HÖEGH LNG

ANNUAL REPORT 2017

THE FSRU PROVIDER

KEY FINANCIAL FIGURES

(in USD'000 unless otherwise indicated)	2017	2016
Income statement		
Total income	279 350	232 914
Operating profit (loss) before depreciation and impairment	148 902	111 280
Operating profit (loss) after depreciation and impairment	106 160	76 432
Profit (loss) for the year	41 052	14 012
Per share data		
Earnings per share (in USD)	0.24	0.02
Dividend per share (in USD)	0.50	0.40
Balance sheet[1]		
Equity adjusted for hedging transactions	763 136	677 111
Adjusted equity ratio (%)	39	40
Net interest-bearing debt	908 080	584 911
Cash flow		
Net cash flow from operating activities	128 912	75 479
Net cash flow from investing activities	(308 741)	(138 611)
Net cash flow from financing activities	146 424	151 854

OPERATIONAL KPIs

	2017	2016
Technical availability (%)	99.79	99.94
lost-time injury frequency (per million work hours)	0.40	0.00

FLEET LIST

	Type	Economic interest (%)	Built	Flag	Storage capacity (m^3)	Regas capacity (MMscf/d)
Arctic Princess	LNGC	34	2006	NIS	147 208	N/A
Arctic Lady	LNGC	50	2006	NIS	147 208	N/A
Neptune[2]	FSRU	50	2009	NIS	145 130	750
GDF Suez Cape Ann[2]	FSRU	50	2010	NIS	145 130	750
Independence	FSRU	100	2014	SGP	170 132	384
PGN FSRU Lampung[2]	FSRU	100	2014	IND	170 132	360
Höegh Gallant[2]	FSRU	100	2014	NIS	170 000	500
Höegh Grace[2]	FSRU	100	2016	MHL	170 000	500
Höegh Giant	FSRU	100	2017	MHL	170 032	750
Höegh Esperanza	FSRU	100	2018	MHL	170 032	750
FSRU #9	FSRU	100	2018	MHL	170 000	750
FSRU #10	FSRU	100	2019	MHL	170 000	750

[1] At year-end.
[2] Owned by Höegh LNG Partners LP.

Front page photo:
Höegh Grace

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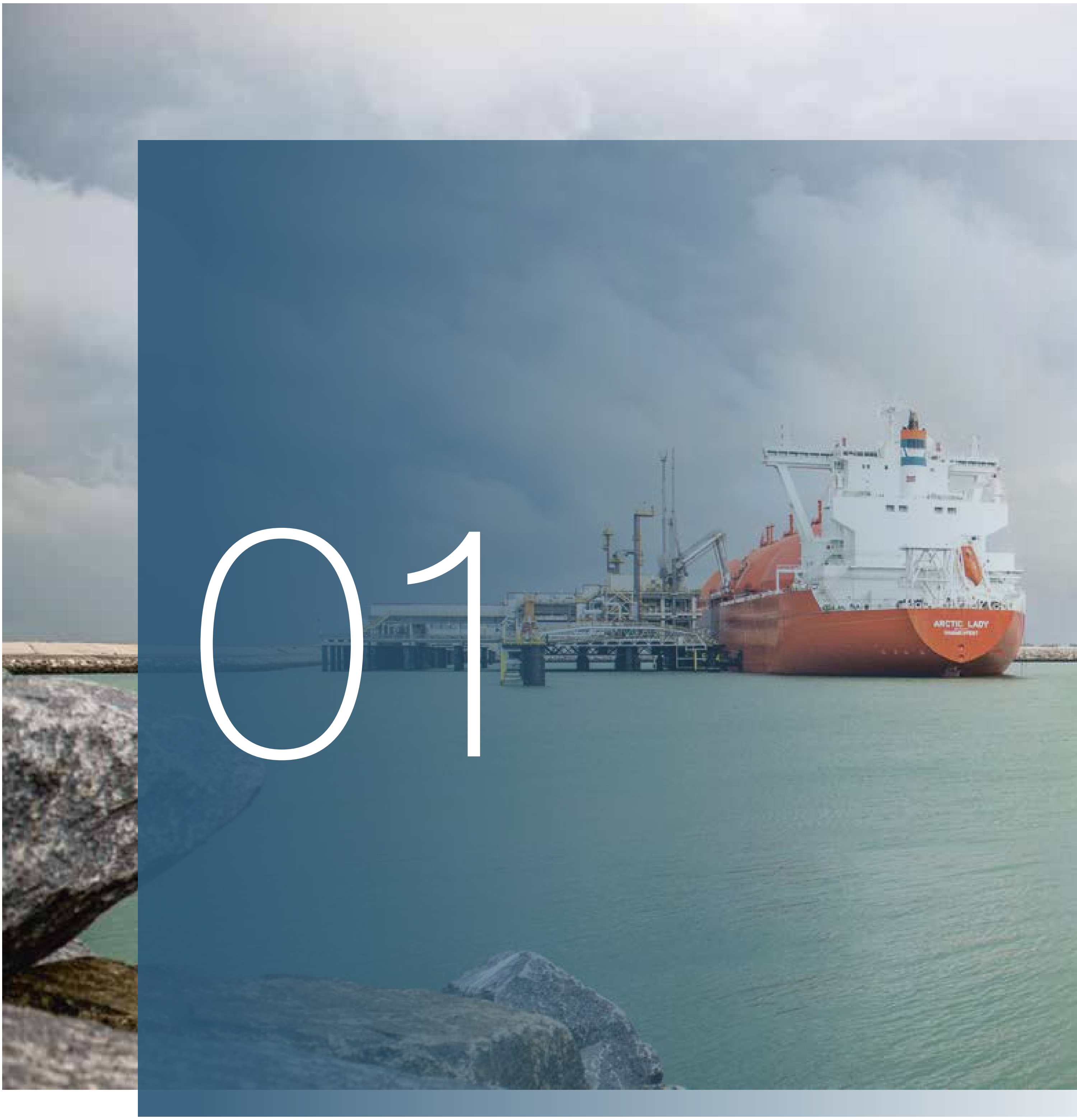


Arctic Lady

ANNUAL REPORT HÖEGH LNG 2017

SET FOR GROWTH

PGN FSRU Lampung

SET FOR GROWTH

In 2017, we delivered another year of solid operational performance, further demonstrating our experience and expertise in operating FSRUs. This was clearly reflected in the overall financial results for our company, which were the best so far. However, the year was also challenging because projects under execution became subject to delays and increased risk, and our attention in 2018 is therefore focused on securing contracts for our FSRUs under construction.

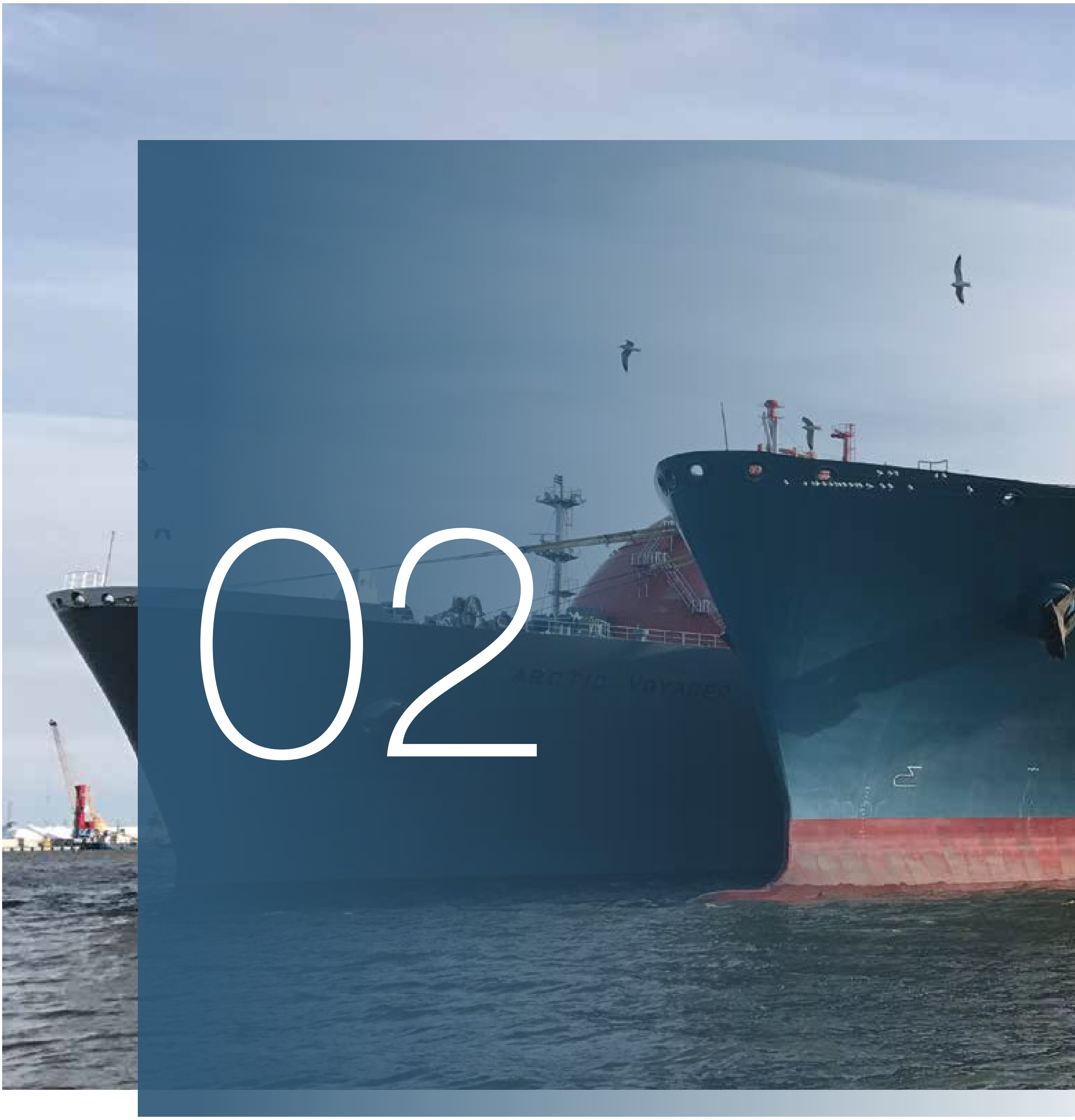
We continue to deliver the best possible operational performance. This is in accordance with our internal targets and the expectations of our customers, who rely on us having critical energy infrastructure available when required. The lost-time injury frequency of only 0.4 per million work hours and the technical availability rate of 99.79% are evidence of our operational experience and the quality of our services.

Focus for 2018 will remain on securing employment for FSRUs under construction and improving our service offering by optimising design, technology and operations. Combined with an ethical and sustainable way of conducting business, we strive to add value for our customers, which is paramount for developing existing customer relationships and winning new contracts.

LNG demand continues to increase from the record levels witnessed in 2017. Following a period with few investment decisions for FSRU projects, long-term supply contracts for LNG and new liquefaction capacity, market activity gained momentum towards the end of the year. Entering 2018, more LNG is coming to the market. With volume growth over the next three to four years anticipated to be about 50%, new regasification facilities must be developed to allow for the consumption of such volumes of competitively priced energy. In line with the trend since 2010, new LNG importers are likely to utilise FSRUs to access global LNG markets, underpinning demand for floating regasification services.

Höegh LNG is the largest supplier of FSRUs in the world, with a fleet of 10 FSRUs in operation or under construction. While large-scale FSRUs represent our core service offering, our market presence and in-house expertise allow for expansion into small-scale regasification and associated infrastructure, which will form part of our service offering in the future. Combined with diversified access to global debt and equity markets, strong client- and partnership relations and our excellent operational track record, we have built a solid financial and operational platform. This makes us well prepared to win further business, achieve greater clarity in the contract coverage for our newbuildings and remain the leading FSRU provider in the future.

Sveinung J.S. Støhle
President and CEO



Independence

DIRECTORS' REPORT FOR 2017


INDEPENDENCE

DIRECTORS' REPORT FOR 2017

The board of directors is pleased with Höegh LNG's operational and financial performance in 2017. Commercially, Höegh LNG has seen delays and setbacks in its portfolio of projects under development, but remains well positioned to profit from opportunities arising in an active and growing market with solid long-term fundamentals.

Strategic direction

Höegh LNG Holdings Ltd. ("Höegh LNG Holdings" or the "company") and its subsidiaries and joint ventures (together "Höegh LNG" or the "group") operate worldwide and hold a leading position as owner and operator of floating storage and regasification units (FSRUs).

Höegh LNG's vision is to be the market leader for floating LNG solutions. Its mission is to develop, manage and operate the group's assets to the highest technical, ethical and commercial standards, thereby providing value to customers and maximising benefits for shareholders and other stakeholders.

Höegh LNG's strategy is to develop the business through an extended service offering, with large-scale FSRUs as the main product, complemented by small-scale regasification solutions and associated infrastructure. The group focuses on long-term contracts with attractive risk-adjusted returns involving counterparts with solid fundamentals. In order to remain at the forefront of commercial and technical development, it seeks to embrace and drive innovation. Its financial strategy is intended to provide maximum financial flexibility through a diversified funding base for both debt and equity, with equity being in place before making new investments and with Höegh LNG Partners LP ("Höegh LNG Partners" or "HMLP" or the "partnership") as an integral part of the financial platform.

Höegh LNG took delivery of one newbuild FSRU (Höegh Giant) in 2017, and had three FSRUs under construction at 31 December 2017. In April 2018, Höegh LNG took delivery of one newbuild FSRU (FSRU #8, Höegh Esperanza). FSRU#9 is due in December 2018 from Hyundai Heavy Industries, and FSRU#10 will be delivered in May 2019 from Samsung Heavy Industries. Combined with seven FSRUs already in operation, Höegh LNG will have a fleet of 10 FSRUs, making it the largest owner of FSRUs globally. It also has the most modern and sophisticated fleet, with an average age of less than four years

All units performed in accordance with their contracts during 2017, close to maximum technical availability and outstanding safety performance. However, Höegh LNG experienced delays in its portfolio of projects under development. At 31 December 2017, the timeline for two of its projects under development remained uncertain, and Höegh LNG decided to terminate the FSRU contract for a project in Pakistan entered into during December 2016. Höegh LNG's main commercial focus when entering 2018 is therefore to secure long-term FSRU contracts for the three FSRU newbuildings under construction.

A dividend programme was initiated in 2015 and total distributions increased 25% in 2017 to USD 0.125 per share per quarter. However, the board decided to reduce dividend distributions in the first quarter of 2018 to USD 0.025 per share per quarter to reflect delays in Höegh LNG's projects under development and to help preserve financial flexibility in an active tendering market. The board of directors has furthermore resolved to re-evaluate the amount of dividend once more clarity is achieved regarding Höegh LNG's project backlog and the outcome of ongoing tender processes.

The company's registered office is located in Hamilton, Bermuda, but the group operates worldwide and has an office presence in Oslo (Norway), London (UK), Singapore, Miami (USA), Jakarta (Indonesia), Klaipeda (Lithuania), Cairo (Egypt) and Cartagena (Colombia), plus site teams in Ulsan and Geoje (South Korea).

The company is listed on Oslo Børs (the Oslo stock exchange) in Norway and has established a master limited partnership ("MLP") - Höegh LNG Partners. HMLP was formed to own, operate and acquire LNG assets which are in operation and employed under long-term contracts, and has both common and preferred equity instruments listed on the New York Stock Exchange.

Review of 2017, including subsequent events

Overall performance

All FSRUs in the Höegh LNG fleet operated in accordance with their contracts during the year, with a technical availability remaining stable at close to 100%.

There was one lost-time injury, resulting in a lost-time injury frequency (LTIF) of 0.40 in 2017, which is an increase from 0.00 in 2016, but still a very good result.

Höegh LNG's FSRUs delivered 25% more gas in 2017 than in 2016, and conducted an additional 20 more ship-to-ship transfers of LNG, totalling 109.

Fleet development

Höegh Giant was delivered from the yard on 27 April 2017 and employed under an intermediate LNGC time charter until delivered to Gas Natural SDG, SA in February 2018 as referred to below under "Commercial development".

Construction of the three FSRUs on order at 31 December 2017 progressed in accordance with plans and budgets. Höegh Esperanza, was delivered from Hyundai Heavy Industries on 5 April 2018, while FSRU #9 and FSRU #10 are scheduled for delivery in December 2018 and May 2019 from Hyundai Heavy Industries and Samsung Heavy Industries, respectively.

Corporate activities

On 28 September 2017, Höegh LNG Partners announced the public offering and pricing of four million Series A 8.75% cumulative redeemable preferred units, plus 600 000 units in over-allotment options. The offering was oversubscribed and, after the exercise of over-allotment options, net proceeds were USD 110.9 million. The preferred units have a distribution of 8.75% per annum of the stated liquidation preference of USD 25 per unit. The units are listed on the New York Stock Exchange under the ticker HMLP-A. Proceeds from the offering were applied to repay outstanding amounts under the seller's credit from the drop down of Höegh Gallant, and to partly fund the acquisition of the remaining 49% ownership interest in Höegh Grace.

On 16 November 2017, Höegh LNG Holdings agreed to sell the remaining 49% equity interest in Höegh LNG Colombia Holding Ltd., the owner of the entities which own and operate Höegh Grace, to Höegh LNG Partners. The purchase price was USD 86.7 million, net of debt. The transaction closed on 2 December 2017 and resulted in a net liquidity effect of USD 77 million for Höegh LNG Holdings, net of a USD 8.9 million draw-down under the revolving credit facility granted by Höegh LNG Holdings to Höegh LNG Partners.

The Methane Ventures Ltd. (MVL) co-investment scheme expired on 31 December 2017, with Höegh LNG Holdings assuming ownership of all outstanding shares in MVL for zero consideration. The 1 211 738 shares in Höegh LNG Holdings previously held by MVL, are now held by the company as treasury shares.

Subsequent events

On 26 January 2018, Höegh LNG Partners filed a prospectus supplement with the Securities Exchange Commission ("SEC") in the USA which announced that it had started an at-the-market ("ATM") equity raising programme. Under this programme, Höegh LNG Partners may, from time to time, issue new common units or Series A 8.75% cumulative redeemable preferred units up to a limit of USD 120 million. Proceeds from this programme may be used for general partnership purposes, including repayment of debt, additional investments or similar.

Commercial development

In October 2017, GDF Suez Cape Ann, under long-term charter to Engie, returned to Tianjin in China for a second time operating as a regasification terminal. The FSRU was employed in Tianjin on a similar contract from 2013 to 2016.

In accordance with its strategy of pursuing partnerships with LNG producers, Höegh LNG signed a memorandum of understanding ("MoU") on 18 July 2017 with Nakilat of Qatar aimed at creating an alliance to develop new FSRU projects. Höegh LNG sees this alliance as an opportunity to accelerate its market presence beyond the projects it undertakes on a sole basis.

On 16 November 2017, Höegh LNG announced it had entered into a time charter with Gas Natural SDG, SA (GNF), whereby Höegh LNG will provide an FSRU to GNF's portfolio of LNG assets. Höegh LNG will earn an LNG carrier spot-market-linked day rate until GNF chooses to declare the option to put the FSRU into regasification operations, after which Höegh LNG will earn a pre-defined FSRU day rate. The initial term of the contract is three years, or longer if on FSRU terms. It is served by Höegh Giant, which was delivered to Gas Natural Fenosa on 7 February 2018. The Höegh Giant then received its first cargo under the contract at the Sabine Pass LNG terminal in the USA, reflecting the flexibility and full trading capabilities of Höegh LNG's FSRU fleet.

In January 2017, the environmental approval for the GNL Penco FSRU project was halted by a ruling of the Chilean supreme court. Government authorities in Chile have since restarted the environmental approval process. While the process continues in line with GNL Penco's plans, the timeline for and commencement of the FSRU contract remain subject to final environmental approval.

On 1 December 2016, Höegh LNG signed a 20-year FSRU contract with Quantum Power for the Tema LNG import terminal in Ghana. However, the project has still not reached its final investment decision and remains subject to government selection and approval.

On 16 December 2016, Höegh LNG signed a 20-year FSRU contract with Global Energy Ltd (GEI) for its LNG import project at Port Qasim, Pakistan. However, due to GEI's inability to meet agreed milestones, Höegh LNG subsequently decided to terminate the FSRU contract with GEI.

LNG and FSRU market outlook

Global LNG trade rose by 11% to 297 million tonnes in 2017, following an 8% increase in 2016. The month of December proved particularly impressive, with total trade of almost 28 million tonnes. Furthermore, global LNG trade has continued to increase into 2018, with total imports in January 2018 reaching a new all-time high of 28.6 million tonnes, up 12% from the same period in 2017.

The biggest contributor to LNG trade growth was China, with LNG imports of 38.7 million tonnes in 2017. This represents an increase of 11.8 million tonnes or 44% from 2016, making China second only to Japan in terms of LNG imports. The increase in Chinese gas demand and LNG imports is the result of several factors, including an acceleration in antipollution legislation restricting the use of coal for power production, as well as the addition of seven GW of new gas-fired power capacity.

LNG imports worldwide through FSRUs rose 3% to 33.5 million tonnes in 2017. China, Turkey and Pakistan contributed a combined increase of 3.6 million tonnes, while FSRU utilisation fell in the Middle East and North Africa.

At 31 December 2017, no less than 35 countries were importing LNG through regasification plants with a capacity greater than 0.5 million tonnes per annum, including 14 countries through FSRUs. The number of LNG-importing countries has grown from only 11 in 2000, and new importers have largely preferred FSRUs over land-based regasification plants since 2010.

Global liquefaction capacity was around 360 million tonnes at 31 December 2017, including around 40 million tonnes of capacity unutilised owing to feedstock challenges. 22 million tonnes of liquefaction capacity commenced commercial operation during the year. Another 100 million tonnes of such capacity are under construction, with commercial start-up expected over the next four years. Plans to increase annual Qatari production by 30%, or close to 24 million tonnes, add further to future volume growth potential. Assuming full utilisation of export facilities, both existing and under construction, the upside for LNG volumes is as high as roughly 60% compared with the 2017 trade figures.

Overall FSRU tendering activity remains high, and new projects continue to come to the market with requests for expression of interest in providing FSRUs. Such projects, which have been mentioned in the public domain and find themselves at various stages of development, include projects in markets such as - in alphabetical order - Australia, Brazil, Colombia, Cote d'Ivoire, Croatia, Cyprus, Hong Kong, Lebanon, Mexico, Pakistan, Turkey, the UAE and the UK.

The FSRU fleet consisted of 28 units at 31 December 2017. Five of these are converted LNG carriers built in the 1970s and 1980s. The FSRU order book stands at 12 units, with delivery dates from April 2018 through 2021. Three units in the existing fleet are considered to be uncommitted, while five to six of the FSRUs under construction appear to be uncommitted. Of these, three units are not due for delivery until 2021.

The short-term LNG carrier market firmed up significantly through 2017 on the back of accelerating volume growth. At 31 December 2017, spot round-voyage earnings had increased to USD 80-85 000 per day from a trough of below USD 30 000 per day in the second quarter driven by, among other factors, China's switch from coal to gas. This boosted gas demand and LNG prices in the Far East, opening an arbitrage of LNG volumes from the west to the east and consuming a large portion of the available shipping capacity.

Financial results

Group figures

The financial statements of Höegh LNG consolidate HMLP, and joint venture companies are recorded in accordance with the equity method. Unless otherwise stated, figures for 2017 are compared with figures for 2016.

Income statement

In 2017, total income was USD 279.4 million (2016: USD 232.9 million), while operating profit before depreciation and amortisation (EBITDA) was USD 148.9 million (USD 111.3 million). Total income and EBITDA increased from the year before, mainly because Höegh Grace commenced operations under the long-term FSRU contract with Sociedad Portuaria El Cayao S.A. (SPEC) in December 2016, partly offset by a provision made with regard to performance guarantees on Neptune and GDF Suez Cape Ann relating to the initial years when they were operated as LNG carriers.

Operating profit was USD 106.2 million in 2017 (USD 76.4 million). Depreciation increased by USD 7.9 million in 2017 following the delivery of Höegh Giant in the second quarter.

Net financial expenses amounted to USD 60.0 million in 2017 (USD 57.3 million). The growth in net financial expenses relates mainly to a rise in interest costs following the increase in debt related to Höegh Giant and the HLNG03 bond loan, partly offset by the repayment of the HLNG01 bond loan in October, as well as higher interest income.

Profit after tax was USD 41.1 million (USD 14.0 million).

Business segments

The composition of Höegh LNG's operating segments was changed with effect from 1 January 2017. The group's activities are now focused on four operating segments, namely HMLP, Operations, Business development and project execution, and

Corporate and other. The segment structure is in line with the way the group's operations are managed and monitored internally.

The HMLP segment, which includes activities related to Höegh LNG Partners, recorded a total income of USD 150.9 million (USD 106.1 million) in 2017 and EBITDA of USD 117.0 million (USD 79.3 million).

The operations segment, is responsible for the commercial and technical management of the group's operational FSRUs and LNGCs which have not been transferred to Höegh LNG Partners. It recorded a total income of USD 125.8 million (USD 122.9 million) in 2017 and EBITDA of USD 55.9 million (USD 59.7 million).

The business development and project execution segment, comprises all activities related to business development and project execution, including non-capital expenditure costs related to newbuildings. It recorded total income of USD 2.5 million (USD 0.1 million) in 2017 and negative EBITDA of USD 12.6 million (USD 14.0 million negative).

The corporate and other segment, which comprises the group's management, finance, legal and other corporate services, reported no income in either 2017 or 2016 and negative EBITDA of USD 11.6 million (USD 13.6 million negative), reflecting group administrative expenses.

Financial position

At 31 December 2017, equity and liabilities totalled USD 1 959 million (USD 1 713 million). The increase from 31 December 2016 mainly reflects the debt on Höegh Giant, the profit for the year as a whole, and the capital raised in Höegh LNG Partners LP, offset by dividends paid by Höegh LNG Holdings and Höegh LNG Partners.

At 31 December 2017, book equity was USD 705 million (USD 596 million). Net of mark-to-market of hedging reserves, the adjusted book equity was USD 763 million (USD 677 million), bringing the adjusted equity ratio to 39% (40%). The capital structure of Höegh LNG is considered to be adequate given the risks facing the group, and will be subject in the future to the issuance of further debt relating to FSRU newbuildings, net profits and dividend payments, new equity capital issued and other factors.

Capital commitment

At 31 December 2017, Höegh LNG had around USD 630 million in remaining off-balance sheet capital commitment relating to the FSRU newbuilding programme, of which about USD 450 million falls due in 2018 and the rest in 2019.

Financing

At 31 December 2017 Höegh LNG's interest-bearing debt was USD 1 156 million (USD 936 million), an increase explained by the issuance of debt related to Höegh Giant and the issuance of the HLNG03 bond loan, offset by ordinary debt repayments made in 2017 as well as the repayment of the HLNG01 bond loan.

On 19 January 2017, the company successfully completed a new senior unsecured bond issue of NOK 1 500 million in the Nordic bond market. Maturing on 1 February 2022, the bonds have a coupon of three months Nibor plus 500 basis points and have been listed on Oslo Børs under the ticker HLNG03. Following the bond issue, the bonds were swapped from floating three-month Nibor to a fixed USD interest rate of 7.7% per annum.

On 3 October 2017, Höegh LNG repaid the outstanding amount under the HLNG01 bond loan and settled the associated swaps, totalling about USD 104 million.

On 13 November 2017, Höegh LNG announced that the final documentation was signed for debt financing of USD 230 million for Höegh Esperanza, which was delivered from the yard on 5 April 2018. The financing comprises a 12-year amortising export credit agency (ECA) term loan of USD 150 million and a five-year non-amortising commercial bank loan of USD 50-80 million. The facility is available to fund up to 65%, or USD 200 million of the delivered cost of the FSRU with no employment requirement, increasing to up to 75%, or USD 230 million, on securing long-term employment.

Cash flow and liquidity

Cash flow from operating activities was USD 128.9 million in 2017 (USD 75.5 million), up from 2016 due to the full-year contribution from Höegh Grace. Net cash flow used in investing activities amounted to USD 308.7 million (USD 138.6 million), up from the year before through an increase of investments in FSRUs. Cash flow from financing activities was USD 146.4 million (USD 151.9 million), driven by net proceeds from borrowings and the issuance of Series A 8.75% preference shares in HMLP, and offset by higher dividend payments. Total cash flow in 2017 was negative at USD 33.4 million (positive at USD 88.7 million).

At 31 December 2017, unrestricted and restricted current cash and cash equivalents amounted to USD 160.0 million (USD 196.6 million) while marketable securities, comprising investment-grade bonds, totalled USD 74.0 million (USD 135.8 million). In addition, Höegh LNG had non current restricted cash of USD 13.6 million (USD 18.6 million).

At 31 December 2017, the group's current interest-bearing debt was USD 73.4 million, while it had approximately USD 450 million in capital expenditures falling due in 2018. This will be funded with cash flows from operation, as well as USD 200 million in debt financing for Höegh Esperanza. In addition, Höegh LNG is in the process of raising delivery debt finance for FSRU #9, which is scheduled for delivery in December 2018.

Going concern

The annual financial statements have been prepared under the going concern assumption, and the board of directors confirms that this assumption is fulfilled.

Parent company financials

Total comprehensive income for the company on a stand-alone basis in 2017 was USD 19.0 million (USD 31.7 million). The reduction from 2016 related mainly to the loss of USD 2.3 million (gain of USD 8.2 million) on cash flow hedges and impairment charges of USD 3.2 million (USD 0.8 million). At 31 December 2017, total assets were USD 1 065 million (USD 1 031 million), while the equity ratio was 70% (75%). Cash flow in 2017 was USD 19.1 million (USD 8.4). Net proceeds from borrowings, sale of marketable securities and dividends received from HMLP were mainly used for investment in newbuildings and cash dividend payments. At 31 December 2017, the company held USD 31.5 million in cash and cash equivalents (USD 12.4 million) and USD 74.0 million in investment-grade marketable securities (USD 135.8 million).

Risk and risk management

Risk management

Höegh LNG uses risk management tools based on ISO 31000 in relation to both existing and new business. Höegh LNG's safety management system is built on OHSAS 18001 and the following certificates are held for the management of quality, environment, safety and occupational health:

- International Safety Management
- ISO 9001 Quality Management System
- ISO 14001 Environmental Management System

Compliance with increasingly complex health, safety and environmental legislation and statutory regulations could result in increased compliance costs or additional operating expenses. Höegh LNG is and will be subject to regulations which affect, among other things, discharges to the air, land and water, and health and safety standards. Violation of these laws and regulations could have adverse financial consequences.

Market risk

Höegh LNG has six FSRUs in operation, which are on long-term contracts. Where the three FSRUs under construction at 31 December 2017 are concerned, Höegh LNG has in place the long-term contract with GNL Penco in Chile, and is in addition involved in several commercial processes for securing long-term employment for these units. However, no assurance can be given on the outcome of and the timeline for these processes and Höegh LNG is therefore exposed to variations in demand for FSRUs.

With ample supplies of LNG available at competitive prices, demand for LNG is increasing and driving demand for import infrastructure and in particular for FSRUs. These are increasingly the preferred solution for importing LNG because they are less capital-intensive, quicker to build and more flexible relative to land-based regasification plants. More than 40 FSRU projects are currently under various stages of development worldwide, and Höegh LNG is participating in several on-going tendering and bilateral processes. Although market activity remains high, regasification projects are complex in nature, making timelines difficult to predict.

The two LNGCs in the fleet are on long-term contracts with creditworthy counterparties and not exposed to short-term variations in the demand for LNG transport.

Operational risk

Höegh LNG assumes operational risks associated with loading, transporting, offloading, storing and regasifying LNG cargoes, which can cause delays to operations. In addition, difficulties presented by port constraints, weather conditions, and vessel compatibility and performance can affect the results of operations and expose Höegh LNG to adverse financial consequences.

Financial risk

Höegh LNG is exposed in the ordinary course of its business to different types of financial risk, including market (interest and foreign exchange rates), credit and liquidity risk. Risk management routines are in place to mitigate such risks. Once such risks are identified, appropriate mitigating actions are taken. Höegh LNG's primary strategy in mitigating financial market risks is to apply derivatives, where appropriate, in hedging its various net financial market risk positions. When the use of derivatives is deemed appropriate, only well-understood, conventional instruments issued by highly rated financial institutions are used.

All interest-bearing debt in Höegh LNG is subject to floating interest rates, but the group has entered into fixed interest-rate swaps for all debt facilities and is therefore not exposed in any material way to fluctuations in interest-rate levels on existing debt facilities.

Foreign exchange risks arise from business transactions, capitalised assets and liabilities denominated in currencies other than the reporting currency of Höegh LNG. The majority of Höegh LNG's business transactions, capitalised assets and liabilities are denominated in USD. The majority of its foreign exchange exposure relates to administrative expenses denominated in NOK, totalling some NOK 250 million in 2017. In addition, Höegh LNG has certain revenues in euros and Egyptian pounds intended to cover local expenses and taxes.

Liquidity risk is the risk that Höegh LNG will be unable to fulfil its financial obligations when they fall due. Outstanding interest-bearing debt on the balance sheet totalling USD 1 156 million, net of debt issuance costs, will be repaid through the cash flow generated from existing and new assets in Höegh LNG or through refinancing. At 31 December 2017, Höegh LNG had around USD 630 million in remaining off-balance-sheet capital commitments in relation to the FSRU newbuilding programme. This compares with USD 434 million in available liquidity, which includes USD 234 million in current cash and marketable securities and USD 200 million in undrawn bank loan facilities. When conditions relating to long-term employment of Höegh Giant and Höegh Esperanza are met, the available amount under the respective financing facilities may be increased by up to USD 29 million and USD 30 million respectively, which will enhance total available liquidity. The debt financing for Höegh Esperanza has been secured, and Höegh LNG is in the process of raising delivery debt financing for FSRU #9, and plans to raise debt financing for FSRU #10.

Credit risk is the risk that a counterparty does not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Existing FSRUs/LNGCs are chartered to creditworthy counterparties and/or projects with a strong strategic rationale for the country they operate in. Cash funds are only deposited with internationally recognised financial institutions which have a high credit rating, or invested in marketable securities issued by companies holding a high credit rating.

Corporate social responsibility and impact on the external environment

The group is committed to ensuring safe and sustainable management of environmental and other effects which its operations may have. Höegh LNG seeks actively to integrate social and environmental concerns in all its business operations and to find a sound balance between stakeholder interests, operational efficiency and shareholder value.

Höegh LNG has robust management systems certified in accordance with the International Safety Management Code, ISO 9001 and ISO 14001 and Höegh LNG's safety management system is built on OHSAS 18001. Operating in a high-risk environment requires a strong focus on safety, and Höegh LNG devotes continuous attention to developing and improving procedures and routines.

Höegh LNG has zero tolerance for corruption. Potential business partners will be subject to rigorous due diligence and must comply with the same standards. Höegh LNG has mandatory training in its compliance procedures.

Further information about Höegh LNG's environmental and social impact and performance is provided in the corporate social responsibility report included as a separate chapter in the annual report. Since 2014, Höegh LNG has reported its corporate sustainability performance (CSR) in accordance with the sustainability reporting framework (section 4) of the Global Reporting Initiative (GRI).

Personnel

Höegh LNG had 123 permanent office employees and 494 maritime personnel at 31 December 2017. The 24-month cumulative retention rate at 31 December 2017 was 98.2% for maritime personnel. In the Oslo office, average sickness absence among employees was 4.1% in 2017 (1.6%). One lost-time injury (LTI) was reported during 2017 on Höegh LNG vessels, resulting in an LTIF of 0.40. This performance is a result of the continuous implementation of safety-related initiatives and the attention paid to building a safety culture.

Diversity

Höegh LNG has a policy of equal opportunities for men and women. Discrimination based on race, gender or similar grounds is not accepted. However, male and female representation in the maritime industry's recruitment base is unequal and this is reflected in Höegh LNG's demographics with only one woman among the maritime personel. Women accounted for 36% of Höegh LNG's office employees in Norway at 31 December 2017 (37%). All the directors on the company's board and all members of the top management are male.

Shareholder information

At 31 December 2017, 77 244 746 common shares were issued in the company. Leif Höegh & Co Ltd. was the largest shareholder, with 32.5 million shares. The company holds 1 211 738 as treasury shares, reducing the number of outstanding shares to 76 033 008.

In January 2017, the company issued 352 401 new common shares at par in settlement of options exercised on 31 December 2016. In addition, the company issued 8 286 new shares to directors in May 2017 as part of their remuneration. Following the issuance of new shares in January and May 2017, the company's issued share capital was increased to USD 772 447.46, consisting of 77 244 746 fully paid common shares each with a par value of USD 0.01. After the exercise of the above options, the total number of options outstanding is 1 905 126.

In the event of dividends or other distributions in cash or kind being paid to the shareholders of the company, the strike price for the options will be

Round	Number of options	Strike price at 31 Dec 2017	Vesting dates	Expiry date
Round 2	1 203 002	NOK 36.2	1/3rd on 31 December 2015, 2016 and 2017 respectively	31 December 2018
Round 3	702 124	NOK 81.0	1/3rd on 31 December 2017, 2018 and 2019 respectively	31 December 2020

reduced by an amount equal to the amount in NOK distributed per share.

Corporate governance

Höegh LNG has adopted and implemented a corporate governance system which, in all material respects, complies with the Norwegian code of practice for corporate governance and section 7 of the Oslo Børs' continuing obligations. The board's statement of policy on corporate governance is set out in the corporate governance report included as a separate chapter in the annual report.

Prospects

Although 2017 was a record year in terms of LNG demand, the number of new FSRU contracts, investment decisions for new liquefaction capacity or long-term LNG offtake agreements was surprisingly low. In 2017, only two new FSRU contracts were awarded, down from six in 2016. What is more, only one of the two awarded in 2017 had long-term characteristics.

While FSRU developments moved slowly during the first nine months, business development activity increased towards the end of the year, reflecting higher LNG prices, record LNG consumption and a renewed long-term commitment to LNG across the industry. At the start of 2018, Höegh LNG remains active in evaluating new business opportunities and preparing to bid for new contracts while ongoing tender processes have picked up momentum.

The eight uncommitted FSRUs available in the market at 31 December 2017, including newbuildings (of which three have 2021 or 2022 deliveries), are considered to be well matched with the large number of projects under development. The company's view is therefore that the FSRU market will continue to develop favourably. Since FSRU projects are complex in nature, however, no guarantees can be given regarding the outcome of ongoing processes or their timelines.

In order to capture additional opportunities, the board of directors has decided an expansion of investment activities to include associated infrastructure and small-scale regasification as well, subject to meeting necessary conditions for return and with the target of complementing the group's core product, the large FSRUs. Efforts are consequently being devoted to developing such opportunities.

Höegh LNG intends to remain a market leader in the FSRU segment, and regards its size, experience and strong operational track record, combined with its solid financial position, as important elements for further growth.

Outlook for 2018

Höegh LNG's attention is focused on establishing long-term employment on binding terms for the newbuildings under construction. Tendering activity is high as more LNG comes to the market, and Höegh LNG remains committed to having employment in place for the newbuildings at the time of their delivery, either from the pool of existing projects being executed, or from new contracts pursued in on-going tender processes. With Höegh LNG's well-proven financial and operational platform and technical experience, Höegh LNG remains well placed to strengthen its position further as the premier supplier of FSRU services world-wide.

Hamilton, Bermuda, 22 March 2018

The Board of Directors and the President & CEO of Höegh LNG Holdings Ltd.

Morten W. Høegh
Chairman

Leif O. Høegh
Deputy Chairman

Ditlev Wedell-Wedellsborg
Director

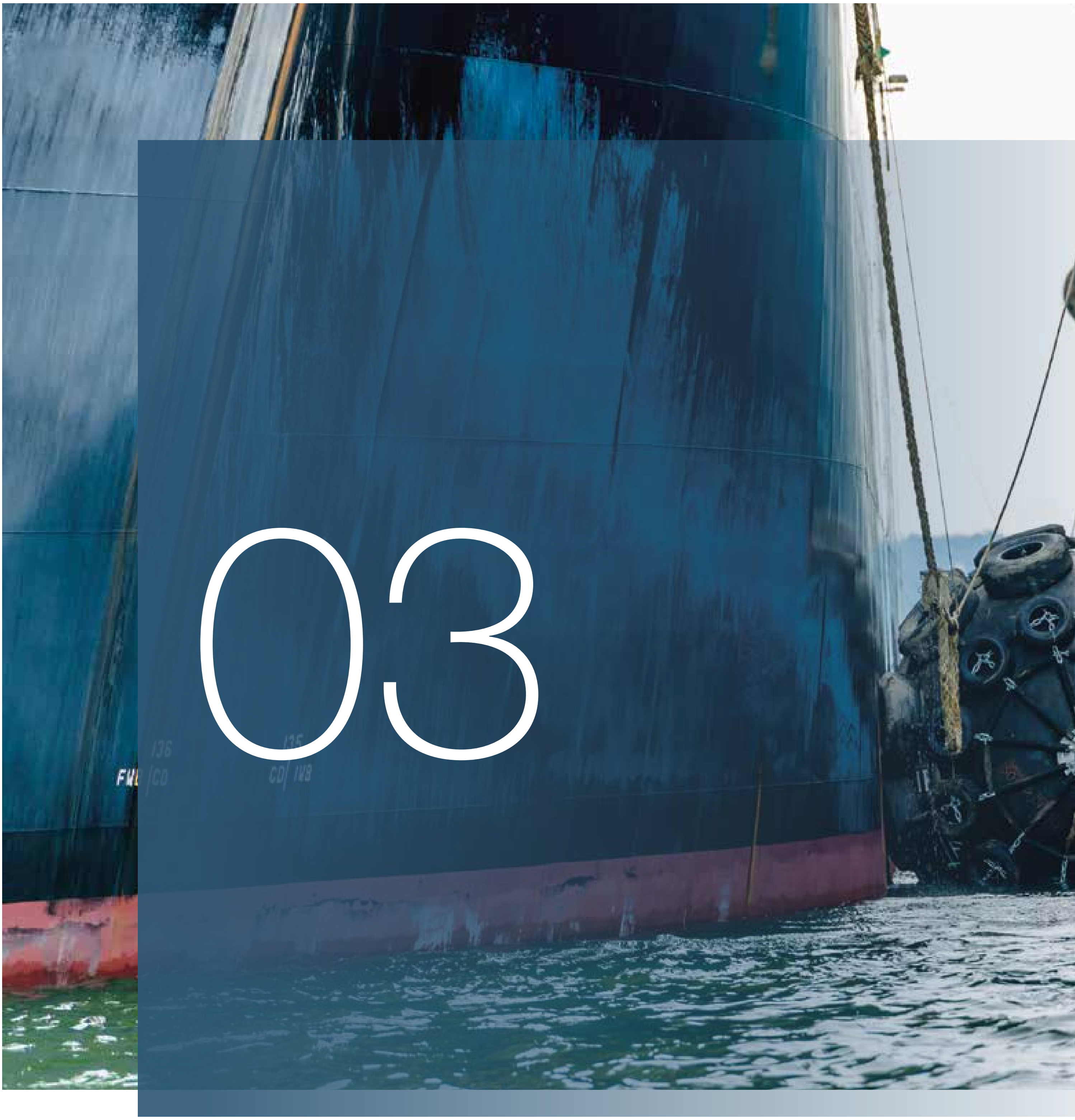
Andrew Jamieson
Director

Christopher G. Finlayson
Director

Jørgen Kildahl
Director

Steven Rees Davies
Director

Sveinung J.S. Støhle
President & CEO



Höegh Grace

03

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Höegh LNG's vision is to be the market leader for floating LNG solutions. Industry leadership cannot be achieved without responsible practices, and Höegh LNG bases its business on zero tolerance for corruption, the best achievable safety record, compliance with laws and regulations, hereunder environmental regulations, and respect for human rights.

In 2017, Höegh LNG focused on improving risk management, with the emphasis to further strengthen anti-corruption measures and ensuring responsible practices in the group's supply chain.

The business

Höegh LNG is a leading floating storage and regasification unit (FSRU) provider. At 31 December 2017, it owned and operated a fleet of seven FSRUs and had three under construction. Additionally, the group owns and operates two LNG carriers. The company is registered in Bermuda with an established presence in Norway, Singapore, the UK, the USA, South Korea, Indonesia, Lithuania, Egypt, Colombia, China and Turkey.

CSR governance

The group does business in accordance with its code of conduct (the code). The code addresses ethical standards, human rights, fair employment practices, the environment, health, safety, and anti-corruption.

The code is backed by a corporate social responsibility (CSR) policy which states that Höegh LNG will act as a socially responsible company by integrating social and environmental concerns into its core business operations. The CSR policy provides a framework for setting clear goals and objectives which enable monitoring and evaluation of performance.

Höegh LNG has reported in accordance with the Global Reporting Initiative (GRI) standards "core" level, since 2014. The GRI Index on page 113 refers to where information on the GRI indicators can be found.

Höegh LNG has robust management systems certified in accordance with the International Safety Management (ISM) Code, ISO 9001 and ISO 14001. Höegh LNG's safety management system is built on OHSAS 18001. Key performance indicators (KPIs) for health, safety and environmental (HSE) performance are reported to the board of directors on a quarterly basis.

Stakeholder engagement

Höegh LNG is committed to reducing, in a sustainable manner, any negative impact its activities may have on the environment, its employees and local communities.

The group maintains a continuous dialogue with stakeholders to assess environmental and social effects. The cornerstone of this dialogue is the consultation processes with customers and local authorities, in addition to social and environmental impact assessments conducted when entering new contracts. Höegh LNG consults with investors, banks and employees to understand their perspectives and priorities.

The issues identified as most critical to main stakeholders are business ethics in direct operations and the supply chain, working conditions, health and safety, the environment and anti-corruption.

The environment

The main environmental challenges for Höegh LNG relate to emissions to the air, potential negative impact on the local environment and recycling of vessels.

All vessels are certified in accordance with the 2015 version of ISO 14001 to ensure both compliance with relevant regulation and a consistent focus on environmental improvements. Furthermore, all Höegh LNG's FSRUs built after 2012 carry the clean notation, which is a voluntary environmental class notation for ships designed, built and operated to give additional protection to the environment. In addition, they carry the recycling class notation.

For the past two years, Höegh LNG has focused on streamlining internal environmental procedures. The group devoted considerable efforts during 2017 to become compliant with the new EU MRV regulations, which require ship owners and operators to monitor, report and verify CO_2 emissions annually for vessels larger than 5 000 gross tonnes calling at any EU and EFTA port.

Emissions to the air

Emissions to the air represent regulatory and operational risks for Höegh LNG, as well as opportunities for cutting costs and driving business development.

Vessel operation produces emissions other than greenhouse gases, most notably sulphur oxides (SOx) and nitrogen oxides (NOx). Fuel quality and enhanced efficiency through improved vessel design, technological innovation and more seamless operational processes are crucial to reducing these emissions. Höegh LNG has extensive know-how and technical expertise in designing, building and operating vessels in an environmentally- and energy-efficient way.

Höegh LNG applies state-of-the-art technology to optimising energy consumption and cost. Since its fleet is mainly powered by electricity generated from natural gas, these vessels emit significantly less CO_2 than vessels burning heavy fuel oil or other fossil fuels directly. Furthermore, natural gas combustion produces negligible emissions of SOx and NOx. The high technical standard of Höegh LNG's fleet means it is well prepared for future environmental regulations, including progressively stricter limits for SOx and NOx emissions.

The charterers' requirements concerning the use of installed regasification capacity for each FSRU and to a lesser extent the speed and the route are the most important parameters for each vessel's total fuel consumption. Höegh LNG has ship energy efficiency management plans (SEEMPs) for all vessels, shares fuel consumption data with charterers and gives them guidance on how to optimise electricity consumption to reduce natural gas consumption and emissions. Höegh LNG also seeks to utilise all boil-off gas from LNG cargo tanks and constantly pursues energy-saving solutions.

Total CO_2 emissions from the fleet were calculated to be 639 699 tonnes in 2017, compared with 470 935 tonnes the year before, which is due to Höegh LNG's customers increasing their imports of natural gas through the fleet of FSRUs, as well as the fleet expanding with two additional FSRUs. The fleet's dual-fuel diesel-electric engines are certified as

Fuel type	Consumption (metric tonnes)	Consumption %	SOx emission (metric tonnes)	CO_2 emission (metric tonnes)
Natural gas	176 231	80%	Trace (negligible)	495 915
Intermediate fuel oil	32 189	14.5%	1 812	104 553
Marine diesel oil / Marine gas oil	12 202	5.5%	23	39 231
Total 2017	220 622	100%	1 835	639 699

Source: CO_2 conversion factors from the UK **Government emission conversion factors for greenhouse gas company reporting**, 2017 edition version 1.0. These factors are used to convert various types of emissions to CO2 equivalents. They are widely used internationally, and updated annually.

being within applicable NOx limits as defined by NOx Technical Code 2008 (EIAPP certificates).

Total energy consumption by the group was 3 235 GWh, compared with 2 342 GWh the year before, which reflect increased activity.

Environmental protection

The main concerns for Höegh LNG in terms of minimising any negative impact its operations may have on marine ecosystems and biodiversity, are spills, discharges of excess biocides and changes to local seawater temperatures when colder seawater is discharged.

Environmental impact assessments (EIA) are conducted by the customer and/or the group at the pre-operational stage in accordance with local regulatory requirements. These assessments typically involve local authorities and experts as well as potentially affected local communities, and result in detailed environmental requirements which Höegh LNG must comply with.

The group proactively ensures that its fleet conforms to anticipated regulations and rules as well as client specifications. Since 2011, all new FSRUs with trading capability are equipped with ballast-water treatment systems in compliance with the IMO Ballast Water Management convention and with anti-fouling systems compliant with the IMO Anti-Fouling Systems convention. Höegh LNG also meets local requirements regarding the release of excess biocides as well as IFC World Bank Group guidelines on the release of colder seawater from the LNG regasification process.

Waste, bilge and sludge handling is another concern in the industry. This is taken into account in the design of Höegh LNG's new vessels, based on the group's operational experience. All vessels have waste management systems and accidental spill monitoring systems in accordance with Marpol.

Höegh LNG reported no accidental spills or breaches of environmental permits in 2017.

Ship recycling

Ship recycling has been a concern for the global shipping industry in recent years, since poor working conditions, child labour, environmental damage and lack of transparency are prevalent in this sector. While waiting for an IMO convention on ship recycling to come into force, Höegh LNG has implemented a green recycling policy and procedure to ensure that the group's vessels are recycled responsibly and sustainably. No Höegh LNG vessels were recycled in 2017.

Security, health and safety

Health and safety

Höegh LNG operates in an industry with hazardous operations, and adherence to strict safety and quality standards is consequently at the centre of its operations. Typical risk drivers are coordinated operations, short timelines and high workload.

Höegh LNG's safety culture is built on the ambition of causing zero harm to people. All vessel operations are managed in accordance with the OHSAS 18001 occupational health and safety standard. Maritime personnel are involved in improving HSE performance and working conditions on board through the protection and environment committee (PEC), monthly safety meetings on all vessels, the Safety Team Campaign and conferences ashore.

One lost time incident (LTI) was recorded on the vessels in 2017, resulting in an LTI frequency (LTIF) of 0.4, compared with zero in 2016. This is still below the average industry LTIF. The incident was investigated with the intention of identifying learning lessons and preventing similar incidents in the future.

Security

As Höegh LNG expands into new markets, ensuring the safety of its employees and assets is a priority. The group has a central security and emergency response function which monitors and manages security risks across the group's activities. Security risk analysis and measures are regularly updated for operational sites and when entering new markets.

Höegh LNG has a risk-based approach to security management, determining which assets and people to protect, the risks they are exposed to and implementing the correct measures to protect them. This is of vital importance to ensure the safety of Höegh LNG personnel, assets and business continuity.

Höegh LNG has an emergency response structure which covers all potential incidents and ensures that both short- and long-term impacts are managed in a proactive manner. The emergency response organisation is responsible for maintaining the interests and obligations of Höegh LNG in all circumstances where the safety of personnel, the environment, assets and reputation are threatened or the interests of its customers or third-party liability may be affected by the group's activities.

Audits, security surveys and emergency response exercises are performed to verify the effectiveness of the security and emergency response system.

Employees

Höegh LNG had 617 employees at 31 December 2017, compared with 549 in 2016.

The group opposes all forms of discrimination and strives to promote equality in all employment practices. The industry's recruitment base, particularly for maritime personnel, is predominantly male and this is reflected in Höegh LNG's demographics. In 2017, women accounted for one of 494 maritime personnel and 44 of the 123 onshore employees.

Maritime personnel

Höegh LNG seeks to recruit and retain competent and qualified personnel and enjoys high retention rates achieved by years of strategic employee development. The group has 494 specialised maritime personnel. These are employed by Höegh LNG subsidiaries. They are organised in pools to ensure access to qualified personnel, high retention rates and job security. Maritime personnel, including temporary employees, had a 24-month retention rate of 98.2%.

All maritime employees receive a written performance review at the end of each service period, including recommendations for further training and/or promotion.

In 2017, Höegh LNG started to conduct specific training for officers in the navigational area to ensure a diversity in the pool of officers which caters for service on both the FSRUs and the sailing vessels in the fleet. The group also invests in maritime education and training in countries where maritime personnel are recruited.

Onshore personnel

Höegh LNG has onshore personnel in Norway, Singapore, the UK, Indonesia, Lithuania, Egypt, the USA, South Korea and Colombia. Annual performance reviews are conducted for every onshore employee, and a digitalized appraisal system was implemented in 2017.

A staff engagement survey was conducted in 2017, and the results confirmed a continued high level of engagement (78%) across the group. The response rate from employees was 96%, and responses had improved in four of the seven measured categories since the last engagement survey in 2016.

To maintain a high level of engagement among its employees, Höegh LNG has addressed areas for development such as communication, information sharing and leadership in 2017. The results from the 2017 survey will be included in the foundation for a continued focus on organisational development initiatives in 2018.

During 2017, Höegh LNG has invested in strengthening leadership capacity even further across management layers, functions and cultures. The group has grown in complexity and staff size, and leadership behaviour and skills was identified as areas of improvement based on the Employee Engagement Survey in 2016. The first Höegh LNG Leadership Development Programme was developed and executed during 2017. Participants in the first round were managers or task leaders who are very dependent on deliverables from people in their teams. The programme was developed together with an external party and executed in three modules. The next round will start in 2018.

Employee turnover for onshore personnel for the group was 2.6% in 2017. In the Oslo office, average sickness absence among employees was 4.1% in 2017 compared with 1.6% the year before. The increase reflects several individuals on long-term sick leave. The Oslo office has a working environment committee with employee and management representation, in line with Norwegian legislation.

Compliance and anti-corruption

With operations worldwide, Höegh LNG faces a variety of local regulations and practices. This requires great attention to ethical behaviour, compliance and risk mitigation. Höegh LNG has zero tolerance for bribery and corruption.

Corporate culture

A strong corporate culture is a prerequisite for an effective compliance system. Höegh LNG operates with clear communication of values from the board to management, and from management to the rest of the organisation. Such values are expressed and implemented through written guidance on compliance and ethics training, business partner risk management efforts and an effective reporting system. In addition, the group's incentive systems for employees include a compliance component.

The 2017 Employee Engagement Survey confirmed that a large majority of employees are well versed on the group's ethical and integrity standards, their knowledge of the code of conduct and their perception of the group's adherence to it. A large majority of employees also indicated that they would feel comfortable raising ethical concerns through the group's reporting and whistleblowing channels.

Höegh LNG code of conduct

Höegh LNG's governing documents facilitate compliance with applicable laws, regulations and standards. These documents are anchored in the group's code of conduct, which defines the group's values and the expected behaviour of all employees and is approved by the board.

Höegh LNG Anti-Corruption Governance Program

Every Höegh LNG employee is responsible for acting in accordance with the code of conduct, and for complying with the laws and regulations of the countries and regulatory authorities where the group operates. The group's compliance officer is responsible for ensuring compliance with the code of conduct and related governing documents. The compliance officer reports to the President & CEO.

The board's governance, compliance and compensation committee supports the board in fulfilling the board's responsibilities with respect to ethics and anti-corruption. The board approves the code of conduct and other relevant policies. All governing documents are subject to review on an annual basis. In 2017, a detailed review was conducted to ensure alignment with prevailing international guidelines.

The group's compliance officer provides written and verbal reports to the top management and the board on status, progress and activities on an ongoing and periodic basis.

Höegh LNG uses mandatory training as a valuable tool to maintain a zero-corruption track record. This includes face-to face training sessions- and e-learning courses. All employees are required to sign the code of conduct and other relevant compliance policies. In 2017, the board of directors received anti-corruption training from external legal counsel.

Höegh LNG encourages the culture of speaking up, where all employees can report suspected or actual breaches of the code of conduct and governing documents through designated reporting and whistleblowing channels. All reported incidences are registered with the compliance officer. Reports can be made anonymously and retaliation is strictly prohibited.

Risk-based anti-corruption approach

Höegh LNG is exposed to a variety of corruption and bribery risks in relation both to obtaining new business and in its on-going operations, including the need to secure permits and licences to operate. Typical risks include unclear local operating requirements and enforcement, extortion schemes and facilitation payments.

In 2017, all countries where Höegh LNG has operations, as well as five potential new countries, were subject to a high-level risk assessment. Anti-corruption is also part of internal audits, and six operations were audited in 2017. Zero breaches of anti-corruption requirements were identified from risk assessments and audits performed in 2017.

The integrity of business partners is critically important to Höegh LNG, as the group could suffer from corrupt behaviour by business partners, such as suppliers, agents, customers, consultants and intermediaries. Höegh LNG performs a risk assessment of all new business partners and is committed in ensuring its existing business partners possess good anti-corruption awareness and controls. New customers, third parties acting on behalf of Höegh LNG, potential joint venture partners and certain other business partners are also subject to due diligence processes and board approval prior to any firm commitments.

Maritime anti-corruption network

Beyond its own internal measures, Höegh LNG believes in the importance of collective action in achieving ethical and compliance goals. Höegh LNG is a member of the Maritime Anti-Corruption Network (MACN). This is a global business network working towards the vision of a maritime industry free from corruption which enables fair trade to the benefit of society as a whole. The network provides Höegh LNG with valuable insights into specific challenges in the maritime industry and how it can fight corruption with a targeted approach. As a member, Höegh LNG is committed to implementing the MACN Anti-Corruption Principles.

Supply chain management

Höegh LNG requires its suppliers and business partners to operate in accordance with the same environmental, social and ethical standards as the group.

The group has a supplier code of conduct covering areas such as human rights, labour standards, employment conditions and HSE, the environment, anti-corruption and conflicts of interest. All suppliers, including agents, lobbyists and intermediaries, are required to comply with this code. In 2017, Höegh LNG restructured the group's procurement system to increase controls on its suppliers. A new set of terms and conditions for procurement of products and services has been established and will be implemented in 2018.

All suppliers must sign the supplier code of conduct unless there are compelling reasons not to do so, in which case a special assessment of the supplier is conducted. An integrity due diligence is performed on new suppliers if the size of the contract, corruption rate and/or number of sub-contractors require this in accordance with the criteria in the diligence procedure. In 2017, several high-risk suppliers were identified and audited against requirements in the supplier code of conduct and contractual requirements on anti-corruption. This work will continue in 2018.

Höegh LNG is a member of the Incentra purchasing organisation owned by shipowners and managers. It prequalifies suppliers on the basis of standards which accord with Höegh LNG's supplier code of conduct and conducts HSE audits and supplier evaluations.

Höegh LNG will continue to focus on establishing a risk-based system for supplier management in 2018, which will include a more structured approach to measuring, monitoring and improving performance.

Vessel construction

Vessel construction has environmental impacts, such as waste, spills and the use of materials and hazardous chemicals during the construction process. Risks are also posed in relation to unsafe working conditions and labour rights for yard workers.

Höegh LNG works closely with shipyards which build its FSRUs. Shipyard safety records and worker safety are used as criteria for yard selection, and provisions in the shipbuilding contracts require the yards to be certified in accordance with ISO 14001, OHSAS 18001, ISO 9001 and ISO 19011. In 2017, Höegh LNG established an HSE and working conditions action plan to identify and mitigate risks related to health, safety and labour conditions for all shipyard workers involved in the construction of its vessels. The action plan has a specific focus on forced labour among migrant workers and sub-contractors, a concern which surfaced in the industry in 2017. This work will be further structured and implemented in 2018.

The yards report HSE performance monthly. A team of experienced Höegh LNG representatives is present on site during the construction period and monitors the entire construction process and HSE standards closely. When this is seen to be necessary, Höegh LNG requests additional safety measures to ensure appropriate working standards and seeks improvements if HSE practices do not meet the group's requirements.

No LTIs were reported for shipyard workers involved in the construction of Höegh LNG's vessels at Samsung Heavy Industries and Hyundai Heavy Industries in 2017.

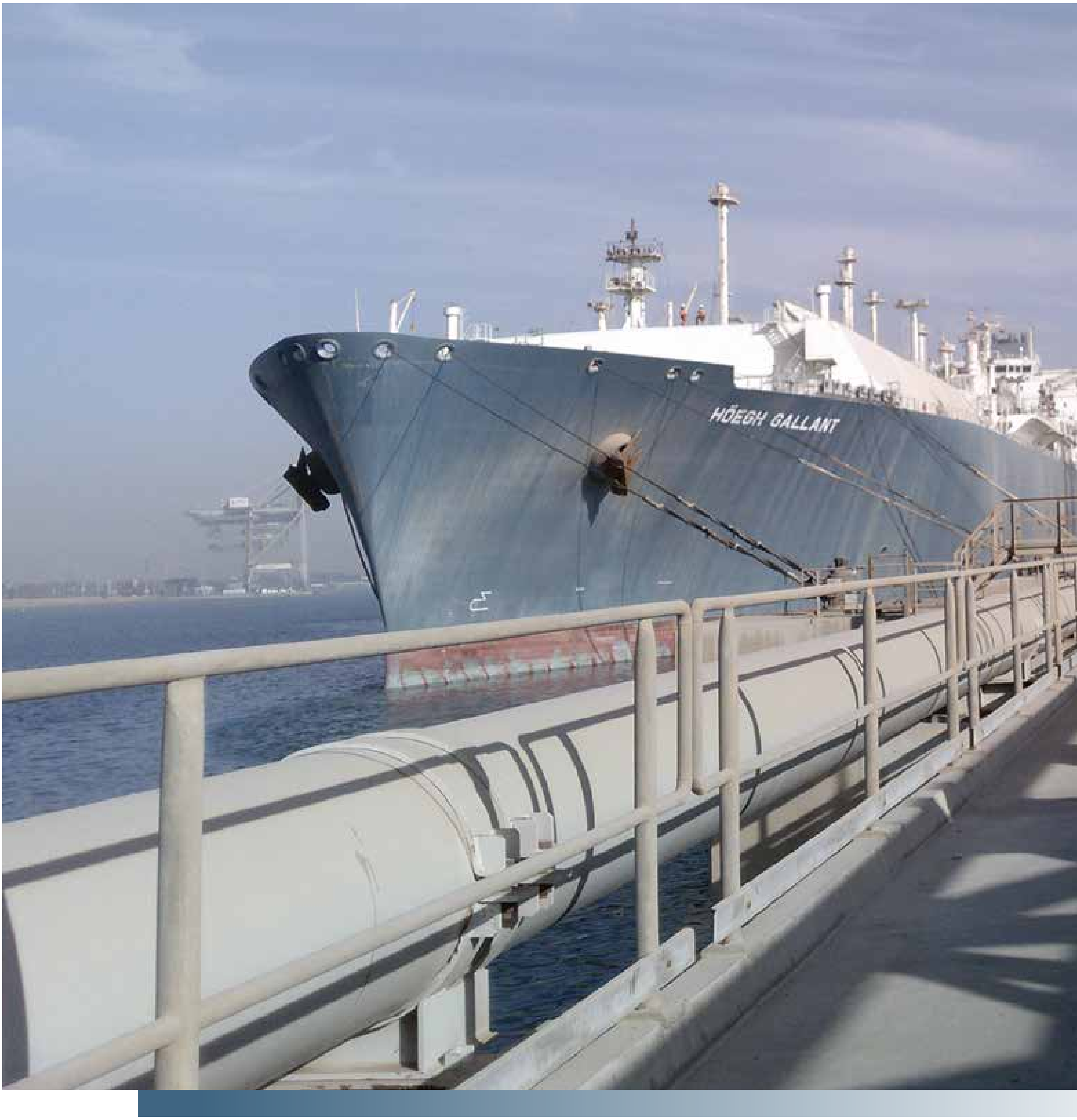
Höegh LNG is continuously working to improve environmental performance in the design of the vessels. At the beginning of 2017, two new vessels were ordered, both with the clean notations owing to their enhanced performance for emissions to the air and discharges to water. They also have the recycling notation.

The HSE track record for Höegh Giant stands out

From steel cutting on 24 August 2015 to delivery on 26 April 2017, zero fatalities and lost-time injuries (LTIs) were suffered by personnel involved in the construction process from Höegh LNG, the shipyard and their subcontractors – all in line with stated targets. This is a direct result of the great dedication and professionalism of the entire Höegh LNG site team, in close cooperation with the yard. Höegh LNG expects to achieve comparable results with the construction of its FSRUs also in 2018.

CSR targets 2018

TOPIC	AMBITION	2018 TARGETS
The environment – emissions to the air	Control optimal performance and consumption of energy during FSRU operation to avoid any increase in consumption over the contract period.	Consumption of fuel in FSRU operation to be kept 10% below the agreed aggregated TCP level.
The environment – environmental protection	Reduced effluents from vessels.	Reduce generation and unnecessary processing of effluents through design optimisation of systems.
Security, health and safety – health and safety	Improve implementation of job risk management processes.	Encourage masters and senior officers to demand proof of completed safety processes before ordering work to start.
Onshore employees		Continue leadership development. Improve internal communications.
Maritime employees		Extend the performance review process even further and have in place a designation-targeted assessment tool for identifying new and promoted officers.
Compliance and anti-corruption	A more robust framework which addresses compliance and corruption risks in a holistic, consistent and proportionate manner.	Develop an annual business integrity and compliance plan, which includes anti-corruption campaigns, training, workshops, risk assessments and audits.
Supply chain management	Devote attention to compliance, environmental issues and working conditions in the selection, control and follow-up of suppliers.	Strengthen control capacity and level of standardisation in the supply-chain management process.



Höegh Gallant

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

Corporate governance enhances business performance by reducing risk and improving accountability, and is essential for maintaining the trust of Höegh LNG's stakeholders and its strong standing in the financial markets.

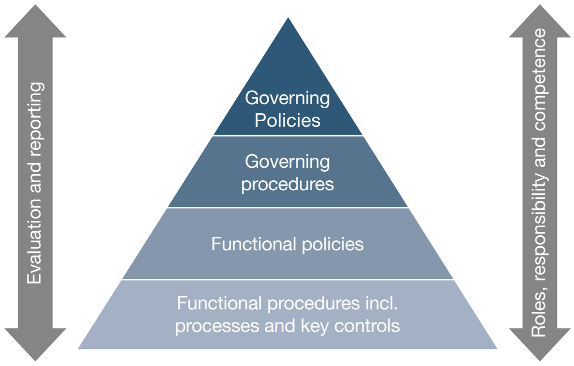
The company is an exempted company limited by shares domiciled and incorporated under the laws of Bermuda and is stock-listed on Oslo Børs (the Oslo stock exchange). The company is subject to Bermudian law regarding corporate governance. As a listed company on Oslo Børs, the company is required to provide a report on the company's corporate governance as further set out in section 7 of Oslo Børs' continuing obligations of stock exchange listed companies (the *"continuing obligations"*).

The company has adopted and implemented a corporate governance system which, other than as stated herein, complies with the Norwegian code of practice for corporate governance (the *"Norwegian corporate governance code"*) referred to in section 7 of the continuing obligations. The Norwegian corporate governance code is published at www.nues.no and the continuing obligations are published on the Oslo Børs web site at www.oslobors.no.

This report is based on the requirements covered in the Norwegian corporate governance code and section 7 of the continuing obligations, and is approved by the company's board.

Implementation and reporting on corporate governance

The governing principles set out in the company's bye-laws, the governing principles policy and the Höegh LNG code of conduct, as further described below, are the foundations of corporate governance in Höegh LNG.



The governing principles policy (i) identifies the key governing bodies in Höegh LNG, (ii) describes the roles and responsibilities of the governing bodies and functions of the group and (iii) specifies requirements for the business with regard to important governing processes, documents and systems. The board has also adopted governing procedures to implement the principles set out in the governing principles policy. These procedures include separate charters for the board of directors, the audit committee, the governance, compliance and compensation committee and the nomination committee (which are also approved by the general meeting), as well as instructions for both the President & CEO and the compliance officer.

Höegh LNG employees, as representatives of the group, are required to adhere to and be in compliance with Höegh LNG's standards for ethics, health, safety, the environment and quality as further set out in the Höegh LNG code of conduct, the insider trading policy and the procedure for governmental investigation as adopted by the board. In addition, the board has adopted a supplier code of conduct, which all suppliers are required to adhere to.

Through compliance with the above, the board and management contributes to achieving the following objectives:

Trust: Good corporate governance establishes a basis for trust in the board and the management by the shareholders and other stakeholders.

Transparency: Communication with Höegh LNG's shareholders is based on transparency concerning both the company's business and its financial position.

Independence: The relationship between the board, the management and the shareholders will be on an independent basis.

Equality: Höegh LNG treats all its shareholders equally.

Control and management: Good control and governance mechanisms contribute to predictability and reduce risk.

Business

As is common practice for Bermudian-registered companies, the company's objectives and powers as set out in its Memorandum of Association are broad and therefore wider and more extensive than recommended in the Norwegian corporate governance code. The Memorandum of Association is available on the company's website (governance – governance documents).

Höegh LNG's strategy is to continue to concentrate its growth plans in the FSRU market in order to secure long-term contracts with strong counter-parties at attractive returns. The group develops, constructs, owns and operates vessels based on the following vision, mission and core values:

Vision

To be the market leader for floating LNG solutions.

Mission

To develop, manage and operate the group's assets to the highest technical, ethical and commercial standards, thereby providing value for customers and maximising benefits for shareholders and other stakeholders.

Core Values

Innovative, competent, committed and reliable.

Equity and dividends

The issued share capital in the company at 31 December 2017 was USD 772 447.46, consisting of 77 244 746 fully paid common shares, each with a nominal value of USD 0.01. Excluding the 1 211 738 shares held by the company as treasury shares, the number of outstanding shares is 76 033 008.

A total of 1 905 126 options granted to management and key employees were outstanding at 31 December 2017.

The total book equity at 31 December 2017 was USD 705 million. Net of mark-to-market of hedging reserves, the adjusted book equity at 31 December 2017 was USD 763 million. The board regards the current level of equity as appropriate in view of Höegh LNG's objectives, strategy and risk profile.

The company has paid steady quarterly dividends since March 2015, and increased the dividend from USD 0.10 per share to USD 0.125 per share in the first quarter of 2017. While Höegh LNG continues to deliver solid financial results, the board of directors resolved in February 2018 to reduce the quarterly dividend to USD 0.025 per share in response to the project delays experienced during 2017. Once greater clarity regarding the long-term employment of FSRUs under construction has been achieved, the board will reconsider the level of quarterly dividend distribution.

The company intends to pay a regular dividend to support its goal of providing attractive returns to shareholders. The timing and amount of any dividend payments will depend on market prospects, investment opportunities, current earnings, financial conditions, cash requirements and availability, restrictions in Höegh LNG's debt agreements, the provisions of Bermudian law and other factors.

Pursuant to Bermudian law and common practice for Bermudian-registered companies, the board has wide powers to issue any authorised but unissued shares in the company on such terms and conditions as it may decide, and may, subject to any resolution of the shareholders in a general meeting and to the rights of any issued shares, attach such rights and restrictions as the board may determine. Likewise, the board may, without approval from the shareholders in a general meeting, acquire the company's own shares to be cancelled or held as treasury shares. These bye-law provisions (bye-laws 3.3, 3.4 and 5) are neither limited to specific purposes nor to a specified period as recommended in the Norwegian corporate governance code. The authorised share capital of the company is 150 million shares, as approved by the general meeting in 2012.

Equal treatment of shareholders and transactions with close associates

The company has only one class of shares.

A director who has an interest in any way, whether directly or indirectly, a contract or proposed contract, transaction or arrangement with the company and has complied with the provisions of the Bermudian Companies Act and the bye-laws with regard to the disclosure of their interest, is entitled to vote in respect of any contract, transaction or arrangement in which they are so interested, their vote will be counted, and they will be taken into account in ascertaining whether a quorum is present.

According to the charter for the board, however, no director, the President & CEO nor any executive personnel may take part in any dealings or decision-making in matters of special importance to them or a related party whereby they may be considered to have a strong personal or financial interest in the matter.

According to the code of conduct, an employee must immediately notify the President & CEO, their business area leader or the head of HR when they realise that a conflict of interest may arise. If a conflict of interest exists, the employee must immediately withdraw from further dealings with the relevant matter.

In the event of any material transaction between Höegh LNG and a major shareholder (defined as a person/company holding more than five per cent of Höegh LNG's voting rights), any such shareholder's parent company, directors and executive personnel, or close associates of any such parties, the board should arrange for a valuation to be obtained from an independent third party. This will not apply if the transaction requires the approval of the annual general meeting pursuant to applicable law or regulations. Independent valuations should also be arranged in respect of transactions between companies in the same group where any of the companies involved have minority shareholders.

Freely transferable shares

The common shares of the company are freely transferable and the company's constitutional documents impose no transfer restrictions on the company's common shares save as set out below:

- Bye-law 14.3 includes a right for the board of directors to decline to register a transfer of any common share registered in the share register, or if required, refuse to direct any registrar appointed by the company to transfer any interest in a share, where such transfer would result in 50% or more of the shares or votes being held, controlled or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares or votes being effectively connected to a Norwegian business activity. The purpose of this provision is to avoid the company being deemed a controlled foreign company pursuant to Norwegian tax rules.

- Bye-laws 52 and 53 include a right for the company to request a holder of nominee shares to disclose the actual shareholder. The board may decline to register any transfer where a holder of nominee shares does not comply with its obligations to disclose the actual shareholder as further set out in the bye-laws, where the default shares represent at least 0.25% (in nominal value) of the issued shares in their class.

General meetings

The shareholders of the company are responsible for making certain key decisions concerning the company's business. These include at the annual general meeting, the appointment of the auditor, the election of the board of directors and the nomination committee and the determination of the remuneration of directors and members of the nomination committee. Alternate directors are appointed by the board and are not elected by the general meeting. Bye-laws 19 to 24 set out extensive rules with regard to the conduct of general meetings, including in relation to the notice of general meetings, general meetings to be held in more than one place, proceedings, voting, proxies and corporate representatives.

Pursuant to bye-law 22.8, the board may select one of its members to chair a general meeting.

Nomination committee

The members of the nomination committee are elected by the general meeting for one year, and Stephen Knudtzon (chairman), Morten W. Høegh (member) and William Homan-Russell (member) were re-elected in 2017. Knudtzon and Homan-Russell are independent of the board and the executive personnel of the company. Homan-Russell represents Tufton Oceanic Limited, which is a large shareholder of the company. Morten W. Høegh is independent of the executive personnel of the company and represents the largest shareholder of the company, Leif Höegh & Co Ltd. Morten W. Høegh's appointment on the nomination committee deviates from the recommendation of the code, which does not recommend a dual role as a member of both the nomination committee and the board.

The roles and responsibilities of the nomination committee are set out in the charter for the nomination committee, as approved by the general meeting. The nomination committee provides a written report setting out its work and recommendations, and this report is enclosed with the notice and agenda for the relevant general meeting. The company has made provision for any shareholder to submit proposals to the nomination committee via the company's website.

Corporate assembly and board of directors: Composition and independence

The company does not have a corporate assembly[2].

A presentation of the board is provided on the company's website.

All directors are independent of the company's significant business relations and large shareholders (shareholders holding more than 10% of the shares in the company), except for Morten W. Høegh, who together with his immediate family are the primary beneficiaries under family trusts which, together with Leif O. Høegh, are indirect shareholders of Leif Höegh & Co. Ltd.

The board held four regular meetings in 2017, with all directors present at three of them and one absent from one meeting. The board also held ten interim meetings, with the Bermuda-resident director and alternates present. In addition, the board had an information meeting, where all directors were present.

The company has appointed two board committees: an audit committee and a governance, compliance and compensation committee. In connection with the bond issue of January 2017, a bond committee was also established. The members of these committees were drawn from among the directors and, in the case of the bond committee, from among alternate directors as well.

– *Members of the audit committee:* The audit committee consisted from May 2017 of the following directors: Andrew Jamieson (chairman), Leif O. Høegh and Jørgen Kildahl, each being elected for a term of one year. The members are

[2] Pursuant to Norwegian company law, companies with more than 200 employees, in the absence of any agreement with the employees to the contrary, must have a corporate assembly with members elected by the shareholders and the employees. The main duty of the corporate assembly is the election of the board of directors. In addition, the corporate assembly has certain duties in respect of supervision, issuing opinions and decision making.

independent of the executive personnel of the company and the group. Jamieson and Kildahl are considered to be independent of the major shareholder of the company.

- *Members of the governance, compliance and compensation committee:* The governance, compliance and compensation committee consisted from May 2017 of Ditlev Wedell-Wedellsborg (chairman), Morten W. Høegh, Christopher Finlayson and Steven Rees Davies, each being elected for a term of one year. The members are independent of the executive personnel of the company and the group. Wedell-Wedellsborg, Finlayson and Rees Davies are considered to be independent of the company's major shareholder.
- *Members of the bond committee:* The committee consisted of Morten W. Høegh, Jørgen Kildahl, Steven Rees Davies, Tonesan Amissah and Jerome Wilson.

Morten W. Høegh, Leif O. Høegh, Andrew Jamieson, Ditlev Wedell-Wedellsborg, Christopher Finlayson and Jørgen Kildahl each own common shares in the company directly or indirectly.

Bye-law 25 regulates the appointment and removal of directors.

As recommended by the code, all directors (save for Steven Rees Davies) as well as members of the top management hold shares in the company as set out in the table below:

Name	Title	Shareholding in the company per 31 December 2017	Holding in Höegh LNG Partners LP per 31 December 2017
Morten W. Høegh	Chairman	See Note[1]	See Note[1]
Leif O. Høegh	Director	See Note[1]	See Note[1]
Andrew Jamieson	Director	7 094	4 091
Christopher Finlayson	Director	2 738	-
Ditlev Wedell-Wedellsborg[2]	Director	7 094	-
Jørgen Kildahl	Director	2 285	-
Sveinung J. S. Støhle[3]	President & CEO	134 738	7 968
Steffen Føreid[3]	CFO	21 805	7 591
Ragnar Wisløff[3]	CDO	23 934	5 178
Vegard Hellekleiv[3]	COO	23 364	-
Øivin Iversen[3]	CTO	346	-
Tom Solberg[3]	COS	-	-

Notes:

[1] Leif Höegh & Co. Ltd., which is indirectly controlled by Leif O. Høegh and family trusts under which Morten W. Høegh and his immediate family are the primary beneficiaries, held a total of 32 479 952 shares, representing 42.05% of the shares in the company and 311 591 common units in Höegh LNG Partners LP as per 31 December 2017. In addition, Brompton Cross entities, which are co-investment vehicles for the management of Höegh Capital Partners, indirectly controlled by Leif O. Høegh and by family trusts under which Morten W. Høegh and his immediate family are primary beneficiaries, hold the following ownership interest in the company and Höegh LNG Partners LP ("HMLP"), as applicable.

- Brompton Cross VII Limited holds 40 800 shares, representing 0.05%of the shares in issue, and 25 000 common units in HMLP.
- Brompton Cross VIII Limited holds 28 500 shares, representing 0.04% of the shares in issue.
- Brompton Cross IX Limited holds 28 500 shares, representing 0.04% of the shares in issue.

[2] In addition, Ditlev Wedell-Wedellsborg owns 15 242 shares in the company through Niki Invest Aps. and 10 000 common units in Höegh LNG Partners LP through DWW Landbrug Aps.

[3] Top management have also been granted share options in the company and phantom units in HMLP as further set out in Note 23 to the 2017 annual financial statements.

The work of the board of directors

The board is responsible for the administration of Höegh LNG and for safeguarding the proper organisation of the business, including the overall management of the company and the group as further set out in the charter for the board of directors. The board makes decisions and, in certain cases, grants the authority to make decisions on issues which, owing to the nature of the business, are unusual or of major significance to the company.

The board will ensure that Höegh LNG adheres to generally accepted principles for the effective control of company activities, and provides the necessary guidelines for such activities and corporate management. The board will also ensure that Höegh LNG protects its reputation in relation to owners, employees, customers and the public.

The board approves strategies, business plans and budgets for the activities of Höegh LNG and its subsidiaries.

The work of the board is scheduled in an annual plan with fixed information and decision points. If required, interim board meetings are arranged in accordance with the charter for the board of directors.

The board conducts a self-evaluation of its own performance and expertise on an annual basis, which includes an evaluation of the composition of the board and the manner in which its members function, both individually and as a group, in relation to the objectives set out for the board's work. This report is made available to the nomination committee.

The board has authorised Höegh LNG AS to carry out the day-to-day management of the company's assets under a management agreement comprising administrative, commercial and technical activities. The board establishes and defines the authorities to be exercised, and the extent of decisions to be taken, by the President & CEO and the board through the company's decision guide.

The work of the board committees

The tasks of the audit committee and the governance, compliance and compensation committee are defined in committee charters, which are reviewed annually. See also item 10 below. The work of the committees is preparatory in nature, in order to increase the efficiency of the board, and does not imply any delegation of the board's legal responsibilities. The committees report to the board.

Risk management and internal control

The board appreciates the importance of internal control and systems for risk and security management, and Höegh LNG has robust management systems certified in accordance with the International Safety Management code, ISO 9001 and ISO 14001 and in compliance with OHSAS 18001.

The President & CEO reports regularly to the board on risk, security and compliance, HSE, quality assurance issues, financials, on-going business and business developments, vessel management and key performance indicators.

Höegh LNG has a QA and risk management function, which is responsible for the internal audit function in Höegh LNG and meets regularly with the audit committee. This function helps Höegh LNG to achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of enterprise risk and security management, control and governance processes. In addition, the group's wholly-owned fleet management company has a separate HSEQ & QA function.

The company has in place a system of internal controls for financial reporting. This comprises an annual process which includes risk assessment of fraud, corruption and misstatements in financial reporting, design and implementation of key controls, updated documentation and completeness of necessary remediation. The internal control framework is based on COSO 2013 (Committee of Sponsoring Organisations of the Treadway Commission).

Höegh LNG is also subject to extensive external control by its auditors, external partners in joint ventures and charterers.

Both management and the compliance officer monitor that Höegh LNG acts in accordance with applicable law and regulations.

The company has implemented an integrated governing management system ("GMS") to demonstrate its capability for planning, operating and controlling the processes involved in the services rendered. Health (including occupational health), safety and environmental management, and project and security risk management are all included in the GMS.

The company has put ethical hotlines in place which allows employees, as well as external parties in the case of HMLP, to report any non-compliance issues – anonymously if desired. These reports are received by Höegh LNG's compliance officer for the company, and by the chairman of HMLP's audit committee for HMLP.

The audit committee will provide direction, advice and recommendations to the board on financial reporting, internal controls and auditing matters. It is responsible for assessing and monitoring business and financial risks and overseeing the implemented risk mitigating actions. The committee is the formal reporting body for internal controls with regard to financial reporting.

The governance, compliance and compensation committee provides direction, advice and recommendations to the board related to corporate governance, ethics and compliance, corporate social responsibility (CSR) and remuneration matters (including remuneration of the President & CEO). The committee is required to understand, assess and monitor risks related to these areas and to oversee the risk-mitigating actions which are implemented.

Remuneration of the board of directors

Remuneration of the directors of the board totalled USD 320 000 in 2017 as further set out below.

Each of Morten W. Høegh, Leif O. Høegh, Andrew Jamieson, Ditlev Wedell-Wedellsborg, Christopher Finlayson and Jørgen Kildahl were granted 1 381 shares (worth USD 15 000) and USD 35 000 in cash. The chairman receives the same remuneration as the other directors.

The chairman of the audit committee and the chairman of the governance, compliance and compensation committee each received USD 10 000 as payment for services rendered by them as chairmen of the respective committees.

Estera Services (Bermuda) Ltd. is remunerated on the basis of invoices for its services, including the provision of Steven Rees Davies as a director and the services of alternate directors to the company.

In addition, Morten W. Høegh received USD 5 000 as a member of the company's nomination committee and he also receives an annual salary of GBP 36 000 from Leif Höegh (U.K.) Limited (a subsidiary of the company) for his part-time employment.

The company has no pension or retirement benefits for directors.

No director has service contracts with the company or any of its subsidiaries providing for benefits on termination of their employment.

Remuneration of executive personnel

The board approves the remuneration to the President & CEO. In addition, it approves the main terms of the remuneration package offered to employees in Höegh LNG, including the parameters for any annual salary adjustments, pension schemes and the variable elements in the remuneration package (bonus and stock option schemes).

The company has a stock option scheme in place for members of management and key personnel, with awards currently being made every second year (see Note 23 to the 2017 annual financial statements). The terms of the scheme and the option agreements, including its members, are approved by the board. There are no restrictions on the ownership of awarded stock options.

Further details on remuneration of executive personnel for the current financial year are provided in Note 31 to the 2017 annual financial statements.

As a Bermudan entity, section 6-16a of the Norwegian Public Company Act and section 7-31b of the Norwegian Accounting Act do not apply to Höegh LNG. Hence, the board does not produce a statement on how salary and other remuneration, etc for the company's executive personnel are determined, nor is such a statement submitted to the annual general meeting for consideration.

Information and communications

Höegh LNG has a policy of openness with regard to reporting information to stakeholders. Periodical reports include quarterly reports and the annual report. All reports are published through stock exchange releases and on the company's website. Important events are also reported through press and/or stock exchange releases. In connection with the release of quarterly reports, the President & CEO and the CFO hold open webcasts which are accessible from the company's website.

The charter for the board of directors includes guidelines to secure disclosure in accordance with the financial calendar adopted by the board.

Outside the general meeting, contact with the shareholders is handled by the President & CEO, the CFO and the head of IR. The aim is to maintain an active dialogue with the investor market and other relevant interested parties.

The company complies with the Oslo Børs code of practice for IR, with the following comments:

- The company discloses information in the English language only.
- The company publishes half-yearly and interim reports as soon as possible, and aims to publish the reports no later than on the 15th day of the second month after the end of the quarter.
- The company informs about future prospects on a project basis within the various business segments. The following key performance indicators (KPIs) are communicated: Expected unleveraged return, expected EBITDA per year and the expected debt to equity ratio. The company does not provide any guidance on expected revenue, net profit or any accounting related information or figures.
- As the proportion of shares registered through nominee accounts is limited compared to the company's total issued shares, the company does not publish a list of beneficial owners.
- Information about financial strategy and external debt are included in the notes to the annual financial statements.
- For overview of notifiable primary insider trades and disclosure of large shareholdings, please be referred to stock exchange notices published through Newsweb.

Takeovers

The company endorses the principles concerning equal treatment of all shareholders. It is obliged to act professionally and in accordance with the applicable principles for good corporate governance set out in the Norwegian corporate governance code in the event of a takeover bid.

Auditor

The auditor is appointed by the general meeting and has the duty to audit the company's financial reporting. The company's auditor has been Ernst & Young since 2006. Lead partners have been changed in accordance with rotation requirements for publicly listed entities.

In order to safeguard the board's access to and control of the auditor's work, the auditor meets with the audit committee and, once a year, with the full board. The auditor is also given copies of the agenda of, documentation for and minutes from audit committee and board meetings.

As a Bermudian entity, section 7-31a of the Norwegian Accounting Act does not apply to Höegh LNG. Hence, the company does not include detailed information on the remuneration paid to the auditor in its financial statements.

DIRECTORS’ RESPONSIBILITY STATEMENT

Today, the board and the President & CEO reviewed and approved the board of directors’ report, the corporate social responsibility report, the corporate governance report and the consolidated and separate annual financial statements for Höegh LNG Holdings Ltd., for the year ending 31 December 2017 (Annual Report 2017).

Höegh LNG’s parent company and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“IFRS”) and additional disclosure requirements set out in the Norwegian Securities Trading Act.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2017 have been prepared in accordance with IFRS;
- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit (or loss) as a whole as of 31 December 2017 for the group and the parent company; and
- The board of directors’ report for the group and the parent company includes a true and fair review of
  - The development and performance of the business and the position of the group and the parent company; and
  - The principal risks and uncertainties the group and the parent company face.

Hamilton, Bermuda, 22 March 2018

The board of directors and President & CEO of Höegh LNG Holdings Ltd.

Morten W. Høegh
Chairman

Leif O. Høegh
Deputy Chairman

Ditlev Wedell-Wedellsborg
Director

Andrew Jamieson
Director

Christopher G. Finlayson
Director

Jørgen Kildahl
Director

Steven Rees Davies
Director

Sveinung J.S. Støhle
President & CEO

Neptune

CONSOLIDATED FINANCIAL STATEMENTS HÖEGH LNG GROUP FOR THE YEAR ENDED 31 DECEMBER 2017


NEPTUNE
OSLO

CONSOLIDATED STATEMENT OF INCOME

USD'000	Note	2017	2016
Freight revenues	4	271 048	213 889
Management and other income	5	5 777	5 252
Share of results from investments in joint ventures	20	2 525	13 773
TOTAL INCOME		**279 350**	**232 914**
Charterhire expenses		(35 496)	(35 359)
Bunker and other voyage related expenses		(668)	(424)
Operating expenses	6	(51 612)	(43 754)
Project administrative expenses	7, 8	(17 757)	(13 161)
Group administrative expenses	7, 9	(17 684)	(20 585)
Business development expenses	7, 10	(7 231)	(8 351)
OPERATING PROFIT (LOSS) BEFORE DEPRECIATION AND IMPAIRMENT		**148 902**	**111 280**
Depreciation	11	(42 362)	(34 848)
Impairment/reversal of impairment	11	(380)	-
OPERATING PROFIT (LOSS) AFTER DEPRECIATION AND IMPAIRMENT		**106 160**	**76 432**
Interest income		2 256	1 457
Interest expenses	17	(60 656)	(55 180)
Income from other financial items		3 195	6 214
Expenses from other financial items	18	(4 755)	(9 790)
NET FINANCIAL ITEMS		**(59 960)**	**(57 299)**
ORDINARY PROFIT (LOSS) BEFORE TAX		**46 200**	**19 133**
Income taxes	24	(5 148)	(5 121)
PROFIT (LOSS) FOR THE YEAR		**41 052**	**14 012**
Profit (loss) of the period attributable to (from):			
Equity holders of the parent		18 482	1 298
Non-controlling interests		22 570	12 714
TOTAL		**41 052**	**14 012**
Earnings per share attributable to equity holders of the parent during the year:			
Basic and diluted earnings per share (loss)	22	0.24	0.02

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

USD'000	Note	2017	2016
Profit for the year		41 052	14 012
Items that will not be reclassified to profit or (loss):			
Net gain (loss) on other capital reserves		(50)	22
Items that may be subsequently reclassified to profit or (loss):			
Net gain (loss) on hedging reserves	13	12 303	14 022
Share of other comprehensive Income from joint ventures	13, 20	10 845	11 199
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR NET OF TAX		**23 098**	**25 243**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**64 150**	**39 255**
Total comprehensive income attributable to (from):			
Equity holders of the parent		35 076	19 590
Non-controlling interests		29 074	19 665
TOTAL		**64 150**	**39 255**

The notes on page 49 to 92 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
USD'000	Note	2017	2016
ASSETS			
Non-current assets			
Deferred tax assets	24	528	353
Vessels and depot spares	11	1 386 132	1 139 734
Newbuildings under construction	12	232 998	129 678
Other non-current financial assets	30	25 795	22 123
Other non-current assets	29	22 871	22 120
Shareholder loans	31	3 263	943
Restricted cash	14	13 640	18 580
TOTAL NON-CURRENT ASSETS		**1 685 227**	**1 333 531**
Current assets			
Bunkers and inventories		783	745
Trade and other receivables	25	37 697	40 539
Shareholder loans	31	0	6 275
Marketable securities	15	74 022	135 751
Other current financial assets		1 390	-
Restricted cash	14	6 976	10 274
Cash and cash equivalents	14	152 940	186 346
Total current assets		**273 808**	**379 930**
TOTAL ASSETS		**1 959 035**	**1 713 461**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	772	769
Other paid-in capital		552 333	550 659
Capital reserves		(35 139)	(53 853)
Retained earnings		(38 486)	(51 599)
Equity attributable to equity holders of the parent		**479 480**	**445 976**
Non-controlling interests		225 758	150 087
TOTAL EQUITY		**705 238**	**596 063**
Non-current liabilities			
Deferred tax liability		8 301	6 114
Non-current interest-bearing debt	16	1 082 246	786 567
Investments in joint ventures	20	35 159	48 530
Other non-current financial liabilities	13, 30	9 165	16 938
Deferred revenue		3 921	5 761
TOTAL NON-CURRENT LIABILITIES		**1 138 792**	**863 910**
Current liabilities			
Current interest-bearing debt	16	73 413	149 295
Income tax payable	24	1 932	1 109
Trade and other payables	26	14 714	19 023
Other current financial liabilities	13, 28	8 465	57 890
Other current liabilities	27	16 481	26 171
Total current liabilities		**115 005**	**253 488**
TOTAL EQUITY AND LIABILITIES		**1 959 035**	**1 713 461**

The notes on page 49 to 92 are an integral part of these consolidated financial statements.

Hamilton, Bermuda, 22 March 2018

The Board of Directors and the President & CEO of Höegh LNG Holdings Ltd.

Morten W. Høegh
Chairman

Leif O. Høegh
Deputy Chairman

Ditlev Wedell-Wedellsborg
Director

Andrew Jamieson
Director

Christopher G. Finlayson
Director

Jørgen Kildahl
Director

Steven Rees Davies
Director

Sveinung J.S. Støhle
President & CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

USD'000	Note	Attributable to equity holders of Höegh LNG Holdings Ltd.									
		Issued capital	Share premium	Treasury shares	Other paid-in capital	Hedging reserves	Other capital reserves	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
At 1 January 2017		**769**	**445 078**	**(12)**	**105 593**	**(51 059)**	**(2 794)**	**(51 599)**	**445 976**	**150 087**	**596 063**
Profit (loss) for the year								18 482	18 482	22 570	41 052
Other comprehensive income						16 594			16 594	6 504	23 098
Total comprehensive income						**16 594**		**18 482**	**35 076**	**29 074**	**64 150**
Capital contribution to HMLP								(290)	(290)	290	
MLP dividend to non-controlling interests										(30 039)	(30 039)
Sale of subsidiaries to HMLP						2 115		32 935	35 050	(35 050)	
Issuance of redeemable preferred units in HMLP										110 924	110 924
Net proceeds of equity issuance		3	2 065		(1 978)				90		90
Purchase of treasury shares			(198)						(198)		(198)
Units granted to the board of HMLP					51	5			56	133	189
Dividend to shareholders of the parent								(38 014)	(38 014)		(38 014)
Share-based payment cash settled					(15)				(15)		(15)
Share-based payment costs					1 749				1 749	339	2 088
Total other transactions recognised directly in equity		**3**	**1 867**		**(193)**	**2 120**		**(5 369)**	**(1 572)**	**46 597**	**45 025**
At 31 December 2017		**772**	**446 945**	**(12)**	**105 400**	**(32 345)**	**(2 794)**	**(38 486)**	**479 480**	**225 758**	**705 238**
At 1 January 2016		**768**	**444 740**	**(12)**	**78 226**	**(78 622)**	**(2 816)**	**(19 927)**	**422 357**	**69 208**	**491 565**
Profit (loss) for the year								1 298	1 298	12 714	14 012
Other comprehensive income / (loss)						18 270	22		18 292	6 951	25 243
Total comprehensive income						**18 270**	**22**	**1 298**	**19 590**	**19 665**	**39 255**
Issue of share capital	20	1	338		(252)				87		87
Share-based payments	23				1 815				1 815	212	2 027
Share-based payments cash settled					(100)				(100)		(100)
Capital contribution to HMLP								(1 613)	(1 613)	1 613	
Units granted to the board of HMLP					56	19			75	114	189
Dividend to shareholders of the parent									(30 263)		(30 263)
HMLP dividend to non-controlling interests										(18 225)	(18 225)
Net proceeds of equity issuance HMLP					25 848	9 274			35 122	76 406	111 528
Other changes in equity								(1 094)	(1 094)	1 094	
Total other transactions recognised directly in equity		**1**	**338**		**27 367**	**9 293**		**(32 970)**	**4 029**		**65 243**
At 31 December 2016		**769**	**445 078**	**(12)**	**105 593**	**(51 059)**	**(2 794)**	**(51 599)**	**445 976**	**150 087**	**596 063**

The notes on page 49 to 92 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

USD'000	Note	2017	2016
Cash flow from operating activities			
Profit (loss) before tax for the year		46 200	19 133
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation	11	42 361	34 848
Impairment/reversal of impairment		380	-
Fair value adjustments on marketable securities	15	(2 940)	(5 697)
Interest income		(2 113)	(1 457)
Interest expenses	17	60 655	55 180
Net loss (income) on interest rate hedges		(93)	(517)
Currency loss on restricted cash balances		-	5 200
Share-based payment cost and board remuneration not paid-out	23	2 352	2 012
Share of results from investments in joint ventures	20	(2 525)	(13 772)
Working capital adjustments			
Change in inventories, receivables and payables		(13 655)	(19 027)
Dividend received from joint ventures		-	-
Payment of income tax		(1 712)	(423)
i) NET CASH FLOW FROM OPERATING ACTIVITIES		**128 912**	**75 479**
Cash flow from investing activites			
Investment in marketable securities	15	(155 331)	(116)
Proceeds from sale of marketable securities	15	220 000	101 269
Investments in FSRUs, drydocking and newbuildings		(376 966)	(264 799)
Net proceeds from sale of vessels		-	17 978
Investment in intangibles, equipment and other		(1 928)	(969)
Interest received		1 529	1 387
Repayment of shareholder loans		3 956	6 639
ii) NET CASH FLOW FROM INVESTING ACTIVITIES		**(308 741)**	**(138 611)**
Financing activities			
Gross proceeds from equity issuance	20	115 000	112 013
Transaction cost of equity issuance	20	(4 076)	(484)
Purchase of own shares	21	(198)	-
Dividend paid to non-controlling interest (HMLP)	20	(30 035)	(18 224)
Dividend paid to shareholders of the parent	21	(38 014)	(30 263)
Proceeds from borrowings		367 560	200 067
Payment of debt issuance cost		(4 722)	(2 421)
Repayment of borrowings		(191 103)	(57 394)
Interest paid		(67 824)	(53 773)
Settlement of currency swaps		(8 403)	-
(Increase) decrease in restricted cash		8 239	2 333
iii) NET CASH FLOW FROM FINANCING ACTIVITIES		**146 424**	**151 854**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (i+ii+iii)		**(33 405)**	**88 722**
Current cash and cash equivalents at 1 January		186 346	97 623
CURRENT CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	**152 940**	**186 345**
Guarantees (Interest rate swaps Arctic leases)		55 582	26 381
Undrawn facilities		200 000	194 000
Aggregated cash flows from joint ventures		2 727	5 964

The notes on page 49 to 92 are an integral part of these consolidated financial statements.

Note 1: Corporate information

Höegh LNG Holdings Ltd. (the "company") is an exempted company limited by shares and incorporated under the laws of Bermuda. The company's registered office is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The consolidated financial statements for the fiscal year of 2017 comprise the company, its subsidiaries and joint venture companies (collectively "Höegh LNG" or the "group"). The company is listed on Oslo Børs (the Oslo Stock Exchange) under the ticker "HLNG".

Höegh LNG Partners LP is a limited partnership formed by the company in 2014 and listed on the New York Stock Exchange ("NYSE") under the ticker "HMLP". HMLP and its subsidiaries are collectively referred to as "HMLP" or the "MLP". In accordance with IFRS 10, the company is deemed to have control over HMLP and its subsidiaries. Based on this assessment HMLP and its subsidiaries are consolidated in the consolidated financial statements of the company.

Information on the group's structure is provided in Note 20. Information on other related party transactions of Höegh LNG is provided in Note 31.

As of 31 December 2017, Höegh LNG operated a fleet of two LNG transportation vessels (LNGCs) and seven floating storage and regasification units (FSRUs) and had three FSRUs under construction.

The annual accounts for the company and the group for the year ended 31 December 2017 were approved by the Board on 22 March 2018.

Note 2: Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Höegh LNG and the financials for the company have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the EU. The accounting principles for Höegh LNG also apply to the company. Certain notes to the consolidated financial statements will in some cases relate only to the parent company.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and the marketable securities portfolio, which are measured at fair value. The carrying values of recognised assets and liabilities which are designated as hedged items in fair value hedges that otherwise would be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements are presented in USD and all values are rounded to the nearest thousand (USD'000) unless otherwise indicated. As a result of rounding adjustments, amounts and percentages may not add up to the total.

The cash flow statement is presented using the indirect method. The income statement is presented by showing expenses by their function.

The annual financial statements have been prepared under a going concern assumption.

2.2 Foreign currencies

Höegh LNG presents its financial statements in USD. This is also the functional currency for all the material companies in the group.

Transactions in other currencies than USD are recognised in USD at the rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to USD using the exchange rate at the reporting date. Non-monetary items measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the initial transaction.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2017.

(a) Subsidiaries

Subsidiaries are all entities in which Höegh LNG has a controlling interest. Control is achieved when Höegh LNG is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When Höegh LNG has less than a majority of the voting or similar rights of an investee, all relevant facts and circumstances are considered in assessing whether Höegh LNG has de facto power over an investee. Höegh LNG re-assesses whether it controls an investee if facts and circumstances change.

Subsidiaries are fully consolidated from the date on which control is transferred to Höegh LNG and de-consolidated from the date on which control ceases to exist. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Höegh LNG recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets at the time of the transaction. Any change in ownership interests without change of control is accounted for as equity transactions towards non-controlling interest.

(b) Investment in joint arrangements

Höegh LNG applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations. Höegh LNG has assessed the nature of all its joint agreements and assessed them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost and adjusted thereafter to recognise the post-acquisition profits or losses, movements in other comprehensive income or dividends received.

Unrealised gains and losses resulting from transactions between companies in the group and joint ventures are eliminated to the extent of the interest in the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the group. When necessary, adjustments are made to bring the accounting policies in line with those of Höegh LNG.

2.4 Segment reporting

The activities in the group are divided into four operating segments: HMLP, Operations, Business development and project execution and Corporate and other. The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources, making strategic decisions and assessing performance, has been identified as the board of the company.

2.5 Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to Höegh LNG and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or the receivable, taking into account contractually defined terms of payment. The specific recognition criteria described below must also be met before revenue is recognised.

(a) Income on time charter basis

Chartering arrangements, in which substantially all of the risks and rewards of the ownership of the underlying LNGC or FSRU are retained by Höegh LNG, are classified as operating leases pursuant to IAS 17. Income from operating leases is recognised on a straight-line basis as time charter income. Höegh LNG does not recognise time charter income during periods when the underlying vessel is off-hire. When the vessel is off-hire, voyage expenses may be incurred and paid by Höegh LNG. Voyage expenses include bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees.

(b) Management and other income

Höegh LNG receives management income from technical, commercial and administrative services delivered to joint ventures and external parties. This income is recognised in the period in which the service is provided.

2.6 Operating expenses

FSRU and LNGC operating expenses include crew personnel expenses, repairs and maintenance, insurance, stores, lube oils, communication expenses and management fees.

For some contracts, the majority of the vessel operating expenses are reimbursed from the charterer. In such circumstances, the operating expenses are recognised as incurred and the revenue is recognised accordingly.

2.7 Dividends (parent company only)

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. Based on this, the investment may need to be tested for impairment.

2.8 Current versus non-current classification

Höegh LNG presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is (i) expected to be realised or intended to be sold or consumed in the normal operating cycle, (ii) held primarily for the purpose of trading, (iii) expected to be realised within twelve months after the reporting period or (iv) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when (i) it is expected to be settled in the normal operating cycle, (ii) it is held primarily for the purpose of trading, (iii) it is due to be settled within twelve months after the reporting period or (iv) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash at hand, bank deposits and short-term deposits with maturity of three months or less.

Cash not available for general use by Höegh LNG due to loan restrictions or currency restrictions are classified as restricted cash.

2.10 Fair value measurement

Financial instruments, such as derivatives, are measured at fair value. The fair value of financial instruments traded in active markets is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. The fair value of financial instruments not traded in active markets is determined using appropriate valuation techniques.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Höegh LNG uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole, and can be described as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

- Marketable securities, Note 15
- Financial risk management objectives and policies, Note 13

2.11 Financial instruments

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification. The measurement principles for the relevant categories for Höegh LNG are described below:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value in the income statement.

Höegh LNG evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate.

(b) Financial assets at fair value through other comprehensive income

Höegh LNG uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or expense is recognised or when a forecast transaction occurs.

Derivative financial instruments that are designated as, and are effective hedging instruments, are separated into a current and non-current portion consistent with the classification of the underlying item.

2.12 Trade and other receivables

Trade and other receivables are recognised at fair value and subsequently measured at amortised cost. The interest element is disregarded if it is insignificant, which is normally the situation for Höegh LNG. Should there be objective evidence of a decline in value, the difference between the carrying amount and the estimated recoverable amount will be recognised as a loss.

2.13 Tangible assets

Non-current assets such as FSRUs, LNGCs, investments in construction of newbuildings and equipment are carried at cost less accumulated depreciation and impairment charges. The cost comprises directly attributable cost plus borrowing cost incurred during the construction period.

a) Depreciation of FSRUs and LNGCs

Depreciation is calculated on a straight-line basis over the estimated useful life of a vessel taking its residual value into consideration. Estimated useful life for FSRUs and LNGCs is 35 years.

Certain capitalised elements, like costs related to major classification/dry-docking, have a shorter estimated useful life and are depreciated over the period to the next planned dry docking, typically over a period of five to seven years. When second hand vessels are purchased and newbuildings are delivered, a portion of the purchase price is classified as dry-docking costs. Costs of day-to-day servicing, maintenance and repairs are expensed as incurred.

The useful life and residual values are reviewed at each financial year-end and adjusted prospectively when appropriate.

b) Newbuildings
FSRUs and LNGCs under construction are classified as non-current assets and recognised at the costs incurred till date. Yard instalments are recognised when due. Newbuildings are not depreciated prior to delivery from the yard as an FSRU or an LNGC. Borrowing costs directly attributable to the construction of FSRUs are added to the cost of the vessels, until the vessels are ready for their intended use.

c) Equipment
Investments in office equipment and IT are depreciated over a period of three to five years on a straight-line basis.

Equipment used for FSRU operations, such as jetty topsides and other infrastructure where the FSRU is located, are depreciated either over the contract period or the estimated useful life.

d) Impairment of tangible assets
Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.14 Lease accounting

Leases in which a significant portion of the risks and rewards of ownership are retained by Höegh LNG as lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease of vessels or equipment where Höegh LNG as lessor has transferred substantially all the risks and rewards of ownership are classified as financial leases.

At the inception of a financial lease the vessel value is derecognised and the lower of fair value of the leased item or the present value of minimum lease payments is recognised as a receivable towards the charterer. Each lease payment received is allocated between reducing the receivable and interest income. The interest element is recorded as revenue in the income statement over the lease period, to produce a periodic rate of interest on the remaining balance of the receivable.

2.15 Provisions

Provisions are recognised when Höegh LNG has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow or resources representing economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented net of any reimbursement.

2.16 Equity

(a) Preferred units
Preferred units in subsidiaries are presented as share-holders equity. For the group, this is presented as non-controlling interests' and the result, equivalent to the preference dividend is presented as the non-controlling interests share of result regardless of whether dividends have been paid or accumulated.

(b) Own equity instruments
Own equity instruments, which are reacquired (treasury shares), are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Höegh LNG's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as a share premium.

Transaction costs related to an equity transaction are recognised directly in equity, net of tax.

2.17 Income tax

The companies in Höegh LNG are subject to income tax in certain countries in which they operate. Income tax expense in these entities represents the current income tax and changes in any deferred tax assets and liabilities.

(a) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount recovered from or expected paid to the tax authorities. Tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where Höegh LNG operates and generate taxable income.

(b) Deferred tax

Deferred tax is calculated using the method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.18 Impairment of assets

(a) Financial assets

Höegh LNG assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. For financial assets carried at amortised cost, Höegh LNG assesses whether objective evidence of impairment exists. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(b) Vessels, newbuildings and equipment

The carrying amounts of FSRUs, LNGCs, newbuildings and equipment are tested for impairment whenever there are indications that the value may be impaired. When such indicators exist, Höegh LNG estimates the asset's recoverable amount. The recoverable amount is the lowest of the fair market value of the asset, less cost to sell, and the net present value of future estimated cash flows from the employment of the asset ("value in use"). To calculate the net present value, an asset specific interest rate is applied based on Höegh LNG's long-term borrowing rate and a risk-free interest rate plus a risk premium for the equity. If the recoverable amount is lower than the carrying value, the asset is impaired to the recoverable amount.

All vessels are considered separate cash generating units and assessed independently. Future cash flows are based on expected charter earnings, estimated operating expenses, expected capital expenditures and dry-docking expenses over the remaining useful life of the vessel.

2.19 Interest-bearing debt

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Debt issuance cost, including arrangement fees and legal expenses are deferred and netted against the financial liability in the balance sheet and amortised on an effective interest rate method.

2.20 Share-based payments

Members of the management team and key employees of Höegh LNG receive part of their remuneration in the form of share-based payments, whereby management render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves, as equity over the period in which the performance and/or service conditions are fulfilled. The cumulative expenses recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Höegh LNG's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised as employee benefits expense. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional, upon a market or non-vesting condition. When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.21 Indemnification payments to HMLP

Indemnifications, generally, do not impact the allocation of profit between non-controlling interests and the equity holders of the company. The non-controlling interests share of indemnification payments are reflected separately in the consolidated statement of changes in equity.

2.22 Events after balance sheet date

New information becoming available after the balance sheet date with impact on Höegh LNG's financial position at the balance sheet date is taken into account in the annual financial statements and disclosed if significant.

2.23 Shares and units in subsidiaries (parent company only)

Shares and units in subsidiaries in the parent company accounts are recorded at cost. These investments are reviewed for impairment when there are indicators that carrying amount may not be recoverable. Dividend or other distributions from subsidiaries are recognised when the parent company's right to receive payments is established. These transactions are all eliminated in the consolidated financial statements.

2.24 New and amended standards and interpretations adopted by Höegh LNG

There are no accounting standards adopted by Höegh LNG for the first time for the financial year beginning 1 January 2017, which have had material impact on the financial statements.

2.25 New accounting standards issued but not yet effective

Accounting standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective, are disclosed below to the extent they are considered relevant for the group. Höegh LNG's intention is to adopt relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

IFRS 9 Financial instruments (replacement of IAS 39)
IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and addresses accounting for accounts receivable and losses. The accounting treatment on existing hedges is not expected to have a material impact to the group. The accounting documentation of hedges will be impacted and the group will start the work to update the hedge documentation to be in compliance with IFRS 9.

IFRS 15 Revenue from Contracts with Customers
The IASB has issued a new standard for the recognition of revenue. The standard will replace IAS 18 which covers contracts for goods and services. IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Höegh LNG will apply the changes in IFRS 15 using the modified retrospective method with no practical expedients used. Höegh LNG has assessed whether the new standard impacts the revenue recognition for the group and concluded that the standard will not impact its financial performance. The group will split the total consideration received between the different elements (bareboat hire and different other service elements) included in the time charter party. A time charter includes a service (operational management of the vessel) and a bareboat element (rent of the vessel). Currently such contracts are recognized on a straight-line basis over the lease term. The bareboat element is not in the scope of IFRS 15 as it constitutes a lease, which is accounted for in accordance with IAS 17 Leases. The service

component will fall under the scope of IFRS 15, and related revenues will be recognized over time as the services are delivered, which is consistent with current practice. Hence, management do not foresee any impacts related to the implementation of the standard for time charter contracts. The standard becomes effective as of 1 January 2018.

IFRS 16 Leases

IFRS 16 replaces the existing IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). The new standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

For lessors, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or financial leases, and to account for those two types of leases differently.

The new lease standards require lessees to recognise assets and liabilities for most leases, which is a significant change from current requirements. The group has made a preliminary assessment of the effect of the standard. The impact is expected to be an increase in recognised tangible assets (the right to use the leased item) and a financial liability to pay rentals, with a corresponding shift of certain amounts from bareboat expenses to partly depreciation and partly to interest expenses. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The estimated impact on assets and liabilities is an increase of around USD 170 million. IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. Currently, the group does not intend to adopt the standard before its effective date.

There are no other accounting standards that are not yet effective and that would be expected to have a material impact on Höegh LNG in the current or future reporting periods and on foreseeable future transactions.

2.26 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make estimates, assumptions and judgements that affect the application of the accounting principles and the reported amounts of assets and liabilities, revenues and expenses. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Significant accounting judgements

Management has applied significant judgments in applying Höegh LNG's accounting policies mainly relating to the following:

- Consolidation of entities in which Höegh LNG holds less than 50% of the voting rights
- Presentation of preferred unit program in HMLP

Höegh LNG Partners LP ("HMLP")

The company held 46.4% of the units in HMLP at 31 December 2017. For the 2014 financial statements, Management concluded that Höegh LNG had de facto control of HMLP even though it has less than 50% of the voting rights. See Note 20 for additional information. An evaluation of de facto control involves assessing all the facts and circumstances, including the current composition of the board of directors of HMLP, the rights of unitholders and other arrangements and relationships between the parties. Management's assessment was based on a combination of factors where the current composition of the board of directors of HMLP was an important element in the overall conclusion.

Management has updated the assessment for the year ended 31 December 2017 and there are no material changes in facts and circumstances impacting the conclusion.

PT Hoegh LNG Lampung
HMLP indirectly owns 49.0% of the shares in PT Hoegh LNG Lampung, a company owning and operating PGN FSRU Lampung. HMLP has the power to make the most significant key operating decisions and receives all the expected benefits or expected losses. Therefore, 100% of the assets, liabilities, revenues and expenses are consolidated in Höegh LNG's accounts. Management has updated the assessment for the year ended 31 December 2017 and there are no material changes in facts and circumstances impacting the conclusion.

Presentation of preferred unit program
HMLP has issued preferred units with a preferential distribution right. The preferred units represent perpetual equity interests in the MLP and, unlike the MLP's debt, does not give rise to a claim for payment of a principal amount at a particular date. The Series A preferred units rank senior to the MLP's common units and subordinated units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up are junior to all of the MLP's debt and other liabilities.

Management has assessed the presentation of the preferred unit program for the year ended 31 December 2017. Management concluded that the preferred units are to be classified within equity.

Significant estimates and assumptions
Management has applied significant estimates and assumptions mainly relating to the following:

- Uncertain tax positions
- Excess boil-off claim under the Neptune and GDF Suez Cape Ann time charters

Accounting of uncertain tax positions
Benefits from uncertain tax positions are recognised when it is probable that a tax position will be sustained upon examination based on technical merits of the position.

Excess boil-off claims under the Neptune and GDF Suez Cape Ann time charters
Provisions are recorded for loss contingencies or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. See Note 32 Other contingent liabilities for a detailed description of the excess boil-off claims.

Note 3: Operating segments

The current segment structure was implemented 1 January 2017 as a consequence of changes in how the group's chief operating decision maker is assessing the financial performance of the group's business activities. Comparative segment figures for 2016 have been restated accordingly.

The business activities in Höegh LNG are divided into the following operating segments: HMLP, Operations, Business development and project execution and Corporate and other.

Höegh LNG's operating segments reflects how the group's chief operating decision maker is assessing the financial performance of the group's business activities and allocates resources to these. Höegh LNG's chief operating decision maker is the group's board of directors.

Revenues, expenses, gains and losses arising from internal sales, internal transfer of businesses, group contributions and dividends within the group are not included in the income statements for the segments.

Assets and liabilities allocated to the individual segments include FSRUs, newbuildings, interest-bearing debt and intangible assets. Other assets and liabilities are monitored on a consolidated basis for the group.

HMLP

The HMLP segment includes the activities managed by Höegh LNG Partners LP, which was established to own, operate and acquire FSRUs, LNGCs and other LNG infrastructure assets under long-term charters, defined as five years or more. The HMLP fleet comprises as at 31 December 2017 ownership interests in five FSRUs, namely (i) a 50% interest in Neptune, (ii) a 50% interest in GDF Suez Cape Ann, (iii) a 100% interest in PGN FSRU Lampung, (iv) a 100% interest in Höegh Gallant and (v) a 100% interest in Höegh Grace.

Operations

The Operations segment is responsible for the commercial and technical management of the group's FSRUs and LNGCs which have not been transferred to Höegh LNG Partners LP. The segment includes the two FSRUs Independence and Höegh Giant and the LNGCs Arctic Princess and Arctic Lady. The LNGC LNG Libra was included in the segment until delivery to its new owners in the first quarter of 2016. Höegh Grace was included in the segment from delivery by the yard until it was transferred to the HMLP segment with effect from December 2016.

The segment comprises revenues and expenses related to FSRUs and LNGCs in operation as well as bareboat hire for Arctic Princess and Arctic Lady and management income for commercial management services paid by joint ventures. The FSRUs are included in the Operations segment on delivery from the yard.

Business development and project execution

The Business development and project execution segment comprises all activities related to business development and project execution, including non-capital expenditure costs related to newbuildings.

Expenses relating to new FSRU and LNGC contracts are included until delivery of the vessel and completion of the pre-commencement phase of the commercial contracts. Capitalised costs in the segment relate to the FSRU newbuilding programme.

Corporate and other

The segment includes corporate functions such as group management, group finance, legal and other administrative expense that are not allocated to the other operating segments.

SEGMENT INFORMATION

	HMLP		Operations		Business development and project execution		Corporate and other		Total	
Consolidated statement of income USD million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Freight revenues	153	97	118	118	-	-	-	-	271	214
Management and other income	-	-	3	5	3	-	-	-	6	5
Share of results from investments in JVs	(2)	9	5	5	-	-	-	-	3	14
TOTAL INCOME	**151**	**106**	**126**	**127**	**3**	**-**	**-**	**-**	**279**	**233**
Charterhire expenses	-	-	(35)	(35)	-	-	-	-	(35)	(35)
Bunker and other voyage related expenses	-	-	(1)	-	-	-	-	-	(1)	-
Operating expenses	(24)	(17)	(27)	(25)	(1)	(2)	-	-	(52)	(44)
Project administrative expenses	(4)	(3)	(7)	(6)	(7)	(4)	-	-	(18)	(13)
Group administrative expenses	(6)	(7)	-	-	-	-	(12)	(14)	(18)	(20)
Business development expenses	-	-	-	-	(7)	(9)	-	-	(7)	(9)
EBITDA	**117**	**79**	**56**	**60**	**(13)**	**(14)**	**(12)**	**(14)**	**149**	**111**
Assets and liabilities allocated to operating segments as at 31 December										
Tangible assets										
Vessels and newbuildings	826	556	560	585	233	130	-	-	1 619	1 270
Liabilities										
Interest-bearing debt	476	330	368	389	-	-	310	217	1 156	936

Note 4: Freight revenues

Höegh LNG, including its joint ventures, operates seven FSRUs and two LNGCs.

Revenue from Neptune and GDF Suez Cape Ann is recorded through Höegh LNG's share of results in joint ventures. Arctic Lady and Arctic Princess are owned together with joint venture partners, but subleased to the wholly owned subsidiary Leif Höegh (U.K.) Limited, which recognises the time charter party hire as freight revenues.

TIME CHARTER CONTRACTS AS AT 31 DECEMBER 2017

Vessel	Type	Charterer	Country	TCP	Expiry	Option
Arctic Princess	LNGC	Statoil ASA	Norway	20 years	January 2026	5 + 5 years
Arctic Lady	LNGC	Total E&P Norge AS	Norway	20 years	April 2026	5 + 5 years
Independence	FSRU	AB Klaipedos Nafta	Lithuania	10 years	December 2024	-
PGN FSRU Lampung	FSRU	PT PGN LNG Indonesia	Indonesia	20 years	July 2034	5 + 5 years
Höegh Gallant	FSRU	Egyptian Natural gas Holding Company	Egypt	5 years	May 2020	-
Höegh Giant[1]	FSRU/LNGC	Trafigura	Singapore	8 months	January 2018	-
Höegh Grace	FSRU	Sociedad Portuaria El Cayao S.A.	Colombia	20 years	December 2036[2]	-
Accounted for as investments in joint ventures						
Neptune	FSRU	GDF Suez Global LNG Supply SA	France	20 years	November 2029	5 + 5 years
GDF Suez Cape Ann	FSRU	GDF Suez Global LNG Supply SA	France	20 years	June 2030	5 + 5 years

The table below specifies the expected freight revenue hire to be received from 1 January 2018 to the end of the firm charter party for Höegh LNG's vessels, except for revenue from Neptune and GDF Suez Cape Ann, which is presented through share of results from investments in joint ventures. Expected future freight revenue includes Arctic Princess, Arctic Lady, Independence, PGN FSRU Lampung, Höegh Gallant, Höegh Giant and Höegh Grace. It does not include hire for contracts not commenced as of 31 December 2017. Further, Höegh Grace is included with the minimum lease term of 10 years.

EXPECTED FUTURE BAREBOAT INCOME – UNDISCOUNTED

	< 1 year	1 to 5 years	> 5 years	Total
TOTAL	**268 255**	**924 456**	**1 062 349**	**2 255 059**

In 2017, Höegh LNG had four customers (five in 2016), which individually accounted for 10% or more of total revenues. Freight revenue from these customers totalled USD 216.6 million (USD 208.5 million in 2016). The single largest customer in Höegh LNG represented 20% of total freight revenues (26% in 2016).

The four customers in 2017 individually contributing 10% or more of total freight revenues were:

- AB Klaipédos Nafta
- Egyptian Natural Gas Holding Company
- PT PGN LNG Indonesia
- Sociedad Portuaria El Cayao S.A.

[1] Höegh Giant is from February 2018 on a time charter contract with Gas Natural SDG, SA. For further details, see Note 33.
[2] The initial term of the lease is 20 years. The charterer has an unconditional option to cancel the lease after 10 and 15 years. The non-cancellable lease period is thus 10 years.

Note 5: Management fees and other income

Höegh LNG's commercial fees and technical management fees are mainly related to the LNGCs and the FSRUs owned by the group's joint ventures.

MANAGEMENT FEE AND OTHER INCOME

	2017	2016
Commercial and technical management fees	2 921	4 592
Other income[1]	2 856	660
TOTAL	**5 777**	**5 252**

[1] Other income includes reimbursement of costs according to the cost sharing agreement for the LNG terminal project in Port Qasim, Pakistan.

Note 6: Operating expenses

	2017	2016
Crew salaries	16 297	15 003
Employer's contribution	3 943	2 617
Other social costs	1 977	1 989
Crew cost under project phase	593	1 564
TOTAL CREW COST	**22 810**	**21 173**
Services	4 154	2 758
Spare parts and consumables	9 410	7 133
Insurance	3 374	3 439
Ship management and other expenses	11 864	9 251
TOTAL	**51 612**	**43 754**

Note 7: Salaries and personnel cost

	Note	2017	2016
Salaries		14 879	13 643
Benefits employees		376	454
Bonus		1 471	3 151
Pension expenses		845	730
Share based payment expenses	23	2 122	2 124
Other social expenses		1 568	3 208
TOTAL SALARIES AND PERSONNEL EXPENSES		**21 261**	**23 310**
Allocated to Group administrative expenses	9	8 892	10 304
Allocated to Business development expenses	10	3 109	4 432
Allocated to Project administrative expenses	8	9 259	8 574
NUMBER OF OFFICE EMPLOYEES		**115**	**107**

Norwegian employers are obliged to have an occupational pension scheme for their employees under the Norwegian Act on Mandatory Occupational Pension Schemes. The pension plans for the group's Norwegian employees complies with the requirements of this Act. The contributions made to the defined contribution pension plan for full-time employees equal 5-8% of the employee's salary. Höegh LNG has no legal or constructive obligations to pay further contributions.

Höegh LNG also operates a defined contribution pension scheme involving the employees in Leif Höegh (U.K.) Limited. Höegh LNG has no outstanding or prepaid contributions in Leif Höegh (U.K.) Limited.

For other offices, Höegh LNG pays membership fees to defined contribution plans according to local statutory requirements. The group's legal or constructive obligations for these plans are limited to the contributions.

Note 8: Project administrative expenses

Project administrative expenses comprise the management of the FSRU newbuilding program, the execution of projects and the administration of commercial contracts including the costs of operating local offices in Egypt, Indonesia, Lithuania, Singapore, Colombia, South Korea and the UK.

	Note	2017	2016
Total salaries and personnel expenses	7	9 259	8 574
Consultants/lawyers		9 560	5 791
Remuneration board members in subsidiaries		53	56
Office expenses		959	749
Travel related expenses		1 325	1 189
Other		345	346
Overhead distribution		3 348	2 727
Reclassified to operating expenses		(5 208)	(4 962)
Directly attributable cost capitalized as investments in newbuildings		(1 884)	(1 309)
TOTAL		**17 757**	**13 161**

Höegh LNG's costs related to technical services are reclassified from project administrative expenses to operating expenses.

Note 9: Group administrative expenses

Group administrative expenses are expenses associated with management-, administrative-, and general functions of Höegh LNG. The expenses of general functions, such as IT and HR, is distributed to Project administrative expenses and Business development expenses are based on headcount.

	Note	2017	2016
Total salaries and personnel expenses	7	8 892	10 304
Consultants/lawyers		7 637	8 867
Remuneration board members in subsidiaries		797	965
Office expenses		2 442	1 898
Travel related expenses		595	500
Other		934	1 482
Overhead distribution		(3 613)	(3 431)
TOTAL		**17 684**	**20 585**

Note 10: Business development expenses

Business development expenses are related to the development of new projects.

	Note	2017	2016
Total salaries and personnel expenses	7	3 109	4 432
Consultants/lawyers		2 220	1 878
Office expenses		436	485
Travel related expenses		838	742
Other		176	110
Overhead distribution		451	704
TOTAL		**7 231**	**8 351**

Note 11: Vessels and depot spares

VESSELS, DRY-DOCKING AND DEPOT SPARES, ACQUISITION COST AND ACCUMULATED DEPRECIATION

	2017	2016
Cost at 1 January	1 212 469	911 139
Acquisitions/reclassifications from newbuildings under construction	287 578	301 330
Disposals	(715)	-
COST AT 31 DECEMBER	**1 499 332**	**1 212 469**
Accumulated depreciation and impairment at 1 January	(72 735)	(39 786)
Depreciation charge for the year	(40 800)	(32 949)
Impairments	(380)	-
Reclassification of LNG Libra to assets held for sale	715	-
ACCUMULATED DEPRECIATON AND IMPAIRMENT AT 31 DECEMBER	**(113 200)**	**(72 735)**
NET CARRYING AMOUNT AT 31 DECEMBER	**1 386 132**	**1 139 734**

VESSELS, DRY-DOCKING AND DEPOT SPARES, NET CARRYING AMOUNT PER ASSET CLASS

	31 Dec 2017	31 Dec 2016
Vessels	1 375 984	1 130 469
Dry-docking	8 667	7 600
Depot spares	1 481	1 665
TOTAL	**1 386 132**	**1 139 734**

DEPRECIATION CHARGES PER ASSET CLASS

	Note	2017	2016
Vessels		37 867	30 749
Dry-docking		2 933	2 200
Equipment	29	1 562	1 868
Other		-	31
TOTAL		**42 362**	**34 848**

Depreciation methods and estimated useful lives for the asset classes are described in Note 2

Note 12: Investments in newbuildings

Höegh Giant was delivered from the yard in April 2017. At year-end 2017 the group had three FSRUs under construction, with scheduled deliveries in the first quarter of 2018, the fourth quarter of 2018 and the second quarter of 2019.

NEWBUILDINGS UNDER CONSTRUCTION – NET CARRYING AMOUNT

	2017	2016
Carrying amount at 1 January	129 678	161 198
Capitalized borrowing costs	13 600	6 504
Yard instalments and other capitalized costs	374 565	260 299
Newbuildings delivered during the year	(284 845)	(298 323)
CARRYING AMOUNT AT 31 DECEMBER	**232 998**	**129 678**

Further information on capital commitments is given in Note 19.

Note 13: Financial risk management objectives and policies

Capital Management

The objective of Höegh LNG's capital management is to ensure that the group is sufficiently capitalised and to maximise shareholders' return. Balancing the benefits of a strong balance sheet with the advantage of financial leverage, Höegh LNG is seeking to maintain strong access to capital markets and minimise the cost of capital. Höegh LNG is listed on the Oslo Stock Exchange and has a Master Limited Partnership listed on the New York Stock Exchange, providing direct access to the U.S. equity capital market.

Höegh LNG monitors its capital structure in light of future cash flow projections, including any off-balance sheet capital commitments and available funding. The financial position of Höegh LNG is reported to the top management, the audit committee and the board of directors on a regular basis. Höegh LNG's capital structure might be adjusted over time to reflect the commercial risks associated with the underlying assets, its funding situation and the status of the financial markets. In order to maintain or adjust the capital structure, Höegh LNG may refinance its debt, buy or issue new shares or debt instruments, sell assets, pay dividends or return capital to the shareholders.

For the purpose of capital management, Höegh LNG's capital structure includes debt listed in Note 16, series A preferred units in HMLP (see Note 20), paid in equity and all other equity reserves attributable to the equity holders of the parent and the non-controlling interest holders in the HMLP.

The shares of and the bonds issued by the company are listed on the Oslo Stock Exchange. As of 31 December 2017, total equity was USD 705 million (USD 596 million). Net of mark-to-market of hedging reserves the adjusted book equity was USD 763 million (USD 677 million), bringing the adjusted equity ratio to 39% (40%). The capital structure is deemed appropriate given the nature of Höegh LNG's business and its existing commitments. Höegh LNG is measuring the consolidated leverage net of hedging instruments, as this to a larger extent reflects the solidity of the group.

ADJUSTED EQUITY RATIO

	31 Dec 2017	31 Dec 2016
Total equity adjusted for hedging	763 136	677 111
Total assets adjusted for hedging	1 946 475	1 704 976
EQUITY RATIO AJDUSTED FOR HEDGING	**39%**	**40%**

Financial Risk

The group is in the ordinary course of its business activities exposed to different types of financial risks, including market risk (interest- and currency risk), credit risk and liquidity risk. Appropriate procedures and policies for determining, mitigating and monitoring these risk exposures have been established.

To mitigate financial market risks, the group primarily applies hedging instruments, which are well-understood, conventional instruments issued by financial institutions with solid credit rating.

Currency risk

Currency risks arise from business transactions, capitalised assets and liabilities denominated in currencies other than the reporting currency. The majority of the group's business transactions, capitalised assets and liabilities are denominated in USD.

The major part of revenues is in USD, however, the group also has revenues in other currencies, including Euro (EUR), Egyptian Pounds (EGP) and Indonesian Rupees (IDR). The group incurs operating, administrative and tax expenses in various currencies including EUR, GBP, EGP, IDR and NOK, of which NOK represents the largest exposure. In 2017, NOK denominated administrative expenses totalled approximately USD 30 million.

The NOK 1 500 million corporate bond issued in 2017 has been swapped into USD to mitigate currency risk.

As of 31 December 2017, Höegh LNG held 92% of total current cash in USD, 5% in NOK and the remaining mainly in EUR, COP and GBP.

Interest rate risk

The group's interest-bearing debt is subject to floating interest rates. The exposure to interest rate fluctuations is mitigated by entering into fixed interest-rate swap agreements for all current loan agreements.

Interest rates relating to project financing have been swapped into fixed interest for the length of the debt facility or the charter contract for the mortgaged vessels. Interest rates relating to corporate financings have been swapped into fixed interest rate for the length of the relevant facility. As of 31 December 2017, the net mark-to-market valuation of the interest rate and currency swaps was USD 13.2 million (USD -48.5 million in 2016). Net mark-to-market valuation of interest rate swaps entered into by joint ventures was negative net USD 62.1 million (USD -72.9 million in 2016).

MARK-TO-MARKET OF HEDGING INSTRUMENTS

	31 Dec 2017	31 Dec 2016
Hedging instruments presented as financial assets	18 415	8 485
Hedging instruments presented as financial liabilities	(5 193)	(56 967)
Hedging instruments in joint ventures	(62 096)	(72 942)
NET MARK-TO-MARKET OF CASH FLOW AND FAIR VALUE HEDGES	**(48 874)**	**(121 424)**

The effective part of changes in the fair values of interest rate swaps and the interest element of cross currency interest rate swaps are recognised in Other comprehensive income. Changes in the value related to the ineffective portion of these swaps are recorded over the income statement.

An increase in the floating interest rate of 20 basis points (0.2%) would impact Other comprehensive income positively by approximately USD 12 million through the mark-to-market valuation of interest rate swaps and the cross-currency interest rate swaps entered into, including Höegh LNG's shares of interest rate swaps in joint venture companies.

Liquidity risk

Liquidity risk is the risk that Höegh LNG will be unable to fulfil its financial obligations when they fall due. The table below reflects the maturity profile of Höegh LNG's interest-bearing debt and the timing and size of the estimated interest payments.

Höegh LNG entered into two FSRU shipbuilding contracts with Hyundai Heavy Industries in 2015 (Höegh Esperanza, which was delivered on 5 April 2018) and one in 2017 (FSRU #9), with scheduled delivery in December of 2018. Furthermore, the group signed an FSRU shipbuilding contract with Samsung Heavy Industries in January 2017 (FSRU #10) with delivery in May 2019. At 31 December 2017, total remaining capital expenditures relating to these commitments were about USD 630 million, including yard payments, project expenses, finance costs and contingencies. Some USD 450 million of this is payable by December 2018, with the remaining due by the second quarter of 2019.

Total available liquidity at 31 December 2017 was USD 434 million, which includes USD 234 million in current cash and marketable securities and USD 200 million of USD 230 million in commitments under the debt financing facility for Höegh Esperanza, which was signed on 13 November 2017. When conditions relating to long-term employment of Höegh Giant and Höegh Esperanza are met, the available amount under the respective financing facilities may be increased by up to USD 29 million and USD 30 million respectively. In addition, Höegh LNG is in the process of raising delivery debt financing for FSRU #9, and plans to raise debt financing for FSRU #10. Höegh LNG is in term sheet discussions for several alternative debt financing solutions for FSRU #9 and confident that financing will be made available well in advance of delivery.

MATURITY PROFILE ON INTEREST-BEARING DEBT AT 31 DECEMBER 2017

	< 1 year	1-5 years	> 5 years	Total
Instalments on mortgage debt and unsecured bonds	73 413	646 995	452 929	1 173 337
Estimated interest on mortgage debt and unsecured bonds[1]	55 460	113 731	7 657	176 848
TOTAL	**128 873**	**760 726**	**460 586**	**1 350 185**

[1] The amounts do not include estimated interest on the issued redeemable preferred units, as the preferred units are classified as equity in the consolidated statement of financial position.

Interest on Höegh LNG's debt, based on the swapped fixed interest rates and maturity profile of interest rate swaps in subsidiaries and joint ventures, is presented below.

MATURITY PROFILE ON FINANCIAL DERIVATIVES AT 31 DECEMBER 2017

	< 1 year	1-5 years	> 5 years	Total
Interest rate swaps designated as effective hedging instruments in subsidiaries	(1 701)	14 349	572	13 221
Interest rate swaps designated as effective hedging instruments in the group's joint ventures	(17 194)	(64 095)	(53 027)	(134 316)
TOTAL	**(18 894)**	**(49 746)**	**(52 455)**	**(121 095)**

The fair value of existing interest-bearing loans and borrowings totalling approximately USD 1 181 million will be repaid through the cash flow generated from existing assets within Höegh LNG and refinancing.

Financial obligations are subject to re-financing. The USD 130 million bond has maturity in 2020 and the NOK 1 500 million bond in 2022. The mortgaged financing has the following maturities: Höegh Gallant in 2019, Höegh Grace in 2020, GDF Suez Cape Ann in 2022, Neptune in 2022 and Höegh Giant in 2022. The commercial tranches relating to the financing of Independence and PGN FSRU Lampung are subject to refinancing in 2019 and 2021, respectively, while the ECA tranches of the respective financing are subject to refinancing in 2026. If no refinancing of the commercial tranches takes place, lenders under the ECA tranche may require early repayment. Financial obligations relating to Arctic Princess and Arctic Lady are not subject to any refinancing and will be fully amortised during the length of the underlying lease agreements.

As at 31 December 2017, Höegh LNG had approximately USD 630 million in remaining off-balance sheet capital commitments relating to the FSRU newbuilding programme. This includes yard payments, estimated supervision and finance costs and contingencies.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial agreement or charter contract, leading to a financial loss. Risk management procedures are in place to minimise this risk. The FSRUs and LNGCs are chartered out to creditworthy counterparties or to projects of high strategic importance to the country in which they operate, and charter hires are normally payable on a monthly basis.

Cash funds are deposited with internationally recognised financial institutions with a high credit rating, or invested in marketable securities issued by companies with a high credit rating. Investments are made in liquid investment grade securities with average credit duration of less than two years. Investments are permitted in any currency, but currency risk shall be hedged unless it is naturally hedged. Höegh LNG has not provided any guarantees for third parties' liabilities (reference is made to Note 19), and the maximum exposure to credit risk is thus represented by the carrying amount of each financial asset in the balance sheet, including financial derivatives. The maturity profiles of outstanding trade receivables and trade payables as at 31 December 2017 are all in the range of 30-60 days. The marketable securities amounting to USD 74.0 million as at 31 December 2017 are available as cash within one to three working days. The above information is also to be considered Höegh LNG's maximum credit risk as of 31 December 2017.

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of Höegh LNG's financial instruments included in the financial statements.

	Carrying amount		Fair value	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Financial instruments at fair value through profit or loss				
Marketable securities	74 022	135 751	74 022	135 751
Derivatives in cash flow hedges	18 415	8 485	18 415	8 485
Total	**92 437**	**144 236**	**92 437**	**144 236**
Loans and receivables at amortised cost				
Trade and other receivables	37 697	40 539	37 697	40 539
Shareholder loans	3 262	7 218	3 262	7 218
Other non-current receivables	8 771	13 638	8 771	13 638
Total	**49 730**	**61 395**	**49 730**	**61 395**
Cash and cash equivalents				
Non-current restricted cash	13 640	18 580	13 640	18 580
Cash and cash equivalents (including short-term restricted cash)	159 916	196 620	159 916	196 620
TOTAL	**173 556**	**215 200**	**173 556**	**215 200**
TOTAL CURRENT SHARE	**273 026**	**379 185**	**273 026**	**379 185**
TOTAL NON-CURRENT SHARE	**42 697**	**41 646**	**42 697**	**41 646**

	Carrying amount		Fair value	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Financial liabilities at fair value through other comprehensive income				
Derivatives in effective cash flow hedges	3 935	55 563	3 935	55 563
Ineffective portion of cash flow hedges	1 258	1 404	1 258	1 404
Total	**5 193**	**56 967**	**5 193**	**56 967**
Other financial liabilities at amortised cost				
Trade and other payables	14 714	19 023	14 714	19 023
Other financial liabilities	5 755	11 254	5 755	11 254
Interest-bearing loans and borrowings	1 173 337	955 571	1 181 080	980 789
Total	**1 193 806**	**985 848**	**1 201 549**	**1 011 066**
TOTAL CURRENT SHARE	**91 218**	**220 715**	**91 218**	**220 715**
TOTAL NON-CURRENT SHARE	**1 107 781**	**822 100**	**1 115 524**	**847 318**

The fair value of the financial assets and liabilities is the value at which they could be exchanged in a transaction between willing parties other than in a forced or liquidation transaction. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Cash and restricted cash, trade receivables, trade payables and other current liabilities are recognised at their carrying amounts, largely due to the short-term maturities of these instruments.
- Fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The bonds issued by the company are listed on the Oslo Stock Exchange, and the fair values of these are disclosed based on traded information.
- Höegh LNG enters into derivative financial instruments, such as interest rate swaps and foreign exchange forward contracts with various financial institutions, where the fair value of such instruments is based on valuation techniques including market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using net present value calculations. The models used incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The valuation is performed by banks or external valuation providers.

Fair value hierarchy

Höegh LNG uses a hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

The table below presents fair value measurements of Höegh LNG's assets and liabilities as at 31 December 2017.

ASSETS

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Marketable securities		74 022		74 022
Derivatives used for hedging		18 415		18 415
TOTAL ASSETS	**-**	**92 437**	**-**	**92 437**

LIABILITIES

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Bonds	300 824			300 824
Mortgage debt		880 256		880 256
Derivatives used for hedging				
Derivatives in effective cash flow hedges		5 194		5 194
TOTAL LIABILITIES	**300 824**	**885 450**	**-**	**1 186 274**

The table below presents fair value measurements of Höegh LNG's assets and liabilities at 31 December 2016.

ASSETS

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Marketable securities		135 751		135 751
Derivatives used for hedging		8 485		8 485
TOTAL ASSETS	**-**	**144 236**	**-**	**144 236**

LIABILITIES

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Bonds	213 460			213 460
Mortgage debt		767 329		767 329
Derivatives used for hedging				
Derivatives in effective cash flow hedges		56 967		56 967
TOTAL LIABILITIES	**213 460**	**824 296**	**-**	**1 037 756**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date and included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data when it is available and rely as little as possible on entity specific estimates. If all significant input required in calculating the fair value of an instrument is based on observable market data, the instrument is included in level 2. This includes the group's portfolio of marketable securities, as part of the portfolio's instruments is not directly observable.

If one or more significant input is not based on observable market data, the instrument is included in level 3. During the reporting periods of 2017 and 2016, there were no transfers between any of the levels.

Note 14: Unrestricted and restricted cash

CURRENT CASH AND CASH EQUIVALENTS PER CURRENCY

	31 Dec 2017		31 Dec 2016	
Currency	**Exchange rate**	**Carrying amount**	**Exchange rate**	**Carrying amount**
US Dollars (USD)	1.00	140 247	1.00	176 164
Norwegian Kroner (NOK)	8.21	7 867	8.62	7 728
British Pounds (GBP)	0.74	787	0.81	347
Euro (EUR)	0.83	1 896	1.05	1 041
Egyptian Pounds (EGP)	17.82	428	18.41	111
Colombian Pesos (COP)	2 982.12	845	3 000.71	206
Other		870		749
TOTAL		**152 940**		**186 346**

CURRENT RESTRICTED CASH

	31 Dec 2017	31 Dec 2016
Methane Ventures Limited, debt service	-	2 200
Hoegh LNG Colombia S.A.S, payroll related	14	19
Höegh LNG Ltd., escrow account	13	-
PT Hoegh LNG Lampung, debt service	6 949	8 055
TOTAL	**6 976**	**10 274**

As at 31 December 2017, USD 6.9 million is classified as short-term restricted cash related to a financing agreement, where cash is required to be held for specifically designated uses, including payment of working capital, operations and maintenance related expenses. Distributions from the cash accounts are subject to “waterfall” provisions that allocate revenues to specific priorities of use in a defined order before equity distributions can be made at certain dates and subject to Höegh LNG being in compliance with other debt service requirements.

NON-CURRENT RESTRICTED CASH

	31 Dec 2017	31 Dec 2016
PT Hoegh LNG Lampung, debt service	13 639	14 154
Höegh LNG Ltd., EGP restricted cash	1	815
Höegh LNG Egypt LLC, EGP restricted cash	-	3 611
TOTAL	**13 640**	**18 580**

Non-current restricted cash deposits totalled USD 13.6 million as of 31 December 2017 and was mainly relating to a project financing agreement requiring Höegh LNG to hold an amount equal to six months debt service deposited in an escrow account. The holding of EGP deposits (USD 3 611 as at 31 December 2016) has in 2017 been converted into USD by the use of global depository receipts structure.

Note 15: Marketable securities

Financial instruments within Höegh LNG's portfolio of marketable securities are classified as held for trading investments and measured and presented at their fair values. The portfolio of marketable securities is managed by Höegh Capital Partners AS. See Note 31 for further information related to transactions with related parties.

RECONCILIATION, MARKETABLE SECURITIES

	2017	2016
Market value of securities at 1 January	135 751	231 094
Change in fair value and gain/loss on realisation	2 940	5 697
Transfer of funds to portfolio	155 331	229
Withdrawal of funds from portfolio	(220 000)	(101 269)
TOTAL	**74 022**	**135 751**

PROFIT AND LOSS EFFECT

	2017	2016
Unrealised gain/(loss) on bonds in portfolio	7 754	19 351
Interest income	2 888	4 255
Profit/(loss) from currency contracts and deposits	(7 438)	(17 591)
Administration costs portfolio	(264)	(318)
TOTAL	**2 940**	**5 697**

COMPOSITION OF PORTFOLIO

	31 Dec 2017	31 Dec 2016
Norwegian listed bonds	71 081	129 280
Currency forwards	2 791	5 872
Cash holding	150	599
TOTAL	**74 022**	**135 751**

Further information relating to marketable securities is disclosed in Note 13. The net increase in fair value of USD 2.9 million (USD 5.7 million in 2016) in the portfolio of marketable securities is recorded as Income from other financial items.

Note 16: Interest-bearing debt

The tables below present Höegh LNG's carrying amount of interest-bearing debt by non-current and current portions, and the maturity schedule for the total interest-bearing debt.

INTEREST-BEARING DEBT AT 31 DECEMBER 2017

	Non-current	Current	Total
Independence facility	175 325	15 248	190 573
Bond debt in HLNG	312 815	-	312 815
Höegh Gallant facility	140 597	13 146	153 743
Höegh Grace facility	163 563	13 250	176 813
Höegh Giant facility	171 540	12 707	184 247
PGN FSRU Lampung facility	136 084	19 062	155 146
Debt issuance cost	(17 678)	-	(17 678)
TOTAL	**1 082 246**	**73 413**	**1 155 659**

INTEREST-BEARING DEBT AT 31 DECEMBER 2016

	Non-current	Current	Total
Independence facility	190 573	15 248	205 821
Bond debt in HLNG	130 000	80 742	210 742
Höegh Gallant facility	153 743	13 146	166 889
Höegh Grace facility	176 813	13 250	190 063
PGN FSRU Lampung facility	155 147	19 062	174 209
Methane Ventures Limited facility	-	7 847	7 847
Debt issuance cost	(19 709)	-	(19 709)
TOTAL	**786 567**	**149 295**	**935 862**

MATURITY SCHEDULE, INTEREST-BEARING DEBT

	Currency	Due in year 1	Due in year 2	Due in year 3	Due in year 4	Due in year 5 and later	Total
Independence facility	USD	15 248	76 293	15 248	15 248	68 535	190 572
Höegh Grace facility	USD	13 250	13 250	150 313	-	-	176 813
Höegh Gallant facility	USD	13 146	140 597	-	-	-	153 743
PGN FSRU Lampung facility	USD	19 062	19 062	19 062	29 801	68 159	155 146
Höegh Giant facility	USD	12 707	12 707	12 707	12 707	133 420	184 248
Bond debt	USD/NOK	-	-	130 000	-	182 815	312 815
INTEREST-BEARING DEBT OUTSTANDING		**73 413**	**261 909**	**327 330**	**57 756**	**452 929**	**1 173 337**
Debt issuance cost							(17 678)
TOTAL INTEREST-BEARING DEBT							**1 155 659**

NET INTEREST-BEARING DEBT

	31 Dec 2017	31 Dec 2016
Interest-bearing debt, current and non-current	(1 155 659)	(935 862)
Restricted cash, non-current	13 640	18 580
Cash and marketable securities	233 938	332 371
NET INTEREST-BEARING DEBT	**(908 080)**	**(584 911)**

NET DEBT RECONCILIATION

	Other assets		Liabilities from financing activities		
	Cash/bank overdraft	Liquid investments[1]	Borrowings due in 1 year	Borrowings due after 1 year	Total
Net debt as at 1 January 2017	215 200	135 751	(149 295)	(786 567)	(584 911)
Cash flows	(41 644)	(61 729)	75 882	(297 710)	(325 201)
Other non-cash movements	-	-	-	2 031	2 031
NET DEBT AS AT 31 DECEMBER 2017	**173 556**	**74 022**	**(73 413)**	**(1 082 247)**	**(908 080)**

[1] Liquid investments comprise investments in financial assets held at fair value through profit or loss.

Interest-bearing debt in the consolidated entities

Independence facility

On 28 November 2012, Höegh LNG entered into a USD 250 million senior secured credit facility for the financing of the FSRU Independence, which was delivered from the yard on 11 May 2014. The major part of the facility is guaranteed by the Korean credit agency, K-sure, and the Norwegian credit agency, GIEK (combined referred to as "the ECA covered part"). The ECA covered part of the facility has a twelve-year post-delivery, while the uncovered part has a five-year post-delivery tenor. If the uncovered part is not refinanced at maturity, the ECA covered part falls due for repayment at the same time. The facility has a blended repayment schedule which results in a linear repayment profile over 16 years. Repayments started on 12 August 2014 and are due quarterly. The facility has a floating interest rate equal to 3 months LIBOR plus a margin. LIBOR has been swapped into a fixed interest rate, which was 4.93% as of 31 December 2017.

PGN FSRU Lampung facility

On 13 September 2013, PT Hoegh LNG Lampung entered into a USD 299 million senior secured term loan facility for the financing of PGN FSRU Lampung, including mooring.

The facility comprised two tranches; one FSRU tranche in the amount of USD 237 million and one mooring tranche in the amount of USD 62 million. The mooring tranche was fully repaid in July 2014 upon delivery of the mooring to the client, PT PGN LNG Indonesia. The FSRU tranche is 75% guaranteed by the Korean credit agency K-sure (referred to as "the ECA covered part"). The ECA covered part of the facility has a twelve-year post-delivery tenor while the uncovered part has a seven-year post-delivery tenor. If the uncovered part is not refinanced at maturity, the ECA covered part falls due for repayment at the same time. The facility has a blended repayment profile of 12.5 years. Repayments on a quarterly basis started on 29 December 2014. The facility has a floating interest rate equal to 3 months LIBOR plus a margin. The LIBOR under the FSRU tranche has been swapped into a fixed interest rate and the facility bears a fixed interest rate of 5.88% for the length of the financing.

Höegh Gallant and Höegh Grace facility

On 11 April 2014, Höegh LNG entered into a joint USD 412 million senior secured credit facility for the financing of Höegh Gallant and Höegh Grace, delivered in 2014 and 2016, respectively. The facility has a five-year post-delivery tenor and a 15 years repayment profile. Repayments started on 1 December 2014 for Höegh Gallant and 30 June 2016 for Höegh Grace. The facility has floating interest rate equal to 3 months LIBOR plus a margin, where LIBOR has been swapped into a fixed interest. The Höegh Gallant tranche under the facilities bears a fixed interest rate of 4.84% while the Höegh Grace tranche bears a fixed interest rate of 5.1%, based on the hedge ratio as of 31 December 2017.

Höegh Giant facility

On 21 March 2016, Höegh LNG Holdings Ltd. entered into a USD 223 million senior secured credit facility for the financing of Höegh Giant delivered in 2017. USD 190.6 million was drawn in April 2017. There is an option to increase the facility by USD 29 million when a long-term contract for Höegh Giant is in place. The facility has a five-year post-delivery tenor and a 15 years repayment profile. Repayments started on 29 September 2017. The facility has floating interest rate equal to 3 months LIBOR plus a margin, where LIBOR has been swapped into a fixed interest rate, which was 3.67% as of 31 December 2017.

Bond issue - NOK 750 million senior unsecured callable bond

On 3 October 2012, the company issued a senior unsecured bond of NOK 750 million in the Norwegian bond market. The outstanding balance on the bond loan was repaid in accordance with the maturity date on 3 October 2017.

Bond issue – USD 130 million senior unsecured callable bond
On 3 June 2015, the company issued a senior unsecured bond of USD 130 million in the Nordic bond market with maturity date 5 June 2020. The proceeds were used for general corporate purposes. The bonds are listed on the Oslo Stock Exchange and bears interest at 3 months LIBOR plus a margin of 5% payable quarterly. The floating interest has been swapped into a fixed interest rate resulting in a fixed interest of 6.7%.

NOK 1 500 million senior unsecured callable bond
On 19 January 2017, the company issued a senior unsecured bond of NOK 1 500 million in the Nordic bond market with maturity date 1 February 2022. The net proceeds from the bond issue were used for the part refinancing of the bond issue with ticker HLNG01 repaid 3 October 2017 and general corporate purposes. The bond is listed on the Oslo Stock Exchange and bears interest at 3 months NIBOR plus a margin of 5% payable quarterly. The company has entered into a cross currency interest rate swap from NOK to USD and from floating to fixed interest rate totalling 7.7%. The carrying amount of the bond was USD 183 million at 31 December 2017.

Interest-bearing debt in joint venture companies
Neptune and GDF Suez Cape Ann facility
On 20 December 2007, the joint ventures owning Neptune and GDF Suez Cape Ann each entered into a USD 300 million secured credit facility for the financing of the FSRUs. As at 31 December 2017, Höegh LNG's 50% share of the outstanding amount under the facilities totalled USD 228 million. Each facility has a tenor of 12 years and a repayment profile of 20 years. Repayments are due quarterly and started in April 2010 and October 2010, respectively. Each facility has a floating interest rate equal to 3 months LIBOR plus a margin. The LIBOR has been swapped into a fixed interest rate for the length of the underlying charter contracts. The hedging agreement includes an optional early termination right for both the company and the bank group at the maturity of the credit facilities in 2022.

Lease liabilities
Arctic Princess and Arctic Lady are financed under 25-year UK finance leases. Höegh LNG's obligations related to the leases have been included as debt in the balance sheets of the respective joint venture companies. As per 31 December 2017, the total debt related to these lease facilities amounted to USD 109 million for Höegh LNG on a proportionate basis.

Debt and lease restrictions
Existing credit facilities impose restrictions, which may limit or prohibit Höegh LNG's ability to incur indebtedness, create liens, sell shares in subsidiaries, pay dividends, engage in mergers and acquisitions, or purchase and sell vessels without the consent of the lenders. In addition, lenders may accelerate the maturity of the indebtedness under financing agreements and foreclose upon the collateral securing the indebtedness upon the occurrence of certain events of default, including a failure to comply with any of the covenants contained in the financing agreements. With regard to such covenants, Höegh LNG has to maintain a minimum equity (adjusted for mark-to-market of hedging reserves) of USD 200 million, a minimum equity ratio (adjusted for mark-to-market of hedging reserves) of 25%, and a minimum free cash position being the higher of USD 35 million and 5% of funded indebtedness. HMLP has to maintain a minimum equity (adjusted for mark-to-market of hedging reserves) of USD 150 million, a minimum equity ratio (adjusted for mark-to-market of hedging reserves) of 25%, and a minimum free cash position being the higher of USD 15 million or USD 3 million per vessel. Most credit facilities include project covenants which require positive working capital and minimum debt service coverage ratios.

Furthermore, certain debt agreements contain a change of control provision being triggered should the Høegh family by way of sale of shares cease to own (directly or indirectly) at least 1/3 of the shares, or by way of dilution below 1/3 of the shares, thus no longer being the largest shareholder of the company.

Höegh LNG was in compliance with its covenants for the year ended 31 December 2017.

Note 17: Interest expenses

	2017	2016
Interest expense, mortgage debt	45 199	41 722
Interest expense, bonds	15 126	13 182
Other interest expenses	331	276
TOTAL	**60 656**	**55 180**

Interest costs on bonds of USD 13.6 million was in 2017 capitalised as part of the acquisition cost of the group's FSRUs under construction (USD 6.5 million in 2016).

Note 18: Expenses from other financial items

	2017	2016
Currency loss	1 140	6 251
Withholding taxes	2 513	2 772
Other financial expenses	1 102	767
TOTAL	**4 755**	**9 790**

Note 19: Commitments and guarantees

FSRU newbuilding programme

Remaining capital commitments relating to the FSRU newbuilding program amounted to approximately USD 630 million at year-end 2017, out of which approximately USD 450 million is payable within one year. The commitments include yard payments, project expenses, finance costs and contingencies. See Note 13, under the section Liquidity risk, on how the remaining capital commitments are planned to be financed.

The company has issued performance guarantees to Hyundai Heavy Industries guaranteeing Höegh LNG Ltd.'s obligations under the shipbuilding contract for Höegh Esperanza in the maximum amount of USD 80.7 million and FSRU #9 in the maximum amount of USD 73.9 million.

Höegh Esperanza

A USD 230 million senior secured credit facility agreement for the financing of Höegh Esperanza was entered 13 November 2017. The company has provided a corporate guarantee for the credit facility. Customary security package was entered upon delivery of the vessel from the yard.

Höegh Giant

On 21 March 2016 Höegh LNG Holdings Ltd., as an original borrower, entered into the USD 223 million senior secured credit facility for the financing of Höegh Giant. Upon delivery of the vessel in April 2017, the borrower was changed to the special purpose entity borrower and the company became the corporate guarantor for the credit facility. In relation to the vessel Höegh Giant, the customary security package was entered upon delivery of the vessel from the yard.

Höegh Grace

A USD 412 million senior secured credit facility agreement for the financing of Höegh Grace and Höegh Gallant (see further below) was entered into in 2014.

On 1 December 2017, the holding company of the FSRU Höegh Grace was sold to the MLP. The facility is guaranteed by the company, Höegh LNG Ltd. and HMLP.

In relation to Höegh Grace, the following securities have been established: A mortgage over the FSRU, account security deeds, shares security deeds (in respect of the shares of the borrowers), management agreement assignment, pre-delivery security assignments and swap contract assignment. The company has guaranteed the obligations of its subsidiaries under the agreements entered into with the charterer, Sociedad Portuaria El Cayao S.A.

Höegh Gallant

On 1 October 2015, the holding company of the FSRU Höegh Gallant was sold to the MLP. Höegh LNG Egypt LLC, being party to the TCP with Egyptian Natural Gas Holding Company ("EGAS"), continues to be owned by Höegh LNG outside the MLP. Following the transfer, the company has provided a parent company guarantee in favour of EGAS as security for the obligations of Höegh LNG Egypt LCC under the charter with EGAS. Furthermore, the Central International Bank has issued a letter of credit in the amount of USD 3 million on behalf of Höegh LNG Egypt LCC in favour of EGAS, which has been guaranteed by the company.

The guarantee issued by the company in relation to the USD 412 million senior secured credit facility agreement (see above) and the security granted by the subsidiaries of Höegh LNG in relation to the USD 412 million senior secured credit facilities agreement, are covering also the Höegh Gallant facility.

The company has guaranteed the payment of hire by Höegh LNG Egypt LLC to HMLP, to the extent Höegh LNG Egypt LLC is unable to draw under the established bank guarantee and for certain limited force majeure events. Further, the company has granted HMLP an option to lease the vessel back to Höegh LNG Ltd. for five years at a rate equal to 90% of the rate payable pursuant to the current charter rate, plus any incremental taxes or operating expenses as a result of such charter. The option must be exercised before expiry of the charter with EGAS.

The following securities have been established in relation to Höegh Gallant: A mortgage over the FSRU, account security deeds, shares security deeds (in respect of the shares of the borrowers), management agreement assignment, pre-delivery security assignments and swap contract assignment. The company has guaranteed the obligations of its subsidiaries under the agreements entered into with the charterer, EGAS.

Independence

In November 2012, Höegh LNG Ltd. (as borrower) entered into a USD 250 million facility agreement fully guaranteed by the company. In addition, the facility is guaranteed by Höegh LNG Klaipeda UAB and Hoegh LNG Klaipeda Pte. Ltd., both being subsidiaries of Höegh LNG. The following securities have been granted to the financiers: (i) Mortgage with collateral deed of covenants over the FSRU; (ii) assignment of all project agreements, guarantees and swap agreements; (iii) pledge of all project accounts; and (iv) pledge over the shares in the project companies Höegh LNG Klaipeda UAB and Hoegh LNG Klaipeda Pte. Ltd.

Höegh LNG Ltd. has guaranteed the obligations of Höegh LNG Klaipeda UAB under the charter with the customer, Klaipedos Nafta.

PGN FSRU Lampung

The PGN project was sold to the MLP in August 2014. The company has subsequent to the sale continued to be responsible for certain guarantees in relation to the USD 299 million facility agreement for the financing of PGN FSRU Lampung with Hoegh LNG Lampung Pte. Ltd. including (i) the balloon repayment instalment plus any accrued interest thereon; and (ii) the required credit balance on the debt service reserve account.

Further, the company is obligated to issue a guarantee in respect of outstanding debt (less insurance proceeds for vessel force majeure if relevant) if the lease, operation and maintenance agreement is terminated due to an event of vessel force majeure and in addition an agreement with the charterer for the acquisition of 50% of the FSRU has not been reached within a certain period of time.

The company has guaranteed the obligations of PT Höegh LNG Lampung under the lease, operation and maintenance agreement with the customer, PT PGN LNG Indonesia.

Neptune FSRUs

Höegh LNG's shares in SRV Joint Gas Ltd. and SRV Joint Gas Two Ltd. (together the "SRV JG companies") were in August 2014 transferred to HMLP The SRV JG companies are accounted for according to the equity method, see Note 20. Under the loan agreements for the financing of Neptune and GDF Suez Cape Ann, the company remains the guarantor for 50% of any dry-docking costs and remarketing efforts in case of an early termination of each of the TCPs for the two FSRUs entered into by the respective SRV JG companies.

The company also continues as guarantor under a performance and payment guarantee for the SRV JG companies' obligations under the respective TCPs, pro-rata for each shareholder (i.e. 50%).

The company has provided the guarantee for all existing swap agreements except the interest rate swaps related to the PGN FSRU Lampung financing.

Arctic Princess and Arctic Lady

The two LNGCs, Arctic Princess and Arctic Lady, are leased from the joint venture companies Joint Gas Ltd. and Joint Gas Two Ltd. (collectively referred to as "JVs") in which Höegh LNG has a 33.98% and 50.00% ownership, respectively (see Note 20). The LNGCs are further bareboat chartered to Leif Höegh (U.K.) Limited, a wholly owned subsidiary of Höegh LNG Ltd. As of year-end 2017, Leif Höegh (U.K.) Limited has remaining charter commitments for the two LNGCs of approximately USD 292 million, as specified in the table below. The Arctic Lady lessor completed its contractual right to perform a credit/security review as per 12 April 2016 (10 years after delivery) and required additional security in the form of a USD 20 million letter of credit (100% basis). The letter of credit was initially issued in April 2017 and will be renewed on a yearly basis until 12 April 2026.

The below table shows amounts based on full hire. The remaining hire payable adjusted for Höegh LNG's ownership in the JVs, is USD 165.8 million (USD 186.4 million in 2016).

BAREBOAT HIRE TO BE PAID ON A 100% BASIS

	31 Dec 2017	31 Dec 2016
Within one year	35 332	35 496
Between one and five years	140 820	141 141
More than five years	114 795	149 977
TOTAL	**290 946**	**326 614**

Pursuant to the lease agreements, the JVs, as lessees, bear the normal risks in relation to the leasing structure itself, including the lessors' claims for capital allowances, changes in the applicable capital allowance rate and the corporate tax rate in the UK. Upon request from HM Revenues & Customs (HMRC), additional information has been provided in relation to the UK lessors' claims for capital allowances. A similar, although different case has been tested in UK courts and a final judgement was issued in favour of HMRC in August 2015. The JV lessees have subsequently been approached by HMRC to discuss similarities between the cases and to what extent the judgement can be applied to the two Arctic vessels. No notice as to disallowing the allowances has been given to date.

Höegh LNG Ltd. has guaranteed pro-rata according to its shareholding severally with the JV partners for payment obligations under the lease agreements entered into by the JVs, respectively (lease agreements, time charter agreements and interest rate swap agreements). The said guarantees are counter-guaranteed by the company. In addition, the shares in the JVs have been pledged in favour of the lessors and all rights to the derivative assets in the JVs have been assigned by the joint venture partners to the lessor. Höegh LNG Ltd. has also granted a performance undertaking in favour of the lessor for the performance of Leif Höegh (U.K.) Limited under the leases and a pro-rata Quiet Enjoyment Guarantee in favour of the time charterer for the JVs performance under a Quiet Enjoyment Letter entered into with the lessor and the time charterer.

Höegh LNG Partners LP – indemnifications

In connection with the sale of assets to HMLP, the company has agreed to indemnify HMLP against certain losses for the periods prior to the closing date related to the title of the transferred assets, the commercial and financial agreements and vessel operation, the latter being i.a. against certain environmental and toxic tort liabilities (claims must be submitted within five years following the closing date and for the HMLP IPO fleet it is an aggregate cap of USD 5 million). In addition, the company has agreed to indemnify HMLP against all federal, state, foreign and local income tax liabilities attributable to the operation of the contributed assets prior to the respective closing date. Lastly, the company has agreed to indemnify HMLP against specific losses related to the PGN Project also after the closing date, as the project was transferred to the MLP before commencing operation under its commercial agreement (charter). The company paid a net amount of USD 0.5 million to HMLP in 2017 (USD 3.8 million in 2016) under the said indemnities.

See also above regarding Höegh Grace, Höegh Gallant and PGN FSRU Lampung.

Note 20: Investments in joint ventures and subsidiaries

Höegh LNG had ownership in four joint ventures at year-end 2017, all accounted for according to the equity method. The joint ventures have share capital consisting solely of ordinary shares.

JOINT VENTURES IN HÖEGH LNG

Company	Registered office	Country	Principal activity	Ownership in % 31 Dec 2017	Ownership in % 31 Dec 2016
Joint Gas Ltd.	Georgetown	Cayman Island	Shipowning	33.98	33.98
Joint Gas Two Ltd.	Georgetown	Cayman Island	Shipowning	50.00	50.00
SRV Joint Gas Ltd.	Georgetown	Cayman Island	Shipowning	50.00	50.00
SRV Joint Gas Two Ltd.	Georgetown	Cayman Island	Shipowning	50.00	50.00

Joint Gas Ltd. is leasing Arctic Princess under a 25 years financial lease agreement. Joint Gas Two Ltd. is leasing Arctic Lady under a 25 years financial lease agreement. Reference is made to Note 19 for further information.

SRV Joint Gas Ltd. and SRV Joint Gas Two Ltd. own and operate the FSRUs Neptune and GDF Suez Cape Ann, both leased to GDF Suez Global LNG Supply SA.

CHANGE IN CARRYING VALUE OF THE JOINT VENTURES DURING THE YEAR

	2017	2016
At 1 January	**(48 530)**	**(73 502)**
Share of profit	2 525	13 773
Other comprehensive income	10 845	11 199
AT 31 DECEMBER	**(35 159)**	**(48 530)**

The negative balances to the investments in the group's joint ventures are mainly due to the negative mark-to-market valuations of interest rate derivatives in these entities. The joint venture companies are privately owned and there are no quoted market prices available for the shares.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE GROUP'S JOINT VENTURES

	Joint Gas Ltd.		Joint Gas Two Ltd.		SRV Joint Gas Ltd.		SRV Joint Gas Two Ltd.	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	17 913	17 850	17 583	17 509	43 911	45 508	40 171	40 748
Depreciation	(6 085)	(6 085)	(6 058)	(6 058)	(13 028)	(12 357)	(10 870)	(10 870)
Interest income	-	-	-	-	78	2	-	-
Interest expenses	(7 049)	(7 498)	(6 075)	(6 657)	(13 842)	(14 906)	(14 073)	(15 224)
PROFIT BEFORE TAX	**4 665**	**4 183**	**4 819**	**4 363**	**(8 624)**	**7 795**	**50**	**6 859**
Tax	-	-	-	-	-	-	-	-
PROFIT FOR THE YEAR	**4 665**	**4 183**	**4 819**	**4 363**	**(8 624)**	**7 795**	**50**	**6 859**
Other comprehensive income	4 528	5 028	4 226	4 798	7 127	6 961	7 261	7 222
TOTAL COMPREHENSIVE INCOME	**9 193**	**9 211**	**9 045**	**9 161**	**(1 497)**	**14 756**	**7 311**	**14 081**

The information above reflects the amounts presented in the financial statements of the joint ventures and not Höegh LNG's share of those amounts.

CONDENSED STATEMENT OF FINANCIAL POSITION AT YEAR-END FOR THE GROUP'S JOINT VENTURES

	Joint Gas Ltd.		Joint Gas Two Ltd.		SRV Joint Gas Ltd.		SRV Joint Gas Two Ltd.	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets								
Cash and cash equivalents	13 287	9 315	13 829	9 730	5 715	4 884	2 385	4 621
Other current assets	41	3	107	3	5 481	8 329	4 342	4 623
TOTAL CURRENT ASSETS	**13 328**	**9 318**	**13 936**	**9 733**	**11 196**	**13 213**	**6 727**	**9 244**
Vessel	123 327	129 412	124 345	130 404	278 256	290 235	259 994	270 864
Other non-current assets	-	-	-	-	12 361	12 265	12 893	12 841
TOTAL NON-CURRENT ASSETS	**123 327**	**129 412**	**124 345**	**130 404**	**290 617**	**302 500**	**272 887**	**283 705**
TOTAL ASSETS	**136 655**	**138 730**	**138 281**	**140 137**	**301 813**	**315 713**	**279 614**	**292 949**
Liabilities								
TOTAL CURRENT LIABILITIES	**12 114**	**12 502**	**11 439**	**11 933**	**43 410**	**38 612**	**29 612**	**32 036**
Non-current interest-bearing debt	130 338	137 472	130 566	137 617	216 525	225 068	220 169	231 691
Other non-current liabilities	28 159	31 905	20 878	24 235	61 183	69 841	45 921	52 621
TOTAL NON-CURRENT LIABILITIES	**158 497**	**169 377**	**151 444**	**161 852**	**277 708**	**294 909**	**266 090**	**284 312**
TOTAL LIABILITIES	**170 611**	**181 879**	**162 883**	**173 785**	**321 118**	**333 521**	**295 702**	**316 348**
Net assets	**(33 956)**	**(43 149)**	**(24 602)**	**(33 648)**	**(19 305)**	**(17 808)**	**(16 088)**	**(23 399)**

CONDENSED FINANCIAL INFORMATION FOR THE GROUP'S JOINT VENTURES

	Joint Gas Ltd.		Joint Gas Two Ltd.		SRV Joint Gas Ltd.		SRV Joint Gas Two Ltd.	
	2017	2016	2017	2016	2017	2016	2017	2016
NET ASSET AT 1 JANUARY	**(43 149)**	**(52 360)**	**(33 648)**	**(42 809)**	**(17 808)**	**(32 564)**	**(23 399)**	**(37 480)**
Profit (loss) for the period	4 665	4 183	4 819	4 363	(8 624)	7 795	50	6 859
Other comprehensive income	4 528	5 028	4 226	4 798	7 127	6 961	7 261	7 222
NET ASSET AT 31 DECEMBER	**(33 956)**	**(43 149)**	**(24 603)**	**(33 648)**	**(19 305)**	**(17 808)**	**(16 088)**	**(23 399)**
Ownership (in %)	33.98	33.98	50.00	50.00	50.00	50.00	50.00	50.00
Group adjustment vessel values	2 137	1 811	3 104	2 586	900	(137)	236	(700)
CARRYING VALUE	**(9 401)**	**(12 851)**	**(9 198)**	**(14 238)**	**(8 753)**	**(9 041)**	**(7 808)**	**(12 400)**

The negative fair values of the cash flow hedges in Höegh LNG's joint ventures are all recorded as part of the investments in the joint ventures, which results in the investments being net liabilities.

SUBSIDIARIES AT 31 DECEMBER 2017

Company	Country	Principal activity	Proportion of ordinary shares held by parent	Proportion of ordinary shares held by the group	Proportion of ordinary shares held by the NCI
Höegh LNG Ltd.	Bermuda	Holding	100		
Höegh LNG AS	Norway	Management		100	
Höegh LNG Fleet Management AS	Norway	Ship management		100	
Leif Höegh (U.K.) Limited	England	Ship management		100	
Hoegh LNG Asia Pte. Ltd.	Singapore	Business development		100	
Hoegh LNG Shipping Services Pte. Ltd.	Singapore	Depot spares		100	
Hoegh LNG Maritime Management Pte. Ltd.	Singapore	Ship management		100	
Port Dolphin Energy LLC	USA	Business development		100	
Port Dolphin Holding Company, LLC	USA	Holding		100	
Höegh FLNG Ltd.	Bermuda	Dormant	100		
Hoegh LNG Giant Ltd.	Cayman Islands	Shipowning		100	
Hoegh LNG Klaipeda Pte. Ltd.	Singapore	Shipowning		100	
Hoegh LNG Klaipeda, UAB	Lithuania	FSRU operation		100	
Höegh LNG Québec Inc.	Canada	Dormant	100		
Höegh LNG Egypt LCC	Egypt	FSRU operation		100	
Höegh LNG Egypt Holding I Ltd.	Cayman Islands	Holding		100	
Höegh LNG Egypt Holding II Ltd.	Cayman Islands	Holding		100	
Höegh LNG GP LLC	Marshall Islands	General partner	100	100	
Höegh LNG Chile Holding Ltd.	Cayman Islands	Holding		100	
Höegh LNG Chile SpA	Chile	FSRU operation		100	
Höegh LNG FSRU VI Ltd.	Cayman Islands	Shipowning		100	
Hoegh LNG Klaipeda LLC	Marshall Islands	Dormant		100	
Hoegh LNG Pakistan Holding Pte. Ltd.	Singapore	Holding		100	
Hoegh LNG Pakistan Terminal Pte. Ltd.	Singapore	Dormant		100	
Höegh LNG Partners LP [1]	Marshall Islands	Holding			53.61
Common units			6.43		
Subordinated units			39.96		
TOTAL			**46.39**		**53.61**

[1] HMLP is a US listed partnership based on the Marshall Islands.
The company's holding of 46.39% consists of 39.96% subordinated units and 6.43% common units. The partnership agreement limits the voting power of an individual common unit holder to a maximum of 4.9% for election to the Board. Subordinated unit holders have no right to appoint or elect Board members. Common unit holders have the right to elect four members of the Board while the General Partner, an entity controlled by the company, has the right to appoint the remaining three members of the Board.

COMPANIES IN THE MLP AS AT 31 DECEMBER 2017

Company	Country	Principal activity	Proportion of ordinary shares held by parent
Höegh LNG Partners LP	Marshall Islands	Parent company/holding	
Subsidiaries			
Höegh LNG Partners Operating LLC	Marshall Islands	Holding	100
Hoegh LNG Services Ltd.	England	Management	100
Hoegh LNG Lampung Pte. Ltd	Singapore	Holding	100
PT Hoegh LNG Lampung[2]	Indonesia	Shipowning	49
Hoegh LNG Cyprus Limited	Cyprus	Shipowning	100
Höegh LNG FSRU III Ltd.	Cayman Islands	Holding	100
Höegh LNG Colombia Holding Ltd.	Cayman Islands	Holding	100
Höegh LNG Colombia S.A.S.	Colombia	FSRU operation	100
Höegh LNG FSRU IV Ltd.	Cayman Islands	Shipowning	100
Joint ventures			
SRV Joint Gas Ltd.	Cayman Island	Shipowning	50
SRV Joint Gas Two Ltd.	Cayman Island	Shipowning	50

All subsidiary undertakings are included in the consolidated financial statements. Other than the subsidiaries described above, the proportion of the voting rights in subsidiary undertakings held directly by Höegh LNG do not differ from the proportion of ordinary shares held.

Summarised financial information on subsidiaries with material non-controlling interests

On 12 August 2014, HMLP closed its initial public offering (IPO) and sold 11 040 000 common units representing limited partner interests in the partnership, which were listed on the New York Stock Exchange. The net proceeds from the IPO were USD 203.5 million. Following the IPO, Höegh LNG's ownership in the partnership was reduced from 100% to 58.04%.

In December 2016, HMLP issued 6 588 389 new common units. The company did not participate in the equity offering and its ownership share in HMLP was consequently reduced from 58.04% to 46.39%.

On 5 October 2017, HMLP issued 4 600 000 preferred units, including exercise of underwriters' option of 600 000 units in a public offering. The preferred units represent a perpetual interest in the partnership and ranks before both common and subordinated units. The distribution of the preferred units is fixed at 8.75% per annum based on a cost of USD 25 per unit, payable on a quarterly basis (15 February, 15 May, 15 August and 15 November). The preferred units represent an equity instrument. The fundamental characteristics of the preferred units are not considered to be a financial liability. The preferred units do not provide for a redemption on a specific date and the preferred units do not satisfy the definition of a financial liability. The substance of the contractual arrangements for the preferred units is in substance an equity instrument. The preferred units do not have any voting rights, but have been granted a right to appoint one of the general partner appointed members of the board of directors in the event dividend is in arrears by an amount equal to six quarterly payments. The rights are protective in nature, and is contingent on HMLP failing to pay distributions to the board of directors, payments that take priority to all other distributions. As such management do not consider those rights as being substantive as of now. Consequently, no change in the control assessment with regard to consolidation of the HMLP into the group accounts of Höegh LNG Holdings Ltd. Net proceeds from the issuance of preferred units amounted to USD 110.9 million and increased the equity for the group (non-controlling interests).

[2] Höegh LNG consolidates PT Hoegh LNG Lampung, as it controls all of the economic interest in the company.

The preferred units are entitled to a share of the HMLP's result, capped at 8.75% of the cost of a unit, USD 25, per year. The cumulative preferred units shall be allocated their share of profit before further allocations are made, equal to the dividend and irrespective of HMLP's profit.

According to IFRS 10, the assessment of control must be performed on a continuous basis. For the year ended 31 December 2014, following the election of four members of the Board, Management made an assessment over the control of the partnership. The assessment evaluated all facts and circumstances, including the composition of the board of HMLP, the rights of unitholders and other arrangements and relationships between the parties. Based on an overall assessment of all facts and circumstances, Management concluded that the company had de facto control of HMLP even though it did not have a majority of the voting rights. Management's assessment was based on the combination of factors where the current composition of the board of directors of HMLP was an important element in the overall conclusion. Management have reassessed the conclusion in 2017. The issuance of the preferred units has been deemed not to have any impact on the conclusion. It has been concluded that Höegh LNG has de-facto control over HMLP also after the issuance of preferred units.

The summarised financial statements of HMLP prepared in accordance with IFRS are presented below. The tables include transactions and balances towards other companies within Höegh LNG. The figures are not directly comparable with the consolidated financial statements for HMLP sub-group, as these are based on US GAAP and for certain assets and liabilities have deviating acquisition dates.

HÖEGH LNG PARTNERS CONSOLIDATED, CONDENSED STATEMENT OF INCOME

	2017	2016
Freight revenues	105 769	96 534
Profit for the year	**48 911**	**30 429**
Other comprehensive income	12 774	9 938
COMPREHENSIVE INCOME	**61 685**	**40 367**
Attributable to non-controlling interest	29 074	19 665
Dividends paid to non-controlling interest	30 039	18 255

HÖEGH LNG PARTNERS CONSOLIDATED, CONDENSED STATEMENT OF FINANCIAL POSITION

	31 Dec 2017	31 Dec 2016
Assets		
Cash and cash equivalents	22 746	110 683
Restricted cash	6 962	8 055
Other current assets	14 205	14 574
TOTAL CURRENT ASSETS	**43 913**	**133 312**
FSRUs	826 428	555 617
Other non-current assets	29 799	31 616
TOTAL NON-CURRENT ASSETS	**856 227**	**587 233**
TOTAL ASSETS	**900 140**	**720 545**
Liabilities		
Total current liabilities	**64 587**	**56 482**
Long-term interest-bearing debt	430 644	298 206
Investments in joint ventures	16 560	21 441
Other non-current liabilities	67 981	64 384
TOTAL NON-CURRENT LIABILITIES	**514 999**	**384 031**
TOTAL LIABILITIES	**579 586**	**440 513**
Net assets	**320 554**	**280 032**
Attributable to non-controlling interest	**225 758**	**150 087**

Note 21: Shares and share capital

NUMBER OF SHARES

	Par value (USD)	31 Dec 2017	31 Dec 2016
Ordinary shares authorised	0.01	150 000 000	150 000 000
TOTAL NUMBER OF SHARES ISSUED AND FULLY PAID	**0.01**	**77 244 746**	**76 884 059**

SHARE CAPITAL

	Number of shares	Par value (USD)	Total (USD'000)
Shares and share capital at 1 January 2017	76 884 059	0.01	769
Shares issued 4 January 2017 as settlement on stock options	352 401	0.01	3
Shares issued 23 May 2017 as remuneration to directors of the company	8 286	0.01	-
SHARES AND SHARE CAPITAL AT 31 DECEMBER 2017	**77 244 746**	**0.01**	**772**

TREASURY SHARES

	Number of shares	Par value (USD)	Total (USD'000)
Höegh LNG Holdings Ltd. ownership	1 211 738	0.01	12
TREASURY SHARES AND SHARE CAPITAL AT 31 DECEMBER 2017	**1 211 738**		**12**

20 LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2017

	Note	Ownership Number of shares	Ownership In %
Leif Höegh & Co Ltd	31	32 479 953	42.05
Clearstream Banking S.A.		4 634 255	6.00
Allianz Global Investors LAD		3 791 096	4.91
State Street Bank and Trust Comp		3 462 933	4.48
Verdipapirfondet DNB Norge (IV)		2 581 616	3.34
UBS AG		2 397 239	3.10
Citibank (nominee)		2 357 107	3.05
BNP Paribas Sec. Services SCA		2 260 115	2.93
Brown Brothers Harriman (Lux.) SCA		2 020 680	2.62
Cetra Invest AS		824 021	1.07
SEB Prime Solutions Sissener Canop		600 000	0.78
J.P. Morgan Securities LLC		573 565	0.74
J.P. Morgan Chase Bank N.A. London (nominee)		495 438	0.64
Morgan Stanley & Co. Int. PLC.		493 490	0.64
State Street Bank and Trust Comp		464 100	0.60
J.P. Morgan Chase Bank, N.A. London (nominee)		424 718	0.55
Skandinaviska Enskilda Banken AB		407 763	0.53
Verdipapirfondet Pareto Investment		406 000	0.53
J.P. Morgan Chase Bank, N.A. London (nominee)		403 730	0.52
Odin Energi		340 000	0.44
Other		15 826 927	20.49
TOTAL		**76 884 059**	**100.00**

Note 22: Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to the ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. In the event of a loss, no dilution effect is calculated.

The company held 1 211 738 treasury shares as at 31 December 2017 and 2016. The following reflects the income and share data used in the computations of basic and diluted earnings per share:

	2017	2016
Net profit attributable to equity holders of the parent company	18 482	1 298
Number of outstanding shares 1 January	75 672 321	75 617 498
Number of outstanding shares 31 December	76 033 008	75 672 321
Average share options outstanding (if profit)	2 267 112	2 722 646
Weighted average number of outstanding shares	75 852 665	75 644 910
Earnings per share		
Basic, profit for the year attributable to ordinary equity holders of the parent (USD)	0.24	0.02
Diluted, profit for the year attributable to ordinary equity holders of the parent (USD)	0.24	0.02

Note 23: Share based payment

Stock options in Höegh LNG Holdings Ltd.

In 2012, the company introduced a share option programme, where share options of the company are granted to members of the top management and key employees of Höegh LNG. The share options vest in three equal portions over a three-year period from the initial date of granting. The share options can be exercised up to one year after the end of the total vesting period. Options outstanding at 31 December 2017 expire on 31 December 2020 at the latest.

OUTSTANDING SHARE OPTIONS

	Average exercise price	2017	2016
Outstanding at 1 January		2 629 098	2 096 012
Granted during the year		-	844 600
Exercised during the year		(711 672)	(114 671)
Forfeited during the year		(12 300)	(124 067)
Expired during the year		-	-
Adjusted quantity due to issuance of phantom units		-	(72 776)
OUTSTANDING AT 31 DECEMBER	**NOK 52.69**	**1 905 126**	**2 629 098**
Exercisable at 31 December		1 461 276	1 483 674

For 2017, the expense recognised for employee services received during the year charged to the income statement is USD 2.1 million (USD 2.0 million in 2016). This includes the phantom units as described below.

The fair value of the share options is estimated at the grant date using a Black & Scholes simulation pricing model, taking into account the terms and conditions upon which the share options were granted. The parameters presented below were used as input to the shares granted in 2016. No new share options were granted in 2017.

	Model inputs
Dividend yield (%)	0.00
Expected volatility (%)	55.00
Risk-free interest rate (%)	0.75
Expected life of share options (years)	4.23
Weighted average share price (NOK)	90.08

The expected life of the share options is based on historical data and current expectations, and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. The options can be settled either in cash or shares based on the company's sole discretion.

Phantom unit award to management of Höegh LNG

In order to align the interest of the management of Höegh LNG and HMLP, the Board of Directors of the company has decided to award a right to receive common units in HMLP (phantom units) to members of management and key employees who are directly involved in providing services to HMLP. A phantom unit is a notional unit that, upon vesting, entitles the participant to receive, at the time of settlement, a common unit in HMLP or an amount of cash equal to the fair market value of a common unit, as determined by the board in its sole discretion.

The board of directors of the company approved a total award of 53 568 phantom units in HMLP in 2016. A number of the phantom units awarded were exchanged against options granted in Round 3 of the company's share option program. No additional phantom units were awarded in 2017.

The awarded phantom units vest with one third on 31 December 2017, 2018 and 2019, respectively. They are non-tradable and conditional upon the participant being employed by the company or its subsidiaries at the vesting date.

The grant has been accounted for as equity settled based on a fair value equal to the value of a unit at the time of grant.

	2017	2016
Outstanding at 1 January	53 568	-
Granted during the year	-	53 568
OUTSTANDING AT 31 DECEMBER	**53 568**	**53 568**

Phantom unit award to the CEO & CFO of HMLP

The board of directors of HMLP has awarded the CEO & CFO of HMLP a total of 21 500 phantom units. Vesting and other conditions are similar to the phantom units granted by the company.

	2017	2016
Outstanding at 1 January	21 500	-
Granted during the year	-	21 500
OUTSTANDING AT 31 DECEMBER	**21 500**	**21 500**

Social security contributions on share options

The provision for social security contributions on share options is calculated based on the number of outstanding options at the reporting date that are expected to be exercised. The provision is based on market price of the shares at the reporting date, which is the best estimate of the market price at the date of exercise. It is expected that costs will be incurred during the exercise period of 1 January 2018 to 31 December 2020.

Note 24: Deferred tax and corporate income tax

Current income tax	2017	2016
Current income tax charge	(3 026)	(625)
Change in deferred tax	(2 136)	(4 933)
Adjustments in respect of current income tax of previous years	13	437
CURRENT INCOME TAX EXPENSE	**(5 148)**	**(5 121)**

Reconciliation of income tax expense		
PROFIT (LOSS) BEFORE INCOME TAX	**46 200**	**19 133**
At Bermuda's statutory income tax rate of 0%	-	-
Income tax expense reported outside Bermuda	(5 148)	(5 121)
INCOME TAX EXPENSE REPORTED IN THE INCOME STATEMENT	**(5 148)**	**(5 121)**

Note 25: Trade and other receivables

	31 Dec 2017	31 Dec 2016
Trade receivables	27 395	27 817
VAT receivables	549	2 122
Receivables towards joint ventures	451	1 317
Prepayments and other	9 302	9 283
TOTAL	**37 697**	**40 539**

Note 26: Trade and other payables

	31 Dec 2017	31 Dec 2016
Trade payables	6 251	6 297
Public duties	5 147	9 972
Accrued vacation pay and leave pay	3 316	2 754
TOTAL	**14 714**	**19 023**

Trade payables fall due between 15 and 180 days.

Note 27: Provisions and accruals

	31 Dec 2017	31 Dec 2016
Prepayments from customers	3 148	2 585
Other	13 333	23 586
TOTAL	**16 481**	**26 171**

Note 28: Other current financial liabilities

	31 Dec 2017	31 Dec 2016
Interest rate swaps designated as effective hedging instruments[1]	3 091	52 397
Accrued interest, mortgage debt	2 308	2 362
Accrued interest, bonds	3 053	3 131
Other	13	-
TOTAL	**8 465**	**57 890**

[1] The interest rate swap agreements are designated as effective hedging instruments. The current portion of the liabilities related to the interest rate swap agreements' mark-to-market as at 31 December is presented above. For further information on interest rate swaps, reference is made to Note 13.

Note 29: Other non-current assets

	31 Dec 2017	31 Dec 2016
Pre-contract costs	4 354	4 752
Commitment fees on undrawn facilities	2 758	2 420
IT and equipment	2 802	1 945
Equipment related to FSRU operations	7 591	8 069
Capitalized dry-docking costs on leased vessels	5 367	4 934
TOTAL	**22 871**	**22 120**

Pre-contract costs are incremental costs recorded in the period from when Höegh LNG is selected as the preferred bidder of an FSRU until a firm charter party agreement is signed. These costs are amortised linearly over the charter party period.

Upon drawing on the project financing loans, the remaining debt issuance costs will be reclassified and netted against mortgage debt and amortised.

The table below reconciles the carrying value of equipment:

Equipment related to FSRU operations and IT	2017	2016
Cost at 1 January	16 486	16 828
Reclassified from newbuildings	-	-
Items scrapped or sold	(929)	(960)
Additions	1 002	618
COST AT 31 DECEMBER	**16 559**	**16 486**
Accumulated depreciation at 1 January	(5 534)	(5 534)
Items scrapped or sold	929	929
Depreciation charge	(1 561)	(1 867)
ACCUMULATED DEPRECIATION AT 31 DECEMBER	**(6 166)**	**(6 472)**
NET CARRYING AMOUNT AT 31 DECEMBER	**10 393**	**10 014**

Note 30: Non-current financial assets and liabilities

Interest rate swap agreements are entered into by Höegh LNG in addition to a cross currency interest rate swap agreement (see Note 13). The interest rate and currency swap agreements are designated as effective hedging instruments. The non-current portion of the mark-to-market valuation of these agreements as at 31 December 2017 is presented below. For further information on the interest rate swaps and the current portion of the mark-to-market valuations, see Note 13.

NON-CURRENT FINANCIAL ASSETS

	31 Dec 2017	31 Dec 2016
Interest rate swaps designated as hedges	17 024	8 485
VAT receivable	8 770	6 119
Long-term receivables[1]	-	6 195
Other	1	1 324
TOTAL	**25 795**	**22 123**

[1] Refundable value added tax was paid in Indonesia in local currency on the import of the vessel PGN FSRU Lampung into the country in 2014. The receivable can be recovered by applying future periods net value added tax liabilities against the receivable. The original balance has been reduced for net value added tax incurred staring in 2014 until 31 December 2017. The charterer provided an advance for the funding of the refundable value added tax on imports. Following a dialogue with the Indonesian tax authorities, it was possible to amend a value added tax ("VAT") filing reducing the VAT liability on a customer invoice with the result that a credit note was issued for the long-term receivable of USD 6.2 million in the second quarter of 2017. The amended VAT filing also increased the net refundable value added tax on import by a corresponding amount.

NON-CURRENT FINANCIAL LIABILITIES

	31 Dec 2017	31 Dec 2016
Interest rate swaps designated as hedges	2 102	4 570
VAT liability	5 755	11 254
Pension liabilities	1 308	1 114
TOTAL	**9 165**	**16 938**

Note 31: Transactions with related parties

Transactions with joint ventures

Höegh LNG provides various management services to its joint ventures. The below table provides the total amounts of the management services that have been rendered by Höegh LNG AS and Höegh LNG Fleet Management AS to the joint ventures for 2017 and 2016. For recognition of management revenues, see Note 4.

MANAGEMENT INCOME FROM JOINT VENTURES

	2017	2016
Joint Gas Ltd.	69	67
Joint Gas Two Ltd.	69	67
SRV Joint Gas Ltd.	1 301	2 170
SRV Joint Gas Two Ltd.	1 508	1 451
TOTAL	**2 947**	**3 756**

SHAREHOLDER LOANS WITH JOINT VENTURES

	31 Dec 2017	31 Dec 2016
Non-current		
Joint Gas Ltd.	2 580	641
Joint Gas Two Ltd.	683	302
TOTAL NON-CURRENT	**3 263**	**943**
Current		
SRV Joint Gas Ltd.	-	3 275
SRV Joint Gas Two Ltd.	-	3 000
TOTAL CURRENT	**-**	**6 275**
TOTAL	**3 263**	**7 218**

Transactions with other related parties

Höegh Autoliners Management AS

Höegh LNG considers Höegh Autoliners Holdings AS to be a related party, as both Morten W. Høegh (Chairman of the Board) and Leif O. Høegh (Deputy Chairman) indirectly have a significant beneficial interest in both companies. Höegh LNG has entered into agreements with Höegh Autoliners Management AS (a wholly owned subsidiary of Höegh Autoliners Holdings AS) relating to Höegh LNG's purchase of insurance services (in 2016 and 2017) provided by Höegh Autoliners Management AS and lease of office premises (in 2016).

ADMINISTRATIVE SERVICES FROM RELATED PARTIES

	2017	2016
Höegh Autoliners Management AS	122	1 242
TOTAL	**122**	**1 242**

Höegh Capital Partners AS

Höegh LNG has an agreement with Höegh Capital Partners AS, a company owned by the Høegh family, for the provision of investment management services by Höegh Capital Partners AS of any excess liquidity. Reference is made to Note 15 for further details.

Leif Höegh & Co Ltd. (Cyprus)

Höegh LNG has entered into a licence agreement with Leif Höegh & Co Ltd. pursuant to which Leif Höegh & Co Ltd. grants to Höegh LNG a royalty free licence for the use of the name and trademark "Höegh LNG" and the Höegh funnel mark (the Höegh flag). The licence agreement is effective for as long as Leif Höegh & Co Ltd. (or any other entity beneficially owned/controlled by the Høegh family) remains a shareholder in the company holding one third (33.33%) or more of the issued shares in the company. In the event such shareholding falls below one third, Leif Höegh & Co Ltd. may require that the group ceases to use the name and trademark "Höegh LNG" and the Höegh funnel mark.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at estimated fair value.

Group management and Board of Directors' remuneration

The remuneration to group management, consisting of six executives, and the Board of Directors is presented below:

(in USD)	Note	2017	2016
Salaries		1 869 057	2 378 118
Pension compensation (cash allowance)		242 679	318 587
Share-based payment expense	23	1 097 144	1 460 149
Other taxable benefits		272 703	232 949
Pensions (defined contribution scheme)		55 739	140 717
Bonus		1 325 907	770 487
Board of Directors' Fee		849 478	1 021 000
TOTAL		**5 712 707**	**6 322 007**

Co-investment vehicle for management

Methane Ventures Limited, a British Virgin Islands limited liability company, was a co-investment company jointly owned by the management of Höegh LNG and the company. The Methane Ventures Limited co-investment scheme expired on 31 December 2017. In connection with the termination of the co-investment scheme, Höegh LNG Holdings Ltd. acquired 529 000 shares in Methane Ventures Limited from key employees. Based on the share price of HLNG at 31 December 2017, the NOK/USD exchange rate and outstanding debt in Methane Ventures Limited, the shares in Methane Ventures Limited had no value, and were acquired by Höegh LNG Holdings Ltd. for zero consideration. There is a purchase price adjustment mechanism in place, whereby the sellers of the Methane Ventures Limited shares will be entitled to a subsequent consideration subject to a potential positive development of the Höegh LNG Holdings Ltd. share price and/or the NOK/USD exchange rate over the six months period up until 30 June 2018. Following the acquisition, Höegh LNG Holdings Ltd. owns 100% of the shares in Methane Ventures Limited, which owned 1 211 738 shares in Höegh LNG Holdings Ltd. The 1 211 738 shares that Methane Ventures Limited owned in Höegh LNG Holdings Ltd. was distributed to Höegh LNG Holdings Ltd. on 29 December 2017 and are held as treasury shares by the parent. Since the consideration Höegh LNG Holdings Ltd. paid for the non-controlling stake in Methane Ventures Limited was nil, the acquisition of the shares did not have any impact on the equity for the group. The Höegh LNG Holdings Ltd. shares have previously also been accounted for as treasury shares in the group accounts. In the group accounts the internal transfer of the own shares from Methane Ventures Limited to Höegh LNG Holdings Ltd. did not have any impact.

Management and general bonus scheme

The management bonus scheme is subject to individual performance and the achievement of Höegh LNG's corporate goals and operating performance targets. The bonus potential will vary from two to twelve months' salary for the individual members of the scheme. Höegh LNG has a general bonus scheme which incorporates all Höegh LNG's permanent and qualifying employees, except for the participants in the management bonus scheme. Full bonus potential of the general bonus scheme is one-month salary and the achievement is based on individual performance, corporate goals and operating performance.

Note 32: Other contingent liabilities

Höegh LNG is an international group of companies which, through its ongoing business operations, will be exposed to litigation and claims from public authorities and contracting parties as well as assessments from public authorities in each country it operates.

Under the Neptune and the GDF Suez Cape Ann time charters, the joint ventures undertake to ensure that the vessels meet specified performance standards at all times during the term of the time charters. The performance standards include the vessels not exceeding a maximum average daily boil-off of LNG, subject to certain contractual exclusions, as specified in the time charter. Pursuant to the charters, the hire rate is subject to deduction by the charterer of, among other things, sums due in respect of the joint ventures' failure to satisfy the specified performance standards during the period. The charterer has requested that the joint ventures calculate and present the boil-off since the commencement of the charters compared with the maximum average daily boil-off allowed under the time charters. The charters for the Neptune and GDF Suez Cape Ann commenced in 2009 and 2010 respectively. On 8 September 2017, the charterer notified the joint ventures that it was formally making a claim for compensation in accordance with the provisions of the charters for a stated quantity of LNG exceeding the maximum average daily boil-off since the commencement of the charters. The claim asserted a gross amount of compensation of USD 58 million for the excess boil-off volume, but recognised that the calculations for the amount required adjustment for allowable exclusions under the charters. The charterer has subsequently referred the claim to arbitration. The charterer's revised claim, as submitted in the arbitration request, was a gross amount of USD 52 million, covering a first performance period as defined in the time charter only, as well as interest and expenses. Depending on interpretations of the contractual provisions including exclusions to the performance standards and based on currently available information, it is estimated that Höegh LNG's 50% share of the excess boil-off claim could range from zero or negligible amounts to approximately USD 29 million based on a gross claim of USD 58 million. Provisions are recorded for loss contingencies or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. At 30 September 2017, the joint ventures determined that the liability associated with the boil-off claim was probable and could be reasonably estimated, resulting in a total provision of USD 23.7 million which was recorded as a reduction of time charter revenues in the third quarter of 2017. Höegh LNG's 50% share of the accrual was approximately USD 11.9 million. The provision was maintained unchanged at 31 December 2017. The claim may ultimately be settled through negotiation or arbitration. The joint ventures will continue to monitor this issue and adjust the provisions as might be necessary on the basis of additional information and further developments. Höegh LNG and the other major owner guarantee the performance and payment obligations of the joint ventures under the time charters. The guarantees are joint and several for the performance obligations and several for the payment obligations.

To the extent that an excess boil-off claim results in a settlement, Höegh LNG will indemnify HMLP for its share of the cash impact of any settlement.

In 2002, two UK tax lease agreements were entered into for Arctic Princess and Arctic Lady respectively between two UK lessors and the Joint Gas Ltd. and Joint Gas Two Ltd. joint venture companies as lessees. The vessels were delivered in 2006 and the lease agreements are for 25 years from delivery. Her Majesty's Revenue and Customs in the UK (HMRC) has been challenging the use of similar lease structures and has been engaged in litigation in one previous case, which was decided in the autumn of 2015 in favour of HMRC. In the event of a formal challenge by HMRC regarding the lessors' right to claim capital allowances, this would lead to higher rental payments to the UK vessel lessors, which would have a negative effect on the earnings of the lessee companies and consequently on Höegh LNG. Leif Höegh (U.K.) Limited, as managing owner and operator of the vessels, has been in dialogue with HMRC on this matter since 2005 and has presented the factual background to and the business rationale for entering into the lease agreements back in 2002. See also Note 19, Commitments and guarantees (Arctic Vessels).

Note 33: Subsequent events

On 26 January 2018, Höegh LNG Partners LP filed a prospectus supplement with the Securities and Exchange Commission to inform that it has entered into a sales agreement with B. Riley FBR, Inc. (the "agent"), relating to its common units, as well as its 8.75% Series A Preferred Units (together the "offered units"). In accordance with the terms of the sales agreement, HMLP may offer and sell, from time to time, new offered units having an aggregate offering price of up to USD 120 million through the agent in an "at the market" offering. Sales of Höegh LNG Partners LP offered units, if any, may be made in negotiated transactions or transactions that are deemed to be "at the market". Höegh LNG Partners LP intends to use net proceeds from the sales of the offered units, if any, for general partnership purposes, which may include the repayment of indebtedness, the funding of future acquisitions or other capital expenditures, among other things.

On 7 February 2018, Höegh LNG Holdings Ltd. commenced its time charter contract for FSRU Höegh Giant with Gas Natural SDG, SA (Gas Natural Fenosa). The initial term of the contract is three years, and it includes the option for Gas Natural Fenosa to utilize the unit as an FSRU at a pre-defined day rate and for a pre-defined term. Until FSRU employment is established, the unit will trade in Gas Natural Fenosa's fleet, earning a LNG carrier spot-market-linked day rate.

The company declared a cash dividend on 27 February 2018 of USD 0.025 per share for the first quarter of 2018.

Höegh Esperanza

Appendix 1– Alternative performance measures (APMs)

Höegh LNG's financial information is prepared in accordance with the International Financial Reporting Standards (IFRS). In addition, it is management's intent to provide additional performance measures when this is deemed relevant for the understanding of Höegh LNG's financial performance.

Alternative performance measures are used by Höegh LNG to provide supplemental information to the different users of its external financial reporting. Financial APMs are intended to enhance comparability of the results and to give supplemental information related to measures not within the applicable financial reporting framework, and it is Höegh LNG's experience that these measures are frequently used by equity- and debt investors, analysts and other stakeholders. Management uses these measures internally to drive performance in terms of target setting and as basis for measuring actual financial performance. These measures are adjusted IFRS measures defined, calculated and used in a consistent and transparent manner over the years and across the group.

Operational measures such as, but not limited to, volumes, technical availability of vessels/fleet and contract backlog are not defined as financial APMs.

Financial APMs should not be considered as a substitute for measures of performance in accordance with the IFRS. The alternative performance measures presented may be determined or calculated differently by other companies.

Höegh LNG's APM's

- Earnings before interest, depreciation, amortisation and impairments (EBITDA): EBIT adding depreciation, amortisation and impairments. EBITDA is defined as the line item Operating profit before depreciation and impairment in the consolidated statement of income.
- Earnings before interest and tax (EBIT): EBIT is defined as line item Operating profit after depreciation and impairment in the consolidated statement of income.
- Net interest-bearing debt: Non-current and current interest-bearing debt deducted cash, marketable securities and restricted cash (current and non-current).
- Equity adjusted for hedging: Total book equity adjusted for mark-to-market value of financial derivative swaps recorded against equity. Financial derivative swaps consist of interest-rate and cross-currency interest-rate swaps. In the money mark-to-market financial derivative swaps will increase equity, while out of the money mark-to-market financial derivative swaps will reduce equity. Mark-to-market value of interest-rate swaps in Höegh LNG's joint ventures are recorded as part of line item Investment in joint ventures. The computation of equity adjusted for hedging is consistent with the definitions set out in the group's covenants in loan agreements.
- Equity ratio adjusted for hedging: Total book equity (see above) adjusted for hedging reserves divided by total assets adjusted for hedging.

ALTERNATIVE PERFORMANCE MEASURES, SUMMARY

	2017	2016
EBITDA	148 903	111 280
EBIT	106 161	76 432
Net interest-bearing debt 31 December	(908 080)	(584 911)
Equity adjusted for hedging 31 December	763 136	677 111
Equity ratio adjusted for hedging 31 December	39%	40%

NET INTEREST-BEARING DEBT

	31 Dec 2017	31 Dec 2016
Interest-bearing debt, current and non-current	(1 155 659)	(935 862)
Restricted cash, non-current	13 640	18 580
Cash and marketable securities	233 938	332 371
NET INTEREST-BEARING DEBT	**(908 080)**	**(584 911)**

EQUITY ADJUSTED FOR HEDING TRANSACTIONS

	31 Dec 2017	31 Dec 2016
Equity	705 238	596 063
Hedge reserve including non-controlling interest share	57 898	81 048
EQUITY ADJUSTED FOR HEDGING TRANSACTIONS	**763 136**	**677 111**

EQUITY RATIO ADJUSTED FOR HEDGING TRANSACTIONS

	31 Dec 2017	31 Dec 2016
Total assets	1 959 035	1 713 461
Hedge assets	12 560	8 485
Total assets adjusted for hedging transactions	1 946 475	1 704 976
Equity adjusted for hedging transactions	763 136	677 111
EQUITY RATIO ADJUSTED FOR HEDGING TRANSACTIONS	**39%**	**40%**

Höegh Gallant

FINANCIAL STATEMENTS
HÖEGH LNG HOLDINGS LTD. (PARENT COMPANY)
FOR THE YEAR ENDED 31 DECEMBER 2017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STATEMENT OF INCOME

	Note	2017	2016
Administrative (expenses)	11	1 307	(3 401)
Operating expenses		(489)	(980)
OPERATING RESULT		**818**	**(4 381)**
Interest income	8	21 088	13 827
Dividend received	18	26 998	25 652
Interest expenses	9,14	(26 999)	(17 057)
Income from other financial items	20	3 049	5 697
Expenses from other financial items	19	(468)	584
Impairment/reversal of impairment	17	(3 161)	(825)
PROFIT (LOSS) FOR THE YEAR BEFORE TAX		**21 325**	**23 497**
Income taxes		-	-
PROFIT (LOSS) FOR THE YEAR AFTER TAX		**21 325**	**23 497**

STATEMENT OF OTHER COMPREHENSIVE INCOME

PROFIT (LOSS) FOR THE YEAR AFTER TAX		**21 325**	**23 497**
Items that may be subsequently reclassified to profit or (loss)			
Net gain (loss) on cash flow hedges	10	(2 289)	8 187
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**(2 289)**	**8 187**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**19 036**	**31 684**

STATEMENT OF FINANCIAL POSITION

	Note	2017	2016
ASSETS			
Non-current assets			
Investments in newbuilding under construction	7	-	38 487
Investments in subsidiaries	3	397 019	395 329
Loans to subsidiaries	4, 6	554 100	434 943
Other receivables		665	-
Other non-current financial assets	10	7 464	8 101
Total non-current assets		**959 248**	**876 860**
Current assets			
Trade receivables and other receivables	5	445	5 980
Marketable securities	20	74 022	135 751
Cash and cash equivalents	12	31 464	12 359
Total current assets		**105 931**	**154 091**
TOTAL ASSETS		**1 065 179**	**1 030 950**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	772	769
Share premium reserve		437 356	445 077
Hedging reserves	10	936	3 225
Other paid-in equity		7 950	7 408
Treasury shares		(12)	-
Retained earnings		303 303	315 733
Total equity		**750 306**	**772 212**
Non-current liabilities			
Bonds	14	310 354	128 043
Total non-current liabilities		**310 354**	**128 043**
Current liabilities			
Accrued interest bonds	14	3 053	3 183
Trade and other payables		477	773
Provisions and accruals		140	140
Other current financial liabilities	10	848	45 856
Bond short term	10, 14	-	80 742
Total current liabilities		**4 518**	**130 694**
TOTAL EQUITY AND LIABILITIES		**1 065 179**	**1 030 950**

Hamilton, Bermuda, 22 March 2018

The Board of Directors and the President & CEO of Höegh LNG Holdings Ltd.

Morten W. Høegh
Chairman

Leif O. Høegh
Deputy Chairman

Ditlev Wedell-Wedellsborg
Director

Andrew Jamieson
Director

Christopher G. Finlayson
Director

Jørgen Kildahl
Director

Steven Rees Davies
Director

Sveinung J.S. Støhle
President & CEO

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium reserve	Treasury shares	Other paid-in equity	Hedging reserve	Retained earnings	Total equity
AT 1 JANUARY 2016		**768**	**444 741**		**6 077**	**(4 962)**	**322 984**	**769 607**
Issue of share capital	13	1	336					337
Share-based payment costs					1 332			1 332
Dividend to shareholders							(30 748)	(30 748)
Total comprehensive income						8 187	23 497	31 684
AT 31 DECEMBER 2016		**769**	**445 077**	**-**	**7 408**	**3 225**	**315 733**	**772 212**
Issue of share capital	13	3	1 867					1 870
Share-based payment costs					542			542
Dividend to shareholders							(38 620)	(38 620)
Treasury shares received (liquidation Methane Ventures Ltd)			(9 587)	(12)				(9 599)
Novation of swap Höegh Giant							4 865	4 865
Total comprehensive income						(2 289)	21 325	19 036
AT 31 DECEMBER 2017		**772**	**437 356**	**(12)**	**7 950**	**936**	**303 303**	**750 306**

STATEMENT OF CASH FLOWS

	Note	2017	2016
Cash flow from operating activities			
Profit (loss) before tax for the year		21 325	23 497
Non-cash adjustment to reconcile profit before tax to net operational cash flow			
Fair value adjustments on marketable securities		(3 049)	(5 697)
Impairment of financial assets	17	3 162	825
Board remuneration		90	85
Interest income	8	(21 088)	(13 827)
Interest expenses	9	26 999	17 057
Loss on interest rate swap		-	223
Reimbursement (of historical indemnifications) from HMLP		(2 496)	-
Reimbursement of project cost from sale of Höegh Giant		(2 498)	-
Dividend received from Höegh LNG Partners LP	18	(26 998)	(25 652)
Working capital adjustments			
Changes in accounts receivable and payable		(195)	(258)
NET CASH FLOW FROM OPERATING ACTIVITIES		**(4 748)**	**(3 746)**
Cash flow from investing activities			
Capital contributions paid to Höegh LNG Partners LP		(2 075)	(3 921)
Dividend received from Höegh LNG Partners LP	18	26 998	25 652
Purchase of marketable securities	20	(155 331)	(116)
Proceeds from sale of marketable securities	20	220 000	101 269
Interest received		1 808	66
Newbuildings under construction	7	(244 815)	(5 119)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(153 414)**	**117 831**
Cash flow from financing activities			
Dividend paid	13	(38 014)	(30 263)
Proceeds from borrowings Höegh Giant		190 600	-
Net proceeds from bond issue HLNG03		175 013	-
Unwinding and buyback of HLNG01 swaps		(20 428)	-
Repayment of HLNG01 bonds incl. CCIRS		(103 690)	-
Interest paid	14	(27 883)	(18 330)
Net receipts (grants) of borrowings to subsidiaries	4,6	1 669	(57 070)
NET CASH FLOW FROM FINANCING ACTIVITIES		**177 267**	**(105 663)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**19 105**	**8 422**
Cash and cash equivalents at 1 January		12 359	3 938
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**12**	**31 464**	**12 359**

Note 1: Corporate information

Please refer to information provided in Note 1 of the Consolidated Financial Statements.

Note 2: Summary of significant accounting policies

The financial statements of Höegh LNG Holdings Ltd. ("the company") are prepared in accordance with International Financial Reporting Standards (IFRS) with respect to recognition and measurement. Requirements related to recognition and measurement applied to the financial statements of the company are identical to the ones described in Note 2 Summary of significant accounting policies in the consolidated financial statements, except for shares in subsidiaries, which are recognised at cost in the company's financial statements.

Please refer to information provided in Note 2 in the Consolidated Financial Statements for further information.

Note 3: Investments in subsidiaries

	Note	2017	2016
Carrying value at 1 January		395 329	389 887
Investment in Höegh LNG Partners LP[1]		541	3 921
Liquidation of Methane Ventures Limited[2]	17	(1 387)	-
Share based payments costs		2 536	1 521
CARRYING VALUE AT 31 DECEMBER		**397 019**	**395 329**

CARRYING AMOUNT PER COMPANY

Company	31 Dec 2017	31 Dec 2016
Höegh LNG Partners LP	273 033	272 492
Höegh LNG Ltd.	123 985	121 449
Höegh FLNG Ltd.	-	-
Methane Ventures Limited	-	1 388
TOTAL	**397 019**	**395 329**

Companies	Registered office	Ownership share	Carrying amount 31 December 2017	Book equity (100%) 31 December 2017	Book equity (100%) 31 December 2016
Höegh LNG Ltd.	Bermuda	100.00%	123 985	39 741	20 489
Höegh LNG Partners LP	Marshall Islands	46.40%	273 033	398 930	338 479
Höegh FLNG Ltd.	Bermuda	100.00%	-	14 207	14 207
Methane Ventures Limited	British Virgin Islands	64.97%	-	-	1 452
Höegh LNG Québec Inc	Canada	100.00%	-	-	-
Höegh LNG GP LLC	Marshall Islands	100.00%	-	39	28
TOTAL			**397 019**	**452 917**	**374 654**

At the year ended 31 December 2017, the market value of HMLP's common and subordinated units was USD 18.65, giving a fair value of the company's investment in HMLP of USD 284.8 million as the company's ownership in HMLP was 15 272 120 units.

[1] The additional investment of USD 0.5 million in 2017 (USD 3.9 million in 2016) are the indemnification paid to HMLP.
[2] The Methane Ventures Limited co-investment scheme expired on 31 December 2017. Net carrying value of the company's investment in Methane Ventures Limited amounted to USD 1 387 214.

Note 4: Non-current loans to subsidiaries

	Note	31 Dec 2017	31 Dec 2016
Inter-company receivables Höegh LNG Ltd.		502 268	426 321
Inter-company receivables Höegh LNG Partners LP	6	51 832	8 622
TOTAL		**554 100**	**434 943**

The company has entered into a loan facility with Höegh LNG Ltd. in the amount of USD 600 million. The interest rate of the facility is 3 months LIBOR plus a margin of 2.5%. Repayment of this facility shall be done in one or several amounts, as agreed between the parties. See Note 8 for recognition of interest income and Note 16 for transactions with related parties.

Note 5: Trade receivables

	31 Dec 2017	31 Dec 2016
Prepayments	173	216
Inter-company receivables	8	33
Current financial asset	174	-
Other current financial assets Methane Ventures Limited	89	5 731
TOTAL	**445**	**5 980**

Note 6: Revolving credit facility

On 12 August 2014, the company issued a revolving credit facility (RCF) in an aggregate amount of USD 85 million to the borrower Höegh LNG Partners LP. The drawn amount at 31 December 2017 amounted to USD 51.4 million (USD 8.6 million at 31 December 2016). The RCF has a floating interest rate equal to 3 months LIBOR plus a margin of 4%. The RCF also has a commitment fee that carries a fixed interest rate of 1.4%. Interest income and commitment fees have been recognised with USD 1.8 million in 2017 (USD 1.3 million in 2016).

Note 7: Investments in newbuildings under construction

The shipbuilding contract for the construction of Höegh Giant was entered with Hyundai Heavy Industries Ltd. in November 2014. The vessel was delivered to Höegh LNG Giant Ltd. on 27 April 2017. The table below sets out the components comprising the carrying amount of newbuilding under construction:

	Note	2017	2016
Carrying amount at 1 January		38 487	31 044
Yard instalments paid		241 869	-
Borrowing cost	9	1 727	2 629
Other capitalized cost		3 000	4 814
Newbuildings delivered during the year		(285 083)	-
CARRYING AMOUNT AT 31 DECEMBER		**-**	**38 487**

Note 8: Interest income

	2017	2016
Interest on inter-company loan to Höegh LNG Ltd.	18 434	12 035
Interest on loan to Methane Ventures Limited	384	401
Interest on loan to Höegh FLNG Ltd.	-	28
Commitment fee Höegh LNG Partners LP	1 810	1 296
Other interest income	460	67
TOTAL	**21 088**	**13 827**

For outstanding interest-bearing receivables see Note 4. Reference is made to Note 16 for transactions with related parties.

Note 9: Interest expenses

	Note	2017	2016
Interest expense bond issue 2012 ("HLNG01")		6 564	10 522
Interest expense bond issue 2015 ("HLNG02")		9 186	9 164
Interest expense bond issue 2017 ("HLNG03")		12 976	-
Bond interest expense eligible for capitalization	7	(1 727)	(2 629)
TOTAL		**26 999**	**17 057**

Note 10: Financial derivatives

The company has entered into a cross currency interest rate swap relating to the NOK bond and an interest rate swap on the USD bond. As at 31 December 2017, the mark-to-market valuation of the interest rate swaps was recognised in the financial position with a net asset of USD 6.6 million. The financial liabilities were classified as current liabilities of USD 0,8 million. USD 7.5 million was recognised as non-current financial assets.

At 31 December 2017, the net mark-to-market valuation of the interest rate swaps entered into was recognised with a positive value of USD 0.9 million in the equity of the company.

MTMS OF CASH FLOW HEDGES IN THE FINANCIAL POSITION

	2017	2016
MtMs presented as financial assets non-current portion	7 464	5 682
Total MtMs presented as financial liabilities non-current portion	-	-
Total MtMs presented as financial liabilities current portion	(848)	(45 856)
NET MtMs OF CASH FLOW HEDGES AS AT 31 DECEMBER	**6 617**	**(40 174)**
Foreign exchange losses under cross currency swap included in MtM	(5 822)	43 258
Accumulated loss on swap in profit or loss	141	141
INTEREST RATE SWAPS RECORDED AGAINST EQUITY AS AT 31 DECEMBER	**936**	**3 225**

USD 2.3 million relating to the swaps was recorded as loss in other comprehensive income (OCI) in 2017. In 2016, USD 8.2 million was recorded as gain in OCI.

Note 11: Administrative expenses

	2017	2016
Stock options cost, declared and paid out	(16)	12
Remuneration to board members	330	315
Audit fees	245	244
Financial and legal fees	724	695
Other external services	178	180
Management cost from companies within the group[1]	(927)	1 445
Consultancy fees on SOx[2]	473	339
Miscellaneous expenses	182	171
Indemnification to/from the MLP (See Note 20 in Group Accounts)	(2 496)	-
TOTAL	**(1 307)**	**3 401**

[1] The income on Management cost/income is related to the sale of Höegh Giant.
[2] Compliance with Sarbanes-Oxley Act (SOx).

Note 12: Cash and cash equivalents

Currency	Exchange rate	31 Dec 2017	Exchange rate	31 Dec 2016
US Dollars (USD)	1,00	30 588	1.00	11 772
Norwegian Kroner (NOK)	8,21	875	8.62	587
TOTAL		**31 464**		**12 359**

All bank deposits are held with Norwegian banks.

Note 13: Share capital

NUMBER OF SHARES

	Par value	31 Dec 2017	31 Dec 2016
Total number of shares authorized	USD 0.01	150 000 000	150 000 000
TOTAL NUMBER OF SHARES ISSUED AND FULLY PAID	**USD 0.01**	**77 244 746**	**76 884 059**

SHARE CAPITAL

	Number of shares	Par value USD	USD'000
Opening balance 1 January 2017	**76 884 059**		**769**
Exercised stock options 4 Jan 2017	352 401	0.01	3,52
Share issue 23 May 2017	8 286	0.01	0,08
SHARES AND SHARE CAPITAL AT 31 DECEMBER 2017	**77 244 746**		**772**

Following an exercise of stock options by employees, 352 401 shares were issued in January 2017. On 23 May 2017, the company issued 8 286 common shares at a subscription price of NOK 90.75 as remuneration to six directors of the board.

The company has one class of shares as at 31 December 2017. The number of issued shares was 77 244 746 out of which the company held 1 211 738 treasury shares. During 2017, total dividend paid out amounted to USD 38.6 million.

The board of directors of the company declared a cash dividend on 27 February 2018 of USD 0.025 per share for the first quarter of 2018.

Note 14: Bond

	31 Dec 2017	31 Dec 2016
Bond issue 2012 ("HLNG01")	-	80 742
Bond issue 2015 ("HLNG02")	130 000	130 000
Bond issue 2017 ("HLNG03")	182 815	-
Debt issuance cost bonds	(2 461)	(1 957)
TOTAL	**310 354**	**208 786**

The terms and conditions for the bond loans are described in Note 16 in the Consolidated Financial Statements.

Interest on the bond loans has been expensed in the amount of USD 27 million during 2017 (2016: USD 17.1 million). At 31 December 2017, accrued interest was USD 3.1 million (2016: USD 3.2 million). Bond HLNG01 was repaid 3 October 2017.

Note 15: Financial risk management objectives and policies

The group's objectives and policies related to capital management and financial risks are described in Note 13 in the Consolidated Financial Statements.

FINANCIAL ASSETS

	Carrying amount		Fair value	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Financial instruments at fair value through profit or loss				
Marketable securities	74 022	135 751	74 022	135 751
Loans and receivables				
Interest bearing receivables	554 100	434 943	554 100	434 943
Trade receivables and other	1 109	5 980	1 109	5 980
Cash and cash equivalents	31 464	12 359	31 464	12 359
TOTAL	**660 695**	**589 033**	**660 695**	**589 033**
TOTAL CURRENT	**106 595**	**154 091**	**106 595**	**154 091**
TOTAL NON-CURRENT	**554 100**	**434 943**	**554 100**	**434 943**

The fair value of the financial assets and liabilities are included in the amount at which the instruments could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Long-term fixed rate and variable-rate receivables are evaluated by the company based on interest rates. The fair value approximates its carrying amounts reported since they are payable on demand by the lender. The fair value of financial instruments within the marketable securities is calculated by using valuation techniques with market observable inputs, including forward pricing and swap models, using present calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

- Both the bonds issued by the company (HLNG02 issued on 5 June 2015 and HLNG03 issued on 19 January 2017) are listed on Oslo Stock Exchange, and the fair values of these are disclosed based on traded information. As at 31 December 2017, the fair values were 99.38% and 98.63% for HLNG02 and HLNG03, respectively (100.19% for HLNG02 in 2016).

FINANCIAL LIABILITIES

	Carrying amount		Fair value	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Financial instruments at fair value through profit or loss				
Derivatives in effective cash flow hedges	848	45 856	848	45 856
Loans and payables				
Revolving loan Höegh LNG Partners LP	51 832	8 622	51 099	8 443
Trade and other payables	477	773	477	773
Bonds	310 354	208 786	300 824	213 460
TOTAL	**363 511**	**264 037**	**353 248**	**268 532**
TOTAL CURRENT	**53 157**	**135 994**	**52 424**	**46 629**
TOTAL NON-CURRENT	**310 354**	**128 043**	**300 824**	**221 903**

Refer to Note 13 in the consolidated financial statements for fair value hierarchy and for further outline of financial risk management objectives and policies.

Note 16: Related party transactions

RECEIVABLES AGAINST RELATED PARTIES

Subsidiary	31 Dec 2017	31 Dec 2016
Höegh LNG Ltd.	502 268	426 321
Methane Ventures Limited	-	5 731
TOTAL	**502 268**	**432 052**

INTEREST INCOME FROM RELATED PARTIES

Subsidiary	2017	2016
Höegh LNG Ltd.	18 434	12 035
Methane Ventures Limited	384	401
Höegh FLNG Ltd.	-	28
Höegh LNG Partners LP	1 810	1 296
TOTAL	**20 628**	**13 761**

ADMINISTRATIVE SERVICE EXPENSE

Subsidiary	2017	2016
Höegh LNG AS	2 067	2 171
TOTAL	**2 067**	**2 171**

The company has entered into loan agreements with subsidiaries as described in Note 4 and has received administration services in the amount of USD 2.1 million in 2017 from the subsidiary Höegh LNG AS (USD 2.2 million in 2016).

Other related parties

For transactions with other related parties, reference is made to Note 31 of the Consolidated Financial Statements.

Note 17: Impairment

	2017	2016
Impairment (reversal) of loan to Höegh FLNG Ltd.	(18)	825
Loss on shares in Methane Ventures Limited	1 387	-
Loss on inter-company loans in Methane Ventures Limited	1 792	-
TOTAL	**3 161**	**825**

Following the decision to halt the FLNG activities, the company recognised an impairment loss of USD 0.8 million in 2016, whereof USD 0.02 million were reversed in 2017. The company recognised loss on its investment and on inter-company loan relating to the liquidation of Methane Ventures Limited. The 1 211 738 shares that Methane Ventures Limited owned in the company were distributed to the company on 29 December 2017 as liquidation dividends and is currently held as treasury shares.

Note 18: Dividend

The company has during 2017 received quarterly dividends of USD 6.8 million from Höegh LNG Partners LP, totalling USD 27 million.

Note 19: Other financial expenses

	2017	2016
Loss (gain) on financial instruments	361	(223)
Loss (gain) on exchange	107	(361)
TOTAL	**468**	**(584)**

Note 20: Marketable securities

Refer to Note 15 in the Consolidated Financial Statements disclosing information to the company's marketable securities.

Note 21: Share-based payments

Refer to Note 23 in the Consolidated Financial Statements disclosing information to the company's share option programme.

Note 22: Commitments and guarantees

Refer to Note 19 in the Consolidated Financial Statements for guarantees provided by the company.

Note 23: Subsequent events

Refer to Note 33 in the Consolidated Financial Statements for events after the balance sheet date.

Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Höegh LNG Holdings Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Höegh LNG Holdings Ltd., which comprise the financial statements for the Parent company and the Group. The financial statements for the Parent company and the Group comprise the statement of financial position as at 31 December 2017, the statement of income, the statement of other comprehensive income, the statement of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of Höegh LNG Holdings Ltd. present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Consolidation of entity in which the Group holds less than 50% of the voting rights

In 2017 Höegh LNG Partners LP ("HMLP") issued 4 600 000 Series A preferred units to investors. However, the Company has concluded that the issuance of units did not alter the de-facto control assessment. There are other factors than voting rights, which can be decisive as to whether the Company has maintained control. The evaluation of de-facto control involves an assessment of all of the facts and circumstances, including the composition of the Board of Directors in HMLP, the rights of the preferred-, common- and subordinated unitholders ("unitholders") to nominate board members and other arrangements and relationships in the partnership. Considering the involvement of management's judgment in concluding de-facto control this was a key audit matter.

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We assessed management's assessment of de-facto control to the accounting guidance in IFRS. We read and evaluated the various unitholders' agreements to understand the voting mechanisms, the rights of unitholders, board composition and governance structure. We also assessed other information such as partnership agreements, minutes from board meetings for both the Sponsor and Partnership, minutes from the general meetings, statutes and financing agreements.

Refer to Note 2 in the consolidated financial statements for the Company's assessment of control.

Contingent liabilities and provisions from claim from charterer

The charterer of the vessels Neptune and Gdf Suez Cape Ann made in 2017 a formal claim for compensation related to the vessels performance compared to the specified performance requirements in the time charter contracts. The Group records provisions for uncertain liabilities when it is more likely than not that a liability will be incurred and the amount can be reasonable estimated. As of 31 December 2017, a total provision of USD 11.9 million has been recorded in the consolidated financial statements based on the 50% investments in both Neptune and Gdf Suez Cape Ann. As the ultimate outcome of this claim and proceedings cannot be predicted with certainty, and adverse outcome could have a material effect on the Group's financial position, results of its operations and its cash flows this was a key audit matter.

We evaluated management's assessment of the likely outcomes and potential exposures arising from this claim and the provision made. We assessed the ranges and assumptions included in management's calculation of the potential exposure, the probability of the different scenarios including a comparison to the time charter contracts as well as any new information subsequent to year-end. We discussed management's judgements with among others corporate legal, the Board of Directors, the Audit Committee and key personnel in the commercial and operation department. We also evaluated the legal letters received from the Company's external lawyers and assessed the objectivity and competency of the Company's external lawyers.

Refer to Note 2 in the consolidated financial statement under the section Significant estimates and assumptions and Note 32 Other contingent liabilities for further description of the Company's assessment.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and the President & CEO (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

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accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Oslo, 6 April 2018
ERNST & YOUNG AS

Finn Ole Edstrøm
State Authorised Public Accountant (Norway)

Global Reporting Initiative (GRI) Content Index

INDICATOR	DESCRIPTION	PAGE NUMBER OR LINK
Organisational profile		
102-1	Name of the organization.	Front cover
102-2	Primary brands, products, and services.	Page 10-14 and web: http://www.hoeghlng.com/Pages/OurBusiness.aspx
102-3	Location of the organization's headquarters.	Page 10
102-4	Number of countries where the organization operates, names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Page 10-11
102-5	Nature of ownership and legal form and markets served.	Page 11
102-6	Markets served (geographic breakdown, sectors served, and types of customers and beneficiaries).	Page 10-13
102-7	Scale of the organization: employees, operations, sales, capitalization and quantity of services provided.	Page 13-17
102-8	Total number of employees by employment contract, gender, permanent employees, region, supervised workers, casual workers and significant variations in employment numbers.	Of the permanent employees, all work full-time except for 1 female and 1 male. The company does not engage supervised or casual workers. There are no significant variations in employment numbers over the year. Employment data has been broken down by onshore and maritime categories instead of region due to the nature of the operations. 258 (1 females) of the maritime personnel have permanent contracts. 236 (0 females) have temporary contracts. 115 (42 females) of the office personnel have permanent contracts, 8 (2 females) have temporary contracts.
102-9	Description of the supply chain.	Page 27
102-10	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	None
102-11	Precautionary approach or principle.	Page 22
102-12	Subscription to externally developed economic, environmental and social charters, principles, or other initiatives.	HLNG is a member of the Maritime Anti-corruption Network (MACN).
102-13	Memberships in associations (such as industry associations) and national or international advocacy organizations.	HLNG is a member of the Norwegian Shipowners' Association, the International Group of Liquefied Natural Gas Importers (GIIGNL) and The Society of International Gas Tanker and Terminal Operators (SIGTTO).
Strategy		
102-14	Statement from the most senior decision-maker of the organization.	Page 7

INDICATOR	DESCRIPTION	PAGE NUMBER OR LINK
Ethics and Integrity		
102-16	Description of the organization's values, principles, standards and norms of behaviour.	Pages 22, 26-27
Governance		
102-18	Governance structure of the organization.	Page 32-40 and web page: http://www.hoeghlng.com/Pages/Governance.aspx
Stakeholder Engagement		
102-40	List of stakeholder groups engaged by the organization.	Page 22
102-41	Percentage of total employees covered by collective bargaining agreements.	All maritime personnel are covered by collective bargaining agreements. No office employees are covered by collective bargaining agreements.
102-42	Basis for identification and selection of stakeholders with whom to engage.	Page 22
102-43	Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Page 22
102-44	Key topics and concerns that have been raised through stakeholder engagement. How the organization has responded to these key topics and concerns, including through reporting. Stakeholder groups that raised each of the key topics and concerns.	Page 22-23
Reporting Practice		
102-45	Entities included in the consolidated financial statements.	Page 49-50
102-46	Defining report content and topic Boundaries.	Page 22
102-47	List of all the material Aspects identified in the process for defining report content.	Page 22-23
102-48	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	None
102-49	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	None
102-50	Reporting period for the information provided.	2017
102-51	Date of most recent previous report.	April 2017
102-52	Reporting cycle (such as annual, biennial).	Annual
102-53	Contact point for questions regarding the report or its contents.	Erik Folkeson Vice President, Strategy and Investor Relations Email: erik.folkeson@hoeghlng.com Cell phone: +47 41 42 17 69
102-54	'In accordance' option chosen.	This report is prepared in accordance with Core GRI Standards.
102-55	GRI content index.	Page 113-118
102-56	External assurance for the report.	The GRI content of this report has not been externally assured.

Specific Standard Disclosures

DMA AND INDICATORS	DESCRIPTION	PAGE NUMBER OR LINK	IDENTIFIED OMISSION(S)
Energy			
103-1	Explanation of the material topic and its Boundary.	Page 22-23	
103-2	The management approach and its components.	Page 22-23	
103-3	Evaluation of the management approach.	Page 22-23	
302-1	Energy consumption within the organization.	Page 23-24	Includes all vessels and electricity, heating and cooling consumption in head office.
Biodiversity			
103-1	Explanation of the material topic and its Boundary.	Page 22-24	
103-2	The management approach and its components.	Page 22-24	
103-3	Evaluation of the management approach.	Page 22-24	
304-2	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Page 24	
Emissions			
103-1	Explanation of the material topic and its Boundary.	Page 22-23	
103-2	The management approach and its components.	Page 22-24	
103-3	Evaluation of the management approach.	Page 22-24	
305-1	Direct greenhouse gas (GHG) emissions (Scope 1).	Page 23 Conversion factors from Defra 2017.	Data includes reporting for all vessels, and GHG emissions from office activities in Norway.
305-7	NOx, SOx, and other significant air emissions.	Page 23 SOx emissions are calculated based on the method, assumptions and emission factor described in the Third IMO GHG study 2014 (MEPC 67/INF.3 dated 25 July 2014).	NOx emissions are not reported for 2017.
Effluents and Waste			
103-1	Explanation of the material topic and its Boundary.	Page 22-24	
103-2	The management approach and its components.	Page 22-24	
103-3	Evaluation of the management approach.	Page 22-24	
G4-EN24	Total number and volume of significant spills.	None	

DMA AND INDICATORS	DESCRIPTION	PAGE NUMBER OR LINK	IDENTIFIED OMISSION(S)
Compliance – Environment			
103-1	Explanation of the material topic and its Boundary.	Page 22-24	
103-2	The management approach and its components.	Page 22-24	
103-3	Evaluation of the management approach.	Page 22-24	
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	None	
Supplier Environmental Assessment			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 27	
103-2	The management approach and its components.	Page 22-23, 27	
103-3	Evaluation of the management approach.	Page 22-23, 27	
308-1	Percentage of new suppliers that were screened using environmental criteria.	All new suppliers are screened using environmental criteria.	
Employment			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 25	
103-2	The management approach and its components.	Page 22-23, 25	
103-3	Evaluation of the management approach.	Page 22-23, 25	
401-1	Total number and rates of new employee hires and employee turnover by age group, gender and region.	In 2017, Höegh LNG hired 97 new employees, 19 office personnel and 78 maritime personnel. Out of the 19 new office personnel, 4 were below the age of 30, 12 were between the age of 30 and 50 and 3 were above the age of 50. 8 of the office personnel were female and 11 were male. The 78 new maritime personnel were all male. 58 of these were below the age of 30, 20 were in between the age of 30-50 and zero were above the age of 50. Turnover in 2017 was 2,6 percent.	Turnover: 3 office employees left the company during 2017. No reporting on their age or gender for privacy reasons. For maritime personnel, retention rates are calculated as per common industry practice.

DMA AND INDICATORS	DESCRIPTION	PAGE NUMBER OR LINK	IDENTIFIED OMISSION(S)
Occupational Health and Safety			
103-1	Explanation of the material topic and its Boundary.	Page 22-24	
103-2	The management approach and its components.	Page 22-24	
103-3	Evaluation of the management approach.	Page 22-24	
403-1	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.	Page 24 For maritime personnel, 100% of the total workforce is represented in formal H&S committees. For office personnel, approximately 75% of the workforce is represented in formal H&S committees.	
403-2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	Page 24-26 Accident reporting and statistics are made on basis of the "OCIMF Marine Injury Reporting Guidelines of February 1997".	Types of injury and occupational diseases are not reported. Data is not broken down on gender to limit the risk of revealing a person's identity.
Training and Education			
103-1	Explanation of the material topic and its Boundary.	Page 22-24	
103-2	The management approach and its components.	Page 22-24	
103-3	Evaluation of the management approach.	Page 22-24	
404-3	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.	Page 25	
Non-Discrimination			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 25	
103-2	The management approach and its components.	Page 22-23, 25	
103-3	Evaluation of the management approach.	Page 22-23, 25	
404-3	Total number of incidents of discrimination and corrective actions taken.	None	

DMA AND INDICATORS	DESCRIPTION	PAGE NUMBER OR LINK	IDENTIFIED OMISSION(S)
Anti-Corruption			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 26	
103-2	The management approach and its components.	Page 22-23, 26	
103-3	Evaluation of the management approach.	Page 22-23, 26	
205-1	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Page 27	
205-2	Communication and training on anti-corruption policies and procedures.	Page 26-27	
205-3	Confirmed incidents of corruption and actions taken.	None	
Anti-competitive Behaviour			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 26	
103-2	The management approach and its components.	Page 22-23, 26	
103-3	Evaluation of the management approach.	Page 22-23, 26	
206-1	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	None	
Compliance – Society			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 26	
103-2	The management approach and its components.	Page 22-23, 26	
103-3	Evaluation of the management approach.	Page 22-23, 26	
419-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	None	
Supplier Social Assessment			
103-1	Explanation of the material topic and its Boundary.	Page 22-23, 27	
103-2	The management approach and its components.	Page 22-23, 27	
103-3	Evaluation of the management approach.	Page 22-23, 27	
414-1	Percentage of new suppliers that were screened using social criteria.	All new suppliers are screened using social criteria.	

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