Hoegh LNG Partners LP
Form 20-F
April 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report __________

Commission File Number 001-36588

Höegh LNG Partners LP

(Exact name of Registrant as specified in its charter)

Republic of the Marshall Islands
(Jurisdiction of incorporation or organization)
Wessex House, 5th Floor
45 Reid Street
Hamilton, HM 12 Bermuda
(Address of principal executive offices)

Richard Tyrrell
Wessex House, 5th Floor
45 Reid Street
Hamilton, HM 12 Bermuda
Telephone: +441-295-6815
Facsimile: +441-295-6101

richard.tyrrell@hoeghlng.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**

Common units representing limited partner interests New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

19,755,099 common units representing limited partner interests
13,156,060 subordinated units representing limited partner interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

HÖEGH LNG PARTNERS LP
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PRESENTATION OF INFORMATION IN THIS REPORT

This annual report on Form 20-F for the year ended December 31, 2016 (this "Annual Report") should be read in conjunction with the consolidated and combined carve-out financial statements and accompanying notes included in this Annual Report. Unless we otherwise specify, references in this Annual Report to "Höegh LNG Partners," "we," "our," "us" and "the Partnership" refer to Höegh LNG Partners LP or any one or more of its subsidiaries, or to all such entities unless the context otherwise indicates. References in this Annual Report to "our general partner" refer to Höegh LNG GP LLC, the general partner of Höegh LNG Partners. References in this Annual Report to "our operating company" refer to Höegh LNG Partners Operating LLC, a wholly owned subsidiary of the Partnership. References in this Annual Report to "Höegh UK" refer to Hoegh LNG Services Ltd, a wholly owned subsidiary of our operating company. References in this Annual Report to "Höegh Lampung" refer to Hoegh LNG Lampung Pte Ltd., a wholly owned subsidiary of our operating company. References in this Annual Report to "Höegh FSRU III" refer to Höegh LNG FSRU III Ltd., a wholly owned subsidiary of our operating company. References in this Annual Report to "PT Höegh" refer to PT Hoegh LNG Lampung, the owner of the *PGN FSRU Lampung*. References in this Annual Report to "Höegh Cyprus" refer to Hoegh LNG Cyprus Limited including its wholly owned branch, Hoegh LNG Cyprus Limited Egypt Branch ("Egypt Branch"), a wholly owned subsidiary of Höegh FSRU III and the owner of the *Höegh Gallant*. References in this Annual Report to "Höegh Colombia Holding" refer to Höegh LNG Colombia Holding Ltd., a 51% owned subsidiary of our operating company as of January 3, 2017. References in this Annual Report to "Höegh FSRU IV" refer to Höegh LNG FSRU IV Ltd., a wholly owned subsidiary of Höegh Colombia Holding and the owner of the *Höegh Grace*. References in this Annual Report to "Höegh Colombia" refer to Höegh LNG Colombia S.A.S., a wholly owned subsidiary of Höegh Colombia Holding. References in this Annual Report to our or the "joint ventures" refer to SRV Joint Gas Ltd. and/or SRV Joint Gas Two Ltd., the joint ventures that own two of the vessels in our fleet, the *Neptune* and the *GDF Suez Cape Ann*, respectively. References in this Annual Report to "GDF Suez" refer to GDF Suez LNG Supply S.A., a subsidiary of ENGIE. References in this Annual Report to "PGN LNG" refer to PT PGN LNG Indonesia, a subsidiary of PT Perusahaan Gas Negara (Persero) Tbk ("PGN"). References in this Annual Report to "SPEC" refer to Sociedad Portuaria El Cayao S.A. E.S.P.

References in this Annual Report to "Höegh LNG" refer, depending on the context, to Höegh LNG Holdings Ltd. and to any one or more of its direct and indirect subsidiaries, other than us. References in this Annual Report to "EgyptCo" refer to Höegh LNG Egypt LLC, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to "Höegh LNG Management" refer to Höegh LNG Fleet Management AS, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to "Höegh Maritime Management" refer to Höegh LNG Maritime Management Pte. Ltd., a wholly owned subsidiary of Höegh LNG. References in this Annual Report to "Höegh Norway" refer to Höegh LNG AS, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to "Höegh Asia" refer to Höegh LNG Asia Pte. Ltd., a wholly owned subsidiary of Höegh LNG. References in this Annual Report to "Höegh Shipping" refer to Höegh LNG Shipping Services Pte Ltd, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to "Leif Höegh UK" refer to Leif Höegh (U.K.) Limited, a wholly owned subsidiary of Höegh LNG.

FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements concerning future events and our operations, performance and financial condition. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words “believe,” “anticipate,” “expect,” “estimate,” “project,” “will be,” “will continue,” “will likely result,” “plan,” “intend” or words or phrase similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to:

- market trends for floating storage and regasification units (“FSRUs”) and liquefied natural gas (“LNG”) carriers, including hire rates and factors affecting supply and demand;

- our anticipated growth strategies;

- our anticipated receipt of dividends and repayment of indebtedness from joint ventures;

- effects of volatility in global prices for crude oil and natural gas;

- the effect of the worldwide economic environment;

- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- general market conditions, including fluctuations in hire rates and vessel values;
- changes in our operating expenses, including drydocking and insurance costs;
- our ability to make or increase cash distributions on the units and the amount of any such distributions;
- our ability to comply with financing agreements and the expected effect of restrictions and covenants in such agreements;
- the future financial condition of our existing or future customers;
- our ability to make additional borrowings and to access public equity and debt capital markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- the exercise of purchase options by our customers;
- our ability to maintain long-term relationships with our customers;
- our ability to leverage Höegh LNG's relationships and reputation in the shipping industry;
- our ability to purchase the 49% interest in the *Höegh Grace* entities or additional vessels from Höegh LNG in the future;
- our ability to integrate and realize the anticipated benefits from the acquisition of the 51% interest in the *Höegh Grace* entities;
- our continued ability to enter into long-term, fixed-rate charters;

- the operating performance of our vessels;
- our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term charters;
- expected pursuit of strategic opportunities, including the acquisition of vessels;
- our ability to compete successfully for future chartering and newbuilding opportunities;
- timely acceptance of our vessels by their charterers;
- termination dates and extensions of charters;
- the cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;
- demand in the FSRU sector or the LNG shipping sector in general and the demand for our vessels in particular;
- availability of skilled labor, vessel crews and management;
- our incremental general and administrative expenses as a publicly traded limited partnership and our fees and expenses payable under our ship management agreements, the technical information and services agreement and the administrative services agreements;
- the anticipated taxation of the Partnership and distributions to its unitholders;
- estimated future maintenance and replacement capital expenditures;

- our ability to retain key employees;
- customers’ increasing emphasis on environmental and safety concerns;
- potential liability from any pending or future litigation;
- potential disruption of shipping routes due to accidents, political events, piracy or acts by terrorists;
- future sales of our common units in the public market;
- our business strategy and other plans and objectives for future operations; and
- our ability to successfully remediate any material weaknesses in our internal control over financial reporting and our disclosure controls and procedures.

Forward-looking statements in this Annual Report are made based upon management’s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in “Item 3.D. Risk Factors.” The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control.

We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. We make no prediction or statement about the performance of our common units. The various disclosures included in this Annual Report and in our other filings made with the Securities and Exchange Commission (the “SEC”) that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations should be carefully reviewed and considered.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents, in each case for the years and as of the dates indicated, our selected consolidated and combined carve-out financial and operating data, which includes, for periods prior to the closing of our initial public offering ("IPO") on August 12, 2014, selected consolidated and combined carve-out financial and operating data of the Partnership and its subsidiaries that had interests in the *PGN FSRU Lampung* and the joint ventures that own the *Neptune* and the *GDF Suez Cape Ann*. The transfer of these equity interests and related loans and promissory notes by Höegh LNG to the Partnership in connection with the IPO was recorded at Höegh LNG's consolidated book values.

Pursuant to our partnership agreement, our general partner has irrevocably delegated to our board of directors the power to oversee and direct the operations of, manage and determine the strategies and policies of the Partnership. Four of the seven board members were elected by the common unitholders at our first annual meeting of unitholders. As a result, Höegh LNG, as the owner of our general partner, does not have the power to control our board of directors or the Partnership, and we are not considered to be under the control of Höegh LNG for accounting purposes. As a consequence, we account for acquisitions from Höegh LNG under the purchase method of accounting. An acquisition is included in our consolidated and combined carve-out financial statements from the date of the acquisition and there has been no retroactive restatement of our financial statements to reflect the historical results of the entity acquired.

On October 1, 2015, the Partnership closed the acquisition of 100% of the shares of Höegh FSRU III, the entity that indirectly owns the *Höegh Gallant.* The results of operations of the *Höegh Gallant* are included in our results from the

acquisition date.

Two of the vessels in our fleet (the *Neptune* and the *GDF Suez Cape Ann*) are owned by our joint ventures, each of which is owned 50% by us. Under applicable accounting rules, we do not consolidate the financial results of these two joint ventures into our financial results. We account for our 50% equity interests in these two joint ventures as equity method investments in our consolidated and combined carve-out financial statements. We derive cash flows from the operations of these two joint ventures from principal and interest payments on our shareholder loans to our joint ventures.

We have two segments, which are the “Majority held FSRUs” and the “Joint venture FSRUs.” As of December 31, 2016 and 2015, Majority held FSRUs included the *PGN FSRU Lampung* and the *Höegh Gallant.* As of December 31, 2014 and 2013, Majority held FSRUs included the *PGN FSRU Lampung* and construction contract revenue and expenses of the mooring related to *PGN FSRU Lampung* (“the Mooring”) under construction. The Mooring project was completed in the fourth quarter of 2014. As of December 31, 2016, 2015, 2014, 2013 and 2012, Joint venture FSRUs included two 50%-owned FSRUs, the *Neptune* and the *GDF Suez Cape Ann*. We measure our segment profit based on segment EBITDA. Segment EBITDA is reconciled to net income for each segment in the segment table below. The accounting policies applied to the segments are the same as those applied in the consolidated and combined carve-out financial statements, except that Joint venture FSRUs are presented under the proportional consolidation method for the segment reporting and under the equity method in our consolidated and combined carve-out financial statements. Under the proportional consolidation method, 50% of the Joint venture FSRUs’ revenues, expenses and assets are reflected in the segment reporting. Management monitors the results of operations of our joint ventures under the proportional consolidation method and not the equity method.

You should read the following selected financial and operating data in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated and combined carve-out financial statements and the combined financial statements of the two joint ventures that own the *Neptune* and the *GDF Suez Cape Ann* and the related notes thereto included elsewhere in this Annual Report.

Our financial position, results of operations and cash flows could differ from those that would have resulted if we operated autonomously or as an entity independent of Höegh LNG in the periods prior to our IPO for which historical financial and operating data are presented below, and such data may not be indicative of our future operating results or financial performance.

	Year Ended December 31,				
(in thousands of U.S. dollars, except per unit information and fleet data)	2016	2015	2014	2013	201
Statement of Income Data:					
Time charter revenues	$91,107	$57,465	$22,227	$—	$—
Construction contract revenues	—	—	51,868	51,062	5,
Other revenue	—	—	474	511	—
Total revenues	91,107	57,465	74,569	51,573	5,
Voyage expenses	—	—	(1,139)	—	—
Vessel operating expenses	(16,080)	(9,679)	(6,197)	—	—
Construction contract expenses	(315)	—	(38,570)	(43,958)	(5
Administrative expenses	(9,718)	(8,733)	(12,566)	(8,043)	(3
Depreciation and amortization	(10,552)	(2,653)	(1,317)	(8)	—
Total operating expenses	(36,665)	(21,065)	(59,789)	(52,009)	(8
Equity in earnings of joint ventures	16,622	17,123	(5,330)	40,228	5,
Operating income (loss)	71,064	53,523	9,450	39,792	1,
Interest income	857	7,568	4,959	2,122	2,
Interest expense	(25,178)	(17,770)	(9,665)	(352)	(1
Gain (loss) on derivative instruments	1,839	949	(161)	—	—
Other items, net	(3,333)	(2,678)	(2,788)	(1,096)	(1
Income (loss) before tax	45,249	41,592	1,795	40,466	4,
Income tax expense	(3,872)	(313)	(481)	—	—
Net income (loss)	$41,377	$41,279	$1,314	$40,466	$4,
Earnings per unit					
Common unit public (Basic and diluted)	$1.58	$1.56	$0.50	$—	$—
Common unit Höegh LNG (Basic and diluted)	$1.52	$1.57	$0.50	$—	$—
Subordinated unit (Basic and diluted)	$1.52	$1.57	$0.50	$—	$—
Cash distributions declared per unit	$1.65	$1.43	$0.52	$—	$—
Balance Sheet Data (at end of period):					
Assets:					
Cash and cash equivalents	$18,915	$32,868	$30,477	$108	$10
Restricted cash	22,209	25,828	37,119	10,700	10
Demand note due from owner	—	—	143,241	—	—
Current portion of advances to joint ventures	6,275	7,130	6,665	7,112	6,
Long-term advances to joint ventures	943	6,861	12,287	17,398	21
Newbuilding	—	—	—	122,572	86
Net investment in direct financing lease	290,111	293,303	295,363	—	—
Total assets	810,467	763,743	549,418	217,767	13
Liabilities and equity:					
Accumulated losses of joint ventures	25,886	42,507	59,630	54,300	94
Amount, loans and promissory notes due to owners and affiliates	1,374	10,891	6,486	208,637	91
Long-term debt	300,440	330,635	179,141	(10,468)	(1
Revolving credit and seller's credit due to owners and affiliates	43,005	47,000	—	—	—
Owner's equity	—	—	—	(48,096)	(5
Total Partners' capital	370,526	257,039	244,553	—	—
Total liabilities and equity	$810,467	$763,743	$549,418	$217,767	$13
Cash Flow Data:					
Net cash provided by (used in) operating activities	$39,428	$42,785	$27,976	$(41,217)	$(7

Net cash provided by (used in) investing activities	(83,084)	15,455	(292,199)	(30,781)	(6
Net cash provided by (used in) financing activities	$29,703	$(55,849)	$294,592	$72,006	$69
Fleet data					
Number of vessels	4	4	3	2	2
Average age (in years)	4.8	3.8	3.5	3.9	2.
Average charter length remaining excluding options (in years)	13.1	14.1	16.7	16.1	17
Average charter length remaining including options (in years)	19.4	20.4	24.9	26.1	27
Other Financial Data:					
Segment EBITDA(1)	$99,159	$72,258	$48,931	$31,919	$29
Capital expenditures					
Expenditures for vessels and equipment	$537	$955	$172,324	$36,590	$58
Selected Segment Data:					
Joint venture FSRUs (proportionate consolidation)(2)					
Segment Statement of Income Data:					
Time charter revenues	$43,272	$42,698	$41,319	$41,110	$41
Segment EBITDA(1)	34,165	33,205	32,834	32,347	32
Operating income	$24,640	$23,978	$23,686	$23,294	$23
Segment Balance Sheet Data (at end of year)					
Vessels, net of accumulated depreciation	$274,932	$283,539	$279,670	$286,460	$29
Total assets	298,712	303,390	300,327	307,335	31
Long-term debt	$479,276	$501,369	$522,136	$541,658	$56
Segment Capital expenditures:					
Expenditures for vessels and equipment	$783	$13,095	$2,358	$522	$1,

(1) Please read "—Non-GAAP Financial Measures" below.

(2) Please read "Item 5. Operating and Financial Review and Prospects" below and note 5 of our consolidated and combined carve-out financial statements for information on the basis of presentation for the Joint venture FSRUs segment

Non-GAAP Financial Measures

Segment EBITDA. EBITDA is defined as earnings before interest, depreciation and amortization and taxes. Segment EBITDA is defined as earnings before interest, depreciation and amortization, taxes and other financial items. Other financial items consist of gains and losses on derivative instruments and other items, net (including foreign exchange gains and losses and withholding tax on interest expenses). Segment EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as the Partnership's lenders, to assess its financial and operating performance. The Partnership believes that Segment EBITDA assists its management and investors by increasing the comparability of its performance from period to period and against the performance of other companies in the industry that provide Segment EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest, other financial items, depreciation and amortization and taxes, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. The Partnership believes that including Segment EBITDA as a financial and operating measure benefits investors in (a) selecting between investing in it and other investment alternatives and (b) monitoring its ongoing financial and operational strength in assessing whether to continue to hold common units. Segment EBITDA is a non-GAAP financial measure and should not be considered an alternative to net income, operating income or any other measure of financial performance presented in accordance with US GAAP. Segment EBITDA excludes some, but not all, items that affect net income, and these measures may vary among other companies. Therefore, Segment EBITDA as presented below may not be comparable to similarly titled measures of other companies. The following tables reconcile Segment EBITDA for each of the segments and the Partnership as a whole to net income (loss), the comparable US GAAP financial measure, for the periods presented:

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	Year ended December 31, 2016						
(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated and combined reporting
Reconciliation to net income (loss)							
Net income (loss)	$35,803	16,622	(11,048)	41,377			$ 41,377 (3)
Interest income	—	(2)	(857)	(859)	2	(4)	(857)
Interest expense	20,107	15,094	5,071	40,272	(15,094)	(4)	25,178
Depreciation and amortization	10,552	9,525	—	20,077	(9,525)	(5)	10,552
Other financial items(2)	1,435	(7,074)	59	(5,580)	7,074	(6)	1,494
Income tax (benefit) expense	3,852	—	20	3,872			3,872
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	15,092	(4)	15,092
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,525	(5)	9,525
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(7,074)	(6)	(7,074)
Segment EBITDA	$71,749	34,165	(6,755)	99,159			$ 99,159

	Year ended December 31, 2015						
(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated and combined reporting
Reconciliation to net income (loss)							
Net income (loss)	$24,807	17,123	(651)	41,279			$ 41,279 (3)
Interest income	—	—	(7,568)	(7,568)	—	(4)	(7,568)
Interest expense	15,617	16,113	2,153	33,883	(16,113)	(4)	17,770
Depreciation and amortization	2,653	9,227	—	11,880	(9,227)	(5)	2,653
Other financial items(2)	1,709	(9,257)	20	(7,528)	9,257	(6)	1,729
Income tax (benefit) expense	333	—	(20)	313			313
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	16,113	(4)	16,113
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,227	(5)	9,227
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(9,257)	(6)	(9,257)
Segment EBITDA	$45,119	33,205	(6,066)	72,258			$ 72,258

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(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated and combined reporting	
	Year ended December 31, 2014							
Reconciliation to net income (loss)								
Net income (loss)	$8,375	(5,330)	(1,731)	1,314			$ 1,314	(3)
Interest income	—	—	(4,959)	(4,959)	—	(4)	(4,959)	
Interest expense	9,198	17,121	467	26,786	(17,121)	(4)	9,665	
Depreciation and amortization	1,317	9,148	—	10,465	(9,148)	(5)	1,317	
Other financial items(2)	2,915	11,895	34	14,844	(11,895)	(6)	2,949	
Income tax (benefit) expense	505	—	(24)	481			481	
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	17,121	(4)	17,121	
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,148	(5)	9,148	
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	11,895	(6)	11,895	
Segment EBITDA	$22,310	32,834	(6,213)	48,931			$ 48,931	

(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated and combined reporting	
	Year ended December 31, 2013							
Reconciliation to net income (loss)								
Net income (loss)	$1,669	40,228	(1,431)	40,466			$ 40,466	(3)
Interest income	—	—	(2,122)	(2,122)	—	(4)	(2,122)	
Interest expense	352	18,085	—	18,437	(18,085)	(4)	352	
Depreciation and amortization	8	9,053	—	9,061	(9,053)	(5)	8	
Other financial items(2)	1,096	(35,019)	—	(33,923)	35,019	(6)	1,096	
Income tax (benefit) expense	—	—	—	—			—	
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	18,085	(4)	18,085	
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,053	(5)	9,053	
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(35,019)	(6)	(35,019)	
Segment EBITDA	$3,125	32,347	(3,553)	31,919			$ 31,919	

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	Year ended December 31, 2012					
(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)	Consolidated and combined reporting
Reconciliation to net income (loss)						
Net income (loss)	$(2,487)	5,007	1,668	4,188		$ 4,188 (3)
Interest income	—	(1)	(2,481)	(2,482)	1 (4)	(2,481)
Interest expense	114	19,033	—	19,147	(19,033)(4)	114
Depreciation and amortization	—	9,060	—	9,060	(9,060)(5)	—
Other financial items(2)	1	(675)	—	(674)	675 (6)	1
Income tax (benefit) expense	—	—	—	—		—
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	19,032 (4)	19,032
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,060 (5)	9,060
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(675)(6)	(675)
Segment EBITDA	$(2,372)	32,424	(813)	29,239		$ 29,239

(1) Eliminations reverse each of the income statement line items of the proportional amounts for Joint venture FSRUs and record the Partnership's share of the Joint venture FSRUs net income (loss) to Equity in earnings (loss) of joint ventures.

(2) Other financial items consist of gains and losses on derivative instruments and other items, net including foreign exchange gains or losses and withholding tax on interest expense.

(3) There is no adjustment between net income for Total Segment reporting and the Consolidated and combined carve-out reporting because the net income under the proportional consolidation and equity method of accounting is the same.

(4) Interest income and interest expense for the Joint venture FSRUs is eliminated from the Total Segment reporting to agree to the interest income and interest expense in the Consolidated and combined carve-out reporting and reflected as a separate adjustment to the equity accounting on the line *Equity in earnings of JVs*: Interest (income) expense for the Consolidated and combined carve-out reporting.

(5) Depreciation and amortization for the Joint venture FSRUs is eliminated from the Total Segment reporting to agree to the depreciation and amortization in the Consolidated and combined carve-out reporting and reflected as a separate adjustment to the equity accounting on the line *Equity in earnings of JVs*: Depreciation and amortization for the Consolidated and combined carve-out reporting.

(6) Other financial items for the Joint venture FSRUs is eliminated from the Segment reporting to agree to the Other financial items in the Consolidated and combined carve-out reporting and reflected as a separate adjustment to the equity accounting on the line *Equity in earnings of JVs*: Other financial items for the Consolidated and combined carve-out reporting.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common units. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distribution or the trading price of our common units.

Risks Inherent in Our Business

Our fleet consists of only five vessels as of March 31, 2017. Any limitation on the availability or operation of those vessels could have a material adverse effect on our business, financial condition and results of operations and could significantly reduce our ability to make distributions to our unitholders.

Our fleet consists of five vessels. If any of these vessels is unable to generate revenues as a result of off-hire time, early termination of the applicable time charter, purchase of the vessel by the charterer or otherwise, our financial condition and ability to make distributions to unitholders could be materially and adversely affected.

The charters relating to our vessels permit the charterer to terminate the charter in the event that the vessel is off-hire for any extended period. The charters also allow the charterer to terminate the charter upon the occurrence of specified defaults by us or in certain other cases, including termination without cause, due to force majeure or disruptions caused by war. The termination of any of our charters could have a material adverse effect on our business, financial condition and results of operations and could significantly reduce our ability to make cash distributions to our unitholders. For further details regarding termination of our charters, please read "Item 4.B. Business Overview—Vessel Time Charters—*Neptune* Time Charter—Termination," "Item 4.B. Business Overview—Vessel Time Charters—*PGN FSRU*

Lampung Time Charter—Termination", "Item 4.B. Business Overview—Vessel Time Charters—*Höegh Gallant* Time Charter—Termination", and "Item 4.B. Business Overview—Vessel Time Charters—*Höegh Grace* Charter—Term and Termination". We may be unable to charter the applicable vessel on terms as favorable to us as those of the terminated charter.

We are dependent on GDF Suez, PGN LNG, EgyptCo and SPEC as the sole customers for our vessels. A deterioration of the financial viability of GDF Suez, PGN LNG, EgyptCo or SPEC or our relationship with GDF Suez, PGN LNG, EgyptCo or SPEC or the loss of GDF Suez, PGN LNG, EgyptCo or SPEC as a customer, would have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

For the years ended December 31, 2016 and 2015, PGN LNG and EgyptCo accounted for all of the revenues in our consolidated and combined carve-out income statements and for the year ended December 31, 2014, PGN LNG accounted for all of such revenues. For each of the years ended December 31, 2016, 2015 and 2014, GDF Suez accounted for all of the revenues of our joint ventures from which we derived all of our equity in earnings of joint ventures. Starting in January 2017, SPEC became a customer. A deterioration in the financial viability of GDF Suez, PGN LNG, EgyptCo or SPEC or the loss of GDF Suez, PGN LNG, EgyptCo or SPEC as a customer, or a decline in payments under any of the related charters, would have a greater adverse effect on us than for a company with a more diverse customer base, and could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

We or our joint ventures could lose a customer or the benefits of a charter as a result of a breach by the customer of a charter or other unanticipated developments, such as:

- the customer failing to make charter payments or reducing charter payments because of its financial inability, disagreements with us or our joint venture partners or otherwise;

- the customer exercising its right to terminate the charter in certain circumstances, such as: (i) defaults of our or our joint ventures' obligations under the applicable charter, including breaches of performance standards or prolonged periods of off-hire; (ii) with respect to the *Neptune*, the *GDF Suez Cape Ann* and the *Höegh Gallant*, in the event of war that would materially interrupt the performance of the time charter; or (iii) with respect to the *PGN FSRU Lampung*, in the event of specified types of force majeure;

- the charter terminating automatically if the vessel is lost or deemed a constructive loss;

- with respect to the *PGN FSRU Lampung* or the *Höegh Grace*, the charterer exercising its option to purchase the vessel; or

- a prolonged force majeure event that materially interrupts the performance of the time charter.

For further details regarding termination of our charters, please read "Item 4.B. Business Overview—Vessel Time Charters—*Neptune* Time Charter—Termination," "Item 4.B. Business Overview—Vessel Time Charters—*PGN FSRU Lampu* Time Charter—Termination", "Item 4.B. Business Overview—Vessel Time Charters—*Höegh Gallant* Time Charter—Termination" and "Item 4.B. Business Overview—Vessel Time Charters—*Höegh Grace* Charter—Term and Termination". If any charter is terminated, we or our joint ventures, as applicable, may be unable to re-deploy the related vessel on terms as favorable as the current charters or at all. In addition, any termination fee payable to us may not adequately compensate us for the loss of the charter.

Any event, whether in our industry or otherwise, that adversely affects a customer's financial condition, leverage, results of operations, cash flows or demand for our services may adversely affect our ability to sustain or increase cash distributions to our unitholders. Accordingly, we are indirectly subject to the business risks of our customers, including their level of indebtedness and the economic conditions and government policies in their areas of operation.

The ability of each of our customers to perform its obligations under its applicable charter depends on its future financial condition and economic performance, which, in turn, will depend on prevailing economic conditions and financial, business and other factors, many of which are beyond its control.

Due to our lack of diversification, adverse developments in our LNG transportation, storage and regasification businesses could reduce our ability to make cash distributions to our unitholders.

We rely exclusively on the cash flows generated from our FSRUs. Due to our lack of diversification, an adverse development in the LNG transportation, storage and regasification industry could have a significantly greater impact

on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses to enable us to pay the minimum quarterly distribution on our common units.

We may not have sufficient cash from operations to pay the minimum quarterly distribution of $0.3375 per unit on our common units. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations. We generate cash from our operations and through distributions from our joint ventures, and as such our cash from operations are dependent on our operations and the cash distributions and operations of our joint ventures, each of which may fluctuate based on the risks described in this section, including, among other things:

- the hire rates we and our joint ventures obtain from charters;
- the level of operating costs and other expenses, such as the cost of crews, insurance and liquidated damages;
- demand for LNG;
- supply and capacities of FSRUs and LNG carriers;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations;
- interest rate fluctuations; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, including:

- the level of capital expenditures we and our joint ventures make, including for maintaining or replacing vessels, building new vessels, acquiring existing vessels and complying with regulations;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled drydocking of our vessels;
- our and our joint ventures' debt service requirements, minimum free liquid asset requirements under debt covenants, and restrictions on distributions contained in our and our joint ventures' current and future debt instruments;
- fluctuations in interest rates;
- fluctuations in working capital needs;
- variable tax rates;
- our ability to make, and the level of, working capital borrowings; and
- the amount of any cash reserves established by our board of directors.

In addition, each quarter we are required by our partnership agreement to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted. Our ability to pay distributions will also be limited to the extent that we have sufficient cash after establishment of cash reserves and payments to our general partner.

The amount of cash we generate from our operations and the cash distributions received from our joint ventures may differ materially from our or their profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Our ability to grow and to meet our financial needs may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute all of our available cash (as defined in our partnership agreement) each quarter. Accordingly, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations.

In determining the amount of cash available for distribution, our board of directors approves the amount of cash reserves to set aside, including reserves for future maintenance and replacement capital expenditures, working capital and other matters. We may also rely upon external financing sources, including commercial borrowings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

We are a holding entity that has historically derived a significant amount of our income from equity interests in our joint ventures. Neither we nor our joint venture partners exercise affirmative control over our joint ventures. Accordingly, we cannot require our joint ventures to act in our best interests. Furthermore, our joint venture partners may prevent our joint ventures from taking action that may otherwise be beneficial to us, including making cash distributions to us. A deadlock between us and our joint venture partners could result in our exchanging equity interests in one of our joint ventures for the equity interests in our other joint venture held by our joint venture counterparties or in us or our joint venture partner selling shares in a joint venture to a third party.

We are a holding entity and conduct our operations and businesses through subsidiaries. We have historically derived a significant amount of our income from our 50% equity interests in our joint ventures that own the *Neptune* and the *GDF Suez Cape Ann*. Please read "Item 4.B. Business Overview—Shareholder Agreements" for a description of the shareholders' agreement governing our joint ventures. Our ability to make cash distributions to our unitholders will depend on the performance of our joint ventures, subsidiaries and other investments. If our joint venture partners do not approve cash distributions or if they are not sufficient, we will not be able to make cash distributions unless we obtain funds from other sources. We may not be able to obtain the necessary funds from other sources on terms acceptable to us. The approval of a majority of the members of the board of directors is required to consent to any proposed action by such joint ventures and, as a result, we will be unable to cause our joint venture to act in our best interests over the objection of our joint venture partners or make cash distributions to us. Our inability to require our joint ventures to act in our best interests may cause us to fail to realize expected benefits from our equity interests and could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Our joint venture partners for our joint ventures that own the *Neptune* and the *GDF Suez Cape Ann* are Mitsui O.S.K. Lines, Ltd ("MOL") and Tokyo LNG Tanker Co., Ltd ("TLT"), whom we refer to in this Annual Report as our joint venture partners. These entities together exercise one half of the voting power on the board of directors of each joint venture. As such, our joint venture partners may prevent our joint ventures from making cash distributions to us or may act in a manner that would otherwise not be in our best interests.

If the directors nominated by us and our joint venture partner are unable to reach agreement on any decision or action, then the issue will be resolved in accordance with the procedures set forth in the shareholders' agreement. After the board of directors has met a second time to consider the decision or action, if the deadlock persists, one or more of our senior executives will meet with their counterpart(s) from our joint venture partners. Should, after no more than 60 days, these efforts be unsuccessful and we and our joint venture partners, on a combined basis, each own 50% of the shares in each joint venture or, when the shareholdings in each joint venture are aggregated by party, we and our joint venture partners, on a combined basis, each own 50% of the aggregate shares, we and our joint venture partners will attempt to agree within 30 days that our shareholdings be exchanged so that we own 100% of one joint venture and our joint venture partners own 100% of the other joint venture. If, however, the shareholdings are not as described in the previous sentence or we and our joint venture partners cannot agree within the specified time, we or our joint venture partners may sell our shares, including to a third party, in accordance with the procedures set forth in the shareholders' agreement. If any of these forms of resolution were to occur, the diversity of our fleet would be reduced,

and our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

Additionally, in connection with our acquisition of a 51% ownership interest in the *Höegh Grace* entities, we and Höegh LNG filed an amended and restated memorandum and articles of association for Höegh Colombia Holding (the "memorandum and articles"), which prohibit Höegh Colombia Holding from taking certain actions without the consent of Höegh LNG. Please read "Item 7.B. Related Party Transactions—Acquisition of the *Höegh Grace.*"

We must make substantial capital expenditures to maintain and replace the operating capacity of our fleet, which will reduce our cash available for distribution. In addition, each quarter we will be required, pursuant to our partnership agreement, to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain and replace, over the long-term, the operating capacity of our fleet. Maintenance and replacement capital expenditures include capital expenditures associated with drydocking a vessel, including costs for inspection, maintenance and repair, modifying an existing vessel, acquiring a new vessel or otherwise replacing current vessels at the end of their useful lives to the extent these expenditures are incurred to maintain or replace the operating capacity of our fleet. These expenditures could vary significantly from quarter to quarter and could increase as a result of changes in:

- the cost of labor and materials;

- customer requirements;

- fleet size;

- length of charters;

- vessel useful life;
- the cost of replacement vessels;
- re-investment rate of return;
- resale or scrap value of existing vessels;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

Our partnership agreement requires our board of directors to deduct estimated maintenance and replacement capital expenditures, instead of actual maintenance and replacement capital expenditures, from operating surplus each quarter in an effort to reduce fluctuations in operating surplus as a result of significant variations in actual maintenance and replacement capital expenditures each quarter. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year (with the approval of the conflicts committee of our board of directors). In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders will be lower than if actual maintenance and replacement capital expenditures were deducted from operating surplus. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less cash available for distribution in periods when actual capital expenditures exceed our previous estimates. Refer to “Item 8.A. Consolidated Statements and Other Financial Information—The Partnership’s Cash Distribution Policy—Estimated Maintenance and Replacement Capital Expenditures” for a description of our estimated annual maintenance and replacement capital expenditures.

The required drydocking of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution.

The drydocking of our vessels could require us to expend capital if the vessels are drydocked for longer than the allowable period under the time charters. Although each of our time charters, except for the *Höegh Gallant* and *Höegh Grace* time charter, requires the charterer to pay the hire rate for up to a specified number of days of scheduled drydocking and reimburse us for anticipated drydocking costs, any significant increase in the number of days of drydocking beyond the specified number of days during which the hire rate remains payable could have a material adverse effect on our ability to make cash distributions to our unitholders. A significant increase in the cost of repairs

during drydocking could also adversely affect our cash available for distribution. We may underestimate the time required to drydock any of our vessels or unanticipated problems may arise. If more than one of our vessels is required to be out of service at the same time, if a vessel is drydocked longer than the permitted duration or if the cost of repairs during drydocking is greater than budgeted, our cash available for distribution could be adversely affected.

We may experience operational problems with vessels that could reduce revenue, increase costs or lead to termination of our time charters.

FSRUs are complex and their operations are technically challenging. The operations of our vessels may be subject to mechanical risks. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Moreover, pursuant to each time charter, the vessels in our fleet must maintain certain specified performance standards. Please read “Item 4.B. Business Overview—Vessel Time Charters”. If we fail to maintain these standards, we may be liable to our customers for damages and, in certain circumstances, our customers may terminate their respective time charters. Any of these results could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

If capital expenditures are financed through cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished, our financial leverage could increase or our unitholders may be diluted.

Use of cash from operations to expand our fleet will reduce cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions, changes in the LNG industry and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders. Even if we are successful in obtaining necessary funds, the terms of any debt financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to pay the minimum quarterly distribution to unitholders, which could have a material adverse effect on our ability to make cash distributions to our unitholders.

We may be unable to make or realize expected benefits from acquisitions, which could have an adverse effect on our expected plans for growth.

Our growth strategy includes selectively acquiring FSRUs, LNG carriers and other LNG infrastructure assets that are operating under long-term charters with stable cash flows. Any acquisition of a vessel or business may not be profitable to us at or after the time we acquire such vessel or business and may not generate cash flows sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and results of operations, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, or cash flows enhancements;
- be unable to hire, train or retain qualified onshore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

Fluctuations in overall LNG supply and demand growth could adversely affect our ability to secure future long-term charters.

Demand for LNG depends on a number of factors, including economic growth, the cost effectiveness of LNG compared to alternative fuels, environmental policy and the perceived need to diversify fuel mix for energy security reasons. The cost effectiveness of LNG compared to alternative fuels is also dependent on supply. A change in any of the factors influencing LNG demand, or an imbalance between supply and demand, could adversely affect the need for LNG infrastructure and our ability to secure additional long-term charters.

Our future performance and growth depend on continued growth in demand for the services we provide.

Our growth strategy focuses on expansion in the floating storage and regasification sector and the maritime transportation sector, each within the LNG transportation, storage and regasification industry. The rate of LNG growth has fluctuated due to several reasons, including the global economic crisis and the continued increase in natural gas production from unconventional sources, including hydraulic fracturing, in regions such as North America and the highly complex and capital intensive nature of new or expanded LNG projects. Accordingly, our growth depends on continued growth in world and regional demand for LNG, FSRUs, LNG carriers and other LNG infrastructure assets, which could be negatively affected by a number of factors, including:

- increases in the cost of LNG;
- increases in interest rates or other events that may affect the availability of sufficient financing for LNG projects on commercially reasonable terms;
- increases in the production levels of low-cost natural gas in domestic, natural gas-consuming markets, which could further depress prices for natural gas in those markets and make LNG uneconomical;
- decreases in the cost, or increases in the demand for, conventional land-based regasification systems, which could occur if providers or users of regasification services seek greater economies of scale than FSRUs can provide or if the economic, regulatory or political challenges associated with land-based activities improve;
- decreases in the cost of alternative technologies or development of alternative technologies for vessel-based LNG regasification;
- increases in the production of natural gas in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-natural gas pipelines to natural gas pipelines in those markets;
- decreases in the consumption of natural gas due to increases in its price relative to other energy sources, regulation or other factors making consumption of natural gas less attractive;
- availability of new, alternative energy sources, including compressed natural gas; and

- negative global or regional economic or political conditions, particularly in LNG consuming regions, which could reduce energy consumption or its growth.

Reduced demand for LNG, FSRUs or LNG carriers would have a material adverse effect on our future growth and could harm our business, financial condition and results of operations.

Growth of the LNG market may be limited by many factors, including infrastructure constraints and community and political group resistance to new LNG infrastructure over concerns about environmental, safety and terrorism.

A complete LNG project includes production, liquefaction, regasification, storage and distribution facilities and FSRUs or LNG carriers. Existing LNG projects and infrastructure are limited, and new or expanded LNG projects are highly complex and capital intensive, with new projects often costing several billion dollars. Many factors could negatively affect continued development of LNG infrastructure and related alternatives, including floating storage and regasification, or disrupt the supply of LNG, including:

- the availability of sufficient financing for LNG projects on commercially reasonable terms;
- decreases in the price of LNG, which might decrease the expected returns relating to investments in LNG projects;
- the inability of project owners or operators to obtain governmental approvals to construct or operate LNG facilities;
- local community resistance to proposed or existing LNG facilities based on safety, environmental or security concerns;
- any significant explosion, spill or similar incident involving an LNG facility or vessel involved in the LNG transportation, storage and regasification industry, including an FSRU or LNG carrier; and
- labor or political unrest affecting existing or proposed areas of LNG production and regasification.

We expect that, in the event any of the factors discussed above negatively affect us, some of the proposals to expand existing or develop new LNG liquefaction and regasification facilities may be abandoned or significantly delayed. If the LNG supply chain is disrupted or does not continue to grow, or if a significant explosion, spill or similar incident occurs within the LNG transportation, storage and regasification industry, it could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Demand for FSRUs or LNG shipping could be significantly affected by volatile natural gas prices and the overall demand for natural gas.

LNG prices are volatile and affected by numerous factors beyond our control, including, but not limited to, the following:

- worldwide demand for natural gas and LNG;
- the cost of exploration, development, production, transportation and distribution of natural gas;
- expectations regarding future energy prices for both natural gas and other sources of energy;
- the level of worldwide LNG production and exports;
- government laws and regulations, including but not limited to environmental protection laws and regulations;
- local and international political, economic and weather conditions;
- political and military conflicts; and
- the availability and cost of alternative energy sources, including alternate sources of natural gas.

While global crude oil prices partially recovered from multi-year lows in 2016, spot LNG prices remained relatively flat because of the increasing availability of such cargos. Furthermore, changes in demand for natural gas and the competitiveness of LNG between geographic regions impacted demand. Although utilization of FSRUs generally increased because of the availability of LNG at attractive prices, the utilization of LNG carriers remained low after the arrival of new capacity coincided with delays to LNG projects and the decline of arbitrage opportunities between geographic regions. The weak LNG shipping market could impact FSRUs given that FSRUs not operating in regasification mode are typically deployed as LNG carriers.

Weakness in the LNG market may adversely affect our future business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- lower demand for LNG carriers, reducing available charter rates and revenue to us from short term redeployment of our vessels between FSRU projects or following expiration or termination of existing contracts;
- customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration; or
- the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise.

In general, reduced demand for LNG, FSRUs or LNG carriers would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

PGN LNG and SPEC have options to purchase the PGN FSRU Lampung and Höegh Grace, respectively. If either charterer exercises its option, it could have a material adverse effect on our operating cash flows and our ability to make cash distributions to our unitholders.

PGN LNG has the option to purchase the *PGN FSRU Lampung* beginning in June 2018, at a price specified in the time charter. SPEC also has the option to purchase the *Höegh Grace* at a price specified in the *Höegh Grace* charter in year 10, year 15 and year 20 of such charter. Any compensation we receive for the purchase of the *PGN FSRU Lampung* or the *Höegh Grace* may not adequately compensate us for the loss of the applicable vessel and related time charter. If either charterer exercises its option, it would significantly reduce the size of our fleet, and we may be unable to identify or acquire suitable replacement vessel(s) with the proceeds of the option exercise because, among other things that are beyond our control, there may be no replacement vessel(s) that are readily available for purchase at a price that is equal to or less than the proceeds from the option exercise and on terms acceptable to us. Even if we find suitable replacement vessel(s), the hire rate(s) of such vessel(s) may be significantly lower than the hire rate under the current time charters. Our inability to find suitable replacement vessel(s) or the chartering of replacement

vessel(s) at lower hire rate(s) would have a material adverse effect on our results of operations, cash flows and ability to make cash distributions to our unitholders. Please read "Item 4.B. Business Overview—Vessel Time Charters—*PGN FSRU Lampung* Time Charter—Purchase Option" and "Item 4.B. Business Overview—Vessel Time Charters—*Höegh Grace* Charter—Purchase Option"

The debt levels of us and our joint ventures may limit our and their flexibility in obtaining additional financing, refinancing credit facilities upon maturity or pursuing other business opportunities or our paying distributions to you.

As of December 31, 2016 we had outstanding principal on long-term bank debt of $341.1 million, revolving credit and seller's credit due to owners and affiliates of $43.0 million and our joint ventures' outstanding principal on long-term debt was $479.3 million, of which 50% is our share. As of March 31, 2017, we had outstanding principal on long-term bank debt of $519.3 million and revolving credit and seller's credit due to owners and affiliates of $44.6 million and our joint ventures' outstanding principal on long-term debt was $473.5 million. In addition, we have the ability to incur additional debt, and as of March 31, 2017 we had the ability to borrow an additional $74.8 million under our revolving credit facility, subject to certain limitations. If we acquire additional vessels or businesses, our consolidated debt may significantly increase. We may incur additional debt under this or future credit facilities. Our joint ventures' credit facilities will mature in 2022 and require an aggregate principal repayment of approximately $330 million, of which 50% is our share. A portion of the credit facility secured by the *PGN FSRU Lampung* will mature in 2021 and require that an aggregate principal amount of $16.5 million be refinanced. If such principal repayment is not refinanced, the export credit tranche of the *PGN FSRU Lampung* financing that will have an outstanding balance of $68.2 million at this time may be accelerated together with the attendant hedges. A portion of the credit facility secured by the *Höegh Gallant* and the *Höegh Grace* will mature in 2019 and 2020, respectively, and requires that an aggregate principal amount of $106.5 million and $123.0 million be refinanced. If such principal repayments are not refinanced, the export credit tranches of the *Höegh Gallant* and the *Höegh Grace* financing, that will have outstanding balances of $26.6 million and $24.0 million at the respective maturity dates, may be accelerated. Please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Lampung Facility" and "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Gallant/Grace Facility."

Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be limited or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flows to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;
- our debt level will make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally;
- our debt level may limit our flexibility in responding to changing business and economic conditions; and
- if we are unable to satisfy the restrictions included in any of our financing arrangements or are otherwise in default under any of those arrangements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to you, notwithstanding our stated cash distribution policy.

Our ability to service or refinance our debt will depend on, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service or refinance our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

We have a revolving credit facility with Höegh LNG to provide us with liquidity, and as a result we will be exposed to the credit risk of Höegh LNG.

Upon consummation of the IPO, we entered into a $85 million revolving credit facility with Höegh LNG as our lender to be used to fund our general partnership purposes, including working capital and distributions. The credit facility is unsecured and any outstanding balance is due January 1, 2020. This revolving credit facility provides our primary source of liquidity other than our cash from operations distributed to us by our subsidiaries and joint ventures and payments made to us under our shareholder loans. Höegh LNG’s ability to make loans under the revolving credit facility may be affected by events beyond our and their control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our and their ability to comply with the terms of the

revolving credit facility may be impaired. If we request a borrowing under the revolving credit facility, Höegh LNG may not have, or be able to obtain, sufficient funds to make loans under the revolving credit facility. In the event that Höegh LNG is unable to make loans to us pursuant to the revolving credit facility, or a default or other circumstance prohibits us from borrowing loans thereunder our financial condition, results of operations and ability to make cash distributions to our unitholders could be materially adversely affected.

The financing arrangements of us and our joint ventures are secured by our vessels and contain operating and financial restrictions and other covenants that may restrict our business and financing activities as well as our ability to make cash distributions to our unitholders.

The operating and financial restrictions and covenants in the financing arrangements of us and our joint ventures, including lease agreements and any future financing agreements, could adversely affect our and their ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the financing agreements may restrict the ability of us and our subsidiaries to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

In addition, our financing agreements require us and Höegh LNG to comply with certain financial ratios and tests, including maintaining a minimum liquidity, a minimum EBITDA to debt service ratio and a minimum book equity ratio and, with respect to the Lampung facility, ensuring that available cash flows exceeds interest and principal payable for a nine-month test period. Please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Lampung Facility" and "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Gallant/Grace Facility."

Our joint ventures,' Höegh LNG's and our ability to comply with covenants and restrictions contained in financing arrangements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our and their ability to comply with these covenants may be impaired. If restrictions, covenants, ratios or tests in debt instruments are breached, a significant portion of the obligations may become immediately due and payable, and the lenders' commitment to make further loans may terminate. We and/or our joint ventures or Höegh LNG may not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, obligations under our and our joint ventures' financing arrangements are secured by our vessels and, in some cases, guaranteed by us or Höegh LNG, and if we or they, as applicable, are unable to repay debt under our financing arrangements, the lenders could seek to foreclose on those assets. Please read "Item 5.B. Liquidity and Capital Resources."

Restrictions in our debt agreements and local laws may prevent us from paying distributions.

The payment of principal and interest on our debt will reduce our cash available for distribution. Our and our joint ventures' financing arrangements prohibit the payment of distributions upon the occurrence of certain events, including, but not limited to:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- certain material environmental incidents;
- breach or lapse of insurance with respect to vessels securing the facilities;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;

- default under other indebtedness (including certain hedging arrangements or other material agreements);
- bankruptcy or insolvency events;
- inaccuracy of any representation or warranty;
- a change of ownership of the vessel-owning subsidiary, as defined in the applicable agreement; and
- a material adverse change, as defined in the applicable agreement.

Furthermore, our financing arrangements require that we maintain minimum amounts of free liquid assets and our subsidiaries and joint ventures to hold cash reserves that are, in certain cases, held for specifically designated uses, including working capital, operations and maintenance and debt service reserves, and are generally subject to "waterfall" provisions that allocate project revenues to specified priorities of use (such as operating expenses, scheduled debt service, targeted debt service reserves and any other reserves) and the remaining cash is distributable to us only on certain dates and subject to satisfaction of certain conditions, including meeting a 1.20 historical and in some cases, projected, debt service coverage ratio. In addition, the laws governing our joint ventures and subsidiaries may prevent us from making dividend distributions. Our joint ventures are subject to restrictions under the laws of the Cayman Islands and may only pay distributions out of profits or capital reserves if the joint venture entity is solvent after the distribution, Höegh Lampung is subject to Singapore laws and may make dividend distributions only out of profits. Dividends may only be paid by PT Höegh if its retained earnings are positive under Indonesian law. In addition, PT Höegh as an Indonesian incorporated company is required to establish a statutory reserve equal to 20% of its paid up capital. The dividend can only be distributed if PT Höegh's retained earnings are positive after deducting the statutory reserve. As of December 31, 2016, 2015 and 2014, PT Höegh had negative retained earnings and therefore cannot make dividend payments to us under Indonesia law. However, subject to meeting a debt service ratio of 1.20 to 1.00, PT Höegh can distribute cash from its cash flow from operations to us as payment of intercompany accrued interest and / or intercompany debt, after quarterly payments of the Lampung facility and fulfilment of the "waterfall" provisions to meet operating requirements as defined by the Lampung facility. Under Cayman Islands law, Höegh FSRU III, Höegh FSRU IV and Höegh Colombia Holding may only pay distributions out of profits or capital reserves if the entity is solvent after the distribution. In addition, Höegh FSRU IV would need to remain in compliance with the financial covenants under the Gallant/Grace facility. Dividends from Höegh Cyprus may only be distributed (i) out of profits and not from the share capital of the company and (ii) if after the dividend payment, Höegh Cyprus would remain in compliance with the financial covenants under the Gallant/Grace facility. Please read "Item 8.A. Consolidated Statements and Other Financial Information—The Partnership's Cash Distribution Policy—Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy."

Höegh LNG's failure to comply with certain obligations under the Lampung and Gallant/Grace facilities, and certain other events occurring at Höegh LNG, could result in cross-defaults or defaults under the Lampung or Gallant/Grace credit facilities, which could have a material adverse effect on us.

Höegh LNG guarantees the obligations of (i) PT Höegh, the owner of the *PGN FSRU Lampung*, under the Lampung facility, (ii) Höegh Cyprus, the owner of the *Höegh Gallant* and (iii) Höegh FSRU IV, the owner of *Höegh Grace*, under the Gallant/Grace facility (each such facility as described in "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt"). Pursuant to the terms of the Lampung and the Gallant/Grace facilities, Höegh LNG must, among other things, maintain minimum book equity and comply with certain minimum liquidity financial covenants. Failure by Höegh LNG to satisfy any of the covenants applicable to Höegh LNG would result in a default under the Lampung and Gallant/Grace facilities. The Gallant/Grace facility is secured by, among other things, a first priority mortgage of the *Höegh Gallant* and the *Höegh Grace.* The tranches covering the *Höegh Gallant* and the *Höegh Grace* are cross-defaulted, cross-collateralized and cross-guaranteed (except that the Partnership does not guarantee 49% of the obligations of Höegh FSRU IV). Höegh Cyprus is jointly and severally liable with Höegh FSRU IV under the Gallant/Grace facility. Furthermore, among other things, a default by Höegh LNG on its indebtedness or the occurrence of certain other adverse events at Höegh LNG may cause a default under the Lampung and the Gallant/Grace facilities. Any one of these events could result in the acceleration of the maturity

of the Lampung and the Gallant/Grace facilities. The lenders of the Lampung facility may foreclose upon any collateral securing that debt, including arrest and seizure of the *PGN FSRU Lampung*, even if Höegh LNG were to subsequently cure its default in the event of such acceleration and foreclosure, PT Höegh, Höegh Cyprus or Höegh FSRU IV, as the case may be, might not have sufficient funds or other assets to satisfy all of their obligations under the related credit facility, which would have a material adverse effect on our business, results of operations and financial condition and would significantly reduce our ability, or make us unable, to make cash distributions to our unitholders for so long as such default is continuing. Please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Lampung Facility" and "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt— Gallant/Grace Facility."

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

One of our principal objectives is to enter into additional long-term time charters for FSRUs, LNG carriers and other LNG infrastructure assets. The process of obtaining long-term charters for FSRUs, LNG carriers and other LNG infrastructure assets is competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. We believe FSRU and LNG carrier time charters are awarded based upon a variety of factors relating to the vessel operator, including:

- FSRU and LNG carrier experience and quality of ship operations;

- quality of vessels;

- cost effectiveness;
- shipping industry relationships and reputation for customer service and safety;
- technical ability and reputation for operation of highly specialized vessels;
- quality and experience of seafaring crew;
- safety record;
- the ability to finance vessels at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new FSRUs, LNG carriers and other LNG infrastructure assets according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

We expect substantial competition for providing floating storage and regasification services and marine transportation services for potential LNG projects from a number of experienced companies, including state-sponsored entities and major energy companies. Many of these competitors have significantly greater financial resources and larger fleets than do we or Höegh LNG. We anticipate that an increasing number of marine transportation companies—including many with strong reputations and extensive resources and experience—will enter the FSRU or LNG carrier markets. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our financial condition, results of operations and ability to make cash distributions to our unitholders.

We may have more difficulty entering into long-term time charters in the future if an active short-term market for FSRUs develops.

One of our principal strategies is to enter into additional FSRU and LNG carrier time charters of five or more years. If a market for short-term time charters for FSRUs develops, we may have increased difficulty entering into long-term time charters upon expiration or early termination of the time charters for the FSRUs in our fleet or for any vessels that we acquire in the future. As a result, our cash flows may be less stable.

In the LNG carrier market, awards of LNG carrier time charters have historically been for five or more years, though the use of spot voyages and short-term time charters has grown in the past few years. This may impact our ability to identify attractive acquisition candidates in the LNG carrier market.

We may not be able to redeploy our FSRUs on terms as favorable as our or our joint venture's current FSRU time charters or at all.

Due to the limitations on demand for FSRUs, in the event that any of the time charters on our vessels are terminated, we may be unable to recharter such vessel as an FSRU. While we may be able to employ such vessel as a traditional LNG carrier, the hire rates and/or other charter terms may not be as favorable to us as those in the existing time charter. If we acquire additional FSRUs and they are not, as a result of time charter termination or otherwise, subject to a long-term, profitable time charter, we may be required to bid for projects at unattractive rates in order to reduce our losses relating to the vessels.

An increase in the global supply or aggregate capacities of FSRUs or LNG carriers, including conversion of existing tonnage, without a commensurate increase in demand may have an adverse effect on hire rates and the values of our vessels, which could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The supply of FSRUs, LNG carriers and other LNG infrastructure assets in the industry is affected by, among other things, assessments of the demand for these vessels by charterers. Any over-estimation of demand for vessels may result in an excess supply of new vessels. This may, in the long term when existing contracts expire, result in lower hire rates and depress the values of our vessels. If hire rates are lower when we are seeking new time charters upon expiration or early termination of our current time charters, or for any new vessels we acquire beyond our contracted newbuildings, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

During periods of high utilization and high hire rates, industry participants may increase the supply of FSRUs and/or LNG carriers by ordering the construction of new vessels. This may result in an over-supply and may cause a subsequent decline in utilization and hire rates when the vessels enter the market. Lower utilization and hire rates could adversely affect revenues and profitability. Prolonged periods of low utilization and hire rates could also result in the recognition of impairment charges on our vessels if future cash flow estimates, based upon information available at the time, indicate that the carrying value of these vessels may not be recoverable. Such impairment charges may cause lenders to accelerate loan payments under our or our joint ventures' financing agreements, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Hire rates for FSRUs are not readily available and may fluctuate substantially. If rates are lower when we are seeking a new charter, our earnings and ability to make cash distributions to our unitholders may decline.

Hire rates for FSRUs are not readily available and may fluctuate over time as a result of changes in the supply demand balance relating to current and future FSRU and capacity. This supply demand relationship largely depends on a number of factors outside our control. The LNG market is closely connected to world natural gas prices and energy markets, which we cannot predict. Substantial or extended volatility in natural gas prices could adversely affect our ability to recharter our vessels at acceptable rates or to acquire and profitably operate new FSRUs. Our ability from time to time to charter or re-charter any vessel at attractive rates will depend on, among other things, the prevailing economic conditions in the LNG industry. Hire rates for newbuilding FSRUs are correlated with the price of FSRU newbuildings. Hire rates at a time when we may be seeking a new charter may be lower than the hire rates at which our vessels are currently chartered. If rates are lower when we are seeking a new charter, our earnings and ability to make cash distributions to our unitholders may decline.

Vessel values may fluctuate substantially, and a decline in vessel values may result in impairment charges, the breach of our financial covenants or, if these values are lower at a time when we are attempting to dispose of vessels, a loss on the sale.

Vessel values for FSRUs and LNG carriers can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in the natural gas and energy markets;
- a substantial or extended decline in demand for LNG;
- increases in the supply of vessel capacity;
- the size and age of a vessel;
- the remaining term on existing time charters; and
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, customer requirements or otherwise.

As our vessels age, the expenses associated with maintaining and operating them are expected to increase, which could have an adverse effect on our business and operations if we do not maintain sufficient cash reserves for maintenance and replacement capital expenditures. Moreover, the cost of a replacement vessel would be significant.

If a charter terminates, we may be unable to re-deploy the affected vessel at attractive rates and, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of the vessel. Our inability to dispose of a vessel at a reasonable value could result in a loss on the sale and adversely affect our ability to purchase a replacement vessel, financial condition, results of operations and ability to make cash distributions to our unitholders. A decline in the value of our vessels may also result in impairment charges or the breach of certain of the ratios and financial covenants we are required to comply with in our credit facilities.

We depend on Höegh LNG and its affiliates for the management of our fleet and to assist us in operating and expanding our business.

Our ability to enter into new charters and expand our customer relationships will depend largely on our ability to leverage our relationship with Höegh LNG and its reputation and relationships in the shipping industry. If Höegh LNG suffers material damage to its reputation or relationships, it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards;
- obtain financing on commercially acceptable terms;
- maintain access to capital under the revolving credit facility; or
- maintain satisfactory relationships with suppliers and other third parties.

In addition, all our vessels are subject to management and services agreements with affiliates of Höegh LNG. Moreover, pursuant to an administrative services agreement among us, our operating company and Höegh UK and an administrative services agreement between our operating company and Leif Höegh UK, Höegh UK and Leif Höegh UK provide us and our operating company with certain administrative, financial and other support services. Höegh UK subcontracts some of these services to Höegh Norway and Leif Höegh UK pursuant to separate administrative services agreements. Our operational success and ability to execute our growth strategy will depend significantly upon the satisfactory performance of these services. Our business will be harmed if our service providers fail to perform these services satisfactorily, if they cancel their agreements with us or if they stop providing these services to us. Please read “Item 7.B. Related Party Transactions.”

The operation of FSRUs, LNG carriers and other LNG infrastructure assets is inherently risky, and an incident involving significant loss of life or property or environmental consequences involving any of our vessels could harm our reputation, business and financial condition.

Our vessels and their cargoes are at risk of being damaged or lost because of events such as:

- marine disasters;
- piracy;
- environmental accidents;
- bad weather;
- mechanical failures;
- grounding, fire, explosions and collisions;
- human error; and
- war and terrorism.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or environmental damage, and associated costs;
- delays in taking delivery of cargo or discharging LNG or regasified LNG, as applicable;
- loss of revenues from or termination of time charters;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and

- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and results of operations.

If our vessels suffer damage, they may need to be repaired. The costs of vessel repairs are unpredictable and can be substantial. We may have to pay repair costs that our insurance policies do not cover, for example, due to insufficient coverage amounts or the refusal by our insurance provider to pay a claim. The loss of earnings while these vessels are being repaired, as well as the actual cost of these repairs not otherwise covered by insurance, would decrease our results of operations. If any of our vessels are involved in an accident with the potential risk of environmental consequences, the resulting media coverage could have a material adverse effect on our business, our results of operations and cash flows, weaken our financial condition and negatively affect our ability to make cash distributions to our unitholders.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations.

The operating of FSRUs, LNG carriers and other LNG infrastructure assets is inherently risky. Although we carry protection and indemnity insurance consistent with industry standards, all of the risks associated with operating FSRUs, LNG carriers and other LNG infrastructure assets may not be adequately insured against, and any particular claim may not be paid. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A marine disaster could exceed our insurance coverage, which could harm our business, financial condition, results of operations, cash flows and ability to make cash distributions to our unitholders. Any uninsured or underinsured loss could harm our business and financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain. In addition, upon renewal or expiration of our current policies, the insurance that may be available to us may be significantly more expensive than our existing coverage.

An increase in operating expenses could adversely affect our financial performance.

Our operating expenses and drydock capital expenditures depend on a variety of factors including crew costs, provisions, deck and engine stores and spares, lubricating oil, insurance, maintenance and repairs and shipyard costs, many of which are beyond our control and affect the entire shipping industry. While many of these costs are borne by the charterers under our time charters, there are some circumstance where this is not the case. For example, we bear the cost of fuel (bunkers) for the *Höegh Gallant* time charter, and fuel is a significant expense in our operations when our vessels are, for example, moving to or from drydock or when off-hire. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil-producing countries and regions, regional production patterns and environmental concerns. These may increase vessel operating costs further. If costs continue to rise, they could materially and adversely affect our results of operations.

A shortage of qualified officers and crew could have an adverse effect on our business and financial condition.

FSRUs and LNG carriers require a technically skilled officer staff with specialized training. As the global FSRU fleet and LNG carrier fleet continues to grow, the demand for technically skilled officers and crew has been increasing, which has led to a more competitive recruiting market. Increases in our historical vessel operating expenses have been attributable primarily to the rising costs of recruiting and retaining officers for our fleet. Furthermore, each key officer crewing an FSRU or LNG carrier must receive specialized training related to the operation and maintenance of the regasification equipment. If Höegh LNG Management and Höegh Maritime Management are unable to recruit and employ technically skilled staff and crew, they will not be able to adequately staff our vessels. A material decrease in the supply of technically skilled officers or an inability of Höegh LNG Management or Höegh Maritime Management to attract and retain such qualified officers could impair our ability to operate or increase the cost of crewing our vessels, which would materially adversely affect our business, financial condition and results of operations and significantly reduce our ability to make cash distributions to our unitholders.

We may be unable to attract and retain key management personnel, which may negatively impact our growth, the effectiveness of our management and our results of operations.

Our success depends to a significant extent upon the abilities and the efforts of our senior executives. While we believe that we have an experienced management team, the loss or unavailability of one or more of our senior executives for any extended period of time could have an adverse effect on our growth, business and results of operations.

Exposure to currency exchange rate fluctuations could result in fluctuations in our cash flows and operating results.

Currency exchange rate fluctuations and currency devaluations could have an adverse effect on our results of operations from quarter to quarter. Historically, the substantial majority of our revenue has been generated in U.S. Dollars, but we incur a minority of our operating expenses in other currencies. All of our long-term debt is U.S. dollar denominated, but we incur a minority of short term liabilities in other currencies. Please read "Item 5.B. Liquidity and Capital Resources—Critical Accounting Estimates—Use of Exchange Rates" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Risk."

Acts of piracy on any of our vessels or on oceangoing vessels could adversely affect our business, financial condition and results of operations.

Acts of piracy have historically affected oceangoing vessels trading in regions of the world such as the South China Sea, the Gulf of Aden off the coast of Somalia and the Gulf of Guinea. If such piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war-risk insurance premiums payable for such insurance coverage could increase significantly and such insurance coverage might become more difficult to obtain. In addition, crew costs, including costs that may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

Terrorist attacks, increased hostilities, piracy or war could lead to further economic instability, increased costs and disruption of business.

Terrorist attacks may adversely affect our business, financial condition, results of operations, ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of production and distribution of LNG, which could result in reduced demand for our services.

Terrorist attacks on vessels, such as the October 2002 attack on the *m.v. Limburg* and the July 2010 attack allegedly by Al-Qaeda on the *m. Star*, both very large crude carriers not related to us, may in the future adversely affect our business, financial condition and results of operation. In addition, LNG facilities, shipyards, vessels, pipelines and natural gas fields could be targets of future terrorist attacks. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport LNG to or from certain locations. Terrorist attacks, piracy, war or other events beyond our control that adversely affect the distribution, production or transportation of LNG to be shipped by us could entitle customers to terminate our charters, which would harm our cash flows and business. Terrorist attacks, or the perception that LNG facilities, FSRUs and LNG carriers are potential terrorist targets, could materially and adversely affect expansion of LNG infrastructure and the continued supply of LNG. Concern that LNG facilities may be targeted for attack by terrorists has contributed to a community and environmental resistance to the construction of a number of LNG facilities. In addition, the loss of a vessel as a result of terrorism or piracy would have a material adverse effect on our business, financial condition and results of operations.

We are exposed to political, regulatory and economic risks associated with doing business in different countries, including in emerging market countries.

We conduct all of our operations outside of the United States and expect to continue to do so for the foreseeable future. Some of the countries in which we are engaged in business or where our vessels are registered, for example, Indonesia, Egypt and Colombia, are historically less developed and stable than the United States. We are affected by economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered. Any disruption caused by these factors could harm our business. Further, we derive a substantial portion of our revenues from shipping and regasifying LNG from politically unstable regions. Future hostilities or other political instability where we operate or may operate could have a material adverse effect on the growth of our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in the Middle East, Southeast Asia, South America or elsewhere as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could harm our business and ability to make cash distributions to our unitholders.

The LNG transportation, storage and regasification industry is subject to substantial environmental and other regulations, which may significantly limit our operations or increase our expenses.

Our operations are materially affected by extensive and changing international, national and local environmental protection laws, regulations, treaties, conventions and standards in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those relating to equipping and operating FSRUs and LNG carriers, providing security and minimizing the potential for impacts to the environment from their operations. We have incurred, and expect to continue to incur, substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures. Additional laws and regulations may be adopted that could limit our ability to do business or further increase costs, which could harm our business. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of operations. We may become subject to additional laws and regulations if we enter new markets or trades.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports or detention in certain ports.

The design, construction and operation of FSRUs and interconnecting pipelines and the transportation of LNG are subject to governmental approvals and permits. The length of time it takes to receive regulatory approval for offshore LNG operations is one factor that has affected our industry, including through increased expenses.

Our vessels operating in international waters, now or in the future, will be subject to various international conventions and flag state laws and regulations relating to protection of the environment.

Our vessels traveling in international waters are subject to various existing regulations published by the International Maritime Organization (the "IMO"), as well as marine pollution and prevention requirements imposed by the IMO International Convention for the Prevention of Pollution from Ships of 1975, as from time to time may be amended (the "MARPOL Convention"). In addition, our FSRUs may become subject to the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, as amended by the April 2010 Protocol to the HNS Convention (the "2010 HNS Convention"), if it is entered into force. If the 2010 HNS Convention were to enter into force, we cannot estimate with any certainty at this time the costs that may be needed to comply with any such requirements that may be adopted. Please read "Item 4.B. Business Overview – Environmental and Other Regulation" for a more detailed discussion on these topics.

Our vessels operating in U.S. waters now or in the future will be subject to various federal, state and local laws and regulations relating to protection of the environment.

Our vessels operating in U.S. waters now or in the future will be subject to various federal, state and local laws and regulations relating to protection of the environment, including the Oil Pollution Act of 1990 ("OPA 90"), the U.S. Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the U.S. Clean Water Act (the "CWA") and the U.S. Clean Air Act of 1970, as amended. In some cases, these laws and regulations require us to obtain governmental permits and authorizations before we may conduct certain activities. These environmental laws and regulations may impose substantial penalties for noncompliance and substantial liabilities for pollution. Failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties. As with the industry generally, our operations will entail risks in these areas, and compliance with these laws and regulations, which may be subject to frequent revisions and reinterpretation, may increase our overall cost of business. Please read "Item 4.B. Business Overview—Environmental and Other Regulation" for a more detailed discussion on these topics.

Our operations are subject to substantial environmental and other regulations, which may significantly increase our expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. These regulations include OPA 90, the CWA, the U.S. Maritime Transportation Security Act of 2002 and regulations of the IMO, including the International Convention on Civil Liability for Oil Pollution Damage of 1969, as from time to time amended, the MARPOL Convention, the International Convention for the Prevention of Marine Pollution of 1973, the IMO International Convention for the Safety of Life at Sea of 1974, as from time to time amended ("SOLAS"), the IMO International Convention on Load Lines of 1966, as from time to time amended, and the International Management Code for the Safe Operation of Ships and for Pollution Prevention (the "ISM Code").

Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulation, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels.

Further changes to existing environmental legislation that is applicable to international and national maritime trade may have an adverse effect on our business.

We believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will generally lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on all vessels in the marine LNG transportation markets and offshore LNG terminals. These requirements are likely to add incremental costs to our operations and the failure to comply with these requirements may affect the ability of our vessels to obtain and, possibly, collect on insurance or to obtain the required certificates for entry into the different ports where we operate.

Further legislation, or amendments to existing legislation, applicable to international and national maritime trade are expected over the coming years in areas such as ship recycling, sewage systems, emission control (including emissions of greenhouse gases) and ballast treatment and handling. The United States has recently enacted legislation and regulations that require more stringent controls of air and water emissions from oceangoing vessels. Such legislation or regulations may require additional capital expenditures or operating expenses (such as increased costs for low-sulfur fuel) in order for us to maintain our vessels’ compliance with international and/or national regulations.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries and the IMO have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emission from vessel emissions. These regulatory measures may include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. Although the emissions of greenhouse gases from international shipping currently are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol") or the recently announced Paris Agreement, a new treaty may be adopted in the future that includes restrictions on shipping emissions. Compliance with changes in laws and regulations relating to climate change could increase our costs of operating and maintaining our vessels and could require us to make significant financial expenditures that we cannot predict with certainty at this time.

Adverse effects upon the oil and gas industry relating to climate change, including growing public concern about the environmental impact of climate change, may also have an effect on demand for our services. For example, increased regulation of greenhouse gases or other concerns relating to climate change may reduce the demand for oil and gas in the future or create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

Please read "Item 4.B. Business Overview—Environmental and Other Regulation—Regulation of Greenhouse Gas Emissions" below for a more detailed discussion.

Maritime claimants could arrest our vessels, which could interrupt our cash flows.

Crew members, suppliers of goods and services to our vessels, owners of cargo or other parties may be entitled to a maritime lien against one or more of our vessels for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. In a few jurisdictions, claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels. The arrest or attachment of one or more of our vessels could interrupt our cash flows and require us to pay to have the arrest lifted.

Governments could requisition our vessels during a period of war or emergency, resulting in loss of earnings.

The government of a jurisdiction where one or more of our vessels are registered could requisition for title or seize our vessels. Requisition for title or seizure occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated hire rates. Generally, requisitions occur during a period of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would expect to be entitled to government compensation in the event of a requisition of one or more of our vessels, the amount and timing of payments, if any, would be uncertain. A government requisition of one or more of our vessels would result in off-hire days under our time charters and may cause us to breach covenants in certain of our credit facilities. Furthermore, a requisition for title of either the *Neptune* or the *GDF Suez Cape Ann* constitutes a total loss under the terms of the related facility agreements, in which case we would have to repay all loans. If a government requisition of one or more of our vessels were to occur, it could have a material adverse effect on our business, financial condition, results of operations and cash flows, including cash available for distribution to our unitholders.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every large, oceangoing commercial vessel must be classed by a classification society authorized by her country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and SOLAS. Each of our vessels is certified by Det Norske Veritas GL, compliant with the ISM Code and "in class." In order to maintain valid certificates from the classification society, a vessel must undergo annual surveys, intermediate surveys and renewal surveys. A vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our fleet has implemented a certified planned maintenance system. The classification society attends onboard once every year to verify that the maintenance of the equipment onboard is done correctly. For each of the *Neptun*e and the *GDF Suez Cape Ann*, a renewal survey is conducted every five years and an intermediate survey is conducted within 30 months after a renewal survey. During the first 15 years of operation, the vessels have an extended drydock interval which allow them to be drydocked every 7.5 years, while intermediate surveys and certain renewal surveys occur while they are afloat, using an approved diving company in the presence of a surveyor from the classification society. After these vessels are 15 years old, they are expected to be drydocked every five years or, if required by the charterers, every 30 months. We do not anticipate drydocking of the *PGN FSRU Lampung* for the first 20 years as all the required surveys can be done afloat. In the first 15 years after delivery from yard, we expect the *Höegh Gallant* to be drydocked every 7.5 years. The *Höegh Grace* is also designed to carry out renewal surveys afloat and is not expected to go to drydock for the duration of its current charter. If any vessel does not maintain her class or fails any annual survey, renewal survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable. We would lose revenue while the vessel was off-hire and incur costs of compliance. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

Failure to comply with the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, the anti-corruption provisions in the Norwegian Criminal Code and other anti-bribery legislation in other jurisdictions could result in fines, criminal penalties, contract termination and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”), the Bribery Act 2010 of the Parliament of the United Kingdom (the “UK Bribery Act”) and the anti-corruption provisions of the Norwegian Criminal Code of 1902 (the “Norwegian Criminal Code”), respectively. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA, the UK Bribery Act and the Norwegian Criminal Code. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

If in the future our business activities involve countries, entities and individuals that are subject to restrictions imposed by the U.S. or other governments, we could be subject to enforcement action and our reputation and the market for our common units could be adversely affected.

The tightening of U.S. sanctions in recent years has affected non-U.S. companies. In particular, sanctions against Iran have been significantly expanded. In 2012, for example, the U.S. signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012 ("TRA"), which placed further restrictions on the ability of non-U.S. companies to do business or trade with Iran and Syria. A major provision in the TRA is that issuers of securities must disclose to the SEC in their annual and quarterly reports filed after February 6, 2013 if the issuer or ''any affiliate'' has ''knowingly'' engaged in certain activities involving Iran during the timeframe covered by the report. This disclosure obligation is broad in scope in that it requires the reporting of activity that would not be considered a violation of U.S. sanctions as well as violative conduct, and is not subject to a materiality threshold. The SEC publishes these disclosures on its website and the President of the United States must initiate an investigation in response to all disclosures. It should be noted that the U.S. and various other nations entered into a Joint Comprehensive Plan of Action ("JCPOA") with Iran that provides for phased sanctions relief. On January 16, 2016, following verification that Iran had satisfied its commitments under the JCPOA, the U.S. lifted its nuclear-related "secondary" sanctions and the European Union also took action to lift its sanctions. As a result of sanctions relief non-U.S. persons will be able to engage in business with Iran. Sanctions relief will not impact the SEC reporting requirements discussed above. In the event of any breach by Iran of the JCPOA, sanctions, including those targeting wholly non-U.S. persons, may "snap back" into place.

In addition to the sanctions against Iran, the U.S. also has sanctions that target other countries, entities and individuals. These sanctions have certain extraterritorial effects that need to be considered by non-U.S. companies. It should also be noted that other governments have implemented versions of U.S. sanctions. We believe that we are in compliance with all applicable sanctions and embargo laws and regulations imposed by the U.S., the United Nations or European Union countries and intend to maintain such compliance. However, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our common units. Additionally, some investors may decide to divest their interest, or not to invest, in our common units simply because we may do business with companies that do business in sanctioned countries. Investor perception of the value of our common units may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

We face risks relating to our ineffective internal control over financial reporting.

During the past three years, we identified material weaknesses in our internal control over financial reporting. We identified a combination of control deficiencies that constituted a material weakness related to the accounting treatment for certain Indonesian value added tax and withholding tax transactions for the years ended December 31, 2014 and 2015. As of December 31, 2015, we identified several control deficiencies related to our accounting for the

procurement of goods and services and, as of December 31, 2016, we identified several control deficiencies related to the operating effectiveness of information technology general controls, each of which constituted a material weakness. Although we have remediated the material weakness related to the accounting treatment for certain Indonesian value added tax and withholding tax transactions, neither of our other identified material weaknesses has been remediated. See "Item 15. Controls and Procedures." Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected or corrected on a timely basis. While we are working to remediate the remaining material weaknesses, we cannot at this time estimate how long it will take, and our initiatives may not prove to be successful in remediating our material weaknesses. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses are discovered or occur in the future, then there is a risk that our financial statements may contain material misstatements that are unknown to us at that time, and such misstatements could require us to restate our financial results.

A cyber-attack could materially disrupt our business.

We rely on information technology systems and networks, which are provided by Höegh LNG, in our operations and the administration of our business. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations.

Risks Inherent in an Investment in Us

Höegh LNG and its affiliates may compete with us.

Pursuant to the omnibus agreement that we and Höegh LNG entered into in connection with the closing of the IPO, Höegh LNG and its controlled affiliates (other than us, our general partner and our subsidiaries) generally have agreed not to acquire, own, operate or charter certain FSRUs and LNG carriers operating under charters of five or more years. The omnibus agreement, however, contains significant exceptions that may allow Höegh LNG or any of its controlled affiliates to compete with us, which could harm our business. Additionally, the omnibus agreement contains no restrictions on Höegh LNG's ability to own, operate or charter FSRUs and LNG carriers operating under charters of less than five years. Also, pursuant to the omnibus agreement, we have agreed not to acquire, own, operate or charter FSRUs and LNG carriers operating under charters of less than five years. Please read "Item 7.B. Related Party Transactions—Omnibus Agreement—Noncompetition."

Unitholders have limited voting rights, and our partnership agreement restricts the voting rights of the unitholders owning more than 4.9% of our common units.

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. We will hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders are entitled to elect only four of the seven members of our board of directors. The elected directors are elected on a staggered basis and will serve for staggered terms. Our general partner in its sole discretion appoints the remaining three directors and set the terms for which those directors will serve. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management. Unitholders will have no right to elect our general partner, and our general partner may not be removed except by a vote of the holders of at least 75% of the outstanding common and subordinated units, including any units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts unitholders' voting rights by providing that if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquired common units with the prior approval of our board of directors will not

be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

Our general partner and its other affiliates own a significant interest in us and have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor their own interests to your detriment.

Höegh LNG owns approximately 10.7% of our common units and all of our subordinated units, which represent an aggregate approximate 46.4% limited partner interest in us. Certain of our directors will also serve as directors of Höegh LNG or its affiliates and, as such, they will have fiduciary duties to Höegh LNG that may cause them to pursue business strategies that disproportionately benefit Höegh LNG or its affiliates or which otherwise are not in the best interests of us or our unitholders.

Conflicts of interest may arise between Höegh LNG and its affiliates (including our general partner) on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of our unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our general partner or Höegh LNG or its affiliates to pursue a business strategy that favors us or utilizes our assets, and Höegh LNG's officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of Höegh LNG, which may be contrary to our interests;

- our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Specifically, our general partner will be considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;

- our general partner and our directors have limited their liabilities and restricted their fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders, and, as a result of purchasing common units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner and our directors, all as set forth in our partnership agreement;

- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;

- our partnership agreement does not restrict us from paying our general partner or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;

- our general partner may exercise its right to call and purchase our common units if it and its affiliates own more than 80% of our common units; and

- our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of its limited call right.

Although a majority of our directors will over time be elected by common unitholders, our general partner will likely have substantial influence on decisions made by our board of directors.

Our officers may face conflicts in the allocation of their time to our business.

Our sole existing officer and any future officers may face conflicts in the allocation of their time to our business. The affiliates of our general partner, including Höegh LNG, conduct substantial businesses and activities of their own in which we have no economic interest. As a result, there could be material competition for the time and effort of our officers who also provide services to our general partner’s affiliates, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, while our Chief Executive Officer and Chief Financial Officer is expected to devote the substantial majority of his time to our business, he may, from time to time, participate in business development activities for Höegh LNG that are linked to developing opportunities for us.

Our partnership agreement limits our general partner’s and our directors’ fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors.

Our partnership agreement provides that our general partner has irrevocably delegated to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis, and such delegation will be binding on any successor general partner of the Partnership. Our partnership agreement also contains provisions that reduce the standards to which our general partner and directors may otherwise be held by Marshall Islands law. For example, our partnership agreement:

- provides that our general partner may make determinations or take or decline to take actions without regard to our or our unitholders' interests. Our general partner may consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting us, our affiliates or our unitholders. Decisions made by our general partner will be made by its sole owner. Specifically, our general partner may decide to exercise its right to make a determination to receive common units in exchange for resetting the target distribution levels related to the incentive distribution rights, call right, pre-emptive rights or registration rights, consent or withhold consent to any merger or consolidation of the Partnership, appoint any directors or vote for the election of any director, vote or refrain from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraw from the Partnership, transfer (to the extent permitted under our partnership agreement) or refrain from transferring its units, the general partner interest or incentive distribution rights or vote upon the dissolution of the Partnership;

- provides that our general partner and our directors are entitled to make other decisions in "good faith" if they believe that the decision is in our best interests;

- generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of our board of directors and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be "fair and reasonable" to us and that, in determining whether a transaction or resolution is "fair and reasonable," our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

- provides that neither our general partner nor our officers or our directors will be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or directors or its officers or directors or those other persons engaged in actual fraud or willful misconduct.

By purchasing a common unit, a common unitholder is deemed to have agreed to become bound by the provisions of our partnership agreement, including the provisions discussed above.

Fees and expenses, which Höegh LNG determines for services provided to us and our joint ventures, are substantial, are payable regardless of our profitability and will reduce our cash available for distribution to you.

Pursuant to the ship management agreements, we and our joint ventures pay fees for services provided by Höegh LNG Management, and we and our joint ventures reimburse Höegh LNG Management for all expenses incurred on our behalf. These fees and expenses include all costs and expenses incurred in providing certain crewing and technical management services to the *Neptune*, the *GDF Suez Cape Ann,* the *Höegh Gallant* and the *Höegh Grace*. In addition, pursuant to a technical information and services agreement, we reimburse Höegh Norway for expenses Höegh Norway incurs pursuant to the sub-technical support agreement that it is party to with Höegh LNG Management.

Moreover, pursuant to an administrative services agreement among us, our operating company and Höegh UK and an administrative services agreement between our operating company and Leif Höegh UK, Höegh UK and Leif Höegh UK provide us and our operating company with certain administrative, financial and other support services. We reimburse Höegh UK and Leif Höegh UK for their reasonable costs and expenses incurred in connection with the provision of these services. In addition, under our administrative services agreement with Höegh UK, we pay Höegh UK a service fee equal to 5.0% of its costs and expenses incurred in connection with providing services to us.

Pursuant to the above-mentioned administrative services agreement with Höegh UK, Höegh UK subcontracts to Höegh Norway and Leif Höegh UK certain administrative services provided to us pursuant to administrative services agreements with Höegh Norway and Leif Höegh UK. Höegh UK reimburses Höegh Norway and Leif Höegh UK for reasonable costs and expenses incurred in connection with the provision of these services. In addition, Höegh UK (i) pays to Höegh Norway a service fee equal to 3.0% of the costs and expenses incurred in connection with providing services and (ii) pays to Leif Höegh UK a service fee equal to 5.0% of the costs and expenses of certain secretarial services with all other services of Leif Höegh UK reimbursed at cost.

For a description of the ship management agreements, the technical information and services agreement and the administrative services agreements, please read “Item 7.B. Related Party Transactions.” The fees and expenses payable pursuant to the ship management agreements, the technical information and services agreement and the administrative

services agreements are payable without regard to our financial condition or results of operations. The payment of fees to and the reimbursement of expenses of Höegh LNG Management, Höegh UK, Leif Höegh UK and Höegh Norway could adversely affect our ability to pay cash distributions to you.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner, and even if public unitholders are dissatisfied, they will be unable to remove our general partner without Höegh LNG's consent, unless Höegh LNG's ownership interest in us is decreased, all of which could diminish the trading price of our common units.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

- The unitholders are unable to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 75% of all outstanding common and subordinated units voting together as a single class is required to remove the general partner. Höegh LNG owns approximately 46.4% of the outstanding common and subordinated units. Additionally, during the term of the SRV Joint Gas shareholders' agreement, Höegh LNG has agreed to continue to own common units and subordinated units representing a greater than 25% limited partner interest in us in the aggregate.

- If our general partner is removed without "cause" during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units, any existing arrearages on the common units will be extinguished, and Höegh LNG will have the right to convert its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of those interests at the time. A removal of our general partner under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Any conversion of the incentive distribution rights would be dilutive to existing unitholders. Furthermore, any cash payment in lieu of such conversion could be prohibitively expensive. "Cause" is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or willful misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor business decisions, such as charges of poor management of our business by the directors appointed by our general partner, so the removal of our general partner because of the unitholders' dissatisfaction with the general partner's decisions in this regard would most likely result in the termination of the subordination period.

- Common unitholders are entitled to elect only four of the seven members of our board of directors. Our general partner in its sole discretion appoints the remaining three directors.

- Election of the four directors elected by unitholders is staggered, meaning that the members of only one of four classes of our elected directors will be selected each year. In addition, the directors appointed by our general partner will serve for terms determined by our general partner.

- Our partnership agreement contains provisions limiting the ability of unitholders to call meetings of unitholders, to nominate directors and to acquire information about our operations as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

- Unitholders' voting rights are further restricted by our partnership agreement provision providing that if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates (including Höegh LNG) and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

- There are no restrictions in our partnership agreement on our ability to issue equity securities, including securities senior to the common units.

The effect of these provisions may be to diminish the price at which the common units will trade.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its non-economic general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. In addition, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party.

Substantial future sales of our common units in the public market could cause the price of our common units to fall.

We have granted registration rights to Höegh LNG and certain of its affiliates. These unitholders have the right, subject to some conditions, to require us to file registration statements covering any of our common, subordinated or other equity securities owned by them or to include those securities in registration statements that we may file for ourselves or other unitholders. Höegh LNG owns 2,116,060 common units and 13,156,060 subordinated units and all of the incentive distribution rights. Following their registration and sale under the applicable registration statement, those securities will become freely tradable. By exercising their registration rights and selling a large number of common units or other securities, these unitholders could cause the price of our common units to decline.

We are subject to Marshall Islands law, which lacks a bankruptcy statute or general statutory mechanism for insolvency proceedings.

We are a Marshall Islands limited partnership, and we have limited operations in the United States and maintain limited assets in the United States. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us, bankruptcy laws other than those of the United States could apply. The Republic of the Marshall Islands does not have a bankruptcy statute or general statutory mechanism for insolvency proceedings. If we become a debtor under U.S. bankruptcy law, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over us and our operations would recognize a U.S. bankruptcy court's jurisdiction, if any other bankruptcy court would determine it had jurisdiction. These factors may delay or prevent us from entering bankruptcy in the United States and may affect the ability of our unitholders to receive any recovery following our bankruptcy.

We have been organized as a limited partnership under the laws of the Republic of the Marshall Islands, which does not have a well-developed body of partnership law.

The Partnership's affairs are governed by our partnership agreement and by the Marshall Island Limited Partnership Act (the "Marshall Islands Act"). The provisions of the Marshall Islands Act resemble provisions of the limited partnership laws of a number of states in the United States, most notably Delaware. The Marshall Islands Act also provides that it is to be applied and construed to make the laws of the Marshall Islands, with respect to the subject matter of the Marshall Islands Act, uniform with the laws of the State of Delaware and, so long as it does not conflict with the Marshall Islands Act or decisions of the High and Supreme Courts of the Marshall Islands, the non-statutory law ("case law") of the State of Delaware is adopted as the law of the Marshall Islands, with respect to non-resident limited partnerships like us. There have been, however, few, if any, court cases in the Marshall Islands interpreting the Marshall Islands Act, in contrast to Delaware, which has a fairly well-developed body of case law interpreting its limited partnership statute. Accordingly, we cannot predict whether Marshall Islands courts would reach the same conclusions as the courts in Delaware. For example, the rights of our unitholders and the fiduciary responsibilities of our general partner under Marshall Islands law are not as clearly established as under judicial precedent in existence in Delaware. As a result, unitholders may have more difficulty in protecting their interests in the face of actions by our general partner and its officers and directors than would unitholders of a similarly organized limited partnership in the United States.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and substantially all of our assets are located outside of the United States. In addition, our general partner is a Marshall Islands limited liability company, and a majority of our directors and officers generally are or will be non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States if you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict you from enforcing a judgment against our assets or the assets of our general partner or our directors or officers.

Höegh LNG, as the initial holder of all of the incentive distribution rights, may elect to cause us to issue additional common units to it in connection with a resetting of the target distribution levels related to the incentive distribution rights without the approval of the conflicts committee of our board of directors or holders of our common units and subordinated units. This may result in lower distributions to holders of our common units in certain situations.

Höegh LNG, as the initial holder of all of the incentive distribution rights, has the right, at a time when there are no subordinated units outstanding and Höegh LNG has received incentive distributions at the highest level to which it is entitled (50.0%) for each of the prior four consecutive fiscal quarters (and the amount of each such total distribution did not exceed adjusted operating surplus for each such quarter), to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution amount will be reset to the reset minimum quarterly distribution amount, and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution amount.

In connection with resetting these target distribution levels, Höegh LNG will be entitled to receive a number of common units equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to Höegh LNG on the incentive distribution rights in the prior fiscal quarter. We anticipate that Höegh LNG would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distribution per common unit without such conversion; however, it is possible that Höegh LNG could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued additional common units to Höegh LNG in connection with resetting the target distribution levels related to its incentive distribution rights.

We may issue additional equity securities, including securities senior to the common units, without your approval, which would dilute your ownership interests.

We may, without the approval of our unitholders, issue an unlimited number of additional units or other equity securities. In addition, we may issue an unlimited number of units that are senior to the common units in right of distribution, liquidation and voting. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- because the amount payable to holders of incentive distribution rights is based on a percentage of total available cash, the distributions to holders of incentive distribution rights will increase even if the per unit distribution on the common units remains the same;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

Upon the expiration of the subordination period, the subordinated units will convert into common units and will then participate pro rata with other common units in distributions of available cash.

During the subordination period, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.3375 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. Distribution arrearages do not accrue on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash from operating surplus to be distributed on the common units. Upon the expiration of the subordination period, the subordinated units will convert into common units and will then participate pro rata with other common units in distributions of available cash.

In establishing cash reserves, our board of directors may reduce the amount of cash available for distribution to you.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures. These reserves also will affect the amount of cash available for distribution to our unitholders. Our board of directors may establish reserves for distributions on the subordinated units, but only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters. As described above in "—Risks Inherent in Our Business—We must make substantial capital expenditures to maintain and replace the operating capacity of our fleet, which will reduce our cash available for distribution. In addition, each quarter we will be required, pursuant to our partnership agreement, to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted," our partnership agreement requires our board of directors each quarter to deduct from operating surplus estimated maintenance and replacement capital expenditures, as opposed to actual maintenance and replacement capital expenditures, which could reduce the amount of available cash for distribution. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year, with the approval of the conflicts committee of our board of directors.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than the then-current market price of our common units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of this limited call right. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units.

Höegh LNG, which owns and controls of our general partner, owns approximately 10.7% of our common units. At the end of the subordination period, assuming no additional issuances of common units, and the conversion of our subordinated units into common units, Höegh LNG will own approximately 46.4% of our common units.

Unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.

As a limited partner in a limited partnership organized under the laws of the Marshall Islands, you could be held liable for our obligations to the same extent as a general partner if you participate in the "control" of our business. Our general partner generally has unlimited liability for the obligations of the Partnership, such as its debts and environmental liabilities. In addition, the limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some jurisdictions in which we do business.

We can borrow money to make cash distributions, which would reduce the amount of credit available to operate our business.

Our partnership agreement allows us to make working capital borrowings to make cash distributions. Accordingly, if we have available borrowing capacity, we can make cash distributions on all our units even though cash generated by our operations may not be sufficient to pay such distributions. Any working capital borrowings by us to make cash distributions will reduce the amount of working capital borrowings we can make for operating our business.

Increases in interest rates may cause the market price of our common units to decline.

An increase in interest rates may cause a corresponding decline in demand for equity investments in general and in particular for yield based equity investments such as our common units. Any such increase in interest rates or reduction in demand for our common units resulting from other relatively more attractive investment opportunities may cause the trading price of our common units to decline.

Unitholders may have liability to repay distributions.

Under some circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under the Marshall Islands Act, we may not make a distribution to you if, after giving effect to the distribution, our liabilities, other than liabilities to partners on account of their partnership interest and liabilities for which the recourse of creditors is limited to specified property of ours, exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited will be included in our assets only to the extent that the fair value of that property exceeds that liability. Marshall Islands law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Marshall Islands law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the limited partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from our partnership agreement.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common units less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." These provisions include an exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting and an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to our auditor's report in which the auditor would be required to provide additional information about the audit and our financial statements. For as long as we take advantage of the reduced reporting obligations, the information that we provide unitholders may be different than information provided by other public companies. We cannot predict if investors will find our common units less attractive because we may rely on these exemptions. If some investors find our common units less attractive as a result, there may be a less active trading market for our common units and our unit price may be more volatile. Furthermore, if we fail to successfully remediate the material weaknesses in our internal control over financial reporting as described in "Item 15. Controls and Procedures" or to create and maintain an effective system of internal controls and disclosure controls in the future, we may not be able to accurately report our financial results or prevent fraud. Please read "—Risks Related to Our Business—We face risks relating to our ineffective internal control over financial reporting."

Tax Risks

In addition to the following risk factors, you should read "Item 4.B. Business Overview—Taxation of Partnership" and "Item 10.E. Taxation" for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our common units.

We are subject to taxes, which reduces our cash available for distribution to you.

Some of our subsidiaries will be subject to tax in the jurisdictions in which they are organized or operate, reducing the amount of cash available for distribution. In computing our tax obligation in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on our subsidiaries, further reducing the cash available for distribution. In addition, changes in our operations could result in additional tax being imposed on us, our operating company or our or its subsidiaries in jurisdictions in which operations are conducted. Moreover, tax regulation and reporting requirements for value added taxes, withholding taxes and corporate income taxes are complex in Indonesia, Colombia and many of the countries where we operate. Tax regulations, guidance and interpretation in emerging markets may not always be clear and may

be subject to alternative interpretations or changes in interpretation over time. In particular, Indonesia and Colombia have complex tax regulations and reporting requirements, which if not properly applied, could result in penalties that could be significant, which could also harm our business and ability to make cash distributions to our unitholders. Please read "Item 4.B. Business Overview—Taxation of the Partnership."

A change in tax laws in any country in which we operate could adversely affect us.

Tax laws and regulations are highly complex and subject to interpretation. Consequently, we and our subsidiaries are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our tax expense is based on our interpretation of the tax laws in effect at the time the expense was incurred. A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our earnings. Such changes may include measures enacted in response to the ongoing initiatives in relation to fiscal legislation at an international level, such as the Action Plan on Base Erosion and Profit Shifting of the Organization for Economic Co-operation and Development.

U.S. tax authorities could treat us as a "passive foreign investment company," which would have adverse U.S. federal income tax consequences to U.S. unitholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes for any taxable year in which at least 75.0% of its gross income consists of "passive income" or at least 50.0% of the average value of its assets (based on the average of the values at the end of each quarter) produce, or are held for the production of, "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, certain distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Based on our current and projected method of operation, we believe that we were not a PFIC for any prior taxable year, and we expect that we will not be treated as a PFIC for the current or any future taxable year. We believe that more than 25.0% of our gross income for each taxable year was or will be nonpassive income, and more than 50.0% of the average value of our assets for each such year was or will be held for the production of such nonpassive income. This belief is based on certain valuations and projections regarding our assets, income and charters, and its validity is conditioned on the accuracy of such valuations and projections. While we believe these valuations and projections to be accurate, the shipping market is volatile and no assurance can be given that they will continue to be accurate at any time in the future.

Moreover, there are legal uncertainties involved in determining whether the income derived from time-chartering activities constitutes rental income or income derived from the performance of services. In Tidewater Inc. v. United States, 565 F.3d 299 (5th Cir. 2009), the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit") held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Code relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the Internal Revenue Service ("IRS"), stated that it disagreed with the holding in Tidewater, and specified that time charters similar to those at issue in the case should be treated as service contracts. We have not sought, and we do not expect to seek, an IRS ruling on the treatment of income generated from our time-chartering activities. As a result, the IRS or a court could disagree with our position. No assurance can be given that this result will not occur.

In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the

future and that we will not become a PFIC in the future. If the IRS were to find that we are or have been a PFIC for any taxable year (and regardless of whether we remain a PFIC for subsequent taxable years), our U.S. unitholders would face adverse U.S. federal income tax consequences. Please read "Item 10.E Taxation—U.S. Federal Income Taxation of U.S. Holders—PFIC Status and Significant Tax Consequences" for a more detailed discussion of the U.S. federal income tax consequences to U.S. unitholders if we are treated as a PFIC.

We may have to pay tax on U.S. source income, which would reduce our cash flow.

Under the Code, U.S. source gross transportation income generally is subject to a 4.0% U.S. federal income tax without allowance for deduction of expenses unless an exemption from tax applies under Section 883 of the Code and the existing final and temporary regulations promulgated thereunder ("Treasury Regulations"). U.S. source gross transportation consists of 50.0% of the gross shipping income that a vessel-owning or chartering corporation, such as ourselves, derives (either directly or through one or more subsidiaries that are classified as partnerships or disregarded as entities separate from such corporation for U.S. federal income tax purposes) and that is attributable to transportation that either begins or ends, but that does not both begin and end, in the United States.

We believe that we and our vessel-owning subsidiaries currently qualify and we expect that we will continue to qualify for the foreseeable future, for an exemption from U.S. tax on any U.S. source gross transportation income under Section 883 of the Code, and we expect to take this position for U.S. federal income tax reporting purposes. Please read "Item 4.B— Business Overview—Taxation of the Partnership." However, there are factual circumstances, including some that may be beyond our control, which could cause us to lose the benefit of this tax exemption. In addition, our position that we qualify for this exemption is based upon legal authorities that do not expressly contemplate an organizational structure such as ours; specifically, although we have elected to be treated as a corporation for U.S. federal income tax purposes, we are organized as a limited partnership under Marshall Islands law. Therefore, we can give no assurance that the IRS will not take a different position regarding our qualification for this tax exemption.

If we or our subsidiaries are not entitled to this exemption under Section 883 of the Code for any taxable year, we generally would be subject to a 4.0% U.S. federal gross income tax on our U.S. source gross transportation income for such year. Our failure to qualify for the exemption under Section 883 of the Code could have a negative effect on our business and would result in decreased earnings available for distribution to our unitholders.

The vessels in our fleet do not currently engage, and we do not expect that they will in the future engage, in transportation that begins and ends in the United States or in the provision of regasification or storage services in the United States. If, notwithstanding this expectation, our subsidiaries earn income in the future from transportation that begins and ends in the United States, or from regasification or storage activities in the United States, that income would not be exempt from U.S. federal income tax under Section 883 of the Code and would be subject to a 35% net income tax in the United States (and the after-tax earnings attributable to such income may be subject to an additional 30% branch profits tax). Please read "Item 4.B Business Overview—Taxation of the Partnership—United States Taxation—The Section 883 Exemption" for a more detailed discussion of the rules relating to qualification for the exemption under Section 883 of the Code and the consequences for failing to qualify for such an exemption.

You may be subject to income tax in one or more non-U.S. jurisdictions, including the United Kingdom and Norway, as a result of owning our common units if, under the laws of any such jurisdiction, we are considered to be carrying on business there. Such laws may require you to file a tax return with, and pay taxes to, those jurisdictions.

We conduct our affairs and cause or influence each of our subsidiaries to operate its business in a manner that minimizes income taxes imposed upon us and our subsidiaries and that may be imposed upon you as a result of owning our common units. However, because we are organized as a limited partnership, there is a risk in some jurisdictions, including the United Kingdom and Norway, that our activities or the activities of our subsidiaries may be attributed to our unitholders for tax purposes if, under the laws of such jurisdiction, we are considered to be carrying on business there. If you are subject to tax in any such jurisdiction, you may be required to file a tax return with, and to pay tax in, that jurisdiction based on your allocable share of our income. We may be required to reduce distributions to you on account of any tax withholding obligations imposed upon us by that jurisdiction in respect of such allocation to you. The United States may not allow a tax credit for any foreign income taxes that you directly or indirectly incur by virtue of an investment in us.

We believe we can conduct our affairs in a manner that does not result in our unitholders being considered to be carrying on business in the United Kingdom or Norway solely as a consequence of the acquisition, ownership, disposition or redemption of our common units. However, the question of whether either we or any of our subsidiaries will be treated as carrying on business in any jurisdiction, including the United Kingdom and Norway, will be largely a question of fact to be determined through an analysis of contractual arrangements, including the ship management agreements that our joint ventures and subsidiaries have entered into with Höegh LNG Management, the sub-technical support agreement that Höegh Norway has entered into with Höegh LNG Management, the administrative service agreement we have entered into with our operating company and Höegh UK, the administrative service agreement our

operating company has entered into with Leif Höegh UK and the administrative service agreements Höegh UK has entered into with Höegh Norway and with Leif Höegh UK, as well as through an analysis of the manner in which we conduct business or operations, all of which may change over time. Furthermore, the laws of the United Kingdom, Norway or any other jurisdiction may also change, which could cause that jurisdiction's taxing authorities to determine that we are carrying on business in such jurisdiction and that we or our unitholders are subject to its taxation laws. In addition to the potential for taxation of our unitholders, any additional taxes imposed on us or any of our subsidiaries will reduce our cash available for distribution.

Item 4. Information on the Partnership

A. History and Development of the Partnership

Höegh LNG Partners LP is a publicly-traded limited partnership formed initially by Höegh LNG Holdings Ltd. (Oslo Børs symbol: HLNG), a leading floating LNG service provider, to own, operate and acquire floating storage and regasification units ("FSRUs"), LNG carriers and other LNG infrastructure assets under long-term charters, which we define as charters of five or more years.

At the closing of our initial public offering ("IPO") in August 2014, Höegh LNG contributed interests in our initial fleet of three modern FSRUs to us.

On October 1, 2015, we acquired 100% of the shares of Höegh FSRU III, the entity that indirectly owns the FSRU *Höegh Gallant*. On January 3, 2017, we closed the acquisition of a 51% ownership interest in Höegh Colombia Holding, the entity that owns Höegh FSRU IV and Höegh Colombia, the entities that own and operate the FSRU *Höegh Grace* (together with Höegh Colombia Holding, the "*Höegh Grace* entities").

As of March 31, 2017, we had a fleet of five FSRUs. Our fleet consists of interests in the following vessels:

- a 50% interest in the *Neptune*, an FSRU built in 2009 that is currently operating under a time charter with GDF Suez, a subsidiary of ENGIE, a French publicly listed, government-backed, electric utility company, that expires in 2029, with an option to extend for up to two additional periods of five years each;

- a 50% interest in the *GDF Suez Cape Ann*, an FSRU built in 2010 that is currently operating under a time charter with GDF Suez that expires in 2030, with an option to extend for up to two additional periods of five years each;

- a 100% economic interest in the *PGN FSRU Lampung*, an FSRU built in 2014 that is currently operating under a time charter with PGN LNG, a subsidiary of an Indonesian publicly listed, government-controlled, gas and energy company that constructs gas pipelines and infrastructure and distributes and transmits natural gas to industrial, commercial and household users. The time charter expires in 2034, with options to extend the time charter either for an additional 10 years or for up to two additional periods of five years each;

- a 100% interest in the *Höegh Gallant*, an FSRU built in 2014 that is currently operating under a time charter with EgyptCo, a subsidiary of Höegh LNG, that expires in 2020. In addition, we have an option agreement pursuant to which we have the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025; and

- a 51% interest in *Höegh Grace,* an FSRU delivered in 2016 that is currently operating under a time charter with SPEC. SPEC is owned 51% by Promigas S.A. ESP, a Colombian company focused on the transportation and distribution of natural gas, and 49% by private equity investors. The non cancellable charter period is 10 years. The initial term of the charter is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without a penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

We were formed on April 28, 2014 as a Marshall Islands limited partnership and have our principal executive offices at Wessex House, 5th Floor, 45 Reid Street, Hamilton, Bermuda.

Capital Expenditures

Our capital expenditures amounted to $0.5 million, $1.0 million and $172.3 million for the years ended December 31, 2016, 2015 and 2014 respectively. The capital expenditures for 2014 are mainly related to the *PGN FSRU Lampung* which was delivered from the shipyard in April 2014, after being under construction during 2013 and 2012.

B. Business Overview

General

We own and operate FSRUs, under long-term charters, which we define as charters of five or more years. Our primary business objective is to increase quarterly distributions per unit over time by making accretive acquisitions of FSRUs, LNG carriers and other LNG infrastructure assets with long-term charters.

We intend to leverage our relationship with Höegh LNG to make accretive acquisitions of FSRUs, LNG carriers and other LNG infrastructure assets with long-term charters from Höegh LNG and third parties. Pursuant to the omnibus agreement we have entered into with Höegh LNG, we have a right to purchase from Höegh LNG any FSRU or LNG carrier operating under a charter of five or more years. We cannot assure you that we will make any particular acquisition or that as a consequence we will successfully grow the amount of our per unit distributions. Among other things, our ability to acquire additional FSRUs, LNG carriers and other LNG infrastructure assets will be dependent upon our ability to raise additional equity and debt financing.

Natural Gas and Liquefied Natural Gas

Natural gas is used to generate electric power, for industrial use and it is finding increasing application as a transportation fuel. The low carbon intensity and clean burning characteristics of natural gas contribute to the view that natural gas has the lowest environmental impact of hydrocarbon fuels.

The LNG trade developed from a need to transport natural gas over long distances with greater flexibility than is allowed by its movement via pipelines. Condensing natural gas into liquid form reduces its volume by a factor of over 600, making LNG an efficient means of transporting and storing natural gas in significant quantities. LNG is natural gas (predominantly methane (CH4)) that has been converted to liquid form by cooling it to -160 degrees centigrade under compression.

The processing of natural gas, transportation of LNG and regasification process requires specialized technologies, complex liquefaction processes and cryogenic materials. The specially built carriers in which LNG is transported have heavily insulated cargo tanks that maintain cryogenic temperatures by allowing a small portion of LNG to evaporate as boil-off gas.

LNG projects are capital intensive. LNG project sponsors are typically large international oil and gas companies often partnering with national oil and gas companies on the export side of the chain. The importers of LNG are typically large, regulated natural gas companies or power utilities. The diagram below shows the flow of natural gas and LNG from production to regasification:

Floating Regasification Vessels

Traditionally, the import of LNG and its regasification has been done in land based terminals. However, the interest in and use of floating import and regasification solutions is increasing.

Floating regasification vessels may be called shuttle and regas vessels ("SRVs") or LNG regas vessels ("LNGRVs") but are more commonly referred to as FSRUs or Floating Storage and Regasification Units. FSRU technology represents a flexible, proven, expedient and cost effective means of allowing countries or regions to import LNG.

The underlying technology used in an FSRU is that of heat exchange between LNG and a warm fluid resulting in vaporization of the LNG into the gaseous state for delivery to shore. The fluid may either be seawater—often referred to as open loop vaporization—or recirculated water heated by a natural gas fired boiler on the FSRU itself—often referred to as closed loop vaporization. Vaporization capacity varies by vessel and is typically specified as a combination of continuous vaporization capacity (base capacity) and peak vaporization capacity (peak capacity). The vaporized LNG is replenished by delivery of LNG into the FSRU by LNG carriers serving as feeder vessels.

Key benefits of FSRU technology include:

- *Speed*. Planning, siting, permitting and constructing a traditional, land based LNG terminal typically requires five to six years. In comparison, FSRU projects typically take less than 24 months to execute, and have been implemented in as little as six months.
- *Reduced Costs*. FSRUs are considerably less capital intensive than a land based LNG terminal, where even small terminals can cost upwards of $600 million. More importantly, the providers of FSRUs are prepared to retain ownership of their vessels and charter them to the importing company for a short, medium or long term period, avoiding the need for major capital outlays and corresponding financing requirements.
- *Greater Cost Certainty*. An importer has greater clarity on fees for regasification services and delivery of gas with an FSRU as compared to a land based LNG terminal, which may be more likely to face construction cost overruns and uncertainty around terminal throughput fees.
- *Operational Flexibility*. FSRU operators have entered into agreements as short as three years, whereas land based LNG terminals often require long term commitments of 15 years or more.
- *Market Flexibility*. Some FSRUs can also be operated as conventional LNG carriers and owners have been prepared to build such vessels on a speculative basis. This has made FSRU technology flexible in terms of being generic and able to meet different market needs and finding solutions to terminal location challenges.

However, FSRUs are not without limitations and constraints. Land-based terminals typically have larger storage capacity and potentially larger gas send out capacities than FSRUs, especially FSRUs that are a result of LNG carrier conversions. This disadvantage could be partially mitigated by using multiple FSRUs. Greater storage capacity of land-based terminals facilitate faster cargo offload in a situation when storage tanks are partially full. The boil-off rate of an FSRU is higher than that of a land based terminals, and boil-off gas that cannot be used for fuel or regas purposes has to be flared in the gas combustion unit. The limitations on the physical size of an FSRU prevent it from having as much redundancy of vaporization equipment as a land-based terminal. As a result, an FSRU is more vulnerable to equipment outages, and thus requires the FSRU provider to hold very high standards regarding operations and maintenance. A technical problem with an FSRU could require a visit to drydock, which would result in a loss of service.

Our Relationship with Höegh LNG

We believe that one of our principal strengths is our relationship with Höegh LNG (Oslo Børs symbol: HLNG). With a track record dating back to the delivery of the world's first Moss-type LNG carrier in 1973, we believe that Höegh LNG is one of the most experienced operators of LNG carriers, and one of only five operators of FSRUs in the world and has one of the largest FSRU fleets in operation and under construction. Our affiliation with Höegh LNG gives us access to Höegh LNG's long-standing relationships with leading oil and gas companies, utility companies, shipbuilders, financing sources and suppliers, which we believe will allow us to compete more effectively when seeking additional long-term charters for FSRUs, LNG carriers and other LNG infrastructure assets. In addition, we believe Höegh LNG's more than 40-year track record of providing LNG services and its technical, commercial and managerial expertise, including its leadership in the development of floating liquefaction solutions, will enable us to continue to maintain the high utilization of our fleet to preserve our stable cash flows. We cannot assure you that our relationship with Höegh LNG will lead to high fleet utilization rates or stable cash flows in the future.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

- ***Focus on FSRU Newbuilding Acquisitions***. We intend to acquire newbuilding FSRUs on long-term charters, which we believe generally offer greater flexibility than FSRUs based on retrofitted, first generation LNG carriers. Newbuilding FSRUs have superior fuel efficiency, improved storage performance and larger capacity than retrofitted, first-generation LNG carriers. Their larger capacity allows for a full cargo from a comparably sized, modern-day LNG carrier to be offloaded in a single transfer, and this streamlines logistics. We may also acquire retrofitted LNG carriers if such vessels are converted from modern LNG carriers with comparable and logistical benefits. In addition, Höegh LNG has strong customer relationships deriving from its ability to work alongside customers on their vessel design and infrastructure needs. Moreover, Höegh LNG pursues a strategy of maintaining one or more uncontracted newbuilding vessels on order so it can provide its customers an FSRU with minimum lead time. We believe that Höegh LNG's ability to offer newbuild vessels promptly and its engineering expertise make it an operator of choice for projects that require rapid execution, complex engineering or unique specifications. This, in turn, enhances the growth opportunities available to us.

- ***Pursue Strategic and Accretive Acquisitions of FSRUs, LNG Carriers and Other LNG Infrastructure Assets on Long-Term, Fixed-Rate Charters with Strong Counterparties***. We will seek to leverage our relationship with Höegh LNG to make strategic and accretive acquisitions. Pursuant to the omnibus agreement that we have entered into with Höegh LNG, we have the right to purchase FSRUs or LNG carriers under a charter of five or more years. We also intend to take advantage of business opportunities and market trends in the LNG transportation industry to grow our assets through third-party acquisitions of FSRUs, LNG carriers and other LNG infrastructure assets under long-term charters.

- ***Expand Global Operations in High-Growth Regions***. We will seek to capitalize on opportunities emerging from the global expansion of LNG production activity and the need to provide flexible regasification solutions in areas which require natural gas imports. We believe that Höegh LNG's position as one of five FSRU owners and operators in the world, more than 40-year operational track record and strong customer relationships will enable us to have early access to new projects worldwide.

- ***Enhance and Diversify Customer Relationships Through Continued Operating Excellence and Technological Innovation***. We intend to maintain and grow our cash flows by focusing on strong customer relationships and actively seeking the extension and renewal of existing charters, entering into new long-term charters with current customers, and identifying new business opportunities with other creditworthy charterers. We believe our customer relationships are enhanced by our ability to provide expert technical advice to our customers through Höegh LNG's in-house engineering department, which in turn enables us to be directly involved in our customers' project development processes. We will continue to incorporate safety, health, security and environmental stewardship into all aspects of vessel design and operation in order to satisfy our customers and comply with national and international rules and regulations. We believe that Höegh LNG's operational expertise, recognized position, and track record in floating LNG infrastructure services will position us favorably to capture additional commercial opportunities in the FSRU and LNG sectors.

We can provide no assurance, however, that we will be able to implement our business strategies described above or that the business strategies discussed above will increase our quarterly distributions. For further discussion of the risks that we face, please read "Item 3.D. Risk Factors."

Our Fleet

Our Current Fleet

As of March 31, 2017, our fleet consists of interests in the following vessels:

- a 50% interest in the *Neptune*, an FSRU built in 2009 that is currently operating under a time charter with GDF Suez that expires in 2029, with an option to extend for up to two additional periods of five years each;

- a 50% interest in the *GDF Suez Cape Ann*, an FSRU built in 2010 that is currently operating under a time charter with GDF Suez that expires in 2030, with an option to extend for up to two additional periods of five years each;

- a 100% economic interest in the *PGN FSRU Lampung*, an FSRU built in 2014 that is currently operating under a time charter with PGN LNG that expires in 2034, with options to extend either for an additional 10 years or for up to two additional periods of five years each;

- a 100% interest in the *Höegh Gallant*, an FSRU built in 2014 that is currently operating under a time charter with EgyptCo, a subsidiary of Höegh LNG, that expires in 2020. EgyptCo has a time charter agreement with the government-owned Egyptian Natural Gas Holding Company ("EGAS") that expires in 2020. In addition, we have an option agreement pursuant to which we have the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025; and

- a 51% interest in *Höegh Grace,* an FSRU built in 2016 that is currently operating under a time charter with SPEC. The non cancellable charter period is 10 years. The initial term of the charter is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

Both the *Neptune* and the *GDF Suez Cape Ann* are owned in joint ventures with MOL and TLT, which own in the aggregate 50% of each joint venture. For a description of the joint venture agreements governing our joint ventures, please read "Item 4.B. Business Overview—Shareholder Agreements." The *PGN FSRU Lampung* is 49% owned by one of our subsidiaries and 51% owned by PT Bahtera Daya Utama ("PT Bahtera"), an Indonesian subsidiary of PT Imeco Inter Sarana, which provides products and services for various energy and infrastructure projects. Due to local Indonesian regulations, we are required to have a local Indonesian joint venture partner (e.g., PT Bahtera). However, we have a 100% economic interest in the *PGN FSRU Lampung*. For a description of the agreements related to this arrangement, please read "—Shareholder Agreements—PT Höegh Shareholders' Agreement." The *Höegh Grace* is owned by Höegh FSRU IV, which is indirectly owned 51% by us and 49% by Höegh LNG. For a description of the material provisions of the amended and restated memorandum and articles of association of Höegh Colombia Holding, the owner of Höegh FSRU IV, please read "Item 7.B. Related Party Transactions—Acquisition of the *Höegh Grace*."

The following table provides information about our five FSRUs:

FSRU	Our Economic Interest		Capacity (cbm)	Maximum send out capacity (MMscf/d)	**Location** of operation	Charter commencement	Charterer	Charter Expiration		Charter extension option period
Neptune	50	%	145,000	750	Turkey	November 2009	GDF Suez	2029		Five years plus five years
GDF Suez Cape Ann	50	%	145,000	750	Various	June 2010	GDF Suez	2030		Five years plus five years
PGN FSRU Lampung	100	%	170,000	360	Indonesia	July 2014	PGN LNG	2034		Five or 10 years(1)
Höegh Gallant	100	%	170,000	500	Egypt	April 2015	EgyptCo (2)	2020		n/a
Höegh Grace	51	%	170,000	500	Colombia	December 2016	SPEC	2036	(3)	n/a

(1) After the initial term, PGN LNG has the choice to extend the term by either five years or 10 years. If PGN LNG extends the term by five years, it subsequently may extend the term by another five years.

(2) Pursuant to an option agreement, the Partnership has the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025.

(3) The non cancellable term is 10 years. The initial term is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

As of December 31, 2016, the *Neptune*, the *GDF Suez Cape Ann*, the *PGN FSRU Lampung,* the *Höegh Gallant* and the *Höegh Grace* were approximately 7.2 years old, 6.6 years old, 2.8 years old, 2.2 years old and 0.8 year old, respectively. FSRUs are generally designed to have a lifespan of approximately 40 years.

The *Neptune* was intended to be used as a floating LNG import terminal in Boston. Since December, 2016, the *Neptune* has been operating as the first FSRU in the Turkish market at the Etki Terminal near the port of Aliaga in Izmir province on the west coast of Turkey. Prior to that, the *Neptune* was used as an LNG carrier, delivering LNG from Trinidad to Boston, Spain, Asia and other locations. From November 2013 to January 2017, the *GDF Suez Cape Ann* was sub-chartered and employed as China's first FSRU, located in Tianjin outside Beijing. At the completion of the sub-charter, the *GDF Suez Cape Ann* returned to the charterer's LNG carrier pool. At the time of construction, both the *Neptune* and the *GDF Suez Cape Ann* were the most advanced FSRUs ever built in terms of regasification technology, power generation and thermal insulation. In addition, the vessels received the "Green Passport" from Det Norske Veritas GL certifying the environmental considerations taken when constructing, operating and ultimately when disposing of the vessel.

The *PGN FSRU Lampung* is located offshore in the Lampung province at the southeast coast of Sumatra, Indonesia. The vessel is moored at a purpose-built mooring system built by a subcontractor of Höegh LNG, subsequently sold to PGN LNG and located approximately 16 kilometers offshore.

The FSRU *Höegh Gallant* is operating as an LNG import terminal at Ain Sokhna port, located on the Red Sea in Egypt. The *Höegh Gallant* was delivered from the shipyard in November 2014 and employed as an LNG carrier until mid-January 2015 when it entered the shipyard for minor modifications required for the contract with EGAS.

The *Höegh Grace* is operating as an LNG import terminal in the port of Cartagena on the Atlantic coast of Colombia. The *Höegh Grace* was delivered from the shipyard in March 2016 and employed as an LNG carrier by SPEC from June to October 2016.

Each of the *Neptune*, the *GDF Suez Cape Ann*, the *PGN FSRU Lampung,* the *Höegh Gallant* and the *Höegh Grace* has a reinforced membrane-type cargo containment system that facilitates offshore loading operations.

Additional FSRUs

Pursuant to the contribution, purchase and sale agreement the Partnership entered into with Höegh LNG with respect to the acquisition of 51% of the ownership interests in the *Höegh Grace* entities, the Partnership has a right of first offer to purchase the remaining 49% interest.

Pursuant to the omnibus agreement we entered into with Höegh LNG at the time of the IPO, Höegh LNG is obligated to offer to the Partnership any FSRU or LNG carrier operating under a charter of five or more years.

Accordingly, the Partnership has, or may in the future have, the opportunity to acquire the FSRUs listed below.

On May 26, 2015, Höegh LNG signed a contract with Octopus LNG SpA, subsequently renamed, Penco LNG, to provide an FSRU to service the Penco-Lirquén LNG import terminal to be located in Concepción Bay, Chile. The contract is for a period of 20 years and is subject to Penco LNG's completing financing and obtaining necessary environmental approvals. In February 2017, Penco LNG informed Höegh LNG that the environmental approval had been temporarily halted by the legal system in Chile which is likely to delay completion of the infrastructure and the commencement of the FSRU contract. Höegh LNG is expected to service the contract with *HHI Hull No. 2865* currently being constructed by Hyundai Heavy Industries Co. Ltd. ("HHI").

On December 1, 2016, Höegh LNG signed an FSRU contract with Quantum Power Ghana Gas Limited ("Quantum Power") for the Tema LNG import terminal located close to Accra in Ghana ("Tema LNG Project"). The Tema LNG Project is supported by Ghana National Petroleum Corporation (GNPC), Ghana's national oil and gas company. The contract is for a period of 20 years with a five year extension option for the charterer. The contract is subject to Quantum Power obtaining necessary governmental approvals, financing and both parties' board approval. The infrastructure construction for the project is planned to start mid 2017 and expected delivery time for the FSRU is six to twelve months following commencement of the construction work. Höegh LNG is expected to service the contract with *HHI Hull No. 2552* currently being constructed by HHI. *HHI Hull No. 2552* is scheduled to be delivered in 2018.

On December 15, 2016, Höegh LNG signed an FSRU contract with Global Energy Infrastructure Limited ("GEI") for GEI's LNG import project in Port Qasim near Karachi, Pakistan. Time charter is for a period of 20 years with two five year extension options. GEI has a long-term LNG supply agreement with Qatargas and a consortium agreement that also includes ExxonMobil, Mitsubishi, Total and Höegh LNG. The contract is subject to certain conditions and both parties' board approval. The anticipated start of the FSRU contract is 2018. Höegh LNG is expected to service the contract with *HHI Hull No. 2909* currently being constructed by HHI. The initial period of the GEI charter which is expected to begin in the second half of 2018 is expected to be serviced by an interim FSRU from Höegh LNG's fleet until *HHI Hull No. 2909* is delivered.

Pursuant to the terms of the omnibus agreement, we will have the right to purchase *HHI Hull No. 2865, HHI Hull No. 2552* and *HHI Hull No. 2909* following acceptance by the respective charterer of the related FSRU, subject to reaching an agreement with Höegh LNG regarding the purchase price. There can be no assurance that we will purchase any of these additional FSRUs.

Finally, although our option to purchase Höegh LNG's interests in the FSRU *Independence* pursuant to the omnibus agreement has expired, we expect that Höegh LNG would offer us the opportunity to purchase such interests in the event it receives the consent of the charterer of the *Independence*, AB Klapipedòs Nafta ("ABKN"). On December 5, 2014, the *Independence* began operating under its time charter with ABKN. We and Höegh LNG continue to pursue, but have not received ABKN's consent to the acquisition of the *Independence* by the Partnership. The *Independence* is located in the port of Klaipeda and provides Lithuania with the ability to diversify its gas supply by giving it access to the world market for LNG. The *Independence* is moored adjacent to a purpose-built jetty connected to a pipeline connecting to the existing grid in Lithuania.

The following table provides information about the additional FSRUs that we anticipate that we will have the right to purchase from Höegh LNG pursuant to the omnibus agreement or by agreement with Höegh LNG:

FSRU	**Capacity** (cbm)	Maximum send out capacity (MMscf/d)	**Location of** operation	**Charter** commencement	Charterer	**Charter** Expiration	Charter extension option period
HHI Hull No. 2865(5)	170,000	540	Chile	2019/2020(1)	Penco LNG	(2)	n/a
HHI Hull No. 2552(5)	170,000	750	Ghana	2018(1)	Quantum Power	(3)	(3)
HHI Hull No. 2909(5)	170,000	750	Pakistan	Second Half of 2018(1)	GEI	(4)	(4)
Independence	170,000	384	Lithuania	2014	ABKN	2024	n/a

(1) Expected charter commencement.
(2) The charter is for a period of 20 years. The charter is subject to Penco LNG completing financing and obtaining environmental approvals.
(3) The charter is for a period of 20 years with a five year extension option for the charterer.
(4) The charter is for a period of 20 years with two five year extension options for the charterer.
(5) Höegh LNG has the ability to reallocate particular hulls to different charters/projects.

If Höegh LNG secures a charter of five or more years for one additional newbuilding FSRU, *SHI Hull No. 2220*, to be constructed by Samsung Heavy Industries ("SHI") in South Korea and scheduled for delivery from the shipyard in May 2019, we will have the right to purchase the FSRU from Höegh LNG following acceptance by the charterer pursuant to the omnibus agreement, subject to reaching an agreement with Höegh LNG regarding the purchase price. *SHI Hull*

No. 2220 will have storage capacity of 170,000 cbm of LNG and a maximum send-out capacity of 750 MMscf/d of regasified LNG.

Please read "Item 7.B. —Related Party Transactions—Omnibus Agreement" for a description of our omnibus agreement.

Technical Specifications

Each FSRU in our fleet, as well as the *Independence*, *HHI Hull No. 2865, HHI Hull No. 2552, HHI Hull No. 2909* and *SHI Hull No. 2220*, has or will have the following onboard equipment for the vaporization of LNG and delivery of high-pressure natural gas:

- *High-Pressure Cryogenic Pumps*. Each FSRU has, or will have upon delivery from the shipyard, high-pressure cryogenic pumps, which pressurize the LNG prior to vaporization.

- *Vaporizers*. Each FSRU has, or will have upon delivery from the shipyard, vaporizers, which convert the LNG back to vaporous natural gas using heat generated by either steam boilers or seawater.

- *Dual-Fuel Diesel Electric Propulsion Plant*. Each FSRU has, or will have upon delivery from the shipyard, a dual-fuel diesel electric propulsion plant, which provides the power for the vessel's regasification, propulsion and utility systems.

- *Mooring System*. Each of the *Neptune* and the *GDF Suez Cape Ann* is equipped with a submerged turret loading ("STL") offshore mooring system and can also be moored to a jetty. The *PGN FSRU Lampung* is equipped for mooring to a tower yoke. The *Independence*, the *Höegh Gallant,* the *Höegh Grace*, *HHI Hull No. 2865, HHI Hull No. 2552, HHI Hull No. 2909* and *SHI Hull No. 2220* are or will be equipped for quay-side mooring.

- *Gas Export System*. The *PGN FSRU Lampung* has an export pipeline on her bow, which is connected via jumper hoses to the tower yoke. The *Independence*, the *Höegh Gallant*, the *Höegh Grace*, *HHI Hull No. 2865, HHI Hull No. 2552, HHI Hull No. 2909* and *SHI Hull No. 2220* have or will have a high-pressure manifold on the side, to connect to the loading arms on the purpose-built jetties. The *GDF Suez Cape Ann* and *Neptune* have an STL buoy system, but have also been retrofitted with high-pressure gas manifold on the side, which can be connected to loading arms on a jetty.

Each of the *Independence*, *HHI Hull No. 2865, HHI Hull No. 2552, HHI Hull No. 2909* and *SHI Hull No. 2220* is or will be equipped with the same reinforced membrane-type cargo containment system as our current fleet.

Each of the *Neptune* and the *GDF Suez Cape Ann* has a closed-loop regasification system, where heat for vaporization is generated by steam boilers. The *PGN FSRU Lampung*, the *Höegh Gallant,* the *Höegh Grace* and *HHI Hull No. 2552* have or will have open-loop regasification systems, where heat for vaporization is generated by pumping sea water. The *Independence* and *HHI Hull No. 2865* are equipped to operate using a regasification system that is closed-loop, open-loop or a combination of closed-loop and open-loop, i.e. any mix of seawater and steam heating.

HHI Hull No. 2909 and *SHI Hull No. 2220* will have an open loop regasification system, but will also be prepared for retrofitting with a closed and combined loop system.

Each of the *Neptune*, the *GDF Suez Cape Ann*, the *Höegh Gallant*, the *Independence,* the *Höegh Grace*, *HHI Hull No. 2865, HHI Hull No. 2552, HHI Hull No. 2909* and *SHI Hull No. 2220* is or will be capable of operating as a conventional LNG carrier.

Customers

For the years ended December 31, 2016 and 2015, total revenues in the consolidated and combined carve-out statements of income are from EgyptCo and PGN LNG. EgyptCo, a subsidiary of Höegh LNG, has a charter with EGAS. PGN LNG is a subsidiary of PT Perusahaan Gas Negara (Persero) Tbk, an Indonesian publicly listed, government-controlled, gas and energy company that constructs gas pipelines and infrastructure and distributes and transmits natural gas to industrial, commercial and household users. For the year ended December 31, 2014, total revenues in the consolidated and combined carve-out statements of income are from PGN LNG. GDF Suez accounted for 100% of our joint ventures' time charter revenues for the years ended December 31, 2016, 2015 and 2014. GDF Suez is a subsidiary of ENGIE, a French publicly listed, government-backed, electric utility company.

Vessel Time Charters

Our vessels are provided to the applicable charterer by our joint venture or us, as applicable (each, a "vessel owner"), under separate time charters.

A time charter is a contract for the use of a vessel for a fixed period of time at a specified hire rate. Under a time charter, the vessel owner provides the crew, technical and other services related to the vessel's operation, the majority or all of the cost of which is included in the hire rate, and the charterer generally is responsible for substantially all of the vessel voyage costs (including fuel, port and canal fees and LNG boil-off).

Neptune Time Charter

Initial Term; Extensions

The *Neptune* time charter commenced upon acceptance of the vessel by the charterer in November 2009. The initial term of the *Neptune* time charter is 20 years. GDF Suez has the option to extend the time charter for up to two additional periods of five years each.

Performance Standards

Under the *Neptune* time charter, the vessel owner undertakes to ensure that the vessel meets specified performance standards at all times during the term of the time charter. The vessel must maintain a guaranteed speed, consume no more than a specified amount of fuel oil and not exceed a maximum average daily boil-off, all as specified in the time charter. In addition, the vessel owner undertakes that the vessel will be capable of discharging her cargo within a specified time and regasifying and discharging her cargo at not less than a specified rate.

Hire Rate

Under the *Neptune* time charter, hire is payable to the vessel owner monthly, in advance in U.S. Dollars. The hire rate under the *Neptune* time charter consists of three cost components:

- *Fixed Element*. The fixed element is a fixed per day fee providing for ownership costs and all remuneration due to the vessel owner for use of the vessel and the provision of time charter services.

- *Variable (Operating Cost) Element*. The variable (operating cost) element is a fixed per day fee providing for the operating costs of the vessel, which consists of (i) a cost pass-through sub-element, which covers the crew (excluding the extra cost associated with a U.S. crew requirement, which is invoiced separately), insurance, consumables, miscellaneous services, spares and damage deductible costs and is subject to annual adjustment and (ii) an indexed sub-element, which covers management and is subject to annual adjustment for changes in labor costs and the size of the fleet under management.

- *Optional (Capitalized Equipment Cost) Element*. The optional (capitalized equipment cost) element consists of (i) costs associated with modifications to, changes in specifications of, structural changes in or new equipment for the vessel that become compulsory for the continued operation of the vessel by reason of new class requirements or national or international regulations coming into effect after the date of the time charter, subject to specified caps and (ii) costs associated with any new equipment or machinery that the owner and charterer have agreed should be capitalized. Such costs are distributed over the remaining term of the time charter.

While the hire rate under the *Neptune* time charter does not cover drydocking expenses or extra costs associated with a U.S. crew requirement, the charterer will reimburse the vessel owner on a cost pass-through basis.

If GDF Suez exercises its option to extend the *Neptune* time charter beyond its initial term, the hire rate will be determined as set forth above, provided that the fixed element will be reduced by approximately 30%.

The hire rate is subject to deduction by the charterer by, among other things, any sums due in respect of the vessel owner's failure to satisfy the undertakings described under "—Performance Standards" and off-hire accruing during the period. The hire rate is also subject to deduction by the charterer if the vessel owner fails to maintain the vessel in compliance with the vessel's specifications and contractual standards, provide the required crew, keep the vessel at the charterer's disposal or comply with specified corporate organizational requirements and such failure increases the time taken by the vessel to perform her services or results in the charterer directly incurring costs.

Expenses

The vessel owner is responsible for providing certain items and services, which include the crew; drydocking, overhaul, maintenance and repairs; insurance; stores; necessary spare parts; water; inert gas and nitrogen; communication expenses and fees paid to the classification societies, regulatory authorities and consultants. The variable (operating cost) element of the hire rate is designed to cover these expenses. Except for when the vessel is off-hire, the charterer pays for bunker fuels, marine gas oil and boil-off if used or burned while steaming at a reduced rate. Additionally, except for when the vessel is off-hire, the charterer pays for boil-off used to provide power for discharge and regasification; and fuel for inert gas, nitrogen and diesel generators.

Off-hire

Under the *Neptune* time charter, the vessel generally will be deemed off-hire if the vessel is not available for the charterer's use for a specified amount of time due to, among other things:

- failure of an inspection that prevents the vessel from performing normal commercial operations;
- scheduled drydocking that exceeds allowances;
- the vessel's inability to discharge regasified LNG at normal performance;
- requisition of the vessel; or
- the vessel owner's failure to maintain the vessel in compliance with her specifications and contractual standards or to provide the required crew.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire. Notwithstanding the foregoing, hire is not reduced due to an event of off-hire if the event of off-hire does not exceed a specified number of days in any 12-month period.

Ship Management and Maintenance

Under the *Neptune* time charter, the vessel owner is responsible for the technical management of the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. These services are provided to the vessel owner by Höegh LNG Management pursuant to a ship management agreement.

Termination

Under the *Neptune* time charter, the vessel owner is entitled to terminate the time charter if the charterer fails to pay its debts, becomes insolvent or enters into bankruptcy or liquidation.

The charterer is entitled to terminate the time charter and, at its option, convert the time charter into a bareboat charter, if (i) either the vessel owner or any guarantor (a) fails to pay its debts or (b) becomes insolvent or enters into bankruptcy or liquidation or (ii) the vessel owner’s guarantee ceases to be in full force and effect. Furthermore, after the fourth anniversary of the delivery date of the vessel, the charterer has the option to terminate the time charter without cause by providing notice at least two years in advance of the charterer’s election. On the date of such termination, the charterer will pay the vessel owner a specified termination fee, which declines over time and is based upon the year in which the time charter is terminated. Furthermore, the charterer may terminate the time charter if any period of off-hire due to (i) the vessel owner’s failure to maintain the vessel in compliance with her specifications and contractual standards or to provide the required crew exceeds a specified number of days, (ii) damage to the vessel’s cargo containment system as a result of the vessel owner’s failure to comply with cargo and filling level restrictions exceeds a specified number of months or (iii) any reason other than scheduled drydocking or damage to the vessel’s cargo containment system exceeds a specified number of months, unless such period of off-hire is due to the vessel owner’s failure to comply with cargo and filling level restrictions.

After attempting to take mitigating steps for a specified number of days, both the vessel owner and the charterer have the right to terminate the time charter if war is declared in any location that materially interrupts the performance of the time charter. The time charter will terminate automatically if the vessel is lost, missing or a constructive or compromised total loss.

Indemnification

No liability is imposed upon the vessel owner for the death or personal injury of the charterer, its representatives or their estates (collectively, the “GDF Charterer’s Group”) while engaged in activities contemplated by the time charter unless such death or personal injury is by the gross negligence or willful misconduct of the vessel owner, its employees or its agents. Additionally, no liability is imposed upon the vessel owner if any personal property of the GDF Charterer’s Group is damaged, lost or destroyed as a result of the gross negligence or willful misconduct of the vessel owner, its employees or its agents. Similar provisions apply to the charterer in both cases.

However, if any of the charterer's representatives dies or is personally injured while engaged in activities contemplated by the time charter and as a result of the gross negligence or willful misconduct of the vessel owner, its employees or its agents, the vessel owner will indemnify the GDF Charterer's Group, as applicable. Additionally, if any personal property of the GDF Charterer's Group is damaged, lost or destroyed as a result of the gross negligence or willful misconduct of the vessel owner, its employees or its agents, the vessel owner will indemnify the GDF Charterer's Group, as applicable. Reciprocal obligations are imposed on the charterer in both cases.

The charterer will indemnify the vessel owner for losses associated with shipping documents to the extent they were signed as directed by the charterer or based upon information that it provided. In addition, the charterer will indemnify the vessel owner against taxes imposed on the vessel owner or the vessel in respect of hire by any country where loading or discharging of LNG takes place, where the vessel is located or through which the vessel travels, where the charterer is organized, does business or has a fixed place of business or where the charterer makes payments under the time charter, subject to certain exceptions.

The vessel owner will indemnify the charterer, its servants and agents against all losses, claims, responsibilities and liabilities arising from the employment of pilots, tugboats or stevedores, subject to certain exceptions.

The vessel owner will indemnify the charterer against any claim by a third party alleging that the construction or operation of the vessel infringes any right claimed by such third party, including but not limited to patent rights, copyrights, trade secrets, industrial property or trademarks. The charterer will indemnify the vessel owner for all amounts properly payable to the vessel builder if the charterer takes, or requires the vessel owner to take, any action that puts the vessel owner in breach of its intellectual property rights obligations under the vessel building contract.

Guarantee

Pursuant to the *Neptune* time charter, both Höegh LNG Ltd. and MOL guarantee the performance and payment obligations of the vessel owner under the time charter. Such guarantee is joint and several as to performance obligations and several as to payment obligations. If the guarantee is not maintained, the charterer may terminate the time charter.

Subcharter Provisions

GDF Suez entered into a subcharter to provide the *Neptune* as an FSRU for the Etki Terminal in Izmir province on the west coast of Turkey, pursuant to which GDF Suez and SRV Joint Gas Ltd. amended the *Neptune* time charter in December 2016 (the "*Neptune* charter amendments"). The *Neptune* charter amendments apply only during the term of the subcharter.

In connection with the subcharter, the charterer will after the expiration of the subcharter, reimburse the costs of reinstating the vessel, during which times the vessel will be on-hire. The charterer is also required to compensate the vessel owner for time spent and reasonable, direct and documented costs and expenses incurred in connection with the subcharter and arrange for the importation, stay and exportation into and from Turkey of the *Neptune* and any materials or equipment needed for the vessel owner's performance of the subcharter. The charterer will indemnify the vessel owner for (i) costs, claims or losses that the vessel owner incurs as a consequence of the subcharter, except that the vessel owner's liability for any tortious act (which includes negligence) to any third party will be treated in the same manner as under the original charter, and (ii) any Turkish tax implications. During the term of the subcharter and while the vessel is not on a voyage as an LNG carrier, certain amendments to the time charter apply, including the following:

- the charterer will provide port and marine facilities capable of receiving the vessel and berths and places that the vessel can safely reach and return from;
- in lieu of the off-hire provision, hire will be reduced proportionately to the extent the vessel does not achieve the specified discharge rate of regasified LNG or fails to meet other performance specifications;
- the maintenance provisions and allowances differ;
- a right of charterer to change the manager of the *Neptune* if the average commercial availability of the regasification system falls below certain thresholds; and
- performance standards different from those described above under "—Performance Standards," pursuant to which the vessel owner undertakes to ensure that the vessel delivers the nominated discharge rate in accordance with the daily curve agreed with the charterer, is capable of regasifying LNG in a closed-loop heating mode at a specified pressure and temperature and regasifies and discharges her cargo at neither less nor more than a specified LNG discharge rate, among others.

GDF Suez Cape Ann Time Charter

Initial Term; Extensions

The *GDF Suez Cape Ann* time charter commenced upon acceptance of the vessel by the charterer in June 2010. The initial term of the *GDF Suez Cape Ann* time charter is 20 years. GDF Suez has the option to extend the time charter for up to two additional periods of five years each. From November 2013 until January 3, 2017, the *GDF Suez Cape Ann* operated as an FSRU pursuant to a subcharter between GDF Suez and CNOOC Tianjin LNG Limited Company ("CNOOC TLNG").

GDF Suez entered into a subcharter with CNOOC TLNG, pursuant to which GDF Suez and SRV Joint Gas Two Ltd. amended the *GDF Suez Cape Ann* time charter in June 2012 and November 2013. Such amendments applied only during the term of the subcharter. Additionally, GDF Suez, CNOOC TLNG, CNOOC and SRV Joint Gas Two Ltd. entered into ancillary agreements, pursuant to which they allocated responsibility for liabilities associated with their activities at the Tianjin LNG terminal.

The terms of the *GDF Suez Cape Ann* time charter are substantially similar to those of the *Neptune* time charter unmodified by the *Neptune* charter amendments.

Guarantee

Pursuant to the *GDF Suez Cape Ann* time charter, both Höegh LNG Ltd. and MOL guarantee the performance and payment obligations of the vessel owner under the time charter. Such guarantee is joint and several as to performance obligations and several as to payment obligations. If the guarantee is not maintained, the charterer may terminate the time charter.

PGN FSRU Lampung Time Charter

Under a lease, operation and maintenance agreement, which we refer to as a time charter, we provide to PGN LNG the services of the *PGN FSRU Lampung*, which is moored at the Mooring owned by PGN LNG and located approximately 16 kilometers off the shore of Labuhan Maringgai at the southeast coast of Sumatra, Indonesia. Also

under the time charter, we operate and maintain the Mooring.

Initial Term; Extensions

The long-term time charter for the *PGN FSRU Lampung* with PGN LNG has an initial term of 20 years from the acceptance date of October 30, 2014. The time charter hire payments began July 21, 2014 when the project was ready to begin commissioning. At any time on or before 17 years and 183 days after acceptance, PGN LNG may exercise its option to extend the time charter for either five or 10 years. If the term is extended for five years pursuant to such option, at any time on or before the date that is 22 years and 183 days after acceptance, PGN LNG may exercise its option to extend the time charter for a subsequent five years.

Performance Standards

Under the *PGN FSRU Lampung* time charter, the vessel owner makes certain performance warranties for the term of the time charter, excluding time during which the vessel is off-hire or in lay-up or a failure to satisfy any such warranty due to a "Lampung Charterer Risk Event" (which includes, among other things, any breach, act, interference or omission by the charterer that prevents or interferes with the vessel owner's performance under the time charter) or an event of force majeure, including the following:

· the management warranties, which consist of the following:

· the vessel complies with specifications; is classed by Det Norske Veritas GL; is in good order and condition and fit for service; and has onboard all certificates, documents, approvals, permits, permissions and equipment required by Det Norske Veritas GL or any law necessary for the vessel to carry out required operations on the Mooring;

· the vessel owner provides shipboard personnel in accordance with specified terms;

· the vessel owner loads LNG in accordance with specified procedures; operates all equipment in a safe and proper manner and as required by Indonesian law; keeps up-to-date records and logs; uses reasonable endeavors to cooperate with the charterer to comply with and satisfy any requirements of any governmental authority; stows LNG properly and keeps a strict account of all LNG loaded, boil-off and regasified LNG discharged; and exercises due diligence and good industry practice to minimize venting of boil-off; and

- the vessel owner provides and pays for all provisions, wages and discharging fees and all other expenses related to the master, officers and crew; insurance; spare parts and other necessary stores, including lubricating oil; drydocking in emergency cases, maintenance and repairs; certificates; customs or import duties arising in connection with any of the foregoing; and consents, licenses and permits required by governmental authorities to be in the vessel owner's name (collectively, the "Lampung Vessel Owner Expenses");
- the vessel receives LNG in accordance with a specified nominating loading rate;
- the vessel consumes fuel at or below a specified amount;
- during a nomination period, the vessel delivers regasified LNG at a specified average rate;
- during a period in which there is no regasification send-out, no LNG transfer or cargo tank cool down ongoing and no LNG pump running in any cargo tank, the amount of boil-off does not exceed a specified percentage of cargo capacity per day;
- the boil-off recondenser is able to recondense boil-off gas for the days when the vessel is sending out regasified LNG; and
- the cargo capacity of the vessel does not exceed the aggregate volume of LNG that can be stored in the cargo tanks of the vessel.

Hire Rate

Under the *PGN FSRU Lampung* time charter, hire is payable to the vessel owner monthly, in arrears in U.S. Dollars. The hire rate under the *PGN FSRU Lampung* time charter consists of three cost components:

- *Capital Element*. The capital element is a fixed per day fee, which is intended to cover remuneration due to the vessel owner for use of the vessel and the provision of time charter services.
- *Operating and Maintenance Element*. The operating and maintenance element is a fixed per day fee, subject to annual adjustment, which is intended to cover the operating costs of the vessel, including manning costs, maintenance and repair costs, consumables and stores costs, insurance costs, management and operational costs, miscellaneous costs and alterations not required by Det Norske Veritas GL to maintain class or the IMO.

- *Tax Element*. The tax element is a fixed per day fee, equal to the vessel owner's reasonable estimate of the tax liability for that charter year divided by the number of days in such charter year. If the vessel owner receives a tax refund or credit, the vessel owner will pay such amount to the charterer. Similarly, if any audit required by the time charter reveals that the vessel owner's reasonable estimate of the tax liability varied from the actual tax liability, the vessel owner or the charterer, as applicable, will pay to the other party the difference in such amount.

If PGN LNG exercises an option to extend the *PGN FSRU Lampung* time charter beyond its initial term, the hire rate will be determined as set forth above, provided that the capital element will be increased by 50% and the operating and maintenance element will equal cost pass-through.

The hire rate is subject to adjustment if any change in Indonesian law or tax occurs that alters the vessel owner's performance of the time charter or the charterer requires the vessel owner to lay-up the vessel.

Furthermore, the hire rate is subject to deduction by the charterer for sums due in respect of the vessel owner's failure to satisfy the performance warranties or if, as a result of an event of force majeure and subject to specified exceptions, the regasification flow rate is less than that required to meet the quantity nominated. However, any deduction for the vessel owner's failure to satisfy the performance warranties may not exceed the aggregate of the capital element and the operating and maintenance element for that day; provided, that such cap does not apply to the vessel owner's failure to satisfy specified fuel consumption or boil-off warranties.

The charterer will pay the vessel owner the hire rate for time lost due to a Lampung Charterer Risk Event.

Expenses

The vessel owner is responsible for providing certain items and services, which include the Lampung Vessel Owner Expenses and the supply of all LNG required for gassing up and cooling of the vessel. The vessel owner pays for non-Indonesian taxes and alterations required by Det Norske Veritas GL to maintain class or the IMO. The vessel owner also will provide, at its expense, accommodation space for at least two of the charterer's employees responsible for coordinating terminal operations onshore and offshore, provided that the charterer reimburses the vessel owner for the cost of provisions supplied to such employees.

The charterer pays for make-up of bunker fuels provided by the vessel owner and during tests; regasified LNG for use as fuel; port charges, pilotage, towing, mooring, agency fees or customs or import duties; duties, levies and taxes relating to unloading; costs and expenses relating to terminal security required by the International Ship and Port Facility Security Code (the "ISPS Code"); and mooring, periodic maintenance, repairs, insurance, inspections and surveys beyond daily inspections and capital spares. The charterer also pays for Indonesian taxes and alterations not required by Det Norske Veritas GL to maintain class or the IMO.

Off-hire

Under the *PGN FSRU Lampung* time charter, the vessel generally will be deemed off-hire if she is not available for the charterer's use for a specified amount of time due to, among other things:

- drydocking that exceeds allowances;
- the vessel failing to satisfy specified operational minimum requirements, except as a result of a Lampung Charterer Risk Event or an event of force majeure; or
- the vessel owner's failure to satisfy the management warranties described above under "—Performance Standards."

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire. Notwithstanding the foregoing, hire is not reduced due to an event of off-hire if the event of off-hire does not exceed a specified number of hours in any 12-month period.

Technical Support

Under the *PGN FSRU Lampung* time charter, the vessel owner is responsible for the technical support services with respect to the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. These services are provided by Höegh LNG Management pursuant to the technical information and services agreement between the vessel owner and Höegh Norway and the sub-technical support agreement between Höegh Norway and Höegh LNG Management.

Termination

Under the *PGN FSRU Lampung* time charter, the charterer is entitled to terminate the time charter for the following reasons:

- if, due to one of several specified events of force majeure ("Lampung Nongovernmental Force Majeure") that results in physical damage to the vessel or the Mooring in respect of which insurance proceeds are payable under the loss of hire insurance and hull and machinery insurance ("Lampung Vessel Force Majeure"), the vessel owner is unable to comply with nominations for a specified number of days;

- if, due to an event of force majeure that is not Lampung Nongovernmental Force Majeure or Lampung Vessel Force Majeure ("Lampung Other Force Majeure"), the vessel owner is unable to comply with nominations for a specified number of days; or

- if there has been an event of force majeure caused by the Indonesian government ("Lampung Governmental Force Majeure") during a specified number of days.

If the charterer terminates for Lampung Other Force Majeure or Lampung Governmental Force Majeure, the charterer will pay the vessel owner a specified termination fee based upon the year in which the time charter is terminated.

Additionally, after the occurrence of an event of default by the vessel owner, and while such event of default continues, the charterer may terminate the time charter. If the charterer terminates the time charter for certain events of default that the vessel owner intentionally or deliberately committed for the purpose of terminating the time charter so that the vessel owner could employ the vessel with a third party, the vessel owner will transfer the vessel's title to the charterer.

The vessel owner may terminate the time charter after the occurrence of an event of default by the charterer while such event of default continues. If the charterer fails to pay invoiced amounts when due and such failure continues for a specified number of days following notice from the vessel owner, the vessel owner may suspend its performance and remain on-hire until such failure is corrected.

If the time charter is terminated by the vessel owner for an event of default of the charterer, the charterer will pay the vessel owner a specified termination fee based upon the year in which the time charter is terminated. Under such circumstances, as well as if the time charter is terminated by the charterer for Lampung Governmental Force Majeure, the vessel owner may require that the parties begin negotiation of terms under which the vessel owner would be willing to sell to the charterer a 50% ownership interest in the vessel for a specified amount that declines over time and is based upon the year in which the time charter is terminated. If the charterer terminates the time charter for force majeure other than Lampung Governmental Force Majeure or an event of default of the vessel owner, the charterer may require the parties to begin such negotiation.

The time charter will terminate automatically if the vessel is lost or a constructive total loss.

Indemnification

For losses arising out of claims for illness or injuries to or death of any employees of the vessel owner, the vessel owner's affiliates, certain subcontractors of the vessel owner, persons contracting with the vessel owner under the building contract or the Mooring contract and representatives of each of the foregoing (collectively, the "Lampung Owner's Group"), the vessel owner will indemnify the charterer, certain affiliates and subcontractors of the charterer, persons executing tug charters and terminal use agreements, persons receiving regasified LNG delivered by the vessel and representatives of each of the foregoing (collectively, the "Lampung Charterer's Group"). Reciprocal obligations are imposed on the charterer.

For losses arising out of claims for damage to or loss of the vessel or property, equipment or materials owned or leased by any member of the Lampung Owner's Group, the vessel owner will indemnify the Lampung Charterer's Group. Similarly, the charterer will indemnify the Lampung Owner's Group for losses arising out of claims for damage

to or loss of property, equipment or materials owned or leased by any member of the Lampung Charterer's Group or LNG stored on the vessel or the Mooring.

For losses arising from pollution or contamination created by the vessel or the operation thereof or the Mooring, the vessel owner will indemnify the Lampung Charterer's Group; provided, that the vessel owner's aggregate liability for each applicable accident will not exceed $150,000,000. For losses arising from pollution or contamination created by, or directly related to, the operation of the downstream pipeline, any LNG carrier or any vessel operating under a tug charter, the charterer will indemnify the Lampung Owner's Group.

Purchase Option

PGN LNG was granted an option to purchase the *PGN FSRU Lampung* at specified prices based upon the year in which the option is exercised. Such option to purchase may be exercised commencing in June 2018; however, it may not be exercised if either of the charter extension options has expired without exercise. The option is exercisable upon PGN LNG giving us notice specifying the time and date of delivery, which must be after the third anniversary of the date of delivery. The option to purchase survives termination of the time charter. Please read "Item 3.D. Risk Factors—Risks Inherent in Our Business—PGN LNG and SPEC have options to purchase the *PGN FSRU Lampung* and *Höegh Grace*, respectively. If either charterer exercises its option, it could have a material adverse effect on our operating cash flows and our ability to make cash distributions to our unitholders."

Guarantee

Pursuant to the *PGN FSRU Lampung* time charter, Höegh LNG guarantees the due and proper performance by PT Höegh of all its obligations and liabilities under the time charter.

Höegh Gallant Time Charter

Term

The *Höegh Gallant* lease and maintenance agreement (the "*Höegh Gallant* time charter") commenced in April 2015. The term of the *Höegh Gallant* time charter is 5 years.

Performance Standards

Under the *Höegh Gallant* time charter, the vessel owner undertakes to maintain the vessel in accordance with international standards, provide a suitably qualified marine crew and comply with applicable laws, rules and regulation at all times during the term of the time charter.

Hire Rate

Under the *Höegh Gallant* time charter, hire to the vessel owner is payable monthly, in arrears, with the rate denominated 90% in U.S. Dollars and 10% in EGP. The hire rate under the *Höegh Gallant* time charter has only one component, which is intended to cover remuneration due to the vessel owner for use of the vessel and the provision of time charter services as well as the operating and maintenance costs of the vessel, including manning costs, the cost of spare parts and any tax incurred.

The *Höegh Gallant* time charter does not have any pass-through provisions for drydocking expenses.

A price review of the hire rate may be conducted after three years, but a revised rate can only be implemented upon written agreement by both parties.

Höegh LNG guarantees the payment of hire by the charterer (EgyptCo) under the *Höegh Gallant* time charter but only to the extent that the failure of the charterer to pay such hire is caused by (a) the breach by EGAS of its obligation to pay hire under EgyptCo's charter with EGAS (and the charterer is unable to draw upon EGAS' performance

guarantees) or (b) the certain force majeure events under the EGAS charter.

Expenses

The vessel owner is responsible for providing certain items and services, which include the crew; bunker fuel, drydocking, overhaul, maintenance and repairs; insurance; stores; necessary spare parts; communication expenses and fees paid to the classification societies, regulatory authorities and consultants. The hire rate is designed to cover these expenses except for when the vessel is off-hire. The charterer pays for port and light dues.

Off-hire

Under the *Höegh Gallant* time charter, the vessel generally will be deemed off-hire if she is not available for the charterer's use due to, among other things:

- drydocking or other repairs and maintenance;
- any damage, defect, breakdown or deficiency to the vessel;
- any deficiency of crew, stores, repairs, surveys, or similar cause preventing the working of the vessel;
- any labor dispute, failure or inability of the officers or crew to perform the required services; or
- any failure to comply with laws, regulations or operational practices at the site of the vessel operations.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire. Except for force majeure events and a specified maintenance allowance period, the vessel owner will be obligated to indemnify the charterer (up to a specified cap) for losses suffered during off-hire, including loss of earnings and certain liquidated damages payable under the charterer's charter with EGAS.

Ship Management and Maintenance

Under the *Höegh Gallant* time charter, the vessel owner is responsible for the technical management of the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. The crew is provided to the vessel owner by Höegh Maritime Management pursuant to a secondment agreement. The remaining services are provided to the vessel owner by Höegh LNG Management pursuant to a ship management agreement.

Termination

Under the *Höegh Gallant* time charter, the vessel owner is entitled to terminate the time charter if the charterer fails to pay its hire, debts, becomes insolvent, enters into bankruptcy or liquidation or otherwise materially breaches the terms of the charter.

The charterer is entitled to terminate the time charter if (i) the vessel owner (a) fails to pay its debts or is otherwise insolvent, (b) enters into bankruptcy or liquidation, (c) fails to maintain insurance or classification or (d) is otherwise in material breach of the terms of the agreement or (ii) the vessel is unavailable for the charterer for a specified period of days in any contract year. Furthermore, following the expiration of the third year of the contract term, the charterer may request to meet with the vessel owner to seek mutual agreement on terms for early termination of the time charter. After attempting to take mitigating steps, both the vessel owner and the charterer have the right to terminate the time charter if war is declared at the vessel site. The time charter will terminate automatically if the vessel is lost, missing or a constructive or compromised total loss.

Indemnification

The charterer will indemnify the vessel owner for any damage or loss of property, death or personal injury of the charterer, its affiliates or their contractors (collectively, the “Charterer Indemnified Parties”) regardless of cause or whether or not the negligence, omission or default of the vessel owner, its affiliates or their contractors (collectively, the “Owner Indemnified Parties”) caused or contributed to the damages. The charter will indemnify the Owner Indemnified Parties for (i) all damage and harm to the environment, including damages for control remediation and clean up of all pollution arising from pollution, which originates from the property of any Charterer Indemnified Parties, regardless of fault or whether or not the negligence, omission or default of the Owner Indemnified Parties caused or contributed to the damages and (ii) losses caused by any non-compliance with sanctions as a consequence of the charterer's use of the vessel.

The vessel owner will indemnify the charterer for any damage or loss of the vessel and of its property and any cargo on board, and any death or personal injury of the Owner Indemnified Parties regardless of cause or whether or not the negligence, omission or default of the Charterer Indemnified Parties caused or contributed to the damages. The vessel owner will indemnify the Charterer Indemnified Parties for all damage and harm to the environment, including damages for control remediation and clean up of all pollution arising from pollution, which originates from the vessel, regardless of fault or whether or not the negligence, omission or default of the Charterer Indemnified Parties caused or contributed to the damages.

Each of the vessel owner and the charterer will indemnify the other party for any loss, damage to any property or injury or death arising out of the time charter suffered by any third party, for which the vessel owner or charterer, as applicable, is responsible.

Höegh Grace Charter

The *Höegh Grace* is subject to two material agreements with SPEC: an International Leasing Agreement, pursuant to which Höegh FSRU IV leases the vessel to SPEC (the "ILA") and the FSRU Operation and Services Agreement, pursuant to which Höegh Colombia provides certain operational services to SPEC with respect to the vessel (the "OSA"). The ILA and the OSA are collectively referred to herein as the "*Höegh Grace* charter".

Term and Termination

The *Höegh Grace* charter has a term of 20 years. Each party has an unconditional option to cancel the *Höegh Grace* charter after 10 and 15 years without a penalty. However, if the charterer waives its right to terminate in year 10 within a certain deadline, the vessel owner will not be able to exercise its right to terminate in year 10. Accordingly, the non-cancellable charter period is for 10 years.

There are certain conditions under which the *Höegh Grace* charter could terminate prior to its expiration date. The charter will terminate automatically upon the loss of the vessel. Either party may also terminate the charter for force majeure after a specified period. Additionally, either party may elect to terminate the charter upon the occurrence of specified events of default. The charterer also has the right to terminate the charter in the event of a prolonged off-hire period. If the ILA is terminated for any reason, the OSA will automatically terminate as well.

Performance Standards

Under the *Höegh Grace* charter, the vessel owner undertakes to ensure that the vessel meets specified performance standards at all times during the term of the charter. The vessel owner is required to pay liquidated damages in the event that the *Höegh Grace* is unable to accept all or part of a delivered LNG cargo, is unable to deliver the specified amount of regasified natural gas, exceeds a maximum average daily boil-off, consumes more than a specified amount of fuel or suffers other performance failures, which damages are subject to various caps per cargo, per year and in the aggregate for the term of the *Höegh Grace* charter.

Hire Rate

Under the *Höegh Grace* charter, hire is payable monthly, in arrears, in U.S. Dollars. The charterer pays a fixed daily rate of hire (with respect to the ILA) and operating fees (with respect to the OSA), as set forth in the *Höegh Grace* charter. Under the OSA, the operating fees are escalated yearly by a fixed percentage, and the OSA provides for a review and reasonable adjustment by the parties if the actual operating costs increase by more than such percentage over a period of three consecutive years.

Expenses

The vessel owner is responsible for providing certain items and services, which include the crew; bunker fuel, drydocking, overhaul, maintenance and repairs; insurance; stores; necessary spare parts; communication expenses and fees paid to the classification societies and regulatory authorities. The hire rate is designed to cover these expenses except for when the vessel is off-hire. The charterer pays for fuel oil and port expenses.

Off-hire

Except for force majeure events and a specified maintenance allowance period, under the *Höegh Grace* charter the vessel generally will be deemed off-hire:

- if the vessel is not able to discharge regasified LNG at a specified rate;
- if the vessel owner breaches its warranties related to international sanctions; or
- if the vessel is not available for the charterer's use due to, among other things:
  - any damage, defect, breakdown or deficiency to the vessel;
  - any deficiency of crew, stores, repairs, surveys, or similar cause preventing the working of the vessel;
  - any labor dispute, failure or inability of the officers or crew to perform the required services; or
  - any failure to comply with laws, regulations or operational practices at the site of the vessel operations.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire.

Ship Management and Maintenance

Under the *Höegh Grace* charter, the vessel owner is responsible for the technical management of the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. The vessel owner has entered into services agreements with affiliates of Höegh LNG and Höegh Autoliners Ltd. to provide certain of these services. See "Item 7.B. Related Party Transactions—Ship Management Agreements and Sub-Technical Support Agreement" and "—*Höegh Grace* Services Agreements".

Indemnification

The charterer will indemnify the vessel owner for any damage or loss to the charterer’s vessel interconnection infrastructure, including the jetty and interconnection pipeline, or to any other property, death or personal injury of the charterer, its affiliates or their contractors (collectively, the “Charterer Indemnified Parties”) regardless of cause or whether or not the negligence, omission or default of the vessel owner, its affiliates or their contractors (collectively, the “Owner Indemnified Parties”) caused or contributed to the damages. The charter will indemnify the Owner Indemnified Parties for all damage and harm to the environment, including fines imposed by a governmental authority, including damages for control, remediation and clean up of all pollution or contamination that originates from the charterer’s vessel interconnection infrastructure, including the jetty and interconnection pipeline, or any other property of any Charterer Indemnified Parties, regardless of fault.

The vessel owner will indemnify the charterer for any damage or loss of the vessel and of its property, and any death or personal injury of the Owner Indemnified Parties regardless of cause or whether or not the negligence, omission or default of the Charterer Indemnified Parties caused or contributed to the damages. The vessel owner will indemnify the Charterer Indemnified Parties for all damage and harm to the environment, including fines imposed by a governmental authority, including damages for control, remediation and cleanup of all pollution or contamination that originates from the vessel, regardless of fault.

Each of the vessel owner and the charterer will indemnify the other party for any loss, damage to any property or injury or death suffered by any third party, caused by the vessel owner or charterer, as applicable.

Purchase Option

Pursuant to the *Höegh Grace* charter, the charterer has the option to purchase the *Höegh Grace* in year 10, year 15 and year 20 at a price specified in the *Höegh Grace* charter. The option is exercisable upon the charterer giving notice at the end of the applicable term and survives any early termination of the charter in year 10 or year 15 thereof. Please read “Item 3.D. Risk Factors—Risks Inherent in Our Business—PGN LNG and SPEC have options to purchase the *PGN FSRU Lampung* and *Höegh Grace*, respectively. If either charterer exercises its option, it could have a material adverse effect on our operating cash flows and our ability to make cash distributions to our unitholders.”

Guarantee

The Partnership guarantees the performance of Höegh FSRU IV and Höegh Colombia under the *Höegh Grace* charter.

Shareholder Agreements

The following provides a summary of the governance, distribution and other significant terms of our shareholders' agreements.

SRV Joint Gas Shareholders' Agreement

We hold our interests in two vessels in our fleet through the following joint ventures (collectively, the "SRV Joint Gas joint ventures"):

- SRV Joint Gas Ltd. (owner of the *Neptune*), a limited liability company incorporated under the laws of the Cayman Islands, 50% of the equity interests of which are owned by our operating company, 48.5% of which are owned by MOL, and 1.5% of which are owned by TLT; and
- SRV Joint Gas Two Ltd. (owner of the *GDF Suez Cape Ann*), a limited liability company incorporated under the laws of the Cayman Islands, 50% of the equity interests of which are owned by our operating company, 48.5% of which are owned by MOL and 1.5% of which are owned by TLT.

The SRV Joint Gas joint ventures are governed by the SRV Joint Gas shareholders' agreement. As a result, the terms and conditions for each of the SRV Joint Gas joint ventures are substantially the same.

The SRV Joint Gas shareholders' agreement provides that the management of each of the SRV Joint Gas joint ventures will be carried out by a board of directors consisting of four members. We have the right to appoint two members to each board of directors, and MOL has the right to appoint the remaining two members. Additionally, as long as TLT holds at least 1.5% of the shares in an SRV Joint Gas joint venture, it may appoint an observer to attend any meeting of the board of directors of such joint venture.

Pursuant to the SRV Joint Gas shareholders' agreement, neither we nor our joint venture partners exercise affirmative control over either of the SRV Joint Gas joint ventures. The approval of a majority of the members of the board of directors of an SRV Joint Gas joint venture is required to consent to any proposed action by such joint venture and, as a result, we are unable to cause such joint venture to act in our best interests over the objection of our joint venture partners. Moreover, a deadlocked dispute that cannot be resolved by the board of directors or the senior executives of the applicable joint venture may result in the transfer of our interest in such joint venture to our joint venture partners or a third party. Please read "Item 3.D. Risk Factors—Risks Inherent in Our Business—We are a holding entity that has historically derived a significant amount of our income from equity interests in our joint ventures. Neither we nor our joint venture partners exercise affirmative control over our joint ventures. Accordingly, we cannot require our joint ventures to act in our best interests. Furthermore, our joint venture partners may prevent our joint ventures from taking action that may otherwise be beneficial to us, including making cash distributions to us. A deadlock between us and our joint venture partners could result in our exchanging equity interests in one of our joint ventures for the equity interests in our other joint venture held by our joint venture counterparties or in us or our joint venture partner selling shares in a joint venture to a third party."

Additionally, certain matters relating to our joint venture partners require the unanimous approval of the board of directors of the applicable SRV Joint Gas joint venture, including:

- agreement of any form of time charter to be entered into by such SRV Joint Gas joint venture and any material amendment to such time charter;
- agreement of any form of ship management agreement to be entered into by such SRV Joint Gas joint venture;
- agreement of the terms of any financing of the *Neptune* or the *GDF Suez Cape Ann*, as applicable, or any other financing exceeding $5,000,000;
- investments exceeding $2,500,000 for an SRV Joint Gas joint venture or $5,000,000 for both SRV Joint Gas joint ventures;
- amendment or change of the articles of association, business or composition of the board of directors of such SRV Joint Gas joint venture;
- issuance of, or granting of options or rights to subscribe for, shares in such SRV Joint Gas joint venture, issuance of loan capital or convertible securities of such SRV Joint Gas joint venture, alteration of the share capital of such SRV Joint Gas joint venture or formation of any subsidiary;
-

granting any security over shares of such SRV Joint Gas joint venture other than in accordance with the applicable security documents;

- acquisition of other companies;

- entering into joint ventures and other long-term cooperation with third parties;

- taking any action in respect of a significant contractual dispute, including commencement and defending any action or settling any dispute; and

- sale of the *Neptune* or the *GDF Suez Cape Ann*.

Höegh LNG, MOL and TLT made loans to each of the SRV Joint Gas joint ventures, in part to finance the operations of such joint ventures. In connection with the IPO, Höegh LNG's shareholder loans to each of the joint ventures were transferred to our operating company. For a description of the shareholder loans, please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Joint Ventures Debt—Loans Due to Owners (Shareholder Loans)."

Under the SRV Joint Gas shareholders' agreement, the board of directors of an SRV Joint Gas joint venture is responsible for determining the amount of profits to be distributed each financial year. Distributions must first be used to repay the principal of the shareholder loans. Subsequent distributions are permitted but are subject to (i) preexisting financial agreements between such SRV Joint Gas joint venture and its lenders and (ii) prudent maintenance of reserve accounts.

Pursuant to the SRV Joint Gas shareholders' agreement, in order for a party to transfer its shares, it must provide written notice and establish a fair price evaluation of the shares proposed to be transferred. Additionally, such party must permit the remaining parties (excluding TLT) to acquire such shares or sell their shares to the proposed transferor at the same price as the proposed transfer.

The SRV Joint Gas shareholders' agreement also contemplates certain events that, upon occurrence and failure to cure, if a cure period is allowed, will give rise to a potential exchange of shares or a liquidation of such joint venture. These events include a party's failure to make required payments, default in any material duties and/or obligations, insolvency and change of control, pursuant to which such party is acquired by a direct competitor. If one of these events occurs, we and our joint venture partners will attempt to exchange shares so that our operating company, on the one hand, will own 100% of one SRV Joint Gas joint venture, and MOL and TLT, on the other hand, will own 100% of the other SRV Joint Gas joint venture. If such an exchange cannot be agreed upon, then the party not in default, not insolvent or not undergoing a change of control may either purchase the shares and the shareholder loans from the other parties or demand termination of the SRV Joint Gas shareholders' agreement and a liquidation of the applicable SRV Joint Gas joint venture.

Until the termination of the SRV Joint Gas shareholders' agreement, Höegh LNG has agreed to continue to own common units and subordinated units representing a greater than 25% limited partner interest in us in the aggregate. In addition, Höegh LNG will be required to continue to directly or indirectly maintain the ability to control our general partner pursuant to an agreement with MOL.

The SRV Joint Gas shareholders' agreement terminates when one party holds a 100% interest in the SRV Joint Gas joint ventures or a party not in default, not insolvent or not undergoing a change of control elects to terminate the agreement.

PT Höegh Shareholders' Agreement

We own a 100% equity interest in Höegh Lampung, which owns a 49% equity interest in PT Höegh (the owner of the *PGN FSRU Lampung*). PT Bahtera, an Indonesian company established in February 2013, owns the remaining 51% equity interest in PT Höegh in order to comply with local Indonesian regulations. However, pursuant the Shareholders' Agreement, dated March 13, 2013, between Höegh Lampung and PT Bahtera ("the PT Höegh shareholders' agreement") and the PT Höegh shareholder loan, we have a 100% economic interest in the *PGN FSRU Lampung*.

The board of directors of PT Höegh manages PT Höegh, whereas the board of commissioners of PT Höegh supervise the operation and management of PT Höegh. Both such board of directors and board of commissioners must consist of

between three and five members. Furthermore, Höegh Lampung may appoint three members to each, whereas PT Bahtera may appoint one member. A majority of present members of the board of directors or the board of commissioners, respectively, is required to pass any resolution.

Höegh Lampung and PT Bahtera, in their capacity as shareholders, may also convene general meetings to consider resolutions. Resolutions concerning most matters require the approval of two-thirds of the issued shares for passage. However, resolutions concerning filing for bankruptcy, changes of control, disposal of certain assets or the creation of certain encumbrances require the approval of 75% of the issued shares for passage.

When deadlock (as defined below) occurs, Höegh Lampung has the right to provide notice to, and subsequently confer with, PT Bahtera to resolve the matters giving rise to deadlock. Deadlock occurs under the PT Höegh shareholders' agreement if (i) a quorum is not present at a meeting of the board of directors of PT Höegh, the board of commissioners of PT Höegh or the shareholders as a result of the absence of PT Bahtera or (ii) any resolution proposed at a meeting of the board of directors of PT Höegh, the board of commissioners of PT Höegh and/or the shareholders of PT Höegh is approved by the directors appointed by Höegh Lampung, the commissioners appointed by Höegh Lampung or Höegh Lampung, as applicable, but is not passed.

The board of directors of PT Höegh is responsible for determining the amount of profits to be distributed each financial year. Once this determination is made, and prior to distributing net cash flow, the shares of Höegh Lampung are entitled to 65% of all dividends and distributions, and the shares of PT Bahtera are entitled to 35% of all dividends and distributions.

Höegh Lampung may transfer its shares in PT Höegh to anyone, subject only to the requirement that, upon the request of PT Bahtera, Höegh Lampung procures from the same transferee or an Indonesian entity an offer to purchase PT Bahtera's shares. Conversely, PT Bahtera may transfer its shares only to an affiliate it wholly owns and only if both Höegh Lampung and any applicable lenders consent to the transfer.

At any time or in the event of a default, Höegh Lampung may require PT Bahtera to transfer its shares to Höegh Lampung or any other person it designates. Events of default only apply to PT Bahtera and occur if it fails to pay any amount due and payable under the shareholders' agreement, becomes insolvent, materially breaches the shareholders' agreement, becomes controlled by other people or breaches a financing requirement.

Additionally, in association with the PT Höegh shareholders' agreement, PT Imeco Inter Sarana has guaranteed the performance and obligations of PT Bahtera. Furthermore, pursuant to the PT Höegh shareholders' agreement, Höegh Lampung indemnifies PT Bahtera against liabilities it may suffer as a result of a breach of statutory duty or infringement of laws committed by PT Höegh, a failure by PT Höegh to pay tax, a dispute, litigation or arbitration relating to PT Höegh and all costs, losses, liabilities and claims relating to the *PGN FSRU Lampung* as a result of environmental damage.

The PT Höegh shareholders' agreement terminates when:

- all of the shareholders agree in writing that the agreement should be terminated;
- all of the issued shares in PT Höegh become directly or indirectly owned by the same person; or
- Höegh Lampung requires the other shareholders to dissolve PT Höegh. PT Imeco Inter Sarana has guaranteed the obligations of PT Bahtera under the equity loan agreement pursuant to a deed of guarantee and indemnity.

PT Höegh Shareholder Loan

PT Bahtera, as borrower, entered into an equity loan agreement with Höegh Lampung, as lender, the proceeds of which were used to purchase PT Bahtera's 51% interest in PT Höegh. In connection with this loan, as security, PT Bahtera collaterally assigned its equity interest and any dividends it may receive from PT Höegh to Höegh Lampung for as long as amounts remain outstanding. As a result of the above and the PT Höegh shareholders' agreement, we will be entitled to all of the net cash flows from PT Höegh, after the payment of management, agency and local representation fees.

Höegh Colombia Holding Memorandum and Articles

In connection with our acquisition of a 51% ownership interest in the *Höegh Grace* entities, we and Höegh LNG filed an amended and restated memorandum and articles of association for Höegh Colombia Holding with the Bermuda Registrar of Companies. For a description of the material provisions of the memorandum and articles, please read "Item 7.B. Related Party Transactions—Acquisition of the *Höegh Grace*".

Employees

Other than our Chief Executive Officer and Chief Financial Officer and certain administrative staff in foreign subsidiaries, we do not have any direct employees and rely on the key employees of Höegh Norway and Leif Höegh UK who perform services for us pursuant to the administrative services agreements. Höegh Norway and Höegh LNG Management also provide commercial and technical management services to our fleet pursuant to ship management agreements, the Gallant management agreement, the Höegh Grace Services Agreements, a sub-technical support agreement and commercial and administration management agreements. Höegh Maritime Management also provides crew pursuant to a secondment agreement. Please read "—Maritime Personnel and Competence Development" and "Item 6.A. Directors and Senior Management."

Competition

The FSRU and LNG carrier industries are capital-intensive and operational expertise is critical, which create high barriers to entry. These industries are viewed as an integral part of the LNG industry. A company with a solid track record, knowledge of the market and an experienced, well-trained crew is preferred to a new entrant since the cost and impact of vessel downtime is significant for the customer. Our competitors in the FSRU and LNG carrier industries include BW Maritime Pte. Ltd., Dynagas LNG Partners LP, Excelerate Energy L.P., Exmar NV, GasLog Ltd., GasLog Partners LP, Golar LNG Limited, Golar LNG Partners LP, MOL, OLT and Teekay LNG Partners L.P.

Classification, Inspection and Maintenance

Every large, commercial seagoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of that particular class of vessel as laid down by that society and the applicable flag state. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake to conduct a survey on application or by official order, acting on behalf of the authorities concerned.

Our FSRUs are "classed" as LNG carriers with the additional class notation REGAS-2 signifying that the regasification installations are designed and approved for continuous operation. To ensure continuous compliance, regular and extraordinary surveys of hull and machinery, including the power plant and any special equipment classed, are required to be performed by a class surveyor. For inspection of the underwater parts and for repairs related to intermediate inspections, vessels generally are drydocked, pursuant to a drydock cycle determined by the classification society and the flag state concerned. However, with FSRUs, certain inspections can be done without drydocking, as special measures are available to inspect the underwater parts. If any defects are found, the class surveyor will issue a "recommendation" which must be rectified by the vessel owner within prescribed time limits. The classification society also undertakes other surveys on request of the flag state and checks that regulations and requirements of that flag state are complied with. These surveys are subject to agreements made for each individual survey and flag state concerned.

It is a condition for insurance coverage (i.e., the "seaworthiness" of the vessel) that the vessel is certified as "in class" with a member of the International Association of Classification Societies. Each of our vessels is certified by Det Norske Veritas GL, compliant with the ISM Code, and "in class."

The ship manager carries out inspections of the ships on a regular basis; both at sea and while the vessels are in port, while the classification societies carry out inspections and ship audits to verify conformity with manager's reports. The results of these inspections, which are conducted both in port and underway, are presented in a report containing recommendations for improvements to the overall condition of the vessel, maintenance, improvements to the safety and environmental protection system and to crew welfare. Among others, based on these evaluations, the ship manager creates and implements a program of continuous maintenance and improvement for its vessel and its systems.

Safety, Management of Ship Operations and Administration

Safety is a top priority. Our vessels are operated in a manner intended to protect the safety and health of employees, the general public and the environment. We actively manage the risks inherent in our business and are committed to eliminating incidents that threaten safety, such as groundings, collisions, loss of containment and fire. We are also committed to reducing emissions and waste generation. We have established key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets. Höegh LNG's shore staff performs a full range of technical, commercial and business development services for us. This staff also provides administrative support to our operations in accounting, finance and cash management, legal, commercial insurance and general office administration and secretarial services.

Höegh LNG assists the vessel owners in managing ship operations and maintaining a technical department to monitor and audit ship manager operations. Höegh LNG hold its certifications for and works to the standards of ISO 9001 on Quality Management, ISO 14001 on Environmental Management and OHSAS 18001 Occupational Health and Safety Advisory Services. Additionally, Höegh LNG hold all compliance documents and permits needed to manage and operate LNG carriers and FSRUs. Through Det Norske Veritas GL, Höegh LNG Management has obtained approval of its safety management systems as being in compliance with the ISM Code, on behalf of the appropriate flag state for the vessels in our fleet, which are flagged in Norway and Indonesia. Our vessels' safety management certificates are being maintained through ongoing internal audits performed by Höegh LNG Management and through intermediate audits performed by the flag states or recognized classification societies on its behalf. To supplement our operational experience, Höegh LNG provides expertise in various functions critical to our operations. This affords an efficient and cost-effective operation and, pursuant to commercial and administration management agreements with Höegh Norway and a technical information and services agreement with Höegh Norway, access to accounting, finance and cash management, legal, commercial insurance and general office administration and secretarial services. Critical ship management or technical support functions that will be provided by Höegh LNG Management through its various offices around the world include:

· technical management, maintenance and drydocking;

· crew management;

· procurement, purchasing and forwarding logistics;

· marine operations;

· oil major and terminal vetting compliance;

· shipyard supervision;

· insurance; and

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- financial services.

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management. In addition, Höegh LNG's day-to-day focus on cost control will be applied to our operations. To some extent, the uniform design of some of our vessels and the adoption of common equipment standards should also result in operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair and spare parts ordering.

Maritime Personnel and Competence Development

As of March 31, 2017, entities in the Höegh LNG group employed approximately 450 maritime personnel who serve on our and Höegh LNG's vessels. The Scandinavian employees are employed by Höegh LNG Management. Non-Scandinavian employees, except for seafarers operating the *PGN FSRU Lampung* and the *Höegh Grace*, are employed by Höegh Maritime Management. The seafarers operating the *PGN FSRU Lampung* are employed by PT Höegh. The seafarers operating the *Höegh Grace* are employed by Höegh Colombia. Höegh LNG Management and Höegh Maritime Management will employ and train additional maritime personnel to assist us as we grow. Höegh LNG Management, the ISM-certified company, provides technical management services, including all necessary maritime personnel-related services, to the vessel owners pursuant to the ship management agreements. Please read "Item 7.B. Related Party Transactions—Ship Management Agreements and Sub-Technical Support Agreement."

We regard attracting and retaining competent and motivated seagoing personnel as a top priority. Like Höegh LNG, we offer our seafarers competitive employment packages and opportunities for personal and career development, which relates to a philosophy of promoting internally. The officers and crew operating our vessels are employed on individual employment contracts, which are based on International Transport Federation-Approved Collective Bargaining Agreements (CBAS) and include conditions determined both by the negotiating parties and the flag states. We believe our relationships with these labor unions are good. Höegh LNG currently is a member of the Norwegian Shipowners' Association and is participating in some of the collective bargaining agreement negotiations with trade unions.

Our commitment to training is fundamental to the development of the highest caliber of seafarers for our marine operations. Höegh LNG Management's cadet training approach is designed to balance academic learning with hands-on training at sea. Höegh LNG Management uses only recognized training institutions in Norway and other countries. Höegh LNG Management has cadets from Europe, Asia and the United States. We believe that high-quality crew and training policies will play an increasingly important role in distinguishing the preferred LNG-experienced independent shipping companies from those that are newcomers to LNG and lacking in-house experienced staff and established expertise on which to base their customer service and safety operations.

Risk of Loss, Insurance and Risk Management

The operation of FSRUs, LNG carriers and other LNG infrastructure assets has inherent risks. These risks include mechanical failure, personal injury, collision, property loss, vessel or cargo loss or damage and business interruption due to political circumstances in foreign countries or hostilities. In addition, there is always an inherent possibility of marine disaster, including explosion, spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. We believe that our present insurance coverage is adequate to protect us against the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage consistent with standard industry practice. However, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

We have obtained hull and machinery insurance on all our vessels against marine risks, which include the risks of damage to our vessels, including claims arising from collisions with other vessels or contact with jetties or wharves, salvage or towing costs and also insure against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we will be responsible.

We have also obtained loss of hire insurance to protect us against loss of income in the event the vessel cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policy, our insurer will pay us the hire rate agreed in respect of each vessel for each day, in excess of 20 deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 180 days.

Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a mutual P&I club. This includes third-party liability and other expenses related to the injury or death of crewmembers, passengers and other third-party persons, loss or damage to cargo and other damage to other third-party property, including pollution arising from oil or other substances, and other related costs, including wreck removal.

We have war risk insurance for all our vessels cover standard hull and machinery, protection and indemnity and loss of hire, if the event causing the damage is a war peril. In addition, war risk insurance will also compensate the owner for the total loss of the ship caused by intervention of a foreign state power, or if the ship is prevented from leaving a port or a similar limited area.

Our current protection and indemnity insurance coverage is limited to $3.1 billion for all liabilities, except for pollution, which is limited to $1 billion per vessel per incident, except for *Höegh Gallant* which has a cap of $0.5 Billion. We are a member of the Gard P&I Club, which is one of the 13 P&I clubs that comprises the International Group. Members of the International Group insure approximately 90% of the world's commercial tonnage, and they have entered into a pooling agreement to reinsure each P&I club's liabilities. P&I clubs provide the basic layer of insurance, which is currently $10 million. For members of the International Group, the International Group provides the next layer of insurance, covering liability between $10 million and $90 million. For liabilities above $90 million, the International Group has one of the world's largest reinsurance contracts, with the maximum liability per accident or occurrence currently set at $3 billion. As a member of the Gard P&I Club, we are subject to a call for additional premiums based on the clubs' claims record, as well as the claims record of all other members of the P&I clubs comprising the International Group. However, our P&I club has reinsured the risk of additional premium calls to limit our additional exposure. This reinsurance is subject to a cap, and there is the risk that the full amount of the additional call would not be covered by this reinsurance.

The insurers providing the covers for hull and machinery, loss of hire and protection and indemnity have confirmed that they will consider the FSRUs as vessels for the purpose of providing insurance.

We will use in our operations Höegh LNG's thorough risk management program that includes, among other things, computer-aided risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations. We expect to benefit from Höegh LNG's commitment to safety and environmental protection as certain of its subsidiaries assist us in managing our vessel operations. Höegh LNG Management has been certified under the standards reflected in ISO 9001 for quality assurance and is certified in accordance with the International Marine Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

Environmental and Other Regulation

General

Governmental and international agencies extensively regulate the carriage, handling, storage and regasification of LNG. These regulations include international conventions and national, state and local laws and regulations in the countries where our vessels now or, in the future, will operate or where our vessels are registered. We cannot predict the ultimate cost of complying with these regulations or the impact that these regulations will have on the resale value or useful lives of our vessels. Various governmental and quasi-governmental agencies require us to obtain permits, licenses and certificates for the operation of our vessels.

We believe that we are substantially in compliance with applicable environmental laws and regulations and have all permits, licenses and certificates required for our vessels. In many cases where permits are required from countries to whose jurisdictional waters our vessels have been deployed, the charter party or its customer is responsible for obtaining the permit. A variety of governmental and private entities inspect our vessels on both a scheduled and unscheduled basis. These entities, each of which may have unique requirements and each of which conducts frequent inspections, include classification societies, flag state, or the administration of the country of registry, charterers, terminal operators, LNG producers and local port authorities, such as the U.S. Coast Guard, harbor master or equivalent. Our vessels are subject to inspections on an unscheduled basis and we expect, in the future, they will also be subject to inspection by the applicable governmental and private entities on a scheduled basis. However, future noncompliance or failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

Höegh LNG Management is operating in compliance with the ISO Environmental Standard for the management of the significant environmental aspects associated with the ownership and operation of a fleet of FSRUs and LNG carriers. Höegh Norway received its ISO 9001 certification (Quality Management Systems) in May 2008, which also includes certification of Höegh LNG Management. Höegh Norway also received its certification to the ISO 14001 Environmental Standard, which requires that we and Höegh LNG Management commit managerial resources to act on our environmental policy through an effective management system.

International Maritime Regulations of FSRUs and LNG Carriers

The IMO is the United Nations' agency that provides international regulations governing shipping and international maritime trade. The requirements contained in the International Safety Management Code ("ISM Code") promulgated by the IMO govern our operations. Among other requirements, the ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a policy for safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and also describing procedures for responding to emergencies. Höegh LNG Management holds a Document of Compliance under the ISM Code for operation of the *Neptune* and the *GDF Suez Cape Ann*, and PT Höegh holds a Document of Compliance under the ISM Code for operation of the *PGN FSRU Lampung*. All Documents of Compliance meet the standards set by the IMO.

Vessels that transport gas, including FSRUs and LNG carriers, are also subject to regulation under the International Gas Carrier Code (the "IGC Code"), published by the IMO. The IGC Code provides a standard for the safe carriage of LNG and certain other liquid gases by prescribing the design and construction standards of vessels involved in such carriage. Compliance with the IGC Code must be evidenced by a Certificate of Fitness for the Carriage of Liquefied Gases in Bulk. Each of our vessels is in compliance with the IGC Code, and each of our newbuildings contracts requires that the vessel receive certification of compliance with applicable regulations before she is delivered. Noncompliance with the IGC Code or other applicable IMO regulations may subject a vessel owner or a bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports.

The IMO also promulgates ongoing amendments to SOLAS. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. It requires the provision of lifeboats and other life-saving appliances, requires the use of the Global Maritime Distress and Safety System, which is an international radio equipment and watchkeeping standard, afloat and at shore stations, and relates to the Treaty on the Standards of Training and Certification of Watchkeeping Officers ("STCW"), also promulgated by the IMO. Flag states that have ratified SOLAS and STCW generally employ the classification societies, which have incorporated SOLAS and STCW requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Noncompliance with these types of IMO regulations may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code are prohibited from trading in U.S. and European Union ports.

In the wake of increased worldwide security concerns, the IMO amended SOLAS and added the ISPS Code as a new chapter to that convention. The objective of the ISPS Code, which came into effect on July 1, 2004, is to detect security threats and take preventive measures against security incidents affecting ships or port facilities. Höegh LNG Management has developed Security Plans and appointed and trained Ship and Office Security Officers, and all of our vessels have been certified to meet the ISPS Code. Please read "—Vessel Security Regulations" for a more detailed discussion about these requirements.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulation may have on our operations.

Air Emissions

The MARPOL Convention is the principal international convention negotiated by the IMO governing marine pollution prevention and response. The MARPOL Convention imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, sewage and air emissions. MARPOL 73/78 Annex VI "Regulations for the Prevention of Air Pollution" ("Annex VI") entered into force on May 19, 2005, and applies to all ships, fixed and floating drilling rigs and other floating platforms. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts, emissions of volatile compounds from cargo tanks and incineration of specific substances, and prohibits deliberate emissions of ozone-depleting substances. Annex VI also includes a global cap on sulfur content of fuel oil and allows for special areas to be established in different regions of the world with more stringent controls on sulfur emissions. The certification requirements for Annex VI depend on size of the vessel and time of periodical classification survey. Ships more than 400 gross tons and engaged in international voyages involving countries that have ratified the conventions, or ships flying the flag of those countries, are required to have an International Air Pollution Certificate (an "IAPP Certificate"). Annex VI came into force in the United States on January 8, 2009. All of our vessels currently have IAPP Certificates.

In March 2006, the IMO amended Annex I to the MARPOL Convention, including a new regulation relating to oil fuel tank protection, which became effective August 1, 2007. The new regulation applies to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards. IMO regulations also require owners and operators of vessels to adopt Ship Oil Pollution Emergency Plans. Periodic training and drills for response personnel and for vessels and their crews are required.

On July 1, 2010, amendments proposed by the United States, Norway and other IMO member states to Annex VI took effect that require progressively stricter limitations on sulfur emissions from ships. As of January 1, 2012, fuel used to power ships may not contain more than 3.5% sulfur, with this cap decreasing over time. For fuels used in Emission Control Areas ("ECAs"), the cap settled at 1% in January 2015. For fuels used in all seas, the cap will settle at 0.5% on January 1, 2020. The European Directive 2005/33/EU, which came into effect January 1, 2010, bans the use of fuel oils containing more than 0.1% sulfur by mass by any merchant vessel while at berth in any European Union country. The European Commission continues to review directive 2005/33/EU after adopting a proposal to amend it to bring it into alignment with the latest IMO provisions on the sulfur content of marine fuels. Annex VI Regulation 14, which came into effect on January 1, 2015, set the same 0.1% sulfur limit in the Baltic Sea, North Sea, North America, and United States Caribbean Sea ECAs. Our FSRUs have achieved compliance through use of gas boil-off and low sulfur marine diesel oil in their diesel generators and boilers. The amendments also establish new stringent standards for emissions of nitrogen oxides from new marine engines, depending on their date of installation.

Pursuant to further amendments adopted in April 2014, the Tier III Annex VI requirements for nitrogen oxides will apply to certain newbuild vessels with marine diesel engines that are constructed on or after January 1, 2016, and that operate in the North American or United States Caribbean Sea ECAs.

As discussed in "—U.S. Clean Air Act" below, U.S. air emissions standards are now equivalent to these amended Annex VI requirements. Additional or new conventions, laws and regulations may be adopted in the future and could require the installation of emission control systems. Because our vessels are largely powered by means other than fuel oil we do not anticipate that any emission limits that may be promulgated will require us to incur any material costs for the operation of our vessels but that possibility cannot be eliminated.

Ballast Water Management Convention

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and the territorial waters of the signatory to such conventions. For example, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments (the "BWM Convention") in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with a requirement for treatment. The BWM Convention was ratified by a

sufficient number of countries in September 2016 and the requirement to install ballast water management systems ("BWMS") on new ships will become effective in September 2017. As referenced below, the U.S. Coast Guard issued new ballast water management rules on March 23, 2012, and the U.S. Environmental Protection Agency (the "EPA") issued a new Vessel General Permit in March 2013 that contains numeric technology-based ballast water effluent limitations that will apply to certain commercial vessels with ballast water tanks. From 2016 (or not later than the first intermediate or renewal survey after 2016), only ballast water treatment will be accepted by the BWM Convention. Because the convention has been ratified, installation of approved ballast water treatment systems will be required on the *Neptune* and the *GDF Suez Cape Ann* at the first drydocking after January 1, 2016. Given that ballast water treatment technologies are still at the developmental stage, at this time the additional costs of complying with these rules are unclear, but current estimates suggest that additional costs are not likely to be material.

Bunkers Convention/CLC State Certificate

The International Convention on Civil Liability for Bunker Oil Pollution 2001 (the "Bunker Convention") entered into force in signatory states to the Convention on November 21, 2008. The Bunker Convention provides a liability, compensation and compulsory insurance system for the victims of oil pollution damage caused by spills of bunker oil. The Bunker Convention requires the vessel owner that is liable for pollution damage to pay compensation for such damage (including the cost of preventive measures) caused in the territory, including the territorial sea of a State Party, as well as its economic zone or equivalent area. Registered owners of any seagoing vessel and seaborne craft over 1,000 gross tonnage, of any type whatsoever, and registered in a State Party, or entering or leaving a port in the territory of a State Party, are required to maintain insurance that meets the requirements of the Bunker Convention and to obtain a certificate issued by a State Party attesting that such insurance is in force. The State Party-issued certificate must be carried onboard at all times.

P&I clubs in the International Group issue the required Bunkers Convention "Blue Cards" to enable signatory states to issue certificates. All of our vessels have received "Blue Cards" from their P&I club and are in possession of a CLC State-issued certificate attesting that the required insurance coverage is in force.

Anti-Fouling Requirements

In 2001, the IMO adopted the International Convention on the Control of Harmful Anti-fouling Systems on Ships (the “Anti-fouling Convention”). The Anti-fouling Convention, which entered into force on September 17, 2008, prohibits the use of organotin compound coatings to prevent the attachment of mollusks and other sea life to the hulls of vessels after September 1, 2003. Vessels of over 400 gross tons engaged in international voyages must obtain an International Anti-fouling System Certificate and undergo a survey before the vessel is put into service or when the anti-fouling systems are altered or replaced. We have obtained Anti-fouling System Certificates for all of our vessels, and we do not believe that maintaining such certificates will have an adverse financial impact on the operation of our vessels.

Compliance Enforcement

The flag state, as defined by the United Nations Convention on Law of the Sea, has overall responsibility for the implementation and enforcement of international maritime regulations for all ships granted the right to fly its flag. The “Shipping Industry Guidelines on Flag State Performance” evaluates flag states based on factors such as sufficiency of infrastructure, ratification of international maritime treaties, implementation and enforcement of international maritime regulations, supervision of surveys, casualty investigations and participation at the IMO meetings.

As of January 2016, auditing of flag states that are parties to the SOLAS convention is mandatory and will be conducted under the IMO Instruments Implementation Code (III Code), which provides guidance on implementation and enforcement of IMO policies by flag states. These audits may lead the various flag states to be more aggressive in their enforcement, which may in turn lead us to incur additional costs.

Criminal sanctions including fines and penalties and possible charges against company employees are possible under the laws of various countries. For instance, the European Union directive on ship source pollution imposes criminal sanctions for intentional, reckless or negligent pollution discharges by ships. Implementing laws in the EU could result in criminal liability for pollution from vessels in waters of European countries that adopt implementation legislation. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. Similar consequences are possible for spills in other countries that have enacted similar laws.

U.S. Environmental Regulation of FSRUs and LNG Carriers

Our vessels operating in U.S. waters now or, in the future, will be subject to various federal, state and local laws and regulations relating to protection of the environment. In some cases, these laws and regulations require governmental permits and authorizations before we may conduct certain activities. These environmental laws and regulations may impose substantial penalties for noncompliance and substantial liabilities for pollution that occurs. Failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties. As with the industry generally, our operations will entail risks in these areas, and compliance with these laws and regulations, which may be subject to frequent revisions and reinterpretation, increases our overall cost of business.

Oil Pollution Act and CERCLA

OPA 90 established an extensive regulatory and liability regime for environmental protection and clean-up of oil spills. OPA 90 affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial waters and the 200 nautical mile exclusive economic zone of the United States. CERCLA applies to the discharge of hazardous substances whether on land or at sea. While OPA 90 and CERCLA would not apply to the discharge of LNG, they may affect us because we carry oil as fuel and lubricants for our engines, and the discharge of these could cause an environmental hazard. Under OPA 90, vessel operators, including vessel owners, managers and bareboat or “demise” charterers, are “responsible parties” who are all liable regardless of fault, individually and as a group, for all containment and clean-up costs and other damages arising from oil spills from their vessels. These “responsible parties” would not be liable if the spill results solely from the act or omission of a third party, an act of God or an act of war. The other damages aside from clean-up and containment costs are defined broadly to include:

- natural resource damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, profits or earnings capacity;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

Effective as of July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA 90 liability to the greater of $2,000 per gross ton or $17.088 million for any double-hull tanker that is over 3,000 gross tons (subject to possible adjustment for inflation) (relevant to our and Höegh LNG's vessels). These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. These limits likewise do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. This limit is subject to possible adjustment for inflation. OPA 90 specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states, which have enacted their own legislation, have not yet issued implementing regulations defining vessel owners' responsibilities under these laws.

CERCLA, which also applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages for releases of "hazardous substances." Liability under CERCLA is limited to the greater of $300 per gross ton or $0.5 million for each release from vessels not carrying hazardous substances as cargo or residue, and $300 per gross ton or $5 million for each release from vessels carrying hazardous substances as cargo or residue. As with OPA 90, these limits of liability do not apply where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, by the responsible party's gross negligence or willful misconduct or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA 90 and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. We believe that we are in substantial compliance with OPA 90, CERCLA and all applicable state regulations in the ports where our vessels call.

OPA 90 requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under OPA 90/CERCLA. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA 90 regulations, an owner or operator of more than one vessel is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the vessel having the greatest maximum liability under OPA 90/CERCLA. We currently maintain U.S. Coast Guard National Pollution Funds Center-issued three-year Certificates of Financial Responsibility supported by guarantees that we purchased from an insurance-based provider for all of our vessels.

In response to the BP Deepwater Horizon oil spill, the U.S. Congress is currently considering a number of bills that could potentially increase or even eliminate the limits of liability under OPA 90. Compliance with any new requirements of OPA 90 may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulation applicable to the operation of our vessels that may be implemented in the future could adversely affect our business and ability to make cash distributions to our unitholders.

U.S. Clean Water Act

The CWA prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a permit or exemption, and imposes strict liability in the form of penalties for unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA. The EPA has enacted rules governing the regulation of ballast water discharges and other discharges incidental to the normal operation of vessels within U.S. waters. The rules require commercial vessels 79 feet in length or longer (other than commercial fishing vessels) ("Regulated Vessels") to obtain a CWA permit regulating and authorizing such normal discharges. This permit, which the EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels (the "VGP"), incorporates the current U.S. Coast Guard requirements for ballast water management, as well as supplemental ballast water requirements, and includes limits applicable to 26 specific discharge streams, such as deck runoff, bilge water and gray water. For each discharge type, among other things, the VGP establishes effluent limits pertaining to the constituents found in the effluent, including best management practices (the "BMPs") designed to decrease the amount of constituents entering the waste stream. Unlike land-based discharges, which are deemed acceptable by meeting certain EPA-imposed numerical effluent limits, each of the 26 VGP discharge limits is deemed to be met when a Regulated Vessel carries out the BMPs pertinent to that specific discharge stream. The VGP imposes additional requirements on certain Regulated Vessel types that emit discharges unique to those vessels. Administrative provisions, such as inspection, monitoring, recordkeeping and reporting requirements, are also included for all Regulated Vessels.

U.S. Ballast Water Regulation

In the United States, two federal agencies regulate ballast water discharges, the EPA, through the VGP, and the U.S. Coast Guard, through approved BWMS. On March 28, 2013, the EPA published a new VGP to replace the existing VGP when it expired in December 2013. The new VGP includes numeric effluent limits for ballast water expressed as the maximum concentration of living organisms in ballast water, as opposed to the current BMPs requirements. The new VGP also imposes a variety of changes for non-ballast water discharges including more stringent BMPs for discharges of oil-to-sea interfaces in an effort to reduce the toxicity of oil leaked into U.S. waters. For certain existing vessels, the EPA has adopted a staggered implementation schedule to require vessels to meet the ballast water effluent limitations by the first drydocking after January 1, 2014 or January 1, 2016, depending on the vessel size. Vessels that are constructed after December 1, 2013 are subject to the ballast water numeric effluent limitations immediately upon the effective date of the new VGP.

On June 20, 2012, the final rule issued by the U.S. Coast Guard establishing standards for the allowable concentration of living organisms in ballast water discharged in U.S. waters and requiring the phase-in of U.S. Coast Guard-approved BWMS went into effect. The final rule adopts ballast water discharge standards for vessels calling on U.S. ports and intending to discharge ballast water equivalent to those set in the BWM Convention. The final rule requires that ballast water discharge have fewer than 10 living organisms per milliliter for organisms between 10 and 50 micrometers in size. For organisms larger than 50 micrometers, the discharge must have fewer than 10 living organisms per cbm of discharge. The rule requires installation of U.S. Coast-Guard approved BWMs by new vessels constructed on or after December 1, 2013 and existing vessels as of their first drydocking after January 1, 2016. In May 2016, the U.S. Coast Guard published a review of the practicability of implementing a more stringent ballast water discharge standard. The results concluded that technology to achieve a significant improvement in ballast water treatment efficacy cannot be practically implemented. If U.S. Coast Guard-type approved technologies are not available by a vessel’s compliance date, the vessel may request an extension to the deadline from the U.S. Coast Guard. The U.S. Coast Guard expects to review the practicability of implementing a more stringent ballast water discharge standard. In February 2016, the U.S. Coast Guard issued a new rule amending the Coast Guard’s ballast water management recordkeeping requirements. Effective February 22, 2016, vessels with ballast tanks operating exclusively on voyages between ports or places within a single Captain of the Port zone must submit an annual report of their ballast water management practices. Further, under the amended requirements, vessels may submit their reports after arrival at the port of destination instead of prior to arrival.

U.S. Clean Air Act

The U.S. Clean Air Act of 1970, as amended, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas and emission standards for so-called “Category 3” marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are currently limited to new engines beginning with the 2004 model

year. On April 30, 2010, the EPA promulgated final emission standards for Category 3 marine diesel engines equivalent to those adopted in the amendments to Annex VI. The emission standards apply in two stages: near-term standards for newly-built engines apply to engines installed beginning on January 1, 2011, and long-term standards requiring an 80% reduction in nitrogen dioxides apply to engines installed beginning on January 1, 2016. Aligned with the Annex VI Regulation 14 requirements, beginning in January 2015, the EPA emission standards also limit sulfur content in fuel used in Category 3 marine vessels operating in the North America ECA to 1,000 ppm (or 0.1% sulfur by mass). Compliance with these standards may cause us to incur costs to install control equipment on our vessels in the future.

Regulation of Greenhouse Gas Emissions

In February 2005, the Kyoto Protocol entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. Currently, the emissions of greenhouse gases from international transport are not subject to the Kyoto Protocol. The Paris Agreement, which was announced by the Parties to the United Nations Framework Convention on Climate Change in December 2015, similarly does not cover international shipping. However, to the extent that individual countries increase their regulation of domestic greenhouse gas emissions as a result of the Paris Agreement, we may experience increased regulation of greenhouse gas emissions resulting from regasification activities. The Paris Agreement entered into force in November 2016. Further, the IMO has subsequently reaffirmed its strong commitment to work to address greenhouse gas emissions from ships engaged in international trade. The IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The European Commission is pursuing a strategy to integrate maritime emissions into the overall European Union strategy to reduce greenhouse gas emissions. In accordance with this strategy, in April 2015 the European Parliament and Council adopted regulations requiring large vessels using European Union ports to monitor, report and verify their carbon dioxide emissions beginning in January 2018.

On January 1, 2013, the IMO's approved mandatory measures to reduce emissions of greenhouse gases from international shipping went into force. These include amendments to Annex VI for the prevention of air pollution from ships adding a new Chapter 4 to Annex VI on energy efficiency requiring the Energy Efficiency Design Index (the "EEDI") for new ships, and the Ship Energy Efficiency Management Plan (the "SEEMP") for all ships. Other amendments to Annex VI add new definitions and requirements for survey and certification, including the format for the International Energy Efficiency Certificate. The regulations apply to all ships of 400 gross tonnage and above. The IMO also adopted a mandatory requirement in October 2016 that ships of 5,000 gross tonnage and above record and report their fuel oil consumption. The requirement is expected to enter into force in March 2018. These new rules will likely affect the operations of vessels that are registered in countries that are signatories to Annex VI or vessels that call upon ports located within such countries. The implementation of the EEDI and the SEEMP standards could cause us to incur additional compliance costs. The IMO is also considering the development of a market-based mechanism for greenhouse gas emissions from ships, but it is impossible to predict the likelihood that such a standard might be adopted or its potential impact on our operations at this time. At the October 2016 Marine Environmental Protection Committee session, the IMO adopted a roadmap for developing a comprehensive IMO strategy on reduction of GHG emissions. The IMO anticipates adopting initial GHG reduction strategy in 2018. The EU has indicated that it intends to implement regulation in an effort to limit emissions of greenhouse gases from vessels if such emissions are not regulated through the IMO.

In the United States, the EPA issued a final finding that greenhouse gases threaten public health and safety and has promulgated regulations that regulate the emission of greenhouse gases, but not from ships. The EPA may decide in the future to regulate greenhouse gas emissions from ships and has already been petitioned by the California Attorney General to regulate greenhouse gas emissions from oceangoing vessels. Other federal and state regulations relating to the control of greenhouse gas emissions may follow, including climate change initiatives that have recently been considered in the U.S. Congress. Any passage of climate control legislation or other regulatory initiatives by the IMO, the European Union, the United States or other countries where we operate, or any treaty adopted at the international level, that restrict emissions of greenhouse gases could require us to make significant financial expenditures that we cannot predict with certainty at this time. In addition, even without such regulation, our business may be indirectly affected to the extent that climate change results in sea level changes or more intense weather events.

Other federal and state laws and regulations relating to the control of greenhouse gas emissions may come into effect, including climate change initiatives that have been considered in the U.S. Congress. Any passage of climate control legislation or other regulatory initiatives by the IMO, the European Union, the United States or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures that we cannot predict with certainty at this time. In addition, even without such regulation, our business may be indirectly affected to the extent that climate change results in sea level changes or more intense weather events.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Act of 2002 (the “MTSA”) came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposed various detailed security obligations on vessels and port authorities, most of which are contained in the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must obtain an International Ship Security Certificate (an “ISSC”) from a recognized security organization approved by the vessel’s flag state.

Among the various requirements are:

- onboard installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship’s identity, position, course, speed and navigational status;

- onboard installation of ship security alert systems, which do not sound on the vessel but only alert the authorities onshore;

- the development of vessel security plans;

- ship identification number to be permanently marked on a vessel’s hull;

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- a continuous synopsis record kept onboard showing a vessel's history, including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and

- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from obtaining U.S. Coast Guard-approved MTSA vessel security plans provided such vessels have onboard an ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code.

Our ship manager has developed Security Plans and appointed and trained Ship and Office Security Officers, and each of the vessels in our fleet complies with the requirements of the ISPS Code, SOLAS and the MTSA.

Other Regulations

International Conventions

Our vessels may also become subject to the 2010 HNS Convention, if it is adopted by a sufficient number of countries. The Convention creates a regime of liability and compensation for damage from hazardous and noxious substances ("HNS"), including liquefied gases. The 2010 HNS Convention sets up a two-tier system of compensation composed of compulsory insurance taken out by vessel owners and an HNS Fund which comes into play when the insurance is insufficient to satisfy a claim or does not cover the incident. Under the 2010 HNS Convention, if damage is caused by bulk HNS, claims for compensation will first be sought from the vessel owner up to a maximum of 100 million from the supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund called Special Drawing Rights ("SDR"). If the damage is caused by packaged HNS or by both bulk and packaged HNS, the maximum liability is 115 million SDR. Once the limit is reached, compensation will be paid from the HNS Fund up to a maximum of 250 million SDR. The 2010 HNS Convention has not been ratified by a sufficient number of countries to enter into force, and we cannot estimate the costs that may be needed to comply with any such requirements that may be adopted with any certainty at this time.

Indonesia Environmental Regulation of FSRUs

In Indonesia, the environmental requirements of downstream business activity for the gas industry are regulated and supervised by the Government of Indonesia and controlled through business and technical licenses issued by the Minister of Energy and Mineral Resources and BPH Migas, the regulatory agency for downstream oil and gas activity. Under Law 22, the Government of Indonesia has the exclusive rights to gas exploitation and activities carried out by private entities based on government-issued licenses. Companies engaging in downstream activities must comply with environmental management and occupational health and safety provisions related to operations. This includes obtaining environmental licenses and conducting environmental monitoring and reporting for activities that may have an impact on the environment such as the environmental impact assessment required under Law No. 32 of 2009 regarding Environmental Protection and Management. Failure to comply with these laws and obtain the necessary business and technical licenses may subject us to sanctions including suspension and/or freezing of the business and responsibility for all damages arising from any violation. We believe we are currently in compliance with these laws and hold all applicable licenses. However, these laws are subject to change, and we cannot predict any future changes in the regulatory environment, which could result in increased costs to our business.

Colombia Environmental Regulation of FSRUs

While Colombia has a comprehensive suite of environmental regulations, there are currently no regulatory requirements specific to activities associated with the importation of LNG. In 2011, the Energy and Gas Regulatory Commission passed Resolution 106, which recognized that Colombia's demand for natural gas could be met through LNG imports and proposed technical requirements for, among other things, the construction of LNG import plants. The Mines and Energy Ministry in 2015 subsequently proposed a resolution regarding those technical requirements, but it has not yet passed the resolution. In the meantime, we have obtained a port concession from the Colombian National Infrastructure Agency, as well as an environmental license from the National Authority for Environmental Licenses, each with respect to the FSRU Höegh Grace. Our operations in Colombia may also be subject to other permits to be issued by various entities, including the General Maritime Director of the Ministry of Defense.

We are unable to predict the impacts that any Colombian regulations will have on our business. The adoption of national and local laws or regulations and additional international treaties or conventions could materially increase our costs of operation and materially impact our ability to operate in Colombian waters.

Turkey Environmental Regulation of FSRUs

In Turkey, LNG import operations are subject to environmental laws and regulations promulgated by the Ministry of Environment and Urban Planning. All LNG import facilities must obtain a positive assessment of the project's environmental impacts from the Ministry of Environment and Urban Planning. Thereafter, LNG import facilities must also obtain other permits and approvals, including an environmental permit. Under current Turkish environmental laws and regulations, governmental authorities may suspend or terminate non-compliant operations, levy monetary penalties and require non-compliant entities to bear the cost of related remediation programs. Turkish environmental and criminal laws allow private actions and impose liability for damages arising from non-compliant operations, as well as criminal penalties (such as imprisonment and monetary fines) for certain types of violations. We believe we are currently in compliance with these laws and hold all applicable licenses. However, these laws and permits are subject to change, and we cannot predict any future changes in the regulatory environment, which could result in increased costs to our business or restrictions on our operations.

Egyptian Environmental Regulation of FSRUs

The Egyptian Authority for Maritime Safety regulates vessels in the national waters of Egypt, including the *Höegh Gallant*. Emissions associated with the operation of the vessel may also be regulated by other agencies. To the extent that a change in law in Egypt (other than future laws requiring changes to the structure, machinery, boilers, appurtenances or spare parts of the *Höegh Gallant*) has an identifiable financial impact on the economics of the *Höegh Gallant* time charter, the terms of the time charter require the owner and charterer to meet to discuss in good faith and agree upon the necessary actions and changes to offset such impact.

In-House Inspections

Höegh LNG Management, our ship manager, regularly inspects our vessels for compliance with laws of host countries; both at sea and while in port. We also inspect and audit our vessels regularly to verify conformity with manager's reports. These inspections result in a report containing recommendations for improvements to the overall condition of the vessel, maintenance, safety and crew welfare. Based in part on these evaluations, we create and implement a program of continual maintenance for our vessels and their systems.

Taxation of the Partnership

The following are discussions of the material tax considerations applicable to us under U.S., United Kingdom, Marshall Islands, Norway, Singapore, Indonesia, Cyprus and Egypt law, respectively. These discussions are based upon provisions of the applicable tax law as in effect on the date of this Annual Report, regulations and current administrative rulings and court decisions, all of which are subject to change or differing interpretation, possibly with retroactive effect. Changes in these authorities or their interpretation may cause the tax consequences to vary substantially from the consequences described below.

United States Taxation

The following is a discussion of the material U.S. federal income tax considerations applicable to us. This discussion is based upon provisions of the Code as in effect on the date of this Annual Report, existing final and temporary Treasury Regulations thereunder, and current administrative rulings and court decisions, all of which are subject to change or differing interpretation, possibly with retroactive effect. Changes in these authorities or their interpretation may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the U.S. federal income tax considerations applicable to us.

Election to be Treated as a Corporation

We have elected to be treated as a corporation for U.S. federal income tax purposes. As such, we are subject to U.S. federal income tax to the extent we earn income from U.S. sources or income that is treated as effectively connected with the conduct of a trade or business in the United States, unless such income is exempt from tax under Section 883 of the Code or otherwise.

Taxation of Operating Income

Substantially all of our gross income is attributable, and we expect it will continue to be attributable, to the transportation, regasification and storage of LNG. Gross income generated from regasification and storage of LNG outside of the United States generally is not subject to U.S. federal income tax, and gross income generated from such activities in the United States generally is subject to U.S. federal income tax on a net basis plus a branch profits tax. Gross income that is attributable to transportation that either begins or ends, but that does not both begin and end, in the United States ("U.S. Source International Transportation Income") is considered to be 50.0% derived from sources within the United States and may be subject to U.S. federal income tax on a gross basis as described below. Gross income attributable to transportation that both begins and ends in the United States ("U.S. Source Domestic Transportation Income") is considered to be 100.0% derived from sources within the United States and generally is subject to U.S. federal income tax on a net basis plus a branch profits tax. Gross income attributable to transportation exclusively between non-U.S. destinations will be considered to be 100.0% derived from sources outside the United States and generally is not subject to U.S. federal income tax.

We are not permitted by law to engage in transportation that gives rise to U.S. Source Domestic Transportation Income, and we currently do not anticipate providing any regasification or storage services within the territorial seas of the United States. However, certain of our activities give rise to U.S. Source International Transportation Income, and future expansion of our operations could result in an increase in the amount of U.S. Source International Transportation Income, all of which could be subject to U.S. federal income taxation unless an exemption from U.S. taxation applies under Section 883 of the Code (the "Section 883 Exemption").

The Section 883 Exemption

In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and Treasury Regulations thereunder (the "Section 883 Regulations"), it will not be subject to the net basis and branch profits taxes or the 4.0% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption applies only to U.S. Source International Transportation Income and does not apply to U.S. Source Domestic Transportation Income. As discussed below, we believe that based on our current ownership structure, the Section 883 Exemption applies and we are not subject to U.S. federal income tax on our U.S. Source International Transportation Income.

We qualify for the Section 883 Exemption for a particular taxable year if, among other things, we meet the following three requirements:

- we are organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States with respect to the types of U.S. Source International Transportation Income that we earn (an "Equivalent Exemption");

- we satisfy the Publicly Traded Test (as described below) or the Qualified Shareholder Stock Ownership Test (as described below); and

- we meet certain substantiation, reporting and other requirements.

In order for a non-U.S. corporation to meet the Publicly Traded Test, its equity interests must be "primarily traded" and "regularly traded" on an established securities market either in the United States or in a jurisdiction outside the United States that grants an Equivalent Exemption. The Section 883 Regulations provide, in pertinent part, that equity interests in a non-U.S. corporation will be considered to be "primarily traded" on an established securities market in a given country if, with respect to the class or classes of equity relied upon to meet the "regularly traded" requirement described below, the number of units of each such class that are traded during any taxable year on all established securities markets in that country exceeds the number of units in such class that are traded during that year on established securities markets in any other single country.

Equity interests in a non-U.S. corporation will be considered to be "regularly traded" on an established securities market under the Section 883 Regulations if one or more classes of such equity interests that, in the aggregate, represent more than 50.0% of the combined vote and value of all outstanding equity interests in the non-U.S. corporation satisfy certain listing and trading volume requirements. These listing and trading volume requirements will be satisfied with respect to a class of equity interests if trades in such class are effected, other than in de minimis quantities, on an established securities market on at least 60 days during the taxable year and the aggregate number of units in such class that are traded on such established securities market during the taxable year is at least 10.0% of the average number of units outstanding in that class during the taxable year (with special rules for short taxable years). In addition, a class of equity interests will be considered to satisfy these listing and trading volume requirements if the equity interests in such class are traded during the taxable year on an established securities market in the United States and are "regularly quoted by dealers making a market" in such class (within the meaning of the Section 883 Regulations).

Even if a class of equity interests satisfies the foregoing requirements, and thus generally would be treated as "regularly traded" on an established securities market, an exception may apply to cause the class to fail the regularly traded test for a taxable year if, for more than half of the number of days during the taxable year, one or more 5.0% unitholders (i.e., unitholders owning, actually or constructively, at least 5.0% of the vote and value of that class) own in the aggregate 50.0% or more of the vote and value of the class (the "Closely Held Block Exception"). For purposes of identifying its 5.0% unitholders, a non-U.S. corporation is entitled to rely on Schedule 13D and Schedule 13G filings with the SEC. In addition, an investment company that is registered under the Investment Company Act of 1940, as amended, is not treated as a 5.0% unitholder. The Closely Held Block Exception does not apply, however, in the event the corporation can establish that a sufficient proportion of such 5.0% unitholders are Qualified Shareholders (as defined below) so as to preclude other persons who are 5.0% unitholders from owning 50.0% or more of the value of that class for more than half the days during the taxable year.

As set forth above, as an alternative to satisfying the Publicly Traded Test, a non-U.S. corporation may qualify for the Section 883 Exemption by satisfying the Qualified Shareholder Stock Ownership Test. A corporation generally will satisfy the Qualified Shareholder Stock Ownership Test if more than 50.0% of the value of its outstanding equity interests is owned, or treated as owned after applying certain attribution rules, for at least half of the number of days in the taxable year by:

- individual residents of jurisdictions that grant an Equivalent Exemption;
- non-U.S. corporations organized in jurisdictions that grant an Equivalent Exemption and that meet the Publicly Traded Test; or
- certain other qualified persons described in the Section 883 Regulations (which we refer to collectively as Qualified Shareholders).

We believe that we currently satisfy all of the requirements for the Section 883 Exemption, and we expect that we will continue to satisfy such requirements. First, we are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption with respect to the type of U.S. Source International Transportation Income we earn and expect to earn in the future. Consequently, our U.S. Source International Transportation Income (including for this purpose, any such income earned by our joint ventures and subsidiaries) should be exempt from U.S. federal income taxation provided we meet either the Publicly Traded Test or the Qualified Shareholder Stock Ownership Test and we satisfy certain substantiation, reporting and other requirements.

Our common units are traded only on the New York Stock Exchange, which is considered to be an established securities market. Based on this fact, the number of our common units that is traded on the New York Stock Exchange exceeds the number of our common units that is traded on any other securities market, and this is not expected to

change. Therefore, we believe that our equity interests are “primarily traded” on an established securities market for purposes of the Publicly Traded Test. Although the matter is not free from doubt, based upon our analysis of our current and expected cash flow and distributions on our outstanding equity interests, we believe that our common units represent more than 50.0% of the total value of all of our outstanding equity interests. In addition, we believe that we currently satisfy, and expect that we will continue to satisfy, the listing and trading volume requirements described previously. Therefore, we believe that our equity interests are “primarily traded” on an established securities market for purposes of the Publicly Traded Test.

Further, our partnership agreement provides that any person or group that beneficially owns more than 4.9% of any class of our units then outstanding generally will be treated as owning only 4.9% of such units for purposes of voting for directors. There can be no assurance that this limitation will be effective to eliminate the possibility that we will have any 5.0% unitholders for purposes of the Closely Held Block Exception. Nevertheless, we believe that our common units have not lost eligibility for the Section 883 Exemption as a result of the Closely Held Block Exception based upon the current ownership of our common units. Thus, although the matter is not free from doubt and is based upon our belief and expectations regarding our satisfaction of the factual requirements described above, we believe that we satisfied the Publicly Traded Test for 2014 and 2015, and we expect that we will satisfy the Publicly Traded Test for the current and all future taxable years.

The legal conclusions described above are based upon legal authorities that do not expressly contemplate an organizational structure such as ours. In particular, although we have elected to be treated as a corporation for U.S. federal income tax purposes, we are organized as a limited partnership under Marshall Islands law. Accordingly, while we believe that, assuming the factual requirements described above are satisfied, our common units should be considered to be “regularly traded” on an established securities market and that we satisfy the requirements of the Section 883 Exemption, it is possible that the IRS would assert that our common units do not meet the “regularly traded” test. In addition, as described previously, our ability to satisfy the Publicly Traded Test depends upon factual matters that are subject to change. Should any of the factual requirements described above fail to be satisfied, we may not be able to satisfy the Publicly Traded Test. Furthermore, our board of directors could determine that it is in our best interests to take an action that would result in our not being able to satisfy the Publicly Traded Test in the future. Please read “—The Net Basis and Branch Profits Tax” and “—The 4.0% Gross Basis Tax” below for a discussion of the tax consequences in the event we do not qualify for the Section 883 Exemption.

In the event we are not able to satisfy the Publicly Traded Test for a taxable year, we may be able to satisfy the Qualified Shareholder Stock Ownership Test for that year provided Höegh LNG owns more than 50.0% of the value of our outstanding equity interests for more than half of the days in such year, Höegh LNG itself meets the Publicly Traded Test for such year and Höegh LNG provides us with certain information that we need in order to claim the benefits of the Qualified Shareholder Stock Ownership Test. Based on representations made by Höegh LNG with respect to its present share ownership, exchange-traded shares and trading volumes, we believe Höegh LNG presently meets the Publicly Traded Test, and Höegh LNG has agreed to provide the information referenced above. However, there can be no assurance that Höegh LNG will continue to meet the Publicly Traded Test or be able to provide the information we need to claim the benefits of the Section 883 Exemption under the Qualified Shareholder Ownership Test. Further, the relative values of our equity interests are uncertain and subject to change, and as a result Höegh LNG may not own more than 50.0% of the value of our outstanding equity interests for the current or any future year. Consequently, there can be no assurance that we would meet the Qualified Shareholder Stock Ownership Test based upon the ownership by Höegh LNG of an indirect ownership interest in us.

The Net Basis Tax and Branch Profits Tax

If we earn U.S. Source International Transportation Income and the Section 883 Exemption does not apply, the U.S. source portion of such income would be treated as effectively connected with the conduct of a trade or business in the United States ("Effectively Connected Income") if we have a fixed place of business in the United States involved in the earning of U.S. Source International Transportation Income and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of vessel leasing income, is attributable to a fixed place of business in the United States. In addition, if we earn income from regasification or storage of LNG within the territorial seas of the United States, such income would be treated as Effectively Connected Income. Based on our current operations, substantially all of our potential U.S. Source International Transportation Income is not attributable to regularly scheduled transportation or is received pursuant to vessel leasing, and none of our regasification or storage activities occur within the territorial seas of the United States. As a result, we do not anticipate that any of our U.S. Source International Transportation Income or income earned from regasification or storage activities will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or vessel leasing attributable to a fixed place of business in the United States or earn income from regasification or storage activities within the territorial seas of the United States, in the future, which would result in such income being treated as Effectively Connected Income.

Any income we earn that is treated as Effectively Connected Income, net of applicable deductions, would be subject to U.S. federal corporate income tax (imposed at rates of up to 35.0%). In addition, a 30.0% branch profits tax could be imposed on any income we earn that is treated as Effectively Connected Income, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid by us in connection with the conduct of our U.S. trade or business.

Taxation of Gain from the Sale of a Vessel

On the sale of a vessel that has produced Effectively Connected Income, we could be subject to the net basis U.S. federal corporate income tax as well as branch profits tax with respect to the gain recognized up to the amount of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles. In general, a sale of vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside the United States. It is expected that any sale of a vessel by us will be considered to occur outside of the United States.

The 4.0% Gross Basis Tax

If the Section 883 Exemption does not apply and the net basis tax does not apply, we would be subject to a 4.0% U.S. federal income tax on the U.S. source portion of our gross U.S. Source International Transportation Income, without benefit of deductions. Under the sourcing rules described above under "—Taxation of Operating Income", 50.0% of our U.S. Source International Transportation Income would be treated as being derived from U.S. sources.

Marshall Islands Taxation

Because we, our operating subsidiary and our controlled affiliates do not, and do not expect to conduct business, transactions or operations in the Republic of the Marshall Islands, neither we nor our controlled affiliates will be subject to income, capital gains, profits or other taxation under current Marshall Islands law, other than taxes or fees due to (i) the continued existence of legal entities registered in the Republic of the Marshall Islands, (ii) the incorporation or dissolution of legal entities registered in the Republic of the Marshall Islands, (iii) filing certificates (such as certificates of incumbency, merger, or redomiciliation) with the Marshall Islands registrar, (iv) obtaining certificates of goodstanding from, or certified copies of documents filed with, the Marshall Islands registrar, or (v) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax. As a result, distributions by our operating subsidiaries and our controlled affiliates to us will not be subject to Marshall Islands taxation.

Norway Taxation

The following is a discussion of the material Norwegian tax consequences applicable to us. This discussion is based upon existing legislation and current tax authority practice as of the date of this Annual Report. Changes in this legislation and practice may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the Norwegian tax considerations applicable to us.

As we do not have any Norwegian incorporated subsidiaries, there is no Norwegian taxation by virtue of being resident in Norway. We, our operating company, our joint ventures and our non-Norwegian incorporated subsidiaries do not contemplate to hold board meetings in Norway, to have a board consisting of a majority of Norwegian residents or to pass resolutions in any board with a majority of Norwegian resident directors.

Taxation of the Partnership and Non-Norwegian Incorporated Subsidiaries.

As we are a partnership and do not expect to be managed and controlled within Norway nor carrying out business in Norway, we do not expect to be subject to taxation in Norway. While certain of our joint ventures and non-Norwegian incorporated subsidiaries will enter into agreements with Höegh Norway and Höegh LNG Management, Norwegian incorporated and resident companies, for the provision of certain management and administrative services, we believe that the terms of these agreements will not result in us, our operating company or any of our non-Norwegian incorporated subsidiaries being treated as being resident in the Norway or having a permanent establishment or carrying out business in Norway. As a consequence, we expect that neither our profits, the profits of our operating company or any of our joint ventures and non-Norwegian incorporated subsidiaries will be subject to Norwegian

corporation tax. We do not currently anticipate that any of our joint ventures and non-Norwegian incorporated subsidiaries will be controlled or managed in Norway or have a permanent establishment or otherwise carry on business in Norway. Accordingly, we do not anticipate that any of our joint ventures and non-Norwegian incorporated subsidiaries will be subject to Norwegian corporation tax.

United Kingdom Taxation

The following is a discussion of the material United Kingdom tax consequences applicable to us. This discussion is based upon existing legislation and current H.M. Revenue & Customs practice as of the date of this Annual Report. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the United Kingdom tax considerations applicable to us.

Taxation of the Partnership and non-United Kingdom Incorporated Subsidiaries.

As we are a limited partnership and do not expect to be managed and controlled within the United Kingdom nor trade in the United Kingdom, we do not expect to be subject to taxation in the United Kingdom. While we and our operating company have entered into agreements with Höegh UK and Leif Höegh UK, companies incorporated and resident in the United Kingdom, for the provision of certain administrative services, we believe that the terms of these agreements will not result in us or our operating company being treated as being resident in the United Kingdom or having a permanent establishment or carrying on a trade in the United Kingdom. As a consequence, we expect that neither our profits nor the profits or our operating company will be subject to United Kingdom corporation tax. We do not currently anticipate that any of our other non-United Kingdom incorporated subsidiaries will be controlled or managed in the United Kingdom or have a permanent establishment or otherwise carry on a trade in the United Kingdom. Accordingly, we do not anticipate that any of our non-United Kingdom incorporated subsidiaries will be subject to United Kingdom corporation tax.

Taxation of United Kingdom Incorporated Subsidiaries.

Höegh UK is incorporated in the United Kingdom and we anticipate will be centrally managed and controlled in the United Kingdom and therefore will be regarded for the purposes of United Kingdom tax as being resident in the United Kingdom and liable to United Kingdom corporation tax on its worldwide income and chargeable gains. As of December 31, 2015, the generally applicable rate of United Kingdom corporation tax was 20.0%. The rate of corporate tax is expected to reduce to 19% on April 1, 2017 and then reduce further to 18% and 17% in April 2018 and April 2020, respectively. Höegh UK (and any other UK resident subsidiaries which we acquire) will generally be liable to tax at this rate on their income, profits and gains after deducting expenses incurred wholly and exclusively for the purposes of the business being undertaken. There is currently no United Kingdom withholding tax on distributions made by United Kingdom resident companies (such as Höegh UK).

Singapore Taxation

The following is a discussion of the material Singapore tax consequences applicable to us. This discussion is based upon existing legislation and current Inland Revenue Authority of Singapore practice as of the date of this Annual Report. Changes in the existing legislation and current practice may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the Singapore tax considerations applicable to us.

Taxation of the Partnership and non-Singapore Incorporated Subsidiaries.

As we are a limited partnership and do not expect to be managed and controlled within Singapore or carry on a trade or business in Singapore, we do not expect to be subject to taxation in Singapore. Similarly, as the non-Singapore incorporated subsidiaries are not managed and controlled within Singapore or carry on a trade or business in Singapore, the non-Singapore incorporated subsidiaries should not be subject to taxation in Singapore.

Taxation of the Singapore Incorporated Subsidiary.

Höegh Lampung is incorporated in Singapore, and we anticipate that it will be centrally managed and controlled in Singapore. As a result, Höegh Lampung will be regarded for the purposes of Singapore tax as being resident in Singapore and liable to Singapore corporate income tax on income accrued in or derived from Singapore or income received in Singapore from outside Singapore in respect of (i) gains or profits from any trade or business, (ii) income

from investment such as dividends, interest and rental, (iii) royalties, premiums and any other profits from property and (iv) other gains of an income nature. The generally applicable rate of Singapore corporation tax is 17%. Höegh Lampung will generally be liable to tax at this rate on its income, profits and gains after deducting revenue expenses incurred wholly and exclusively for the purposes of the business being undertaken.

Under Section 12(6) of the Income Tax Act, Chapter 134 of Singapore ("ITA"), the following payments are deemed to be derived from Singapore:

- any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is:

- borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore); or

- deductible against any income accruing in or derived from Singapore; or

- any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Payments falling within the two bullet points above and made by Höegh Lampung, would fall within Section 12(6) of the ITA. Unless exempted, such payments, where made to a person not known to Höegh Lampung to be a tax resident in Singapore, are generally subject to withholding tax in Singapore.

Indonesian Taxation

The following is a discussion of the material Indonesia tax consequences applicable to us. This discussion is based upon existing legislation and current Directorate General of Taxes of Indonesia ("DGT") practice as of the date of this Annual Report. Changes in the existing legislation and current practice may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the Indonesia tax considerations applicable to us.

Taxation of the Partnership and non-Indonesian Incorporated Subsidiaries

As we are a limited partnership and do not expect to be managed and controlled or domiciled within Indonesia or conduct business or carry out activities through a permanent establishment in Indonesia, we do not expect to be subject to taxation in the Indonesia.

We do not currently anticipate that any of our other non-Indonesian incorporated subsidiaries will be controlled, managed or domiciled in Indonesia or conduct business or carry out activities through a permanent establishment in Indonesia. Accordingly, we do not anticipate that any of our non-Indonesian incorporated subsidiaries will be subject to Indonesian corporate income tax.

Taxation of Operating Income

PT Höegh's main business activity in Indonesia is to provide the lease, operation, and maintenance of the *PGN FSRU Lampung* to PGN LNG. As PT Höegh was established in Indonesia, it is a resident taxpayer. Under Law No. 36 Year 2008 regarding Income Tax ("Income Tax Law" or "ITL"), PT Höegh is subject to Corporate Income Tax ("CIT") of 25% on taxable income derived from the business activities performed. Therefore, any income generated by PT Höegh from PGN LNG in regards to the lease, operation, and maintenance of the *PGN FSRU Lampung* is subject to CIT of 25% (after deductions for allowable expenses in accordance with the ITL provisions).

Taxable income is calculated on the basis of accounting profits as modified by certain tax adjustments. Any tax loss can be carried forward for a maximum period of 5 years. Loss carry back is not permitted in Indonesia.

For tax purposes, costs incurred in relation to the acquisition of fixed assets are deductible (through depreciation) over a useful life of four to twenty years depending on the type of the fixed assets. In this regard, although the commercial useful life of a fixed asset is more than twenty years, such asset shall only be depreciated for a maximum of twenty years for tax purposes.

Depreciation commences in the month when expenditures are incurred. The annual depreciation can be calculated either using the straight line method or double declining balance method.

The ITL taxes the world-wide income of Indonesian tax residents; however, we do not anticipate that PT Höegh will generate income outside of Indonesia.

Taxation of the Sale of the PGN FSRU Lampung to PGN LNG

PGN LNG was granted an option to purchase the *PGN FSRU Lampung* from PT Höegh at specified prices as set out in the time charter for *PGN FSRU Lampung*. Any gain arising from the sale of the FSRU (i.e. sales price less tax book value) will be subject to CIT at the rate of 25% to PT Höegh.

Withholding Taxes ("WHT")

PT Höegh is required to withhold:

- WHT under Article 23/26 of the ITL at the following rates:

- 2% on payments for rent (other than land and/or building), fees for technical, management and other services to another resident taxpayer;

- 15% on payments of dividends, interest and royalties to another resident taxpayer; and

- 20% (or a reduced tax treaty rate) on payments relating to services, dividends, interest and royalties to a non-resident taxpayer. The reduced tax treaty rate is also subject to the availability of the Certificate of Domicile of the counter party in the form prescribed by the Indonesian tax regulations and fulfilment of Indonesian Tax Treaty use requirements.

- WHT under Article 4(2) of the ITL at the rate of 10% for rent of land and/or buildings and at 3% to 6% on payments for construction services to another resident taxpayer; and.

- WHT under Article 15 of the ITL at the rate of 1.2% on payments related to domestic shipping services.

Salaries and wages paid to resident employees are subject to Employee Income Tax (“EIT”) under Article 21 of the ITL at progressive rates of maximum 30%. Salaries paid to non-resident employees are subject to EIT under Article 26 of the ITL at the rate of 20% from the gross salary amount. PT Höegh is required to withhold and remit EIT on monthly basis.

Value Added Tax (“VAT”)

Any fees charged by PT Höegh for services provided to PGN LNG are subject to VAT at 10%. Such VAT on revenue is called Output VAT. The Output VAT can be offset with the VAT that PT Höegh pays for the procurement of goods and/or services (“Input VAT”). If the Output VAT exceeds the Input VAT in a particular month, the balance is required to be settled by PT Höegh. However, if the Input VAT exceeds the Output VAT, the VAT overpayment can be carried forward to the following month or a refund can be requested at year end. A VAT refund request will automatically trigger a tax audit.

VAT of 10% would also be charged on the sale of the FSRU to PGN LNG, if applicable.

Debt to Equity Ratio Requirement

Under Minister of Finance (“MoF”) Regulation No. 169/PMK.010/2015 (“PMK-169”) Indonesian corporate taxpayers are subject to a limit in claiming financing costs as tax deduction where their debt to equity ratio exceeds 4:1. PMK 169 was effective from fiscal year 2016 onwards.

PMK 169 stipulates that debt shall include long-term debt, short-term debt and trade payables which bear interest. Equity includes all items recorded under the equity section of the balance sheet based on the prevailing accounting standards and interest-free loans from related parties.

In case the balance of equity is zero or negative, no financing costs of the taxpayer can be deducted. In case the actual ratio of the debt and equity exceeds 4:1 the deductible financing costs must be adjusted to an allowable amount based on the 4:1 ratio.

Certain industries, including the infrastructure industry, are exempted from the debt to equity ratio requirements. The infrastructure industry is not defined in PMK-169, and there is not yet any further guidance issued by the DGT regarding this matter. Therefore it is not currently certain whether PT Höegh will be classified as part of the infrastructure industry and be exempted from the requirements.

Cyprus Taxation

The following is a discussion of the material Cyprus tax consequences applicable to us. This discussion is based upon existing legislation and current tax practice as of the date of this Annual Report. Changes in the existing legislation and current practice may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the Cyprus tax considerations applicable to us.

Taxation of profits and deduction for losses

Höegh Cyprus, acting through its Egypt Branch, provides a FSRU on a time charter to EgyptCo. The time charter activities are operated in the Egypt Branch.

Cyprus tax law exempts foreign branch profits from Cyprus corporate income tax, subject to certain exceptions. We have received a ruling from the Cyprus tax authorities confirming that this exemption applies for the profits in the Egypt Branch.

Any tax losses incurred by the Egypt Branch can be used as a deduction against the taxable income of Höegh Cyprus for the same year. Any unutilized branch tax losses can be carried forward. A claw-back applies for previous losses utilized in the year in which the Egypt Branch becomes profitable. Losses clawed back through taxation of equal profits are restricted to losses offset with profits/losses being carried forward and exclude expired losses (i.e. exclude losses which were carried forward but not offset with profits due to the lapse of the 5 year carry forward period from the date the losses were incurred).

WHT

Cyprus does not levy any withholding taxes on interest and dividend payments to non-Cyprus tax residents (whether legal persons or individuals). As such, dividends and interest payments made by Höegh Cyprus should not be subject to WHT.

VAT

As per the ruling obtained with the Cyprus Tax Authority, Höegh Cyprus does not have an obligation to register for VAT purposes in Cyprus. Any income generated by Höegh Cyprus through the Egypt Branch from the time charter or any services (ship management, commercial management, crew management, etc.) received by the Egypt Branch will not trigger an obligation to account for Cypriot VAT.

Egyptian Taxation

The following is a discussion of the material Egypt tax consequences applicable to us. This discussion is based upon existing legislation and current practice as of the date of this Annual Report. Changes in the existing legislation and current practice may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the Egypt tax considerations applicable to us.

Taxation of Höegh Cyprus in Egypt – CIT and free zone

The Egypt Branch is registered as a legal entity in Egypt in the Suez Public Free Zone. The Egypt Branch is subject to a 1% free zone fee on the revenues from activities permitted under its free zone license (e.g., the time charter hire paid by EgyptCo), but is exempt from CIT on profits from the same activities.

WHT

Profit repatriation from the Egypt Branch is exempt from WHT.

The Egypt Branch has not drawn down debt with maturity less than three years and, as such, interest payments are not subject to WHT.

Payments for services made to recipients that are not tax resident in Egypt are subject to 20% WHT, subject to reduction or elimination under applicable tax treaties.

Sales tax

As a free zone entity, the Egypt Branch is not subject to sales tax on the activities permitted under its free zone license and within the permitted location to operate (e.g., the time charter hire paid by EgyptCo and related acquired goods and services).

Exit taxation

The exit of the FSRU from Egypt after the end of the time charter would be considered a deemed sale of the FSRU for Egyptian tax purposes. The gains from the deemed sale would be subject to CIT (currently at 22.5%). The gain is calculated as the fair market value of the FSRU on the exit less the tax base value after deemed depreciation based on the assumption that it is considered as an asset.

Colombian Taxation

The following is a discussion of the material Colombian tax consequences applicable to us. This discussion is based upon existing legislation and current practice as of the date of this Annual Report. Changes in the existing legislation and current practice may cause the tax consequences to vary substantially from the consequences described below. The following discussion does not purport to be a comprehensive description of all of the Colombian tax considerations applicable to us.

Taxation of profits of Höegh FSRU IV

Höegh FSRU IV leases an FSRU to a charterer in Colombia. The lease agreement is regarded as a finance lease for Colombian tax purposes. Höegh FSRU IV would not have a permanent establishment in Colombia and therefore would not be subject to Colombian corporate income tax (“CIT”), income tax for equality (“CREE”), VAT or Industry and Trade Tax (“ITT”). The financial component of the financial lease paid to Höegh FSRU IV would be subject to 1% withholding tax in lieu of corporate income tax in Colombia.

Taxation of profits of Höegh Colombia

Höegh Colombia provides services to the charterer in Colombia. Höegh Colombia is subject to CIT levied on its worldwide income at a 25% tax rate, plus CREE surcharge at a 15% rate. The taxable basis is determined as the net taxable income (gross revenues less allocable costs and expenses). Therefore, the marginal tax rate for both CIT plus the CREE surcharge is 40% in 2016.

In addition, to the ordinary taxation system, a presumptive tax system applies. Under the presumptive tax system, Colombian rules provide that net taxable income cannot be less than a cap calculated as 3% of the company's net equity as of December 31 of the previous year. Accordingly, if net taxable income is lower than the cap, the ordinary taxation will be disregarded and presumptive tax system considerations will apply.

WHT

Dividends paid out of retained profits as of December 31, 2016, that were subject to tax at the Colombian corporate level are exempt from WHT when distributed to foreign non-resident shareholders. Otherwise, a 33% WHT rate applies.

VAT

The services rendered by Höegh Colombia are subject to 16% VAT.

Financial Transaction Tax

Financial Transaction Tax is levied on the transfers from Colombian bank accounts at a rate of 0.4% of the amount transferred. A 50% share of the Financial Transaction Tax is deductible for CIT and CREE purposes for the year ended December 31, 2016.

ITT

ITT will be applicable in Cartagena for the services provided through the Cartagena office and services provided on-shore or within the boundaries of the Cartagena District.

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C. Organizational Structure

We are a publicly traded limited partnership formed on April 28, 2014. The diagram below depicts our simplified organizational and ownership structure as of March 31, 2017.

We listed our common units on the New York Stock Exchange ("NYSE") in August 2014 under the ticker symbol "HMLP."

We were formed under the law of the Marshall Islands and maintain our principal executive headquarters at Wessex House, 5th Floor, 45 Reid Street, Hamilton HM12, Bermuda.

A full list of our significant operating and vessel-owning subsidiaries is included in Exhibit 8.1.

D. Property, Plant and Equipment

Other than the vessels in our fleet, we do not have any material property.

Item 4A. Unresolved Staff Comment

Not applicable.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion of our financial condition and results of operations in conjunction with "Item 3.A. Selected Financial Data" and "Item 4. Information on the Partnership" and the consolidated and combined carve-out financial statements and related notes of Höegh LNG Partners LP and the combined financial statements and related notes of our joint ventures owning the *Neptune* and the *GDF Suez Cape Ann*, each included elsewhere in this Annual Report. We account for our equity interests in our joint ventures owning the *Neptune* and the *GDF Suez Cape Ann* as equity method investments in our consolidated and combined carve-out financial statements. Among other things, those financial statements include more detailed information regarding the basis of presentation for the following information. Such financial statements, including related notes thereto, have been prepared in accordance with US GAAP and are presented in U.S. Dollars.

The following discussion assumes that our business was operated as a separate entity prior to our IPO on August 12, 2014. The combined carve-out financial statements prior to our IPO have been carved out of the consolidated financial statements of Höegh LNG, which owned our interests in Höegh Lampung, PT Höegh (the owner of the *PGN FSRU Lampung* and the Mooring) and our joint ventures, SRV Joint Gas Ltd. (the owner of the *Neptune*) and SRV Joint Gas Two Ltd. (the owner the *GDF Suez Cape Ann*). Prior to the closing of the IPO, Höegh LNG contributed to us all of its equity interests in and promissory notes due to it from each of the entities owning the *Neptune*, the *GDF Suez Cape Ann* and the *PGN FSRU Lampung* (the "initial fleet").The transfer was recorded at Höegh LNG's consolidated book values, as converted to US GAAP.

Our financial position, results of operations and cash flows reflected in the consolidated and combined carve-out financial statements include all expenses allocable to our business, but may not be indicative of those that would have been achieved had we operated as a separate public entity for all periods presented or of future results.

Overview

We were formed on April 28, 2014 as a growth-oriented limited partnership by Höegh LNG, to own, operate and acquire FSRUs, LNG carriers and other LNG infrastructure assets under long-term charters, which we define as charters of five or more years.

On August 12, 2014, we completed our IPO. At the closing of the IPO, we sold 11,040,000 common units to the public for net proceeds, after deduction of underwriters' discount and offering expenses, of $203.5 million. We also issued 2,116,060 common units and 13,156,060 subordinated units, representing approximately 58.0% of the limited partner interest in the Partnership, and 100% of the incentive distribution rights ("IDRs") to Höegh LNG. A wholly owned subsidiary of Höegh LNG owns a non-economic general partner interest in us.

On October 1, 2015, we purchased 100% of the shares of Höegh FSRU III, the entity that indirectly owns the FSRU *Höegh Gallant*, which we accounted for as the acquisition of a business. Accordingly, the results of this acquisition are included in our earnings from October 1, 2015.

In December 2016, we completed a 6,588,389 common unit offering raising approximately $111.5 million in net proceeds, after deduction of underwriters' discount and offering expenses. On January 3, 2017, we closed the acquisition of a 51% ownership interest in Höegh Colombia Holding, the entity that owns Höegh FSRU IV and Höegh Colombia, the entities that own and operate the *Höegh Grace* (together with Höegh Colombia Holding, the "*Höegh Grace* entities") for cash consideration of $91.8 million, excluding the working capital adjustment. Accordingly, the results of the *Höegh Grace* will be included in our earnings for the full first quarter of 2017.

Our Fleet

Our fleet consisted of interests in the following vessels as of December 31, 2016:

- a 50% interest in the *Neptune*, an FSRU built in 2009 that is currently operating under a time charter with GDF Suez, a subsidiary of ENGIE, a French publicly listed, government-backed, electric utility company, that expires in 2029, with an option to extend for up to two additional periods of five years each;

- a 50% interest in the *GDF Suez Cape Ann*, an FSRU built in 2010 that is currently operating under a time charter with GDF Suez that expires in 2030, with an option to extend for up to two additional periods of five years each;

- a 100% economic interest in the *PGN FSRU Lampung*, an FSRU built in 2014 that is currently operating under a time charter with PGN LNG, a subsidiary of an Indonesian publicly listed, government-controlled, gas and energy company that constructs gas pipelines and infrastructure and distributes and transmits natural gas to industrial, commercial and household users, that expires in 2034, with options to extend either for an additional 10 years or for up to two additional periods of five years each; and

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- a 100% interest in the *Höegh Gallant*, an FSRU built in 2014 that is currently operating under a time charter with EgyptCo, a subsidiary of Höegh LNG, that expires in 2020. EgyptCo has a time charter agreement with EGAS that expires in 2020. In addition, we have an option agreement pursuant to which we have the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025.

On January 3, 2017, we closed the acquisition of a 51% ownership interest in the *Höegh Grace* entities. Our fleet will include the *Höegh* Grace from January 2017. *Höegh Grace* was delivered in the first quarter of 2016 and is currently operating under a time charter with SPEC. SPEC is owned 51% by Promigas S.A. ESP, a Colombian company focused on the transportation and distribution of natural gas, and 49% by private equity investors. The non cancellable charter period of 10 years ends in December 2026. The initial term of the charter is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

For a description of our joint ventures and our shareholder agreements, please read “Item 4.B. Business Overview—Shareholder Agreements.”

Pursuant to the contribution, purchase and sale agreement the Partnership entered into with Höegh LNG with respect to the acquisition of a 51% ownership interest in the *Höegh Grace* entities, the Partnership has a right of first offer to purchase the remaining 49% interest.

Pursuant to the omnibus agreement we entered into with Höegh LNG at the time of the IPO, Höegh LNG is obligated to offer to us any FSRU or LNG carrier operating under a charter of five or more years. Accordingly, the Partnership has, or may have in the future, the opportunity to acquire certain FSRUs from Höegh LNG as described under “Item 4.B. Business Overview—Our Fleet—Additional FSRUs.”

There can be no assurance that we will acquire the remaining 49% interest in the *Höegh Grace* entities or any other vessels from Höegh LNG or of the terms upon which any such acquisition may be made.

Our Charters

We and our joint ventures generate revenues by chartering our vessels under long-term time charters. As of March 31, 2017, the average remaining term of the time charters for the vessels in our fleet was approximately 12.2 years, excluding the exercise of any customer options, and 19.2 years, assuming the exercise of all customer options.

Under our time charters for the *Neptune* and the *GDF Suez Cape Ann*, the rate charged for the services of each vessel, which we call the "hire rate," is paid monthly in advance. Under our time charters for the *PGN FSRU Lampung,* the *Höegh Gallant* and the *Höegh Grace*, the hire rate is paid monthly in arrears. Under certain time charters, hire payments may be reduced and /or liquidated damages may be incurred if the vessel does not perform to certain of her specifications.

Moreover, when a vessel is "off-hire"—or not available for service—the customer generally is not required to pay any hire rate, and the vessel owner is responsible for all costs. Prolonged off-hire may lead to termination of the time charter.

Under the time charters for the *Neptune* and the *GDF Suez Cape Ann*, the hire rate includes the following three cost components:

- *Fixed Element*. The fixed element is a fixed per day fee providing for ownership costs and all remuneration due to the vessel owner for use of the vessel and the provision of time charter services.

- *Variable (Operating Cost) Element*. The variable (operating cost) element is a fixed per day fee providing for the operating costs of the vessel, which consists of (i) a cost pass-through sub-element, which covers the crew, insurance, consumables, miscellaneous services, spares and damage deductible costs and is subject to annual adjustment and (ii) an indexed sub-element, which covers management and is subject to annual adjustment for changes in labor costs and the size of the fleet under management.

- *Optional (Capitalized Equipment Cost) Element*. The optional (capitalized equipment cost) element consists of (i) costs associated with modifications to, changes in specifications of, structural changes in or new equipment for the vessel that become compulsory for the continued operation of the vessel by reason of new class requirements or national or international regulations coming into effect after the date of the time charter, subject to specified caps and (ii) costs associated with any new equipment or machinery that the owner and charterer have agreed should be capitalized. Such costs are distributed over the remaining term of the time charter.

Under the *Neptune* and *GDF Suez Cape Ann* time charters, a vessel generally will be deemed off-hire if she is not available for the charterer's use for a specific amount of time due to, among other things:

- failure of an inspection that prevents the vessel from performing normal commercial operations;
- scheduled drydocking that exceeds allowances;
- the vessel's inability to discharge regasified LNG at normal performance;
- requisition of the vessel; or
- the vessel owner's failure to maintain the vessel in compliance with her specifications and contractual standards or to provide the required crew.

The hire rate under the *PGN FSRU Lampung* time charter consists of the following three cost components:

- *Capital Element*. The capital element is a fixed per day fee, which is intended to cover remuneration due to the vessel owner for use of the vessel and the provision of time charter services.
- *Operating and Maintenance Element*. The operating and maintenance element is a fixed per day fee, subject to annual adjustment, which is intended to cover the operating costs of the vessel, including manning costs, maintenance and repair costs, consumables and stores costs, insurance costs, management and operational costs, miscellaneous costs and alterations not required by Det Norske Veritas GL to maintain class or the IMO.
- *Tax Element*. The tax element is a fixed per day fee, equal to the vessel owner's reasonable estimate of the tax liability for that charter year divided by the number of days in such charter year. If the vessel owner receives a tax refund or credit, the vessel owner will pay such amount to the charterer. The tax liability includes Indonesian corporate income taxes, defined withholding taxes and all Indonesian taxes associated with the Mooring. The time charter requires an annual audit to determine the difference between the invoiced estimate of the tax liability and the actual tax liability. If the vessel owner's reasonable estimate of the tax liability varied from the actual tax liability, the vessel owner or the charterer, as applicable, will pay to the other party the difference in such amount.

Under the *PGN FSRU Lampung* time charter, the vessel generally will be deemed off-hire if the vessel is not available for the charterer's use for a specified amount of time due to, among other things:

- drydocking that exceeds allowances;

- the vessel failing to satisfy specified operational minimum requirements, except as a result of a Lampung Charterer Risk Event (as defined under "Item 4.B. Business Overview—Vessel Time Charters—*PGN FSRU Lampung* Time Charter—Performance Standards") or an event of force majeure; or

- the vessel owner's failure to satisfy the management warranties described under "Item 4.B. Business Overview—Vessel Time Charters—*PGN FSRU Lampung* Time Charter—Performance Standards."

The hire rate under the *Höegh Gallant* time charter is a fixed per day fee which is intended to cover remuneration due to the vessel owner for use of the vessel and the provision of time charter services as well as the operating and maintenance costs of the vessel, including manning costs, the cost of spare parts, bunker fuel and any tax incurred.

Under the *Höegh Gallant* time charter, the vessel generally will be deemed off-hire if the vessel is not available for the charterer's use for a specified amount of time due to, among other things:

- drydocking or other repairs and maintenance;

- any force majeure event acting on the vessel; and

- every other occasion the vessel ceases to be at the disposal of the charterer, including due to damage, defect, deficiency of crew or spare parts, labor disputes, time in and waiting to enter dry dock for repairs or because of a failure to comply with laws, regulations, physical requirements or operational practices at the site of vessel operations.

Additionally we have agreed to indemnify EgyptCo for any loss (up to a specified cap), including loss of earnings and certain liquidated damages payable under EgyptCo's charter with EGAS, caused by an operational failure of the vessel.

Under the *Höegh Grace* charter, hire is payable monthly, in arrears, in U.S. Dollars. The charterer pays a fixed daily rate of hire (with respect to the ILA) and operating fees (with respect to the OSA), as set forth in the *Höegh Grace* charter. Under the OSA, the operating fees are escalated yearly by a fixed percentage, and the OSA provides for a review and reasonable adjustment by the parties if the actual operating costs increase by more than such percentage over a period of three consecutive years.

Except for force majeure events and a specified maintenance allowance period, under the *Höegh Grace* charter the vessel generally will be deemed off-hire:

- if the vessel is not able to discharge regasified LNG at a specified rate;
- if the vessel owner breaches its warranties related to international sanctions; or
- if the vessel is not available for the charterer's use due to, among other things:
  - any damage, defect, breakdown or deficiency to the vessel;
  - any deficiency of crew, stores, repairs, surveys, or similar cause preventing the working of the vessel;
  - any labor dispute, failure or inability of the officers or crew to perform the required services; or
  - any failure to comply with laws, regulations or operational practices at the site of the vessel operations.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire.

We have obtained loss of hire insurance to protect us against loss of income in the event one of our vessels cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Please read "—Insurance and Indemnifications."

For more information on our time charters, please read "Item 4.B. Business Overview—Vessel Time Charters."

Impact of Our Interests in Joint Ventures on Our Financial Information

Two of the four vessels in our fleet as of December 31, 2016 are owned by our joint ventures, each of which is owned 50% by us. Please read "Item 4.B. Business Overview—Shareholder Agreements." Under applicable accounting guidance, we do not consolidate the financial results of our joint ventures into our financial results, but we record our joint venture results using the equity method of accounting. The following provides a description of the impact of our interests in our joint ventures on select components of our statements of income in our consolidated and combined carve-out financial statements.

- *Equity in Earnings (Losses) of Joint Ventures*. Consists of our 50% share of the combined net income of our joint ventures. The net income of our joint ventures gives effect to interest expense associated with payments on the shareholder loans to the owners of our joint ventures as described below. Equity in earnings of joint ventures also includes the unrealized gains or losses on adjusting the interest rate swap contracts to fair value in each period, which can result in significant volatility between years. For the years ended December 31, 2016, 2015 and 2014 there was no income tax expense for our joint ventures. The equity in earnings of joint ventures is a "one line" consolidation of the results of our joint ventures. Therefore, our joint venture's revenues and expenses are not included in other lines of the consolidated and combined carve-out income statement.

- *Interest Income*. Interest income represents our share of interest income accrued on the advances to our joint ventures (shareholder loans). The shareholder loans were originally issued by Höegh LNG to our joint ventures and were transferred to our operating company in connection with the IPO. For a description of the shareholder loans, please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Joint Ventures Debt—Loans Due to Owners (Shareholder Loans)."

The following provides a description of the impact of our interests in our joint ventures on selected components of our balance sheets in the consolidated and combined carve-out financial statements.

- *Advances to Joint Ventures*. Represents our share of the advances to our joint ventures (shareholder loans). Please read note 13 to our consolidated and combined carve-out financial statements.

- *Investment in (Accumulated Losses) of Joint Ventures*. Represents our share of the net liabilities of our joint ventures. Our joint ventures entered into interest rate swap contracts, which historically have had unrealized mark-to-market losses on the interest rate swap contracts recorded as derivative instrument liabilities on the combined balance sheets. As a result, the liabilities exceed the assets for our joint ventures' combined balance sheets and result in us having a net liability balance for our investment in our joint ventures. Please read note 16 to our consolidated and combined carve-out financial statements. The investment in (accumulated losses) of our joint ventures is a "one line" consolidation of the balance sheet of our joint ventures. Therefore, our joint ventures' assets and liabilities are not included in other lines of the historical consolidated and combined carve-out balance sheet.

We derive cash flows from the operations of our joint ventures from interest and principal payments on our share of the shareholder loans issued to such joint ventures. Under the terms of the shareholders' agreement, the payments are prioritized over any dividend payment to the owners. Our joint ventures have not paid any dividends to date. The payments of principal and interest are made based upon available cash after servicing our joint ventures' long-term bank debt. Therefore, the payments of interest have historically been less than interest income accrued for the period. The quarterly payments include a payment of interest for the first month of the quarter and interest is accrued for the last two months of the quarter for repayment after the full principal is repaid at the end of the loans. The following provides a description of the impacts of our interests in our joint ventures on select components of our statement of cash flows in our consolidated and combined carve-out financial statements:

- *Cash Flows Provided by (Used in) Operating Activities*. Receipt of cash payments, including accrued interest repaid at the end of the loans, for interest income on the shareholder loans is reflected in cash flows provided by (used in) operating activities. For the years ended December 31, 2016, 2015 and 2014, such payments amounted to $1.6 million, $0.5 million and $0.6 million, respectively. All other cash flows provided by (used in) operating activities relate to our other activities.

- *Cash Flows Provided by (Used in) Investing Activities*. Receipts from repayment of principal of advances to joint ventures represent principal repayments paid by our joint ventures to us on its shareholder loans. For the years ended December 31, 2016, 2015 and 2014, such payments amounted to $6.0 million, $5.8 million and $6.7 million, respectively. All other cash flows provided by (used in) investing activities relate to our other activities.

Please read our consolidated and combined carve-out financial statements and the combined financial statements of our joint ventures included elsewhere in this Annual Report for more detailed information.

Historical Employment of Our Fleet

The following table describes the operations of the vessels in our fleet as of December 31, 2016.

Vessel	Description of Historical Operations
Neptune	Delivered in November 2009. Has operated under a long-term time charter with ENGIE, which commenced on delivery.
GDF Suez Cape Ann	Delivered in June 2010. Has operated under a long-term time charter with ENGIE, which commenced on delivery.
PGN FSRU Lampung	Delivered in April 2014. Has operated under a long-term time charter with PGN LNG, which commenced on July 21, 2014.
Höegh Gallant	Delivered in November 2014. Acquired on October 1, 2015. Has operated under a long-term time charter with EgyptCo since acquisition date.

Items You Should Consider When Evaluating Our Historical Financial Performance and Assessing Our Future Prospects

You should consider the following facts when evaluating our historical results of operations and assessing our future prospects:

- *The size of our fleet continues to change*. Our historical results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries. The *PGN FSRU Lampung* was delivered from the shipyard in April 2014 and commenced operations in July 2014 and, as such, has had historical operations for part of 2014 and the years ended December 31, 2016 and 2015. As of October 1, 2015, we increased our fleet with the acquisition of the *Höegh Gallant* which contributed to our results of operations in 2016 and in the fourth quarter of 2015. Commencing January 2017, the *Höegh Grace* will contribute to our earnings due to our acquisition of a 51% ownership interest in the *Höegh Grace* entities. Furthermore, we may grow through the acquisition in the future of additional vessels as part of our growth strategy.

- *We no longer own the Mooring and will not have construction contract revenue.* Our historical results of operations up to and including the year ended December 31, 2014 include revenues and expenses related to the construction of the Mooring, an offshore installation that is used to moor the *PGN FSRU Lampung*. The construction of the Mooring was 100% complete in the fourth quarter of 2014 and the Mooring was transferred to the charterer. We do not expect to engage in the construction of moorings in the next few years. Höegh LNG may deliver mooring solutions prior to us acquiring FSRUs under the omnibus agreement. However, when time charters expire on existing vessels or if we acquire vessels from third parties, we may offer construction of moorings to new charterers.

- *Upon completion of the IPO until October 1, 2015, we had increased interest income*. At the closing of the IPO, we lent $140 million to Höegh LNG in exchange for a note bearing interest at a rate of 5.88% per annum. The cancellation of the note was utilized as part of the purchase consideration for the acquisition of Höegh FSRU III, the entity that indirectly owns the *Höegh Gallant*. Interest income attributable to the note was included in our consolidated and combined carve-out financial statements subsequent to the IPO until the demand note was cancelled on October 1, 2015.

- *Our historical results of operations are affected by significant gains and losses relating to derivative transactions*. Our historical results of operations reflect significant gains and losses relating to interest rate swap contracts that impact our equity in earnings for our joint ventures and were entered into by our joint ventures. On October 1, 2015 we assumed the interest rate swap contracts related to the Gallant facility (as defined below) as part of the acquisition of the *Höegh Gallant.* On March 17, 2014, we entered into interest rate swap contracts related to the Lampung facility (as defined below). The interest rate swaps related to the Gallant facility and the Lampung facility are designated as cash flow hedges for accounting purposes, however, certain amortization and the ineffective portion of the hedge impacts the results of operations. Refer to note 19 of our consolidated and combined carve-out financial statements. We may enter into additional (i) interest rate swap contracts to economically hedge all or a portion of our exposure to floating interest rates and (ii) foreign currency swap contracts to economically hedge risk from foreign currency fluctuations. Starting in January 2017, following the acquisition of a 51% ownership interest in the *Höegh Grace* entities, interest rate swaps related to the Grace facility which are designated as cash flow hedges for accounting purposes will impact the results of operations for certain amortization and the ineffective portion of the hedge.

- *Our historical results of operations prior to the IPO reflect allocated administrative costs that may not be indicative of future administrative costs*. The administrative costs included in our historical results of operations prior to the IPO on August 12, 2014 have been determined by allocating certain of Höegh LNG's administrative costs, after deducting costs directly charged to Höegh LNG's subsidiaries for services provided by the administrative staff, to us principally based on the size of our fleet (including newbuildings) in relation to the size of Höegh LNG's fleet (including newbuildings). These allocated costs may not be indicative of our future administrative costs. In connection with the IPO, we and our operating company have entered into an administrative services agreement with Höegh UK and our operating company has entered into an administrative services agreement with Leif Höegh UK, pursuant to which Höegh UK and Leif Höegh UK provide us and our operating company with certain administrative services. Höegh UK also subcontracts certain of the administrative services provided under its administrative services agreement to Höegh Norway and Leif Höegh UK. Subsequent to the IPO, we reimburse Höegh UK and Leif Höegh UK, and Höegh UK reimburses Höegh Norway and Leif Höegh UK, for the reasonable costs and expenses incurred in connection with the provision of the services under such administrative services agreements. In addition, Höegh UK (i) pays to Höegh Norway a service fee equal to 3.0% of the costs and expenses incurred in

connection with providing services and (ii) pays to Leif Höegh UK a service fee equal to 5.0% of the costs and expenses of certain secretarial services with all other services of Leif Höegh UK reimbursed at cost.

- *We incur additional general and administrative expense as a publicly traded limited partnership*. Subsequent to our IPO in August 2014, we began to incur costs of being a publicly traded partnership as part of our general and administrative expenses. These costs include costs for implementing internal controls, preparing SEC filings including associated auditor and legal fees, holding the unitholder meetings, travelling for investor relations meetings, acquiring entities owning FSRUs, registrar and transfer agent fees, and incremental director and officer liability insurance costs and directors' compensation.

- *Our results of operations are affected by accounting for the PGN FSRU Lampung time charter as a direct financing lease*. When the *PGN FSRU Lampung* began operating under her charter, we recorded a receivable (net investment in direct financing lease) and removed the *PGN FSRU Lampung* from our balance sheet. The lease element of time charter payments under the *PGN FSRU Lampung* time charter is split between revenues and the repayment of part of the receivable. The revenues are recorded using the effective interest method, which provides for a constant rate of return on the net investment. As a result, the revenues will decline over time as more of the time charter payments are treated as a repayment of the receivable. However, the cash flows from the *PGN FSRU Lampung* are not impacted by the accounting treatment. In addition, since the vessel is reclassified to the net investment in direct financing lease on the balance sheet, there is no charge for depreciation expense. In our consolidated and combined carve-out statements of cash flows, the time charter payments reflected as revenues are included under net cash provided by (used in) operating activities while the repayment of the receivable are included under net cash provided by (used in) investing activities.

Factors Affecting Our Results of Operations

We believe the principal factors that will affect our future results of operations include:

- the number of vessels in our fleet;
- our ability to successfully employ our vessels at economically attractive hire rates as long-term charters expire or are otherwise terminated;
- our ability to maintain strong relationships with our existing customers and to increase the number of customer relationships;
- our ability to acquire additional vessels, including the remaining 49% interest in the *Höegh Gallant* or Höegh LNG's other newbuildings;
- our ability to raise capital to fund acquisitions;
- the levels of demand for FSRU, LNG carrier services and other LNG infrastructure;
- the supply and capacities of FSRUs;
- the hire rate earned by our vessels, unscheduled off-hire days and the level of our vessel operating expenses;

- the effective and efficient technical and maritime management and crewing of our vessels;
- economic, regulatory, political and governmental conditions that affect the floating LNG industry;
- interest rate changes;
- mark-to-market changes in interest rate swap contracts;
- foreign currency exchange gains and losses;
- our access to capital required to acquire additional vessels and/or to implement our business strategy;
- variations in crewing and insurance costs;
- the level of our debt and the related interest expense; and
- the amount of distributions on our units.

Please read “Item 3.D. Risk Factors” for a discussion of certain risks inherent in our business.

Customers

For the years ended December 31, 2016 and 2015, time charter revenues in the consolidated and combined carve-out statements of income are from PGN LNG, a subsidiary of PT Perusahaan Gas Negara (Persero) Tbk, an Indonesian publicly listed, government-controlled, gas and energy company that constructs gas pipelines and infrastructure and distributes and transmits natural gas to industrial, commercial and household users and EgyptCo, a subsidiary of Höegh LNG. For the year ended December 31, 2014, all time charter and construction contract revenues are from PGN LNG. Revenues included as a component of equity in earnings of joint ventures are from GDF Suez and accounted for 100% of our joint ventures' time charter revenues for all periods presented. GDF Suez is a subsidiary of ENGIE, a French publicly listed, government-backed, electric utility company.

Inflation and Cost Increases

Inflation has not had a significant impact on operating expenses, including crewing costs, for the *Neptune* and the *GDF Suez Cape Ann*. FSRUs are specialized vessels, and there has been demand for experienced crew, which has led to higher crew costs. The *Neptune* and the *GDF Suez Cape Ann* time charters provide for operating cost pass-through, which means that we will be able to pass on the cost increases to the charterer.

A portion of the operating cost for the *PGN FSRU Lampung* will increase for inflation in Indonesia, including part of the crew and certain supplies. Indonesian inflation has ranged from approximately 3.5% to approximately 6.5% in recent years. The *PGN FSRU Lampung* time charter provides that the operating cost component of the hire rate, established at the beginning of the time charter, will increase by a fixed percentage per year for the first five years and be reset each fifth year based on the average increase over the previous five years, which is expected to mitigate to some extent cost increases.

The *Höegh Gallant* operates in Egypt and inflation in Egypt has ranged from approximately 8.0% to over 23.0% in recent years however, a limited amount of operating expenses related to the *Höegh Gallant* is denominated in EGP. Most expenses are denominated in U.S. Dollars. Therefore, the inflation in Egypt has not had and is not expected to have a material impact on the consolidated financial statements. The *Höegh Gallant* time charter does not have pass-through provisions for operating costs. As such, we bear the risk of cost increases due to inflation and exchange rates. A review of the hire rate under the *Höegh Gallant* time charter may be conducted in approximately two years but a revised rate can only be implemented after written approval by both parties to the time charter.

The *Höegh Grace* operates in Colombia and inflation in Colombia has ranged from approximately 3.0% to over 7.0% in recent years. All revenues under the *Höegh Grace* charter are received in U.S. dollars and a majority of the

expenditures for investments and all of the long-term debt are denominated in U.S. Dollars. A limited amount of operating expenses related to the *Höegh Grace* is denominated in Colombian Pesos, and as such, we bear a limited risk of cost increase due to inflation and exchange rate.

Insurance and indemnifications

Please read “Item 4.B. Business Overview—Risk of Loss, Insurance and Risk Management” for information on the insurance coverage of certain risks inherent in our business.

Environmental indemnifications. Under the omnibus agreement, Höegh LNG will indemnify the Partnership until August 12, 2019 against certain environmental and toxic tort liabilities with respect to the assets contributed or sold to the Partnership to the extent arising prior to the time they were contributed or sold to the Partnership. Liabilities resulting from a change in law are excluded from the environmental indemnity. There is an aggregate cap of $5.0 million on the amount of indemnity coverage provided by Höegh LNG for environmental and toxic tort liabilities. No claim may be made unless the aggregate dollar amount of all claims exceeds $500,000, in which case Höegh LNG is liable for claims only to the extent such aggregate amount exceeds $500,000.

Other indemnifications. Under the omnibus agreement, Höegh LNG will also indemnify the Partnership for losses:

- related to certain defects in title to the assets contributed or sold to the Partnership and any failure to obtain, prior to the time they were contributed to the Partnership, certain consents and permits necessary to conduct the business, which liabilities arise within three years after the closing of the IPO;

- related to certain tax liabilities attributable to the operation of the assets contributed or sold to the Partnership prior to the time they were contributed or sold;

- in the event that the Partnership does not receive hire rate payments under the *PGN FSRU Lampung* time charter for the period commencing on August 12, 2014 through the earlier of (i) the date of acceptance of the *PGN FSRU Lampung* or (ii) the termination of such time charter. The Partnership was indemnified by Höegh LNG for the September 2014 and October 2014 invoices not paid by PGN LNG (refer to note 20 of our consolidated and combined carve-out financial statements);

- with respect to any obligation to pay liquidated damages to PGN LNG under the *PGN FSRU Lampung* time charter for failure to deliver the *PGN FSRU Lampung* by the scheduled delivery date set forth in the *PGN FSRU Lampung* time charter;

- with respect to any non-budgeted expenses (including repair costs) incurred in connection with the *PGN FSRU Lampung* project (including the construction of the Mooring) occurring prior to the date of acceptance of the *PGN FSRU Lampung* pursuant to the time charter; and

- pursuant to a letter agreement dated August 12, 2015, Höegh LNG confirmed that the indemnification provisions of the omnibus agreement include indemnification for all non-budgeted, non-creditable Indonesian value added taxes and non-budgeted Indonesian withholding taxes, including any related impact on cash flow from PT Höegh and interest and penalties associated with any non-timely Indonesian tax filings related to the ownership or operation of the *PGN FSRU Lampung* and the Mooring whether incurred (i) prior to the closing date of the IPO, (ii) after the closing date of the IPO to the extent such taxes, interest, penalties or related impact on cash flows relate to periods of ownership or operation of the *PGN FSRU Lampung* and the Mooring and are not subject to prior indemnification payments or deemed reimbursable by the charterer under its audit of the taxes related to the *PGN FSRU Lampung* time charter for periods up to and including June 30, 2015, or (iii) after June 30, 2015 to the extent withholding taxes exceed the minimum amount of withholding tax due under Indonesian tax regulations due to lack of documentation or untimely withholding tax filings. The Partnership is indemnified for recovery of the $6.2 million VAT liability related to a Mooring invoice.

The Partnership filed claims for indemnification with respect to non-budgeted expenses (including the warranty provision, value added tax, withholding tax, other non-budgeted expenses and costs related to the restatement of the Partnership’s financial statements filed with the SEC on November 30, 2015) of approximately $2.1 million and $7.7 million in the years ended December 31, 2016 and 2015, respectively. Indemnification payments of $2.4 million and $6.6 million received from Höegh LNG for the years ended December 31, 2016 and 2015, respectively, and were recorded as a contribution to equity.

Under the contribution, purchase and sale agreement entered into with respect to the purchase of the entity that indirectly owns the *Höegh Gallant*, Höegh LNG will indemnify the Partnership for:

- losses from breach of warranty;
-

- losses related to certain environmental and tax liabilities attributable to the operation of the *Höegh Gallant* prior to the closing date;
- all capital gains tax or other export duty incurred in connection with the transfer of the *Höegh Gallant* outside of Höegh Cyprus's permanent establishment in a Public Free Zone in Egypt;
- any recurring non-budgeted costs owed to Höegh LNG Management with respect to payroll taxes;
- any non-budgeted losses suffered or incurred in connection with the commencement of services under the time charter with EgyptCo or EgyptCo's time charter with EGAS; and
- liabilities under the Gallant/Grace facility not attributable to the *Höegh Gallant*.

Additionally, Höegh LNG has guaranteed the payment of hire by EgyptCo pursuant to the time charter for the *Höegh Gallant* under certain circumstances.

The Partnership filed claims and was paid $1.3 million for the year ended December 31, 2016 for indemnification of losses incurred in connection with the commencement of services under the time charter with EgyptCo due to start up technical issues and $0.1 million for other costs incurred. Indemnification payments of $1.4 million received from Höegh LNG for the year ended December 31, 2016 were recorded as a contribution to equity.

Under the contribution, purchase and sale agreement entered into with respect to the acquisition of the 51% ownership interest in the *Höegh Grace* entities, Höegh LNG will indemnify the Partnership for:

- losses from breach of warranty;
- losses related to certain environmental liabilities, damages or repair costs and tax liabilities attributable to the operation of the *Höegh Grace* prior to the closing date;

- any recurring non-budgeted costs owed to tax authorities with respect to payroll taxes, taxes related to social security payments, corporate income taxes (including income tax for equality and surcharge on income tax for equality), withholding tax, port associations, local Cartagena tax, and financial transaction tax, including any penalties associated with taxes to the extent not reimbursed by the charterer;
- any non-budgeted losses suffered or incurred in connection with the commencement of services under the *Höegh Grace* charter with SPEC; and
- any losses suffered or incurred in relation to the performance guarantee we have provided with respect to the *Höegh Grace* charter, up to Höegh LNG's pro rata share of such losses, based on its remaining ownership interest in Höegh Colombia Holding.

A. Operating Results

The following table summarizes our operating results for the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31,		
(in thousands of U.S. dollars)	2016	2015	2014
Statement of Income Data:			
Time charter revenues	$91,107	$57,465	$22,227
Construction contract revenues	—	—	51,868
Other revenue	—	—	474
Total revenues	91,107	57,465	74,569
Voyage expenses	—	—	(1,139)
Vessel operating expenses	(16,080)	(9,679)	(6,197)
Construction contract expenses	(315)	—	(38,570)
Administrative expenses	(9,718)	(8,733)	(12,566)
Depreciation and amortization	(10,552)	(2,653)	(1,317)
Total operating expenses	(36,665)	(21,065)	(59,789)
Equity in earnings (losses) of joint ventures	16,622	17,123	(5,330)
Operating income (loss)	71,064	53,523	9,450
Interest income	857	7,568	4,959
Interest expense	(25,178)	(17,770)	(9,665)
Gain (loss) on derivative instruments	1,839	949	(161)
Other items, net	(3,333)	(2,678)	(2,788)
Income (loss) before tax	45,249	41,592	1,795
Income tax expense	(3,872)	(313)	(481)
Net income (loss)	$41,377	$41,279	$1,314

Financial Highlights in 2016 and Early 2017

The following sets forth our significant developments for the year ended December 31, 2016 and early 2017:

- Total time charter revenues were $91.1 million for the year ended December 31, 2016 compared to $57.5 million for the year ended December 31, 2015;

- Operating income was $71.1 million for the year ended December 31, 2016 compared to $53.5 million for the year ended December 31, 2015; operating income was impacted by unrealized gains on derivative instruments on the Partnership's share of equity in earnings of joint ventures for the years ended December 31, 2016 and 2015;

- Unrealized gain on derivative instruments was $7.1 million and $9.3 million on the Partnership's share of equity in earnings of joint ventures for the years ended December 31, 2016 and 2015, respectively;

- Net income was $41.4 million for the year ended December 31, 2016 compared to $41.3 million for the year ended December 31, 2015;

- In December 2016, completed a 6,588,389 common unit offering raising approximately $111.5 million in net proceeds after underwriters' discounts and offering expenses;

- On January 3, 2017, closed the acquisition of a 51% ownership interest in the *Höegh Grace* entities for cash consideration of $91.8 million, excluding the working capital adjustment. The results of the *Höegh Grace* will contribute to the Partnership's earnings commencing in January 2017;

- On February 14, 2017, paid a $0.4125 per unit distribution with respect to the fourth quarter of 2016; and

- In February 2017, drew $1.6 million on the revolving credit facility.

Year Ended December 31, 2016 Compared with the Year Ended December 31, 2015

Time Charter Revenues. The following table sets forth details of our time charter revenues for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Time charter revenues	$ 91,107	$ 57,465	$ 33,642

Time charter revenues for the year ended December 31, 2016 were $91.1 million, an increase of $33.6 million from $57.5 million for the year ended December 31, 2015. The increase mainly relates to the revenue for the *Höegh Gallant* for the year ended December 31, 2016 which was acquired on October 1, 2015. The *PGN FSRU Lampung* was fully on-hire for each of the years ended December 31, 2016 and 2015. For the year ended December 31, 2016 scheduled and follow-on maintenance for the *Höegh Gallant* occurred resulting in reduced hire equivalent to approximately 19 days of off-hire. The *Höegh Gallant* was on-hire for the entire fourth quarter of 2015.

Time charter revenues for the *PGN FSRU Lampung* consisted of the lease element of the time charter, accounted for as a direct financing lease using the effective interest rate method, as well as fees for providing time charter services, reimbursement for vessel operating expenses and withholding taxes borne by the charterer. Time charter revenues for the *Höegh Gallant* consisted of the fixed daily hire rate which covers the operating lease and the provision of time

charter services including the costs incurred to operate the vessel.

Vessel Operating Expenses. The following table sets forth details of our vessel operating expenses for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Vessel operating expenses	$ (16,080)	$ (9,679)	$ (6,401)

Vessel operating expenses for the year ended December 31, 2016 were $16.1 million, an increase of $6.4 million from $9.7 million for the year ended December 31, 2015. The increase reflects approximately $6.9 million of higher vessel operating expenses due to the inclusion of the *Höegh Gallant* for the entire year of 2016, including $0.5 million related to higher expenses for consumables as a result of the additional maintenance during the second and third quarter of 2016. The increase in vessel operating expenses for the *Höegh Gallant* was partially offset by the reduction of $0.5 million in vessel operating expenses for the *PGN FSRU Lampung* for the year ended December 31, 2016 compared with the year ended December 31, 2015.

Construction Contract Expenses. The following table sets forth details of our construction contract expenses for the years ended December 31, 2016 and 2015:

(in thousands of U.S. dollars)	Year ended December 31, 2016	2015	Positive (negative) variance
Construction contract expenses	$ (315)	$ —	$ (315)

The Mooring is an offshore installation that is used to moor the *PGN FSRU Lampung* to offload natural gas into an offshore pipe that transports the gas to a land terminal for the charterer, PGN LNG. The Mooring was constructed on behalf of, and was sold to, PGN LNG and was accounted for using the percentage of completion method. Under the percentage of completion method, construction contract revenues and expenses of the Mooring were reflected in the consolidated and combined carve-out statements of income until December 31, 2014 when the Mooring project was completed.

As of December 31, 2014, a warranty allowance of $2.0 million was recorded to construction contract expenses related to the Mooring. During 2016, the final replacement parts were ordered and an updated estimate prepared for the installation cost to complete the warranty replacements. The revised estimate exceeded the remaining warranty allowance. As a result, an additional warranty provision of $0.3 million was recorded for the year ended December 31, 2016. As of December 31, 2016, the remaining warranty allowance was $1.3 million. We anticipate that part of the costs incurred for the remaining warranty replacements, net of deductible amounts, will be recoverable under insurance. An insurance claim will be filed with the insurance carrier when the costs have been incurred in 2017. The insurance claims can only be recognized in the consolidated and combined carve-out financial statements when the claims are submitted and are probable of recovery. In 2016, we were paid for an indemnification claim for the additional warranty provision by Höegh LNG, subject to repayment to the extent recovered by insurance.

Under the omnibus agreement, all costs incurred for repairs under the warranty will be indemnified by Höegh LNG. For additional information, refer to note 20 of our consolidated and combined carve-out financial statements.

Administrative Expenses. The following table sets forth details of our administrative expenses for the years ended December 31, 2016 and 2015:

(in thousands of U.S. dollars)	Year ended December 31, 2016	2015	Positive (negative) variance
Administrative expenses	$ (9,718)	$ (8,733)	$ (985)

Administrative expenses for the year ended December 31, 2016 were $9.7 million, an increase of $1.0 million from $8.7 million for the year ended December 31, 2015. An increase in expenses of $0.7 million related to audit fees, legal fees and other expenses incurred in connection with the common unit offering in December 2016, the filing of financial statements for the *Höegh Grace* entities to be acquired, and the preparation for the acquisition of the 51% ownership interest in the *Höegh Grace* entities. The administrative expenses related to the *Höegh Gallant* increased by $0.4 million due to the inclusion of the *Höegh Gallant* for the entire year for the year ended December 31, 2016 compared with three months for the year ended December 31, 2015. The increase was partly offset by a reduction in administrative expenses related to the *PGN FSRU Lampung* of $0.1 million.

Depreciation and Amortization. The following table sets forth details of our depreciation and amortization for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Depreciation and amortization	$ (10,552)	$ (2,653)	$ (7,899)

Depreciation and amortization for the year ended December 31, 2016 was $10.6 million, an increase of $7.9 million from $2.7 million for the year ended December 31, 2015. The increase of $7.9 million was due to the depreciation of the *Höegh Gallant* which was included from the acquisition date of October 1, 2015. Prior to the acquisition of the *Höegh Gallant* on October 1, 2015, depreciation only related to office and IT equipment.

Total Operating Expenses. The following table sets forth details of our total operating expenses for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Total operating expenses	$ (36,665)	$ (21,065)	$ (15,600)

Total operating expenses for the year ended December 31, 2016 were $36.7 million, an increase of $15.6 million from $21.1 million for the year ended December 31, 2015. The increase was mainly due to the additional vessel operating expenses and depreciation for the year ended December 31, 2016 as a result of acquiring the *Höegh Gallant*. The *Höegh Gallant* was acquired on October 1, 2015 and included in operations from the date of acquisition.

Equity in Earnings (Losses) of Joint Ventures. The following table sets forth details of our equity in earnings of joint ventures for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Equity in earnings (losses) of joint ventures	$ 16,622	$ 17,123	$ (501)

Equity in earnings of joint ventures for the year ended December 31, 2016 was $16.6 million, a decrease of $0.5 million from equity in earnings of $17.1 million for the year ended December 31, 2015. Unrealized gains on derivative instruments in our joint ventures significantly impacted the equity in earnings of joint ventures for both years.

Our share of our joint ventures' operating income was $24.6 million for the year ended December 31, 2016, compared with $24.0 million for the year ended December 31, 2015. Our share of other income (expense), net, principally consisting of interest expense, was $15.1 million for the year ended December 31, 2016, a reduction of $1.0 million from $16.1 million for the year ended December 31, 2015. The reduction was mainly due to lower interest expense due to repayment of principal on debt during 2016.

Our share of unrealized gains on derivative instruments was $7.1 million for the year ended December 31, 2016, a decrease of $2.1 million compared to $9.2 million for the year ended December 31, 2015. The joint ventures utilize interest rate swap contracts to exchange floating interest rate payments for fixed interest rate payments to reduce the

exposure to interest rate variability on their outstanding floating-rate debt. The interest rate swap contracts are not designated as hedges for accounting purposes. As a result, there is volatility in earnings for the unrealized exchange gains and losses on the interest rate swap contracts. Historically, the joint ventures have accumulated unrealized losses on the interest rate swaps due to declining interest rates, which has resulted in liabilities for derivative instruments and an accumulated deficit in equity on their balance sheets.

There was no accrued income tax expense for the years ended December 31, 2016 and 2015. Our joint ventures did not pay any dividends for the years ended December 31, 2016 and 2015.

Operating Income. The following table sets forth details of our operating income for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Operating income (loss)	$ 71,064	$ 53,523	$ 17,541

Operating income for the year ended December 31, 2016 was $71.1 million, an increase of $17.6 million from $53.5 million for year ended December 31, 2015. Excluding the impact of the unrealized gains on derivatives for the years ended December 31, 2016 and 2015 impacting the equity in earnings of joint ventures, operating income for the year ended December 31, 2016 would have been $64.0 million, an increase of $19.7 million from $44.3 million for year ended December 31, 2015. The increase is primarily a result of the *Höegh Gallant* being consolidated for the full year ended December 31, 2016 compared with three months in 2015.

Interest Income. The following table sets forth details of our interest income for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Interest income	$ 857	$ 7,568	$ (6,711)

Interest income for the year ended December 31, 2016 was $0.9 million, a decrease of $6.7 million from $7.6 million for the year ended December 31, 2015. Interest income of $0.9 million related to interest income on the advances to our joint ventures for the year ended December 31, 2016, while interest income of $7.6 million for the year ended December 31, 2015 included interest income on the $140 million demand note from Höegh LNG of $6.3 million and interest income on the advances to our joint ventures of $1.3 million. The decrease in interest income from joint ventures in the year ended December 31, 2016 is due to repayments made by our joint ventures of a portion of the principal of the shareholder loans between the periods. The interest rate under the shareholder loans to our joint ventures is a fixed rate of 8.0% per year. We lent $140 million to Höegh LNG from the net proceeds of the IPO pursuant to a demand note that bore interest at a rate of 5.88% per year. The demand note was cancelled on October 1, 2015 as part of the purchase consideration for the acquisition of the *Höegh Gallant*.

Interest Expense. The following table sets forth details of our interest expense for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Interest expense	$ (21,990)	$ (14,099)	$ (7,891)
Commitment fees	(1,175)	(1,191)	16
Amortization of debt issuance cost and fair value of debt assumed	(2,013)	(2,480)	467
Total interest expense	$ (25,178)	$ (17,770)	$ (7,408)

Interest expense for the year ended December 31, 2016 was $25.2 million, an increase of $7.4 million from $17.8 million for the year ended December 31, 2015. Interest expense consists of the interest incurred, commitment fees and amortization of debt issuance cost and the adjustment for the fair value of debt assumed for the period.

The interest incurred of $22.0 million for the year ended December 31, 2016 increased by $7.9 million compared to $14.1 million for the year ended December 31, 2015, principally due to higher average outstanding loan balances. On October 1, 2015, we assumed the tranches under the long-term loan facility related to the *Höegh Gallant* as part of the

acquisition of the *Höegh Gallant.* In addition, we financed part of the *Höegh Gallant* acquisition with a $47 million seller's credit note that bears interest at a rate of 8.0% per year. In December 2016, we repaid $12.6 million of the seller's credit note. In August 2016 and in November 2016, we drew $5.4 million and $3.2 million, respectively, on the $85 million revolving credit facility that bears interest of at a rate equal to LIBOR plus a margin of 4.0%. Accordingly, the interest incurred for the year ended December 31, 2016 was for the Lampung and Gallant facilities, the seller's credit note and the outstanding balance on the revolving credit facility. For the year ended December 2015, interest was only incurred on the Gallant facility and the seller's credit note for the fourth quarter of 2015.

Commitment fees were $1.2 million and $1.2 million for the years ended December 31, 2016 and 2015, respectively. The commitment fees relate to the undrawn portion of the $85 million revolving credit facility for the years ended December 31, 2016 and 2015.

Amortization of debt issuance cost and fair value of debt assumed were $2.0 million and $2.5 million for the years ended December 31, 2016 and 2015, respectively. As a result of the acquisition of the *Höegh Gallant*, the long term debt assumed under the Gallant facility was recognized at its fair value. The difference between the fair value and the outstanding principal of the debt as of October 1, 2015 of approximately $1.3 million is amortized to interest expense using the effective interest method. The impact for the year ended December 31, 2016 was a reduction to interest expense of approximately $0.3 million compared to the year ended December 31, 2015.

Gain (Loss) on Derivative Instruments. The following table sets forth details of our gain/loss on derivative instruments for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Gain (loss) on derivative instruments	$ 1,839	$ 949	$ 890

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Gain on derivative instruments for the year ended December 31, 2016 was $1.8 million, an increase of $0.9 million from a gain on derivative instruments of $0.9 million for the year ended December 31, 2015. Gain on derivative instruments for the years ended December 31, 2016 and 2015 related to the interest rate swaps for the Lampung facility and the Gallant facility. The gain principally related to the amortization income on the amount excluded from hedge effectiveness, net of the amortization expense related to the interest rate swaps reclassified from accumulated other comprehensive income and the loss on the ineffective portion of the cash flow hedges. The interest rate swaps are designated as cash flow hedges of the variable interest payments on the Lampung and Gallant facilities and the effective portion of the changes in fair value of the hedges are recorded in other comprehensive income. The increase is mainly due to higher amortization of the amount excluded from hedge effectiveness related to interest rate swaps for the Gallant facility.

Other Items, Net. The following table sets forth details of our other items for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Foreign exchange gain (loss)	$ (383)	$ (16)	$ (367)
Bank charges, fees and other	(183)	(77)	(106)
Withholding tax on interest expense and other	(2,767)	(2,585)	(182)
Total other items, net	$ (3,333)	$ (2,678)	$ (655)

Other items, net for the year ended December 31, 2016 was $3.3 million, an increase of $0.6 million from $2.7 million for the year ended December 31, 2015. The increase was mainly due to higher foreign exchange losses and withholding tax for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Foreign exchange losses increased by $0.4 million for the year ended December 31, 2016 compared to the year ended December 31, 2015. We have certain monetary assets and liabilities denominated in Egyptian pounds related to the operations of the *Höegh Gallant*. On March 14, 2016, the Egyptian authorities devaluated the Egyptian pounds to U.S. dollar by approximately 14%, resulting in a foreign exchange loss of approximately $0.2 million. On November 3, 2016, the Egyptian central bank announced the intention to allow the Egyptian pound to trade freely and increased the interest rates by 300 basis points, resulting in an additional foreign exchange loss of approximately $0.1 million. Removing currency restrictions and introducing market based rates should allow for exchangeability between Egyptian pounds and other currencies over time. The remaining exchange losses of approximately $0.1 million for the year ended December 31, 2016 mainly relate to other currencies.

Withholding tax on interest expense and other for the year ended December 31, 2016 was $2.8 million, an increase of $0.2 million from $2.6 million for the year ended December 31, 2015. Withholding tax is primarily payable on

interest expense to parties outside of Singapore and Indonesia.

Income (Loss) Before Tax. The following table sets forth details of our income before tax for the years ended December 31, 2016 and 2015:

(in thousands of U.S. dollars)	Year ended December 31, 2016	2015	Positive (negative) variance
Income (loss) before tax	$ 45,249	$ 41,592	$ 3,657

Income before tax for the year ended December 31, 2016 was $45.2 million, an increase of $3.6 million from $41.6 million for the year ended December 31, 2015. The increase is primarily a result of the contribution from the acquisition of the *Höegh Gallant* partly offset by reduced interest income due to cancellation of the demand note on October 1, 2015 as part of the purchase consideration for the acquisition of the *Höegh Gallant*.

Income Tax Expense. The following table sets forth details of our income tax expense for the years ended December 31, 2016 and 2015:

(in thousands of U.S. dollars)	Year ended December 31, 2016	2015	Positive (negative) variance
Income tax expense	$ (3,872)	$ (313)	$ (3,559)

Income tax expense for the year ended December 31, 2016 was $3.9 million, an increase of $3.6 million from $0.3 million for the year ended December 31, 2015. We are not subject to Marshall Islands corporate income taxes. However, we are subject to tax for earnings of our subsidiaries incorporated in Indonesia, Singapore, Cyprus and the UK. For the years ended December 31, 2016 and 2015, the income tax expense primarily related to our Indonesian subsidiary and our Singapore subsidiary. The Singapore subsidiary’s taxable income mainly arises from internal interest income. During 2015, the Indonesian Minister of Finance introduced new regulations effective for 2016 that limited the amount of interest expense that was deductible for current income taxes where the taxpayer’s debt to equity ratio exceeds 4:1. Certain industries, including the infrastructure industry, were exempted from the debt to equity ratio requirements. Although the “infrastructure industry” was not defined in the new regulations, additional guidance was expected to be provided by the Indonesian tax authorities during 2016. Because no subsequent guidance has been issued, the limitations on the deductibility of interest expense have been applied, increasing taxable income and income tax expense of our Indonesian subsidiary for the year ended December 31, 2016 compared to the year ended December 31, 2015.

A valuation allowance for deferred tax assets is recorded when it is more-likely-than-not that some or all of the benefit will not be realized based on consideration of all the positive and negative evidence. Given the lack of historical operations in Indonesia, management of the Partnership concluded a valuation allowance should be established to reduce the deferred tax assets to the amount deemed more-likely-than-not of realization for the year ended December 31, 2015. Management concluded that $2.0 million of the deferred tax assets were more-likely-than-not to be realized over the term of the interest rate swaps related to the Lampung facility and recognized deferred tax assets for those amounts for the year ended December 31, 2015. As of December 31, 2016, the Indonesian subsidiary had generated taxable income for several years and was in a net deferred tax liability position. As a result, management concluded that all deferred tax assets for the Indonesian subsidiary were more-likely-than-not to be realized. A reduction in the valuation allowance of $4.6 million and $4.1 million was recorded to income tax expense in the consolidated and combined carve-out statement of income for the years ended December 31, 2016 and 2015, respectively.

Benefits of uncertain tax positions are recognized when it is more-likely-than-not that a tax position taken in a tax return will be sustained upon examination based on the technical merits of the position. In 2013, a tax loss was incurred in Indonesia principally due to unrealized losses on foreign exchange that does not impact the income statement prepared in the functional currency of U.S. dollars. In 2014, the Indonesia authorities approved the change of currency for tax reporting to U.S. dollars. Under existing tax law, it is not clear if the prior year tax loss carryforward from foreign exchange losses can be utilized when the tax reporting currency is subsequently changed. Due to the uncertainty of this tax position, a provision was recognized for the year ended December 31, 2013 and the resulting unrecognized tax benefit was $2.6 million. There was no change in the unrecognized tax benefits as of December 31, 2014. For the years ended December 31, 2016 and 2015, the generation of taxable income resulted in the utilization of $2.5 million and $0.1 million of the 2013 tax loss carryforward which was not recognized due to the uncertainty of this tax position. As a result, taxable income for the Indonesian subsidiary for the year ended December 31, 2016 exceeded the remaining 2014 tax loss carryforward and a long-term income tax payable of $2.2 million was recorded for the uncertain tax position.

Net Income (Loss). The following table sets forth details of our net income for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2016	2015	variance
Net income (loss)	$ 41,377	$ 41,279	$ 98

As a result of the foregoing, net income for the year ended December 31, 2016 was $41.4 million, an increase of $0.1 million compared with net income of $41.3 million for the year ended December 31, 2015.

Segments

There are two operating segments. The segment profit measure is Segment EBITDA, which is defined as earnings before interest, taxes, depreciation, amortization and other financial items (gains and losses on derivative instruments and other items, net). Segment EBITDA is reconciled to operating income and net income in the segment presentation below. Please read "Item 3.A. Selected Financial Data—Non-GAAP Financial Measures" for a definition of Segment EBITDA and a reconciliation of Segment EBITDA to net income. The two segments are "Majority held FSRUs" and "Joint venture FSRUs." In addition, unallocated corporate costs that are considered to benefit the entire organization, interest income from advances to joint ventures and interest expense related to the seller's credit note and the outstanding balance on the $85 million revolving credit facility are included in "Other."

For the years ended December 31, 2016 and 2015, Majority held FSRUs includes the direct financing lease related to the *PGN FSRU Lampung* and the operating lease related to the *Höegh Gallant* from the acquisition date of October 1, 2015.

For the years ended December 31, 2016 and 2015, Joint venture FSRUs include the operating leases related to two 50% owned FSRUs, the *Neptune* and the *GDF Suez Cape Ann*, that operate under long term time charters with one charterer.

The accounting policies applied to the segments are the same as those applied in the financial statements, except that Joint venture FSRUs are presented under the proportional consolidation method for the segment note in the Partnership's financial statements and under equity accounting for the consolidated and combined carve-out financial statements. Under the proportional consolidation method, 50% of the Joint venture FSRUs' revenues, expenses and assets are reflected in the segment note. Management monitors the results of operations of joint ventures under the proportional consolidation method and not the equity method of accounting.

Majority Held FSRUs. The following table sets forth details of segment results for the Majority held FSRUs for the years ended December 31, 2016 and 2015:

Majority Held FSRUs (in thousands of U.S. dollars)	Year ended December 31, 2016	 2015	Positive (negative) variance
Time charter revenues	$91,107	$57,465	$ 33,642
Total revenues	91,107	57,465	33,642
Vessel operating expenses	(16,080)	(9,679)	(6,401)
Construction contract expense	(315)	—	(315)
Administrative expenses	(2,963)	(2,667)	(296)
Segment EBITDA	71,749	45,119	26,630
Depreciation and amortization	(10,552)	(2,653)	(7,899)
Operating income (loss)	61,197	42,466	18,731
Gain (loss) on derivative instruments	1,839	949	890
Other financial income (expense), net	(23,381)	(18,275)	(5,106)
Income (loss) before tax	39,655	25,140	14,515
Income tax expense	(3,852)	(333)	(3,519)
Net income (loss)	$35,803	$24,807	$ 10,996

Time charter revenues for the year ended December 31, 2016 were $91.1 million, an increase of $33.6 million from $57.5 million for the year ended December 31, 2015. The increase mainly relates to the revenue for the *Höegh Gallant* for the year ended December 31, 2016 which was acquired on October 1, 2015. The *PGN FSRU Lampung* was fully on-hire for each of the years ended December 31, 2016 and 2015. For the year ended December 31, 2016 scheduled and follow-on maintenance for the *Höegh Gallant* occurred resulting in reduced hire equivalent to approximately 19 days of off-hire. The *Höegh Gallant* was on-hire for the entire fourth quarter of 2015.

Vessel operating expenses for the year ended December 31, 2016 were $16.1 million compared to $9.7 million for the year ended December 31, 2015. The increase reflects approximately $6.9 million of higher vessel operating expenses due to inclusion of the *Höegh Gallant*, including $0.5 million related to higher expenses for consumables as a result of the additional maintenance during the second and third quarter of 2016. The increase in vessel operating expenses for the *Höegh Gallant* was partially offset by the reduction of $0.5 million in vessel operating expenses for the *PGN FSRU Lampung* for the year ended December 31, 2016 compared with the year ended December 31, 2015.

Construction contract expenses were $0.3 million for the year ended December 31, 2016. As discussed in more detail above, an additional warranty provision of $0.3 million related to the Mooring was recorded in 2016.

Administrative expenses for the year ended December 31, 2016 were $3.0 million, an increase of $0.3 million from $2.7 million for the year ended December 31, 2015. The increase reflects $0.4 million in higher administrative expenses due to inclusion of the *Höegh Gallant* for the full year, partly offset by a reduction of $0.1 million in administrative expenses for the *PGN FSRU Lampung* for the year ended December 31, 2016 compared to year ended December 31, 2015.

Segment EBITDA for the year ended December 31, 2016 was $71.7 million, an increase of $26.6 million from $45.1 million for the year ended December 31, 2015. The increase was mainly due to the inclusion of the operations of the *Höegh Gallant* for the whole year ended December 31, 2016; however, improved Segment EBITDA for the operations of the *PGN FSRU Lampung* also contributed positively.

Joint Venture FSRUs. The following table sets forth details of segment results for the Joint venture FSRUs for the years ended December 31, 2016 and 2015:

Joint Venture FSRUs (in thousands of U.S. dollars)	Year ended December 31, 2016	Year ended December 31, 2015	Positive (negative) variance
Time charter revenues	$43,272	$42,698	$ 574
Vessel operating expenses	(6,711)	(8,583)	1,872
Administrative expenses	(2,396)	(910)	(1,486)
Segment EBITDA	34,165	33,205	960
Depreciation and amortization	(9,525)	(9,227)	(298)
Operating income (loss)	24,640	23,978	662
Gain (loss) on derivative instruments	7,092	9,246	(2,154)
Other income (expense), net	(15,110)	(16,101)	991
Income (loss) before tax	16,622	17,123	(501)
Income tax expense	—	—	—
Net income (loss)	$16,622	$17,123	$ (501)

The segment results for the Joint venture FSRUs are presented using the proportional consolidation method (which differs from the equity method used in the consolidated and combined carve-out financial statements).

Total time charter revenues were $43.3 million and $42.7 million for the years ended December 31, 2016 and 2015, respectively. Revenues for time charter payments, including fees for reimbursement of operating expenses, for the year ended December 31, 2016 was $41.3 million, a reduction of $0.1 million from $41.4 million for the year ended December 31, 2015. The reduction in time charter revenues for the year ended December 31, 2016 was principally due to lower fees for reimbursement of vessel operating expenses which was partially offset by higher fees for reimbursement of administrative expenses incurred in preparation for the *Neptune's* subcharter in Turkey. The remaining revenues related to the amortization of deferred revenues for upfront payments for vessel modifications and drydocking payments from the charterer which increased approximately $0.7 million for the year ended December 31, 2016 compared with the year ended December 31, 2015. On December 11, 2016 the *Neptune* arrived at the Etki Terminal near the port of Aliaga in Izmir province on the west coast of Turkey to serve as an FSRU pursuant to a sub-charter made by its charterer. On January 19, 2017, the *GDF Suez Cape Ann* left Tianjin, China having completed its charterer and returned to the charterer's LNG carrier pool.

Vessel operating expenses for the year ended December 31, 2016 were $6.7 million, a decrease of $1.9 million compared to $8.6 million for the year ended December 31, 2015. The decrease in vessel operating expenses was largely due to increased payroll costs for the crew related to the operations in China during 2015.

Administrative expenses for the year ended December 31, 2016 were $2.4 million, an increase of $1.5 million compared to $0.9 million for the year ended December 31, 2015. The higher administrative expenses are partly due to preparations for the *Neptune's* subcharter in Turkey. These expenses are reimbursed by the charterer.

Segment EBITDA was $34.2 million for the year ended December 31, 2016, an increase of $1.0 million compared with $33.2 million for the year ended December 31, 2015.

Other. The following table sets forth details of other results of Other for the years ended December 31, 2016 and 2015:

Other (in thousands of U.S. dollars)	Year ended December 31, 2016	 2015	Positive (negative) variance
Administrative expenses	$(6,755)	$(6,066)	$(689)
Segment EBITDA	(6,755)	(6,066)	(689)
Operating income (loss)	(6,755)	(6,066)	(689)
Other financial income (expense), net	(4,273)	5,395	(9,668)
Income (loss) before tax	(11,028)	(671)	(10,357)
Income tax expense	(20)	20	(40)
Net income (loss)	$(11,048)	$(651)	$(10,397)

Administrative expenses and Segment EBITDA for the year ended December 31, 2016 for each was $6.8 million, an increase of $0.7 million from $6.1 million for the year ended December 31, 2015.

Expenses of $0.7 million were incurred principally related to audit fees, legal fees and other expenses incurred in connection with the common unit offering in December 2016, the filing of financial statements for the *Höegh Grace* entities to be acquired, and the preparation for the acquisition of the 51% ownership interest in the *Höegh Grace* entities.

Other financial income (expense), net, which is not part of the segment measure of profits, is related to the interest income accrued on the advances to our joint ventures and the $140 million demand note from Höegh LNG and interest expense, including commitment fees, on a seller's credit note issued in connection with the acquisition of *Höegh Gallant* on October 1, 2015 and the $85 million revolving credit facility. Other financial income (expense), net for the year ended December 31, 2016 was an expense of $4.3 million, a decrease of $9.7 million from income of $5.4 million for the year ended December 31, 2015. The decrease is a result of no interest income during 2016 from the $140 million demand note cancelled on October 1, 2015 and increase in interest expense for the seller's credit note entered into on October 1, 2015 and the drawn portion of the revolving credit facility for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Year Ended December 31, 2015 Compared with the Year Ended December 31, 2014

Time Charter Revenues. The following table sets forth details of our time charter revenues for the years ended December 31, 2015 and 2014:

(in thousands of U.S. dollars)	Year ended December 31, 2015	2014	Positive (negative) variance
Time charter revenues	$ 57,465	$ 22,227	$ 35,238

Time charter revenues for the year ended December 31, 2015 were $57.5 million, an increase of $35.2 million from $22.2 million the year ended December 31, 2014. The time charter revenues related to the *PGN FSRU Lampung,* which was on-hire for the entire year ended December 31, 2015, and the *Höegh Gallant*, which we acquired on October 1, 2015. Excluding the revenues associated with the *Höegh Gallant*, the time charter revenues increased $23.4 million in 2015 because the time charter for the *PGN FSRU Lampung* did not begin until July 21, 2014 when commissioning began. We were indemnified by Höegh LNG for the amount payable for the September 2014 and October 2014 hire invoices for the *PGN FSRU Lampung*. For additional discussion, refer to note 20 of our consolidated and combined carve-out financial statements.

Time charter revenues for the *PGN FSRU Lampung* consisted of the lease element of the time charter, accounted for as a direct financing lease using the effective interest rate method, as well as fees for providing time charter services, reimbursement for vessel operating expenses and withholding taxes borne by the charterer. Time charter revenues for the *Höegh Gallant* consisted of the fixed daily hire rate which covers the operating lease and the provision of time charter services including the costs incurred to operate the vessel.

Construction Contract Revenues and Related Expenses. The following table sets forth details of our construction contract revenues and construction contract expenses for the years ended December 31, 2015 and 2014:

(in thousands of U.S. dollars)	Year ended December 31, 2015	2014	Positive (negative) variance
Construction contract revenues	$ —	$ 51,868	$ (51,868)
Construction contract expenses	$ —	$ (38,570)	$ 38,570
Recognized contract margin	$ —	$ 13,298	$ (13,298)

Construction contract revenues for the year ended December 31, 2014 were $51.9 million. Construction contract expenses were $38.6 million for the year ended December 31, 2014. The recognized contract margin for the year ended December 31, 2014 was $13.3 million. PGN LNG formally accepted the *PGN FSRU Lampung* and signed the Certificate of Acceptance on October 30, 2014 which was the condition for the final payment related to the Mooring. As such the Mooring project was completed as of December 31, 2014. As a result, there were no construction contract revenues or expenses for the year ended December 31, 2015. The Mooring is an offshore installation that is used to moor the *PGN FSRU Lampung* to offload natural gas into an offshore pipe that transports the gas to a land terminal for the charterer, PGN LNG.

PGN LNG issued invoices for delay liquidated damages of $7.1 million related to claims from PGN LNG on the project for the year ended December 31, 2014. Subsequent to the year ended December 31, 2014, an understanding with PGN LNG was reached under which no delay liquidated damages were payable. Due to this subsequent event, no delay liquated damages are reflected in the construction contract expenses for the year ended December 31, 2014. A warranty provision of $2.0 million was recorded for the year ended December 31, 2014 as part of the construction contract expenses for a warranty issue. As of December 31, 2015, approximately $1.0 million of the allowance had been used and the remaining warranty allowance was $1.0 million. Under the omnibus agreement, all costs incurred for repairs under the warranty will be indemnified by Höegh LNG. For additional discussion, refer to note 20 of our consolidated and combined carve-out financial statements.

Other Revenue. The following table sets forth details of our other revenue for the years ended December 31, 2015 and 2014:

(in thousands of U.S. dollars)	Year ended December 31, 2015	2014	Positive (negative) variance
Other revenue	$ —	$ 474	$ (474)

Other revenue includes incidental revenues prior to the start of the time charter for the *PGN FSRU Lampung*.

Voyage and Vessel Operating Expenses. The following table sets forth details of our voyage and vessel operating expenses for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Voyage expenses	$ —	$ (1,139)	$ 1,139
Vessel operating expenses	$ (9,679)	$ (6,197)	$ (3,482)

There were no voyage expenses for the year ended December 31, 2015. Voyage expenses for the year ended December 31, 2014 were $1.1 million. Voyage expenses are typically paid directly by the charterer. For year ended December 31, 2014 certain bunker fuel and use of LNG during the commissioning and testing of the *PGN FSRU Lampung* were borne by us. In addition, LNG quantities used in running our generators during the period where we had problems with the regasification system were for our own account in 2014. We did not incur any voyage expenses after October 2014 when the final testing of the *PGN FSRU Lampung* was complete. However, if an FSRU is off-hire, voyage expenses, principally fuel, may also be incurred and would be paid by us.

Vessel operating expenses for the year ended December 31, 2015 were $9.7 million, an increase of $3.5 million from $6.2 million for the year ended December 31, 2014. This reflects that the *PGN FSRU Lampung* was in operation for the full year ended December 31, 2015 and the *Höegh Gallant* was in operations for the three months ended December 31, 2015, compared to the year ended December 31, 2014, when the *PGN FSRU Lampung* was not ready for its intended use before the middle of May 2014. Excluding the vessel operating expenses of the *Höegh Gallant* acquired on October 1, 2015, vessel operating expenses increased by $1.1 million for the year ended December 31, 2015 compared with the year ended December 31, 2014. Although the *PGN FSRU Lampung* was not in operations for the full year of 2014, it incurred relatively high vessel operating costs during 2014 as a result of crew training costs and the ramp up of operations. Vessel operating expenses have on average reached a more normalized level during 2015.

Administrative Expenses. The following table sets forth details of our administrative expenses for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Administrative expenses	$ (8,733)	$ (12,566)	$ 3,833

Administrative expenses for the year ended December 31, 2015 were $8.7 million, a decrease of $3.8 million from $12.6 million for the year ended December 31, 2014. The major reason for the decrease was lower administrative expenses associated with the *PGN FSRU Lampung* as a result of preparations and ramp up of operations and certain start up costs incurred in 2014.

Lower administrative costs in 2015 related to the *PGN FSRU Lampung* more than offset the increase in administrative expenses related to the *Höegh Gallant* acquired on October 1, 2015.

Included in administrative expenses are the corporate costs of the Partnership which declined $0.1 million for the year ended December 31, 2015 compared with the year ended December 31, 2014. Higher costs were incurred for preparation of external reporting, legal fees, audit fees, travel costs and consulting fees on implementation of internal controls under Sarbanes-Oxley to meet our publicly listed partnership requirements during the year ended December 31, 2015. In addition, certain audit and legal costs were incurred during the year ended December 31, 2015 associated with the restatement of the Partnership’s financial statements filed with the SEC on November 30, 2015. However, for the year ended December 31, 2014, administrative expenses were incurred for the IPO principally related to audit fees, legal fees and charges for hours incurred by Höegh LNG’s staff working on preparation on the IPO. There were no comparable expenses for year ended December 31, 2015 but the impact was largely offset by higher public company and restatement costs.

Depreciation and Amortization. The following table sets forth details of our depreciation and amortization for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Depreciation and amortization	$ (2,653)	$ (1,317)	$ (1,336)

Depreciation and amortization for the year ended December 31, 2015 was $2.7 million, an increase of $1.3 million from $1.3 million for the year ended December 31, 2014. Depreciation for the year ended December 31, 2015 of $2.6 million related to the *Höegh Gallant* for the fourth quarter of 2015 and $0.03 million to office and IT equipment. For the year ended December 31, 2014, depreciation of $1.3 million and $0.02 million related to the *PGN FSRU Lampung* and to office and IT equipment, respectively. The *PGN FSRU Lampung* was depreciated from the time it was substantially complete in the middle of May 2014 until the start of the direct financing lease in July 2014.

Total Operating Expenses. The following table sets forth details of our total operating expenses for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Total operating expenses	$ (21,065)	$ (59,789)	$ 38,724

Total operating expenses for the year ended December 31, 2015 were $21.1 million, a decrease of $38.7 million from $59.8 million for the year ended December 31, 2014. Excluding construction contract expenses for the year ended December 31, 2014, the total operating expenses decreased by of $0.1 million from $21.2 million for the year ended December 31, 2014.

Equity in Earnings (Losses) of Joint Ventures. The following table sets forth details of our equity in earnings of joint ventures for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Equity in earnings (losses) of joint ventures	$ 17,123	$ (5,330)	$ 22,453

Equity in earnings of joint ventures for the year ended December 31, 2015 was $17.1 million, an increase of $22.4 million from equity in losses of $5.3 million for the year ended December 31, 2014. The main reason for the increase was an unrealized gain on derivative instruments in our joint ventures in the year ended December 31, 2015, compared with an unrealized loss in the year ended December 31, 2014.

Our share of our joint ventures' operating income was $24.0 million for the year ended December 31, 2015, compared with $23.7 million for the year ended December 31, 2014. Our share of other income (expense), net, principally consisting of interest expense, was $16.1 million for the year ended December 31, 2015, a reduction of $1.0 million from $17.1 million for the year ended December 31, 2014. The reduction was mainly due to lower interest expense due to repayment of principal on debt between the years.

Our share of unrealized gain on derivative instruments was $9.2 million for the year ended December 31, 2015, an increase of $21.1 million compared to unrealized losses on derivative instruments of $11.9 million for the year ended December 31, 2014. The variance in the unrealized gains and losses on derivative instruments is the main reason for the increase in our equity in earnings of joint ventures for the year ended December 31, 2015 compared to the year ended December 31, 2014. The joint ventures utilize interest rate swap contracts to exchange floating interest rate payments for fixed interest rate payments to reduce the exposure to interest rate variability on their outstanding floating-rate debt. The interest rate swap contracts are not designated as hedges for accounting purposes. As a result, there is volatility in earnings for the unrealized exchange gains and losses on the interest rate swap contracts. Historically, the joint ventures have accumulated unrealized losses on the interest rate swaps due to declining interest rates, which has resulted in liabilities for derivative instruments and an accumulated deficit in equity on their balance sheets.

There was no accrued income tax expense for the years ended December 31, 2015 and 2014. Our joint ventures did not pay any dividends for the years ended December 31, 2015 and 2014.

Operating Income (Loss). The following table sets forth details of our operating income for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Operating income (loss)	$ 53,523	$ 9,450	$ 44,073

Operating income for the year ended December 31, 2015 was $53.5 million, an increase of $44.1 million from $9.5 million for year ended December 31, 2014. Excluding the impact of the unrealized gains and losses on derivatives for the years ended December 31, 2015 and 2014 impacting the equity in earnings of joint ventures, operating income for the year ended December 31, 2015 would have been $44.3 million, an increase of $23.0 million from $21.3 million for year ended December 31, 2014. The increase is primarily as a result of the *PGN FSRU Lampung* being in operations for the full year ended December 31, 2015 and the acquisition of the *Höegh Gallant* that contributed to the results for the fourth quarter of 2015.

Interest Income. The following table sets forth details of our interest income for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Interest income	$ 7,568	$ 4,959	$ 2,609

Interest income for the year ended December 31, 2015 was $7.6 million, an increase of $2.6 million from $5.0 million for the year ended December 31, 2014. Interest income of $6.3 million related to the $140 million demand note due from Höegh LNG and $1.3 million related to interest accrued on the advances to our joint ventures for the year ended December 31, 2015, compared to $3.3 million and $1.7 million, respectively, for the year ended December 31, 2014. The interest rate under the shareholder loans to our joint ventures is 8.0% per year. We provided $140 million to Höegh LNG from the net proceeds of the IPO pursuant to a demand note that bore interest at a rate of 5.88% per year. The note was utilized on October 1, 2015 as part of the purchase consideration for the acquisition of the *Höegh Gallant.*

Interest Expense. The following table sets forth details of our interest expense for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Interest expense	$ (14,099)	$ (9,163)	$ (4,936)
Commitment fees	(1,191)	(1,587)	396
Amortization of debt issuance cost and fair value of debt assumed	(2,480)	(4,362)	1,882
Capitalized interest	—	5,447	(5,447)
Total interest expense	$ (17,770)	$ (9,665)	$ (8,105)

Interest expense for the year ended December 31, 2015 was $17.8 million, an increase of $8.1 million from $9.7 million for the year ended December 31, 2014. Interest expense consists of the interest incurred, commitment fees and amortization of debt issuance cost and the adjustment for the fair value of debt assumed less the interest capitalized for the period.

The interest incurred of $14.1 million for the year ended December 31, 2015 increased by $4.9 million compared to $9.2 million for the year ended December 31, 2014, principally due to higher outstanding loan balances. On October 1, 2015, we assumed the debt under the Gallant facility as part of the purchase of the *Höegh Gallant.*

Commitment fees were $1.2 million and $1.6 million for the years ended December 31, 2015 and 2014, respectively. The commitment fees relate to the undrawn $85 million revolving credit facility for the year ended December 31, 2015. For the year ended December 31, 2014, commitment fees were incurred on the Lampung facility for undrawn balances as well as the undrawn $85 million revolving credit facility from its inception on August 12, 2014. For the year ended December 31, 2015, the Lampung facility was fully drawn and no commitment fees were incurred.

Amortization of debt issuance cost for the years ended December 31, 2015 and 2014 was $2.5 million and $4.4 million, respectively. As a result of the acquisition of the *Höegh Gallant*, the long term debt assumed under the Gallant facility was recognized at its fair value. The difference between the fair value and the outstanding principal of the debt as of October 1, 2015 of approximately $1.3 million is amortized to interest expense using the effective interest method. The impact for the fourth quarter of 2015 was to reduce interest expense by approximately $0.1 million. The higher amortization of debt issuance cost of $1.8 million for the year ended December 31, 2014 was primarily a result of the short amortization period for the Mooring tranche of the Lampung facility. The $32.1 million Mooring tranche was fully repaid on July 3, 2014 resulting in a $1.7 million amortization charge for the year ended December 31, 2014. In addition, there was an early repayment of $7.9 million on the remaining tranches of the Lampung facility on December 29, 2014 which resulted in a write down of debt issuance cost of approximately $0.5 million.

There was no capitalized interest for year ended December 31, 2015 since there was no construction in progress. The *PGN FSRU Lampung* and the Mooring were under construction for the first quarter and part of the second quarter of 2014 and most interest incurred qualified for capitalization for this period. Capitalized interest was $5.4 million for the year ended December 31, 2014. Capitalization of interest ceased in the middle of May, 2014 when the *PGN FSRU Lampung* and the Mooring were substantially complete.

Gain (Loss) on Derivative Instruments. The following table sets forth details of our gain/loss on derivative instruments for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Gain (loss) on derivative instruments	$ 949	$ (161)	$ 1,110

Gain on derivative instruments for the year ended December 31, 2015 was $0.9 million, an increase of $1.1 million from a loss on derivative instruments of $0.2 million for the year ended December 31, 2014. Gain on derivative instruments for the year ended December 31, 2015 related to the interest rate swaps for the Lampung facility and the Gallant facility, while the loss for the prior year related to the Lampung facility. The gain principally related to the amortization income on the amount excluded from hedge effectiveness, net of the amortization expense related to the interest rate swaps reclassified from accumulated other comprehensive income and the loss on the ineffective portion of the cash flow hedges. The interest rate swaps are designated as cash flow hedges of the variable interest payments on the Lampung and Gallant facilities and the effective portion of the changes in fair value of the hedges are recorded in other comprehensive income.

Other Items, Net. The following table sets forth details of our other items for the years ended December 31, 2015 and 2014:

(in thousands of U.S. dollars)	Year ended December 31, 2015	2014	Positive (negative) variance
Foreign exchange gain (loss)	$ (16)	$ 124	$ (140)
Bank charges, fees and other	(77)	(84)	7
Withholding tax on interest expense and other	(2,585)	(2,828)	243
Total other items, net	$ (2,678)	$ (2,788)	$ 110

Other items, net for the year ended December 31, 2015 was $2.7 million, a decrease of $0.1 million from $2.8 million for the year ended December 31, 2014. This is primarily due to withholding tax that is payable on interest expense to parties outside of Singapore and Indonesia.

Income (Loss) Before Tax. The following table sets forth details of our income before tax for the years ended December 31, 2015 and 2014:

(in thousands of U.S. dollars)	Year ended December 31, 2015	2014	Positive (negative) variance
Income (loss) before tax	$ 41,592	$ 1,795	$ 39,797

Income before tax for the year ended December 31, 2015 was $41.6 million, an increase of $39.8 million from $1.8 million for the year ended December 31, 2014. The increase is primarily a result of the *PGN FSRU Lampung* being in operation for the year ended December 31, 2015 compared with significant start up and construction activities for year ended December 31, 2014, the contribution from the acquisition of the *Höegh Gallant* and the unrealized gains on

derivative instruments for the joint ventures and the Lampung and Gallant facilities for the year ended December 31, 2015 compared with the unrealized loss on derivative instruments for the joint ventures and the Lampung facility for the year ended December 31, 2014.

Income Tax Expense. The following table sets forth details of our income tax expense for the years ended December 31, 2015 and 2014:

(in thousands of U.S. dollars)	Year ended December 31, 2015	2014	Positive (negative) variance
Income tax expense	$ (313)	$ (481)	$ 168

Income tax expense for the year ended December 31, 2015 was $0.3 million, a reduction of $0.2 million from $0.5 million for the year ended December 31, 2014. We are not subject to Marshall Islands corporate income taxes. However, we are subject to tax for earnings in Indonesia, Singapore, Cyprus and the UK. For the year ended December 31, 2015, the income tax expense primarily related to our Indonesian subsidiary and our Singapore subsidiary. For the year ended December 31, 2014, the tax expense largely related to the Singapore subsidiary. The Singapore subsidiary’s taxable income mainly arises from internal interest income. For the year ended December 31, 2014, the Indonesian subsidiary incurred a tax loss for which a valuation allowance was recorded. The tax loss carryforward from 2014 for the Indonesian subsidiary was partly utilized in 2015.

Benefits of uncertain tax positions are recognized when it is more-likely-than-not that a tax position taken in a tax return will be sustained upon examination based on the technical merits of the position. In 2013, a tax loss was incurred in Indonesia principally due to unrealized losses on foreign exchange that does not impact the income statement prepared in the functional currency of U.S. dollars. In 2014, the Indonesia authorities approved the change of currency for tax reporting to U.S. dollars. Under existing tax law, it is not clear if the prior year tax loss carryforward from foreign exchange losses can be utilized when the tax reporting currency is subsequently changed. Due to the uncertainty of this tax position, a provision was recognized for the year ended December 31, 2013 and the resulting unrecognized tax benefit was $2.6 million. There was no change in the unrecognized tax benefits as of December 31, 2014. For the year ended December 31, 2015, the generation of taxable income resulted in the utilization of $0.1 million of the 2013 tax loss carryforward which was not recognized due to the uncertainty of this tax position.

A valuation allowance for deferred tax assets is recorded when it is more-likely-than-not that some or all of the benefit will not be realized based on consideration of all the positive and negative evidence. Given the lack of historical operations in Indonesia, management of the Partnership concluded a valuation allowance should be established to reduce the deferred tax assets to the amount deemed more-likely-than-not of realization. A component of the deferred tax assets relates to the cash flow hedge of the Lampung facility interest rate swap with a term of over 11 years. Management concluded that approximately $2.0 million of the deferred tax asset was more-likely-than-not of realization over the term of the swap and recognized a deferred tax asset for that amount for each of the years ended December 31, 2015 and 2014. A reduction in the valuation allowance of $4.1 million was recorded to income tax expense in the consolidated and combined carve-out statement of income for the year ended December 31, 2015. Deferred tax expenses for the change in the valuation allowance of $1.5 million and $0.4 million were recorded to income tax expense in the consolidated and combined carve-out statement of income and consolidated and combined carve-out statement of comprehensive income, respectively, for the year ended December 31, 2014.

Net Income (Loss). The following table sets forth details of our net income for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Net income (loss)	$ 41,279	$ 1,314	$ 39,965

As a result of the foregoing, net income for the year ended December 31, 2015 was $41.3 million, an increase of $40.0 million compared with net income of $1.3 million for the year ended December 31, 2014.

Segments

There are two operating segments. The segment profit measure is Segment EBITDA, which is defined as earnings before interest, taxes, depreciation, amortization and other financial items (gains and losses on derivative instruments and other items, net). Segment EBITDA is reconciled to operating income and net income in the segment presentation below. Please read “Item 3.A. Selected Financial Data—Non-GAAP Financial Measures” for a definition of Segment EBITDA and a reconciliation of Segment EBITDA to net income. The two segments are “Majority held FSRUs” and “Joint venture FSRUs.” In addition, unallocated corporate costs that are considered to benefit the entire organization and interest income from advances to joint ventures and the demand note due from Höegh LNG are included in “Other.”

For the year ended December 31, 2015, Majority held FSRUs includes the direct financing lease related to the *PGN FSRU Lampung* and the operating lease related to the *Höegh Gallant* from the acquisition date of October 1, 2015. For the year ended December 31, 2014, Majority held FSRUs includes the direct financing lease related to the *PGN FSRU Lampung*, and construction contract revenues and expenses of the Mooring. The Mooring was constructed on behalf of, and was sold to, PGN LNG and was accounted for using the percentage of completion method. The Mooring project was completed as of December 31, 2014.

For the years ended December 31, 2015 and 2014, Joint venture FSRUs include the operating leases related to the two 50% owned FSRUs, the *Neptune* and the *GDF Suez Cape Ann*, that operate under long term time charters with one charterer.

The accounting policies applied to the segments are the same as those applied in the financial statements, except that Joint venture FSRUs are presented under the proportional consolidation method for the segment note in the Partnership's financial statements and under equity accounting for the consolidated and combined carve-out financial statements. Under the proportional consolidation method, 50% of the Joint venture FSRUs' revenues, expenses and assets are reflected in the segment note. Management monitors the results of operations of joint ventures under the proportional consolidation method and not the equity method of accounting.

Majority Held FSRUs. The following table sets forth details of segment results for the Majority held FSRUs for the years ended December 31, 2015 and 2014:

Majority Held FSRUs	Year ended December 31,		Positive (negative)
(in thousands of U.S. dollars)	2015	2014	variance
Time charter revenues	$57,465	$22,227	$35,238
Construction contract revenues	—	51,868	(51,868)
Other revenues	—	474	(474)
Total revenues	57,465	74,569	(17,104)
Vessel operating expenses	(9,679)	(7,336)	(2,343)
Construction contract expense	—	(38,570)	38,570
Administrative expenses	(2,667)	(6,353)	3,686
Segment EBITDA	45,119	22,310	22,809
Depreciation and amortization	(2,653)	(1,317)	(1,336)
Operating income (loss)	42,466	20,993	21,473
Gain (loss) on derivative instruments	949	(161)	1,110
Other financial income (expense), net	(18,275)	(11,952)	(6,323)
Income (loss) before tax	25,140	8,880	16,260
Income tax expense	(333)	(505)	172
Net income (loss)	$24,807	$8,375	$16,432

Time charter revenues for the year ended December 31, 2015 were $57.5 million, an increase of $35.2 million from $22.2 million for the year ended December 31, 2014. Excluding the time charter revenues of the *Höegh Gallant* from the acquisition date of October 1, 2015, time charter revenues increased by $23.4 million reflecting that the *PGN FSRU Lampung* was operating for the whole year of 2015, while the time charter revenues for 2014 only included the period subsequent to July 21, 2014. Construction contract revenues and construction contract expense for the year ended December 31, 2014 were $51.8 million and $38.6 million, respectively. Other revenues for the year ended December 31, 2014 were $0.5 million.

Vessel operating expenses for the year ended December 31, 2015 were $9.7 million compared to $7.3 million for the year ended December 31, 2014. Excluding the vessel operating expenses of the *Höegh Gallant,* the vessel operating expenses were at approximately the same level for the years ended December 31, 2015 and 2014 reflecting higher cost levels during the ramp up stage of operations of the *PGN FSRU Lampung* in the second half of 2014.

Administrative expenses for the year ended December 31, 2015 were $2.7 million, a decrease of $3.7 million from $6.4 million for the year ended December 31, 2014. Excluding the administrative expenses of the *Höegh Gallant,* the administrative expenses decreased $4.0 million for the year ended December 31, 2015 compared with the year ended December 31, 2014. Higher administrative expenses in the year ended December 31, 2014 were due to activities for the preparation, start up and ramp up of operations of the *PGN FSRU Lampung* and the delivery of the Mooring, while

the comparative period of 2015 had more routine operations.

Segment EBITDA for the year ended December 31, 2015 was $45.1 million, an increase of $22.8 million from $22.3 million for the year ended December 31, 2014. The increase was mainly due to operations under the *PGN FSRU Lampung* time charter for the full year ended December 31, 2015 and the operations of the *Höegh Gallant* for the three months ended December 31, 2015.

Joint Venture FSRUs. The following table sets forth details of segment results for the Joint venture FSRUs for the years ended December 31, 2015 and 2014:

Joint Venture FSRUs (in thousands of U.S. dollars)	Year ended December 31, 2015	 2014	Positive (negative) variance
Time charter revenues	$42,698	$41,319	$ 1,379
Vessel operating expenses	(8,583)	(7,514)	(1,069)
Administrative expenses	(910)	(971)	61
Segment EBITDA	33,205	32,834	371
Depreciation and amortization	(9,227)	(9,148)	(79)
Operating income (loss)	23,978	23,686	292
Gain (loss) on derivative instruments	9,246	(11,879)	21,125
Other income (expense), net	(16,101)	(17,137)	1,036
Income (loss) before tax	17,123	(5,330)	22,453
Income tax expense	—	—	—
Net income (loss)	$17,123	$(5,330)	$ 22,453

The segment results for the Joint venture FSRUs are presented using the proportional consolidation method (which differs from the equity method used in the consolidated and combined carve-out financial statements).

Total time charter revenues were $42.7 million and $41.3 million for the years ended December 31, 2015 and 2014, respectively. Revenues for time charter payments, including fees for reimbursement of operating expenses, were $41.4 million and $40.5 million for the years ended December 31, 2015 and 2014, respectively. The increase in revenues for time charter payments in 2015 was principally due to higher fees for reimbursement of operating expenses. The remaining revenues principally related to the amortization of deferred revenues for upfront payments for modifications and drydocking payments from the charterer.

Vessel operating expenses for the year ended December 31, 2015 were $8.6 million, an increase of $1.1 million compared to $7.5 million for the year ended December 31, 2014. The increase in vessel operating expenses was largely due to increased payroll costs for the crew related to the operations in China.

Administrative expenses for the year ended December 31, 2015 declined slightly compared with the year ended December 31, 2014.

Segment EBITDA was $33.2 million for the year ended December 31, 2015, an increase of $0.4 million compared with $32.8 million for the year ended December 31, 2014.

Other. The following table sets forth details of other results of Other for the years ended December 31, 2015 and 2014:

Other (in thousands of U.S. dollars)	Year ended December 31, 2015	 2014	Positive (negative) variance
Administrative expenses	$(6,066)	$(6,213)	$ 147
Segment EBITDA	(6,066)	(6,213)	147
Operating income (loss)	(6,066)	(6,213)	147
Other financial income (expense), net	5,395	4,458	937
Income (loss) before tax	(671)	(1,755)	1,084
Income tax expense	20	24	(4)
Net income (loss)	$(651)	$(1,731)	$ 1,080

Administrative expenses and Segment EBITDA for the year ended December 31, 2015 for each was $6.1 million, a decrease of $0.1 million from $6.2 million for the year ended December 31, 2014. During the year ended December 31, 2015, higher costs were incurred as a result of being a publicly listed partnership and for audit and legal costs were incurred associated with the restatement of the Partnership's financial statements. For the year ended December 31, 2014, administrative expenses of $3.5 million were incurred principally related to audit fees, legal fees and other charges of ours incurred by Höegh LNG's staff working on preparation for the IPO. In addition, approximately $0.2 million of fees were incurred in establishing the Partnership's new legal structure in conjunction with the IPO during 2014.

Interest income and expense, net, which is not part of the segment measure of profits, is related to the interest income on the advances to our joint ventures and our $140 million demand note from Höegh LNG until October 1, 2015, net of commitment fees on the undrawn $85 million revolving credit facility and interest expense on the $47 million seller's credit note which financed part of the acquisition of *Höegh Gallant*.

B. Liquidity and Capital Resources

Liquidity and Cash Needs

We operate in a capital-intensive industry, and we expect to finance the purchase of additional vessels and other capital expenditures through a combination of cash from operations, the utilization of borrowings from commercial banks and debt and equity financings. Our liquidity requirements relate to paying our unitholder distributions, servicing interest and quarterly repayments on our debt ("debt amortization"), funding working capital and maintaining cash reserves against fluctuations in operating cash flows. The liquidity requirements of our joint ventures relate to the servicing of debt, including repayment of shareholder loans, funding working capital, including drydocking, and maintaining cash reserves against fluctuations in operating cash flows.

Our sources of liquidity include cash balances, cash flows from our operations, interest and repayment of principal from our advances to our joint ventures and our current undrawn balance of $74.8 million under the $85 million revolving credit facility from Höegh LNG. Cash and cash equivalents are denominated primarily in U.S. dollars. We do not currently use derivative instruments for other purposes than managing interest rate risks. The advances to our joint ventures (shareholder loans) are subordinated to the joint ventures' long-term bank debt, consisting of the Neptune facility and the Cape Ann facility. Under terms of the shareholder loan agreements, the repayments shall be prioritized over any dividend payment to the owners of the joint ventures. Dividend distributions from our joint ventures require a) agreement of the other joint venture owners; b) fulfilment of requirements of the long-term bank loans; and c) under Cayman Islands law may be paid out of profits or capital reserves subject to the joint venture being solvent after the distribution. Dividends from Höegh Lampung may only be paid out of profits under Singapore law. Dividends from PT Höegh may only be paid if its retained earnings are positive under Indonesian law and requirements are fulfilled under the Lampung facility. In addition, PT Höegh as an Indonesian incorporated company

is required to establish a statutory reserve equal to 20% of its paid up capital. The dividend can only be distributed if PT Höegh's retained earnings are positive after deducting the statutory reserve. As of December 31, 2016, PT Höegh had negative retained earnings and therefore cannot make dividend payments under Indonesia law. However, subject to meeting a debt service ratio of 1.20 to 1.00, PT Höegh can distribute cash from its cash flow from operations to us as payment of intercompany accrued interest and/or intercompany debt, after quarterly payments of the Lampung facility and fulfilment of the "waterfall" provisions to meet operating requirements as defined by the Lampung facility. Under Cayman Islands law, Höegh FSRU III, Höegh FSRU IV and Höegh Colombia Holding may only pay distributions out of profits or capital reserves if the entity is solvent after the distribution. In addition, Höegh FSRU IV would also need to remain in compliance with the financial covenants under the Gallant/Grace facility. Dividends from Höegh Cyprus may only be distributed (i) out of profits and not from the share capital of the company and (ii) if after the dividend payment, Höegh Cyprus would remain in compliance with the financial covenants under the Gallant/Grace facility. Dividends from Höegh Colombia may only be distributed if after the dividend payment, Höegh Colombia would remain in compliance with the financial covenants under the Gallant/Grace facility.

As of December 31, 2016, we do not have material commitments for capital expenditures for our current business, except for the January 3, 2017 acquisition of a 51% ownership interest in the *Höegh Grace* entities as discussed further below. Our expected expenditures for our current business include funding repairs and replacement parts of approximately $1.3 million for the Mooring. This expenditure is indemnified by Höegh LNG under the omnibus agreement. Therefore, the funding for this expenditure has been or will be provided by Höegh LNG.

As of December 31, 2016, the total outstanding principal on our long-term debt is $384.1 million, including $341.1 million on the Lampung and Gallant facilities, $34.4 million on the seller's credit note and $8.6 million on the $85 million revolving credit facility. Refer to "—Borrowing Activities—Long-term Debt" for a description of the facilities and note 14 to our consolidated and combined carve-out financial statements.

We have not made use of derivative instruments for currency risk management purposes. We have interest rate swap contracts for the Lampung facility ("Lampung swaps") and the Gallant facility ("Gallant swaps"). As of December 31, 2016, we had outstanding interest rate swap agreements for a total notional amount of $174.2 million and $134.1 million to hedge against the interest rate risks of our long-term debt under the Lampung facility and Gallant facility, respectively. We apply hedge accounting for these interest rate swaps. We receive interest based on three month U.S. dollar LIBOR and pay fixed rates of 2.8% on the Lampung swap and 1.9105% to 1.9145% on the Gallant swap. The Lampung swaps amortize over 12 years to match the outstanding balance of the Lampung facility. From their inception, the Gallant swaps amortize over 5 years to match the outstanding balance of the Gallant facility. Refer to "Item 5.F. Tabular Disclosure of Contractual Obligations." Starting in January 2017, the interest rate swaps associated with the Grace facility ("Grace swaps") will be included in our consolidated financial statements. For the Grace swaps, we receive interest based on three month U.S. dollar LIBOR and pay fixed rates of 2.305% to 2.315%. The Grace swaps amortize in line with the repayments of the Grace facility until their termination date on March 31, 2020. The carrying value of the liability for derivative instruments was $7.0 million as of December 31, 2016. In addition, our joint ventures have utilized interest rate swap contracts that are not designated as hedges for accounting purposes. Please read note 19 to our consolidated and combined carve-out financial statements. For information about our joint ventures' derivative instruments, please read note 12 to our joint ventures' combined financial statements.

As of December 31, 2016, the Partnership had cash and cash equivalents of $18.9 million and an undrawn portion on the revolving credit facility of $76.4 million. Current restricted cash as of December 31, 2016 was $8.1 million of which relates to operating obligations of the *PGN FSRU Lampung*. Long-term restricted cash required under the Lampung facility was $14.2 million as of December 31, 2016. In December 2016, the Partnership completed the sale of 6,588,389 common units in a public offering raising approximately $111.5 million in net proceeds after directly attributable expenses. The Partnership used $12.6 million of the proceeds to repay part of the seller's credit related to the *Höegh Gallant* and $6.6 million to settle the working capital adjustment from the acquisition of the *Höegh Gallant* that closed on October 1, 2015. As of December 31, 2016, the Partnership classified $91.8 million of the proceeds as non-current cash designated for the acquisition of a 51% ownership interest in the *Höegh Grace* entities. The Partnership's book value of total long-term debt was $375.7 million as of December 31, 2016, including long-term debt financing our FSRUs, and the revolving credit facility and seller's credit note due to owners and affiliates. The long-term debt is repayable in quarterly installments of $8.1 million. As of December 31, 2016, our total current liabilities exceeded total current assets by $13.5 million which is partly a result of mark-to market valuations of our interest rate swaps (derivative instruments) of $3.5 million. We do not plan to terminate the interest rate swaps before their maturity and, as a result, we will not realize these liabilities. Further, the current portion of long-term debt reflects principal payments for the next twelve months which will be funded, for the most part, by future cash flows from operations. We do not intend to maintain a cash balance to fund our next twelve months' net liabilities.

On January 3, 2017, we paid $91.8 million from cash designated for the acquisition of a 51% ownership interest in the *Höegh Grace* entities. Because the *Höegh Grace* entities will be consolidated in our financial statements, the total outstanding debt of $190.1 million will be included on our consolidated balance sheet. The cash flows from operations of the *Höegh Grace* will be included in our consolidated financial statements starting in January 2017.

We believe our cash flows from operations, including distributions to us from PT Höegh and Höegh Cyprus as payment of intercompany interest and/or intercompany debt, and repayment of principal from our advances to our joint ventures will be sufficient to meet our debt amortization and working capital needs and maintain cash reserves against fluctuations in operating cash flows. In addition, we require liquidity to pay distributions to our unitholders. In connection with the IPO, we entered into an $85 million revolving credit facility with Höegh LNG, which we believe will provide us with adequate liquidity reserve to fund our distributions and other general liquidity needs. As of December 31, 2016, the undrawn balance on the revolving credit facility was $76.4 million. In February 2017, an additional $1.6 million was drawn on the revolving credit facility. We believe our current resources, including the undrawn balance on the revolving credit facility, are sufficient to meet our working capital requirements for our current business for the next twelve months.

Generally, our long-term source of funds will be cash from operations, long-term bank borrowings and other debt and equity financings. Because we will distribute all of our available cash, we expect that we will rely principally upon external financing sources, including bank borrowings and the issuance of debt and equity securities, to fund acquisitions and other expansion capital expenditures.

For information regarding estimated maintenance and replacement capital expenditures, impacting our cash distributions, please read “Item 8.A. Consolidated Statements and Other Financial Information—The Partnership’s Cash Distribution Policy—Estimated Maintenance and Replacement Capital Expenditures.”

Cash Flows

Cash Flows for the Years ended December 31, 2016 and 2015

The following table summarizes our net cash flows from operating, investing and financing activities and our cash and cash equivalents for the years presented:

	Year ended December 31,	
(in thousands of U.S. dollars)	2016	2015
Net cash provided by (used in) operating activities	$39,428	$42,785
Net cash provided by (used in) investing activities	(83,084)	15,455
Net cash provided by (used in) financing activities	29,703	(55,849)
Increase (decrease) in cash and cash equivalents	(13,953)	2,391
Cash and cash equivalents, beginning of period	32,868	30,477
Cash and cash equivalents, end of period	$18,915	$32,868

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $39.4 million for the year ended December 31, 2016 compared with $42.8 million for the year ended December 31, 2015. Before changes in working capital, net cash flows from operating activities were $42.5 million and $30.4 million for the years ended December 31, 2016 and 2015, respectively. The increase of $12.1 million was primarily the result of including the cash flows of *Höegh Gallant* for the full year ended December 31, 2016 compared to three months for the year ended December 31, 2015. Changes in working capital contributed negatively to net cash provided by operating activities by $3.0 million for the year ended December 31, 2016, compared with a positive contribution of $12.4 million for the year ended December 31, 2015. The negative contribution of changes in working capital was mainly due to repayment and settlement of the working capital adjustment from the acquisition of the *Höegh Gallant* in the year ended December 31, 2016. The positive contribution of changes in working capital for the year ended December 31, 2015 was largely attributable to the reduction in restricted cash related to operating activities.

Net Cash Provided by (Used in) Investing Activities

Net cash used in investing activities was $83.1 million for the year ended December 31, 2016 and net cash provided by investing activities was $15.5 million for the year ended December 31, 2015. The cash used in investing activities for the year ended December 31, 2016 primarily related to $91.8 million in cash designated for the January 2017 acquisition of a 51% ownership interest in the *Höegh Grace* entities and cash used for expenditure for equipment of $0.5 million, which was partly offset by the receipt of $6.0 million for principal on advances to joint ventures and the receipt of $3.2 million in principal on the direct financing lease of the *PGN FSRU Lampung*. For the year ended December 31, 2015, cash provided by investing activities primarily related to the receipt of $5.8 million for principal on advances to joint ventures, the receipt of $2.9 million in principal on the direct financing lease of the *PGN FSRU Lampung* and $7.7 million in cash acquired as part of the acquisition of the *Höegh Gallant*. This was partially offset by cash used for expenditure for equipment of $1.0 million.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities was $29.7 million for the year ended December 31, 2016 compared with net cash used in financing activities of $55.8 million for the year ended December 31, 2015.

Net cash provided by financing activities for the year ended December 31, 2016 was largely due to the net proceeds, after deduction of underwriters' discounts and the expenses of the offering, of $111.5 million from the common unit offering in December 2016, the receipt of $8.6 million drawn on the $85 million revolving credit facility and receipt of $3.8 million from Höegh LNG for the indemnification claim under the omnibus agreement and the *Höegh Gallant* contribution, purchase and sale agreement. This was partly offset by repayments of $32.2 million on the Lampung and Gallant facilities, the repayment of $12.6 million on the seller's credit, the repayment of $6.2 million for part of a customer loan that funded value added taxes for import of the *PGN FSRU Lampung* and our payment of $43.9 million of cash distributions to our unitholders.

Net cash used in financing activities for the year ended December 31, 2015 was mainly due to the repayment of $22.3 million on the Lampung and Gallant facilities, the repayment of $4.8 million for part of a customer loan that funded value added taxes for import of the *PGN FSRU Lampung* to Indonesia and our payment of $35.5 million of cash distributions to our unitholders. This was partially offset by the receipt of $6.6 million from Höegh LNG for the indemnification claim under the omnibus agreement.

Cash Flows for the Years ended December 31, 2015 and 2014

The following table summarizes our net cash flows from operating, investing and financing activities and our cash and cash equivalents for the years presented:

	Year ended December 31,	
(in thousands of U.S. dollars)	2015	2014
Net cash provided by (used in) operating activities	$42,785	$27,976
Net cash provided by (used in) investing activities	15,455	(292,199)
Net cash provided by (used in) financing activities	(55,849)	294,592
Increase (decrease) in cash and cash equivalents	2,391	30,369
Cash and cash equivalents, beginning of period	30,477	108
Cash and cash equivalents, end of period	$32,868	$30,477

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $42.8 million for the year ended December 31, 2015 compared with $27.9 million for the year ended December 31, 2014. Cash flows from operating activities reflect that the *PGN FSRU Lampung* was operating under the time charter for the full year ended December 31, 2015 and, due to the acquisition, the *Höegh Gallant* contributed cash flows from operations for the three months ended December 31, 2015. The net cash provided by operating activities for the year ended December 31, 2014 was mainly due to the receipt of the full Mooring payment and that the time charter hire commenced for the *PGN FSRU Lampung* on July 21, 2014. In addition, cash of $26.3 million was used to pay the tax authorities for a refundable value tax on the import of the *PGN FSRU Lampung* into Indonesia.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities was $15.5 million for the year ended December 31, 2015 and net cash used in investing activities was $292.2 million for the year ended December 31, 2014. The cash provided by investing activities for the year ended December 31, 2015 primarily related to the receipt of $5.8 million for principal on advances to joint ventures, the receipt of $2.9 million in principal on the direct financing lease of the *PGN FSRU Lampung* and $7.7 million in cash acquired as part of the acquisition of the *Höegh Gallant.* This was partially offset by cash used for expenditure for equipment of $1.0 million. For the year ended December 31, 2014, net cash used in investing activities mainly related to expenditures for newbuildings for the final 60% payment and payments due for change orders due to the delivery of the *PGN FSRU Lampung* and the $140 million demand note lent to Höegh LNG following the closing of the IPO. This was partially offset by cash provided by the $1.1 million in principal payments on advances to joint ventures, the receipt of principal payment on the direct financing lease of $1.3 million and the release of restricted cash for a letter of credit of $10.7 million during the year ended December 31, 2014.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities for the year ended December 31, 2015 was $55.8 million compared with net cash provided by financing activities of $294.6 million for the year ended December 31, 2014.

Net cash used in financing activities for the year ended December 31, 2015 was mainly due to the repayment of $22.3 million on the Lampung and Gallant facilities, the repayment of $4.8 million for part of a customer loan that funded value added taxes for import of the *PGN FSRU Lampung* to Indonesia and our payment of $35.5 million of cash distributions to our unitholders. This was partially offset by the receipt of $6.6 million from Höegh LNG for the indemnification claim under the omnibus agreement.

Net cash provided by financing activities during the year ended December 31, 2014 was impacted by the closing of our IPO and the application of the net proceeds and lending during the period. We received net proceeds, after deduction for the underwriters' discounts and expenses of the offering, of $203.5 million. We distributed $43.5 million in cash from the proceeds to Höegh LNG. We drew $257.1 million on the Lampung facility that was used for payments for the contractual commitments for the *PGN FSRU Lampung* and the Mooring construction contract expenses, paid $8.0 million in debt issuance cost related to the facility and received proceeds of $10.8 million from amounts, loans and promissory notes due to owners and affiliates. Part of the proceeds of the debt was used to repay $74.6 million of amounts, loans and promissory notes from owners and affiliates. Following the first Mooring payment, the full Mooring tranche of $32.1 million was repaid. Following the final Mooring payment, an early repayment of $7.9 million was made on the Lampung facility and a cash settlement of $1.1 million was made to reduce the amount of the interest rate swaps. On the import of the *PGN FSRU Lampung* into Indonesia during 2014, we obtained funding from PGN LNG of $26.3 million to pay for the refundable value added tax on import. Refer to "—Net Cash Provided by (Used in) Operating Activities" above. The net distributions to the owner were $11.2 million for the year ended December 31, 2014.

Borrowing Activities

Loans and Promissory Notes Due to Owners and Affiliates

The following table sets forth our loans and promissory notes due to owners and affiliates as of December 31, 2016 and 2015:

	As of December 31,	
(in thousands of U.S. dollars)	2016	2015
Loans and promissory notes due to owners and affiliates	$ —	$ 287

The balance as of December 31, 2015, related to accrued commitment fees.

Revolving Credit Facility and Seller's Credit Note Due to Owners and Affiliates

The following table sets forth the revolving credit facility and seller's credit due to owners and affiliates as of December 31, 2016 and 2015:

(in thousands of U.S. dollars)	As of December 31, 2016	2015
Revolving credit facility	$8,622	$—
Seller's credit note	34,383	47,000
Revolving credit facility and seller's credit note due to owners and affiliates	$43,005	$47,000

Revolving Credit Facility with Höegh LNG

In connection with the IPO, we entered into an $85 million revolving credit facility with Höegh LNG.

On February 28, 2016, the maturity date of the $85 million revolving credit facility with Höegh LNG was extended to January 1, 2020, unless otherwise terminated due to an event of default. Interest on drawn amounts is payable quarterly at a rate equal to LIBOR plus a margin of 4.0%. Additionally, we are required to pay a 1.4% annual commitment fee, payable quarterly, to Höegh LNG on undrawn available amounts under the revolving credit facility. Drawings on the revolving credit facility are subject to customary conditions precedent, including absence of a default or event of default and accuracy of representations and warranties in all material respects.

The revolving credit facility identifies various events of default that may trigger acceleration and cancellation of the facility, such as:

- failure to repay principal and interest;
- inaccuracy of representations and warranties;
- cross-default to other indebtedness held by us or our subsidiaries; and
- bankruptcy and certain other insolvency events.

As of December 31, 2016 the Partnership had drawn $8.6 million on the revolving credit facility. No amounts had been drawn under the facility as of December 31, 2015.

Seller's Credit Note from Höegh LNG

On October 1, 2015, the Partnership financed part of the acquisition of the entity that indirectly owns the *Höegh Gallant* with a $47 million seller's credit note from a subsidiary of Höegh LNG. On February 28, 2016, the maturity of the note was extended to January 1, 2020.

The seller's credit note from Höegh LNG is unsecured bears interest at a rate of 8.0% per year. Interest on the note is payable quarterly. We may prepay the seller's credit note without penalty upon 10 business days' notice to Höegh LNG. The seller's credit note is subordinated to the obligations under the Gallant/Grace facility. Höegh LNG may accelerate the seller's credit note upon any breach by us, and the maturity date of the note is deemed to occur immediately upon our bankruptcy and certain other insolvency events. On February 28, 2016, the maturity of the note was extended to January 1, 2020. We repaid $12.6 million of the seller's credit note in December 2016.

Long-term Debt

The following table sets forth our long-term debt as of December 31, 2016 and 2015:

	As of December 31,	
(in thousands of U.S. dollars)	2016	2015
Lampung facility:		
Export credit tranche	$138,868	$153,755
FSRU tranche	35,340	39,517
Gallant facility:		
Commercial tranche	130,222	139,701
Export credit tranche	36,667	40,333
Outstanding principal	341,097	373,306
Lampung facility unamortized debt issuance cost	(9,357)	(11,745)
Gallant facility unamortized fair value of debt assumed	908	1,282
Total debt	332,648	362,843
Less: Current portion of long-term debt	(32,208)	(32,208)
Long-term debt	$300,440	$330,635

Refer to "Item 5.F. Tabular Disclosure of Contractual Obligations" and note 14 in the consolidated and combined carve-out financial statements for the maturity profile of the debt.

Lampung Facility

In September 2013, PT Höegh (the "Borrower") entered into a secured $299 million term loan facility (the "Lampung facility") with a syndicate of banks and an export credit agency for the purpose of financing a portion of the construction of the *PGN FSRU Lampung* and the Mooring. Höegh LNG is the guarantor for the Lampung facility. The facility was drawn in installments as construction was completed. The term loan facility includes two commercial tranches, the FSRU tranche and the Mooring tranche, and the export credit tranche. The interest rates vary by tranche. The full principal amount on the Mooring tranche and accrued interest was repaid in 2014.

The FSRU tranche has an interest rate of LIBOR plus a margin of 3.4%. The interest rate for the export credit tranche is LIBOR plus a margin of 2.3%.The FSRU tranche is repayable quarterly over 7 years with a final balloon payment of $16.5 million. The export credit tranche is repayable in quarterly installments over 12 years assuming the balloon payment of the FSRU tranche is refinanced. If not, the export credit agent can exercise a prepayment right for repayment of the outstanding balance upon maturity of the FSRU tranche. The weighted average interest rate, excluding the impact of the associated interest rate swaps, for the years ended December 31, 2016 and 2015 was 4.54% and 4.09%, respectively.

The primary financial covenants under the Lampung facility are as follows:

- PT Höegh must maintain a minimum debt service coverage ratio of 1.10 to 1.00 for the preceding nine-month period tested beginning from the second quarterly repayment date of the export credit tranche and on each quarterly repayment date thereafter;
- Höegh LNG's book equity must be greater than the higher of (i) $200 million and (ii) 25% of total assets; and
- Höegh LNG's free liquid assets (cash and cash equivalents or available draws on credit facilities) must be greater than $20 million.

As of December 31, 2016 and 2015, the Borrower and the guarantor were in compliance with the financial covenants.

Höegh LNG, as guarantor, has issued the following guarantees related to the Lampung facility that remain in effect as of December 31, 2016: (a) an unconditional and irrevocable on-demand guarantee for the repayment of the balloon repayment installment of the FSRU tranche callable only at final maturity of the FSRU tranche; (b) an unconditional and irrevocable on-demand guarantee for all amounts due in respect of the export credit agent in the event that the export credit agent exercises its prepayment right for the export credit tranche if the FSRU tranche is not refinanced; and (c) undertaking that, if the time charter is terminated for an event of vessel force majeure, that under certain conditions, a guarantee will be provided for the outstanding debt, less insurance proceeds for vessel force majeure. In addition, all project agreements and guarantees are assigned to the bank syndicate and the export credit agent, all cash accounts and the shares in PT Höegh and Höegh Lampung are pledged in favor of the bank syndicate and the export credit agent.

The Lampung facility requires cash reserves that are held for specifically designated uses, including working capital, operations and maintenance and debt service reserves. Distributions are subject to "waterfall" provisions that allocate revenues to specified priorities of use (such as operating expenses, scheduled debt service, targeted debt service reserves and any other reserves) with the remaining cash being distributable only on certain dates and subject to satisfaction of certain conditions, including meeting a 1.20 historical debt service coverage ratio, no default or event of default then continuing or resulting from such distribution and the guarantor not being in breach of the financial covenants applicable to it. The Lampung facility limits, among other things, the ability of the Borrower to change its business, sell or grant liens on its property including the *PGN FSRU Lampung*, incur additional indebtedness or guarantee other indebtedness, make investments or acquisitions, enter into intercompany transactions and make distributions.

The Lampung facility identifies various events that may trigger mandatory reduction, prepayment and cancellation of the facility, including total loss or sale of the *PGN FSRU Lampung*. The