BOARD OF DIRECTORS' REPORT

CHAIRMAN'S STATEMENT

2016 was a year of surprises on the political front. For the LPG market, the softening of rates was less of a surprise given the number of new ships entering the market, although earnings declined with unexpected speed and ferocity.

In addition to a large influx of new vessels, the demand for large LPG ships came under pressure as a result of the shrinking price spread between U.S. and Asian LPG. Shipping demand was also impacted by the opening of the new Panama Canal extension, shortening distances for cargoes travelling from America to Asia. In sum, this resulted in significantly reduced charter rates and falling asset prices.

The longer term outlook for LPG as a sector remains positive. Notwithstanding the shorter distances, U.S. exports continued to increase significantly in 2016. Asian demand for LPG continued to grow at a healthy pace, not least in China. Taking a long term view of the business, and on the back of our strong balance sheet, we made a decision to acquire Aurora LPG towards the end of the year.

With this acquisition, we added nine VLGCs to our fleet. In combination with the delivery of six VLGC newbuildings recently, we now have a fleet of 55 vessels, with which we will continue to support our customers to deliver this important energy source to world markets.

In addition to fleet growth, we continue to focus on operational improvements, cost efficiency, and a responsive commercial organisation. While working towards better financial returns for our shareholders, we know that running a safe and dependable service underpins our reputation and future success.

Financial Performance

Our operating revenue was USD 506.5 million in FY 2016 (USD 773.3 million in FY 2015).

TCE income decreased to USD 406.7 million from USD 626.5 million, mainly attributable to the decline in LPG spot rates.

These factors resulted in a decrease in TCE income of USD 192.2 million and USD 27.6 million respectively, in the VLGC and LGC segments.

Charter hire expenses decreased to USD 69.5 million in FY 2016 (USD 79.6 million in FY 2015) due to one fewer charter-in vessels.

Other operating expenses increased to USD 128.8 million in FY 2016 (USD 118.6 million in FY 2015) mainly attributable to an overall larger fleet size.

The Group reported a profit after tax of USD 23.6 million in FY 2016 (USD 326.1 million in FY 2015).

The decrease in profit was mainly due to the decline in TCE income arising from lower LPG spot rates and recognition of impairment charges on certain vessels of USD 144.1 million offset by the recognition of negative goodwill of USD 110.5 million from the acquisition of Aurora LPG.

Parent Company Accounts

Vessels and related assets, as well as external debt financing, are held in subsidiary companies within the Group.

The investment holding company balance sheet includes primarily cash and receivables from subsidiaries and related parties; as well as shareholders' equity, trade payables and accrued expenses.

Total assets are USD 980.6 million, shareholders' equity is USD 979.9 million, and total liabilities are USD 0.7 million. Income of USD 111.3 million is solely from dividends from subsidiaries and expenses of USD 3.8 million, which consists of overhead and other costs related to the operations of the investment holding company as a listed entity.

Safety

Safety is a top priority at BW LPG and the Board is conscious that safety performance is a continuous process, and the Company has active programs in place with a focus on 'Zero Harm'.

In 2016, the safety statistics for the Company improved with a LTIF (Lost Time Injury Frequency per million working hours) rate of 0.59 compared to a rate of 0.75 in 2015. TRCF (Total Recordable Case Frequency) in 2016 stands at a rate of 1.32 compared to a rate of 1.95 in 2015.

Corporate Governance

The Board of Directors has adopted a corporate governance policy reflective of the Company's commitment to good governance and taking into account standards of corporate governance in the listed environment in Norway. Deviations from the code are addressed in the Corporate Governance section of this Annual Report. The Board held five meetings in 2016.

Risk

BW LPG is exposed to various market, operational, and financial risks. The most significant of these risks were set out in the IPO prospectus issued in November 2013. That document and other information on risks are available on the Company website at www.bwlpg.com.

The Group employs an enterprise-wide risk assessment process to analyse and evaluate risk exposures and to allocate appropriate resources to risk mitigation activities. The Group's risk mitigation activities take into account the unpredictability of shipping and financial markets. The Group's main risks relate to the inherently cyclical nature of the shipping industry and the consequent inherent volatility of financial performance; the potential for oversupply of shipping capacity to negatively impact freight rates and asset values; and the dependence on continued export volumes of relevant hydrocarbons to maintain demand for shipping.

Outlook

We remain cautious on the market in the near term due to the end of the winter demand period, substantial newbuilding deliveries in the first half of 2017 and the potential for further inventory drawdowns in the U.S. keeping LPG prices elevated. The medium term fundamentals for the VLGC trade are more positive as U.S. production is expected to track the recovery in oil prices. Supporting this are announcements of increased E&P spending by major US producers, and an increasing rig count in the U.S. Renewed LPG production growth and a decline in newbuilding deliveries by late 2017 should allow for improved freight rates in 2018 and beyond.

Significant Events After 31 December 2016

In January 2017, BW LPG took delivery of BW Mindoro and BW Messina, the final two of four VLGC newbuildings from Daewoo Shipbuilding and Marine Engineering (DSME).

In January 2017 one Large Gas Carrier, BW Havfrost was sold for recycling.

At the date of this report, the Group has repaid Aurora LPG's bank borrowings of USD 141.3 million and has repurchased USD 3.3 million of the floating rate notes issued by Aurora LPG. The outstanding bank borrowings and floating rate notes are USD 191.0 million and USD 1.4 million respectively.

Going Concern

In light of the Group's liquidity position, balance sheet strength, assets, employment, and continuing cash flow from operations, the Board confirms that the going concern assumption, upon which the Group's accounts are prepared, continues to apply.

ANDREAS SOHMEN-PAO
CHAIRMAN
Chair, Nomination Committee

JOHN B HARRISON
VICE CHAIRMAN
Chair, Audit Committee

DATO' JUDE P BENNY
DIRECTOR
Member, Remuneration Committee

ANDERS ONARHEIM
DIRECTOR
Member, Audit Committee

ANDREAS BEROUTSOS
DIRECTOR

CARSTEN MORTENSEN
DIRECTOR

ANNE GRETHE DALANE
DIRECTOR
Chair, Remuneration Committee