

**Market presentation**

**US Oil Production &  
A Changing Face of World Energy Demand  
12<sup>th</sup> Annual Marine Money Asia Week  
St. Regis Hotel - Singapore**

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# Crude tanker segment

## Highlights

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### Asian import growth

- ▶ Asia Pacific will increase imports by 0.7 mbd annually until 2018
- 

### Mideast capacity draw

- ▶ Draw on Mideast OPEC's spare production capacity envisaged
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### More long-haul shipments

- ▶ VLCCs currently serving W. Africa-US Gulf will be redirected East
- 

### US becoming exporter?

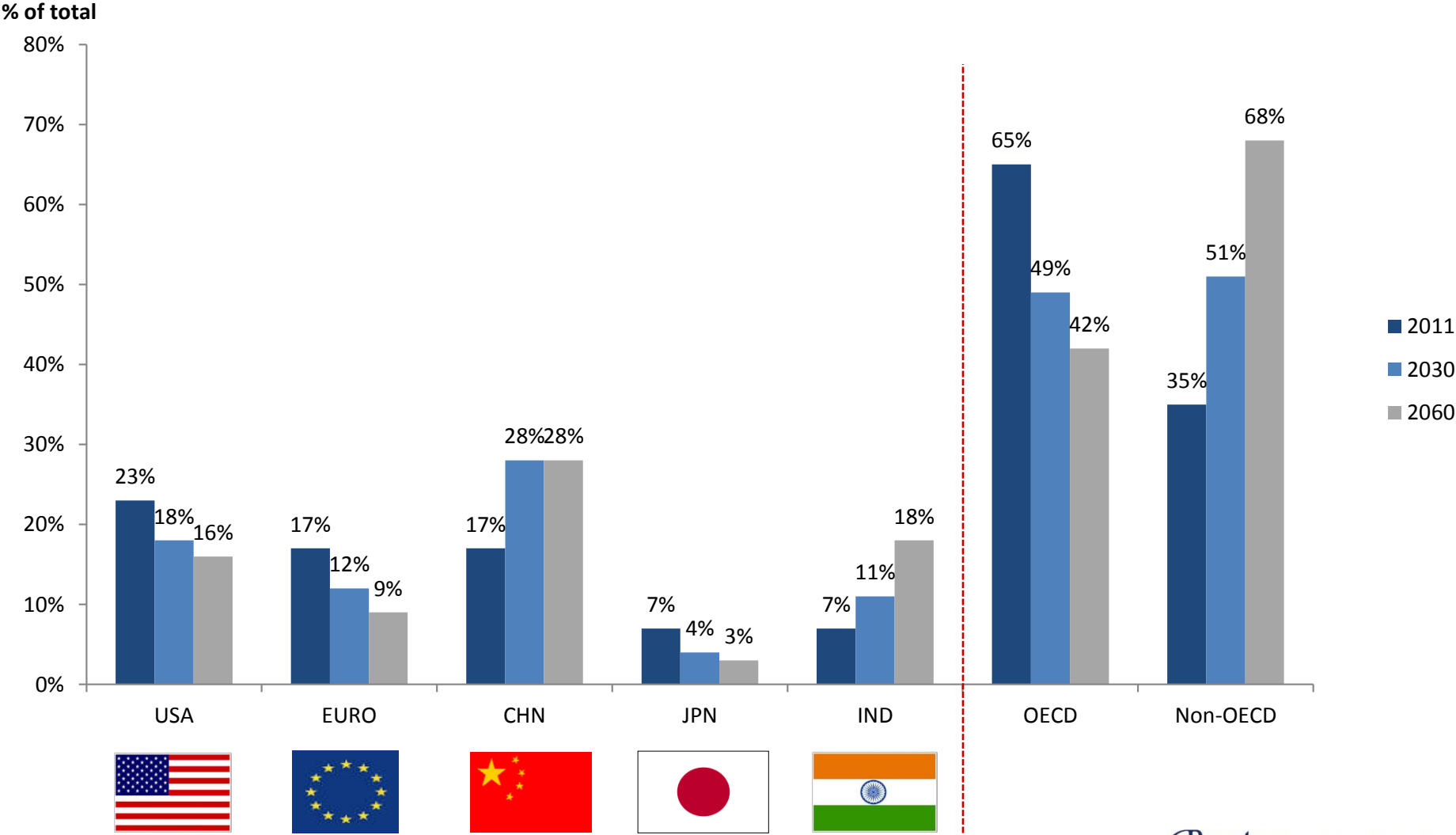
- ▶ Higher production of non-conventional oil reducing imports
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### Moderate VLCC orderbook

- ▶ Moderate orderbook of VLCCs compared with existing fleet

# China will overtake the US as the largest economy in 2016

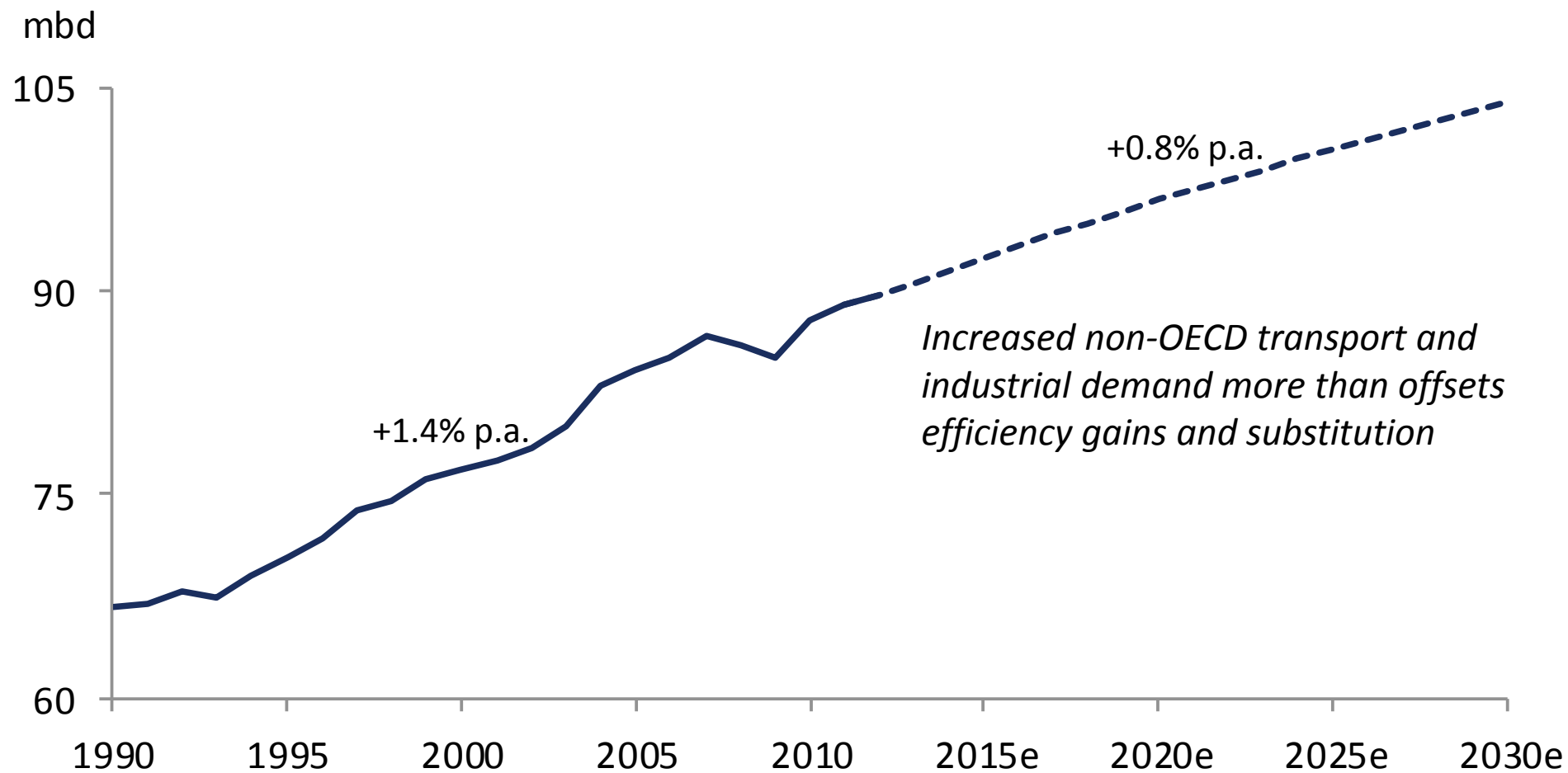
Countries' share of global economy 2011 – 2060e



Source: OECD

# Global oil demand should continue to increase

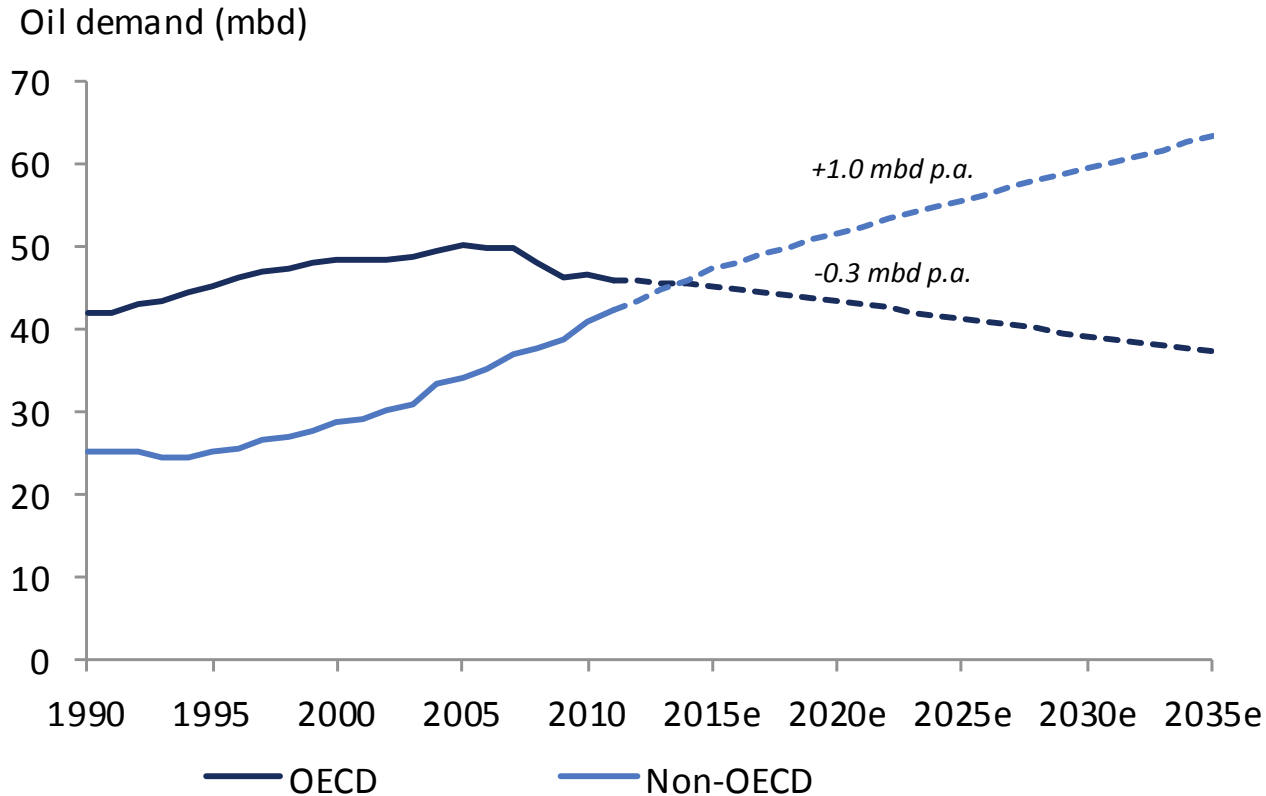
Global oil demand 1990 – 2030e\*



\*Average of demand forecasts from IEA, EIA, OPEC, Exxon and BP  
Source: BP; Pareto

# Non-OECD drives demand growth and offsets declines in OECD

## Oil demand 1990 – 2035e in IEA's WEO 2012: OECD vs. Non-OECD

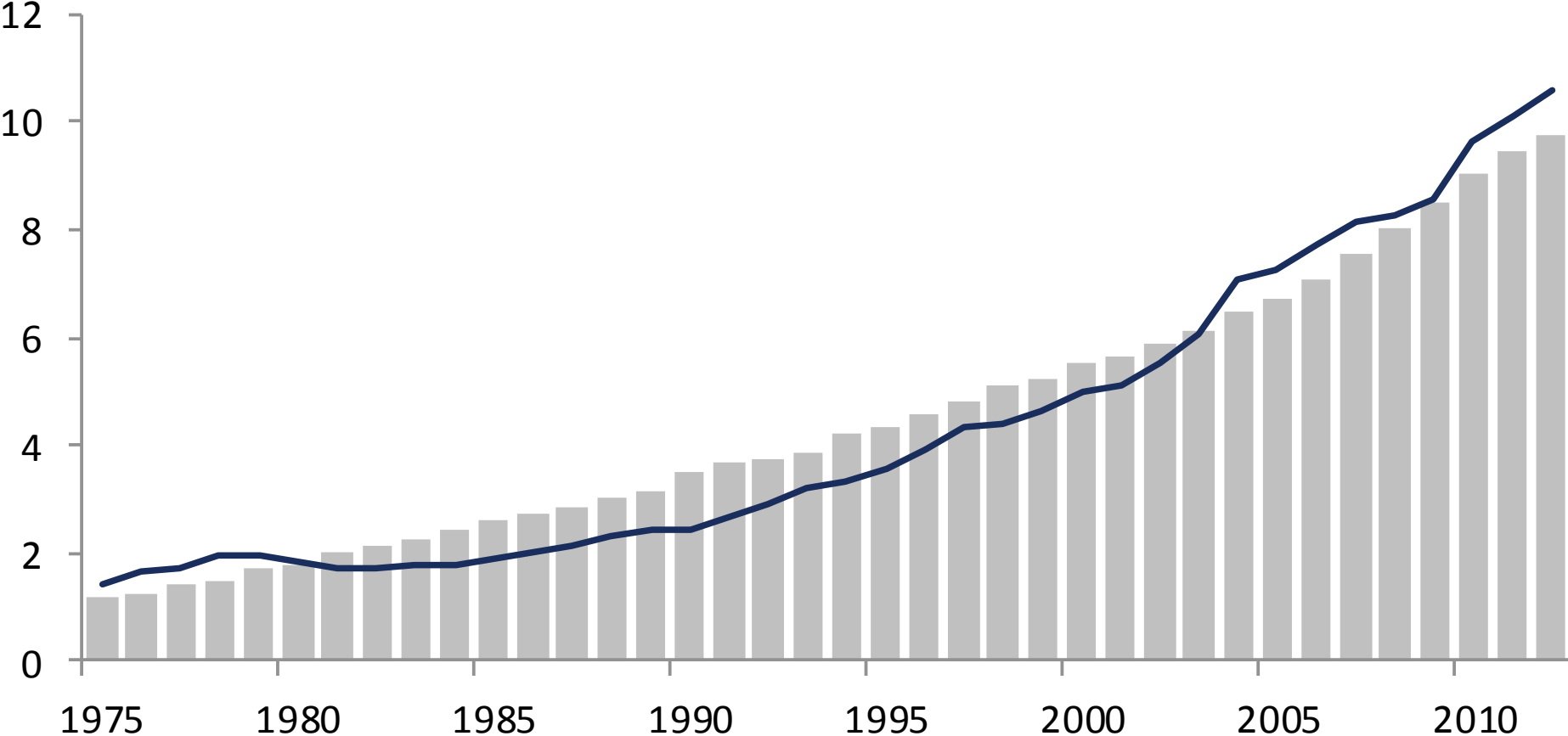


- ▶ Non-OECD growth is driven by robust economic and population growth, coupled with a huge latent demand for personal mobility
- ▶ OECD decline is due to gains in vehicle fuel efficiency and some substitution

# Chinese oil demand growth is not as extraordinary as most think

Oil demand since '75: China vs. Sum of Algeria, Ecuador, India, Qatar, Saudi Arabia, Singapore, UAE, Vietnam

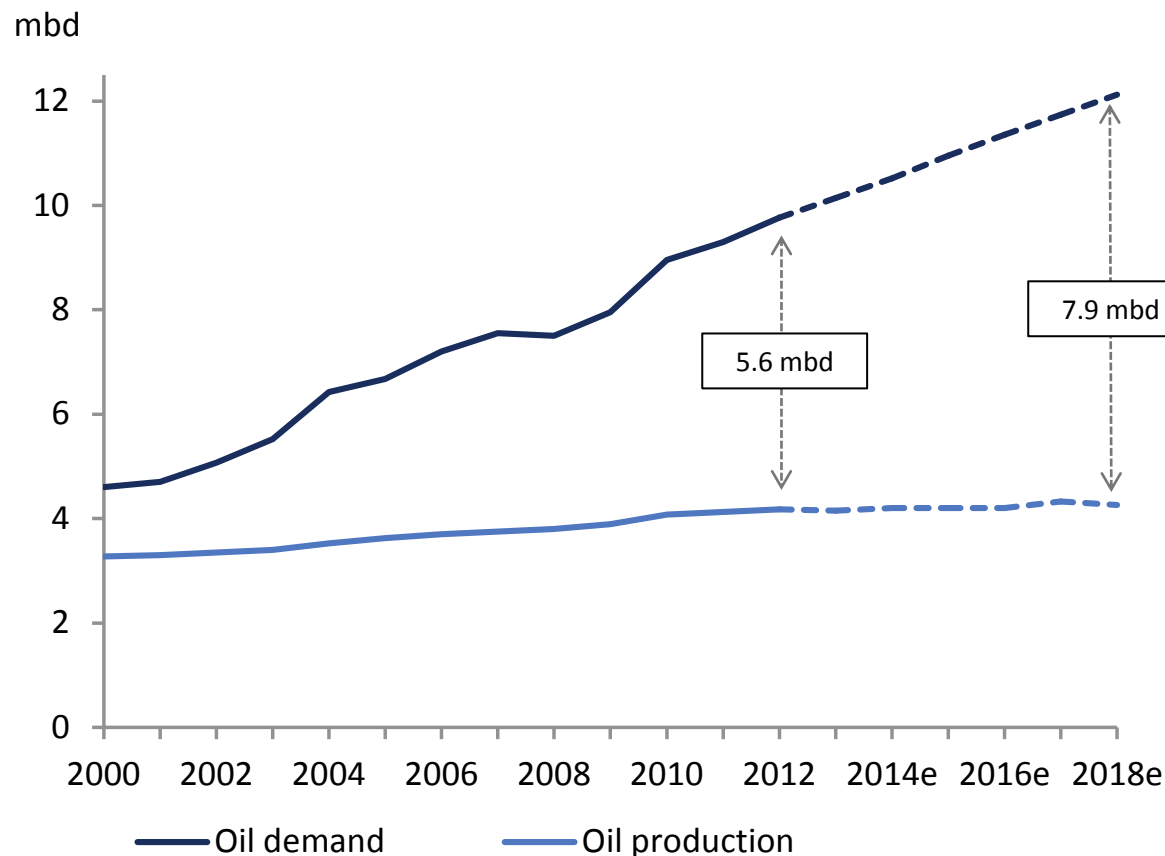
Oil demand (mbd)



Aggregate of Algeria, Ecuador, India, Qatar, Saudi Arabia, Singapore, UAE, Vietnam — China

# Chinese oil imports should continue to increase

## Chinese oil demand and production 2000 – 2018e



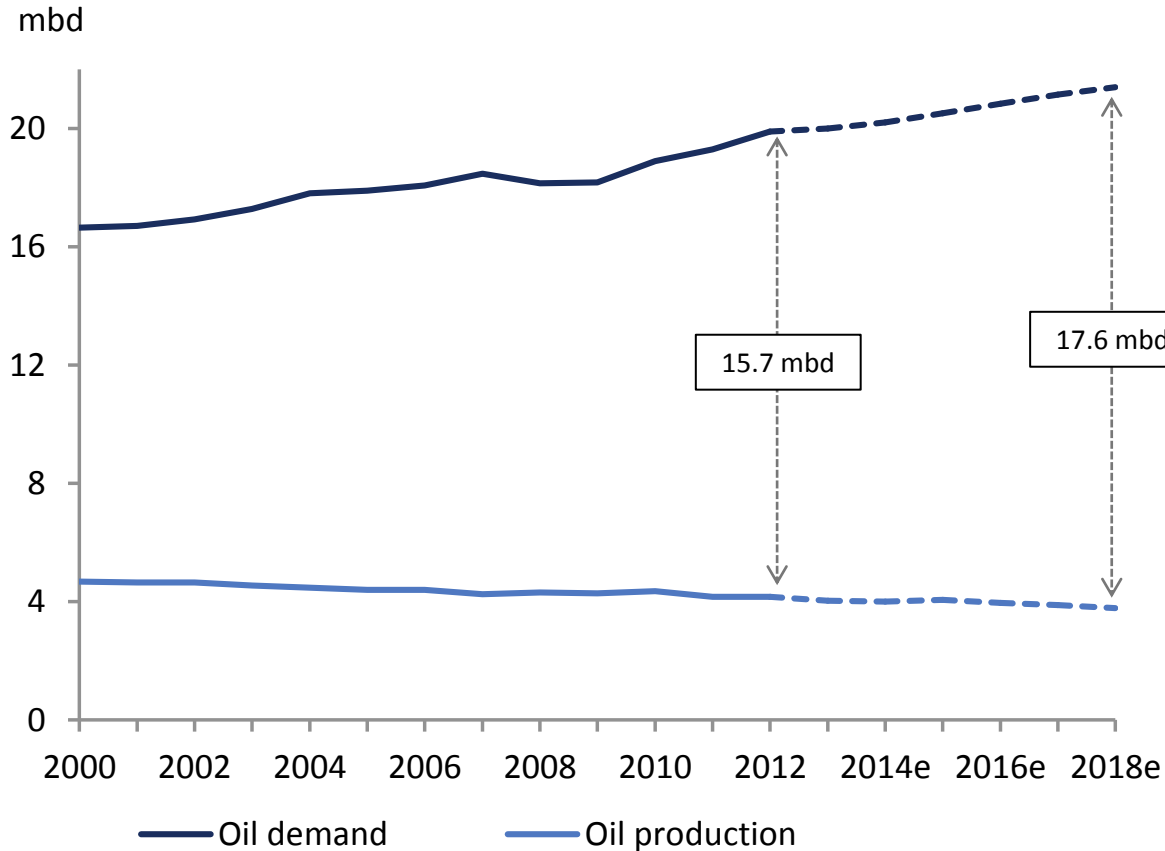
- ▶ Demand grows from 9.8 mbd in 2012 to 12.1 mbd in 2018e
- ▶ Production remains fairly flat around 4.2 mbd
- ▶ As a result, imports\* increase 0.4 mbd p.a. on average, from 5.6 mbd in 2012 to 7.9 mbd in 2018e

\*Measured as demand – production. Includes both crude and products, of which crude is >90%

Source: IEA; Pareto

# Don't forget the rest of Asia/Pacific

Asia/Pacific ex. China oil demand and production 2000 – 2018e



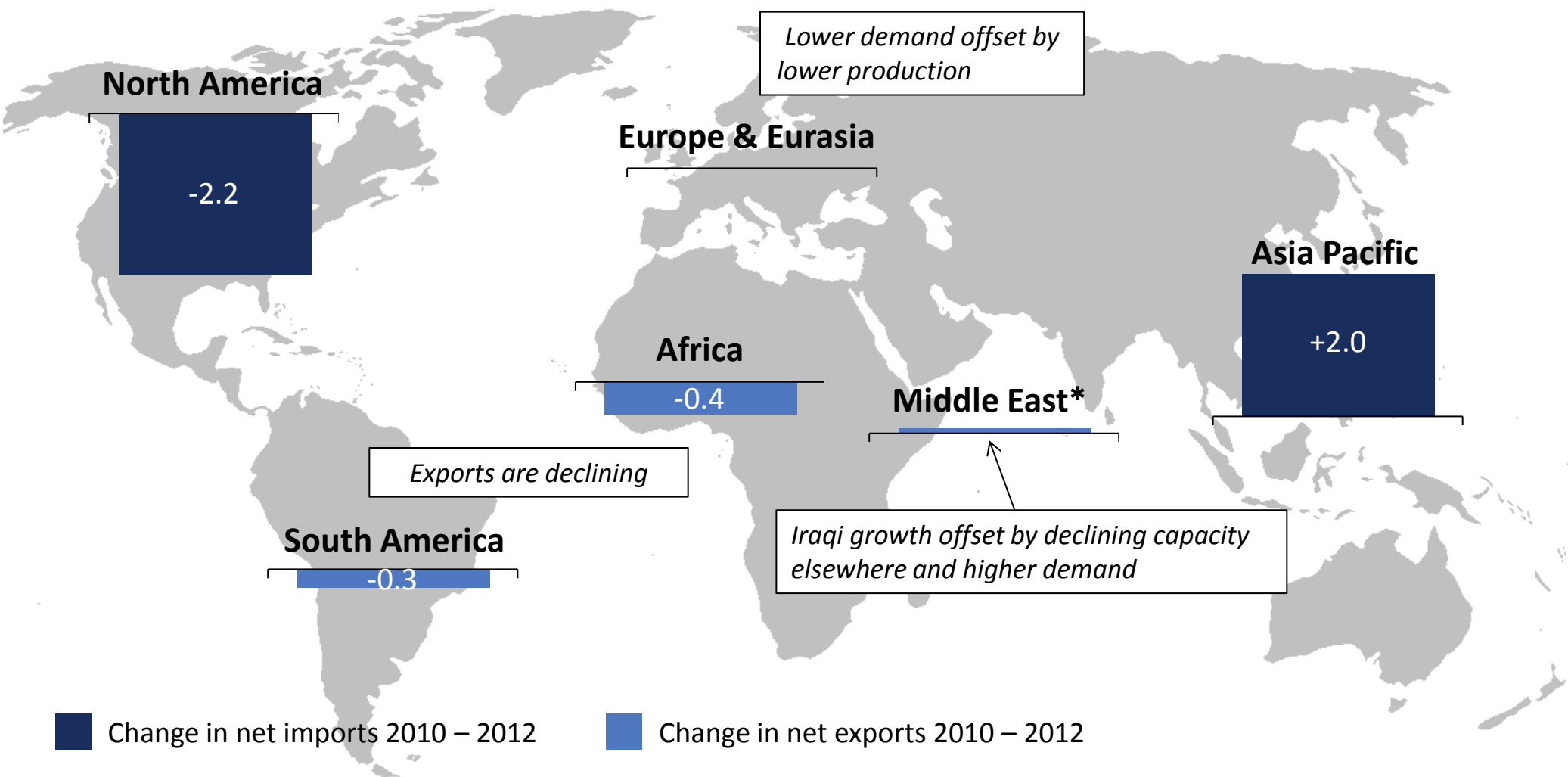
- ▶ Demand grows from 19.9 mbd in 2012 to 21.4 mbd in 2018e. Production declines from 4.2 mbd to 3.8 mbd
- ▶ As a result, imports\* increase 0.3 mbd p.a. on average, from 15.7 mbd in 2012 to 17.6 mbd in 2018e

\*Measured as demand – production. Includes both crude and products,  
Source: IEA; Pareto



# Asia Pacific needs more oil from other sources than Mideast

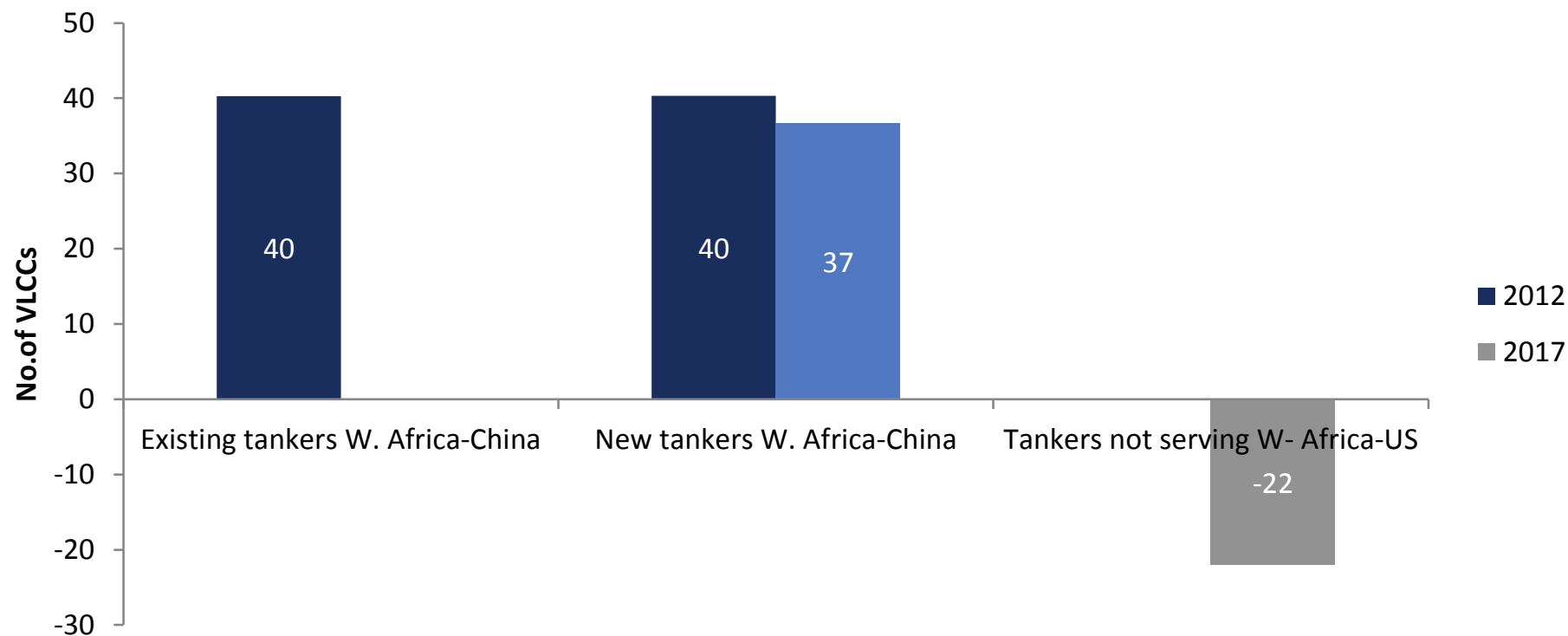
Change in net oil imports and exports (implied) from 2010 to 2012 (million bbls/day)



\*Net export capacity  
Source: BP; IEA; Pareto

# Less US imports from West Africa positive for VLCCs

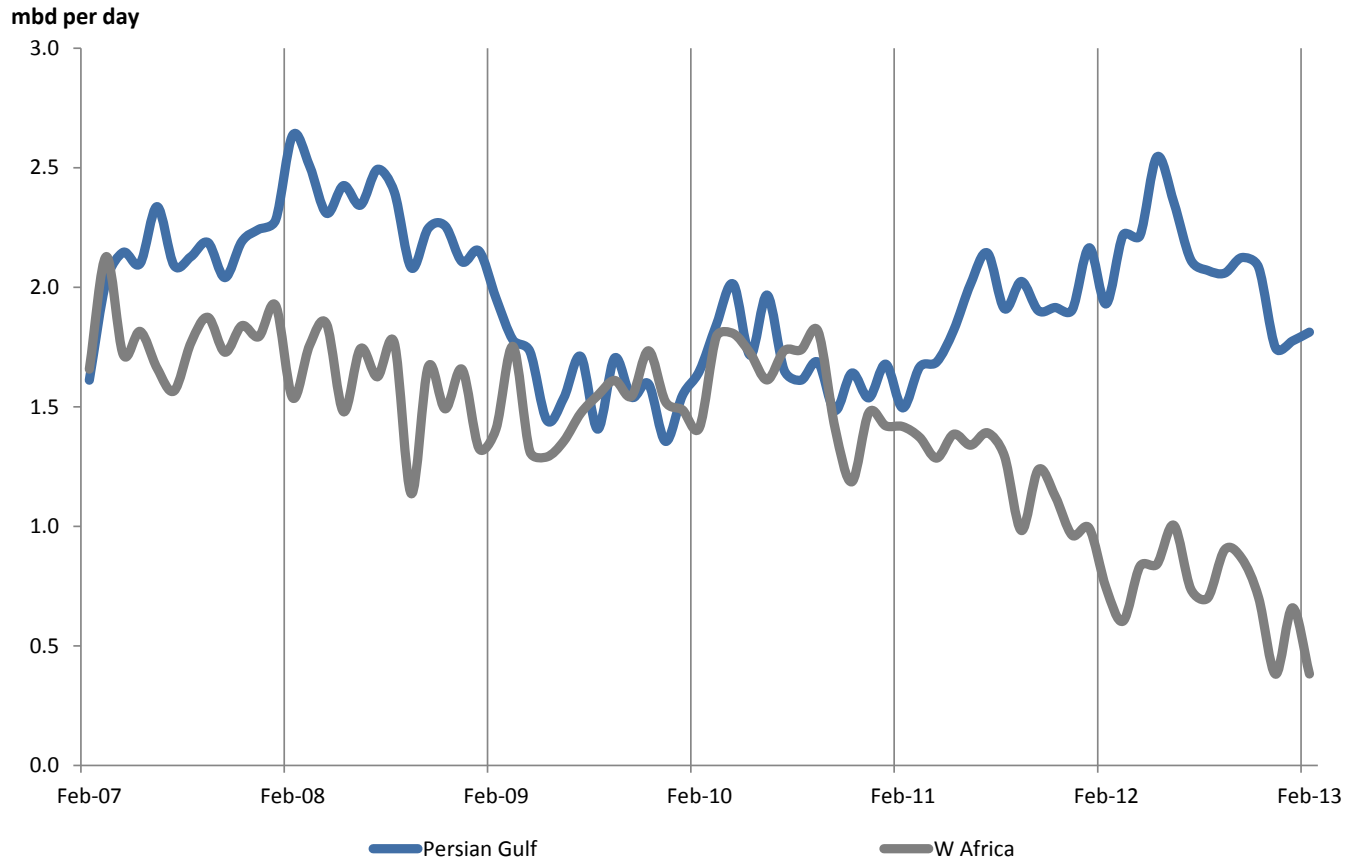
## Effect of VLCCs redirected from W. Africa-US to W. Africa-China



- ▶ The reduction in US imports from West Africa will mean longer distances for the existing VLCC fleet, and result in a net positive demand for 15 “extra” VLCCs

# US import reduction impacting W Africa the most

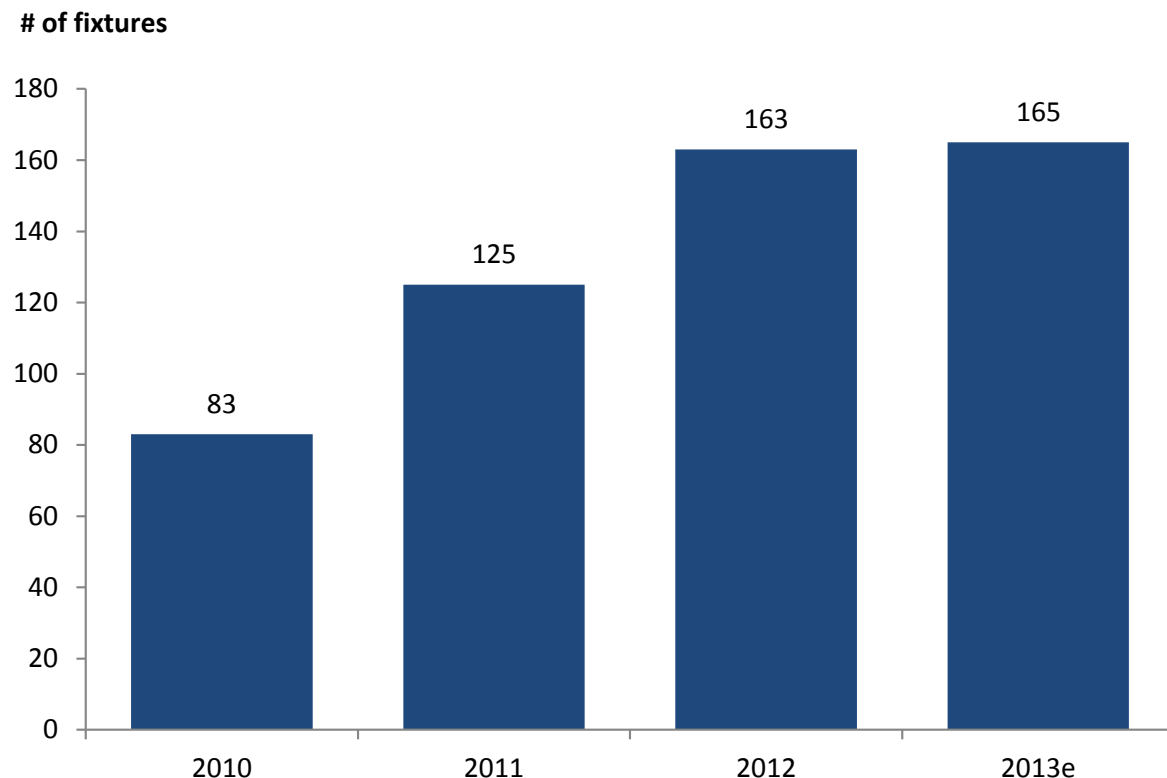
## US crude imports: Persian Gulf vs. W Africa



- ▶ Imports from Persian Gulf relatively flat over the past few years
- ▶ W Africa imports reduced sharply, could be disappearing completely

# We have seen a sharp increase in Asia-bound cargoes from Caribs

## # of VLCC loadings out of the Caribbeans (mainly Venezuela)

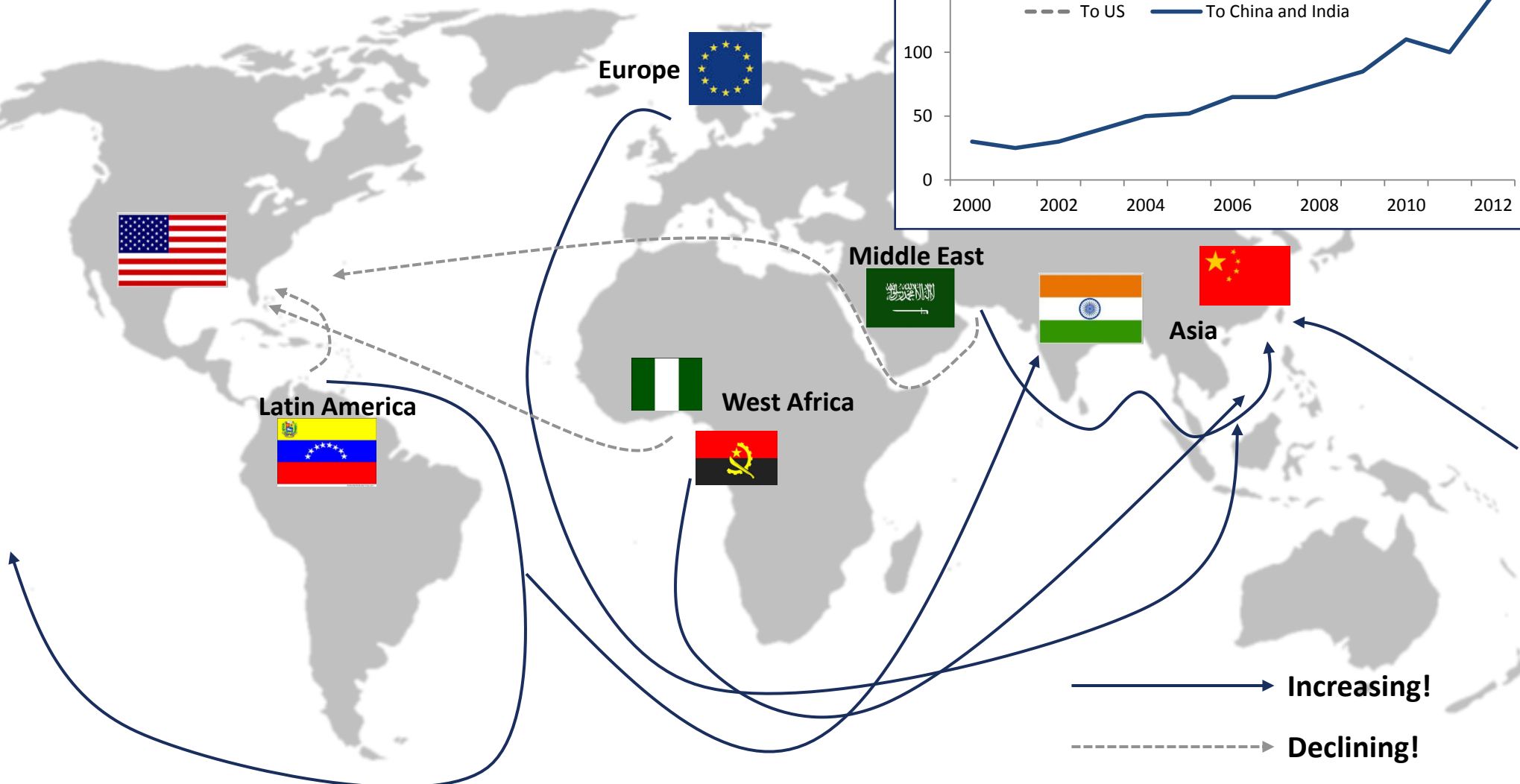
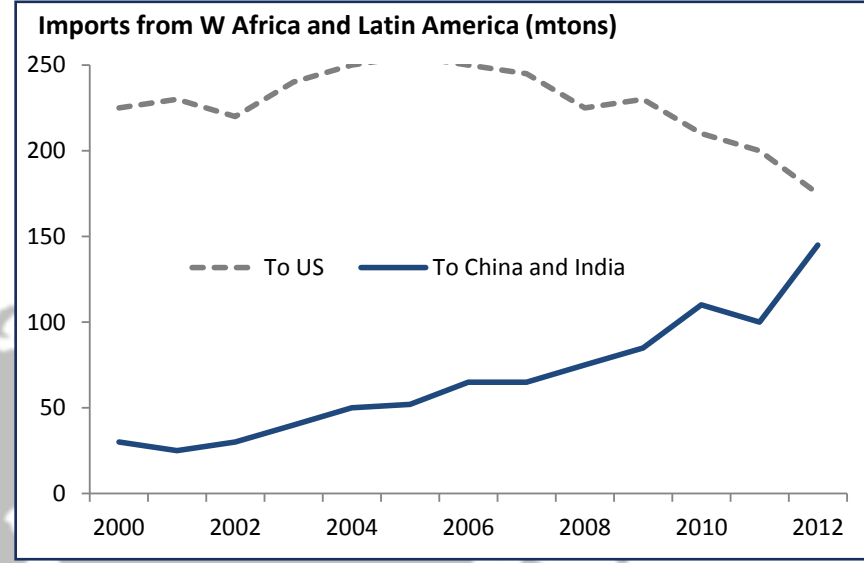


- ▶ Historically, most of the crude exports out of the Caribbean has gone to the US on aframax
- ▶ However, over the past few years there has been an explosion in VLCC cargoes to Asia
- ▶ In 2010, roughly 160 mboe (~25m tons) were transported to Asia
- ▶ **Two years later this has reached 50m tons, and is expected to double towards the end of this decade**
- ▶ The trip from Venezuela to China takes ~85 days on a roundtrip basis, roughly 6.5x longer than Venezuela - US

Note: The number of cargoes is not necessarily comprehensive, as reported from Clarkson Shipbrokers

Source: Clarkson Research Services

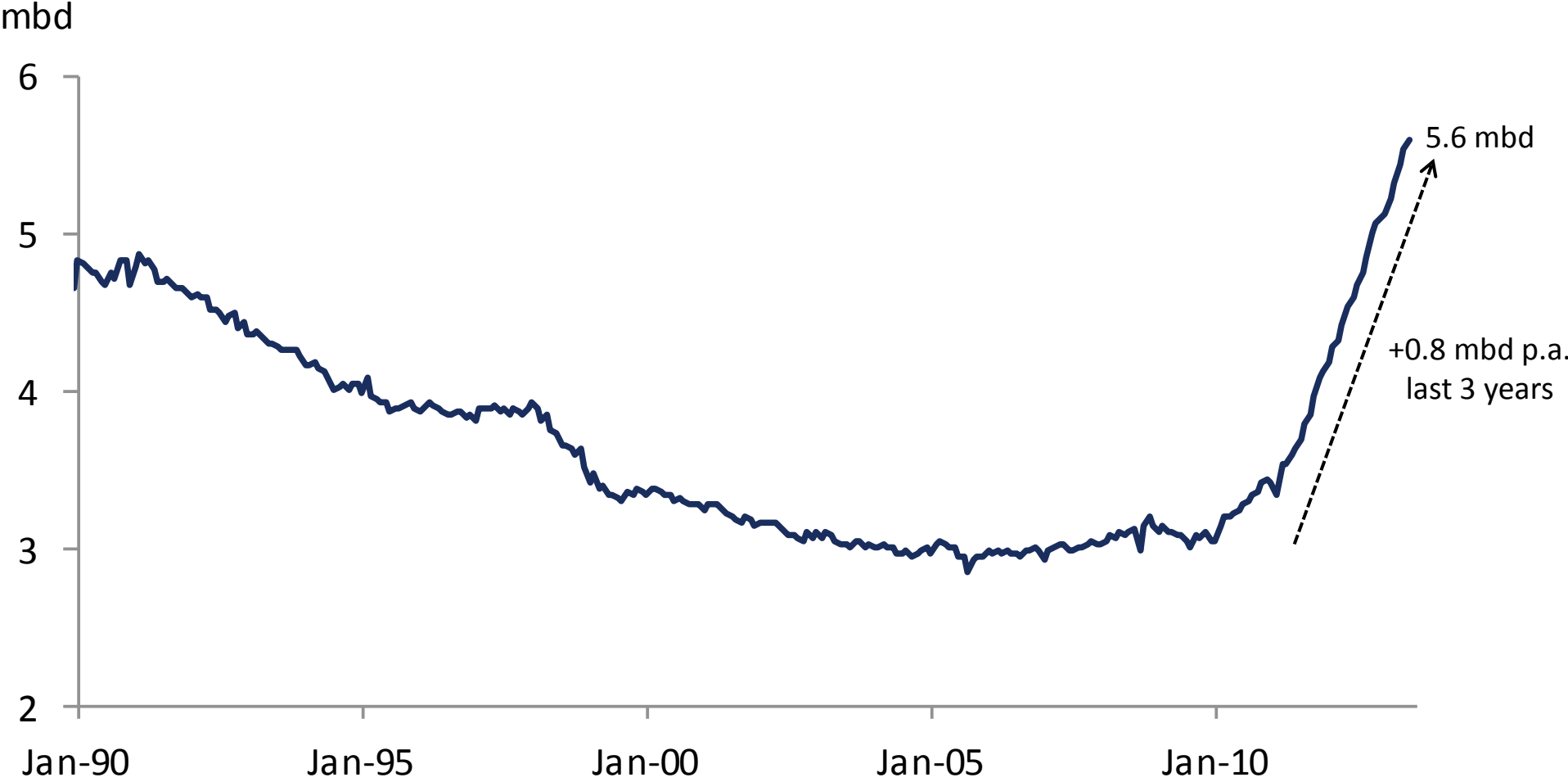
# Meaning longer distances for VLCCs



Source: IEA; Pareto

# US onshore crude oil production is growing sharply

US onshore crude oil production since 1990



# Growth will continue, but growth pace should slow down

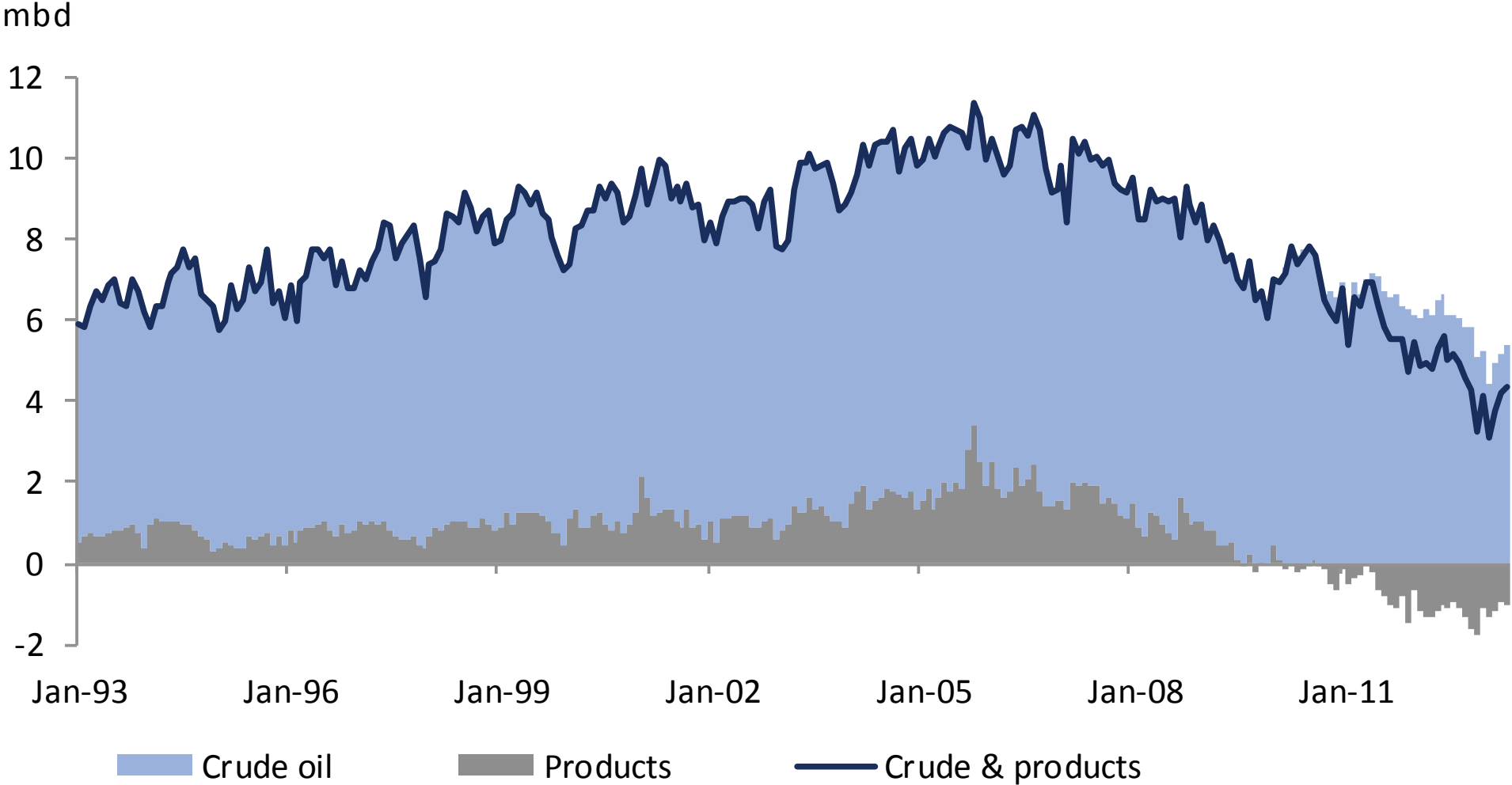
US onshore crude oil production growth y/y



Source: EIA; Pareto

# US oil imports decline sharply

US net crude oil & product imports (Excluding Canada)

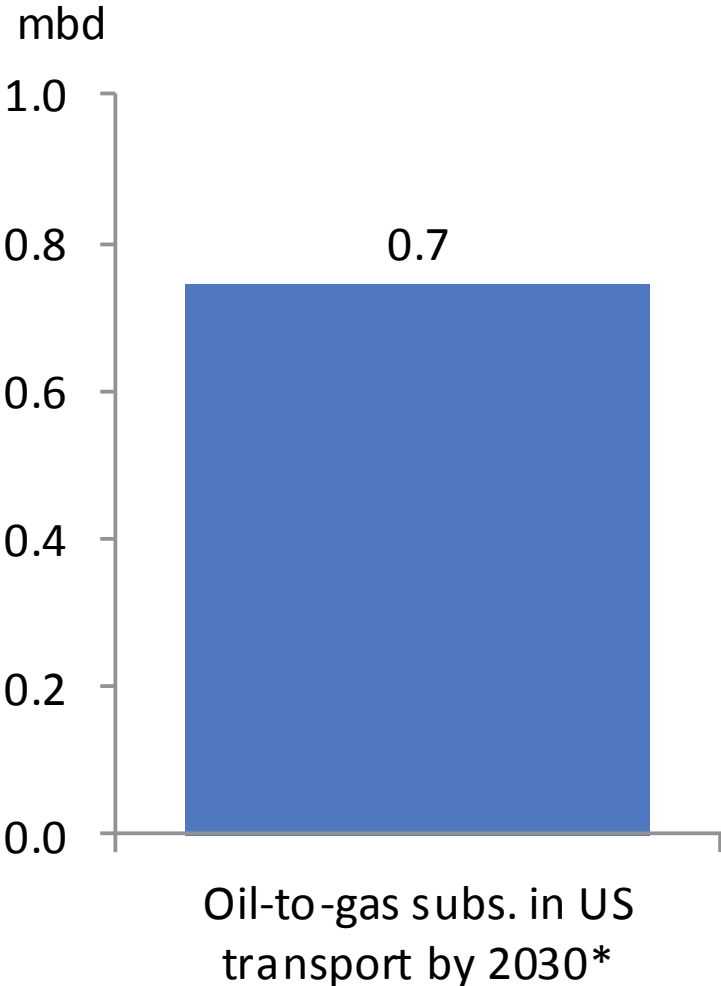


Source: EIA; Pareto



# Oil-to-gas switching in the US will not make a difference

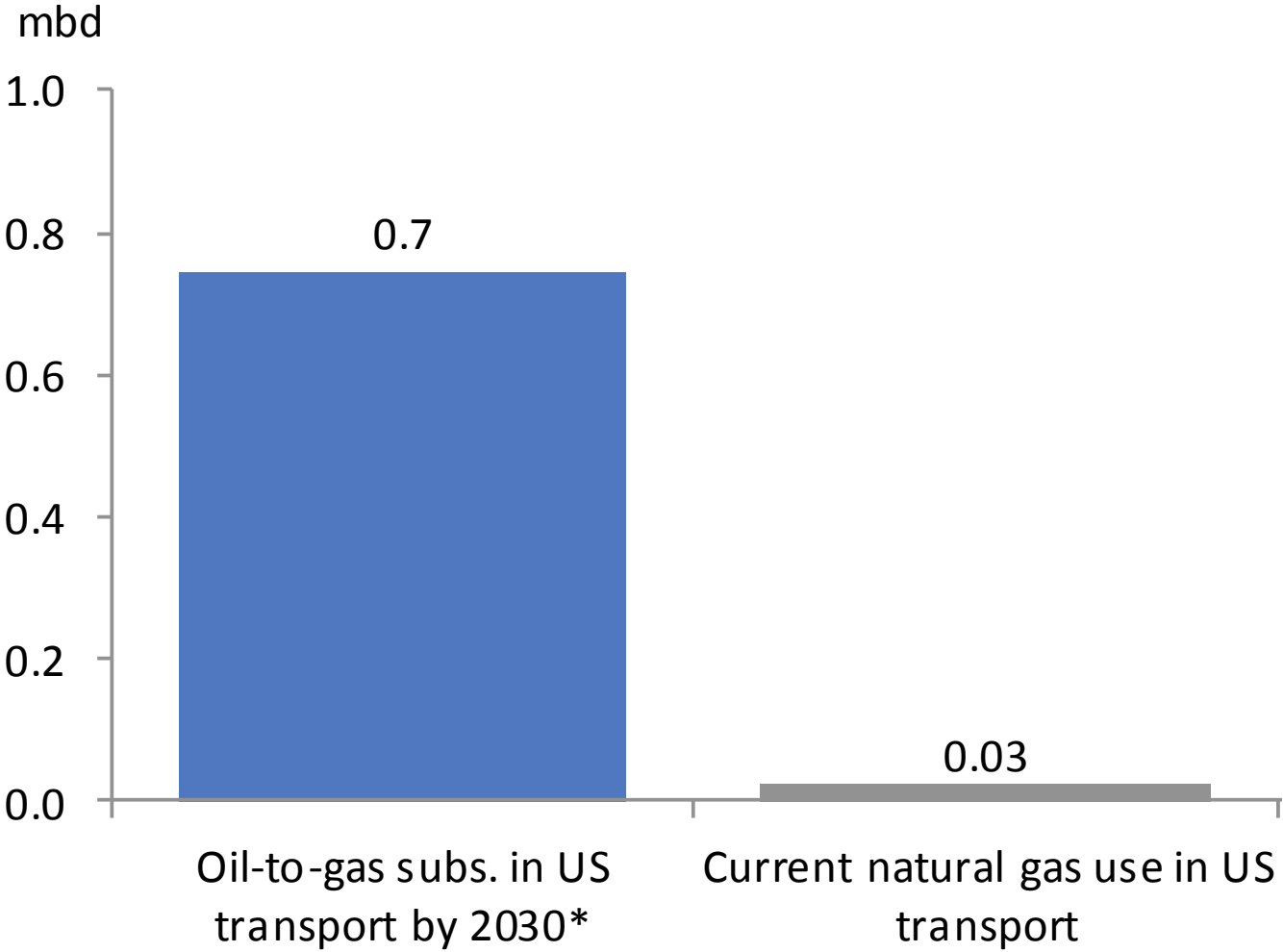
## Oil-to-gas switching in US transport segment



\*Average of 2025 and 2035 forecasts from Encana; Wood Mackenzie; NPC; EIA and IEA  
Source: Encana; IEA; EIA; NPC; Wood Mackenzie; Pareto

# Oil-to-gas switching in the US will not make a difference

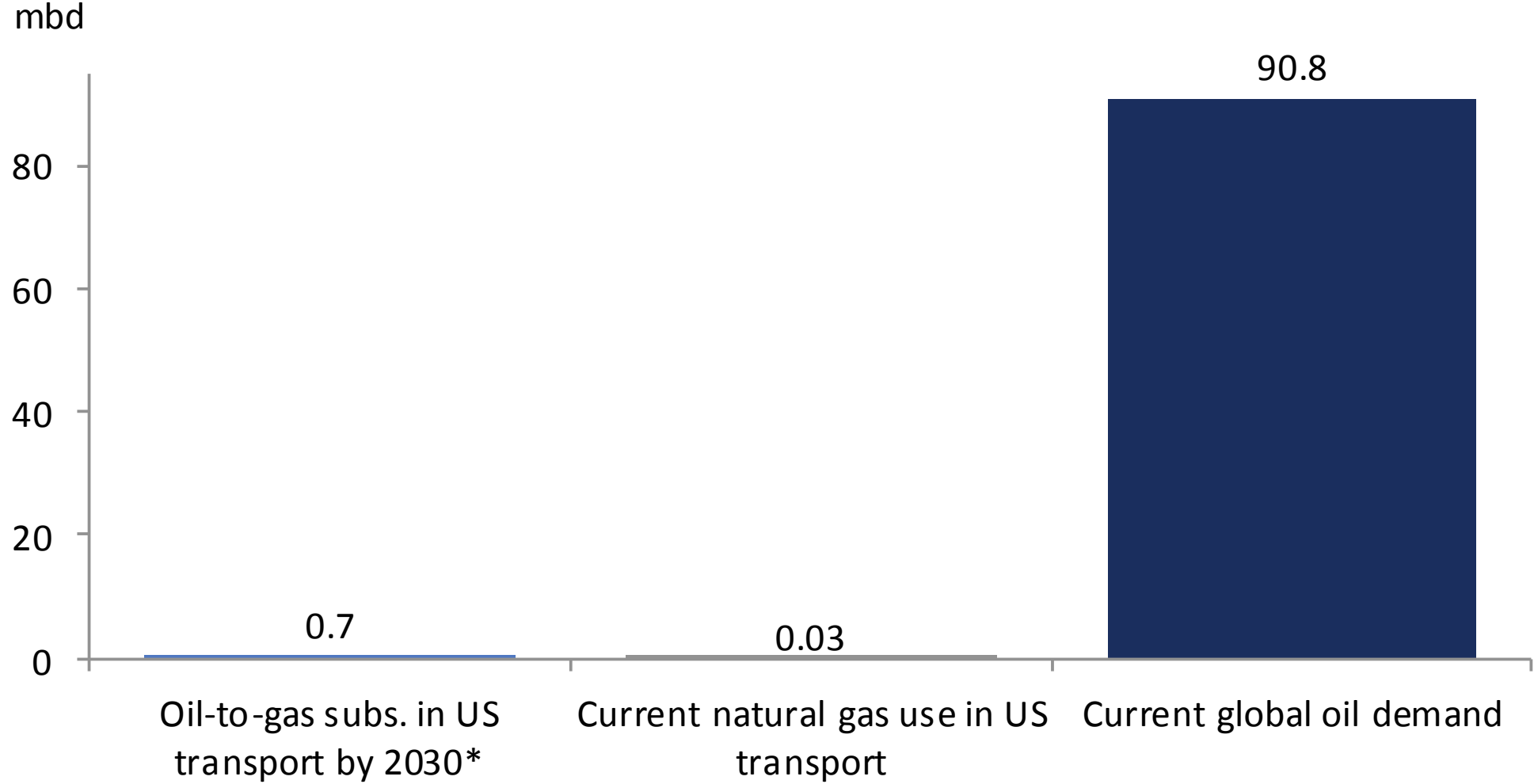
Oil-to-gas switching in US transport segment vs. current nat gas use in US transport



\*Average of 2025 and 2035 forecasts from Encana; Wood Mackenzie; NPC; EIA and IEA  
Source: Encana; IEA; EIA; NPC; Wood Mackenzie; Pareto

# Oil-to-gas switching in the US will not make a difference

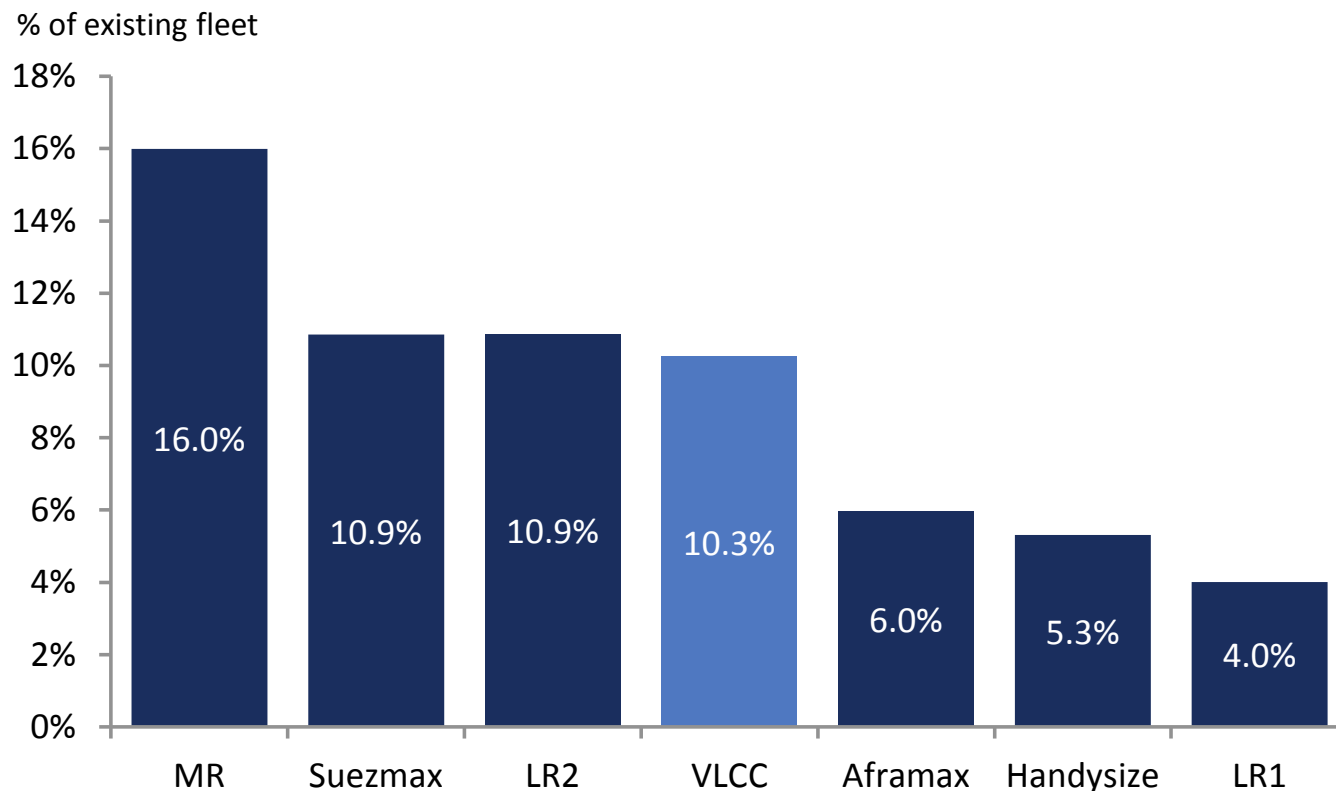
Oil-to-gas switching in US transport segment vs. current nat gas use in US transport. and global oil demand



\*Average of 2025 and 2035 forecasts from Encana; Wood Mackenzie; NPC; EIA and IEA  
Source: Encana; IEA; EIA; NPC; Wood Mackenzie; Pareto

# Orderbook is coming down

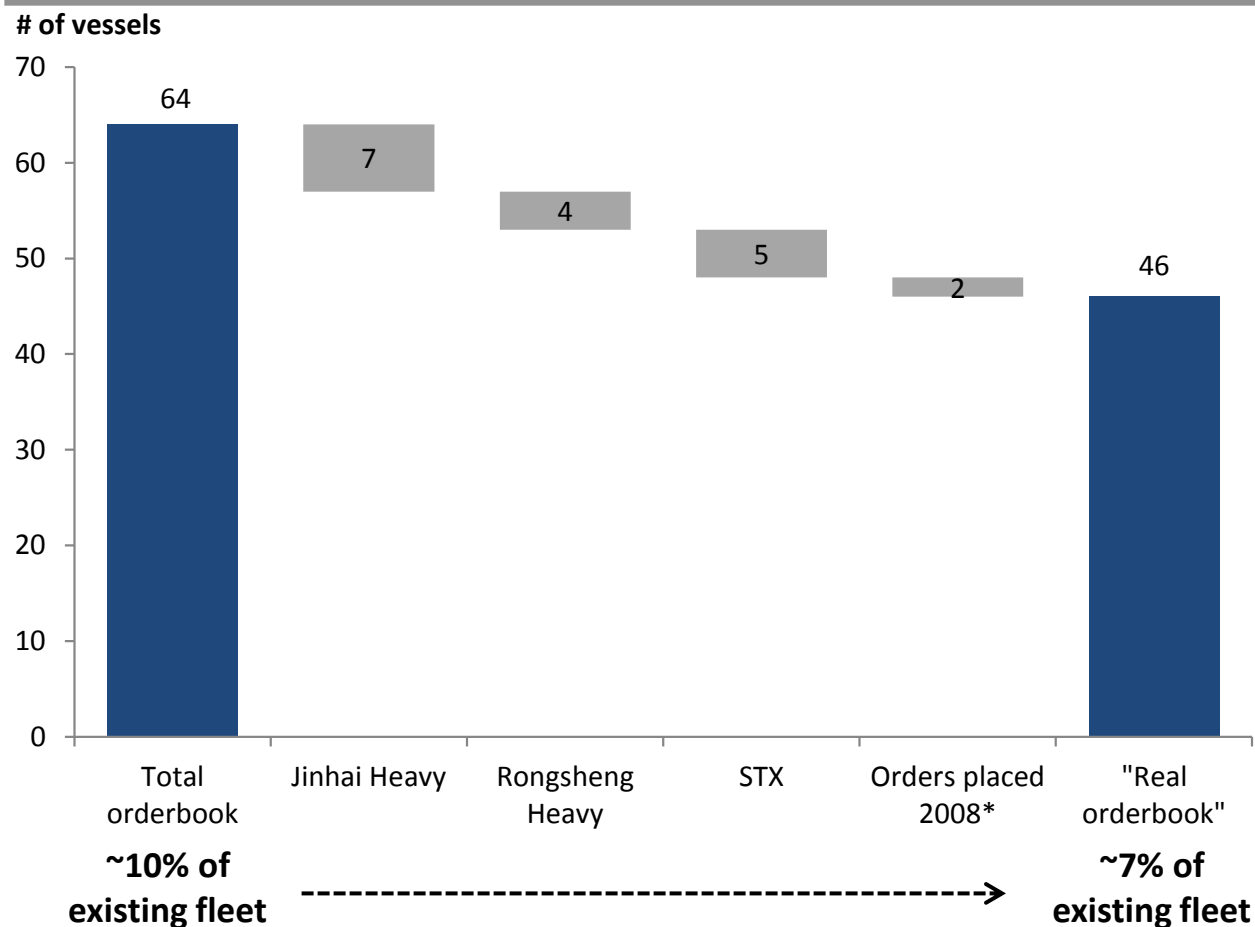
## Orderbook various shipping segment (% of existing fleet (dwt))



- ▶ With the VLCC orderbook now at ~10% of existing fleet, supply growth is coming down significantly
- ▶ Since 2008, the orderbook has declined more than 80%, from the peak level of ~60% of existing fleet
- ▶ Historically, the orderbook has averaged ~26% of existing fleet

# And remember that the headline figure is inflated

## Orderbook various shipping segment (% of existing fleet)



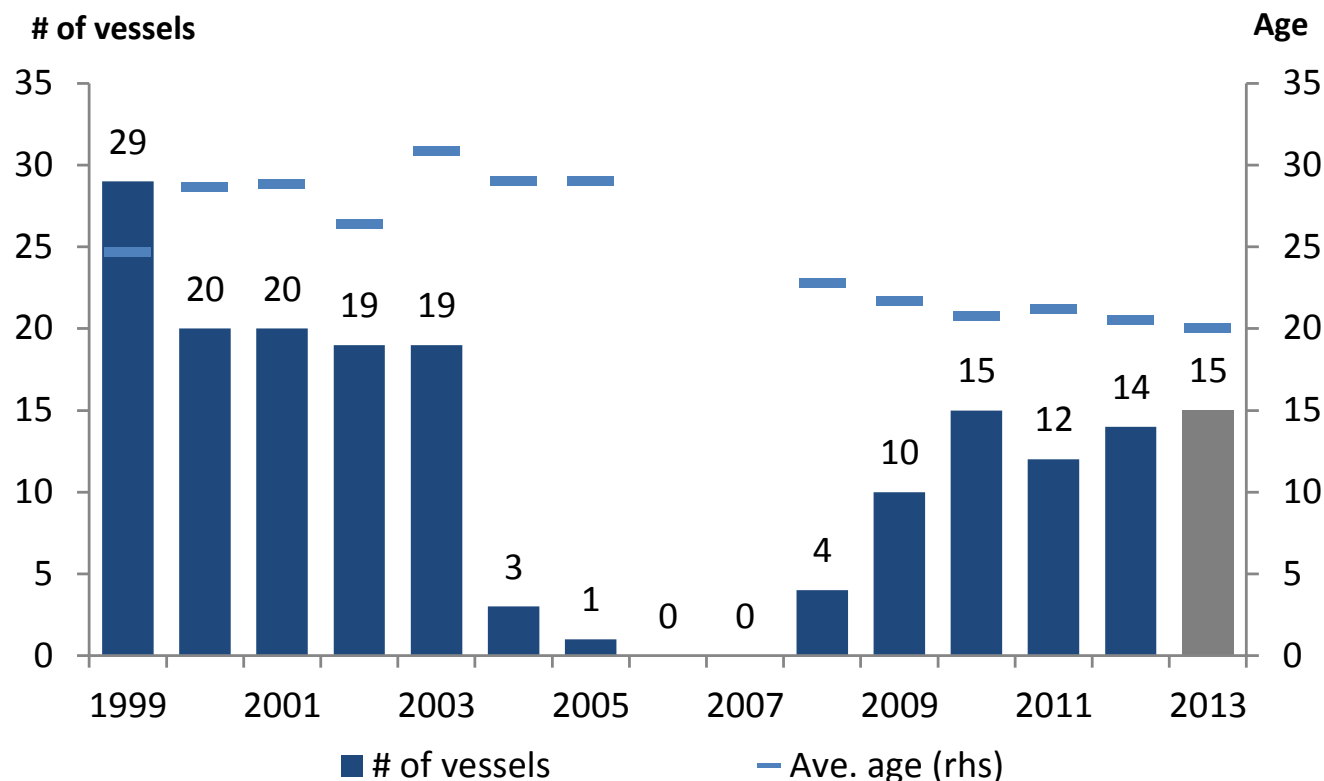
- ▶ Several private Chinese yards have struggled lately, with Jinhai Heavy and Rongsheng as prime examples
- ▶ Frontline has cancelled four of their five VLCCs at Jinhai, and the yard is unlikely to delivery any of their scheduled completions
- ▶ Similar situation with Rongsheng
- ▶ Also adjusting for the troubled STX in Korea, and a pair of orders from other yards that should have been delivered leaves a "real orderbook of 7%

Note: \*All of STX orders received in 2008, four of Jinhai Heavy and none of Rongsheng. Two other yards also with orders received in 2008, and unlikely to be delivered

Source: Worldyards

# Scrapping activity is accelerating

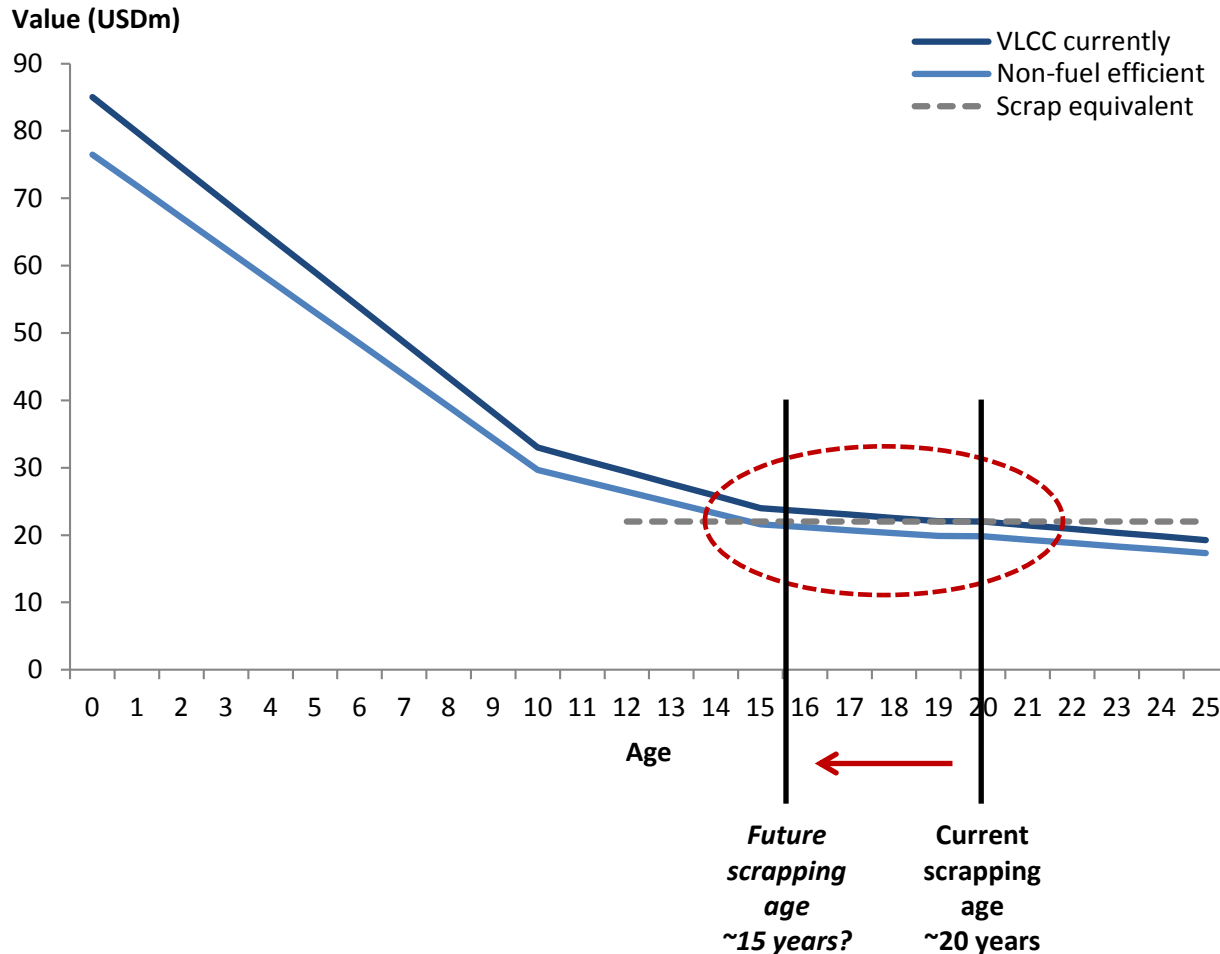
## ULCC/VLCC scrapping activity 1999 – 2013YTD



- ▶ The weak market environment has led to a continued momentum in VLCC scrapping
- ▶ Already more tonnage removed from the market this year than during the whole of 2012
- ▶ **Moreover, the vessels scrapped are becoming younger and younger, with average age now around 20 years**

# Modern tonnage add further pressure to scrapping candidates

## VLCC example: Vessel values with shift downwards



- ▶ We have here assumed that the cost benefits from having a fuel efficient newbuild are split equally between the vessel owner and the charterer
- ▶ Assuming a NPV of fuel savings of USD 17m for a VLCC over its lifetime, the value of a new vessel is consequently ~8.5m lower for a non-fuel efficient vessel
- ▶ This will lead to a shift downwards in values, and the current vessels will consequently reach scrapping age faster than previously
- ▶ With our assumptions, we will see more scrapping of 14-16 year old vessels in the next few years

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V. 08.2013

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Golden Ocean Group		75 200	Sparebank 1 SR-Bank		88 137
Havila Shipping		3 150	Sparebanken Øst		23 149
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Höegh LNG		7 263	Stolt-Nielsen		2 035
InterOil		190 000	Storebrand		2 570
Itera	40 000	41 000	Subsea 7		76 516
Kongsberg Gruppen	1200	27 646	Telenor		7 800
Lerøy Seafood Group		10 500	TGS-NOPEC		7 450
Norse Energy		551 552	The Scottish Salmon Company		100 000
Norsk Hydro		288 608	Wilh. Wilhelmsen Holding A		571
Norske Skogindustrier		42 490	Yara International		10 929
Northland Resources		167 000			

This overview is update monthly (last updated 31.07.2013)

## Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation 3-11, letters d-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

AGR Group	GlobalConnect	Reach Subsea
Aker ASA	Greenship	Remora
Archer	Grieg Seafood	Rocksourc
Atlantic Offshore	Havila Shipping	Saga Tankers
Austevoll Seafood	Hercules Offshore	Scana Industrier
BassDrill	InterOil	Scandinavian Insurance Group
Bergen Group	ION Geophysical Corp	Sea Trucks Group
Berner Gruppen	Kistefos	Seadrill
BN Bank	KrisEnergy	Selvaag Bolig
BOA Offshore	Marine Harvest	Sevan Drilling
Cecon	Morpol	Sigma Drilling
Copeinca	Nordic Bioenergy	SinOceanic Shipping
Dannemora Mineral	Nordic Mining	Solar Bioenergi
Det Norske Oljeselskap	Noreco	Songa Offshore
DNB	Norse Energy Corporation	Sparebank 1 Nord-Norge
Dockwise	Northern Offshore	Sparebank 1 SR Bank
DOF	Northland Resources	Sparebanken Møre
DOF Subsea	Ocean Yield	Sparebanken Øst
Dolphin Group	Oceanteam Shipping	Sterling Resources
Dorian LPG	Odjell Drilling	Teekay
Eidesvik Offshore	Oro Negro	Tizir
EM S Seven Seas	Pacific Drilling	Viking Supply Ships
Fjord Line	Panoro Energy	Western Bulk
Floatec	Polarcus	
Global Investment Group Finance	Prospector Offshore Drilling	

## Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11(4)

### Distribution of recommendations

Recommendation	% distribution
Buy	65 %
Hold	24 %
Sell	11 %

### Distribution of recommendations (transactions\*)

Recommendation	% distribution
Buy	89 %
Hold	11 %
Sell	0 %

\* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated quarterly (last updated 31.07.2013).

# Disclaimers and disclosures

## Appendix D

This section applies to research reports prepared by Pareto Öhman AB.

### Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Öhman AB's research coverage universe: Isconova and Rusforest.

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Öhman AB's research coverage universe:

### Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Öhman has prepared or distributed investment recommendation, where Pareto Öhman AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Africa Oil	Episurf Medical	Shamara Petroleum
Blackpearl Resources	Isconova	Tethys Oil
Black Earth Farming	Klövern	Vostok Nafta
Dannemora Mineral	Lucara Diamonds	ÅR Packaging Group
Endomines	RusForest	

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Öhman AB's research coverage universe:

Africa Oil	Isconova	Tribona
Blackpearl Resources	Shamara Petroleum	Trigon Agri
Lucara Diamond	Tethys Oil	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Öhman AB's research coverage universe with the following companies: Africa Oil, Isconova, Shamara Petroleum.

*This overview is updated quarterly (last updated 13.08.2013).*

# Disclaimer

## Appendix E

This part applies to research reports prepared by Pareto Securities Oy.

### **Disclosure of positions in financial instruments**

The beneficial holding of the Pareto Group is 1% or more of the total share capital of the following companies included in Pareto Securities Oy's research coverage universe: N/A.

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities Oy's research coverage universe: N/A.

### **Disclosure of assignments and mandates**

During the past 12 months, members of the Pareto Group have been lead manager or co-lead manager of publicly disclosed issues or offers of or with regard to securities of the following companies included in Pareto Securities Oy's research coverage universe: N/A.

During the past 12 months, members of the Pareto Group have provided other investment banking services to and received compensation for such services from the following companies included in Pareto Securities Oy's research coverage universe: N/A.

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities Oy's research coverage universe: N/A.

### **Previous rating system (up to 4 July 2012)**

#### **Rating Expected total return in six to twelve months**

OUTPERFORM - The stock is expected to outperform the return on our Nordic sector universe

NEUTRAL - The stock is expected to perform in line with the return on our Nordic sector universe

UNDERPERFORM - The stock is expected to underperform the return on our Nordic sector universe

Neither Pareto Securities Oy nor any other member of the Pareto Group has entered into an agreement with the Company to write this report.