Bunker Holding Group

BUNKER HOLDING

LLOYD'S EXECUTIVE MEETING

IMO 2020

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AGENDA

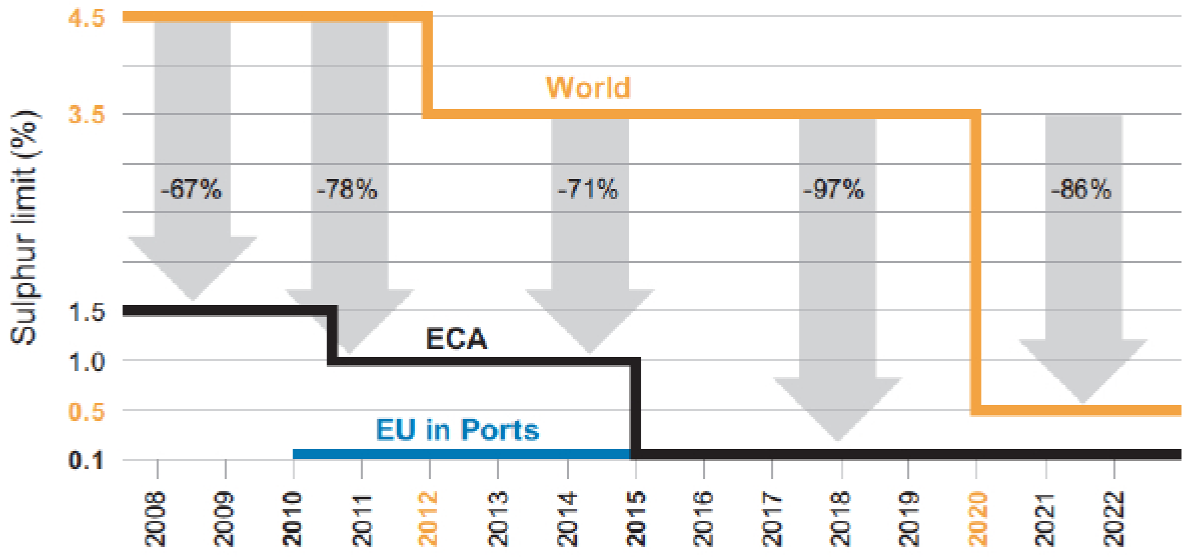
1. High level view - What is Marpol 2020
2. Projected product balances post 2020
3. Price sets – potential spread scenarios
4. Shipping- Managing market risks
5. Bunker One 2020 Activities

MARPOL 2020

IMO announced a global sulphur cap of 0,5% on Marine Fuels from 1 January 2020

Will be followed by radical changes and significant costs to all players

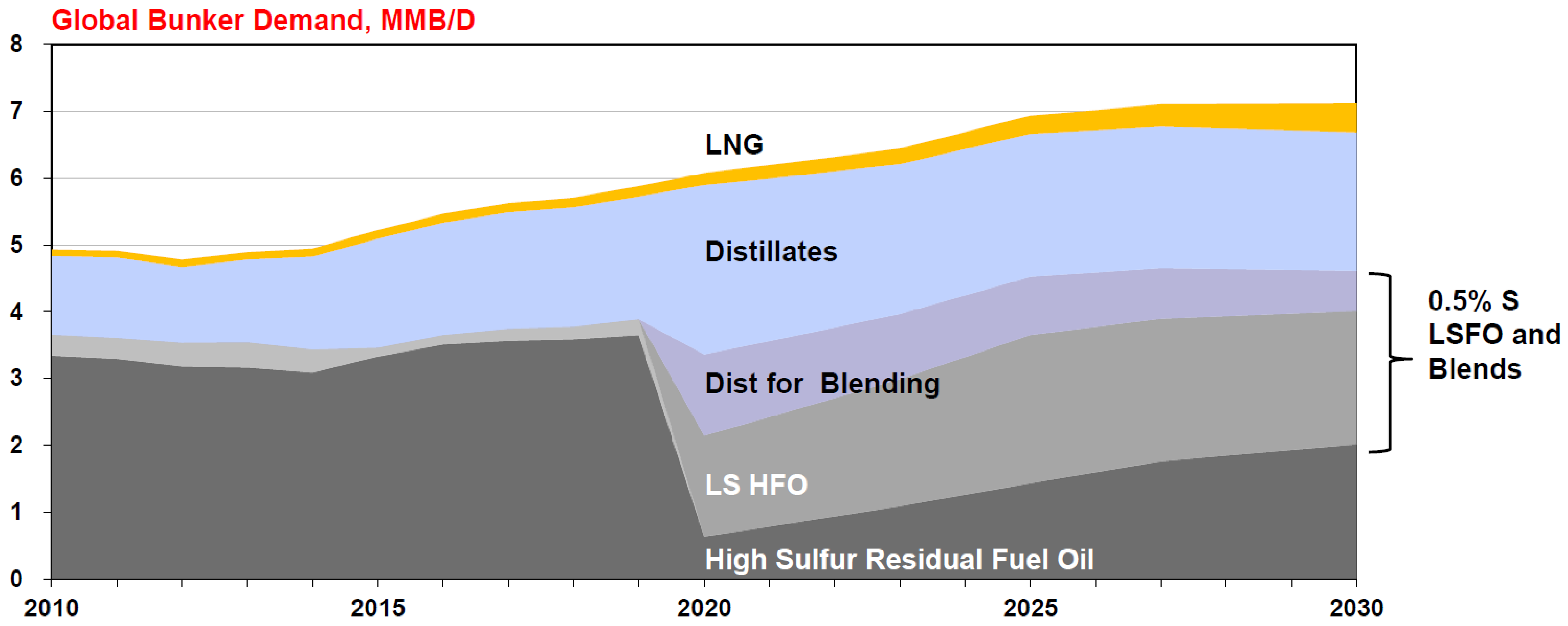
IMO Marpol Annex VI sulphur limits timeline



source: Wartsila

Global limit
SECA limit

FORECASTED PRODUCT PORTFOLIO POST 2020

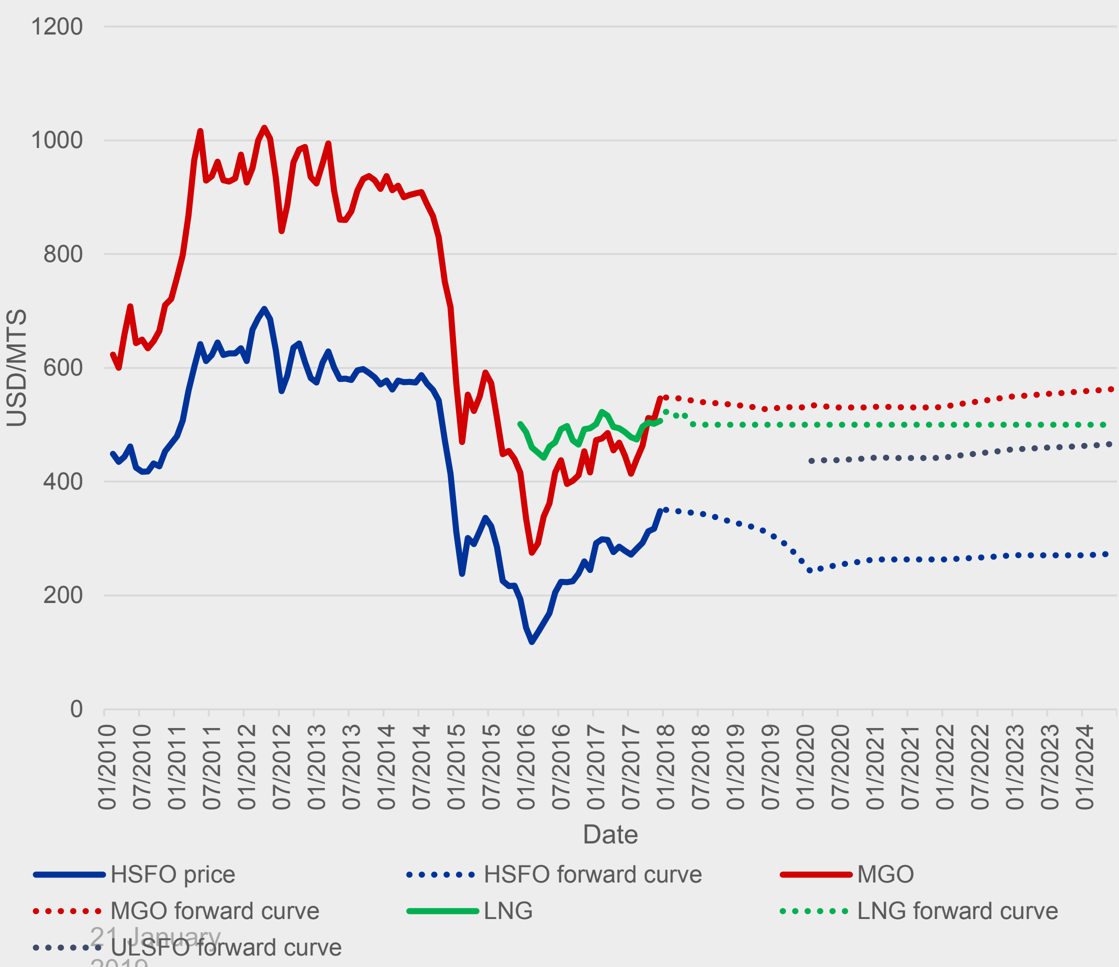


S&P Global Platts

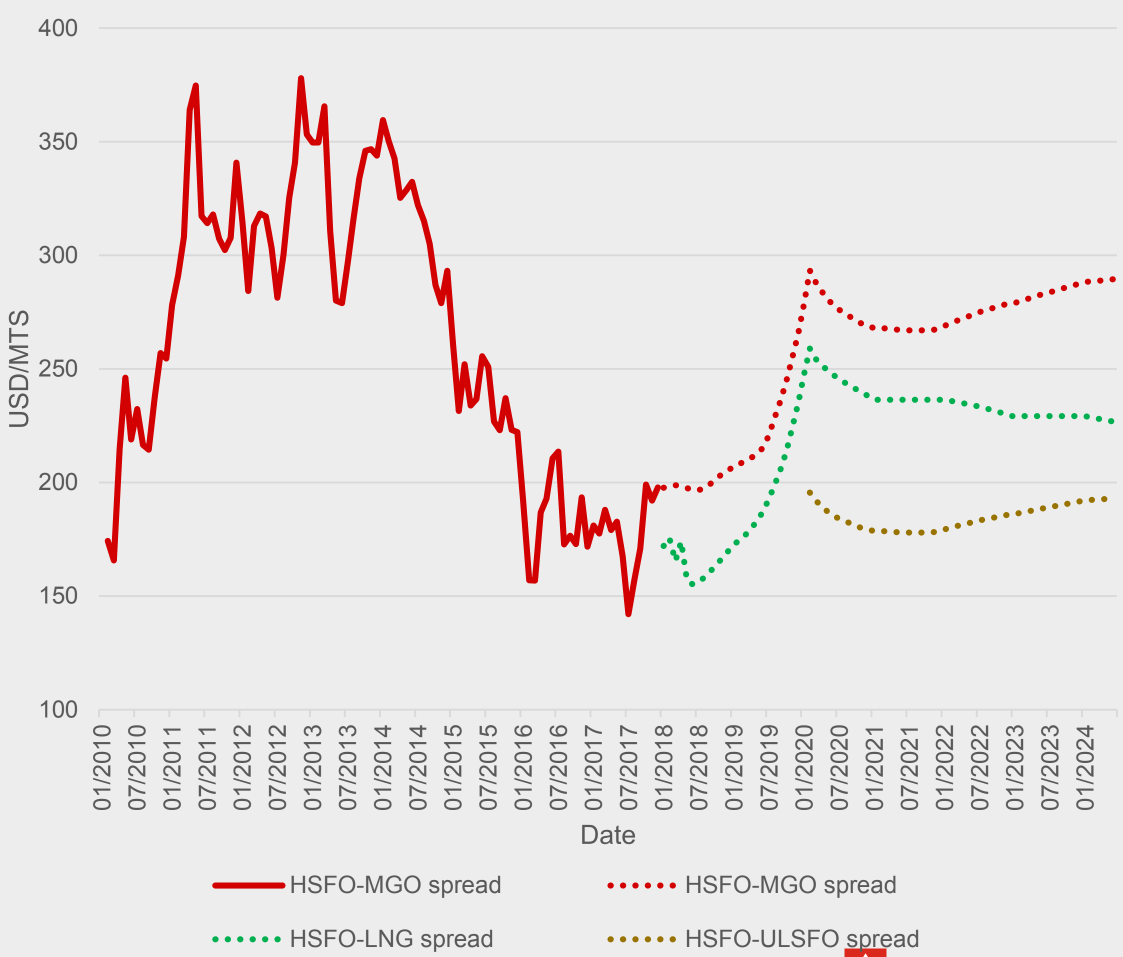
2020'S IMPACT ON PRICING – PURE MTS TO MTS PRICE COMPARISON

Source: Internal study

Historical and assumed prices of 4 key products



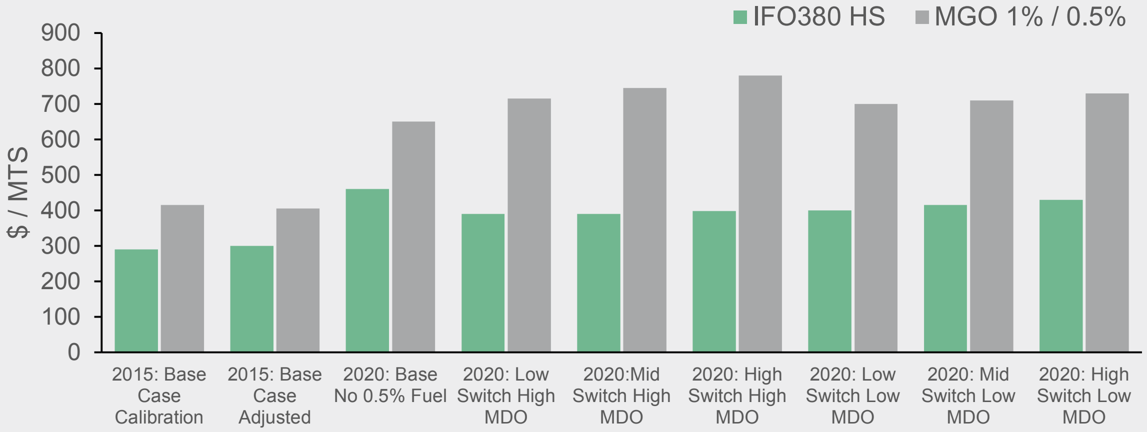
Spread based on HSFO



PRICE – THE KEY QUESTION

1 How spreads looked after 2020 ratification

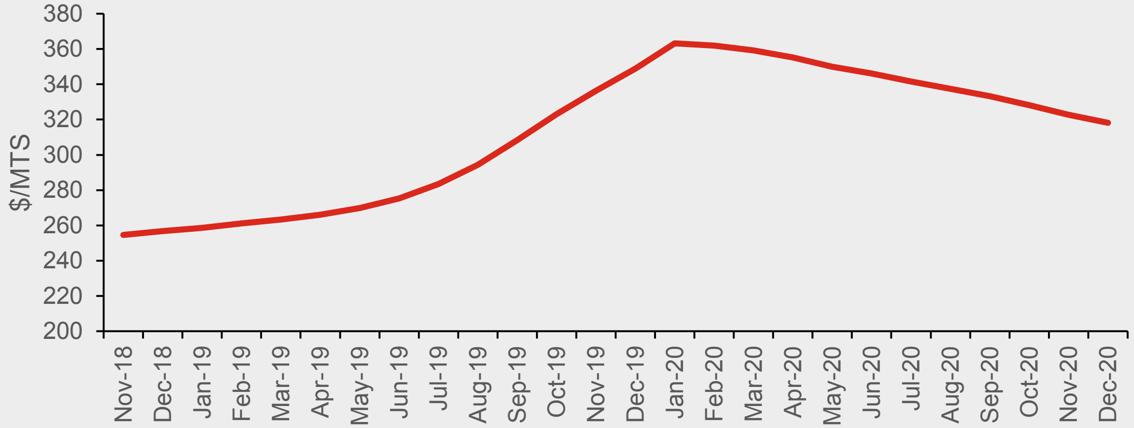
NWE MGO vs. HS IFO380 spread



EnSys Energy, 2016

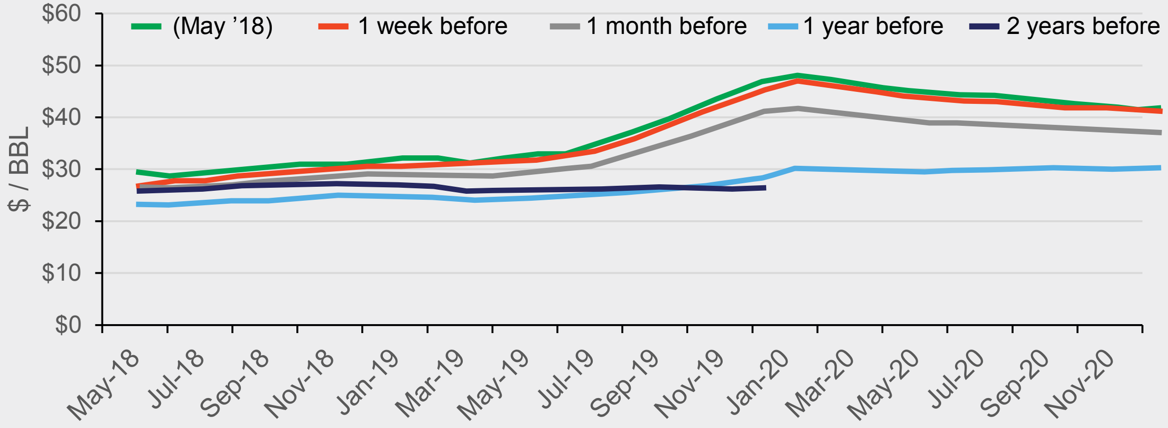
3 Spreads show sustained spread levels

3.5% Fob Rotterdam Barges vs. 0.1% FOB Rotterdam Barges



2 Spread started widening significantly in Q1-Q2, 2018

Diesel – HSFO forward curves



Goldman Sachs, 2018

4 Projections based on BH analysis

Price differentials/Spreads ($USD)	2020 6-12 months	2021	2022	2023	2024
MGO to VLSFO	45 - 80	40 - 70	30 - 60	20 - 30	20 - 30
MGO to HSFO	275 - 380	250 - 350	200 - 300	180 - 280	<250
VLSFO to HSFO	200 - 240	170 - 185	170 - 185	180 - 200	180 - 200

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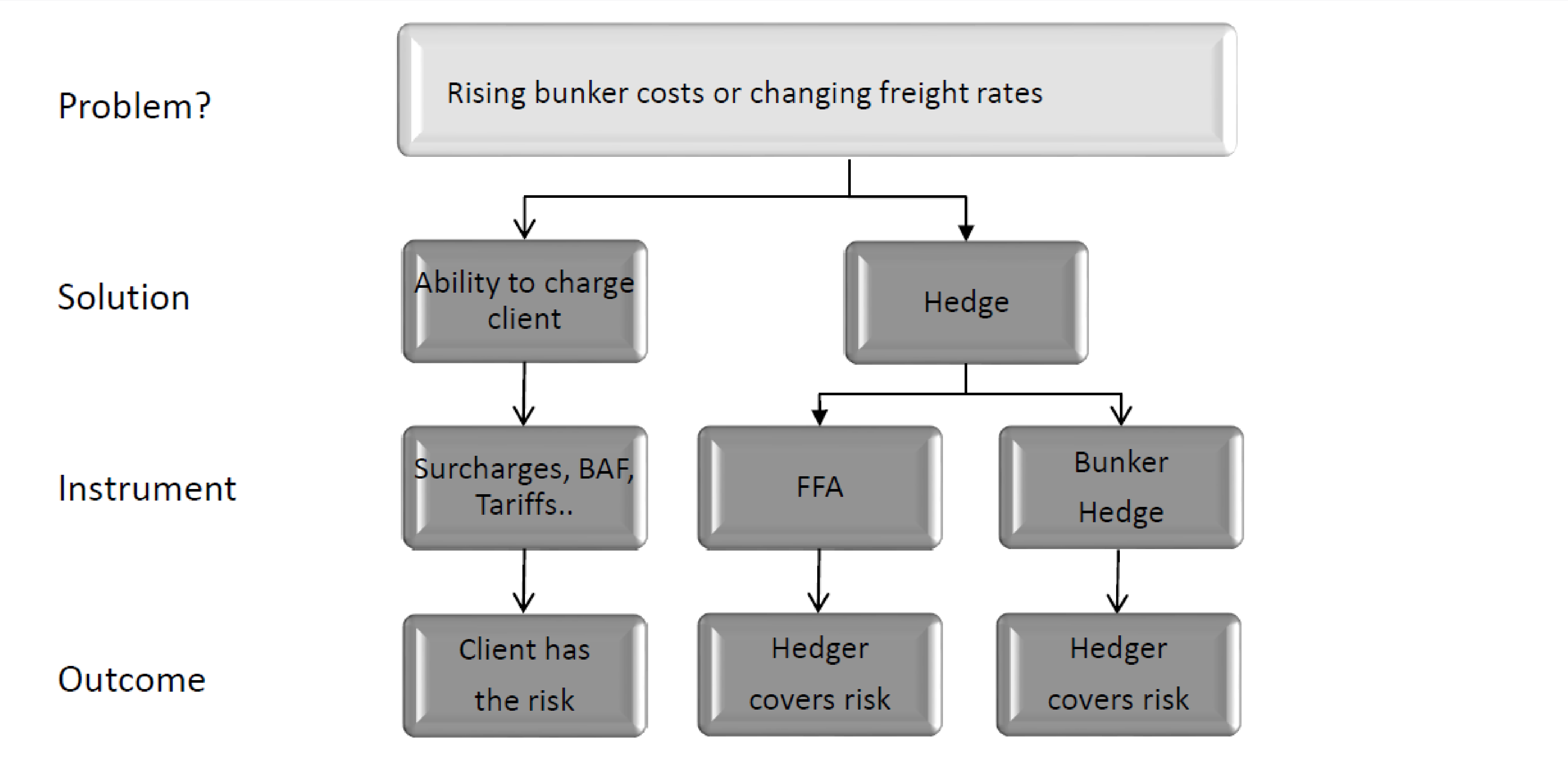
SHIPPING – MARKET RISK MANAGEMENT FRAMEWORK



Key challenge: Balance "what and how" you will pay for fuel vs how do you "get paid"?

Source: Global Risk Management part of Bunker of Holding Group

ADDITIONAL CHALLENGES IN 2020

“How you pay”:

- 3.5%s HSFO (scrubbed)
- 0.5%s VLSFO
- 0.1%s MGO

“How you get paid”:

- Freight rate adjustments
- BAF, Tariff amendments

17.10.2018

"Are we paying for scrubbers, marine gas oil or LNG?"

liner shipping companies, headed by Maersk Line, have started to announce what customers will pay from January 2020 when the regulation comes into force. In the case of Maersk Line, the added **bunker**

30.10.2018

Analyst firm: This will be the extent of shipowners' sulfur bill to consumers

conclude that the container carriers on their own will be unable to pay the cost of the more environmentally friendly fuel. **Bunker** with low sulfur content costs almost 50 percent more than heavy fuel oil

19.10.2018

Hapag-Lloyd: New BAF will break with old policies

A new **bunker** adjustment factor at Hapag-Lloyd will help ensure two things, explains Juan Carlos Duk, managing director of global commercial development, to ShippingWatch. The BAF will very much

Source: Global Risk Management part of Bunker of Holding Group

WHAT CAN SHIPOWNERS DO

Balanced and diversified approach to bunker price risk management:

- **Understand fleet fuel requirements:**
  - Selected fuel by vessel type and/or route
    - Availability at major ports vs niche ports
  - Risk management strategy might be different

- **Diversify your approach to manage risk:**
  - **Determine/define a portion of your overall demand that can be secured via term contracts:**
    - Consider having two types of pricing:
      - Fixed Price
      - Floating (Formula based)
  - **Determine/define the portion of your overall demand that should be left on spot basis:**
    - Assess supply availabilty - based on fuel of choice and routes
    - Be aware of increased volatility in the early stages of the MARPOL 2020 implementation
  - **Compliment/strengthen your physical strategy with the appropriate hedging approach**
    - Consider using Swaps, Futures, Options, etc.
  - **Do not overlook credit lines/availability impact**
    - Term Commitment vs Spot.

- **Controls and commitment:**
  - Proper controls need to be in place to monitor performance
  - Adjust accordingly
  - There is not a ***perfect solution*** . Focus on the objective: **Minimize the impact to your business**

A PROPER HEDGE POLICY

- ✓ **Management approval and commitment**
- ✓ **Explain and quantify objectives:**
  - Cover Freight Contracts (COA)
  - Cover and protect investment risk (Scrubbers)
  - Budget management – mitigate OPEX risk
  - Efficient and optimal bunker procurement strategy
- ✓ **Alternative and diversified risk management**
- ✓ **Understand exposure and liquidity overview**
  - Risk matrix/scenario based analysis
- **Clearly define the agreed/approved hedging tools:**
  - Fixed Price contracts
  - Swaps
  - Futures
  - Spreads
  - Options
- **Implement proper controls and monitoring process**
  - Clearly define who, what, when and how much
  - Performance monitoring
  - Define trigger points/tolerances to adjust/review
  - Update/change strategies as required

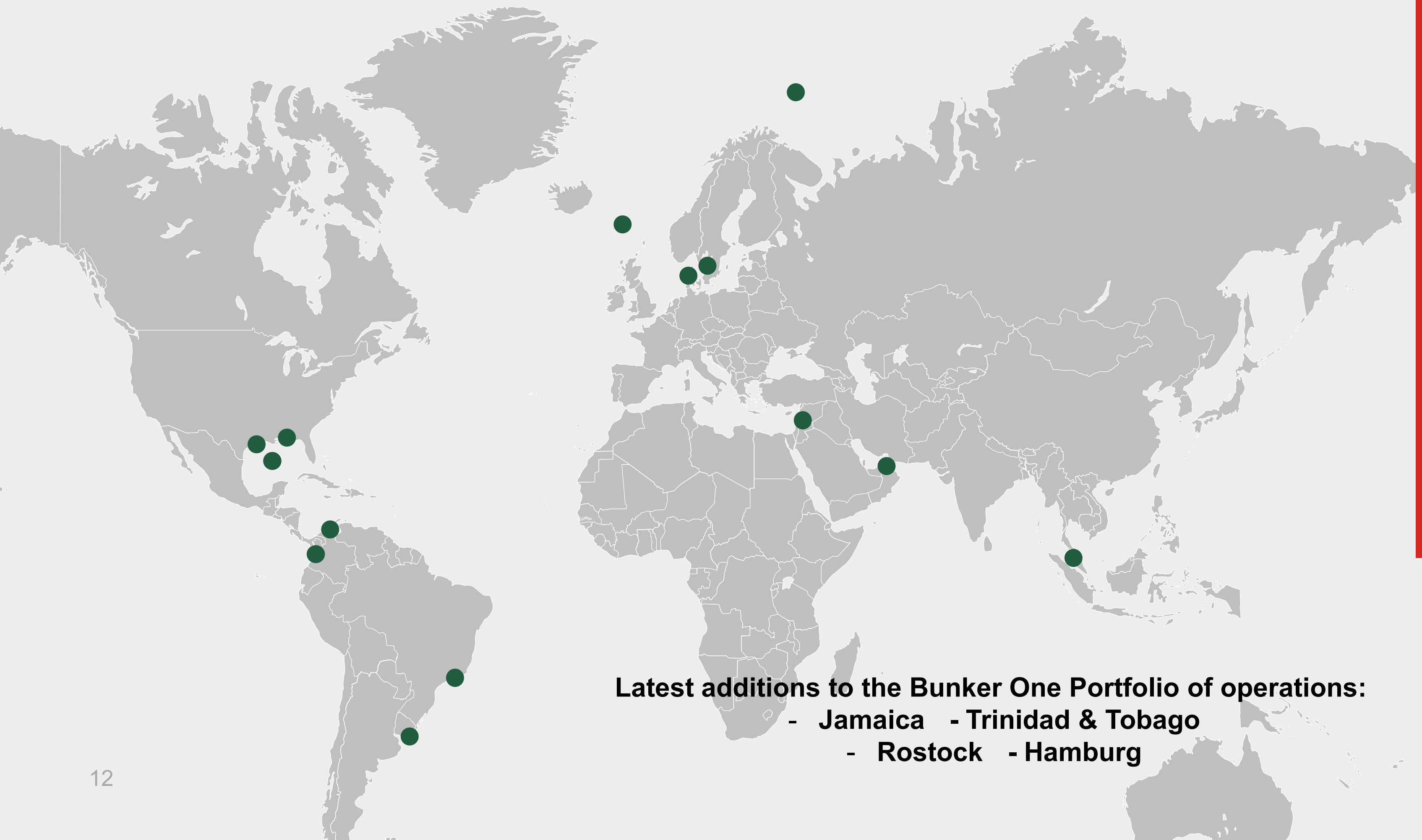
Source: Global Risk Management part of Bunker of Holding Group

ACTIVITIES SUPPORTING TRANSITION TO 2020

Bunker One

WWW.BUNKERONE.COM

- Physical Expansion
- Bunker One Physical Operations
- Solutions Available
  - Products and services
  - Risk Management (Derivatives)
- Blend Testing
- Logistics Readiness
- Secure Compliant Fuels
- Strategic Supplier Network
- Client Engagement



Latest additions to the Bunker One Portfolio of operations:

- Jamaica - Trinidad & Tobago
- Rostock - Hamburg

Global Risk Management
Investment Firm

WWW.GLOBAL-RISKMANAGEMENT.COM

Bunker Holding Group

THANK YOU