

Regulatory changes and IMO 2020

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Lean:Green sustainability strategy

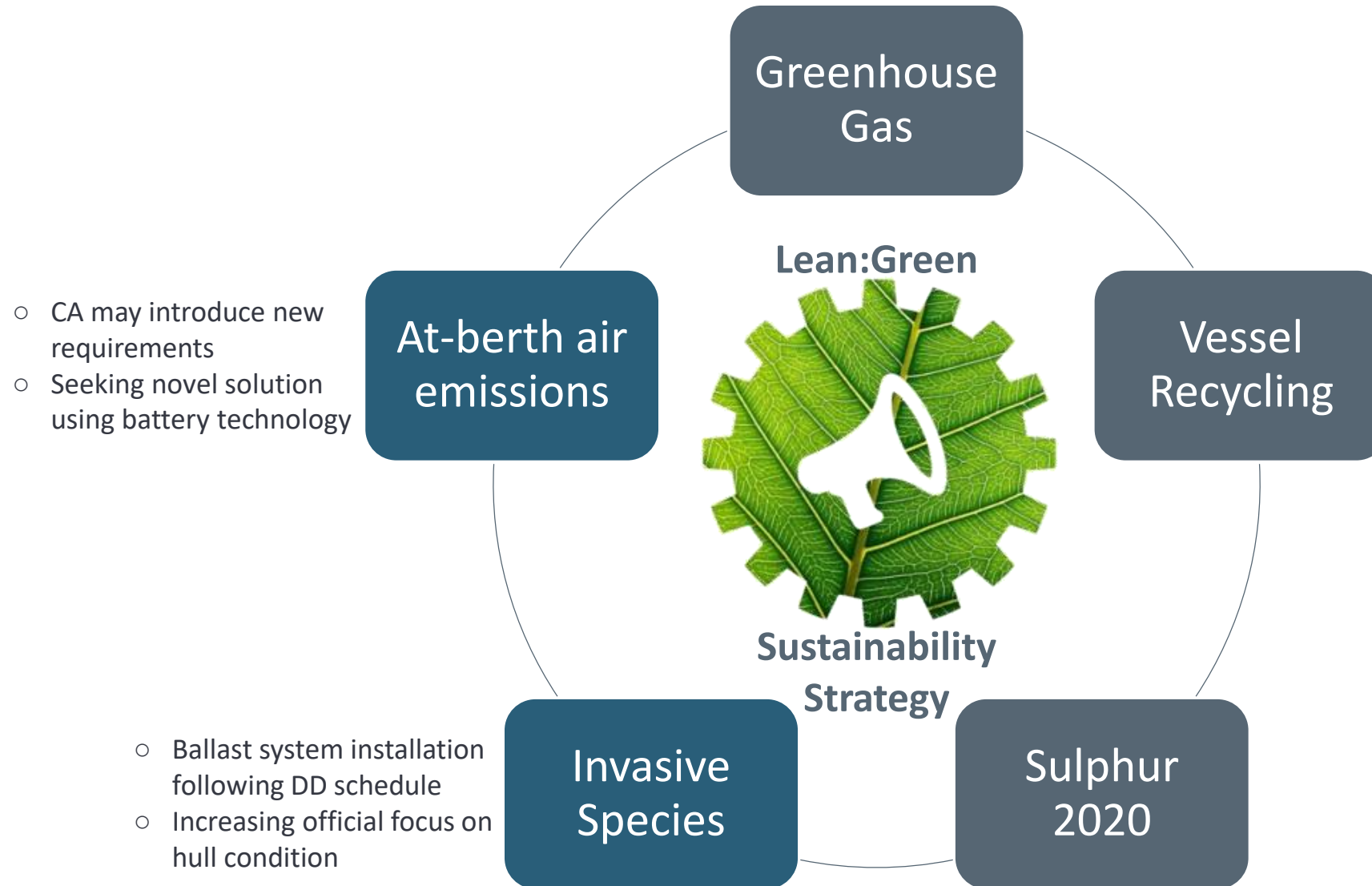
Core contention: what's sustainable and what's economic *can and must* be the same thing

To pursue Lean:Green is to be a **leader**

- **Engaging with innovators** to find new Lean:Green solutions
- **Advocacy** is vital in making sustainability the norm



The big five... of the moment

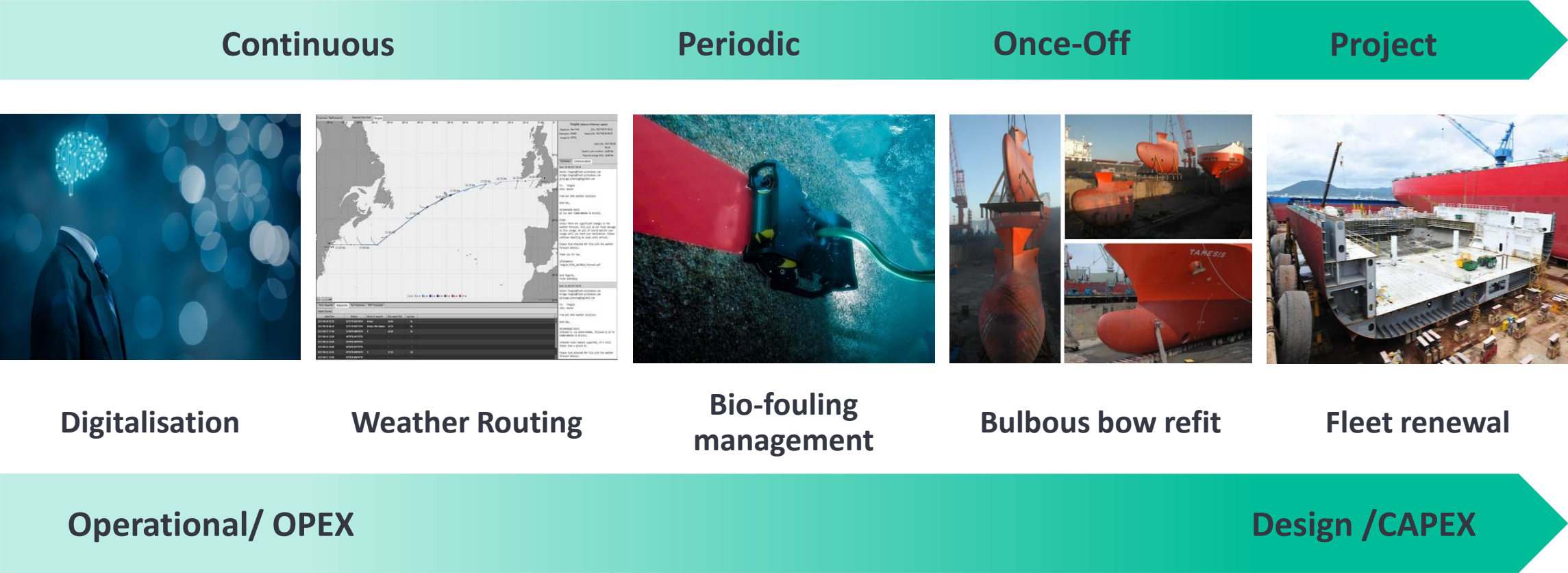


GHG regulatory developments

- At least 50% absolute reduction by 2050 vs. 2008
 - Deceptively urgent
- Focus areas for regulatory development include:
 - Port scheduling optimisation – likely first order of business
 - Vessel speed reduction – many ripple effects
- Regulatory changes not expected before 2020



Wallenius Wilhelmsen's GHG approach



Engaging for a zero emission future



Partner to find
Lean:Green solutions



ecosubsea



Attract innovators
to shipping



Engage in the
regulatory process



TRIDENT
ALLIANCE

Vessel Recycling

- **Wide range in recycling performance**
 - Worst: horrific welfare and environmental consequences
 - WalWil: responsible recycling of vessels for many years
- **Transparency key to progress; enables informed decision-making**
- **Ship Recycling Transparency Initiative (SRTI) – launching end Nov.**
 - Online platform for disclosure of recycling policies & practices
 - ‘Obligation’ for investors and customers to respond



Sulphur 2020 – Recap

What | Fuel sulphur content drops to 0.5%, or equivalent. ECAs stay at 0.1%

When | January 1st 2020 – deferral not possible

Who | Applicable to all vessels, all of the time

Enforcement | ‘Carriage Ban’ adopted - signals IMO’s commitment, important tool

Wallenius Wilhelmsen has chosen a balanced approach which gives the best chance of managing risks and costs

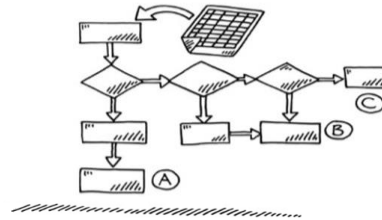
Commercial

Changes in Bunker Adjustment Factor (BAF) clauses and customer contracts



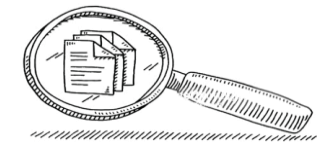
Technical

Scrubber installations to allow for use of HSFO on selected vessels



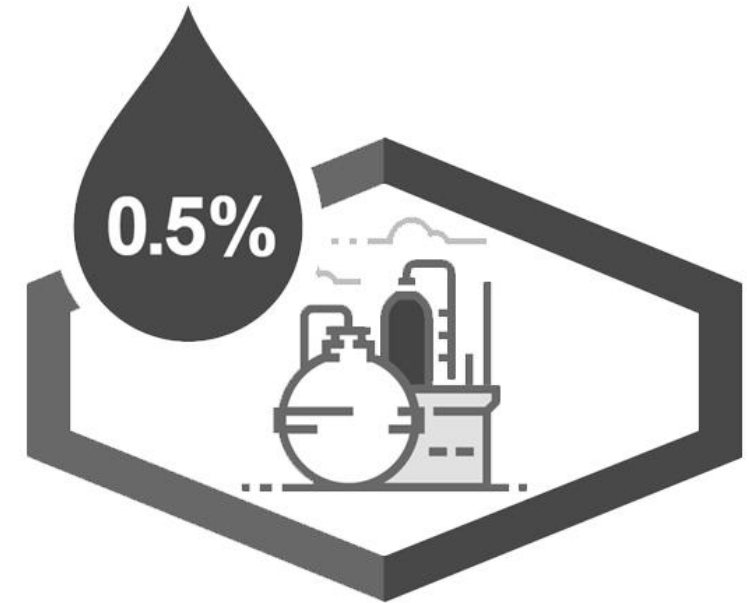
Financial

Derivative products and hedging to reduce exposure

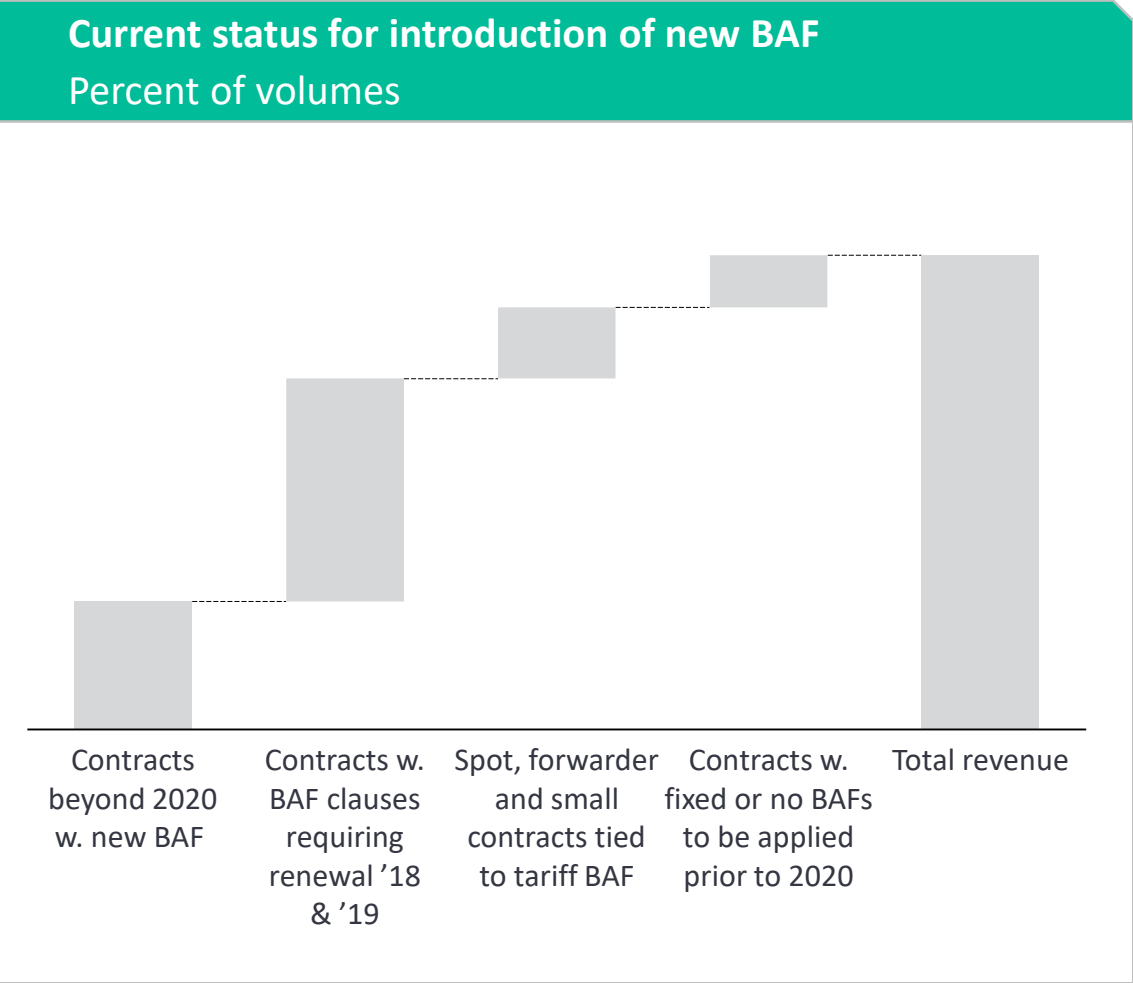


Increased bunker costs to be transferred to the customers...

- The cost of compliance with the regulation will be linked to the new fuel most vessels will switch to
- The cost will have to be passed on to the customers using the same mechanism as today's BAF clauses
- The new regulation will simply mean a different price for compliant marine fuel for most vessels
- BAF clauses will change on Jan 1 2020 and will feature a different reference fuel from that point on



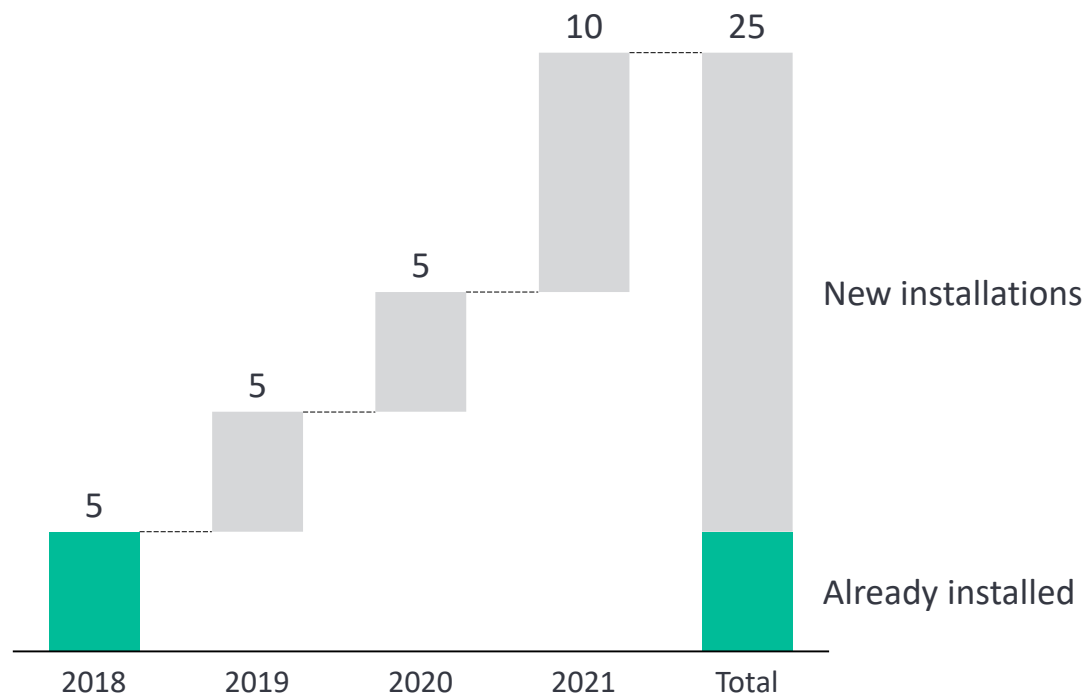
... and implementation well under way in Wallenius Wilhelmsen



- Comments
- Since the finalisation of the regulation, the group has been direct and open in communication with our customers that:
 - This change is coming
 - We agree with and support the change
 - The increased cost must be passed on in full
 - The majority of contracts that extend into 2020 (now carry new clauses that provide a basis to adjust contracts and terms to reflect the new IMO regulation
 - For contracts running into 2020 with any gap to provisions to adjust BAF, the group will implement emergency fuel surcharge
 - Discussions are ongoing or will run in parallel with tenders for contracts that expire before 2020 to introduce new BAF
 - Tariff BAF will also be adjusted to point to such a new public market index

Wallenius Wilhelmsen will have 25 vessels with scrubbers by end of 2021

Development in # of scrubbers in the fleet



Comments

- In June 2018, Wallenius Wilhelmsen decided to initiate a program to retrofit scrubbers on 20 vessels by the end of 2021
- In October 2018, Wallenius Wilhelmsen signed a fixed price turn-key contract with one supplier for scrubber installation covering engineering, equipment, materials and yard conversion and installation.
- Total cost for the turn-key delivery for 20 vessels (including off-hire costs) is expected to be USD 120-130 million
- Scrubber installations on our types of vessels, are typically more complex than for mainstream vessel types, e.g. tankers, bulkers and box ships
- The installation schedule with yard slots are confirmed with 5 scrubbers in 2019, 5 scrubbers in 2020 and 10 scrubbers in 2021.
- The scrubbers will be retrofitted during scheduled dry docking to minimize impact on the operations and will be financed through available cash and credit facilities.
- WW Ocean opting for a hybrid type scrubber design, which can operate in both open and closed loop modes

Conclusion

Cost is unprecedented and cannot be absorbed

The increased bunker cost will be passed on the (end-) customers through BAFs

Wallenius Wilhelmsen has and will continue to **prepare customers** for the cost increase this regulation will have on their business

A balanced approach gives the best chance of **managing risks and costs**

