

Airpocalypse Now

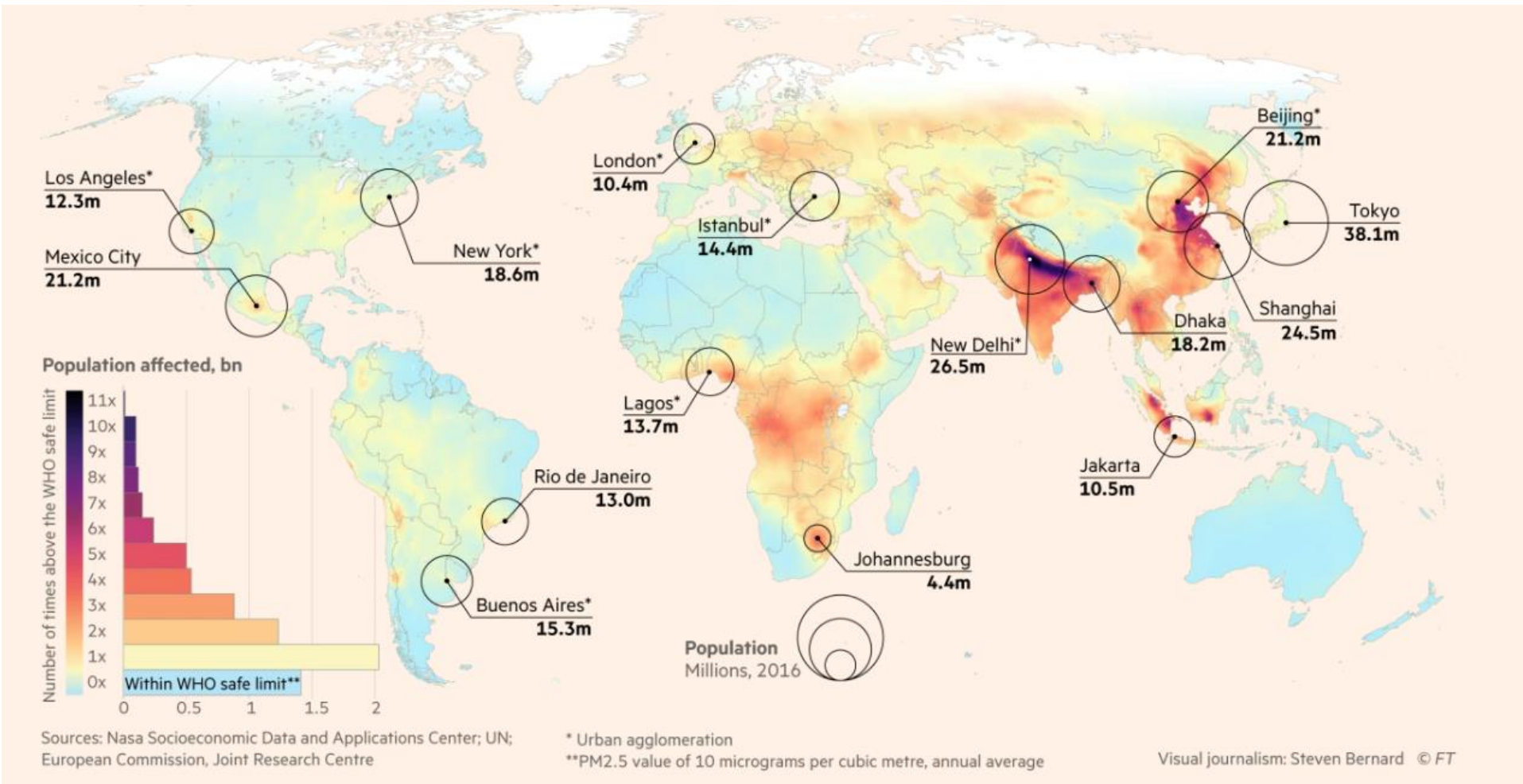


Kepler Cheuvreux, 2 November 2018

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Air pollution: a glocal problem



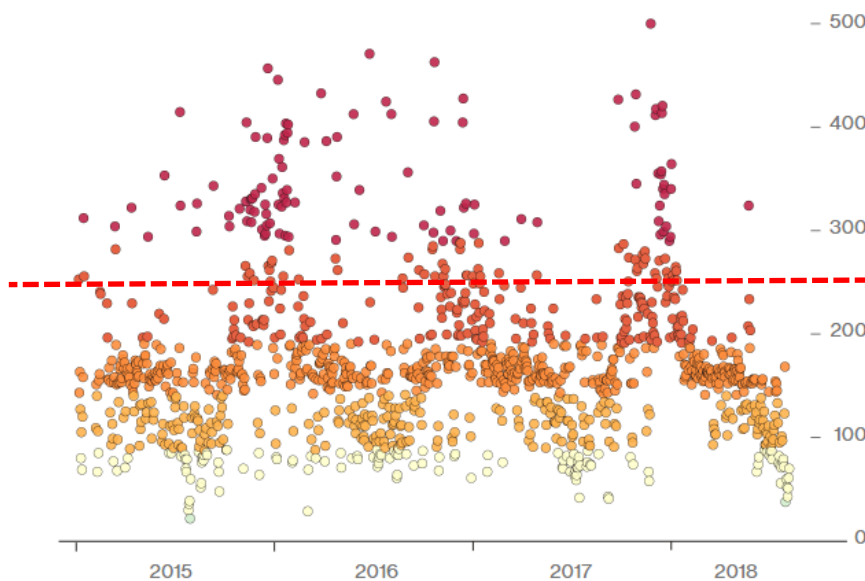
- 9 out of 10 people breathe air containing high levels of pollutants.
- 7 million pre-mature deaths every year caused by outdoor and household air pollution.

Policy matters



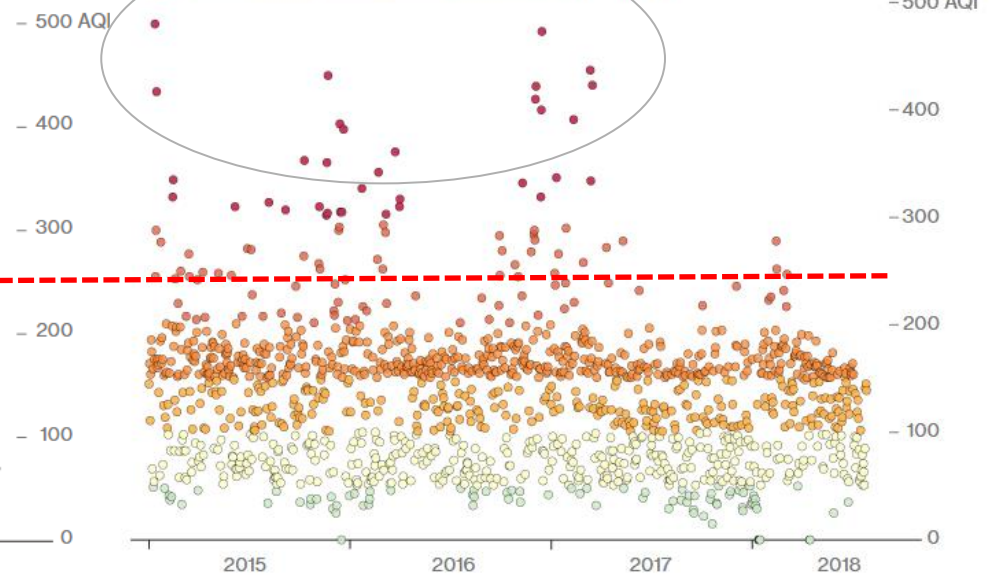
Air quality: New Dehli

Good Hazardous



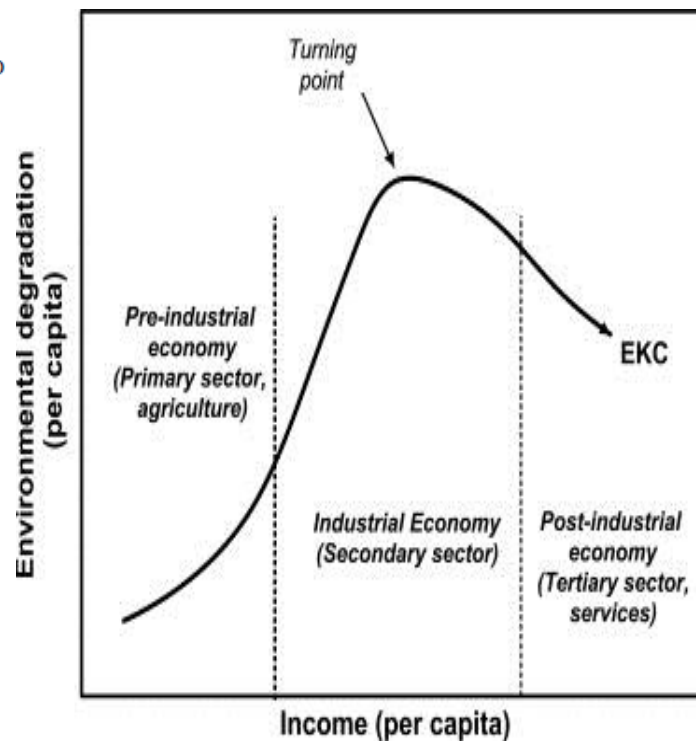
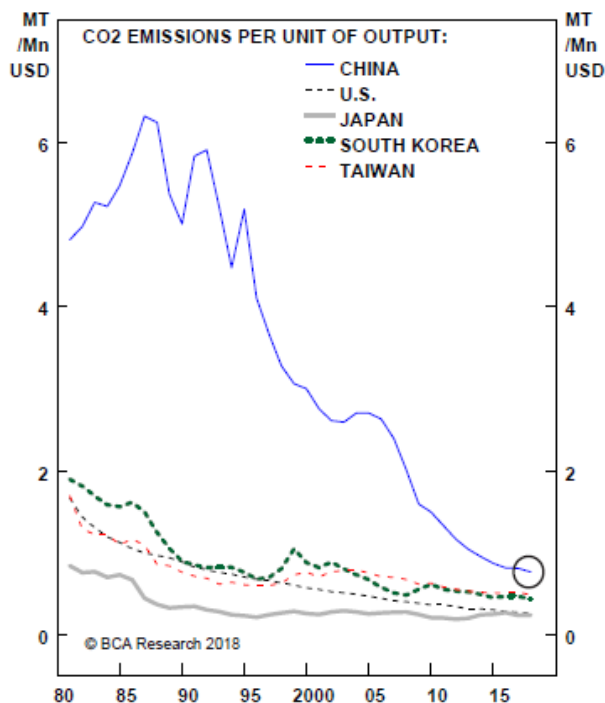
Air quality: Beijing

Good Hazardous



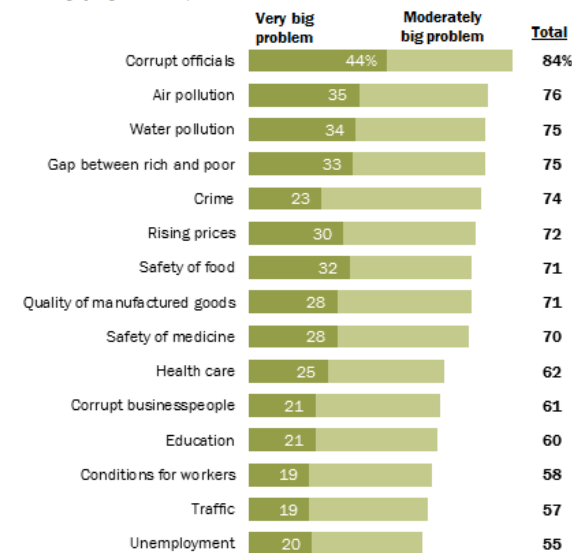
- The number of “very unhealthy” days or worse (when levels of dangerous particles called PM2.5 crossed 200) rose to 84 in New Delhi in 2017 from 66 in 2015
- In Beijing they dropped to 20 days from around 43 over the same period. PM 2.5 down 54% Q4-17 vs Q4-16
- World top ten most polluted cities (PM 2.5) are all in India

China's environmental Kuznets moment



Corrupt Officials, Pollution Are Top Concerns

How big of a problem is/are ...



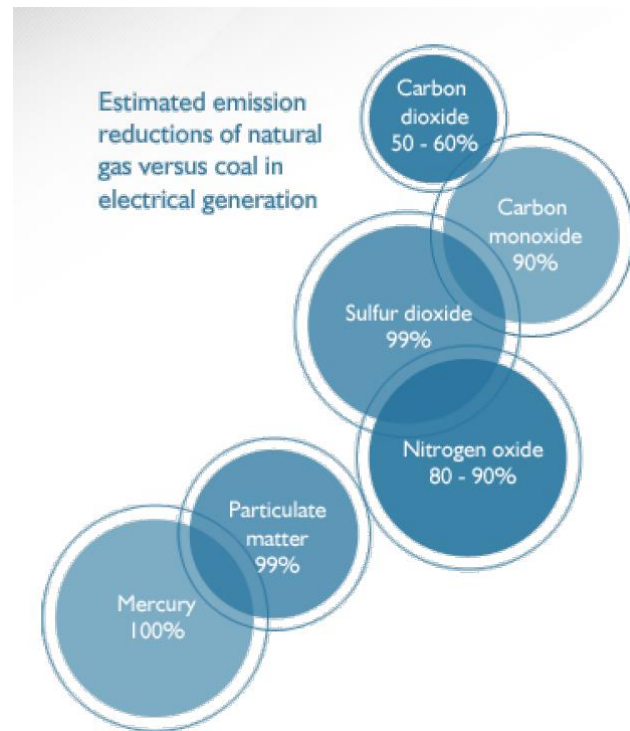
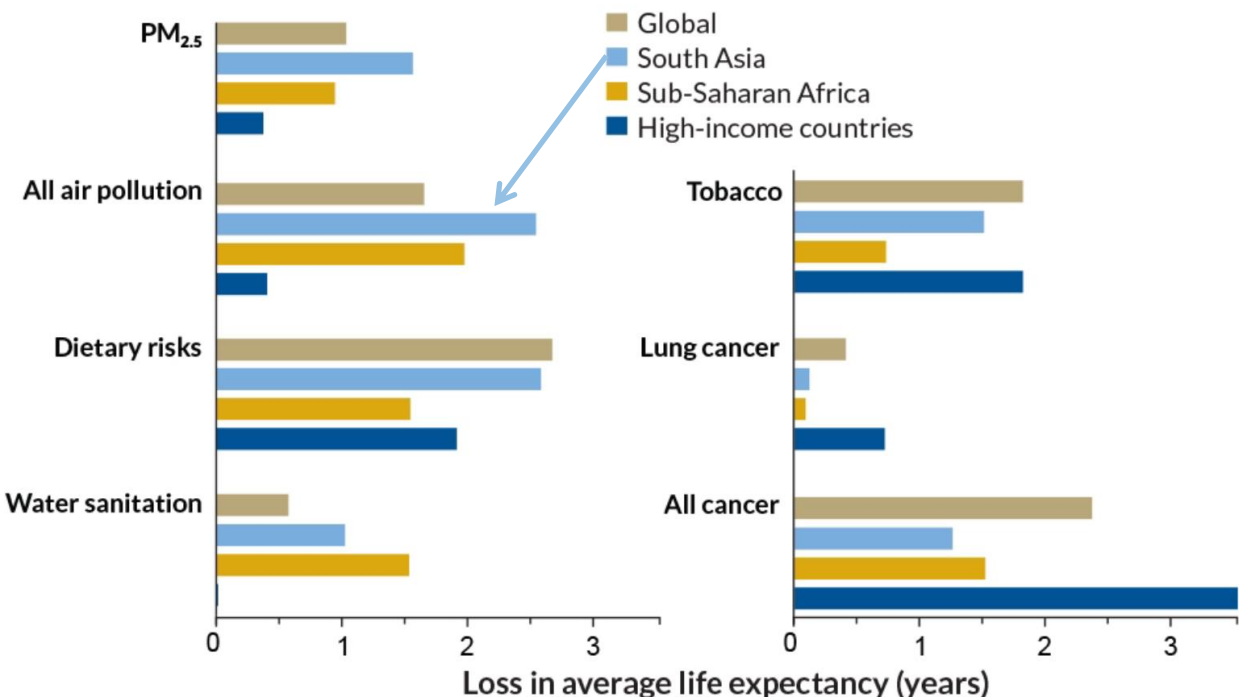
Source: Spring 2015 Global Attitudes survey. Q60a, bChI, d-f, h-q.

PEW RESEARCH CENTER

- GDP (PPP) per capita in China at about \$17k, but at European levels in Beijing, Shanghai, Tianjin (>\$30k)
- Economy reached an turning point at their Environmental Kuznet Curve (EKC) where air and water pollution are number 2 and 3 of top concerns
- Half of public according to Pew support lower growth as trade-off for lower air pollution

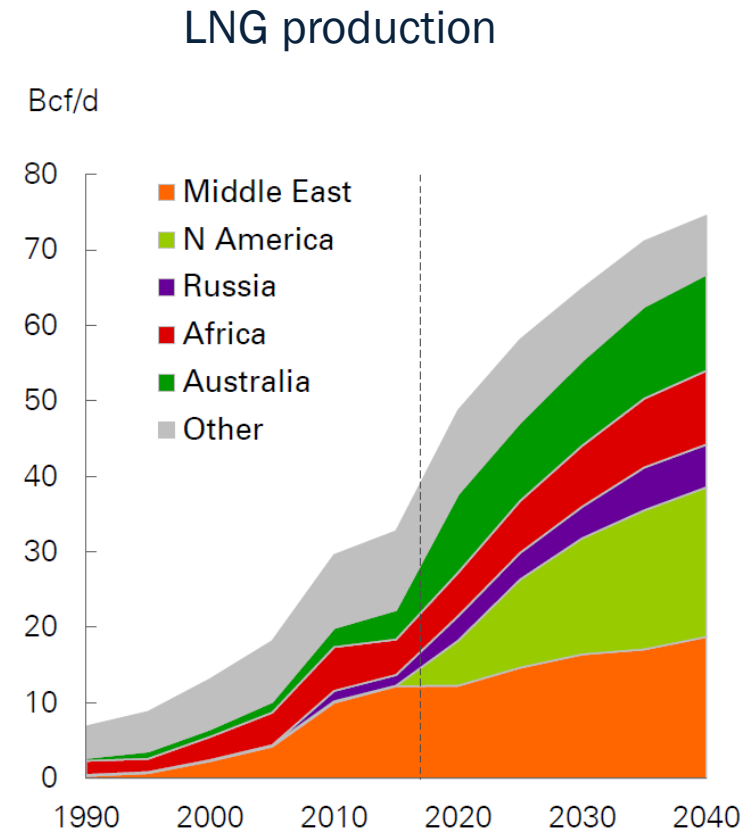
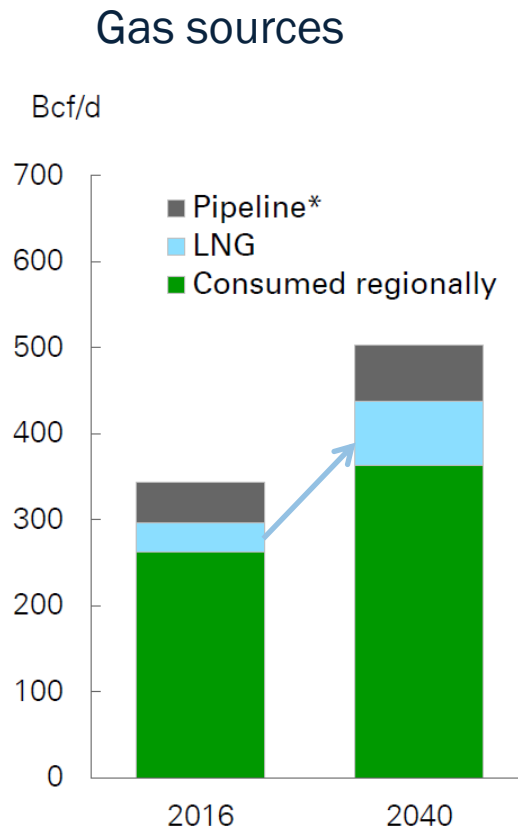
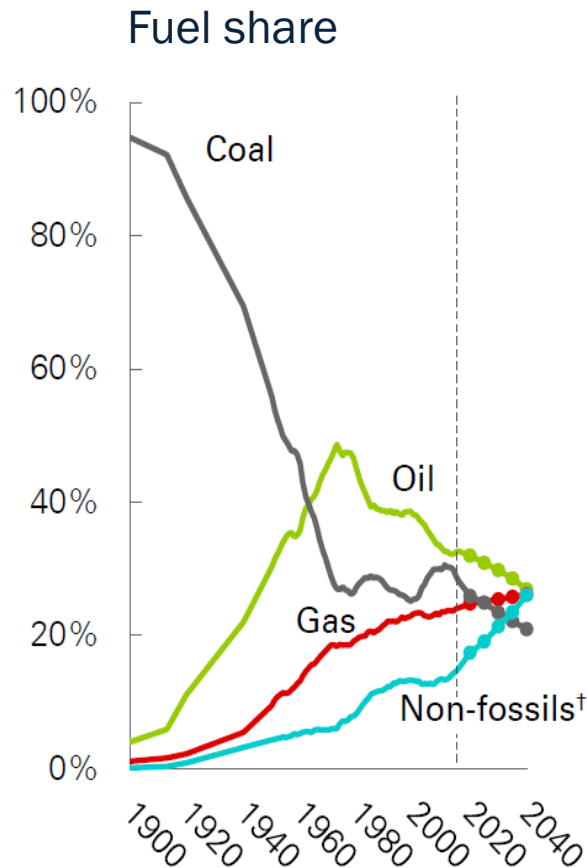
Switching to LNG is as much health policy as energy and/or environmental policy

How much different risks shorten life expectancy



- In South Asia, air pollution larger health risk than tobacco, cancer, water sanitation and on par with dietary risk
- If the air pollution improves from China's level to the American EPA standard level, that means that would improve everyone's education by around one year

19th century: coal, 20th century: oil, 21st century: gas (and LNG is where the growth happens)



Outlook for LNG shipping



Market for seaborne LNG transport is maturing

From point-to-point utility business to global tradeable commodity business

LNG 1.0



LNG 2.0



LNG 3.0



- 1960s to mid 2000s
- Traditional liner model (P2P)
- Back2back contracts 20yr+
- Steam vessels (≈ 180 tpd)
- Leverage: 80-100%
- Utility business
- Libor spread yield

- Mid-2000s – about now
- Portfolio players
- Term contracts (7-15yr)
- DFDE/TFDE vessels (≈ 135 tpd)
- Leverage: 70-80%
- MLP business
- MLP yield

- The way of the future
- Commoditization of LNG
- Short and medium term contracts
- Two-stroke low-speed (≈ 100 tpd)
- Leverage: 50-75%
- Capital market business
- ROCE

Yearly liquefaction capacity:

2000: ≈ 100 MMtpa

+100%

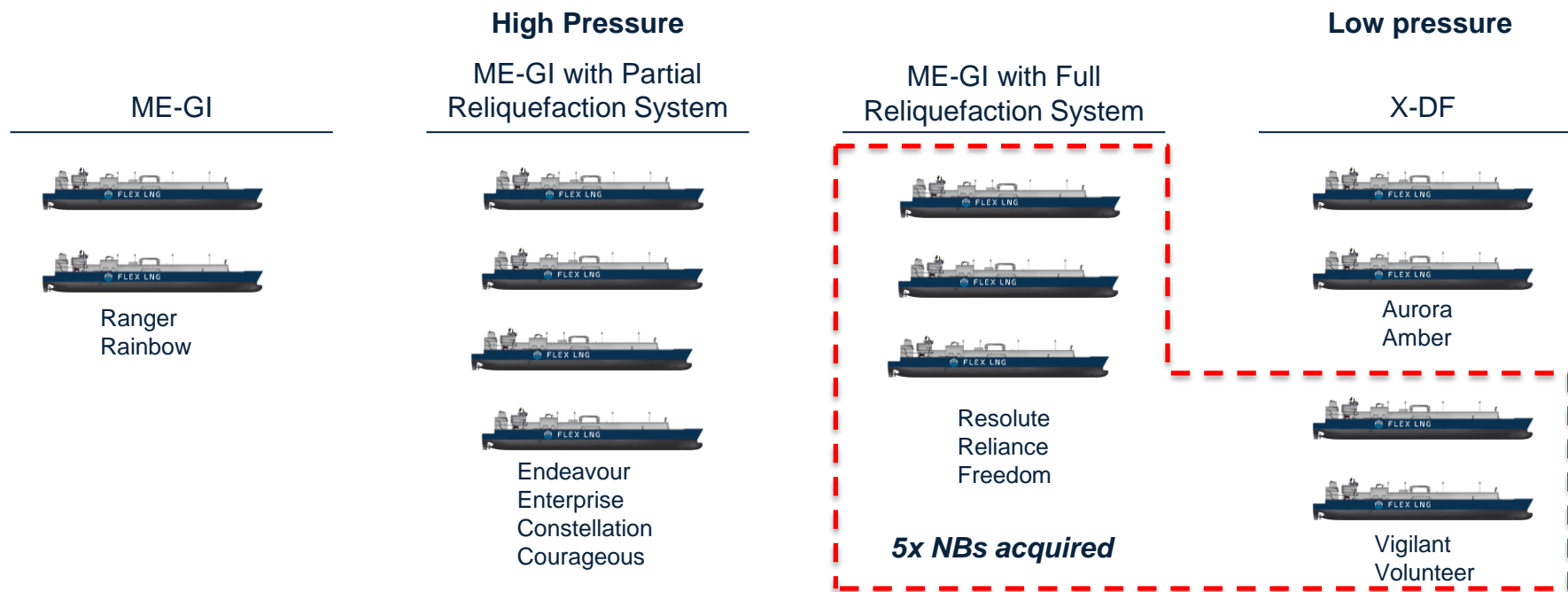
2010: ≈ 200 MMtpa

+100%

2020: ≈ 400 MMtpa

Unique fleet comprising 13 modern 5th generation LNGCs

ME-GI and X-DF vessels are the most fuel-efficient and technically advanced LNGCs

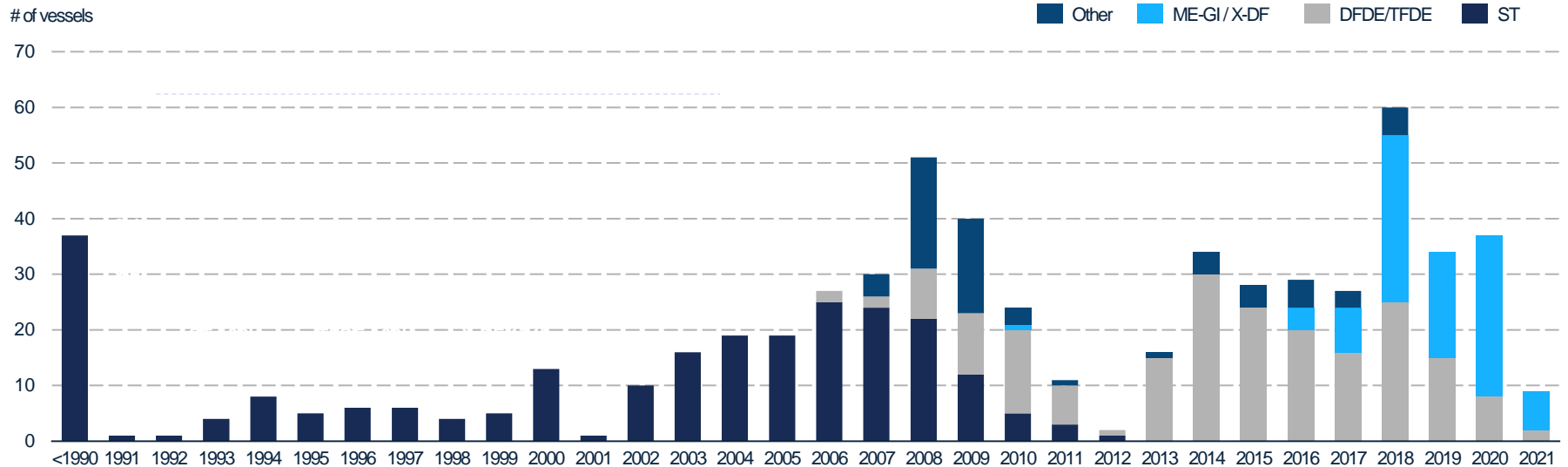


ME-GI and X-DF vessels are the most fuel-efficient and technically advanced LNGCs

- Three 174,000 CBM LNGC newbuildings at DSME with ME-GI engines and Full Reliquefaction System bringing BOR to 0.035%
- Two additional X-DF LNGC with Mark III Cargo Containment System with BOR of 0.085%
- Favourable slots mid-2020 to early 2021

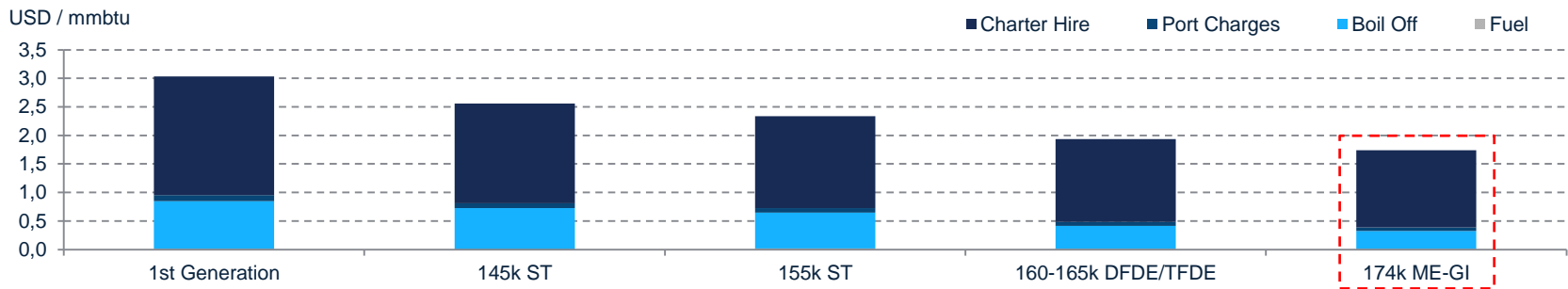
ME-GI and X-DF vessels with significant fuel cost savings

LNGC existing fleet and orderbook by propulsion type



Ship fuel consumption comparison

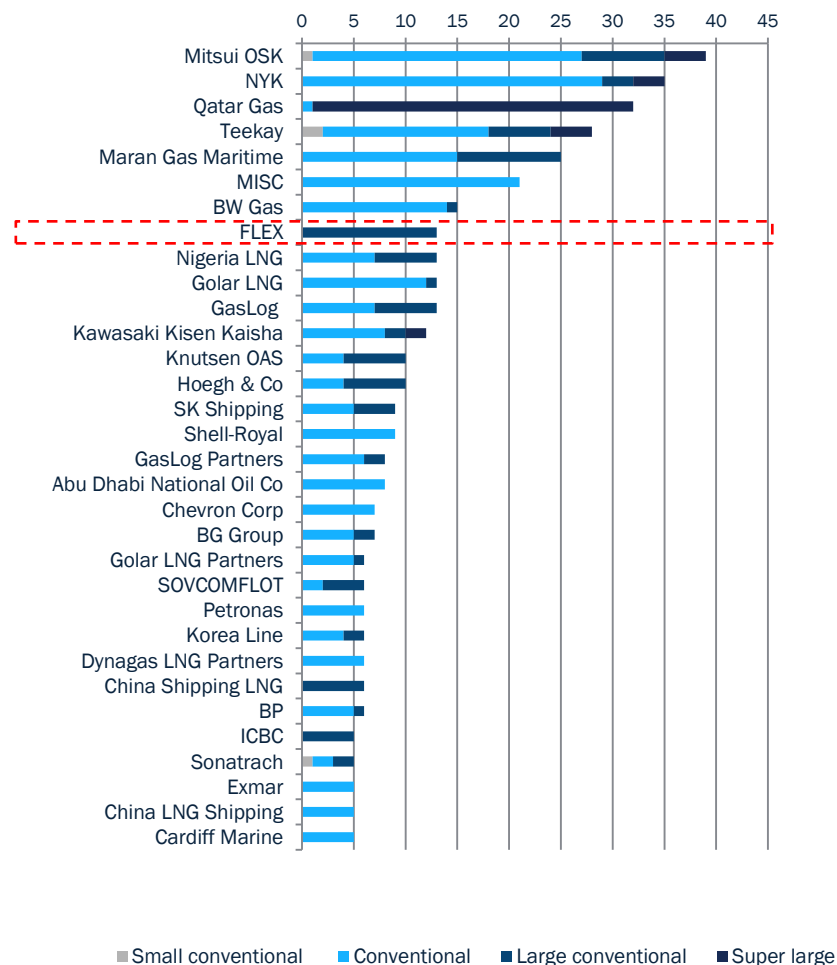
LNG shipping unit transportation costs (U.S. Gulf – China round trip)



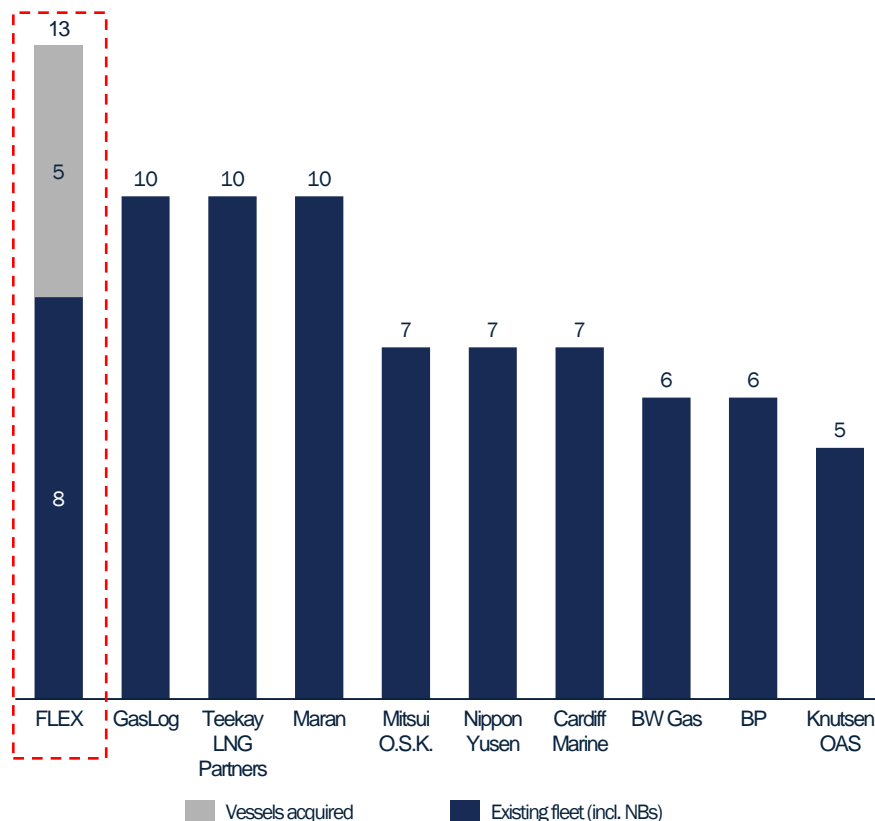
Notes: (1) Assuming speed of 16.5 knots (~74 days round trip), term charter rate of USD 70k/day, boil off gas priced at USD 5 / mmbtu, port cost of USD 250k, and allowance for port fees and loading discharge time. Source: Poten & Partners

FLEX to become the leading owner of 5th generation LNGCs

Largest LNG shipping companies⁽¹⁾

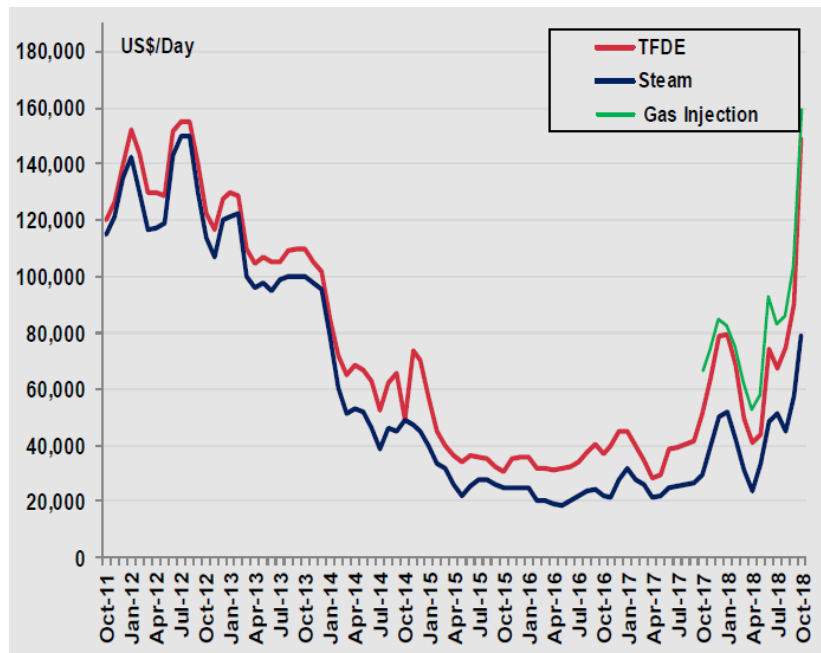


FLEX will be the leading operator of 5th gen LNG vessels⁽²⁾

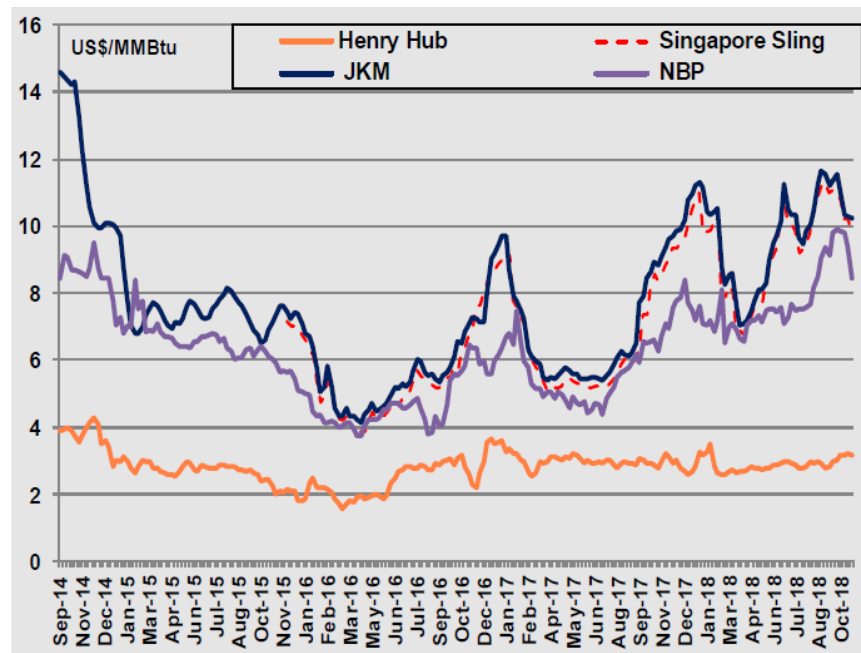


Early phase of recovery of LNGC market

Estimated monthly average LNGC spot rates

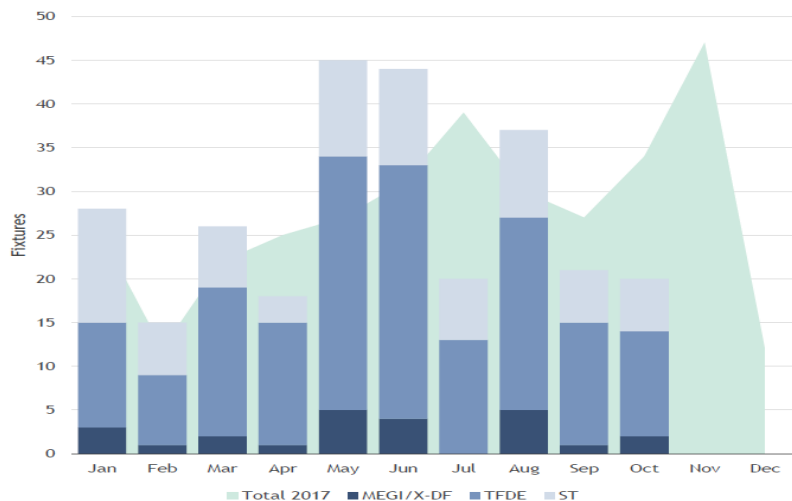


Natural Gas Prices by Region



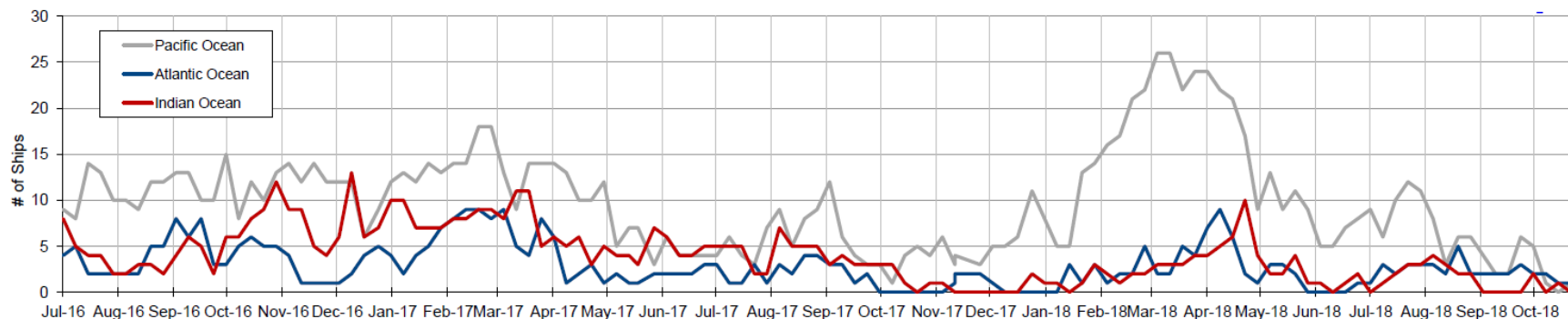
- Spot rate improved before winter season 2017/18
 - Rates have rebounded after glut of available tonnage depressed rates coming out of the winter early 2018
 - Arbitrage opportunities due to volatile spread between European and Asian prices
 - Unusual strong European gas prices have limited re-export, normalized European gas price will tighten LNGC market further

And the market is sold out



DAILY RATES (\$)			
	Atlantic	Middle East	Pacific
174 cbm 2-Stroke	225,000	225,000	225,000
change	50%	29%	29%
160 cbm TFDE	180,000	180,000	180,000
change	44%	20%	20%
145 cbm ST	135,000	135,000	135,000
change	50%	13%	13%
Ballast Bonus	RT + POS	RT + POS	RT + POS
SENTIMENT			
Short Term	Bullish	Bullish	Bullish
Medium Term	←	Holding	→

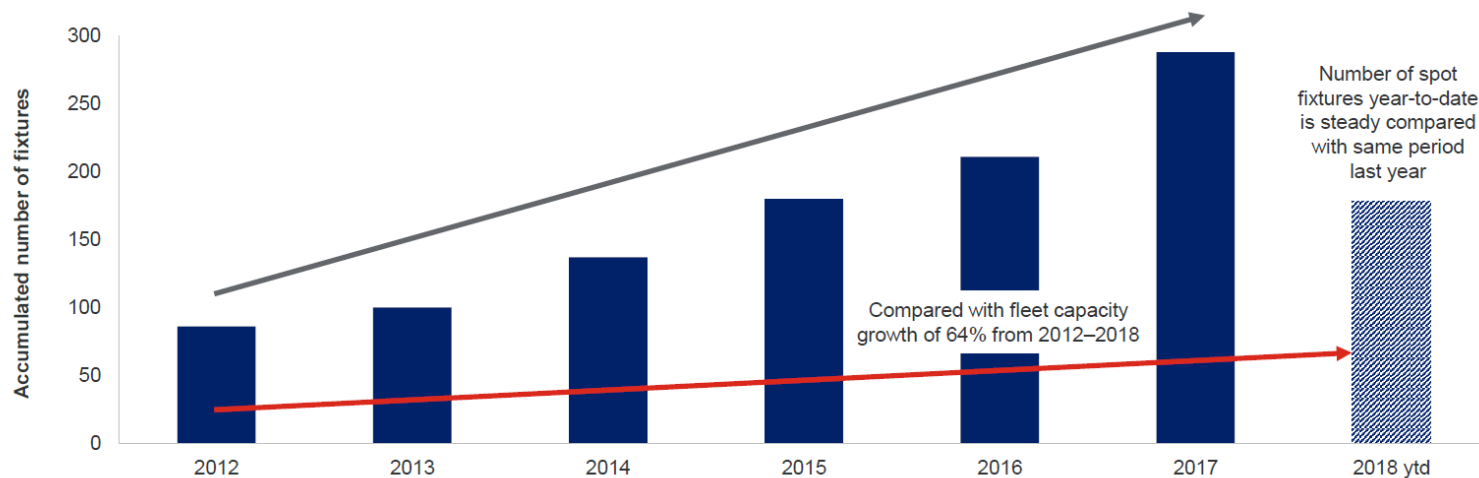
Available spot vessels in different basins



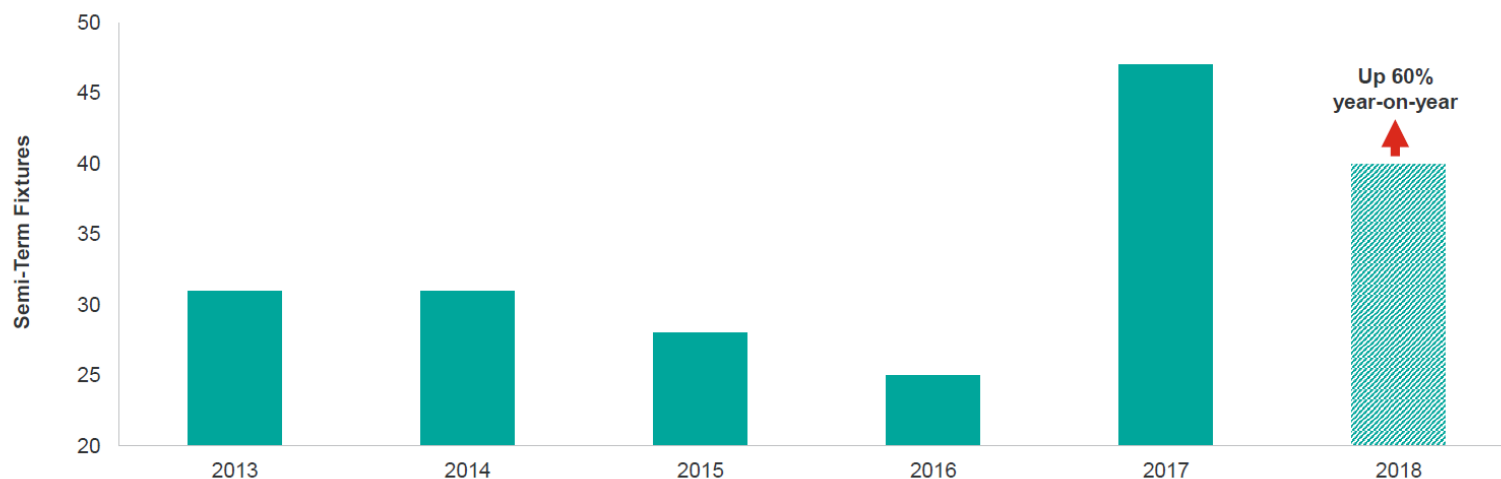
- Modern slow-speed two-stroke tonnage above USD 100k mark
- Vessel availability significantly reduced as charterers absorbed tonnage to secure capacity for the winter season

LNGC market has become more liquid

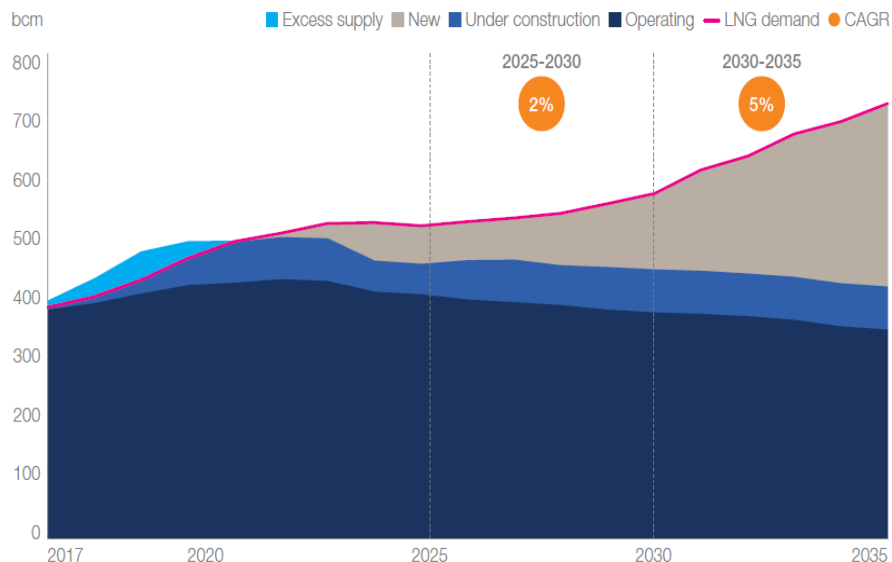
Number of spot fixtures (less than 3 months)



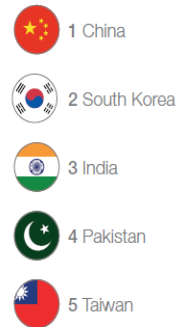
Number of semi-term fixtures (3mth to 5yrs)



Strong growth ahead for LNG

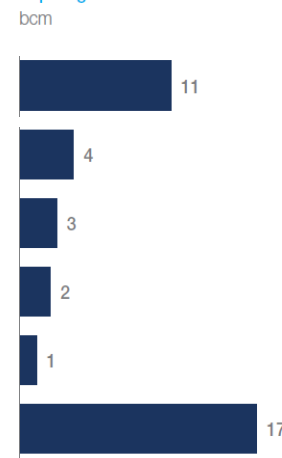


Rank and country



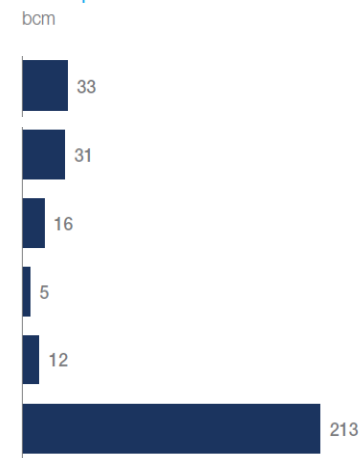
Global net change³

Import growth¹



● Year-on-year growth between January–June 2017 vs. 2018

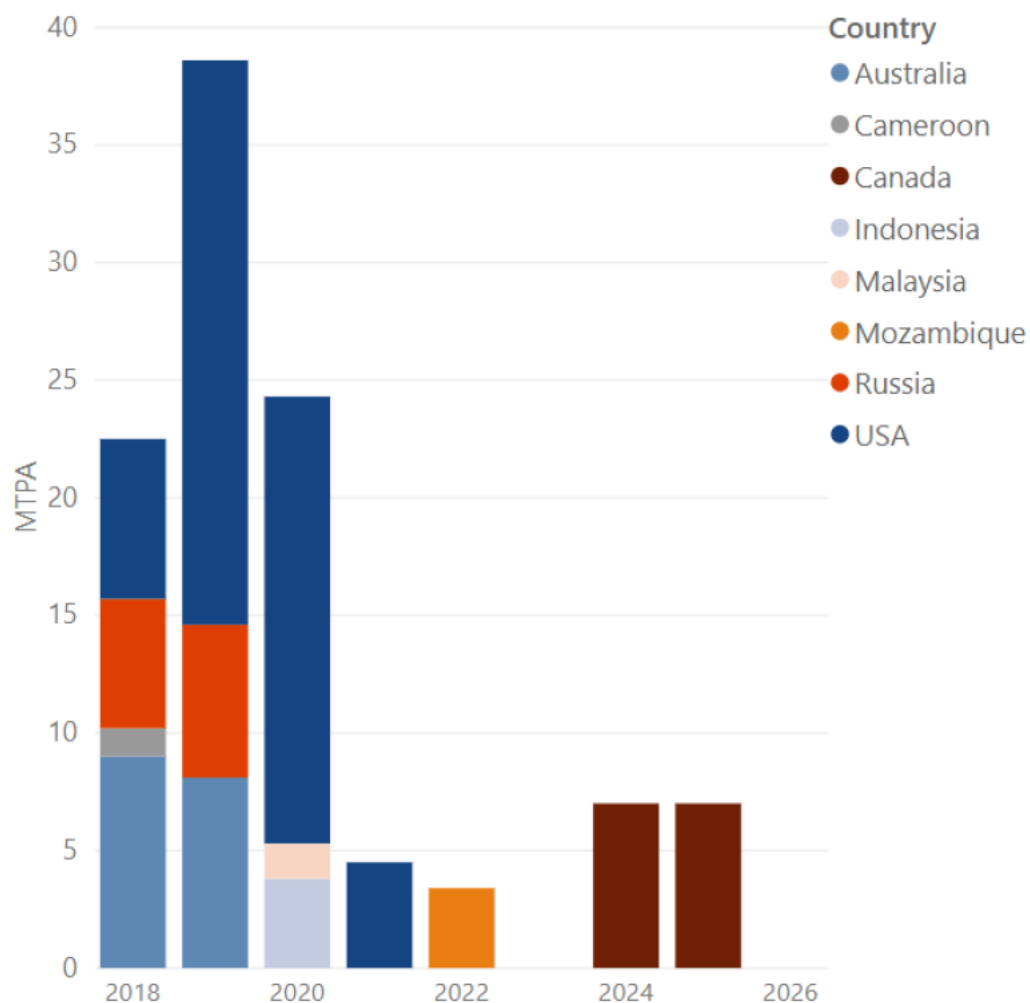
LNG import volumes²



- High future demand growth is expected as natural gas increase its market share in the energy matrix
- All top five growth countries located in Asia
- China's increased demand was about half of the added volume in 2017 and continued strong growth as aim is to increase natural gas from 6% to 10% of energy use by 2020

Glut of LNG coming to the market

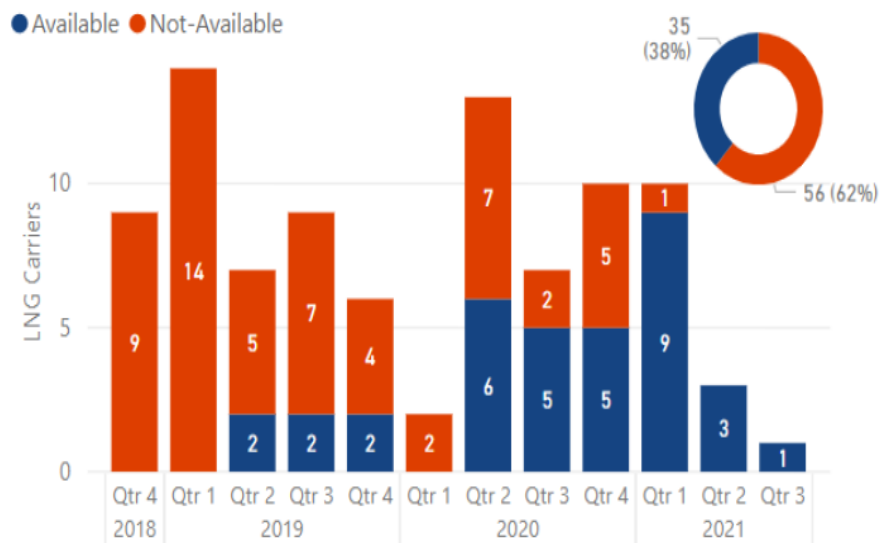
Capacity (MTPA) by Year and Country



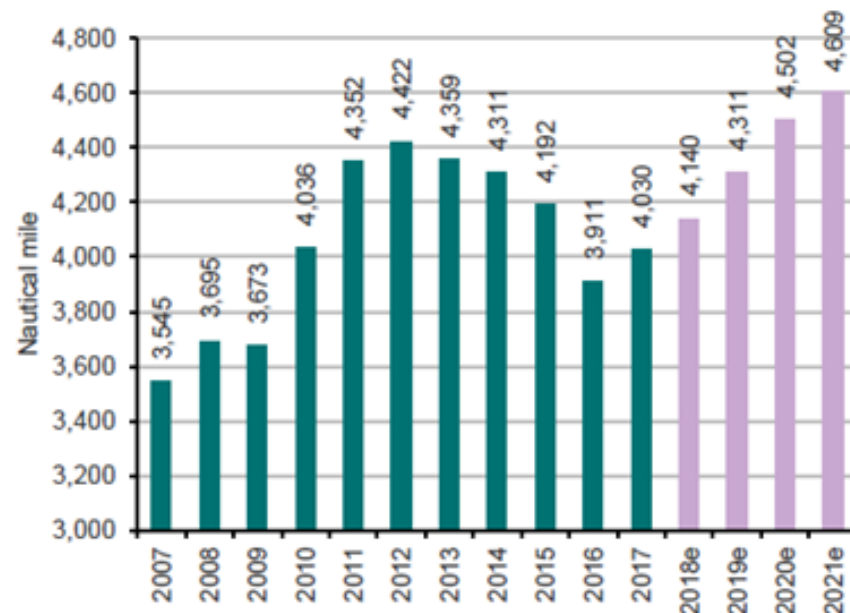
Startup	Project	Train	Capacity (MTPA)
01 November 2018	Elba	Train 1-6	1.5
15 December 2018	Ichthys	Train 1	4.5
01 January 2019	Corpus Christi	Train 1	4.5
01 January 2019	Sabine Pass	Train 5	4.5
01 January 2019	Yamal	Train 3	5.5
01 March 2019	Cameron	Train 1	4.5
01 March 2019	Prelude FLNG	FLNG	3.6
01 April 2019	Ichthys	Train 2	4.5
01 May 2019	Elba	Train 7-10	1.0
01 August 2019	Corpus Christi	Train 2	4.5
01 September 2019	Freeport	Train T1	5.0
01 December 2019	Yamal	Train 4	1.0
01 January 2020	Cameron	Train 2	4.5
01 January 2020	Freeport	Train 2	5.0
01 June 2020	Cameron	Train 3	4.5
01 June 2020	Rotan FLNG	FLNG	1.5
01 June 2020	Tangguh	Train 3	3.8
01 September 2020	Freeport	Train 3	5.0
01 December 2021	Corpus Christi	Train 3	4.5
01 January 2022	Coral FLNG	FLNG	3.4
01 December 2024	LNG Canada	Train 1	7.0
01 June 2025	LNG Canada	Train 2	7.0
Total			90.8

Few available modern vessels despite recent ordering

Order book for large LNG carriers



Average sailing distances (laden)

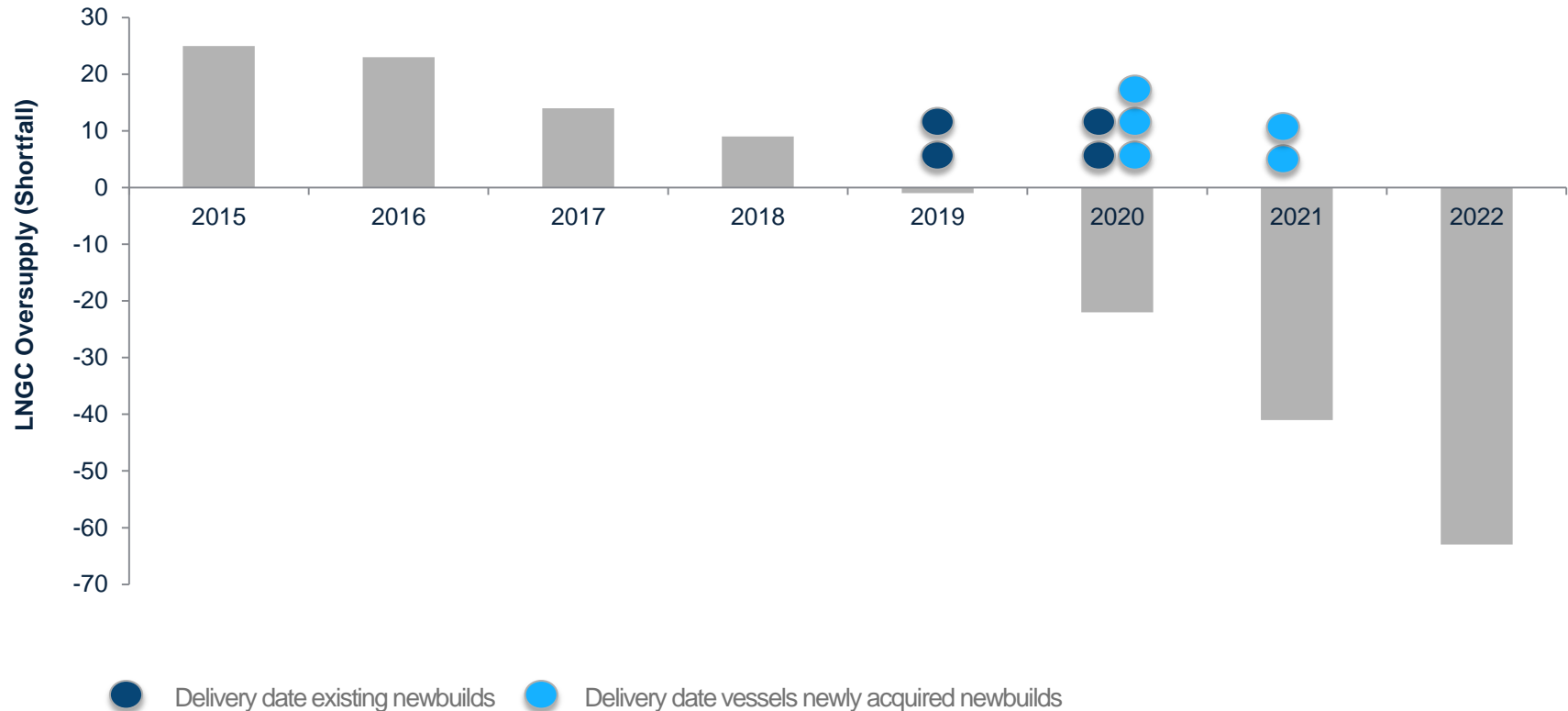


- About 90 orders for delivery in the period until 2021
- A deficit of about 40 vessels given start-up of about 96.5MMtpa in period 2018-2022
- Increased sailing distances supportive of LNGC demand

Well positioned to benefit from a tightening LNG shipping market

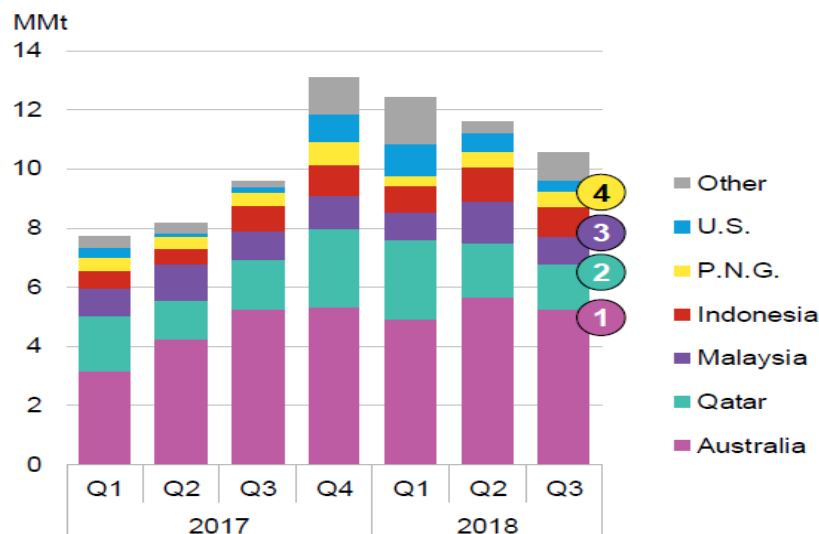
FLEX is one of the few Owners with uncommitted tonnage being delivered in 2018-2021

The LNG shipping market is expected to gradually tighten from the end of 2018, with Australia, the U.S. and Russia being the driving forces for soaking up tonnage

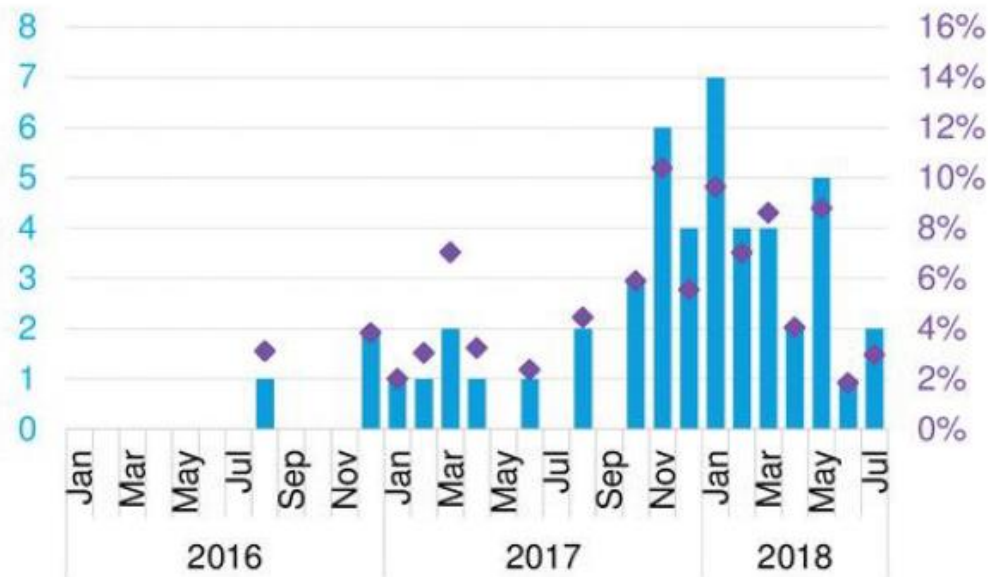


US-China trade conflict and impact for LNG trade

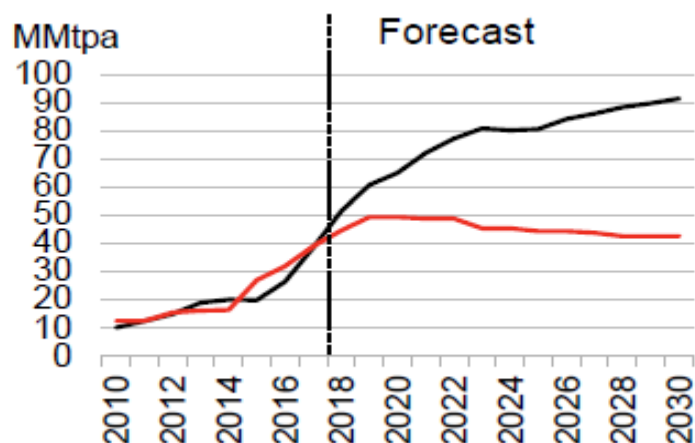
China's quarterly LNG import by country



of US cargos to China and US LNG market share in China



China's LNG demand and existing LNG contracts



“China is building a new coal-fired power plant every week and is set to surpass America as the biggest source of greenhouse gases within a year. If the world is to contain its carbon emissions, America must not only clean up its own act but also help China to green its economic growth.”

Economist, 17 May 2007

Summary



Right Ships

Four LNGCs on the water and nine LNGCs under construction, all fitted with 5th generation propulsion (two-stroke low-speed engines) providing substantial fuel savings and larger parcel size



Right Time

The market have re-balanced and is now in early phase of recovery with higher charter rates and utilization as well as increased interest for longer term contracts



Right Market

LNGC market have very strong long-term fundamentals due to increased demand for LNG, emissions focus and commoditization of LNG resulting in more trading



Right Owner

The principal shareholder has evidenced unrivaled performance in building strong shipping companies and is supportive of Flex LNG in relation to credit and S&P transactions

Q&A

