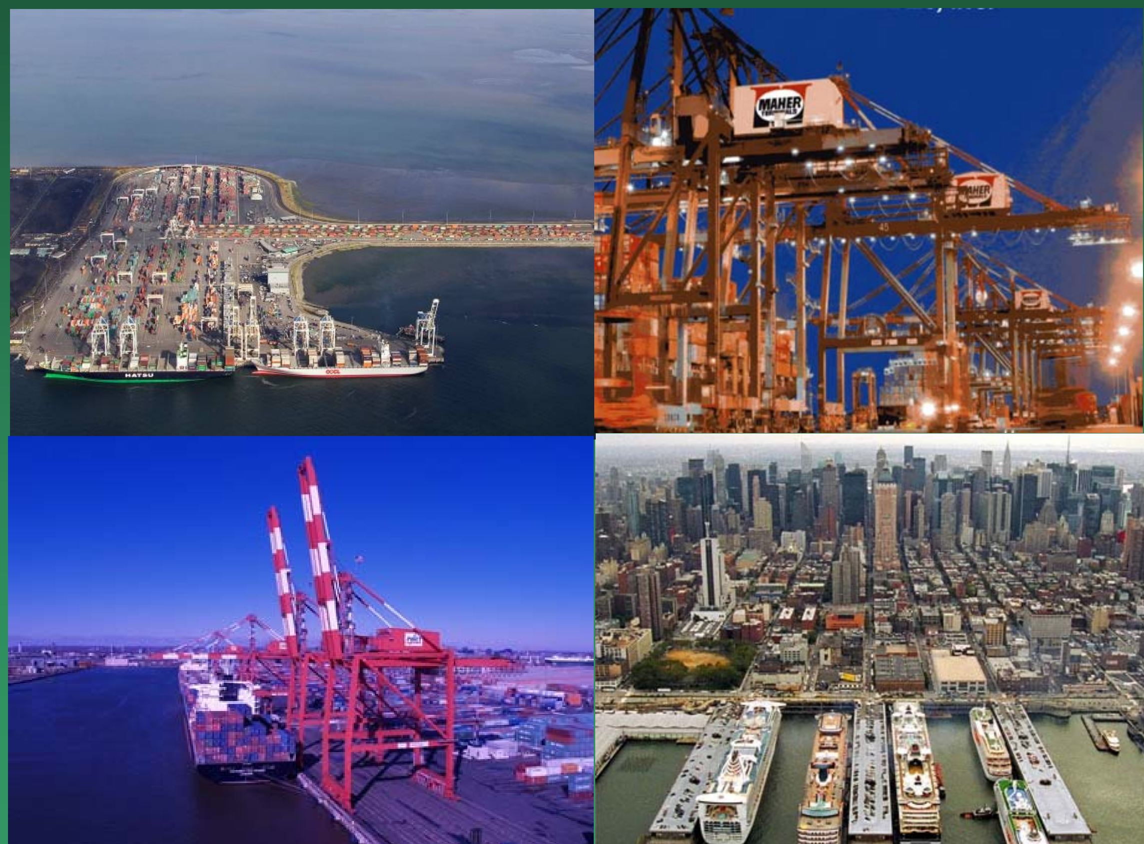
Pricing Port Facilities and Services…is it still a Seller's Market?



June 27, 2008

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Today's Objective

To offset your morning caffeine rush with a discourse on the application of the kinked oligopoly demand curve theory to pricing ancillary port services in a market basket of local currencies!

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Agenda

- Finish on Time……
- …..And Have Some Fun
- Take a Look Back
- Review What's Changed?
- Assess the Question: Is It Still a Seller's Market

A Look Back

- **Recognizing of course that hindsight is always 20-20**

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The Seller's Market Chronology

- 2000: The emergence of China
- 2002: PMA Lockout of the ILWU
- 2004: Southern California rail crisis and subsequent POLA/POLB congestion
- 2005: Proliferation of landside transport capacity warnings
- 2004-2007: The great terminal transaction spree

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The great terminal transaction spree

Approximate Timeframe	Seller	Buyer	Reported Price (billions)
12/04	CXS (World Terminals)	Dubai Ports	$1.1
10/05	P&O	Dubai Ports	$6.8
4/06	HPH: 20% equity	PSA	$4.4
6/06	ABP	Goldman Sachs	$5.1
7/06	Callao Peru Concession	Dubai Ports	$0.6
11/06	OOIL Vancouver & NY Terminals	Ontario Teachers Pension Fund	$2.4
12/06	Dubai Ports U.S Holdings	AIG	$0.8
5/07	Maher Terminals	RREEF (Deutsche Bank)	$2.2

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The preceding slide excludes

- Macquarie Bank’s purchase of Halterm
- Morgan Stanley’s purchase of Montreal Gateway Terminals
- Goldman Sach’s purchase of 49% of SSA
- Non-container transactions
- Numerous concession awards around the world

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Market Fundamentals 2004-2006

Demand	Supply	Financing
• China-driven container trade boom • Strong U.S. economy • Growing Atlantic Coast trade • Plethora of new, mega vessel container orders	• Capacity perceived as tight • Increasing environmental complexity • Longer lead times • Few new projects in the pipelines	• Markets awash in cash due to sustained strong equities markets • The rise of the private equities • Infrastructure emerging as a preferred investment – Toll roads led the way

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What Changed?

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What Changed?

- ✓Financial Markets
- ✓Demand
- ✓Supply
- ✓Perception & Rhetoric

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Financial Markets

- Secondary mortgage crisis which triggered
- A credit crisis
- Which triggered Federal Reserve interest cuts
- Which triggered a rapid depreciation in the dollar
- Which in part spurred higher oil prices
- Which collectively has reduced investors cash reserves and appetites

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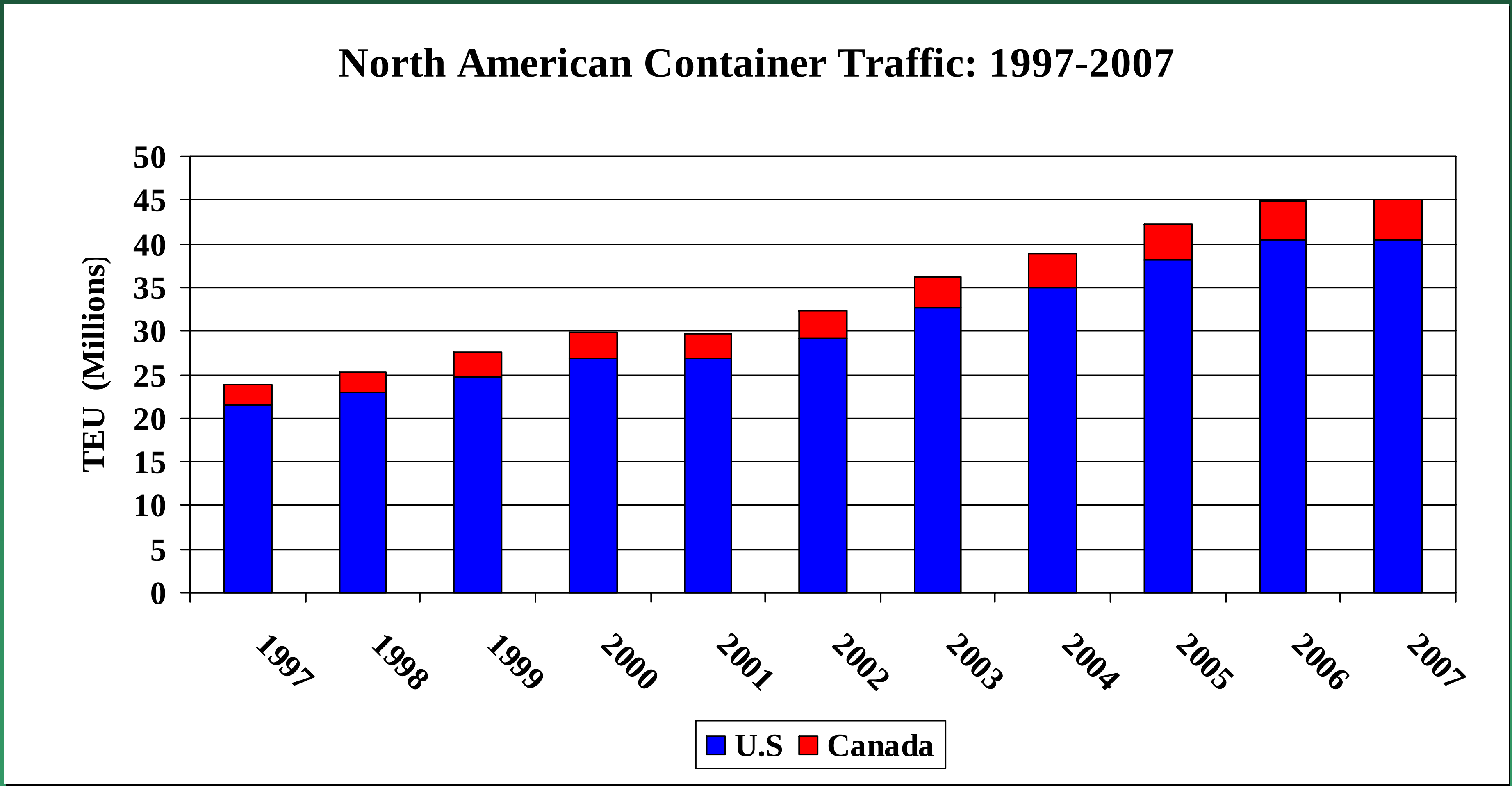
Container traffic began slowing in the latter half of 2006 and was flat in 2007



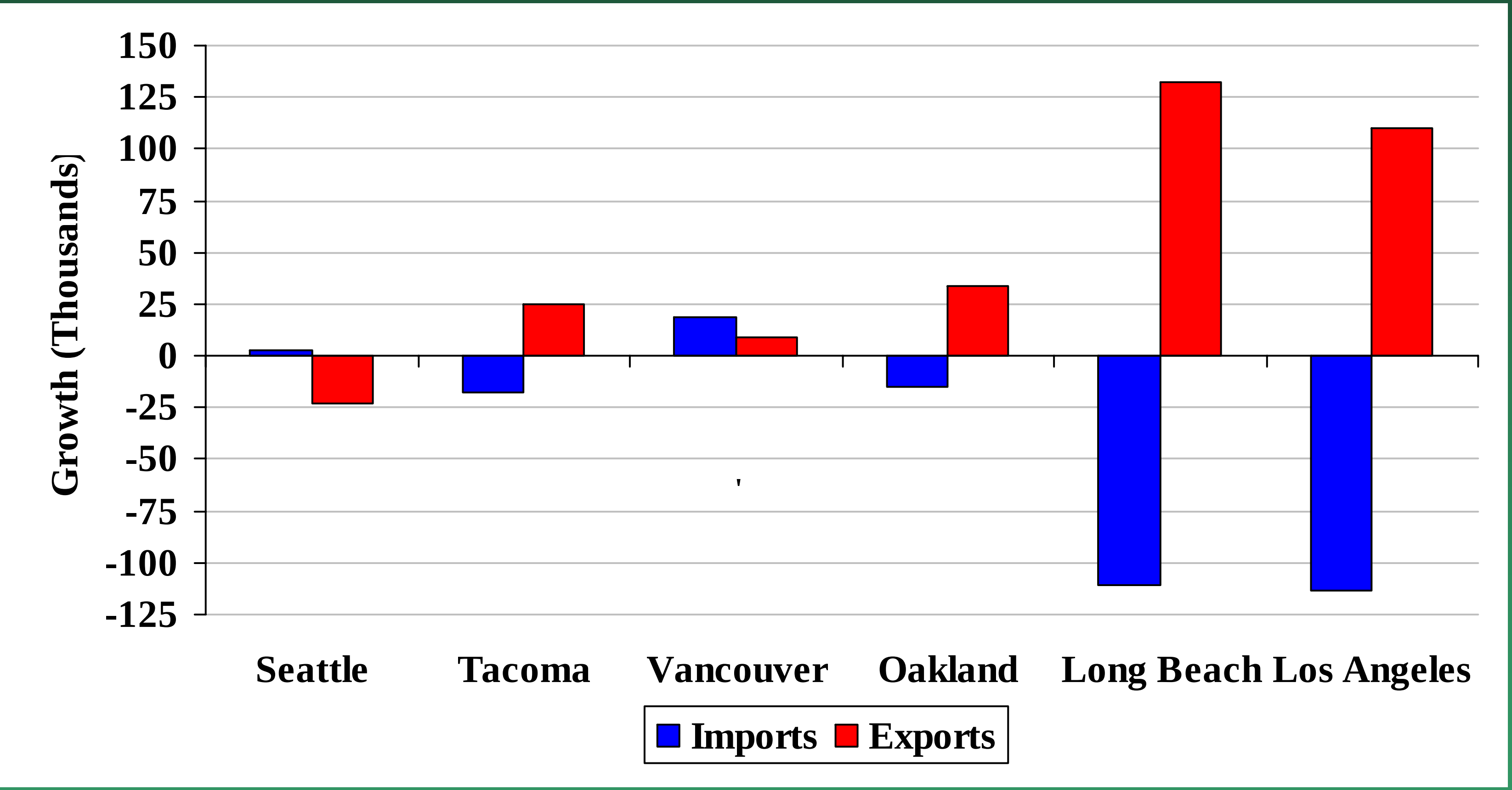
*Note: 1. Throughput is for top 25 U.S. and Canadian container ports, which account for more than 95% of all such flows.

2. Excludes AK, HI, Guam and Puerto Rico (largely domestic) traffic

Source: AAPA; Port Reported Throughput; Norbridge Analysis

The bell-weather West Coast ports are experiencing import declines while exports grow.

Major West Coast Port Container Traffic Growth
January-April 2008 vs 2007



Source: Port authorities; Norbridge analysis

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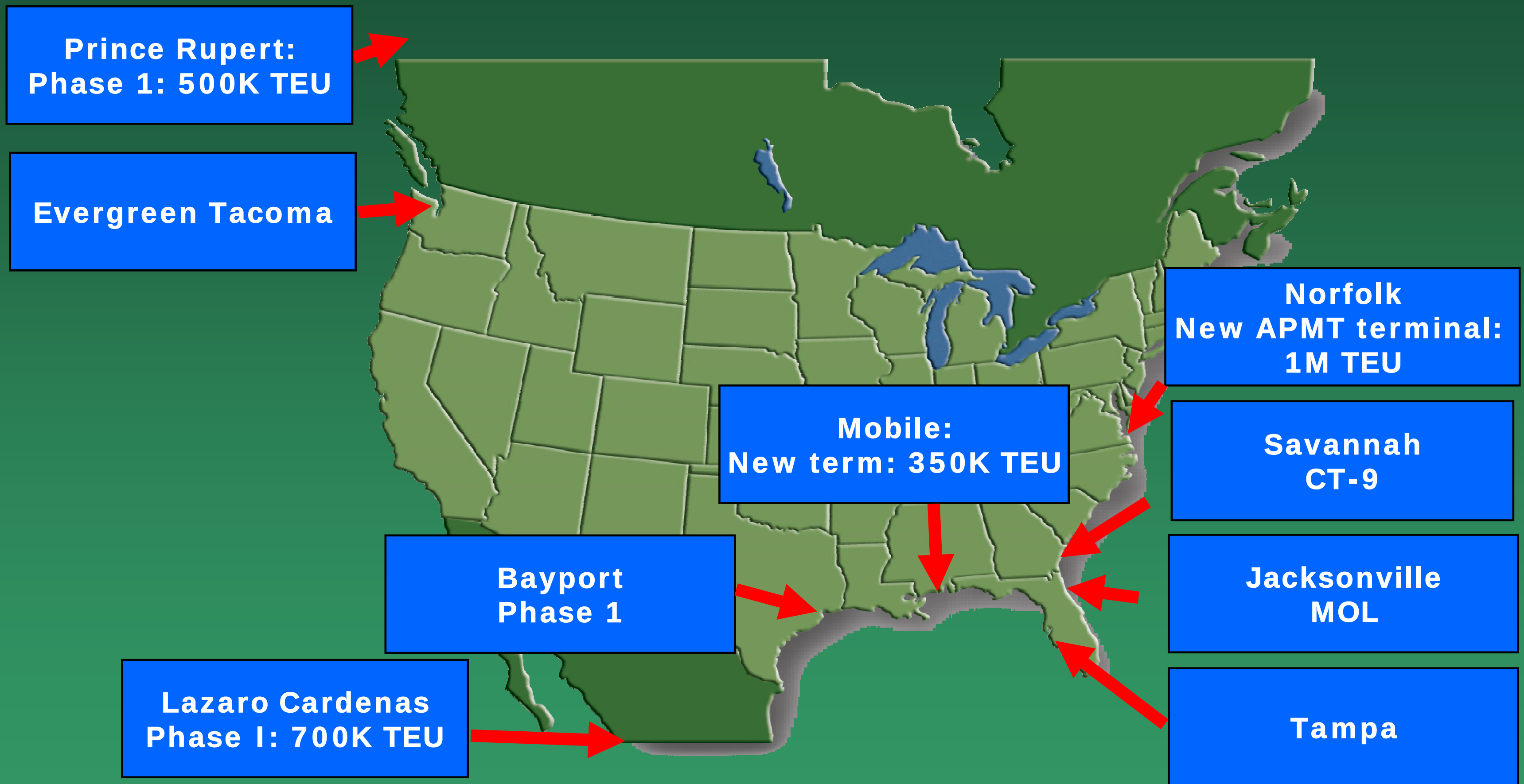
Increasing Supply: On-line and in progress projects as reported



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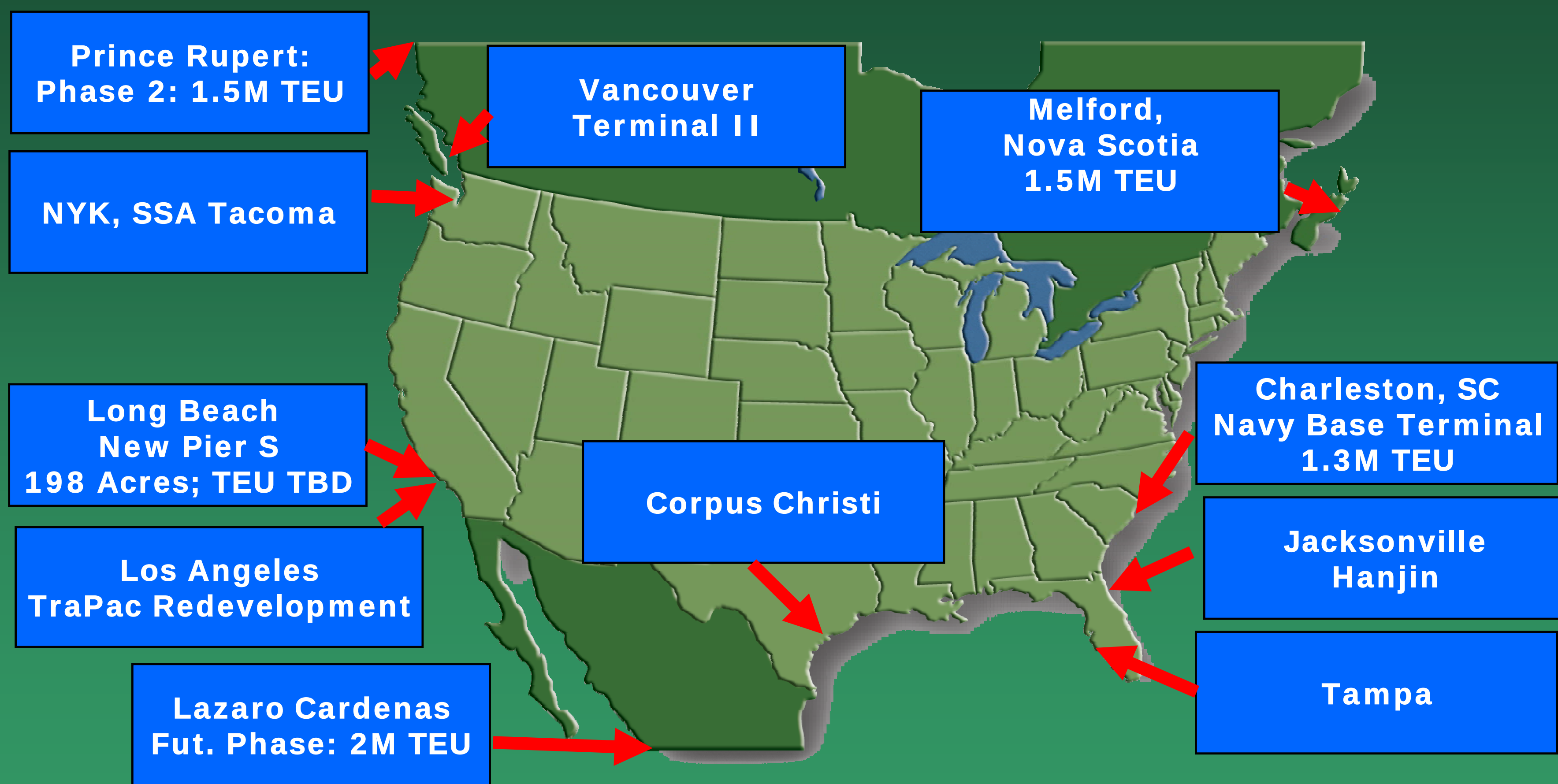
Increasing Supply: Projects currently in planning as reported



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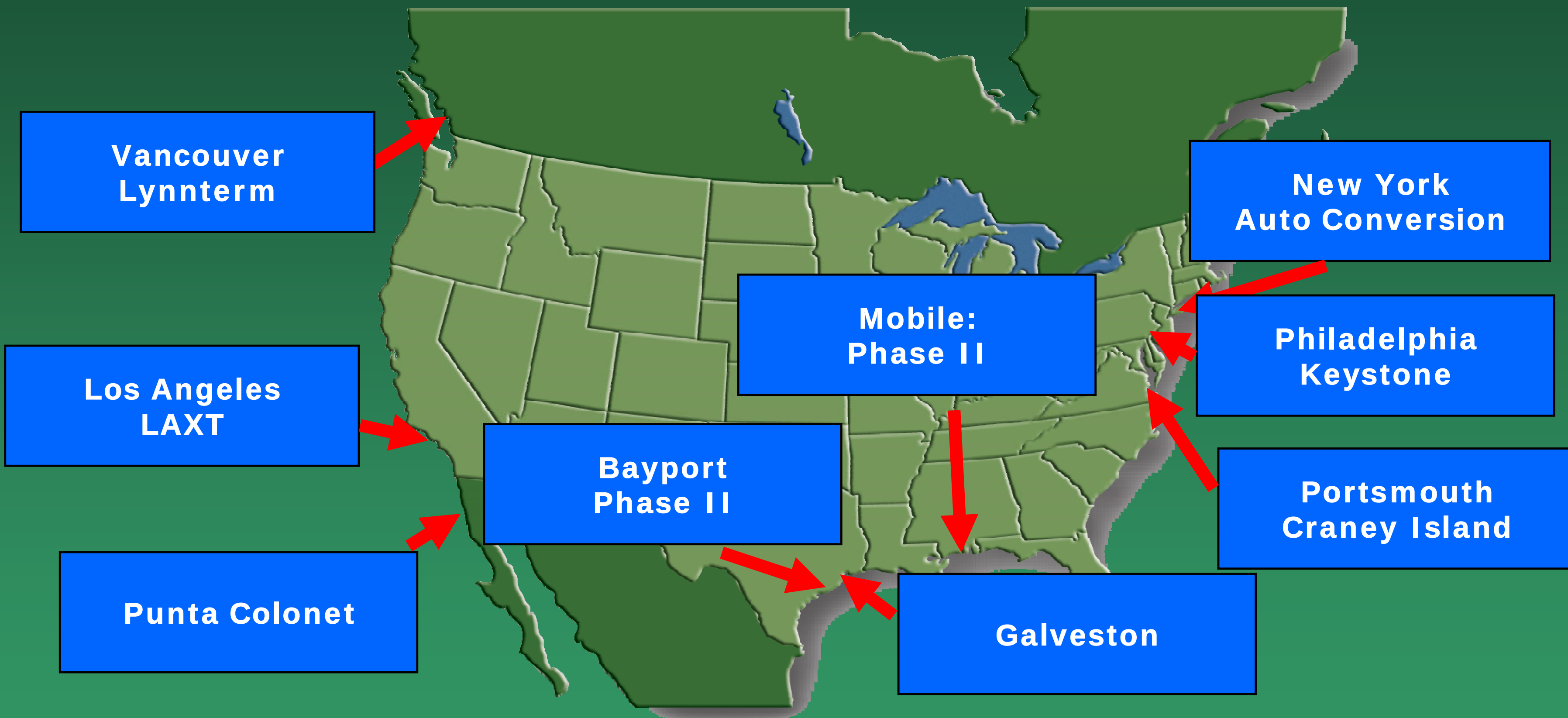
Increasing Supply: Projects in concept phase as reported



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Perception and Rhetoric

- Long-term capacity concerns remain
- However, slowing of trade, latent capacity and an expanding new capacity pipeline have tempered the recent, heightened concerns
- The long-term consequences of $100-$__ fill in the blank oil have yet to be understood
- The ILWU contract, together with the export boom, will shed significant light on just how much potential latent capacity can be tapped
- The capacity shortfall rhetoric has definitely declined in the past 6+ months

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The bottom line

- Demand is significantly below projections
- Net cash flow is lower
- Returns are significantly below projections
- Lenders are concerned

So…….is it still a Seller's Market?

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It depends on how one views the glass

Half Empty

Half Full

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Half Empty?

- Fundamentals will remain negative
- Fuel prices and inflation will exacerbate the situation
- Capacity will increase
  - Latent
  - Expansion
- Returns will remain depressed
- Back to the “bad old days”

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Half Full?

- Fundamentals will recover
- Oil will return to sustainable levels (under $100/bbl)
- Trade will rebound
- Labor contracts, environmentalism and costs will delay/limit expansion
- Demand/supply will become more balanced

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The real answer

- IT DEPENDS
- On the geography, the timeframe and the port/terminal industry
- Europe could be
- Northern Asia will probably not be
- China/Southeast Asia could be
- North America is difficult to say

North America: Complicating Factors-to name a few

- Availability of public funds
- Environmental regulation and policies
  - Keep a close eye on southern California
- ILWU contract terms and conditions
- Ports' and terminal operators' pricing strategies
- Carriers' terminal acquisition strategies

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Questions?

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