LNG Shipping Market, Financing and Flagging

Prepared for Marine Money Cyprus Forum

POTEN & PARTNERS

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Agenda

- LNG Shipping Market
- LNG Shipowners
- LNG Ship Financing
- Ship Flag
- Conclusion

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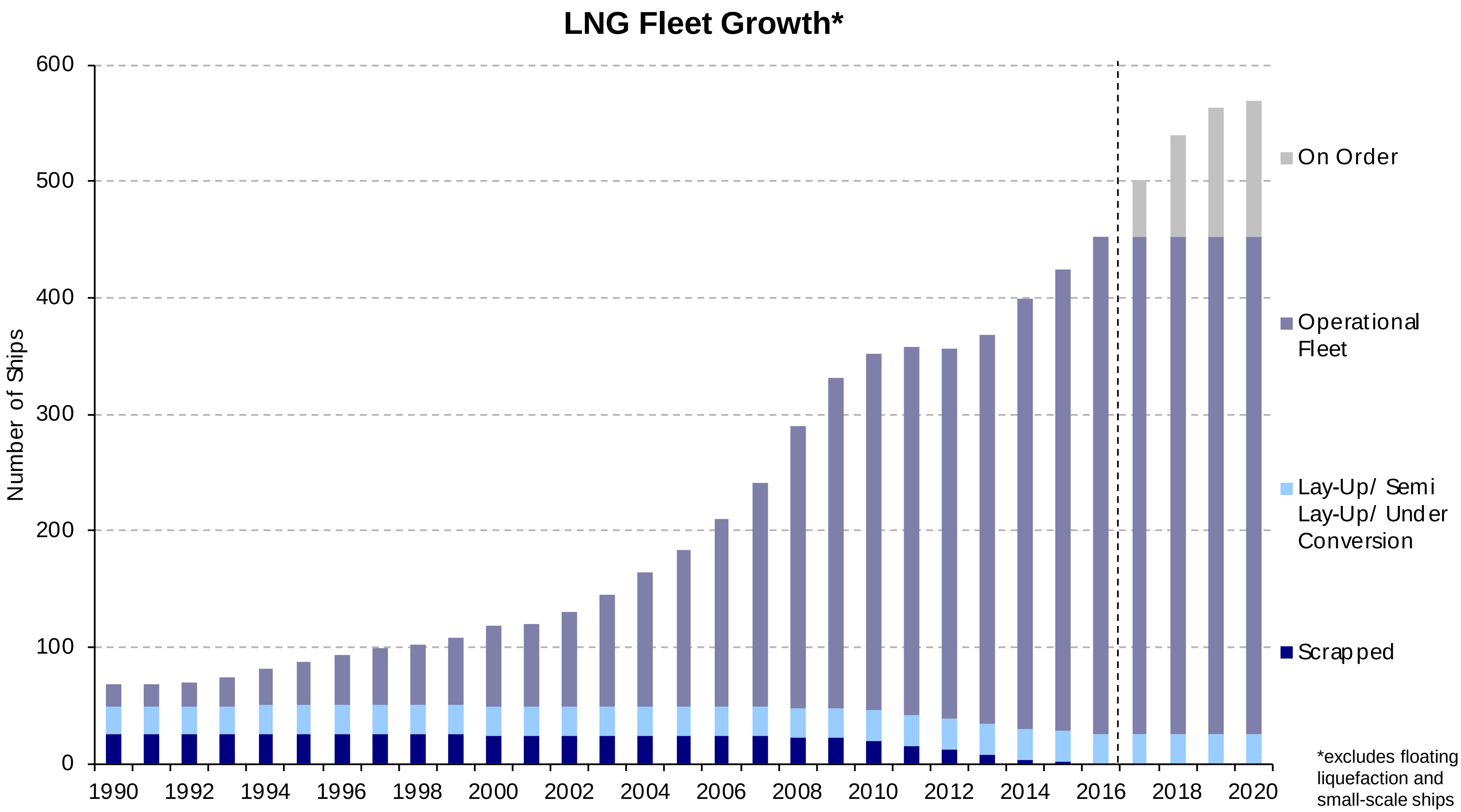
LNG Shipping Market

The LNG fleet is set to reach 500 ships by 2018



*excludes floating liquefaction and small-scale ships

LNG Shipowners

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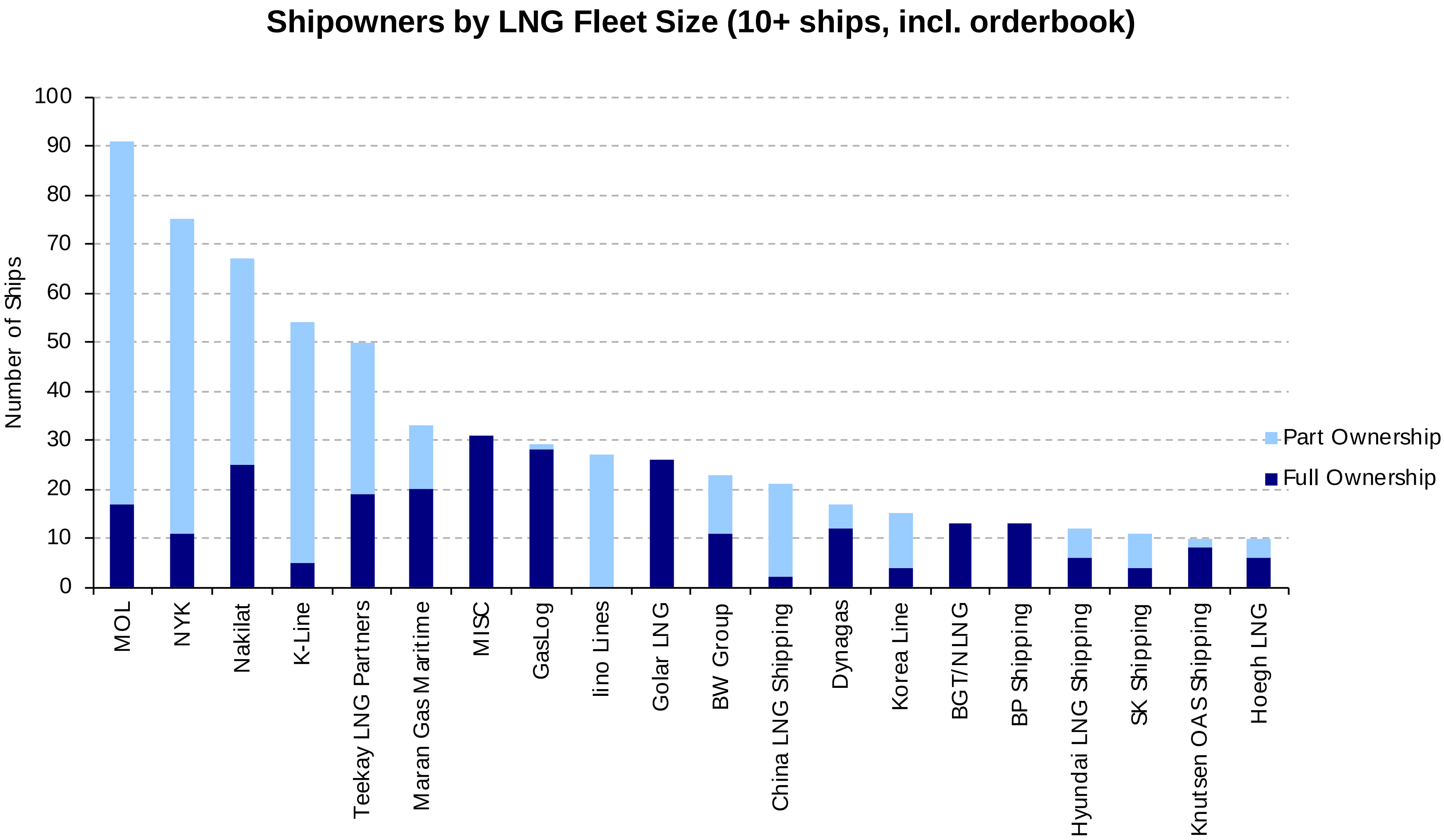
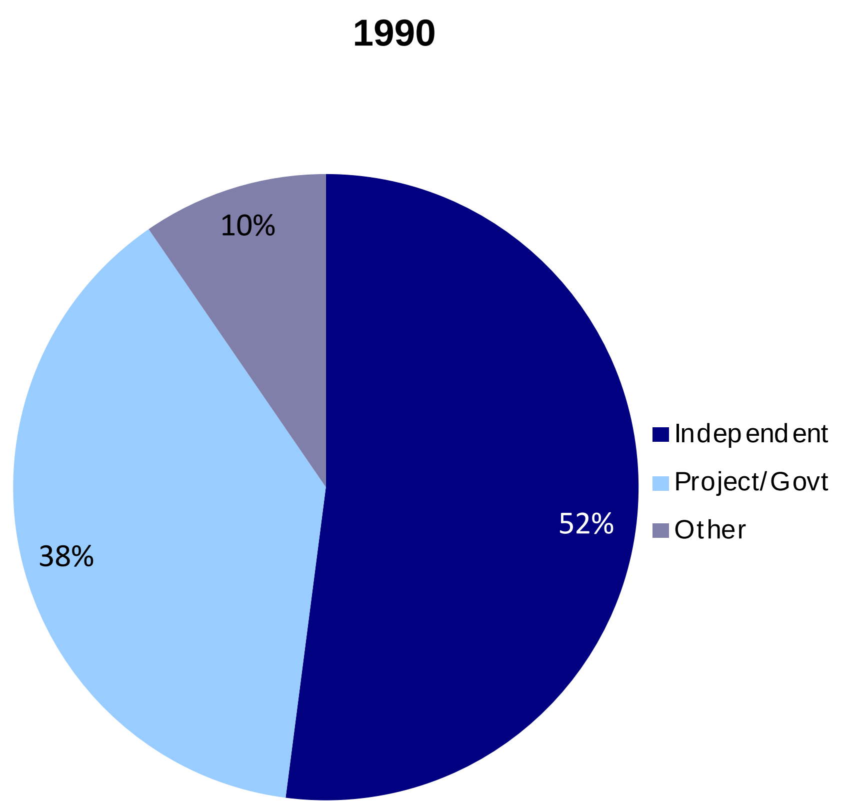
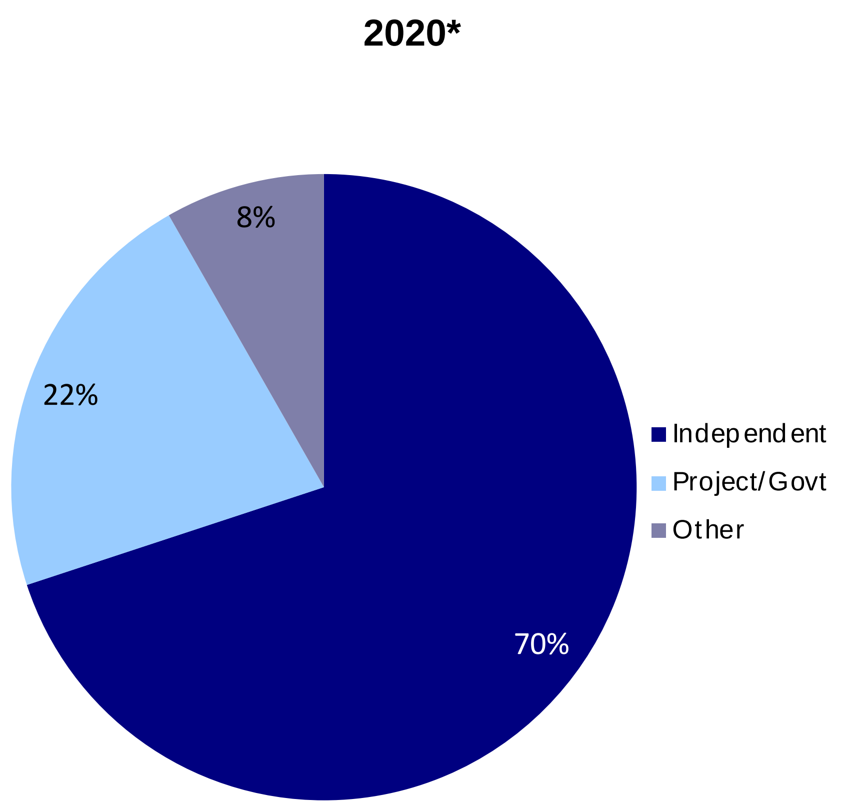
There is a large pool of LNG shipowners



Ownership shift from projects to independent owners





*based on current fleet & orderbook

LNG Ship Financing

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Independents are at the center of fundraising activity

AWILCO LNG
BW Gas
TMS CARDIFF GAS LTD.
CLSICO
ENE

GASLOG LOGISTICS
Golar LNG
H-LINE SHIPPING
HÖEGH LNG
HMM HYUNDAI MERCHANT MARINE CO., LTD.

飯野海運株式会社 IINO KAIUN KAISHA, LTD.
"K" LINE "K" LINE (EUROPE) LIMITED
KLC
Knutsen OAS Shipping
MGM Maran Gas Maritime Inc.

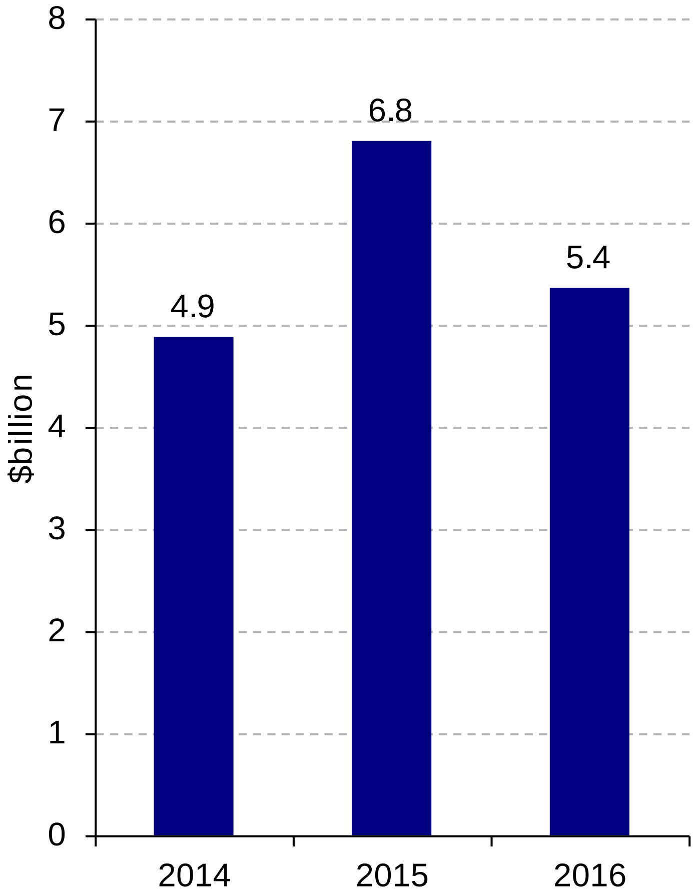
misc
MOL
NYK LINE NIPPON YUSEN KAISHA
PRONAV
SK shipping

Stena LNG
stx PanOcean
TK TEEKAY
EXMAR
THENAMARIS
DYNAGAS LTD.

LNG shipowners need to be able to raise large amounts of debt and equity

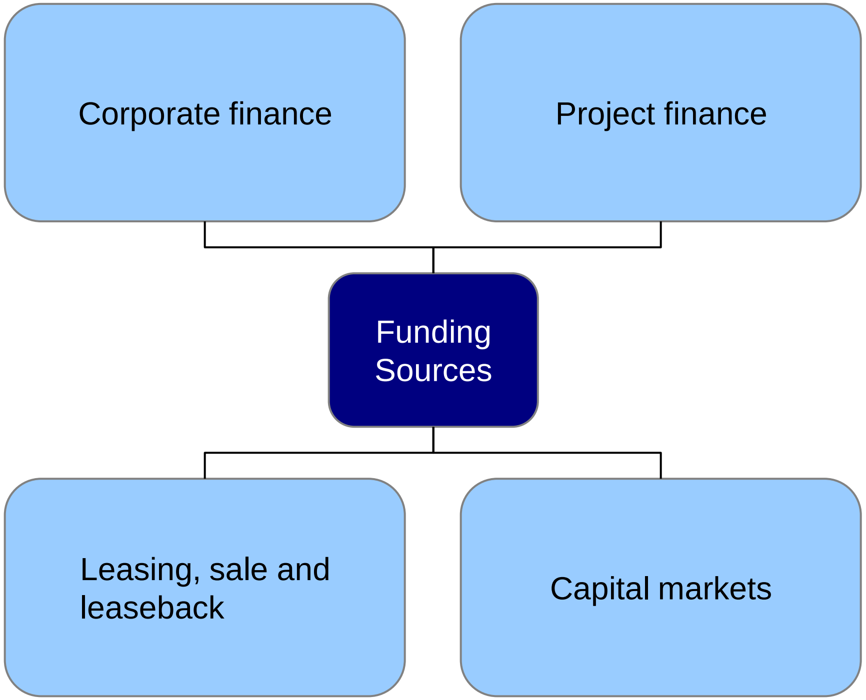
- LNG carrier typically costs ~ $200 million
- ARC7 LNG icebreaker costs $320 million
- ARC7 ships for Russia's Yamal LNG project will cost $4.8bn in total
- Fundraising climbed in 2015, then edged lower in 2016

LNG Ship Fundraising



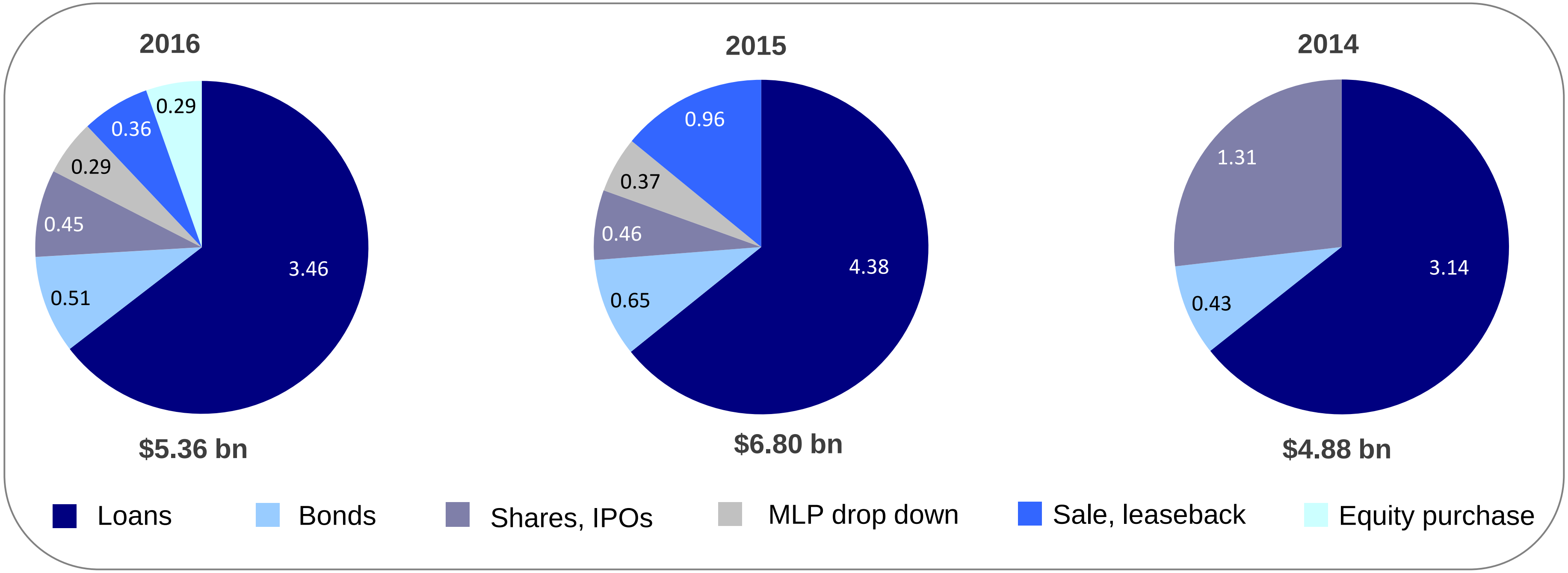
Shipping companies tap a variety of funding sources

- Corporate finance – raised by the company for one or more vessels
- Project finance – limited recourse to the shipowner. Loan paid back from the ship's earnings
- Leasing, sale and leaseback – prevails in Chinese transactions
- Capital markets – bonds and equities



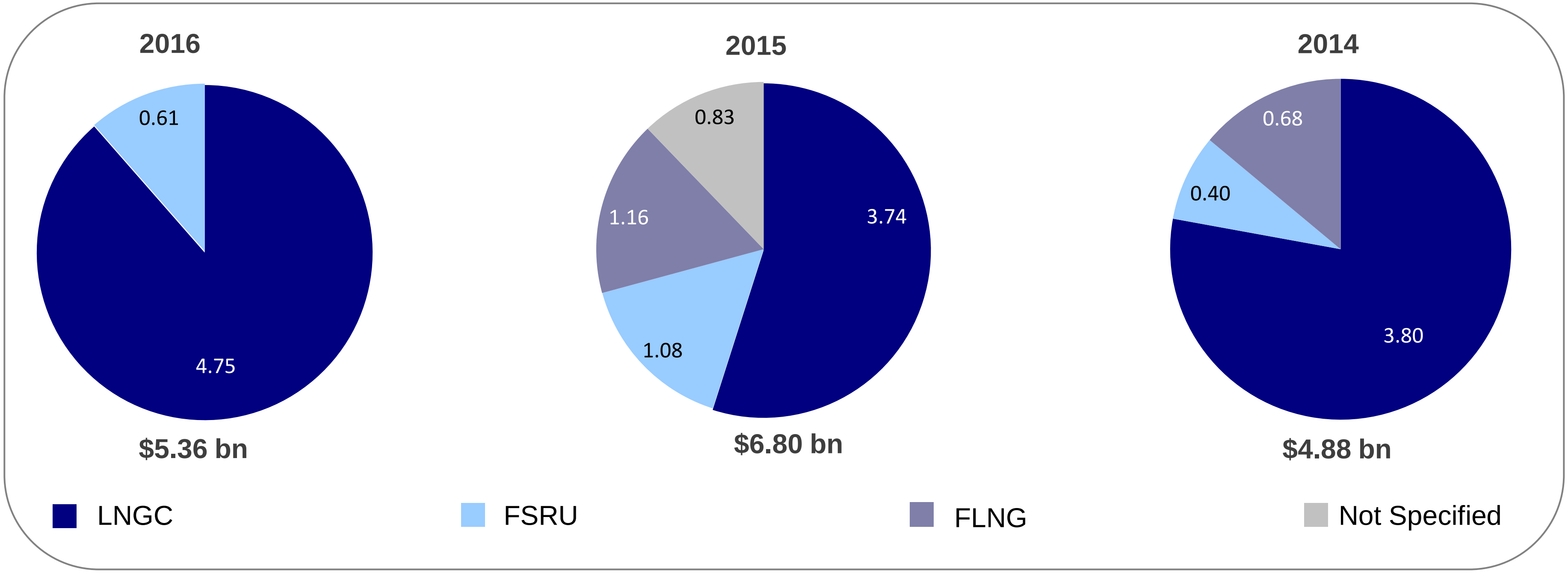
Loans are the dominant method used by shipping companies to raise funds

- Loans are either corporate or provided via project finance structures



Most funding raised by LNG shipping companies is for LNGCs (trading vessels)

- However, the floating LNG sector is growing…



Financing developments in the year ahead

- More shipping companies are likely to seek financing for FSRUs this year
- FSRU financing will continue to follow a similar pattern to that used for LNGCs
- Sufficiently long charters that allow for steady earnings give banks security that loans will be paid back
- Only the top names in shipping can finance vessels without employment
- Golar is expecting to continue with its FLNG conversion projects

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LNG Ship Flag

Having the ship flagged to a trustworthy country is "absolutely make or break" for the financing

Financing an LNG Vessel – Lenders' Areas of Focus

- *Risk transfer within the charter documentation*
- *Experience/Strength of the shipowners/ shipmanager*
- *Project-on-Project risk*
- *Acceptability of flag/ mortgage*
- *Experience of yard*
- *Vessel technology (including size)*
- *Level of security, given loan and swaps tend to rank pari passu*
- *Quality of Charterer and its jurisdiction*
- *Refund guarantee*

Source: Societe Generale

Criteria directly influenced by the choice of the Flag

The decision to insure a ship is a case by case evaluation of numerous, mostly technical, criteria

- A ship's flag is one aspect of numerous data considered for the decision to insure a ship
- LNG ships are almost exclusively registered under large, reputable flags
- With a poor quality flag, a shipowner – particularly an LNG shipowner - is unlikely to get financing, insurance, and a charter
- Unless the country is notoriously inexperienced or troubled, the detailed flag state performance is not the most critical evaluation criteria
- Insurers place a stronger emphasis on the quality of the Classification Societies and the shipowners' reputation
- Flag's rules on personal or pollution liabilities can escalate P&I premium
- In LNG Shipping, there is no clear link between the Flag State and the claims rate

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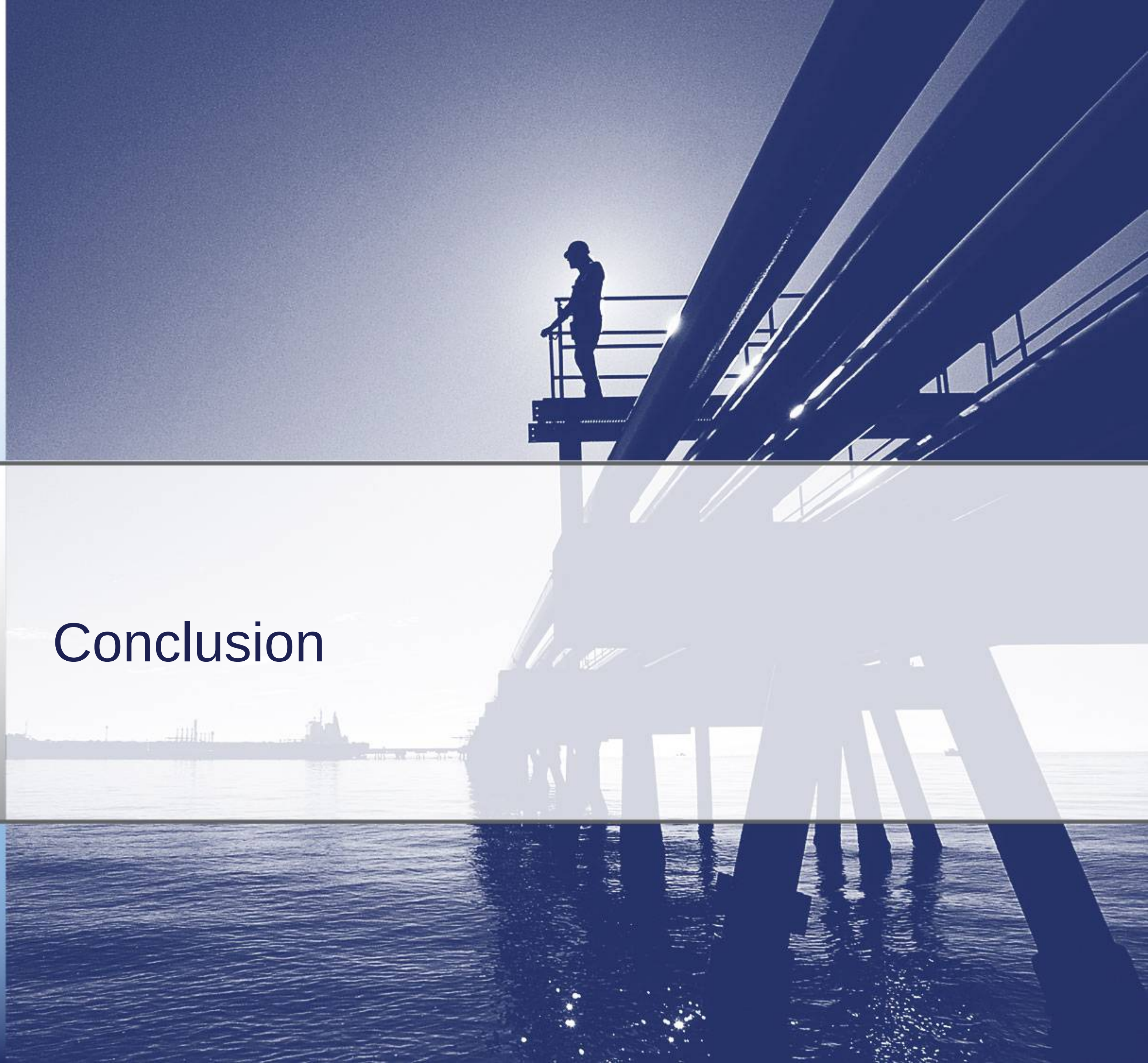

Conclusion

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- LNG carriers and FSRUs will continue to be funded via diverse means
- This will depend on which pools of funding offer the best pricing and liquidity at the time
- FLNG funding is in its infancy
- Acceptance by international commercial banks will depend on the successful implementation of these projects
- Small scale sector is expected to continue to attract development bank support
- Assessment of LNG vessels by potential lenders will continue to be made on a case-by-case basis
- Creditworthy owners with long charters will see better appetite from financiers than weaker competitors