

**PETROFINANS 2018, STAVANGER**

**“Nød lærer naken kvinne å spinne”**

**Teodor Sveen-Nilsen**

Phone : (+47) 24 13 36 06

Mobile : (+47) 95 74 36 26

E-mail : [tsn@sb1markets.no](mailto:tsn@sb1markets.no)

# Table of contents

1

**Oil market highlights**

2

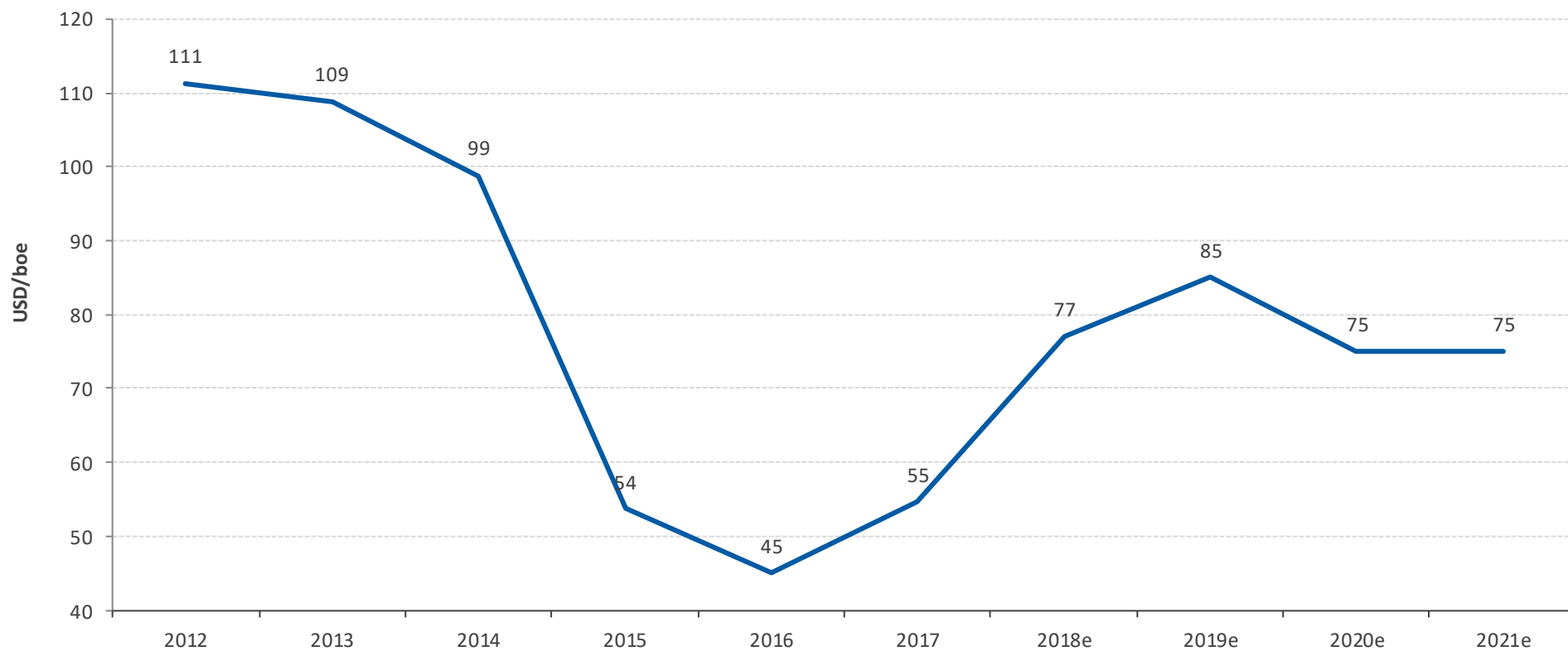
The industry's cash flow and ability to change

3

Summary

# Our base case oil price estimates

USD/boe



# Key factors impacting market next few months

---

## Upside risk factors:

1. US' Iran sanctions
2. Generally increased geopolitical risk, in particular Iran /Israel conflict
3. Storage levels below 5 year average, increasing concerns of a tight market
4. Oil demand has been (and still is) surprisingly strong

## Downside risk factors:

1. Saudi ramp up few other OPEC countries have the ability (however, history does not give any clear guidance for direction of price when Saudi increases production)
2. US shale is probably above to grow and report positive FCF at current oil prices

# 1) US' Iran sanctions

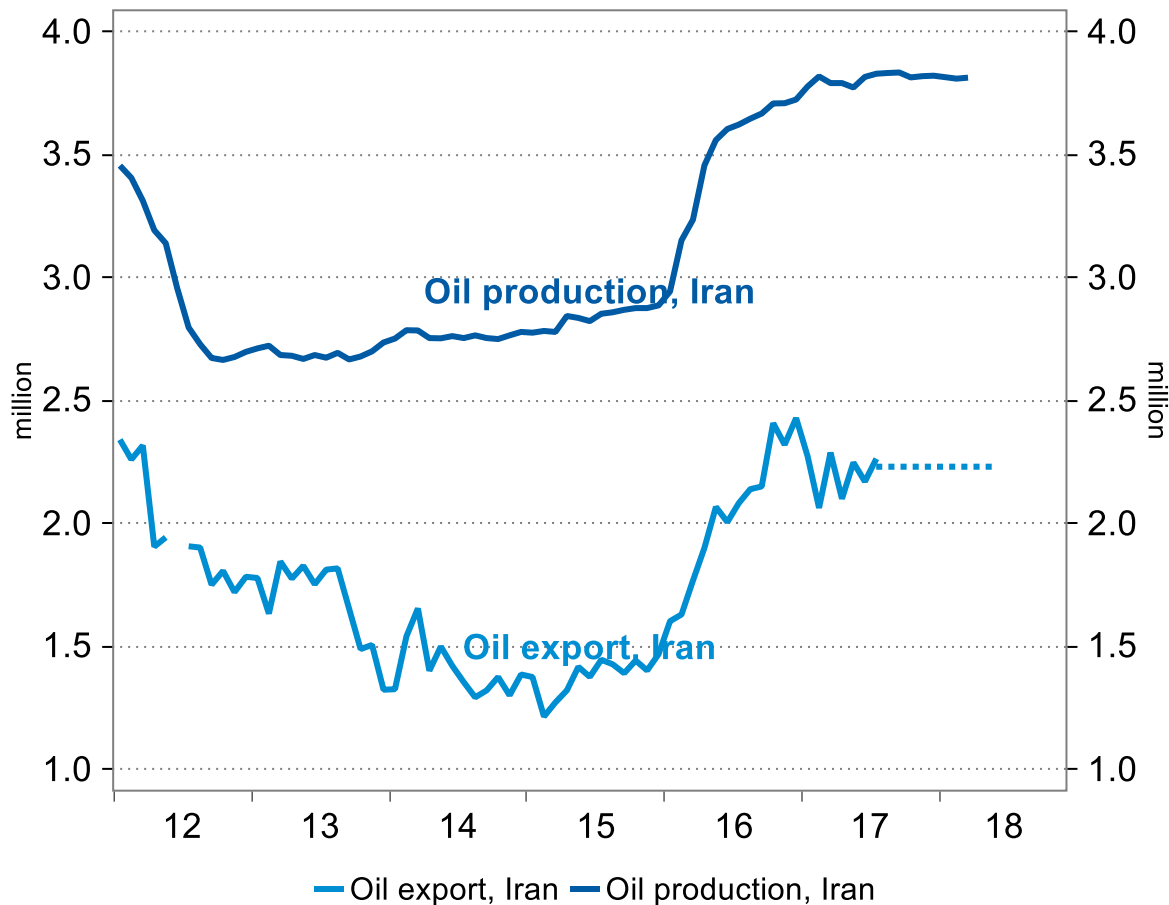
---

## Potential impacts on oil market of US' sanctions on Iran:

- Short term:
  - » Fear of undersupply, increased oil price related to geopolitical risk
- Medium term:
  - » Actual supply will be reduced (likely a 90-day and 180-day wind down period before sanctions really start)
- Long term:
  - » Iranian ability to growth oil production will be questioned due to underinvestment and lack of access to western technology

# 1) US' Iran sanctions, cont.

## Iran: Oil production and export\*



SB1 Markets/Macrobond

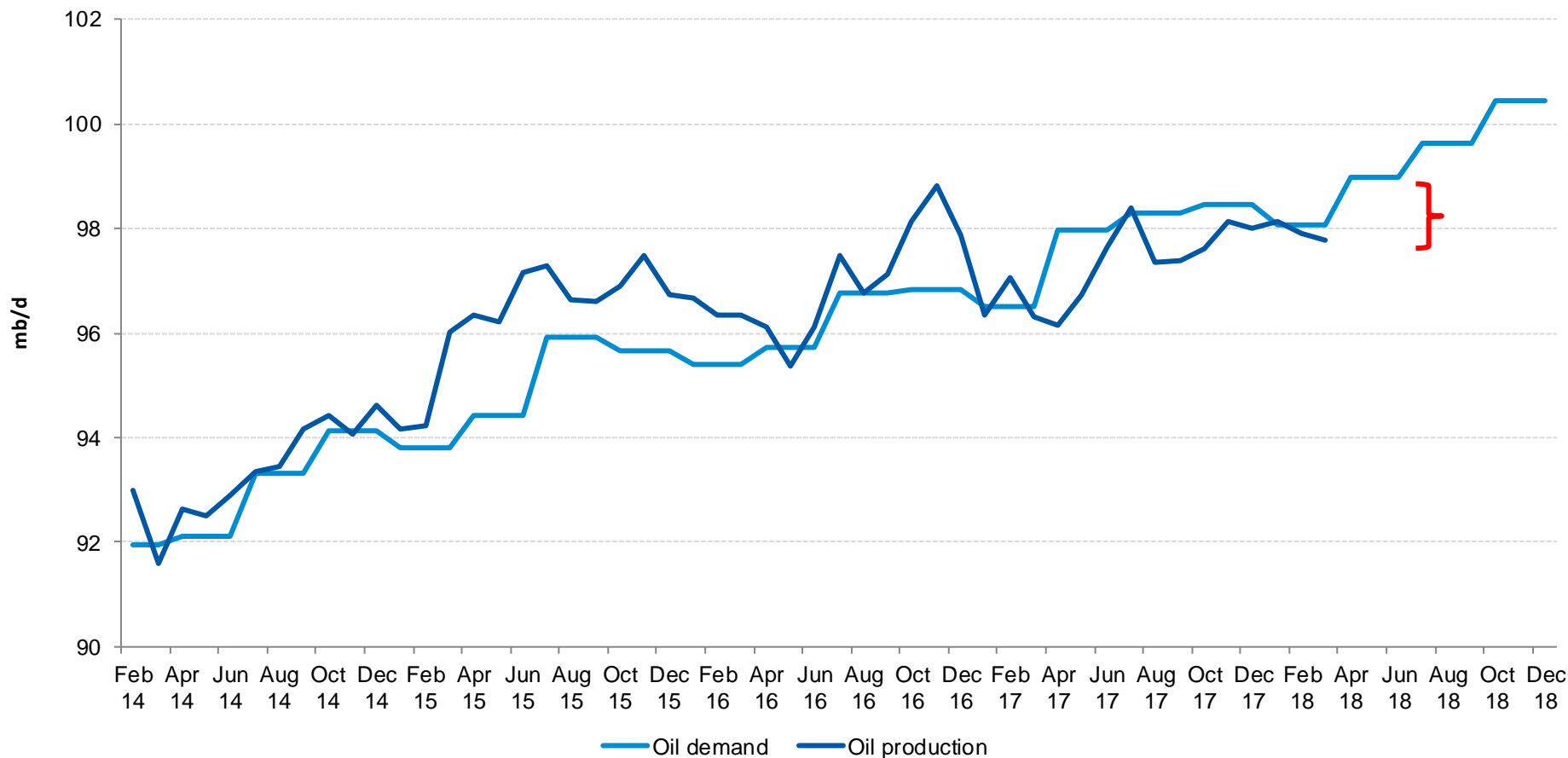
- Around 70% of Iran's oil export goes to Asia
  - 0.7 mb/to to China
  - 0.25 mb/d to South Korea
- 0.15-0.50 kboe/day of export lost by end 2018?

\* No good data for YTD 2018 export. However, there is reason to believe that export has been stable past months

# 1) US' Iran sanctions, cont.: 0.15-0.50 kboe/day of export lost by end '18?

That does not match increasing demand

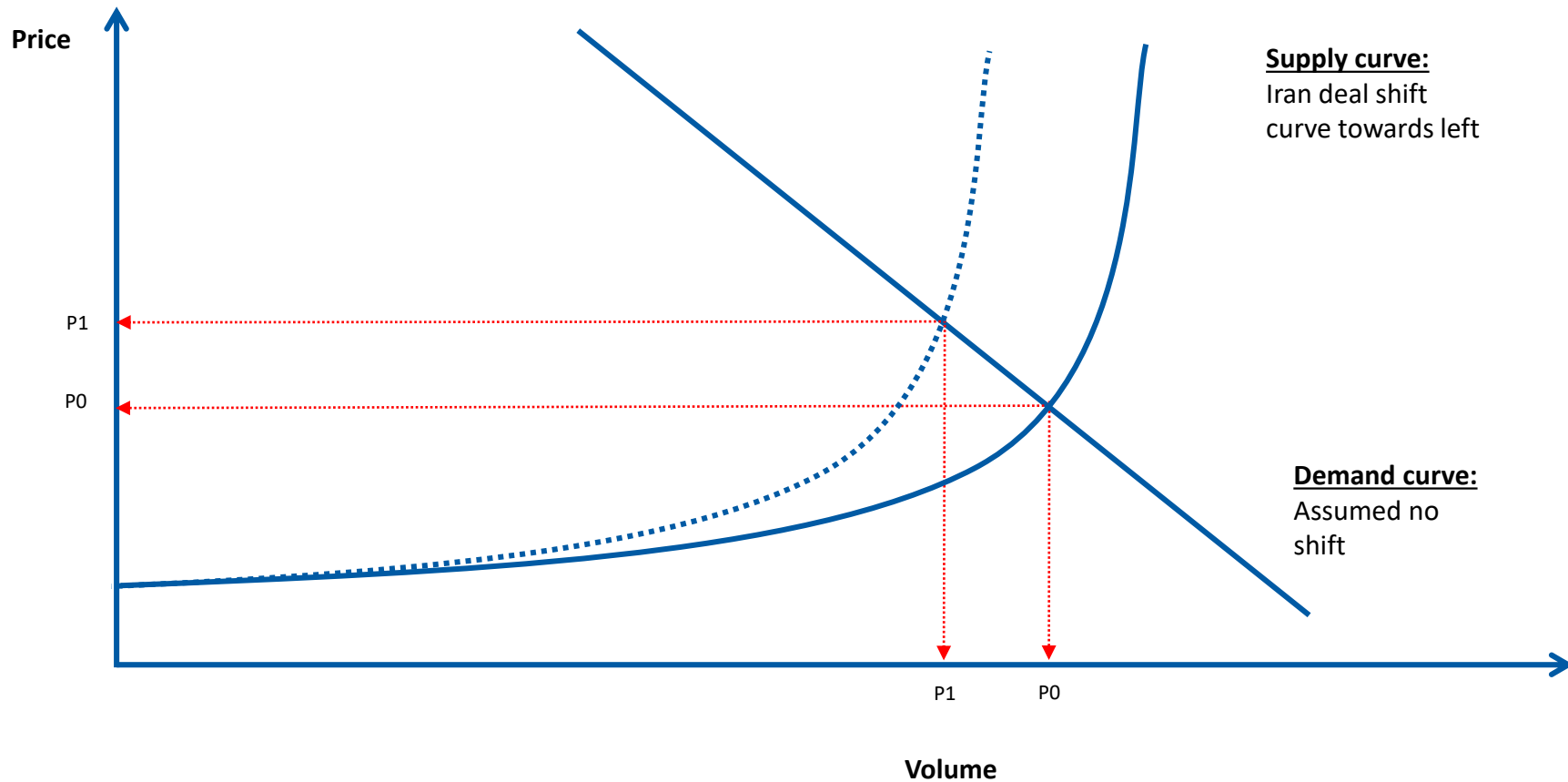
## Total production and demand (mb/d)



# Remember: Oil market supply curve is flat and then steep

I.e., small supply changes have potentially major price implications

## Oil demand / supply illustration





## 2) Generally increased geopolitical risk

In particular the Iran /Israel conflict

### Israel Iran CONFLICT: Iranian missiles pound Israeli positions in Golan Heights

SHOCKING footage has emerged of Iranian military forces pounding Israeli targets in the Golan Heights which prompted a furious response from Israel.

**Israel-Iran crisis: Iranian cleric warns Israel against 'doing anything foolish' as France calls US sanctions 'unacceptable'**

● LIVE BLOG

Military confrontation comes as Hamas' leader warns of mass breach of Israeli border fence



### Iran vs. Israel: Is a Major War Ahead?

The recent escalation of fighting is more likely to result in a stalemate than a cataclysm.



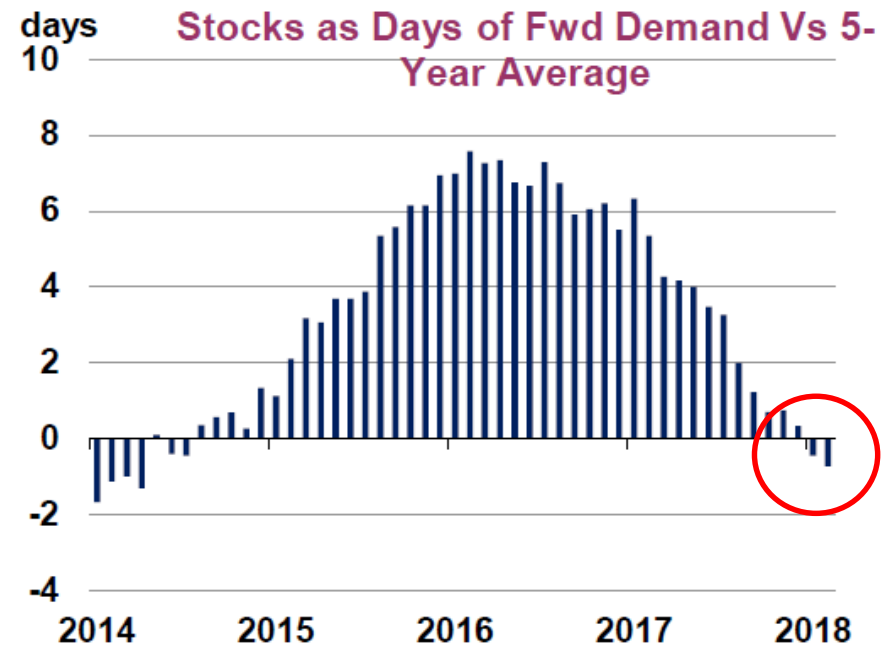
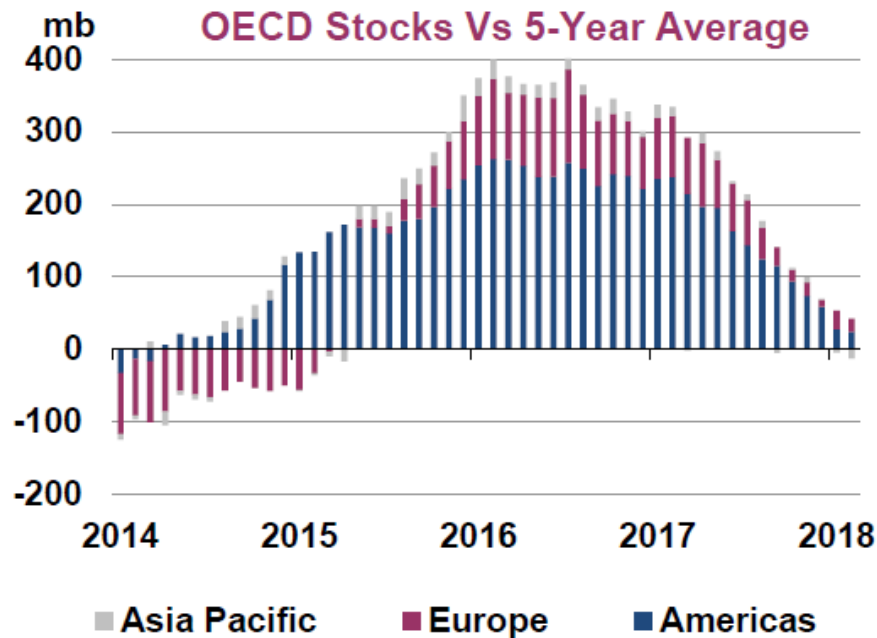
### Israel's strikes in Syria ratchet up tensions with Iran

9:27 AM ET Fri, 11 May 2018

The Israeli Defense Forces (IDF) claimed it struck nearly all of Iran's military infrastructure in Syria, dramatically ramping up hostilities between the two longtime adversaries that until now were largely fought out by proxies.

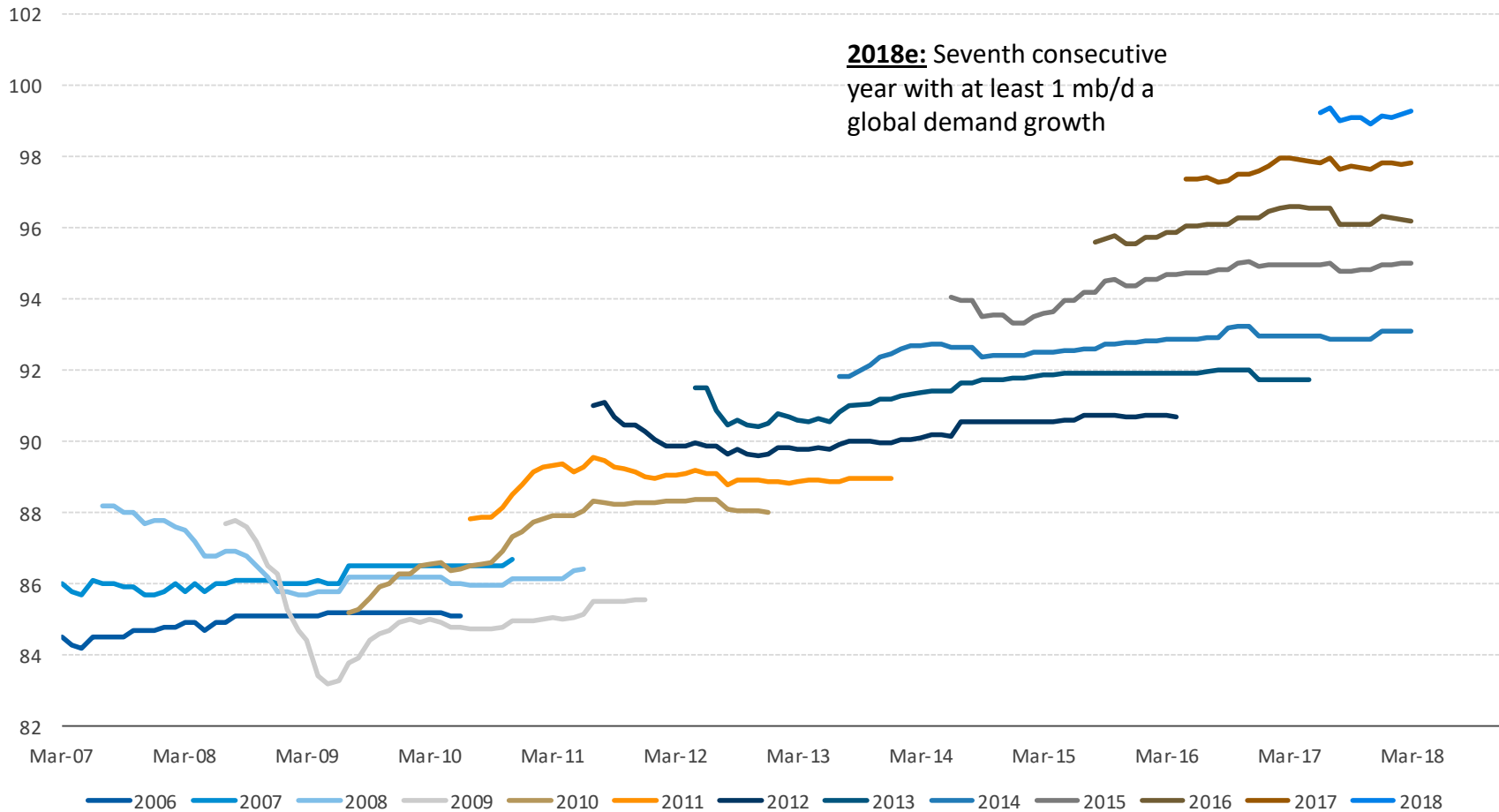
### 3) Storage levels below 5 year average

(if you compare relative to demand and not absolute storage level)



## 4) Oil demand has been (and still is) strong

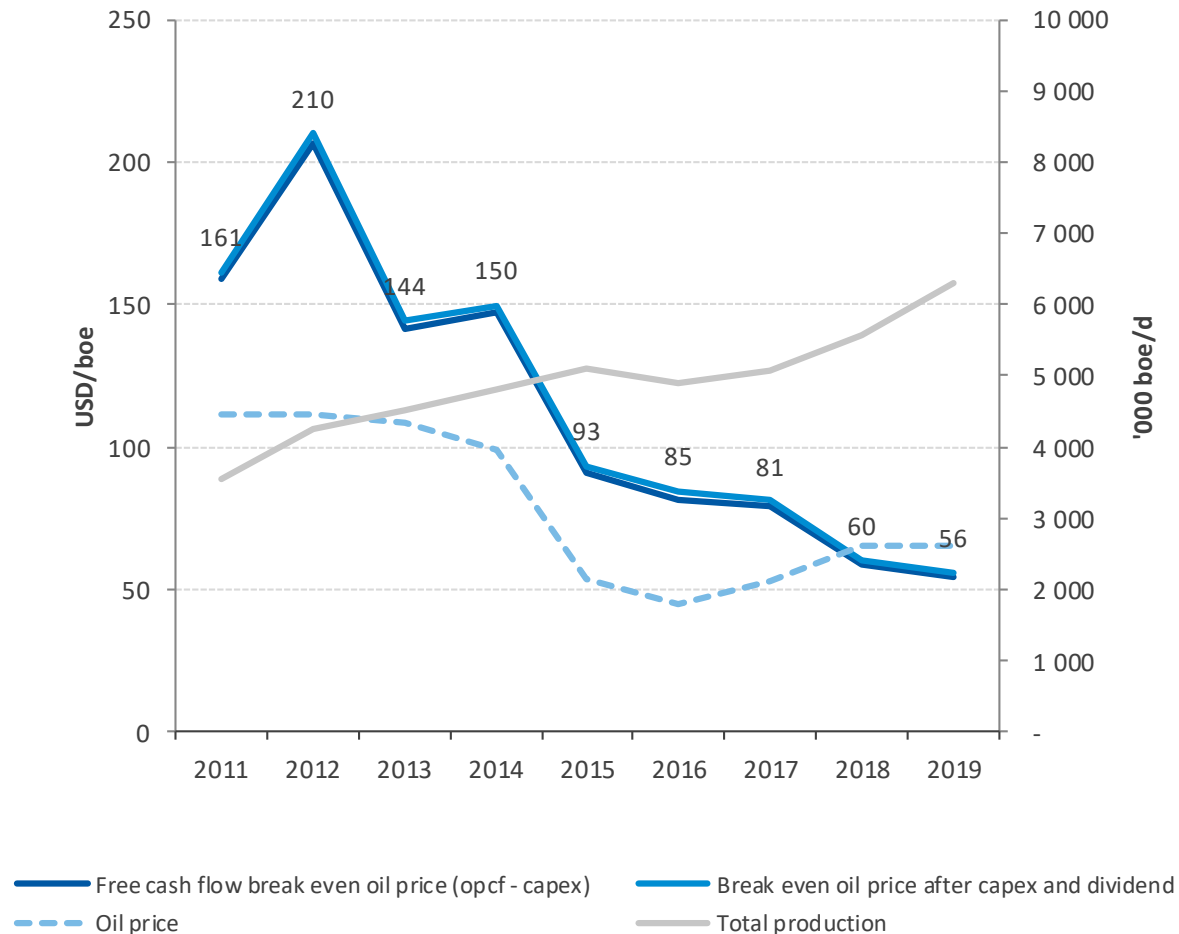
### Trend for global demand estimates, mb/d



# Risk 1: Strong growth for US shale

US shale able to grow production with positive FCF at current oil prices

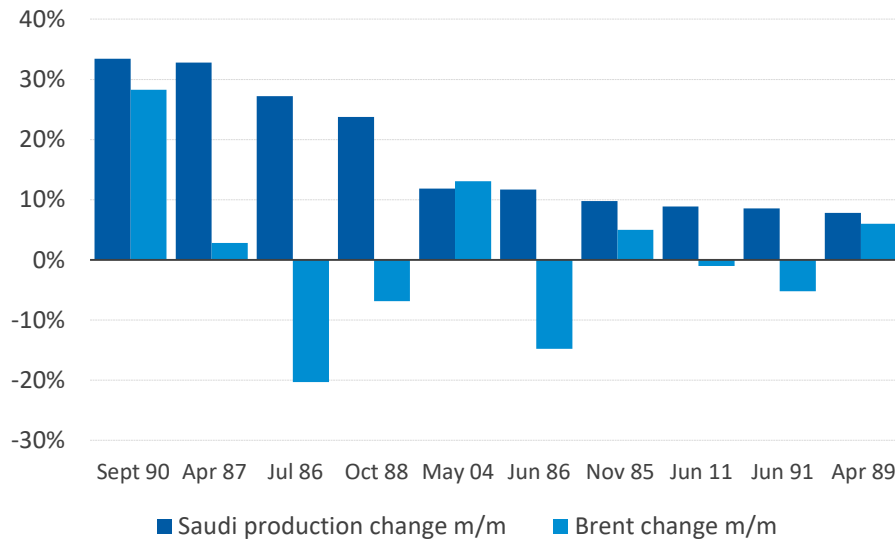
## Shale companies' oil price break even (revenue per boe)



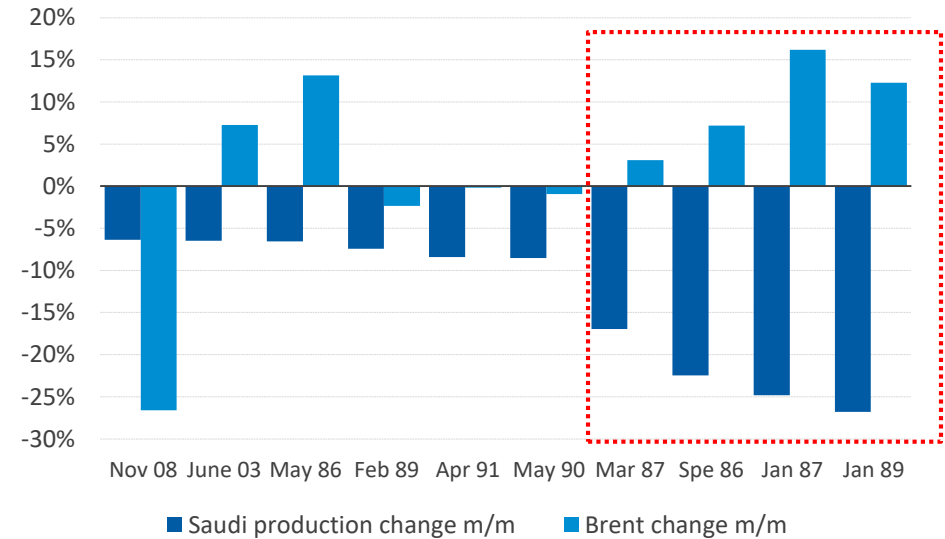
## Risk 2: Reduced OPEC compliance and Saudi ramp up

However, history does not give any clear guidance for direction of price when Saudi increases production

**Biggest Saudi increases vs. Brent change**



**Biggest Saudi cuts vs. Brent change**



- It looks like Saudi's production cuts have been positive for oil prices, as the Kingdom's four largest cuts relative to production have resulted in positive Brent changes m/m.
- For production increases (such as the Libya examples), it looks like they do not have the same price effects. I.e., if we knew that Saudi's next supply response was a cut, it is reasonable to believe that the oil price will increase (very obvious).

# Reduced storage expected for 2018-19e

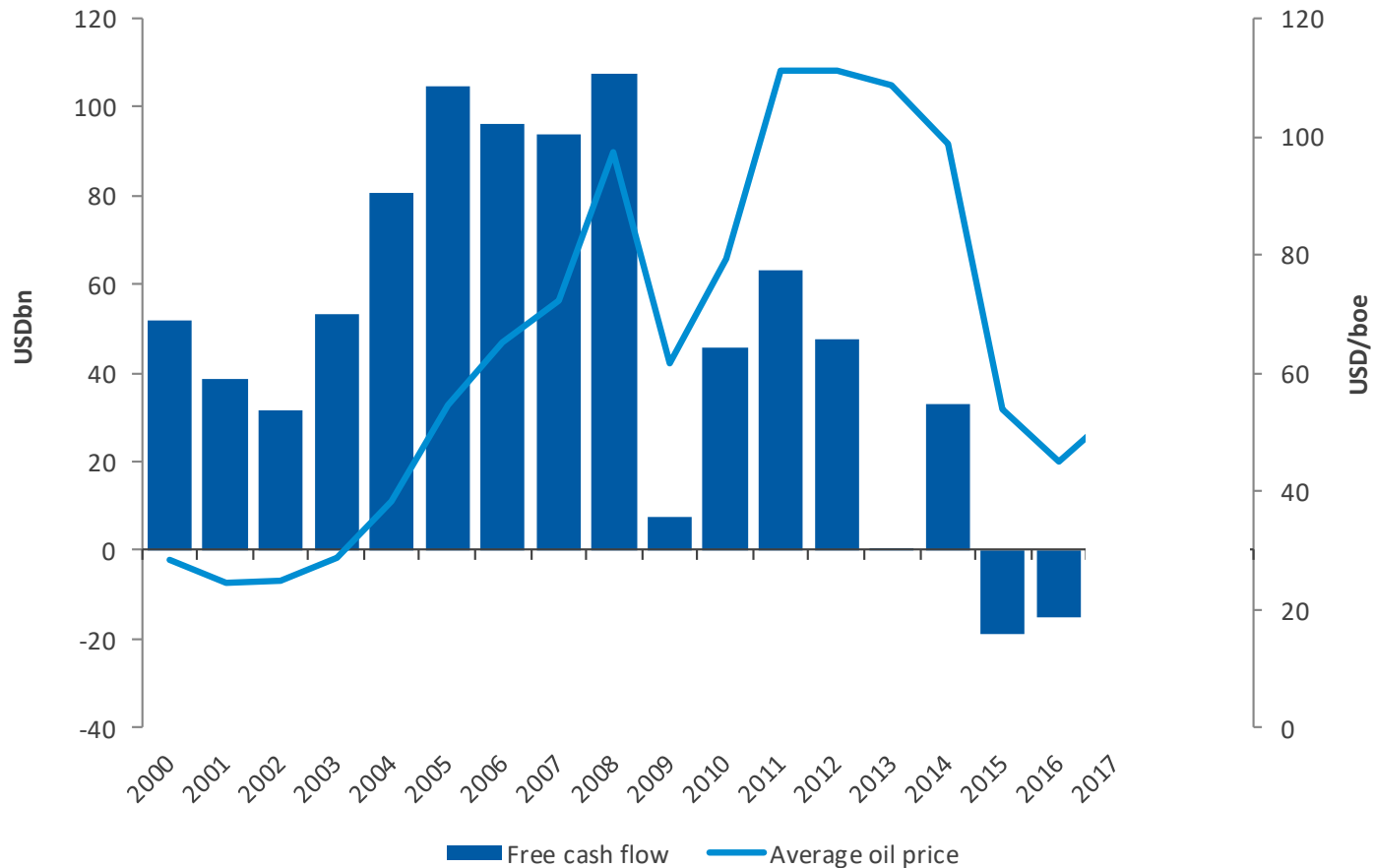
mb/d	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	SB1 est.	
													2018e	2019e
<b>Global oil demand</b>														
OECD	49.5	49.3	47.6	45.6	46.1	46.5	46.0	46.1	45.7	46.4	46.9	47.4	47.7	46.3
Non-OECD	36.0	37.8	38.9	39.9	42.1	42.4	44.2	45.8	47.2	48.6	49.3	50.4	51.6	54.4
<b>Total demand</b>	<b>85.6</b>	<b>87.1</b>	<b>86.5</b>	<b>85.5</b>	<b>88.2</b>	<b>88.9</b>	<b>90.2</b>	<b>91.9</b>	<b>92.9</b>	<b>94.9</b>	<b>96.2</b>	<b>97.8</b>	<b>99.4</b>	<b>100.7</b>
Growth %		18%	-0.7%	-1.1%	3.2%	0.7%	15%	19%	1.1%	2.2%	13%	17%	16%	13%
Growth mb/d		152	-0.57	-0.99	2.70	0.65	131	172	0.97	2.07	123	164	156	129
<b>Non-OPEC supply</b>														
Americas	13.9	13.8	13.3	13.6	14.1	14.5	15.8	17.1	18.7	19.8	19.4	20.3	21.4	22.5
Europe (OECD)	5.3	5.0	4.8	4.6	4.2	3.9	3.5	3.3	3.3	3.5	3.5	3.5	3.5	3.5
Asia Oceania	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4
FSU	12.3	12.8	12.8	13.3	13.5	13.6	13.7	13.9	13.9	14.0	14.2	14.4	14.4	14.6
China	3.7	3.7	3.8	3.9	4.1	4.1	4.2	4.2	4.2	4.3	4.0	3.9	3.8	3.8
Other Asia	3.8	3.6	3.7	3.6	3.7	3.5	3.6	3.5	3.4	3.6	3.5	3.5	3.4	3.4
Europe (Non-OECD)	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Latin America	3.6	3.6	3.7	3.9	4.1	4.2	4.2	4.2	4.4	4.5	4.5	4.5	4.7	4.7
Middle East	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.2	1.3	1.2	1.2	1.2
Africa	2.5	2.6	2.6	2.6	2.5	2.5	2.3	2.4	2.4	2.3	2.0	1.7	1.8	1.8
Proc. gains & biofuels	2.8	3.1	3.5	3.6	3.9	4.0	4.1	4.2	4.4	4.5	4.6	4.7	4.8	4.8
Other (OPEC NGL)	4.3	4.3	4.5	4.9	5.3	5.8	6.2	6.4	6.4	6.6	6.8	6.9	7.0	7.0
<b>Total non-OPEC supply</b>	<b>54.7</b>	<b>55.1</b>	<b>55.1</b>	<b>56.5</b>	<b>58.0</b>	<b>58.5</b>	<b>59.6</b>	<b>61.1</b>	<b>63.0</b>	<b>65.0</b>	<b>64.4</b>	<b>65.0</b>	<b>66.4</b>	<b>67.7</b>
Growth %		0.8%	0.1%	2.4%	2.6%	0.9%	2.0%	2.5%	3.0%	3.2%	-0.9%	10%	2.2%	2.0%
Growth mb/d		0.42	0.06	1.35	1.48	0.53	1.15	1.47	1.86	2.00	-0.59	0.64	1.40	1.30
<b>OPEC supply</b>														
Saudi Arabia	9.2	8.8	9.2	8.2	8.4	9.3	9.9	9.5	9.5	10.1	10.4	10.0	10.1	10.1
Iraq	1.9	2.1	2.4	2.4	2.4	2.7	3.0	3.1	3.3	4.0	4.4	4.5	4.7	4.9
Iran	3.9	4.0	3.9	3.7	3.7	3.6	3.0	2.7	2.8	2.9	3.6	3.8	3.9	4.0
UAE	2.6	2.5	2.6	2.3	2.3	2.5	2.7	2.7	2.8	2.9	3.0	2.9	2.9	2.9
Kuwait	2.5	2.4	2.6	2.3	2.3	2.5	2.8	2.7	2.6	2.7	2.8	2.7	2.8	2.8
Venezuela	2.7	2.7	2.8	2.7	2.5	2.5	2.5	2.5	2.5	2.4	2.2	2.0	1.6	1.4
Other OPEC	8.0	8.1	8.2	7.6	7.9	6.9	7.6	7.5	6.8	6.4	6.2	6.5	6.7	6.7
<b>Total OPEC</b>	<b>30.9</b>	<b>30.7</b>	<b>31.6</b>	<b>29.1</b>	<b>29.5</b>	<b>30.0</b>	<b>31.4</b>	<b>30.6</b>	<b>30.3</b>	<b>31.4</b>	<b>32.6</b>	<b>32.3</b>	<b>32.7</b>	<b>32.8</b>
Growth %		-0.7%	3.1%	-7.8%	12%	16%	4.7%	-2.4%	-10%	3.5%	3.9%	-0.8%	10%	0.5%
Growth mb/d		-0.21	0.95	-2.48	0.35	0.46	1.41	-0.76	-0.31	1.07	1.23	-0.27	0.33	0.17
<b>Global supply</b>	<b>85.6</b>	<b>85.8</b>	<b>86.8</b>	<b>85.6</b>	<b>87.4</b>	<b>88.4</b>	<b>91.0</b>	<b>91.7</b>	<b>93.2</b>	<b>96.3</b>	<b>97.0</b>	<b>97.3</b>	<b>99.1</b>	<b>100.5</b>
Growth %		0.2%	12%	-13%	2.1%	1%	2.9%	0.8%	17%	3.3%	0.7%	0.4%	18%	15%
Growth mb/d		0.20	1.01	-1.14	1.82	0.99	2.56	0.70	1.55	3.07	0.65	0.37	1.73	1.47
<b>Implied stock change (supply - demand)</b>	<b>0.0</b>	<b>-1.3</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.8</b>	<b>-0.4</b>	<b>0.8</b>	<b>-0.2</b>	<b>0.4</b>	<b>1.4</b>	<b>0.8</b>	<b>-0.5</b>	<b>-0.3</b>	<b>-0.1</b>
Call on OPEC	30.9	32.0	31.4	29.1	30.3	30.4	30.6	30.8	29.9	30.0	31.8	32.8	33.0	33.0
<b>Key assumptions</b>														
GDP	5.2%	5.3%	2.7%	-0.4%	5.2%	4.1%	3.4%	3.3%	3.4%	3.1%	3.0%	3.2%	3.2%	3.2%
Efficiency gain	4.1%	3.6%	3.4%	0.8%	2.0%	3.4%	1.9%	1.4%	2.3%	1.3%	1.2%	1.6%	1.6%	1.9%
Brent oil price	65	72	97	62	79	111	111	109	99	54	45	55	65	66

# Table of contents

- |   |                                                       |
|---|-------------------------------------------------------|
| 1 | Oil market highlights                                 |
| 2 | <b>The industry's cash flow and ability to change</b> |
| 3 | Summary                                               |

# Majors: Free cash flow from USD 100bn.... to NEGATIVE!

## Free cash flow E&P majors\*

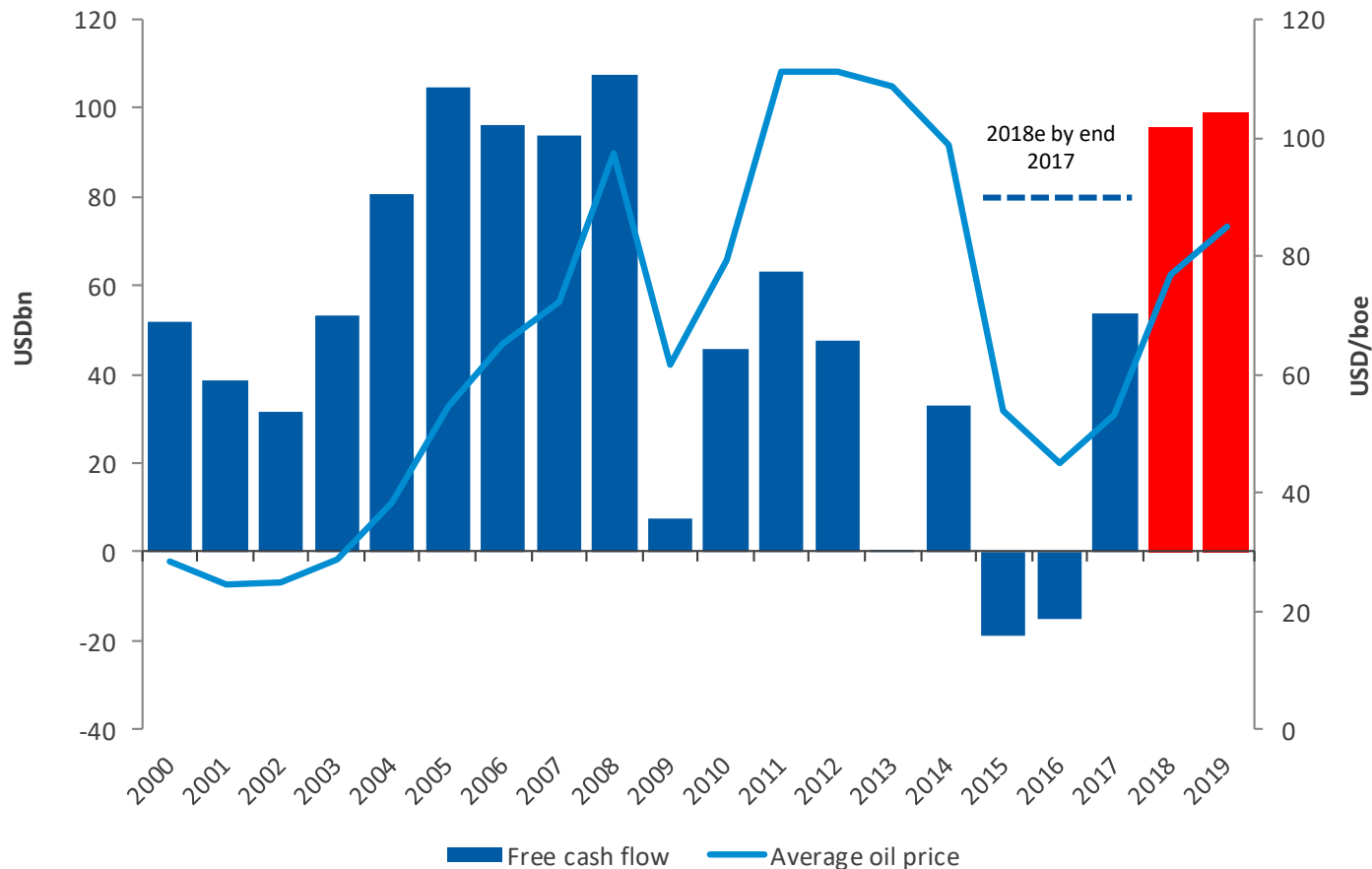




# Something has changed, close to all time high cash flow in 2018

And 2018e free cash flow expectations have been lifted

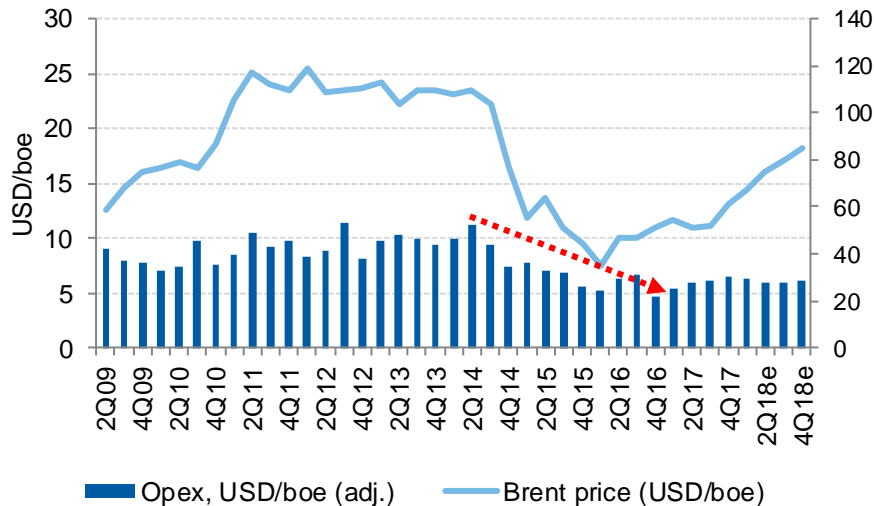
## Free cash flow E&P majors\*



# Equinor: Unit costs have declined. A LOT!

Remember: Opex is more sticky than capex for most E&P companies

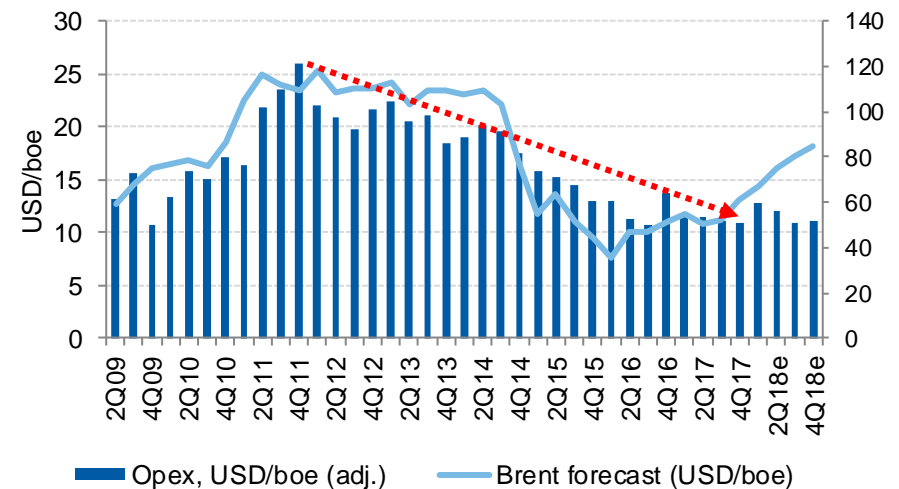
## Equinor's opex/boe, Norway



### Equinor Norway:

Unit costs down ~40% from peak

## Equinor's opex/boe International

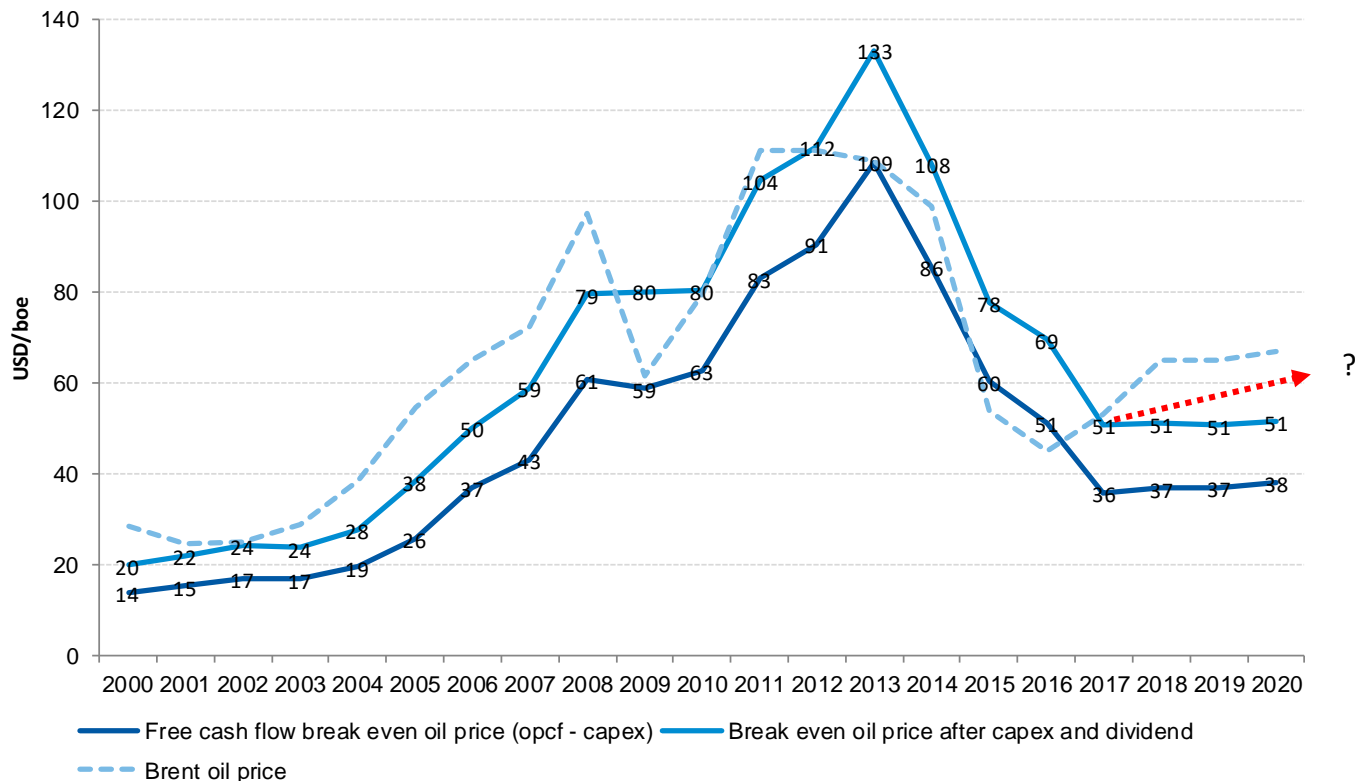


### Equinor International:

Unit costs down ~50% from peak  
(however, likely some effect from economics of scale)

# Reduced opex and capex = lowest cash flow break even since 2006

## Break even oil price for oil majors\*



### How we estimate break even oil prices (simplified):

- Collect annual data for operational cash flow, capex, dividend and production (i.e., four key numbers per year per company included in sample)
- Calculate average opcf per boe and opcf per boe as a percentage of annual oil price
- Calculate required oil price change to force free cash flow (opcf - capex) to zero. Compare the required oil price for zero FCF to the actual oil price

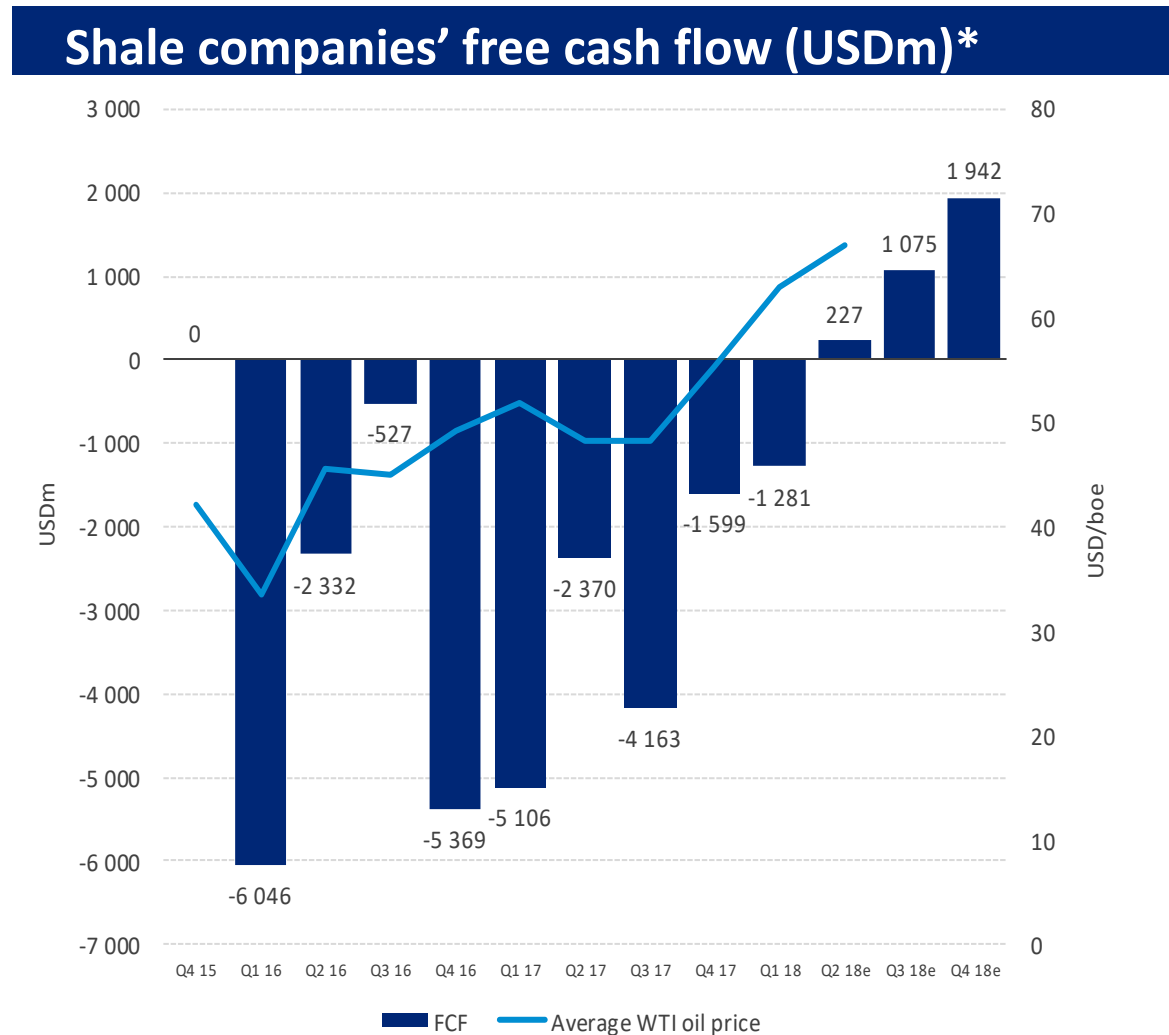
\* Equinor, Eni, BP, Total, Shell, Repsol, Chevron, Exxon, ConocoPhillips. Source: Factset

# How about shale cash flow?

It is actually not too bad

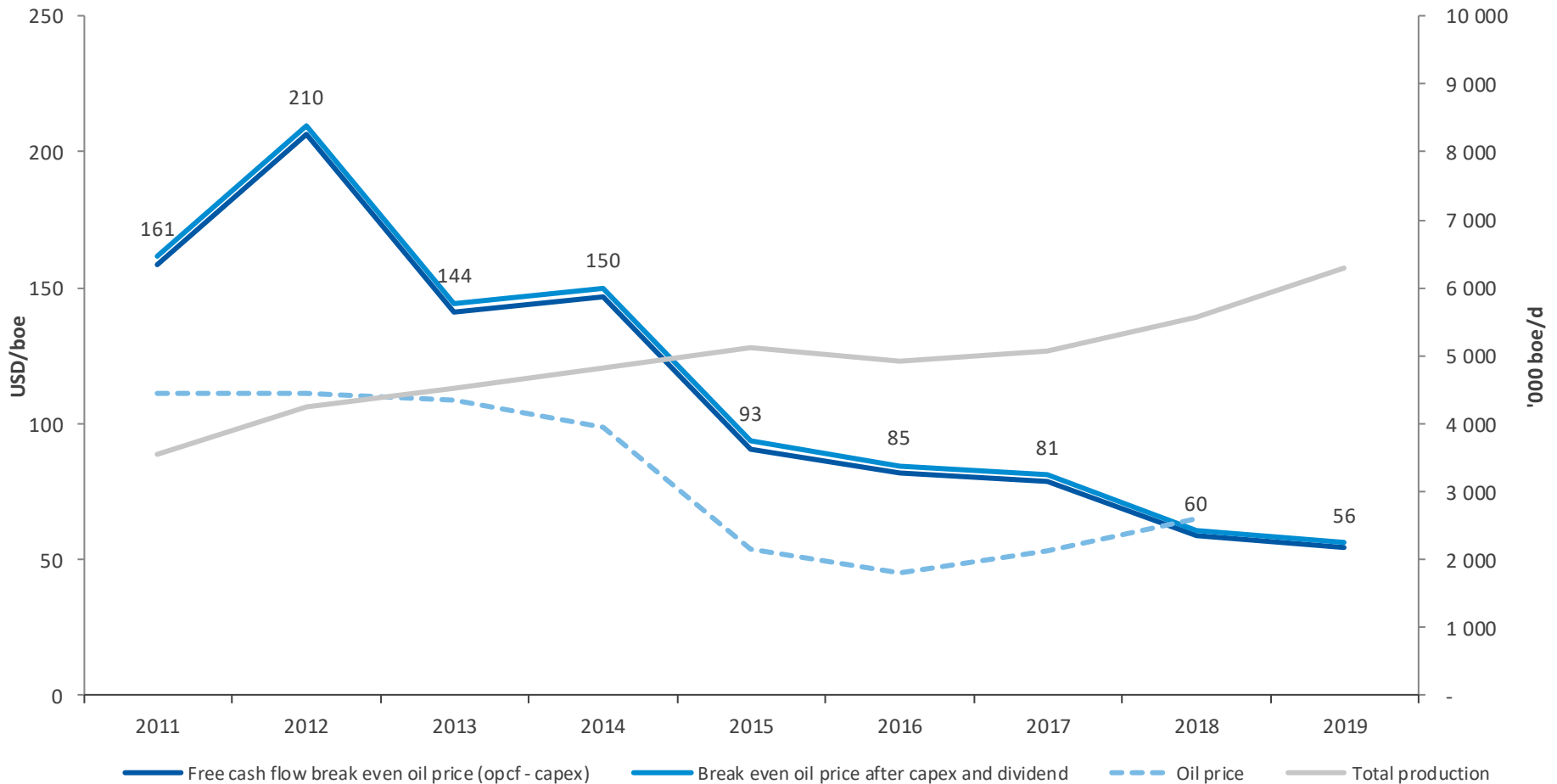
# US shale cash flow is improving

- Over the past few quarters US shale companies' cash flow improved dramatically.
- The improvement was driven by both higher oil price (=higher operational cash flow) and lower capex compared to previous quarters.
- Consensus now expect the shale industry to report positive free cash flow for Q2 18.



# '18e cash flow break even around USD 60/boe (if you believe consensus)

## Shale companies' oil price break even (revenue per boe)



**Improved cash flow = Increased  
spending**

---

## **Big oil companies tell us:**

- “We do not expect to see any cost inflation in the near term”
- “We expect to keep capex at the current level and grow”

**Our view:** If they are right, the cyclical nature of the oil business has changed and this cycle is like one other cycle



# We forecast E&P capex growth of 8%, 10% and 10% 2018-20e

## Summary of approaches for E&P capex\*

Approach	2018e	2019e	2020e
Regression	12%	7%	3%
Consensus capex majors	0%	12%	4%
Company guidance	8%	na	na
Rystad	-1%	6%	13%
Comparison with 1980's	-1%	12%	2%
<b>Average</b>	<b>4%</b>	<b>9%</b>	<b>6%</b>

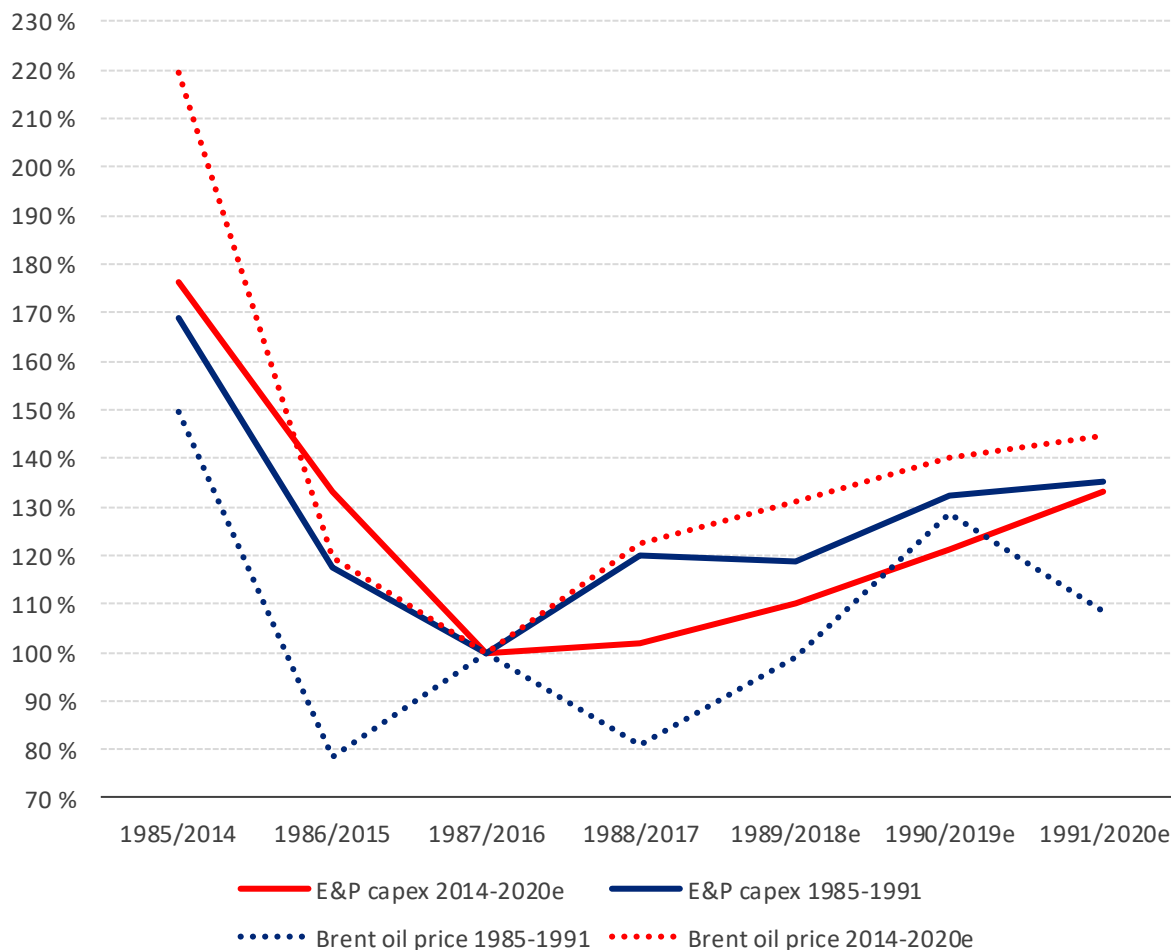
<b>SB1 Markets forecast</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>
-----------------------------	-----------	------------	------------

### \* Comments:

- Regression: Methodology: Regress historical E&P capex vs oil price change. R2 is maximized with t=0 weight of 45% and t-1 with weight of 55%. Pros: Theoretically reasonable. Cons: Based on historical relationship oil price vs. upstream E&P capex
- Consensus capex majors: Methodology: Obtain consensus capex data for the largest listed oil companies globally. Pros: Captures trends that not necessarily are included in company guidance Cons: Includes downstream capex
- Company guidance: Methodology: Track company specific capex guidance. Pros: Possible to exclude downstream capex. Cons: Few data points for year t until mid/end Q1 in year t (typically around CMDs)
- Rystad Energy: Methodology: Collect data for all field by field upstream capex. Pros: Takes into account up to date project specific plans. Cons: Relies on third party estimates

# Our forecast implies a growth path similar to the late 1980s

## E&P capex rebased to 100 (1987 and 2016, respectively)



- **Late 1980s comparable to current situation**
  - The situation in the oil market in the mid and late 1980 was similar to what we have seen from the 2014: OPEC flooded the market with oil and oil prices and E&P spending declined dramatically.
  - After E&P capex reached its trough in the 1980s, spending increased dramatically and by 1991 E&P capex has increased by 35% compared to 1987. We do not rule out that the same may happen again.
- **We assume somewhat higher growth than our models tell us**
  - Analysts tend to miss the momentum of both downturns and upturns. Therefore, we assume somewhat higher growth in the period 2018-2020 than the theoretical models tell us by looking at what happened in the late 1980s.
  - We also note that in particular for 2018e there is a great variation between what our approaches tell us. E.g. both preliminary indications from majors and Rystad's estimates indicate a decline of 1%, while the regression analyses based on the historical relation E&P capex vs oil price predicts 10% growth.

# Summary

---

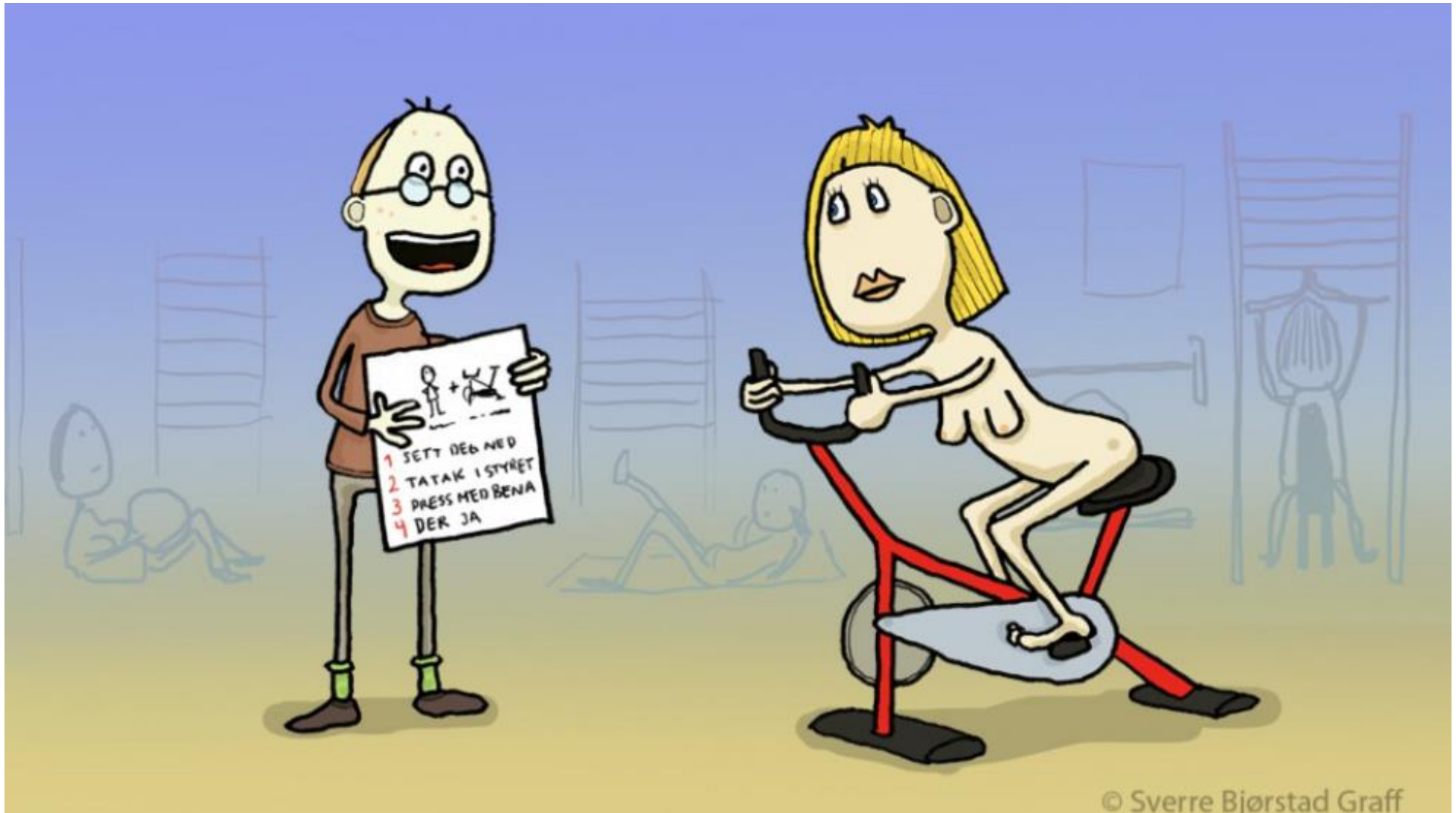
## Oil market:

- Generally increased geopolitical risk, in particular Iran /Israel conflict and US/Iran conflict
- Storage levels below 5 year average, increasing concerns of a tight market
- Oil demand has been strong

## The industry's cash flow:

- Close to all time high cash flow in 2018
- Improved cash flow = Increased spending

# Nød lærer...



# Disclaimer

---

## IMPORTANT DISCLOSURES AND CERTIFICATIONS

This document provides additional disclosures and disclaimers relevant to research reports and other investment recommendations ("Recommendations") issued by SpareBank 1 Markets AS ("SpareBank 1 Markets"), cf. the Norwegian Securities Trading Act section 3-10 with further regulations.

### Standards and supervisory authorities

SpareBank 1 Markets complies with the standards for recommendations issued by the Norwegian Securities Dealers Association (<http://vpff.no/>) and the Norwegian Society of Financial Analysts. The lead analyst (see front page) is employed by SpareBank 1 Markets, which is legally responsible for this report and is under the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet).

### Previous Recommendations

For an overview of SpareBank 1 Markets research reports and other investment recommendations regarding the financial instruments of the issuer the past 12 months, including data on changes in such research reports and other investment recommendations, please see SpareBank 1 Markets' website, [www.sb1markets.no](http://www.sb1markets.no) (log-in required)

### Planned updates

Unless explicitly stated otherwise in this report, SpareBank 1 Markets expects, but not undertake, to issue updates to this report following the publication of new figures or forecasts by the issuer covered, or upon the occurrence of other events which could potentially have a material effect on it.

### Information sources

Important sources of information: the issuer, including its quarterly and annual reports, Oslo Stock Exchange, Statistics Norway (Statistisk Sentralbyrå). Sources are cited when referred to in the Recommendation. We use only sources we find reliable and accurate, unless otherwise stated.

The Recommendations has not been presented to the issuer/ the issuers of the financial instrument presented before dissemination.

### SpareBank 1 Markets' interests and disclosure of assignments and mandates

Financial instruments held by the analyst(s) and/or close associate in the issuer/ issuers herein: 0      Other material interest (if any): None

SpareBank 1 Markets does not alone or together with related companies or persons, hold a portion of the shares exceeding 5 % of the total share capital in any companies where a recommendation has been produced or distributed by SpareBank 1 Markets, or holds other interest likely to affect the objectivity of a recommendation, except when disclosed, cf. below.

SpareBank 1 Markets may hold financial instruments in companies where a recommendation has been produced or distributed by SpareBank 1 Markets in connection with rendering investment services, including market making.

For important disclosures, such as an overview of all financial instruments in which SpareBank 1 Markets or related companies are market makers or liquidity providers, all financial instruments where SpareBank 1 Markets or related companies have been lead managers or co-lead managers over the previous 12 months, and all issuers of financial instruments to whom SpareBank 1 Markets or related companies have rendered investment banking services over the previous 12 months, please refer to SpareBank 1 Markets equity research website: [www.sb1markets.no](http://www.sb1markets.no) (login required) Please note that agreements and services subject to confidentiality are excluded.

# Disclaimer

---

## SpareBank 1 Markets Research Department

Our recommendations are based on a six-month horizon, and on absolute performance. We apply a three-stage recommendation structure where Buy indicates an expected annualized return of greater than +10%; Neutral, from 0% to +10%; Sell, less than 0%.

Current recommendations of the Research Department: (refers to Recommendations published prior to this report and required disclosed in accordance with the Securities Trading Regulations section 3-11 (4))

Current recommendations of the Research Department

Recommendation	Percent
Buy	54.3%
Neutral	20.8%
Sell	24.9%

## Standard research disclaimer

All employees of SpareBank 1 Markets are subject to duty of confidentiality towards clients and with respect to inside information.

SpareBank 1 Markets operates a system of “Chinese Walls” and other organizational procedures in order to control the flow of information within the firm and minimize conflicts of interest within SpareBank1 Markets and between clients. The Research Department is part of this system.

The Research Analysts of SpareBank 1 Markets receive salary and are members of the bonus pool. However no part of the analysts’ salaries or compensations relates to the performance of their recommendations, directly to investment banking services or other services provided by SpareBank 1 Markets or related companies to issuers.

## Analyst Certification

The views expressed in this research accurately reflect(s) the personal views of the analyst(s) principally responsible for this report about the subject securities or issuers, and no part of the compensation of such analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. No part of the compensation of the research analyst(s) responsible for the preparation of this report was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst(s) in this report.

## Risks

Generally, investments in financial instruments involve risks. For specific risks related to our various recommendations, please see the latest relevant reports. The target prices on companies in the SpareBank 1 Markets Research universe reflect the subjective view of the analyst about the absolute price that financial instruments should trade at, within our six-month recommendation horizon. The target price is based on an absolute valuation approach, which is detailed in our research reports. The target price can differ from the absolute valuation, in accordance with the analyst's subjective view on the trading or cyclical patterns for a particular financial instrument, or a possible discount/premium to reflect factors such as market capitalization, ownership structure and/or changes in the same, and company-specific issues.

This report or summary has been prepared by SpareBank 1 Markets from information obtained from public sources not all of which are controlled by SpareBank 1 Markets. Such information is believed to be reliable and although it has not been independently verified, SpareBank 1 Markets has taken all reasonable care to ensure that the information is true and not misleading. Notwithstanding such reasonable efforts, SpareBank 1 Markets makes no guarantee, representation or warranty as to its accuracy or completeness.

SpareBank 1 Markets assumes no obligation to update the information contained in this report or summary to the extent that it is subsequently determined to be false or inaccurate.

This document contains certain forward-looking statements relating to the business, financial performance and results of the issuer and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words “believes”, “expects”, “predicts”, “intends”, “projects”, “plans”, “estimates”, “aims”, “foresees”, “anticipates”, “targets”, and similar expressions. The forward-looking statements contained in this document, including assumptions, opinions and views of the issuer or cited from third party sources are solely opinions and forecasts which are subject to risks, uncertainties and other factors that may cause actual events to differ materially from any anticipated development.

# Disclaimer

---

## No Solicitation

This report or summary is provided for informational purposes only and under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy any securities. This report or summary is prepared for general circulation and general information only. It does not have regard to the specific investment objectives, financial situation or the particular needs of any person who may receive this report or summary. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report or summary and should understand that statements regarding future prospects may not be realized.

Performance in the past is not a guide to future performance. SpareBank 1 Markets accepts no liability whatsoever for any direct or consequential loss arising from the use of this publication or its contents.

These materials may not be reproduced, distributed or published by any recipient for any purpose. Please cite source when quoting.

## Notice to U.S. Investors

If this report is being furnished directly to U.S. recipients by a non-U.S. SpareBank 1 Markets entity in reliance on section (a)(2) of Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended (each a “direct U.S. recipient”), each such direct U.S. recipient of this report represents and agrees, by virtue of its acceptance thereof, that it is “major U.S. institutional investor” (as such term is defined in section (b)(4) of Rule 15a-6) and that it understands the risks involved in executing transactions in such securities. Any direct U.S. recipient of this report that wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of SpareBank 1 Capital Markets Inc. (“SpareBank 1 Capital Markets”), a registered U.S. broker-dealer and member of FINRA and SIPC.

In certain cases, unless prohibited by the provisions of Regulation S under the U.S. Securities Act of 1933, as amended, this report may be provided by SpareBank 1 Capital Markets to a U.S. recipient (a “SpareBank 1 Capital Markets U.S. recipient”), in which case each such SpareBank 1 Capital Markets U.S. recipient of this report represents and agrees, by virtue of its acceptance thereof, that it is “major U.S. institutional investor” (as such term is defined in section (b)(4) of Rule 15a-6), or that it is a U.S. institutional investor (as such term is defined in section (b)(7) of Rule 15a-6), and that it understands the risks involved in executing transactions in such securities. In such cases, SpareBank 1 Capital Markets accepts responsibility for the content of this report; however, although it has accepted responsibility for the content of this report in such cases, SpareBank 1 Capital Markets did not contribute to the preparation of this report, and the specific authors of the report are not employed by, and are not associated persons of, SpareBank 1 Capital Markets. The SpareBank 1 Markets entity that prepared the report, and the authors of this report, may not be subject to all of the registration, qualification, disclosure, independence and other U.S. regulatory requirements that apply to SpareBank 1 Capital Markets and its employees and associated persons. Any SpareBank 1 Capital Markets U.S. recipient of this report that wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or to engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of SpareBank 1 Capital Markets.

Any transaction in the securities discussed in this report by U.S. persons (other than a registered U.S. broker-dealer or bank acting in a broker-dealer capacity) must be effected with or through SpareBank 1 Capital Markets.

The securities referred to in this report may not be registered under the U.S. Securities Act of 1933, as amended, and the issuer of such securities may not be subject to U.S. reporting and/or other requirements. Available information regarding the issuers of such securities may be limited, and such issuers may not be subject to the same auditing and reporting standards as U.S. issuers.

Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives, risk tolerance and financial position. In jurisdictions where SpareBank 1 Capital Markets is not registered or licensed to trade in securities, commodities or other financial products, transactions may be executed only in accordance with applicable law and legislation, which may vary from jurisdiction to jurisdiction and which may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

The information in this publication is based on carefully selected sources believed to be reliable, but SpareBank 1 Capital Markets does not make any representation with respect to its completeness or accuracy. All opinions expressed herein reflect the author’s judgment at the original time of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

The information contained herein may include forward-looking statements as described above within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company’s actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company’s products or services, changes in foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.