Investment Opportunities in Shipping

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Investment Opportunities in Shipping: The Good, The Bad and The Ugly...
## The Good: Returns Favor LNG & Offshore

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

Source: CRS, CCM
LNG Shipping

**Favorable Long-term Outlook**

- Supply-demand balance to remain tight through 2014
- Emerging trade patterns driven by arbitrage opportunities and strong Asian demand
- Strong growth in liquefaction capacity driven by new projects in Australia
- Lucrative Floating Regas (FSRU) opportunities ahead
- U.S. emerging as a LNG net exporter by 2015 – a potential game changer
- Small Orderbook
Natural Gas – Positive Price Differentials

Henry Hub
USD / MMBtu
$2.59

UK
USD / MMBtu
$9.18

Far East
USD / MMBtu
$14.78
Wood Mackenzie estimates LNG demand (mtpa)
Additional LNG demand, Santos Estimates (mtpa)
Growth in Liquefaction Capacity

LNG Capacity Growth could potentially translate to approx. 50-70 LNG vessel demand, 2012-15

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Confirmed Capacity</td>
<td>9.8</td>
<td>14.1</td>
<td>36.2</td>
<td>46.2</td>
<td>4%</td>
</tr>
<tr>
<td>Expected Capacity</td>
<td>7.8</td>
<td>22.5</td>
<td>27.0</td>
<td>107.1</td>
<td>11%</td>
</tr>
<tr>
<td>Proposed Capacity</td>
<td>44.0</td>
<td>93.3</td>
<td>263.4</td>
<td>328.6</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Clarkson LNG Analyst Team
US Emerging as a LNG Exporter

Production from shale more than tripled

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (Billion Cubic Feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,293</td>
</tr>
<tr>
<td>2008</td>
<td>2,116</td>
</tr>
<tr>
<td>2009</td>
<td>3,110</td>
</tr>
<tr>
<td>2010</td>
<td>4,870</td>
</tr>
</tbody>
</table>

Source: EIA, GIIGNL

US LNG imports drop 50%

<table>
<thead>
<tr>
<th>Year</th>
<th>US LNG imports (mtpa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.1</td>
</tr>
<tr>
<td>2002</td>
<td>4.8</td>
</tr>
<tr>
<td>2003</td>
<td>10.5</td>
</tr>
<tr>
<td>2004</td>
<td>12.9</td>
</tr>
<tr>
<td>2005</td>
<td>12.7</td>
</tr>
<tr>
<td>2006</td>
<td>11.4</td>
</tr>
<tr>
<td>2007</td>
<td>15.7</td>
</tr>
<tr>
<td>2008</td>
<td>7.0</td>
</tr>
<tr>
<td>2009</td>
<td>9.1</td>
</tr>
<tr>
<td>2010</td>
<td>8.2</td>
</tr>
</tbody>
</table>
Orderbook - Small but Growing

Orderbook remains long-tailed, 2014-15

LNG Fleet (Number of Vessels)

- Blue: Contracted, during the period
- Light Blue: Orderbook, as at the end of the period
- Black: Orderbook, as a percentage of the fleet
Product Tankers

Structural Changes Create Opportunities

- Dislocation of capacity as refineries move closer to the feedstock
- Closures of refineries in the US and Europe
- New trade patterns emerging driven by structural imbalances and arbitrage
- Balanced Supply/Demand profile heading into 2012 as orderbook is declining
- Asset values provide downside support as a price floor is forming
Dislocation of Refinery Capacity

Planned Refinery Capacity Additions, 2012E-2015E

Source: Clarkson Tanker Analyst Team
Impact of Higher US Product Imports

If U.S. refinery closures were to result in a 200,000 bpd throughput decline, we estimate a 30% increase in imports or about 31 LR1 or 20 LR2 vessel demand.

Source: Clarkson Tanker Analyst Team

Note: assumes all incremental imports are RV India to USG
Orderbook Continues To Decline

Orderbook vs. Fleet, 2003-2014

mm dwt


0 10 20 30 40 50

0% 10% 20% 30% 40% 50% 60%

Contracted, during the period
Orderbook, as at the end of the period
Orderbook, as percentage of the fleet

Source: Clarkson Tanker Analyst Team
Asset Values Provide Support

Newbuilding Dynamics vs. MR Newbuild Price

Source: Clarkson Research Services, Clarkson Tanker Analyst Team
**Crude Tankers**

**Structural changes having a negative impact on demand growth**

- OECD production increasing driven by increases in NA light crude supply.
- Refinery closures on the US East Coast
- Call on OPEC production expected to remain flat in 2012
- Oil demand growth in China offset by anemic growth in the US and Europe
- Orderbook—significant deliveries expected in 2012
Strong Growth in OECD Production

OECD Production, mbpd

Source: US Department of Energy, IEA and EIA
US Crude Imports Declining

The US is still an important demand factor, but import/inventories are unsupportive

Net Import of Crude Oil and Petroleum Products, mbd

Source: US Department of Energy
Call on OPEC Production Expected to Remain Flat

Source: US Department of Energy, IEA and EIA
Crude Tanker Orderbook

Orderbook vs. Fleet, 2003-2011

Source: Clarkson Research Services, Clarkson Capital Markets
Drybulk Shipping

Drybulk vessel supply is still risk, possible bottoming by the end of 2012

- Supply-demand imbalance in 2012
- China is growing but there are still headwinds facing the world economy
- Weak demand and high inventories put pressure on steel production
- Drybulk fleet growth is peaking in 2012
- Bulk carrier values—are we near a bottom?
China is growing but there are still headwinds facing the world economy

Major economies seem to have broken the long-term trend...

...as the latest PMIs showed meaningful improvement
Weak demand and high inventories put pressure on steel production

China Steel Production and Rebar Price

Source: CISA, Bloomberg
Drybulk fleet growth is peaking

Drybulk fleet and orderbook in million dwt as on 1 Jan 2012

- In fleet: 8947 vessels (619m dwt)
- On order: 2387 vessels (201m dwt)
Conclusion
Thank You!