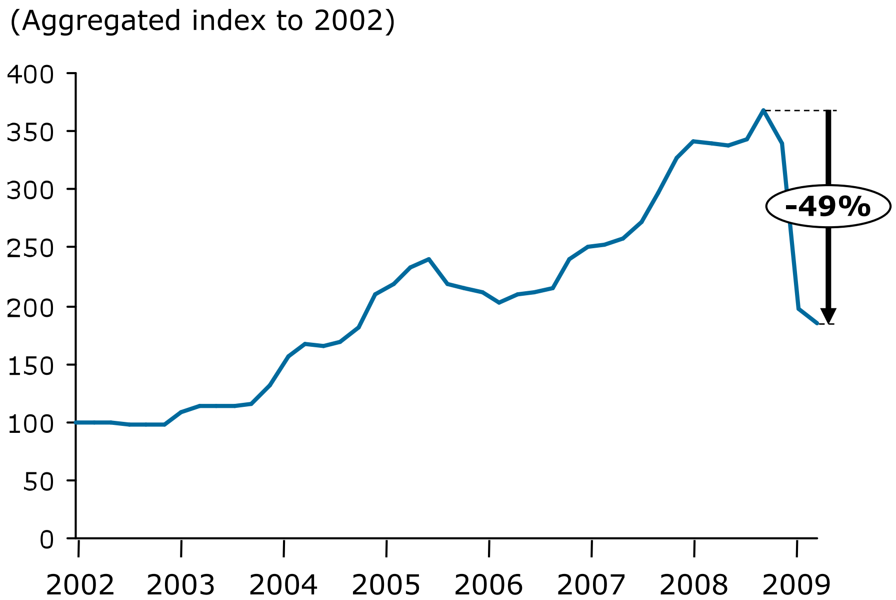
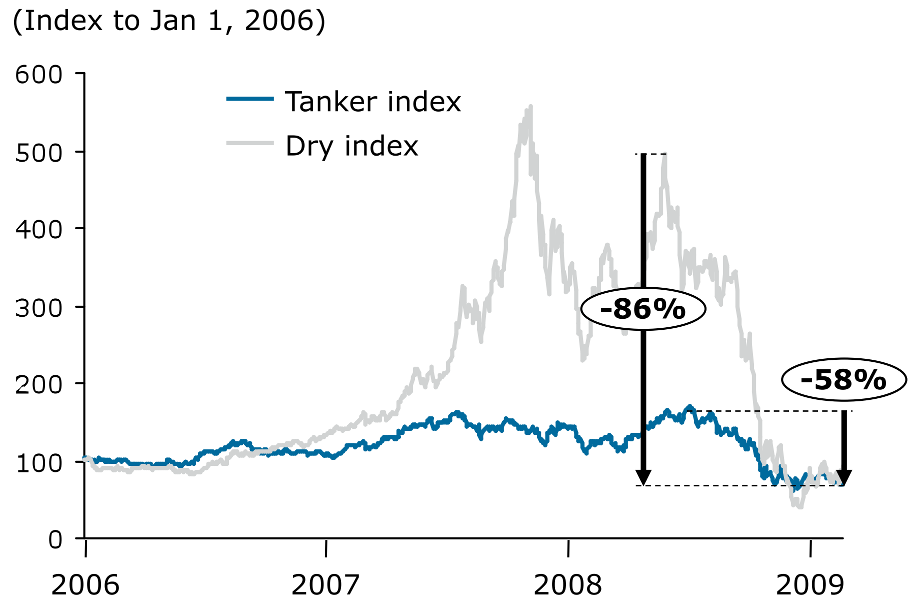
Declining asset and shareholder values risk violating existing financing covenants, placing debtors / owners in default

Average 5-year old vessel prices



- Impairment testing (required by FASB 144) will be based on the recoverability of the carrying amount of assets
- Given the changes in the economics of the industry and even bleaker forecasts going forward, companies will be forced to take on material write-downs and downgrades of assets

Shipping equity indices



- Freight rates and values in dry cargo have fallen to levels not seen in 10 years and Dry bulk shippers' stocks nose-dived to multi-year lows
- Drop in demand for oil and subsequent production cuts sent tanker stocks into severe decline

Note: Price per ship average weighted by installed tonnage in each ship category; Tanker index: FRO, TK, OSG, NAT, GMR, TNP; Dry Bulk index: EGLE, EXM, GNK, PRGN, DSX, DRYS; Equity indices are capitalization weighted
Source: Bloomberg; Nordic Shipping; Pareto Securities; Seabury analysis

Financing predicament

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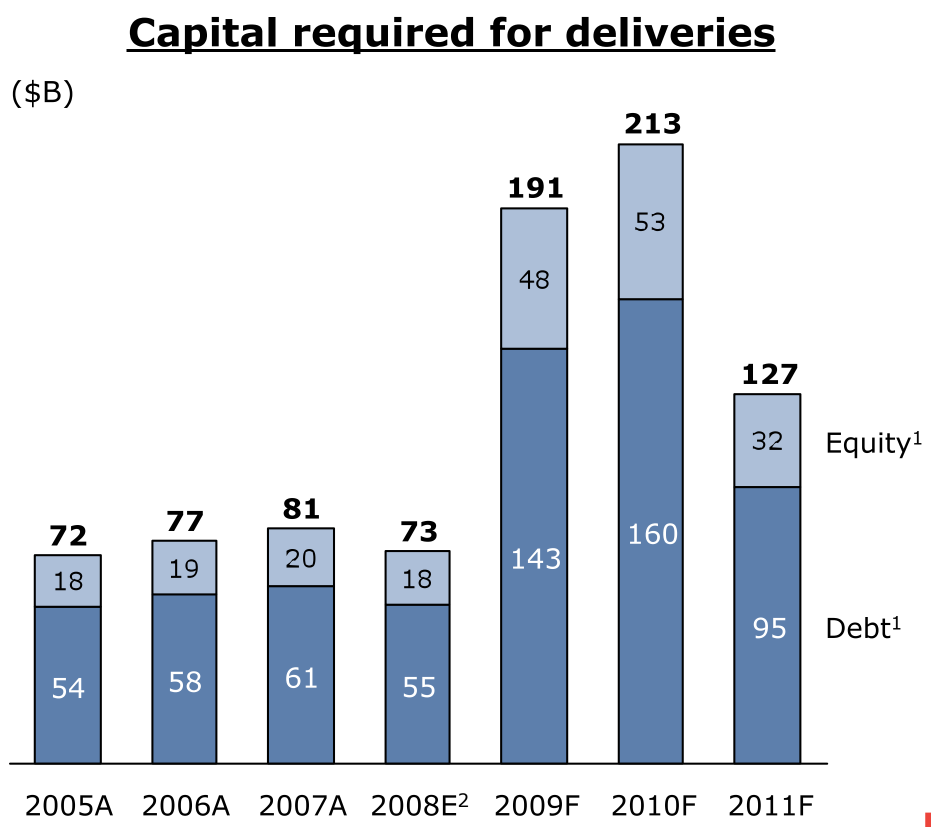
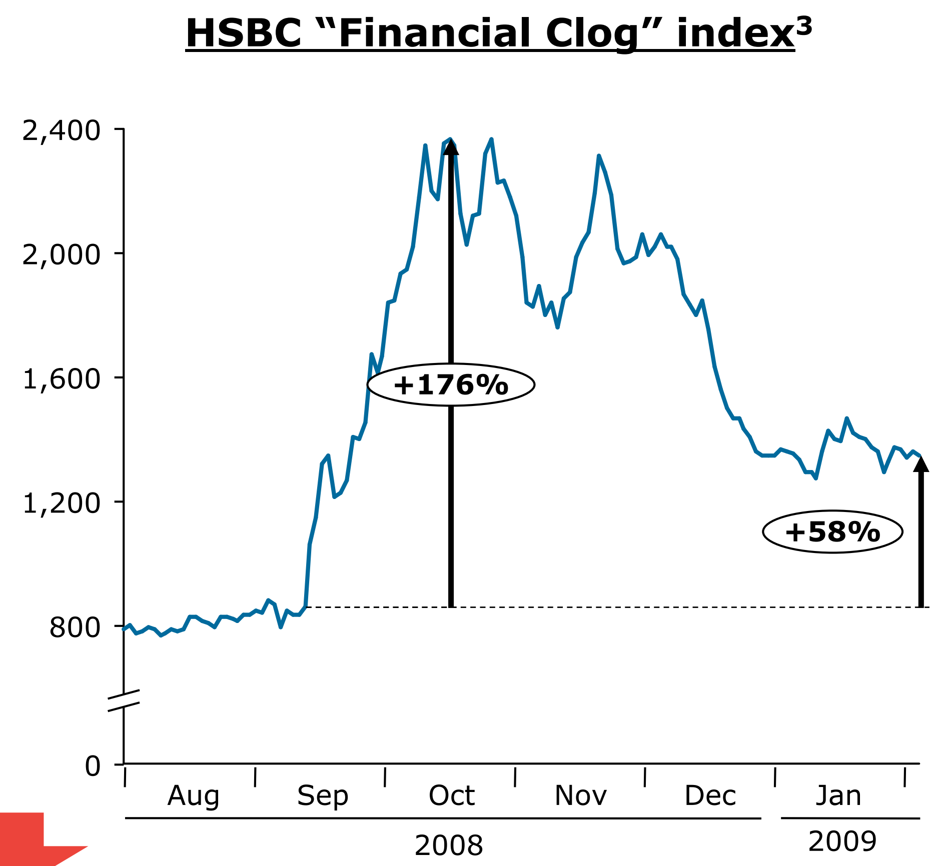
At the time when the industry most needs financing (for new deliveries and existing debt default), financial crisis has significantly limited its availability





Despite partial recovery, stress in the financial markets is still high likely to result in order cancellations and outright bankruptcies

Note: [1] Assumes capital secured through 25% equity and 75% debt; [2] Estimated based upon dwt delivered in 2008;
[3] Measures aggregate level of stress in the US financial markets, synthesizing interbank spread (TED, LIBOR-OIS spread), financial institution default risk (CDS spread), mortgage agency credit spreads, and equity volatility (VIX index): category weightings are equal

Source: Clarksons; Bloomberg; Seabury analysis

Implications for industry are severe

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This crisis will hit all industry players, and may turn into a downward spiral if immediate actions to restructure are not taken

Banks

- Owners' failures driven by liquidity shortage will leave lenders with distressed value assets
- Failures will result in spiral effect on second-hand tonnage available in the market, decreasing asset liquidity further
- Many of the banks have agreed to covenants waivers in return for dramatically increased spreads, however, these same lenders have been reluctant to extend any new credit
  - Even deals based on most robust economics could be subject to additional scrutiny by credit committees as lenders continue to avoid risk

Charterers

- Influenced by falling rates and demand contraction, charterers will increase efforts to renegotiate terms with owners agreed during prior cycle
- Q4'08 witnessed several charterers defaults – a sign of crisis within industry
  - Industrial Carriers, Britannia Bulk, Atlas Shipping, Armada Singapore and Samsun Logix
  - Total claims in excess of $1.25B

Owners

- Declining asset values forced many shipping companies to breach their LTV covenants over the last two quarters
- Overcapacity will leave owners with "dead tonnage"; "one-ship" companies are under higher threat
- Downward pressure on revenue and cash flows from rock-bottom rates and lack of "bridge" liquidity will result in outright bankruptcies
- Bankruptcies could result in further saturating secondary market with tonnage

Shipyards

- Shipyards will face order deferrals or outright cancellations given funding unavailability and need to reduce capacity
- Those who built up capacity following the exuberance of last 3 years of orders are exposed the most
- Cash flow hurdles (due to cancelled / deferred orders) could result in several shipyards' failures

Comparison to previous downturns

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Due to a confluence of factors and their aggregate effect, current crisis could be more dire than previous downturns

	1970-1979	1980-1990	Current crisis
Cause:	▪ First oil price crisis ▪ Bretton Woods system elimination by USA ▪ US dollar devaluation ▪ Accumulated "boom" growth since 1950	▪ Second oil price crisis ▪ Decrease in price and volume of basic exported products ▪ High inflation and high cost of capital ▪ Speculative shipping and charter bubble	▪ Accelerating growth from 2002 to 2007 followed by global recession ▪ "Mad money" during boom cycle… ▪ …immediately followed by global credit crisis ▪ Overvalued assets ▪ Forward overcapacity
Implication/ outcome:	▪ High Inflation in a weak monetary system ▪ World recession ▪ Rates' decline driven by overcapacity ▪ Orderbook reduction by 65% from 1973 to 1979 ▪ Tanker operators especially impacted, and forced to operate at break-even at best for next ~14 years	▪ "Debt crisis", especially in developing countries, driven by trade imbalances ▪ Large capital movements ▪ Seaborne trade decline ▪ Shipping tonnage oversupply from previous crisis exacerbated by weakening of demand ▪ Ships foreclosures by international banks	▪ Massive decline in rates driven by supply-demand imbalances ▪ Liquidation from declining cash flows from operations and lack of new liquidity ▪ Overvalued assets driving inability to service debt, impairments, and ultimately breach of loan covenants ▪ New deliveries' financing shortage
Duration:	▪ 5 years	▪ 8-10 years	▪ TBD

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Coordinated and decisive action is required

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All players must coordinate in order to avoid downward spiral and must take immediate decisive action to restructure their businesses

Owners

- Be first to re-market excess tonnage to raise liquidity
  - Recognize loss of vessels value (incl. impairment testing and write-downs for public companies), but "stop the bleeding"
- Defer or cancel deliveries where economically practical and feasible
- Approach banks as partner
  - Seek restructuring of asset and general financing (incl. relief on potential LTV covenants)
- Conserve cash on all fronts
  - Slash all spending non-core to quality of service, safety of ships or otherwise mere sustainability of the business
  - If public company, cut dividend
- Revise business plan to drive all renegotiations
- Recapitalize

Banks

- Proactively work with owners to avoid repossession
  - Recognize significant losses in value of assets
  - Forego profit for protection against saturated second-hand tonnage market
  - Consider offering more favorable terms on loans to current customers including covenant relief and compensate with terms in post-recovery years
- Serve as a medium for second-hand tonnage transactions to aid clients
  - Help owners in restructuring to right-size operations by brokering with strategic/financial buyers…
  - …thereby ensuring continuity of clients' operations and avoiding a devalued assets on own books

Shipyards

- Rein in capacity ramp-up immediately
- Work proactively with owners and banks to "juggle" orderbook
  - Approach healthier customers to pull deliveries forward and ensure cash flow through crisis
  - Offer more favorable terms to stimulate transactions
  - Consider relief on PDPs and other measures to block cancellations and ensure continued cash flow
- Act as a broker to redirect capacity in secondary markets in favor of placement of new deliveries
- Consider alternative sources of revenue

Given the severity of the crisis impact on all parties, assistance from experienced restructuring professionals may be highly beneficial

Seabury restructuring approach

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Seabury's experienced team employs rigorous approach to restructuring distressed transportation companies with unparalleled track record of success

"Stop the bleeding"

- Execute on highest value "quick-hit" initiatives immediately
  - Diagnose and execute on major underlying financial and operational issues (use financial / operating performance data and management knowledge)
- Preserve liquidity:
  - Work with management in the design, roll-out and leverage of a centralized expense clearing process
  - Execute financially prudent sale of tonnage to raise liquidity
- Compile near-term baseline operating budgets recognizing industry developments
  - Incorporate the expected impact of the revenue and cost initiatives identified by diagnostic
- Track performance rigorously

Streamline and stabilize the business

Revise strategy and business plan

- Profile macro-economic trends, market evolution and competitive environment
  - Translate key drivers into growth forecasts for business sectors
- Identify medium-to-long term operational improvement and turnaround initiatives to reach full potential
- Revise business plan to the new realities including restructuring initiatives
  - Right-size the business to help justify return to profitability and growth
- Redesign balance sheet to support new operations
  - Adjust to reflect asset value dynamics

Revise business model and operations

Recapitalize and restructure

- Recapitalize with new equity and debt from independent strategic or financial partners to fund operations, cover operating losses and future growth
  - Prioritize liquidity sources and move swiftly to avoid defaults
  - Use robust and pressure-tested business plan as the backbone to drive roadshow discussions and justify requested capital
- Proactively engage major business partners to renegotiate agreements and support going concern of your partnership for their benefit
- Execute on identified full-potential initiatives

Ensure future growth and profitability with new foundation

Seabury Maritime working principles

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Our success stems from comprehensive understanding of industry and our clients as well as rigorous analytics and full buy-in from management teams

- Our advice is based on a comprehensive understanding of interrelationships between macroeconomic environment and industry drivers, financial markets and a granular understanding of our client's business
  - Operational particularities and constraints
  - Competitive position and challenges
  - Industry specific risk
  - Capitalization and capital alternatives
- We develop long term relationships built on mutual respect and a vigilant commitment to providing the highest quality independent advice
- Our advice in distressed acquisition and debt restructurings is based on:
  - Extrapolating successful strategies derived from knowledge and experience over the last two shipping downturns
  - Utilizing our proprietary research and analysis to work with management in developing an effective dialogue with lenders and creditors
  - Utilizing support services of our global network of financial, consulting and operating affiliates
- We employ philosophy of intensive preparation and proactive negotiations
  - Comprehensive 5-year business plan including operational improvements required for going concern and profitability to serve as backbone for successful negotiations and capital raises even in crisis environment

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Seabury Maritime

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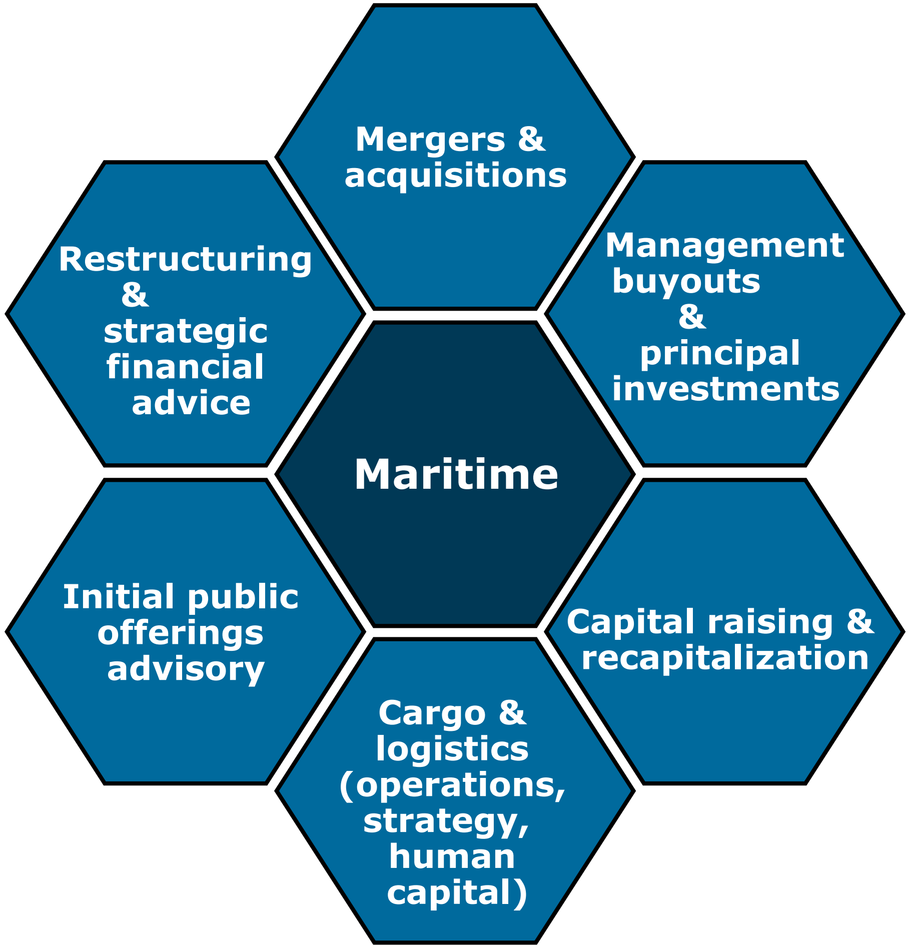
With its industry-specific expertise and restructuring experience, Seabury offers premium crisis management solutions for the maritime industry



- Seabury Maritime Advisors is a global merchant banking and advisory firm providing expert investment banking, M&A, recapitalization / restructuring and strategic advisory services
- Seabury Group has advised on over $100 billion of transactions since inception:
  - Operational, restructuring and improvement (e.g., cost reduction, contract negotiations)
  - Balance sheet restructurings and tax strategies
  - "In-court" and "out of court" restructurings
  - Investment and recapitalization
  - Bondholders negotiations and claims trading issues
  - Merger & acquisitions (buy-side and exclusive sale advisory, acquisition & sale of distressed businesses, valuation)
- Comprehensive understanding of the industry, financial markets and granular understanding of client's business
- Proprietary suite of software tools for in depth analysis, multiple scenario modeling and rapid decision-making in the world of cargo
  - Seabury Cargo Consulting World Trade database

Seabury's unique advisory practice

SEABURY

The unique team structure comprised of professionals dedicated solely to transportation, cargo and logistics differentiates us from our competitors

	Focused strategy consultants	Skilled technical experts	Former industry executives	Experienced investment bankers
Team:	▪ Comprised predominantly of staff from the leading strategy consulting firms including Bain & Company, BCG, Booz & Co. and McKinsey & Company ▪ Focus on transportation	▪ Experts with financial, strategy and operational skills in maritime and cargo & logistics areas ▪ Advisory services ranging from complete financial restructuring to turnaround of a cargo division or to sales and marketing strengthening strategies	▪ Industry leaders who have served or are presently serving on the Boards or Audit Committees of public shipping companies such as Double Hull Tankers and TBS Shipping ▪ Wall street veterans who were partners at leading transportation related firms	▪ Advisors with specific focus on transportation from top-tier financial institutions, including CSFB, Deutsche Bank, DLJ, JP Morgan, Lehman Brothers and Morgan Stanley
Capabilities:	▪ Innovative thinking and rigorous analytics to develop pragmatic solutions ▪ Fully focused and industry-experienced teams that hit the ground running	▪ Integration with client teams to drive rapid change ▪ Ability to integrate each client's particular parameters into models	▪ Deep understanding of challenges presented by significant operational and financial changes ▪ Sensitivity to the complexity of an organization	▪ Extensive knowledge of domestic and foreign strategic situations; ▪ Focused experience with debt and equity capital markets in the world of transportation

Seabury understands the industry in depth, but challenges convention to deliver more creative solutions that often yield greater financial and operational benefits

Seabury Maritime restructuring experience

SEABURY

Seabury Maritime possesses financial and strategic restructuring experience specific to shipping, energy and off-shore sectors

Capital markets

- In-depth knowledge of shipping valuation and economics, restructuring process, and specific business strategies to influence debt and equity investors
- Proven track record in equity markets for delivering superior equity returns in other transportation-related investments
- Similar track record in debt markets (including with distressed debt investors) with large providers of senior credit and supply creditors

M&A/ strategic options

- Experienced advisor to boards on strategic options, especially with regard to designing a strategy that will minimize losses and provide for a recovery structure, suitable to the age and trading prospects of the vessels
- Proven ability to organize and lead highly-complex transactions, where seamless working relationship with the client to integrate all essential elements, is critical
- Access to, and credibility with top maritime executives, equity fund managers, key stakeholders and secured lenders

Flexible advisory options

- Engagements with parties on all sides of the table in the forgoing areas:
  - Financial institutions (creditor advisory)
  - Vessel owner/operators
  - Shipyard managements (debtor advisory)
- Vessel loan workouts handled on behalf of major shipping banks, including supervision of vessel takeovers and jurisdictional issues relating to priority of liens

Seabury restructuring milestones

SEABURY

With experienced professionals and unparalleled restructuring and industry expertise, Seabury Maritime has accumulated a proven record of success

- Provided advice on over $100 billion of transactions
  - Including proven track record in successfully restructuring over $40 billion of debt and lease obligations and re-negotiating over $20 billion of new purchase agreements for transportation companies
- "In-court" and "out of court" restructurings
  - Creditor work done for FDIC, select US banks and Chubb Insurance
  - Debtor work done for large privately-held Greek, Asian and Scandinavian shipping companies
  - Successfully, renegotiated over $500 million in loans, with significant debt forgiveness for owners and equity participation for lenders in restructured enterprises
- Head of Seabury Maritime oversaw the liquidation of the largest Greek liner company, which encompassed the foreclosure of 16 vessels, trading in multiple jurisdiction
  - The company, in failing to accept its senior lenders' recommendations for restructuring, sought protection under the US Bankruptcy Code. JP Morgan, as lead bank, successfully opposed the filing and converted the action into an involuntary liquidation
- Seabury Maritime is comprised of several professionals, who have served or are presently serving on the Boards or Audit Committees of public shipping companies
  - The team is uniquely qualified to advise companies on restructuring and reorganizing to protect themselves from excessive risk during unstable times, compliance and fair value measurements and disclosures required by the SEC
  - Expertise extends across bondholders negotiations, claims trading issues, corporate governance, balance sheet restructurings, tax strategies, business planning (and merger integration)as well as major vendor contract re-negotiations

Maritime Restructuring Advisory Team

SEABURY

Broad and focused maritime financial expertise positions Seabury as a leading advisor to all shipping industry players…

Randee Day
Managing Director
Head of Maritime Finance

- Head of Seabury Maritime since 2004 responsible for all activities related to the maritime industry
- More than 25 years of specialized international financial expertise in the marine and energy sectors
- CEO of her own advisory firm, Day & Partners, Inc., which specializes in raising capital and debt restructurings for maritime, energy and cruise industries
- Former head of J.P. Morgan's Marine Transportation and Finance department; responsible for managing $1 billion loan portfolio and two departments that handled all lending and investment requirements of shipping Companies in the Western Hemisphere and the Far East

Henry Juan
Managing Director

- Joined Seabury in 2000 with 20 years of legal and investment banking experience
- Former Managing Director, Head of U.S. Debt Capital Markets, for Credit Lyonnais Securities (USA), Inc. responsible for the origination and distribution of global private and public U.S. dollar-based debt and equity linked financings
- Prior to Credit Lyonnais, Mr. Juan was an Associate Director and Head of Investment Grade Private Placements for Bear Stearns & Co., Inc.

David Kanter
Managing Director

- Joined Seabury in March 2009 with more than 20 years of investment banking experience in debt and equity financings, M&A and restructuring advisory
- Former Head of ABN AMRO's North American Leveraged Finance Group and Managing Director of RBS Leveraged Finance Group; responsible for clients worldwide on cross-border leverage acquisition financings
- Prior to ABN AMRO/RBS, Mr. Kanter held various positions with Lazard and helped build its shipping practice, executing debt and equity financings for Companies throughout the marine transportation sector

Ian Malin
Vice President

- Joined Seabury in 2008 with more than 10 years of investing and tax experience
- Former Vice President at Allco Finance Group and was responsible for Funds management and transaction execution in the transportation and infrastructure groups. Completed in excess of $4.5 billion of cross-border infrastructure and rolling stock lease transaction.
- Prior to Allco, Mr. Malin worked for KPMG in their International Tax Group where he opened their Trade and Customs office in San Francisco

Maritime executive advisors

SEABURY

…complemented by Seabury's significant management and financial consulting experience in transportation and logistics

John Luth
Seabury Group Chairman, President, CEO

- Founding Partner and Chief Executive of the Seabury Group
- Senior account responsibility for corporate transformations, equity placements, corporate finance and M&A advisory engagements
- At Seabury, Mr. Luth has led deal teams that have executed successful equity placements for clients in aviation, logistics, media and travel technology companies
- Former Senior Vice President, Finance & Chief Financial Officer of Continental Airlines, Inc. where he managed the restructuring of $9 billion of liabilities, negotiated over $8 billion of new firm and optioned aircraft orders, and raised $450 million of equity and long-term debt capital

Michael Cox
Managing Director

- Head of Corporate Advisory since 1998
- More than 20 years of specialized financial expertise in the aviation sector
- Mr. Cox has advised numerous airline clients on a variety of projects, including airline treasury, corporate finance, and airline restructuring
- Former Director at Price Waterhouse LLP where he led the aviation consulting/restructuring group
- Mr. Cox also worked for Continental Airlines, Inc. for 11 years where he served in a variety of financial positions including Vice President and Treasurer

David Turnbull
Seabury Asia Chairman

- Chairman of Seabury Asia, and Executive Chairman of Pacific Basin Shipping since 2006
- Prior to joining Pacific Basin, Mr. Turnbull was Director of Allco Finance Group (Hong Kong) Limited from July 2006 to March 2008
- Immediate past Chairman of Swire Pacific, Ltd.
- Former Chief Executive Officer and Deputy Chairman of Cathay Pacific Airways Limited from 1998 to 2005, and Chairman of the Board from 2005 to 2006

Joseph Schottland
Managing Director

- Head of Seabury's Consulting practice
- Expertise in large-scale turnaround consulting for the transportation industry; focus on operations, infrastructure and maintenance optimization
- Former Vice President for Strategic Development at TACA in Central America
- Responsible for establishing a 20 person internal strategic and operational improvement group
- Former manager with Bain & Company

Seabury Maritime contact information

SEABURY

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