Investment Opportunities in Shipping

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Investment Opportunities in Shipping: The Good, The Bad and The Ugly...

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The Good: Returns Favor LNG & Offshore

Vessel Type	Newbuild Cost (USD mm)	Clarkson 3-yr TC rates	Payback Period (# of yrs)
Drillship	550.0	$540,000/day	4.7
LNG	202.0	$140,000/day	5.1
Jackup	200.0	$150,000/day	6.4
MR	33.5	$14,500/day	12.1
Capesize	47.5	$17,000/day	12.9
VLCC	98.0	$25,000/day	18.5
Panamax (4,800 TEU)	58.5	$14,500/day	20.8

Source: CRS, CCM

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The investment opportunities in the shipping sector is a little bit like the good, the bad and the ugly. An investment in a drillship can be paid during the initial contract term while a VLCC would take more than 15 years, which in some cases are beyond the useful life of the vessel. While these returns are somewhat skewed based on expectations, they paint an interesting picture about the opportunities out there. So while offshore is hot today, it may change as new orders flood the market in coming years. So lets talk about some of the positives in the shipping sector.

We believe the LNG sector has a favorable outlook:
1) Based on the limited number of orders during the past few years and new projects coming on-line, we expect the market to remain tight through 2014.

2) We see emerging trade patterns driven by arbitrage as more countries are joining the LNG club. The number of importers have more than doubled over the past decade and based on proposed regas projects it would double again by 2020.

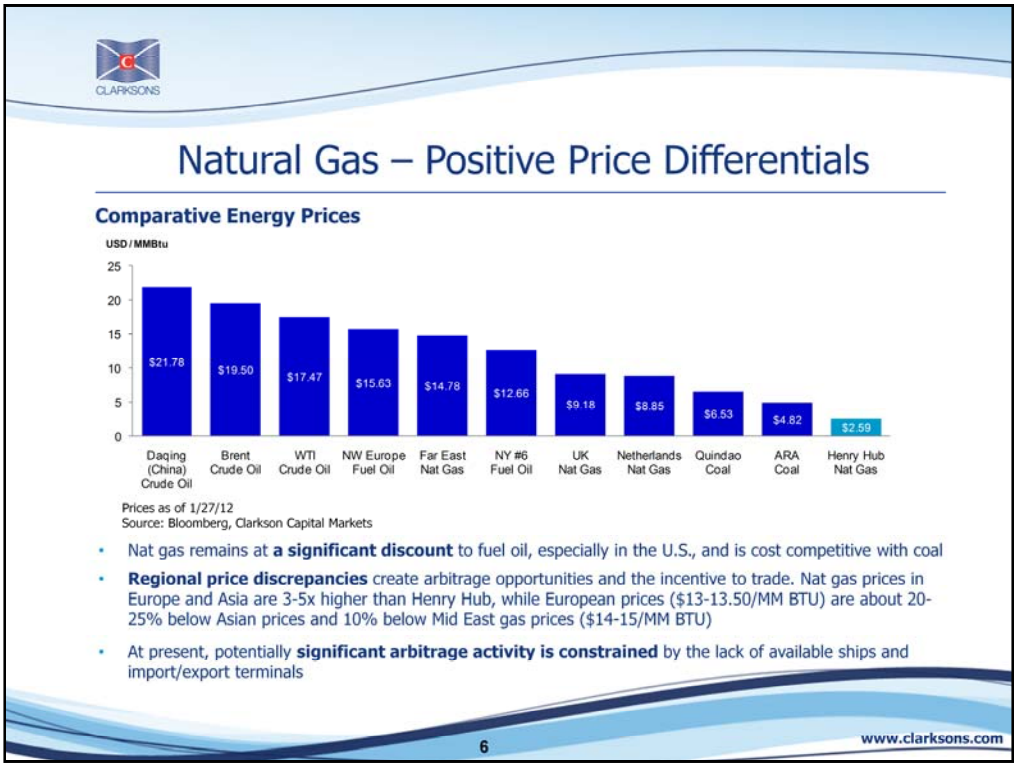
3) Strong growth in liquefaction capacity driven primarily by new projects in Australia but also in the MENA region

4) What could be a potential game changer is that the US is emerging as a net exporter by 2015

5) In addition, there a re lucrative Floating Regas opptysin the pipeline as well that could require additional vessels. This could be a game changer itself as China is looking into moving terminals offshore due to permitting issues.

6) In addition to the demand story, the orderbook is only 17% of the fleet.

Risks: 1) Slippage of the Qatari projects. 2) Good returns will attract speculative newbuilding

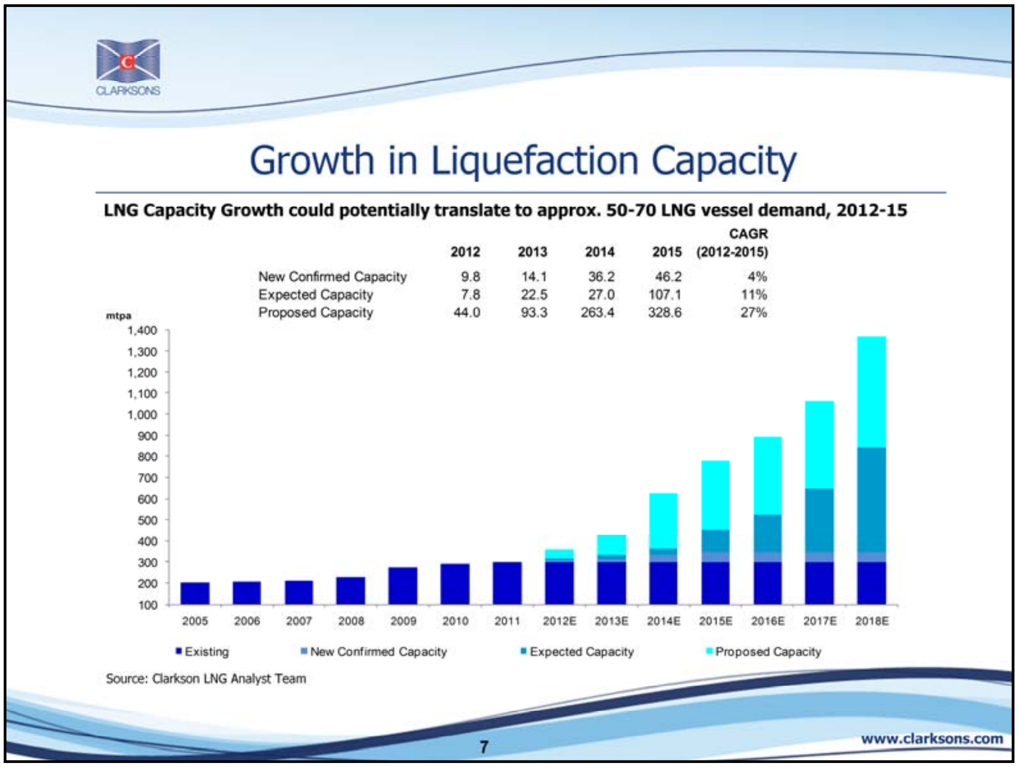


The primary driver behind the growth in LNG is the Nat gas remains at a significant discount to fuel oil, especially in the U.S., and is cost competitive with coal

2) Regional gas price differentials create arbitrage opportunities and the incentive to trade. Nat gas prices in Europe and Asia are 3-5x higher than Henry Hub, while European prices ($13-13.50/MM BTU) are about 20-25% below Asian prices and 10% below Mid East gas prices ($14-15/MM BTU). These differentials are a catalyst for more LNG capacity as they imply strong economics for LNG projects.

3) At present, potentially significant arbitrage activity is constrained by the lack of available ships and import/export terminals .

Chinese demand for LNG continues to grow 1.3MT in January and 12.2 MT in 2011

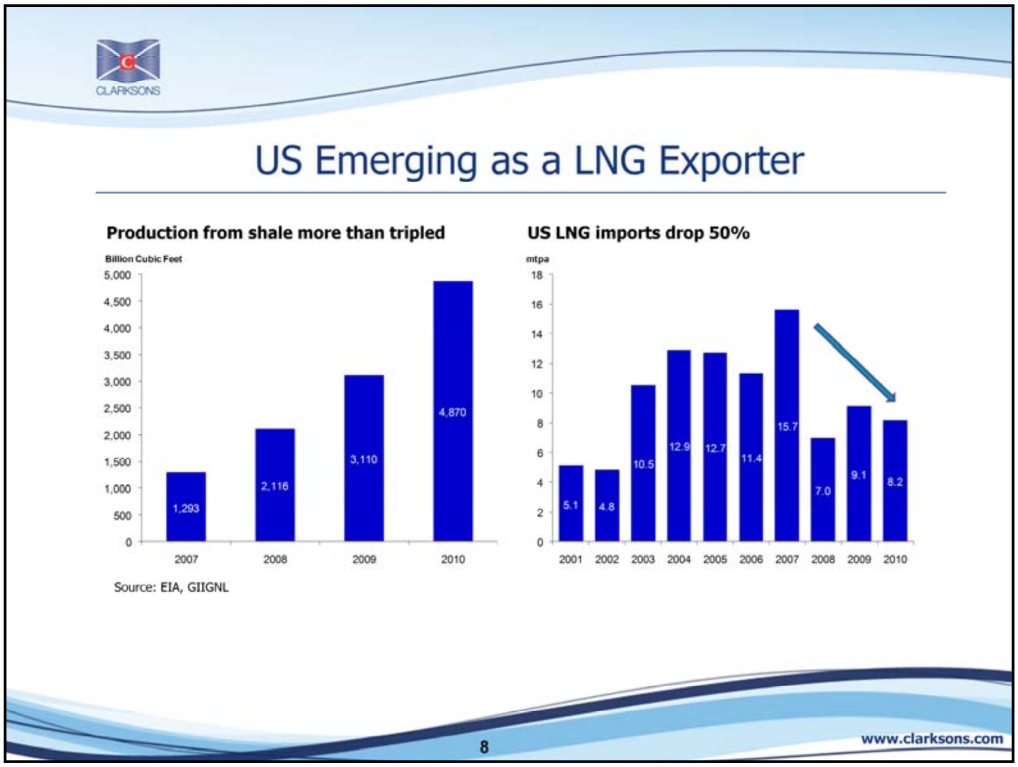


As you can see on the graph, during the past 25 years, the LNG trade has grown at roughly 7% per annum, making it the fastest growing trade after containers at 8.2%.

If the growth continues on the same trajectory over the next few years, it would create demand for over 40 ships per year In fact, based on new confirmed capacity the growth is at 4% or 20 vessels per year and based on expected capacity the growth is at 11% or 60 vessels per year.

While we could see similar delays as we did for the Qatari projects a few years ago, especially given the difficult financing environment, recently announced projects have received FID

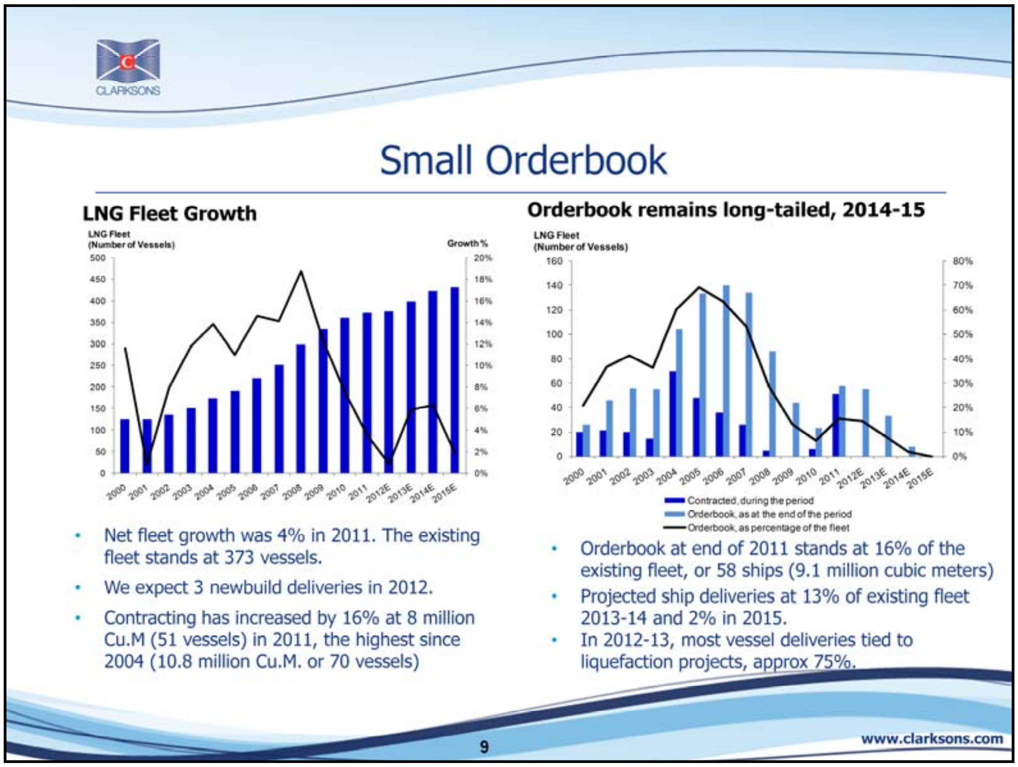
List liquefaction projects in Australia & MENA region and when they come onlineIn 2012-13, there are two new liquefaction plants coming on line: Pluto Train 1 and Angola LNG Plant.



US emerging as a LNG exporter could be a game changer, only ten tears ago Alan Greenspan talked about US LNG imports being a game changer.

Given the rapid increase in nat gas shale production, LNG imports have declined 50% in the past five years. Cheniere, who was on the forefront building regas facilities in the US ten years ago have recently signed three deals to export LNG from the Sabine Pass Terminal starting early 2015.

Other terminals that have applied for approval are Lake Charles, LA, Freeport, TX, Cove Point, MD and Coos Bay, ORIn 2012-13, there are two new liquefaction plants coming on line: Pluto Train 1 and Angola LNG Plant.



Based on the potential requirements for new liquefaction and regas projects, and potential US exports, we believe the market will remain balanced over the next few years. Its hard to keep up with John Fredriksen but as of last week there were only 58 ships on order.

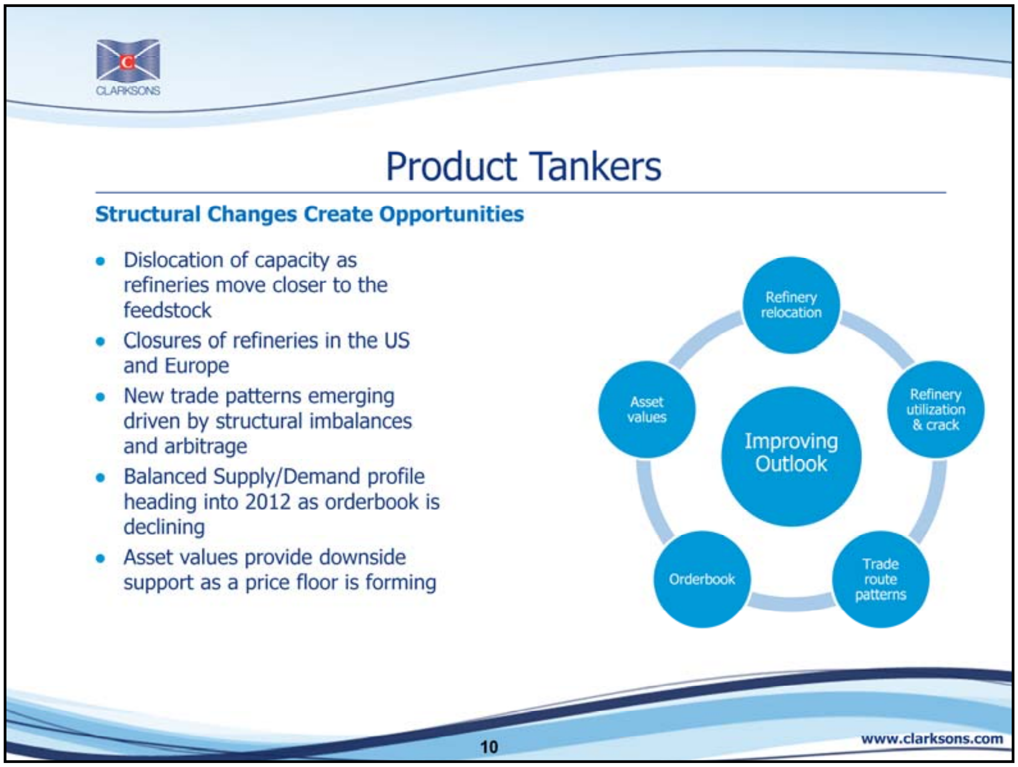
6 ships to be delivered in 2012

19 in 2013

27 in 2014

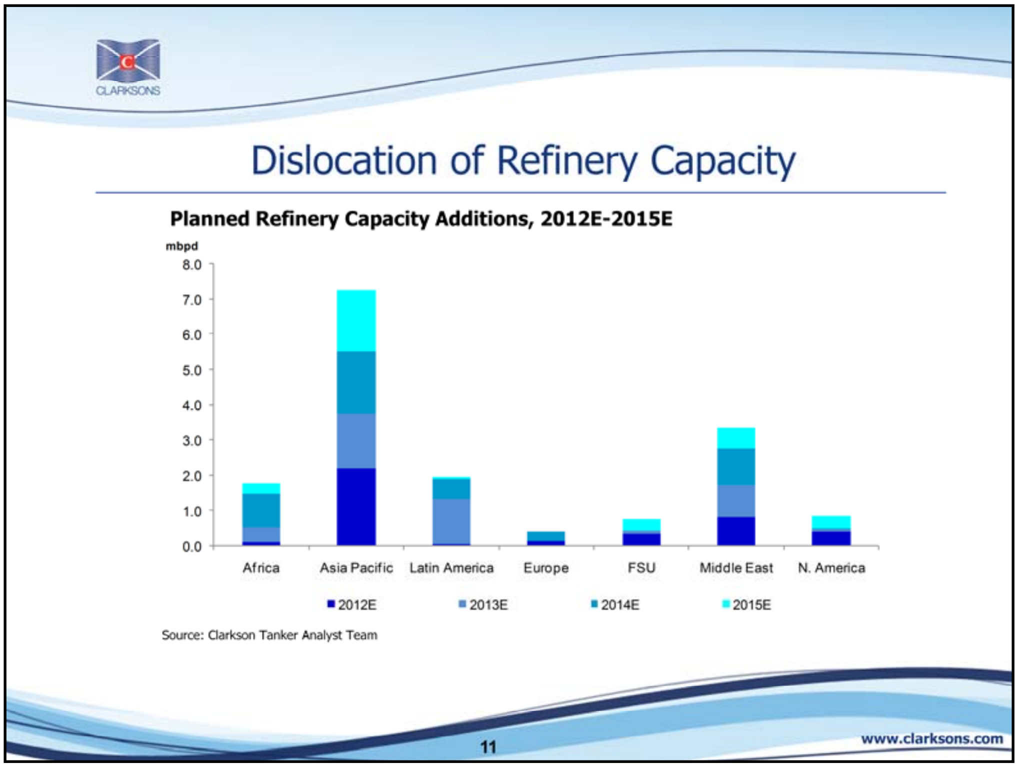
9 in 2015

Capacity between Samsung, Hyundai and Daewoo is about 35-40 ships



We believe there are some significant structural changes for the product tanker sector as there has been a shift in seaborne trade from crude to refined products

1) First, there is a growing dislocation of refining capacity as new refineries are being built in the Middle East and the far East
2) We see closure of refineries in the US as they are no longer competitive.
As a result, new trade patterns are emerging driven by structural imbalances and arbitrage.
At 10%, the order book is much more attractive than for tankers and drybulk.
We also see some support based on historical asset values.
On the negative side,
1) demand in he west is still weak
2) if you see a recovery in demand ordering activity could pick

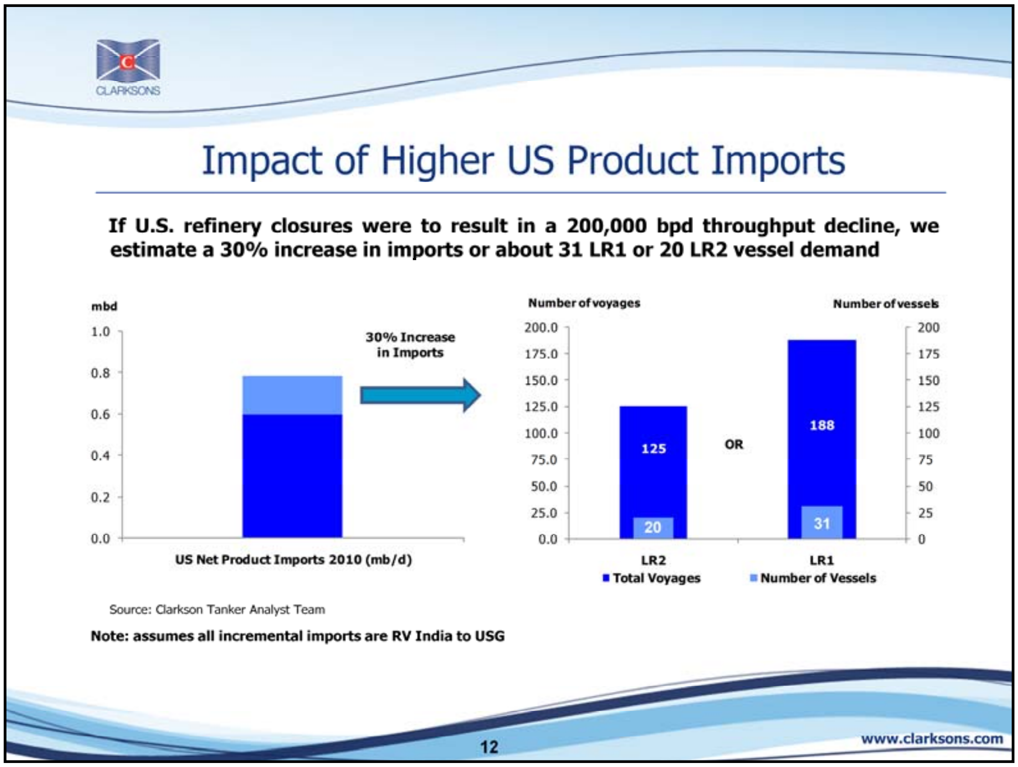


As you can see on the graph, there is significant growth in refining capacity coming on line in the Middle east and the Asia Pacific region over the next few years.

1) These new export oriented refineries can accept a much wider crude slate and therefore are much more competitive compared to their US counterparties. In fact, the new Indian refineries are now exporting directly into the US.

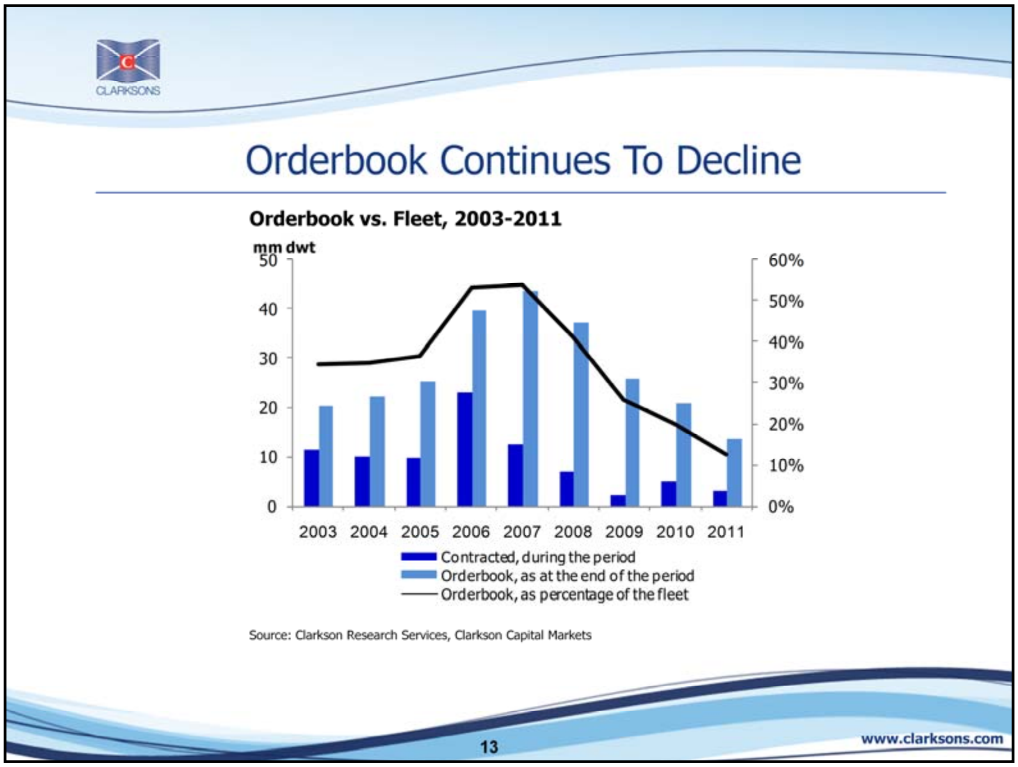
2) As a result, we see closures of US refineries including Sun and ConocoPhillips. European refineries are also having difficulty competing as Petroplus is closing r

3) This development is extremely positive for ton-mile demand as we can see on the next slide



If recent closures of refineries on the east coast were to result in a 200K bpd throughput decline and all of the incremental imports were sourced from India, net product imports could increase 30% and result and result in incremental demand for 30 LR1's or 20 LR2's.

600K bpd US net product imports. 6 voyages per year = 60 day roundtrip

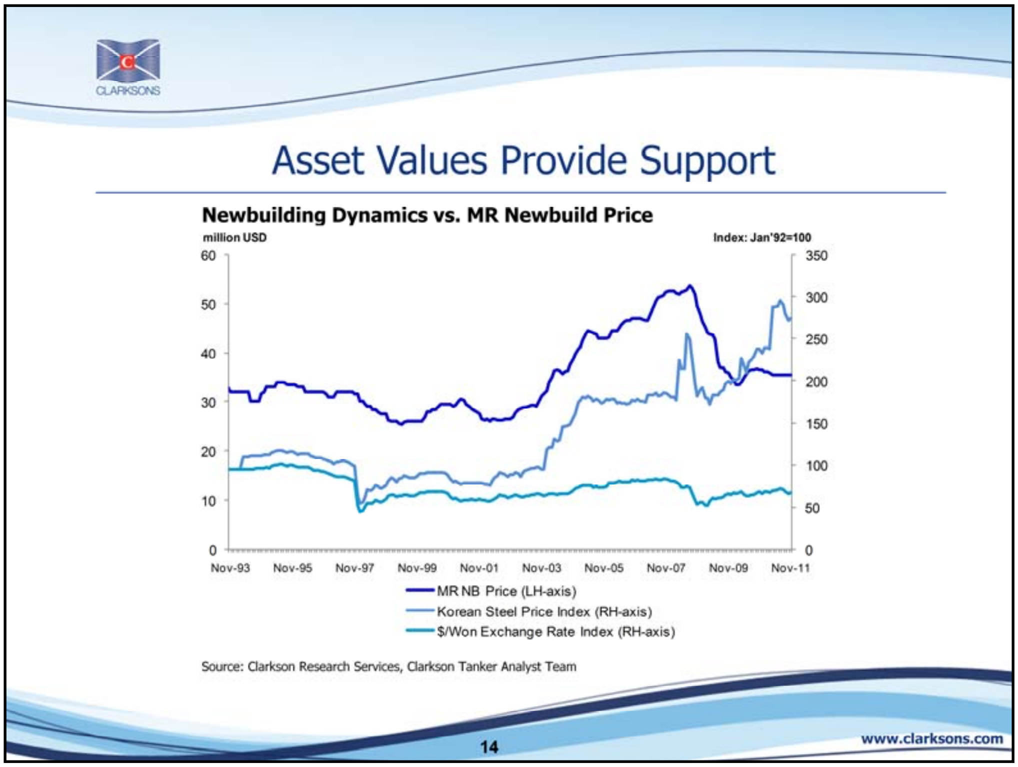


Given the limited number of ordering activity during the past years, the product tanker orderbook is quiet manageable at 10% of the total fleet

Chinese yards are still moving up the learning curve and Japanese yards are not competitive due to the yen exchange rate

Traditional bank lending remains tight resulting in delays and cancellations. Slippage rate is projected to be 20% in 2012 vs 45% in 2011

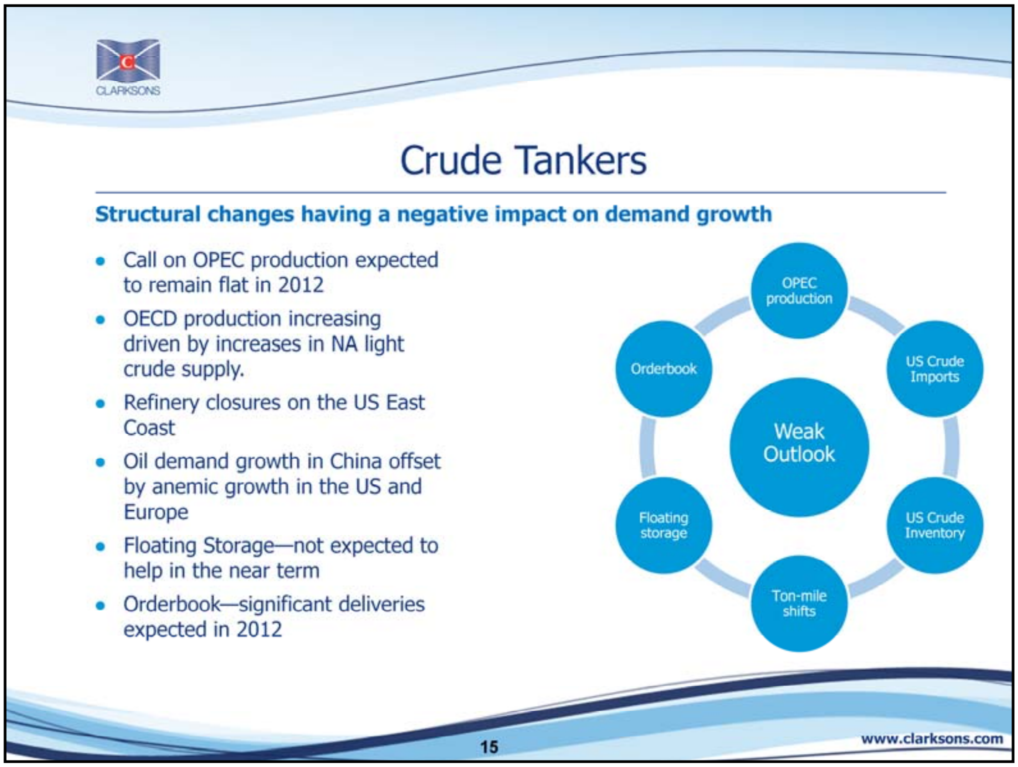
Some concerns that contracting has recently increased



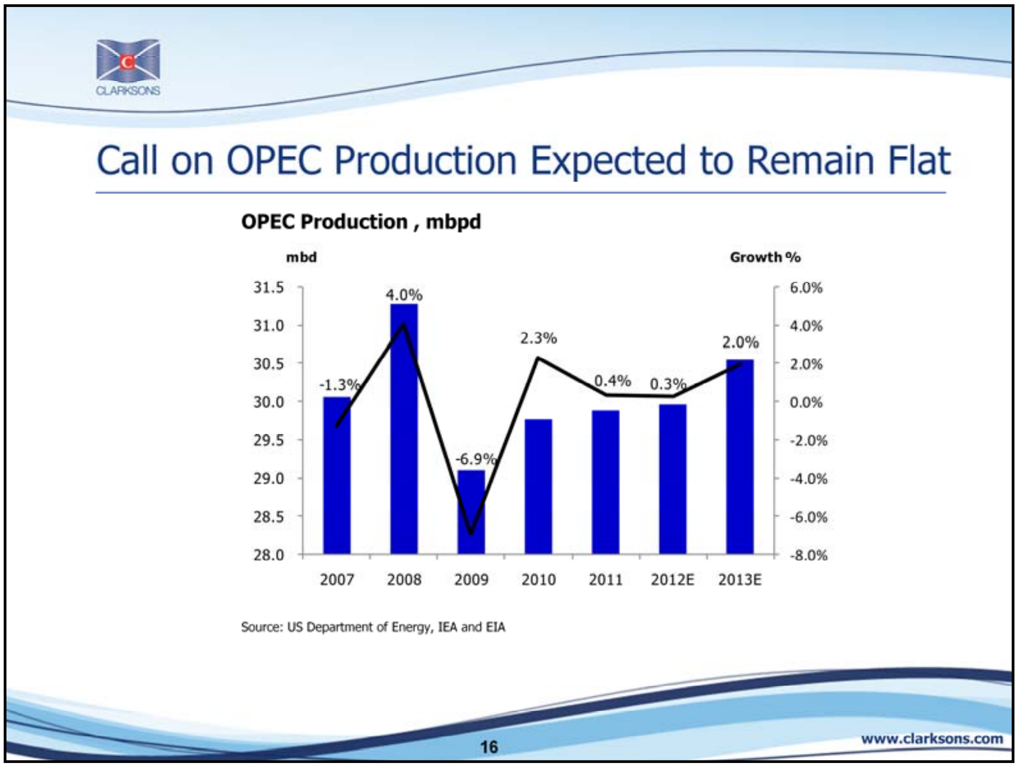
New building prices for MR's are pretty close to their historical lows and we don't believe labor and steel prices can fall much further.

Disparity between public and private valuations as you can buy an MR on Wall Street for $20 million whereas private valuations are closer to $30 million.

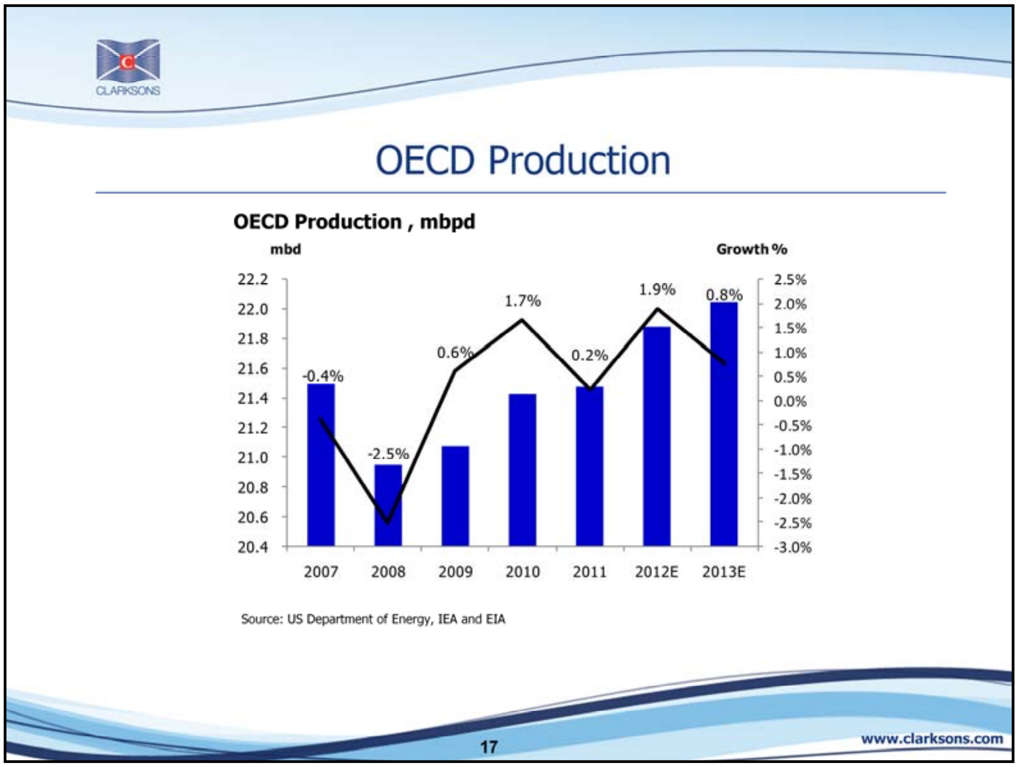
Larger block transactions are at a premium



Pretty bleak picture for the crude tanker market as some of these structural changes in oil production and trading patterns favoring the product tankers are having the opposite impact on crude.
As a result, the call on OPEC is expected to be flat at best this year.
The primary reason for this is the sharp increase in NA oil production.
Strong oil demand growth in China, offset by anemic growth in the US and Europe
Given the current backwardation , we don't believe floating storage can save the market as it did in 2010



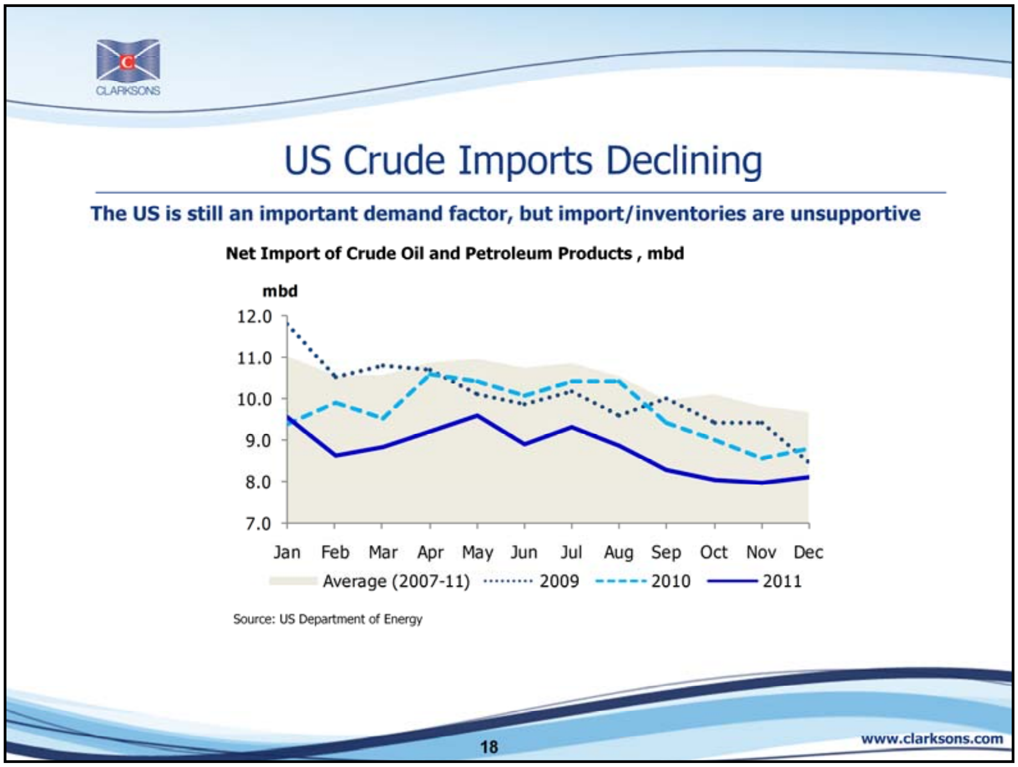
While OPEC is the largest exporter of crude oil, consumption among OPEC is expected to increase 15% over the next five years leaving less crude available for exports



Most of increases from OECD production is coming from North America.

While the natural gas shale plays may be peaking out as natural gas prices are below $3MMcf, the economics for North American oil shale production is extremely attractive at $100 per barrel.

As a result, US oil production is expected to increase more than 0.5mbd during the next two years

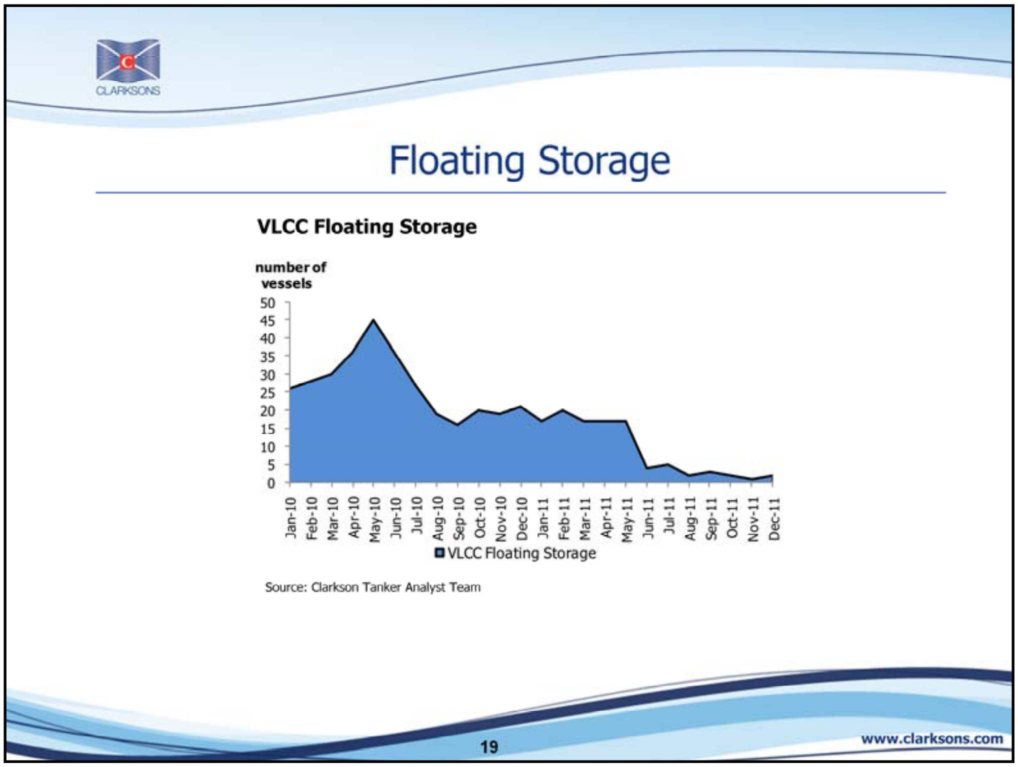


The US is the largest driver of crude tanker demand and with steadily increasing onshore production, seaborne import imports will continue to decline from roughly 7 mbd to 6.0 by 2015.

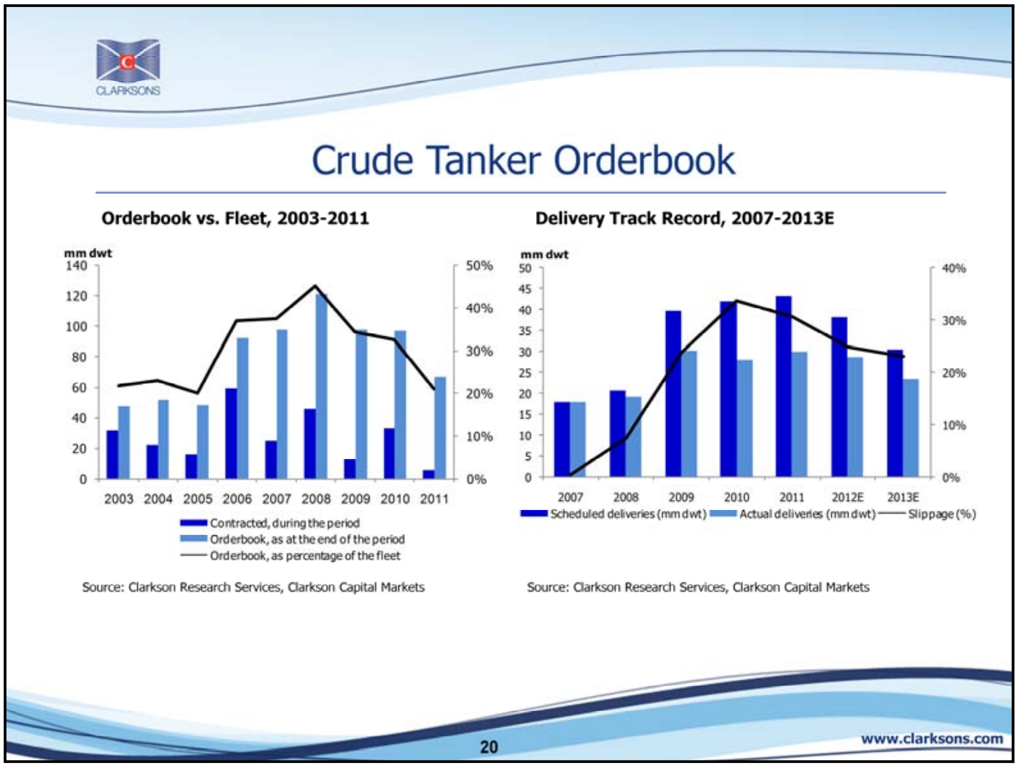
The Keystone XL pipeline will further reduce import requirement.

In addition, changing trading patterns with closures of refineries on the East coast will further reduce Suezmax and VLCC demand.

They are now talking about becoming energy self sufficient



Given the current backwardation in the crude market, floating storage does not make economic sense.



The graph on the left hand side shows the order book and ordering activity vs the total fleet. While the order book has declined during the past two years, it still stands at roughly 20% of the fleet. On a positive note, ordering activity is drying up.

The graph on the right hand side still shows that the delivery track record is quiet good as slippage is running about 20%

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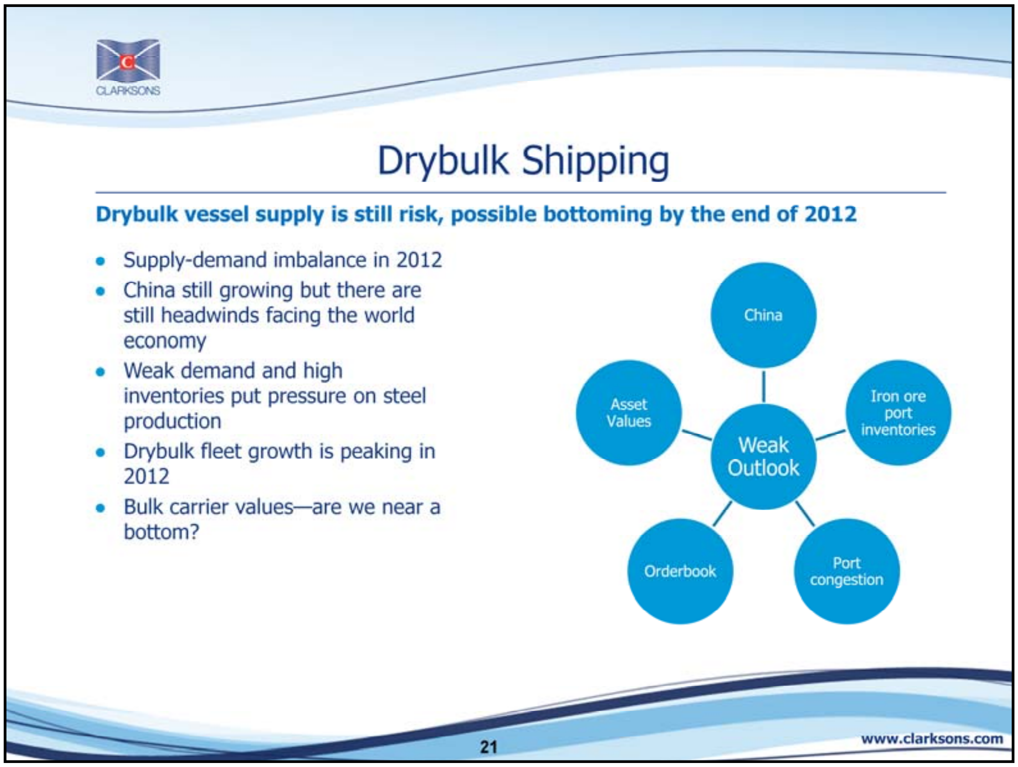
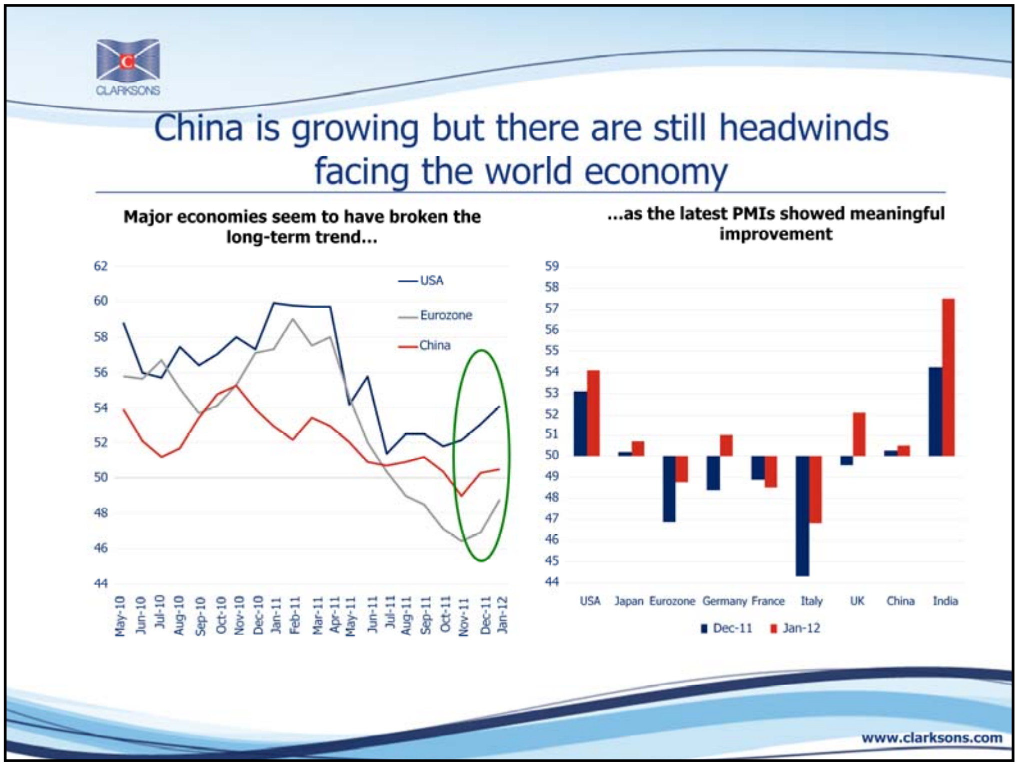


Growing at 10% in 2012 vs demand growth of 4%, 13.5% in 2011 vs 5%

While China is still growing, there are still headwinds facing the world economy and the drybulk segment is still very sensitive to a slowdown in China

Resale Cape at $48 million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China is growing but there are still headwinds facing the world economy
Major economies seem to have broken the long-term trend…
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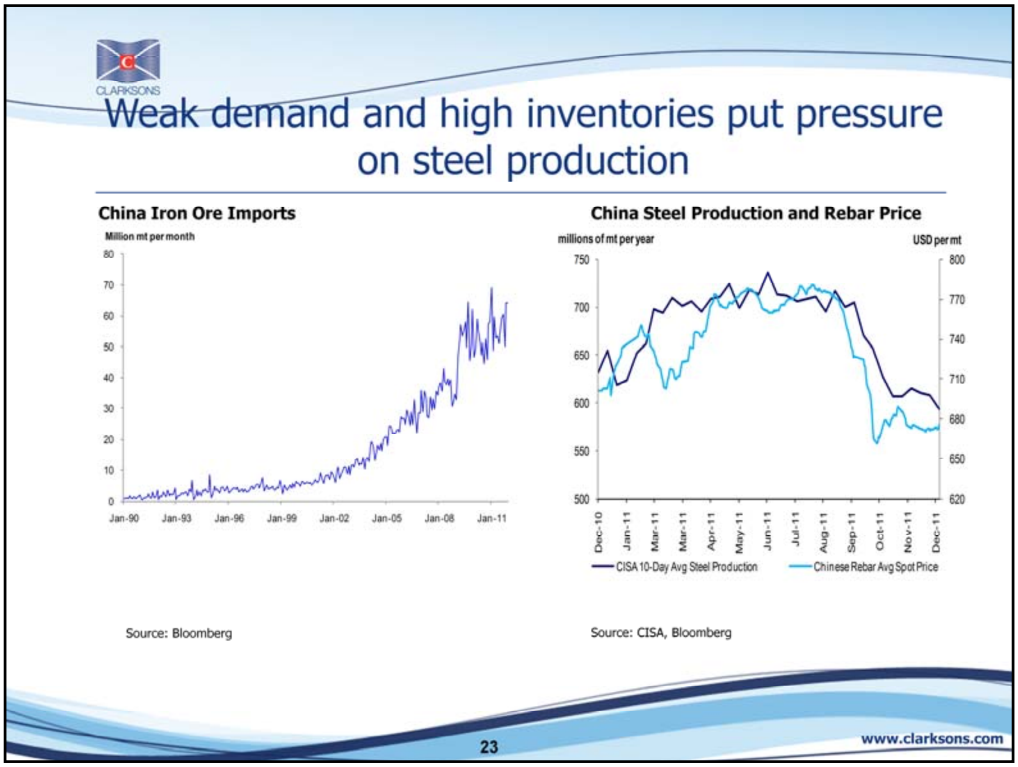
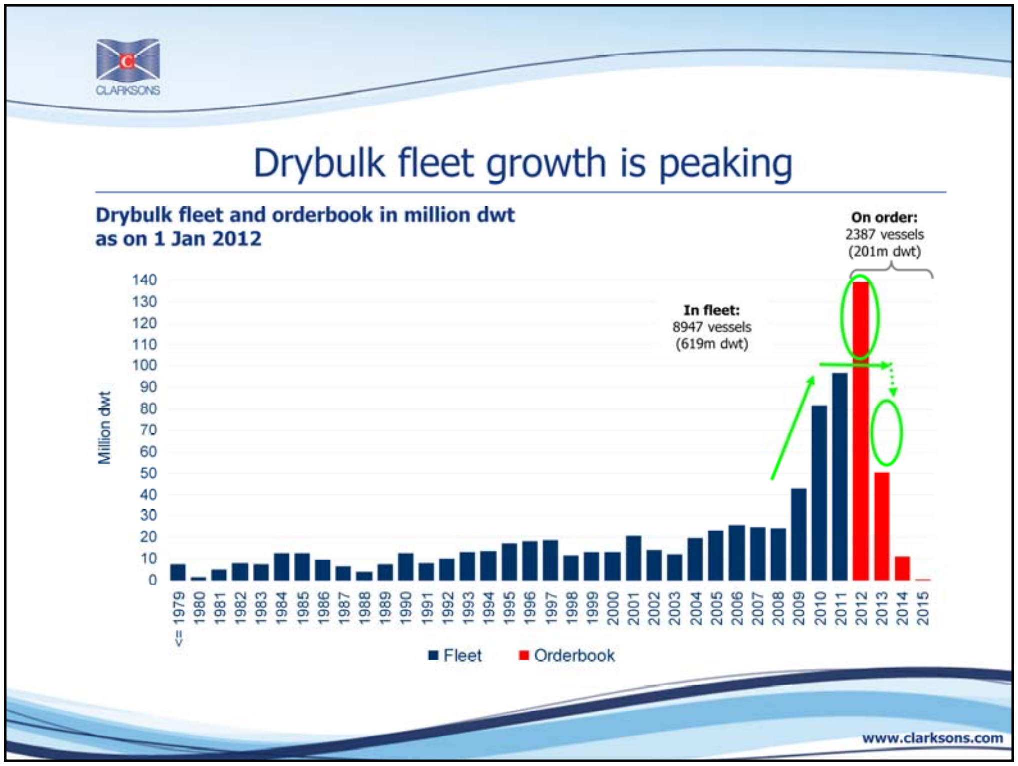


Global steel production declined 7.8% in January on the back of slowing economic activity.

Chinese steel production was down 13% during the same time period



The current order book for the drybulk fleet consists of 2,387 vessels and there are currently 400 Capes on order. To put that in perspective, that is almost 3 vessels per day.

While it is the largest orderbook at 30% of the total fleet, it is also the orderbook with the highest risk of slippage and cancellations as financing is difficult

On a positive note, new ordering activity is down significantly

Thank You!