



# SPAFID CONNECT

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*Testo del comunicato*

Vedi allegato.

Dear Shareholders,

As we enter 2020 with a buoyant market, we would like to take the opportunity to provide you with a quick review of the main events and achievements of the last few years for d'Amico International Shipping ("DIS" or "the Company"), and to summarise our outlook for the product tanker sector and our priorities for the future.

As those of you who have been invested in our shares for some time are aware, the last few years have been unexpectedly challenging for our industry, with DIS having recorded losses every quarter since Q2 2017. Thanks to our strong banking relationships, our good reputation and long-term relationships in Japan, a proactive approach to raising debt and equity capital and a constant attention to financial planning and risk management, we weathered the storm and emerged as a stronger company, which is well positioned to benefit from the ongoing market recovery.

One of the main sources of capital for DIS since 2017 was the leasing market. Before 2017, DIS had never closed any such transaction, but over the last few years, leasing companies in Asia have emerged as an important source of capital. DIS decided to tap this market out of necessity since straight sale of older vessels, which in other circumstances would have been our preferred financing route, would have entailed accepting very depressed values, and in most cases would have resulted in only very limited cash generation. **DIS, which has been working in the Japanese market for many years and has strong relationships with both the local ship-owners and banks, was able to capitalise on this to raise capital at very competitive terms, which we deem would not have been achievable from any other source.** Since February 2017, DIS raised around US\$96 million in net cash (after commission and debt reimbursement of previous facilities) through 9 distinct sale and leaseback transactions, each for one vessel. Over the same period, DIS raised another around US\$23 million in net cash through sale and operating leasebacks for 4 vessels. In 2019, DIS closed another two sale-leasebacks, one for the Cielo di Houston through a JOLCO (Japanese Operating Lease with Call Option), a pioneering deal for a non-Japanese owner, and one for the High Voyager; through both transactions DIS generated around US\$20 million in net cash.

All the financial leasebacks closed since 2017, except one, were with Japanese investors; these deals are not only competitively priced relative to the alternatives, but they are in most cases also very flexible, with purchase options at any time with 3 months' notice from the second or third-anniversaries of the sale. Furthermore, as at 30 September 2019, all these deals except one were in the money or theoretically in the money, if for the options that are still not exercisable, we were to compare the linearly-depreciated market values of such vessels with their first exercise price. DIS is not in a hurry to exercise these options, but if debt-to-values ratios for these vessels were to continue declining, making them consistent with bank debt refinancings, without additional equity investments by DIS, and at a lower financial cost, DIS is likely to attempt to benefit from this.

After having secured a US\$250 million facility in 2016, in which nine banks participated, not many of our loans matured over the last few years. We did, however, generate almost US\$27 million in additional liquidity for DIS since 2016 through the refinancing with our core banks of six vessels and through top-up facilities for another three vessels. **We are particularly pleased with the support we received from some of our core banks to refinance at attractive conditions the High Seas and High Tide in the last months of 2018, just after spot markets had reached amongst the lowest levels in 10 years, in October of that year.** In 2019 the only loans maturing were for vessels that we either sold or that we planned to sell, so we did not need to negotiate new facilities.

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Vessel Name	Built Date	Purchase Option First Ex. Date	Purchase Obligation Date	First Ex. (In/Out of the money) <sup>1</sup>	Option
High Trust	January 2016	July 2019	July 2028	In the money	
High Loyalty	February 2015	October 2019	October 2028	In the money	
High Priority	March 2005	October 2019	October 2022	Out of the money	
High Trader	October 2015	December 2019	December 2028	In the money	
High Freedom	January 2014	February 2020	February 2028	In the money	
High Fidelity	August 2014	May 2020	May 2027	In the money	
High Discovery	February 2014	September 2020	September 2027	In the money	
High Voyager	November 2014	April 2021	April 2029	In the money	
Cielo di Houston	January 2019	March 2024	September 2025	In the money	

1. Market values as at 30 September 2019 depreciated linearly up to first exercise date (based on 25 years vessels' useful life less scrap value), less the first exercise price.

From January 2019 we are confronted with the new IFRS 16 accounting rules, which require us to capitalise all contracts longer than 12 months, with a negative impact on our net worth to total assets ratio of around 4.3% as at 31 March 2019. To offset the negative impact of the new accounting rules and provide us with the necessary flexibility to pursue more leaseback transactions or to charter-in more vessels, if favourable market opportunities were to materialise, **we managed to negotiate with our banks a reduction of the net worth/ total assets covenant to 25% from 35%, for all our facilities, from 1 January 2019.**

**The strong support of our financial partners reflects the good name of DIS and of the d'Amico Group, built over many years in which we have always honoured our commitments.** Throughout the difficult markets of the last few years DIS never breached any financial covenant, with only a minor loan to value breach for one vessel, which was immediately cured by depositing in an escrow account the required cash, which was subsequently released to us, following an increase in vessel values. **The results achieved by DIS also depend to a large extent on the strong support received from the d'Amico Group.** In addition to the previously mentioned debt financing, DIS also raised €79 million in equity through two rights offering, the first one of €35 million in 2017 and the second one of €44 million last year. In both instances, our controlling shareholder, d'Amico International SA, committed to fully subscribe the transactions, but did not have to, since both offerings were almost fully subscribed, with 97.3% of the rights exercised in the 2019 transaction, and with the remaining shares subsequently sold in a private placement at the same terms, to d'Amico International SA. The equity capital increases not only allowed DIS to bridge its remaining liquidity needs, but also allowed it to rebalance its indebtedness ratios. **Thanks mostly to the equity raised, as well as to the increase in asset values throughout 2019, the ratio of DIS' net financial position to fleet market value decreased from 72.9% as at 31 December 2018 to 65.1% as at 30 September 2019,** a much healthier ratio, which is aligned with the initial advance ratio on most of DIS' loans.

**Always with the intent of strengthening our balance sheet, after the previously mentioned two sale-leaseback deals closed in the first quarter of 2019, last year we decided to prioritise straight vessel sales,** taking advantage of the renewed interest of buyers for older vessels and of the resulting increase in their values. In 2019 we therefore sold the two ten-year old vessels owned by DM Shipping, a company which is 50/50 owned by d'Amico Tankers and Mitsubishi Corporation, generating US\$25.5 million in net cash for the joint-venture. Also, in 2019 we sold the Glenda Megan, owned by Glenda International Shipping, a company which is 50/50 owned by the Glencore Group and d'Amico Tankers DAC, generating US\$8.3 million in net cash for the joint-venture. Finally,



in 2019 DIS sold also the High Sun, a vessel owned by Eco Tankers Limited, in which DIS had a 33% participation, generating US\$12.8 million in net cash for the joint-venture.

**The capital raised over the last few years not only provided us with the necessary liquidity and the financial strength to endure the weak freight markets, but also allowed us to finalise an important newbuilding program, which entailed the delivery to DIS of 22 vessels, ordered since 2012, for yard payments corresponding to US\$755 million.** In October 2019, we are proud to have taken delivery of the last vessel in this newbuilding program, the Cielo di Londra. In 2019, we also completed the reimbursement of a medium-term financing facility with Banca Intesa which started at US\$75.0 million and had to be fully reimbursed over 5 years, entailing annual principal repayments of US\$15.0 million. This facility was in addition to our conventional first-lien bank financings and was therefore a significant drag on our cash over the last few years. From 2020, DIS' capacity to generate cash will therefore benefit from sharp decreases in both debt repayments and investments. Debt repayments as per our Q3 2019 results' presentation, is expected to drop to US\$36.0 million in 2020 from US\$52.8 million in 2019, excluding balloons on facilities that we expect to refinance or on vessels that we expect to sell. Investments in 2020, instead, also as per our Q3 2019 results' presentation, should correspond to only US\$11.6 million, representing exclusively maintenance CapEx for vessels that will have to undergo special surveys, including for many of them installation of water ballast tank systems.

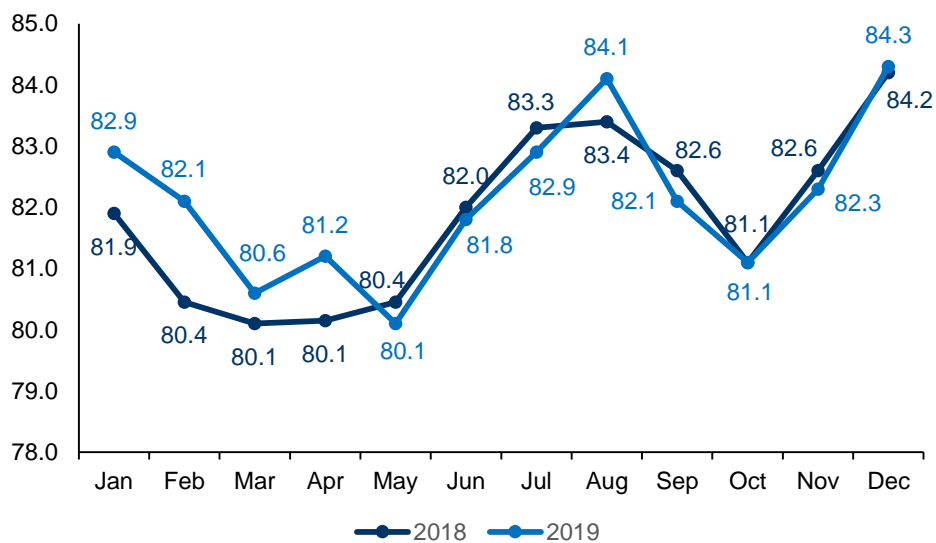
**In the first nine months of 2019, DIS also achieved some important cost savings, with daily operating costs for owned vessels falling by 7.7% relative to the same period last year, to US\$6,717 per day, and with general and administrative (G&A) costs also decreasing relative to the same period last year, but by an even more impressive 14.6%, to US\$684 per day.** The improvement in daily operating costs are attributable to the benefits deriving from a younger and more homogeneous fleet following our important newbuilding program, but also to the increasing adoption of technology in the maintenance of our vessels, with condition based maintenance programs, supported by the use of endoscopic equipment, allowing us to better assess when parts need to be replaced, reducing breakages and downtime, and greatly extending the average useful life of many parts. Finally, the strengthening of the US Dollar last year also explains part of the operating cost savings in 2019, with the latter factor instead, representing the most important contributor to the contraction in general and administrative costs in the first nine months of 2019, since 75% of these costs are in currencies other than the US Dollar. Finally, in the first nine months of 2019, G&A also benefited from the adoption of technology in several aspects of our onshore operations, as well as from cost saving initiatives. For these two cost items, we expect the trends experienced in the first three quarter of last year to be confirmed also in the rest of 2019 as well as in 2020, in which we will, however, be partly exposed (we benefit from some coverage through currency hedges) to the effects on our costs of fluctuations in the US Dollar exchange rate to other currencies and in particular to the Euro.

In 2019 freight markets have been volatile and although bottom line results were for most of the year no cause for celebration, the first tangible signs of a recovery were apparent. In particular, asset values and period rates rose throughout the year, following a trend which started towards the end of 2016. In detail, in 2019 the value of a 5-year old MR 2 rose by 9.1%, to US\$ 30.0 million, and by 36.4% since the trough in November 2016, while the one-year time-charter rate for a conventional MR 2 rose by 15.1% in 2019, to US\$ 16,000 per day and by 30.6% since the trough in November 2016. DIS, which started the year with a very low time-charter coverage of around 15% for 2020, managed to increase this ratio to around 51.9%, securing on all these contracts a profitable average rate of US\$16,000 per day. More importantly, almost **each new fixture throughout 2019 for similar**



type vessels and periods, has been closed at an improving rate, with the last one-year contract for an MR2 vessel, fixed in December 2019 at the highest rate for such a period and vessel since 2009. These results have been achieved despite a subdued refining activity throughout 2019, mostly due to the extended refinery maintenance programs in preparation for IMO 2020. Even in Q4 2019, despite refined volumes surging, they were nonetheless lower than anticipated because of strike-related outages (7 out of 8 French refineries were on strike in December). Hence, the IEA revised downwards its estimates for Q4'19 (now expected to be flat y-o-y) and Q1'20 throughput (with an expected increase now of only 0.3 million bpd y-o-y).

#### Global refinery throughputs (million barrels per day)



Source: IEA, as at 12 December 2019.

**The market outlook for 2020 is according to most brokers and financial analysts very positive and although we have increased time-charter coverage significantly, with just under 50% of our fleet exposed to the spot market, we should still reap strong benefits if freight markets were to be as strong as some analysts expect.** Underpinning the positive forecasts are several factors, affecting both supply and demand. Fleet growth, calculated simply as the percentage change of dwt on the water, in the segments we operate in (MR1, MR2 and LR1), should according to DIS, based on Clarksons estimates as at December 2019, be of around 1.5% to 2.0%. Postponement in deliveries and the number of vessels demolished can affect this figure. Furthermore, the actual availability of vessels is influenced by factors such as congestion and slow-steaming, with in 2020 the additional variable linked to off-time due to scrubber installations. In particular, the new IMO 2020 regulation has created a very tight market for barges and for onshore logistics given the increase in fuel oil specifications to be supplied, resulting in delays for shipowners when refuelling. Although this is likely to be a temporary phenomenon, it could impact the market positively in the first quarter of 2020. The increase in bunker prices that most operators which haven't installed scrubbers are experiencing in the beginning of 2020, have a negative first-order effect, since they reduce time-charter equivalent earnings, which are computed net of these expenses. However, higher bunker prices, tend to reduce average sailing speeds, and vessel productivity, contributing to a tighter market. Since the optimal vessel speed is also a function of potential freight rates and these are expected to be strong this year, slow steaming should not be a major factor influencing the market, although it could prove an automatic stabiliser if the freight markets were not be as strong as forecasted. Scrubber installations, on the other hand, are expected to play a major role this year, with significant delays reported at yards, which initially expected this equipment to be installed in



only 30 days and in some instances are now facing installation times of around 40-45 days. These delays have led to a rescheduling of such installations at many yards and while they were initially expected to peak in the last quarter of 2019 and in the first quarter of 2020, they are now expected to be more evenly spread throughout this year, reducing effective supply, although with a diminishing effect, throughout 2020. Although scrubber installations will be focused on the larger vessels, with the latest estimates from Clarksons, as at 2 January 2020, forecasting 36% of the VLCC fleet will install such equipment, also the medium-size to smaller segments we operate in will be affected, through installations in around 8% of the tankers between 55-85k dwt and around 9% of the tankers between 0-55k dwt. **Longer-term, uncertainty regarding anticipated technological change to enable shipowners to meet the ambitious targets for reduction in CO<sup>2</sup> emissions, is reducing owners' appetite for new orders and keeping the orderbook under control.** Other factors are also constraining new orders, including stretched balance sheets for several players and a contraction in the availability of bank financing, in particular from the European institutions that traditionally financed the sector. **In the segments we operate in, the orderbook (dwt on order/ dwt on the water), is at a record low of 6%. Unless there is an unexpected surge in new orders in the near future, this represents a strong foundation for healthy markets also beyond 2020.**

**The refined product tanker market is closely linked to the crude tanker market and therefore when analysing the fundamentals for our sector, we must also evaluate the prospects for the larger crude carriers. Fortunately, in 2020 also this sector is benefiting from positive fundamentals,** thanks mostly to rapidly rising exports of US crude, a large portion of which is exported over very long distances to Asia, contributing to an increase in ton-miles. In particular, US crude exports have rapidly risen from an average of 0.9 million bpd in 2017, to 1.9 million bpd in 2018, and to 2.9 million bpd in the first nine months of 2019, with expectations as at September last year that they would reach 3.5 million bpd by the end of 2019. According to Arctic Securities, however, US crude exports reached an impressive all-time high of 4.5 million bpd in the last week of 2019. The strength in US exports has been more than compensating for the decrease in OPEC+ exports and is one of the important factors explaining the very strong markets currently experienced by crude tankers. As previously mentioned, scrubber installations, which involve a large percentage of the larger vessels, is also one of the key contributors to this market's strength. In addition, sanctions are also playing a big role in this sector, with vessels corresponding to 4-5% of the crude tankers fleet affected, including vessels from a COSCO subsidiary, corresponding to around 2.6% of the crude tanker fleet, as well as vessels of NITC. These sanctioned vessels are no longer part of the active trading fleet and are being used mostly for floating storage. In addition, a few important charterers such as Exxon and Unipet, inserted clauses in their charter-parties from October last year, excluding any tankers that called ports in Venezuela in the previous 12 months. This according to Lloyds List affects some 88 VLCCs and 115 tankers globally. Finally, floating storage is being boosted not only by sanctions, but also by the structure of the forward price curves for some refined products. As at November last year there were according to Braemar ACM 8 million tonnes of low sulphur fuel oil stored in tankers, equivalent to around 29 VLCCs. As the price of high sulphur fuel oil (HSFO) drops and its forward price curve in 2020 goes into contango, while the prompt price of LSFO rises, some of the floating storage of LSFO is likely to be released and to be replaced by floating storage of HSFO. Some of the above-mentioned factors supporting markets are temporary and will gradually reverse in 2020, while others could unwind faster and in a more unpredictable manner, such as the sanctions imposed on COSCO. Nonetheless, the falling fleet growth and positive dynamics surrounding US shale oil are enough to sustain a positive outlook for this sector by most players and analysts. Clarksons forecasts the market for crude tankers will tighten further in 2020, with demand expected to rise by 4.0% while supply will only increase by 3.0%. The strength in the crude markets should have positive spill-over effects for product tankers, as these vessels focus on dirtier trades instead of

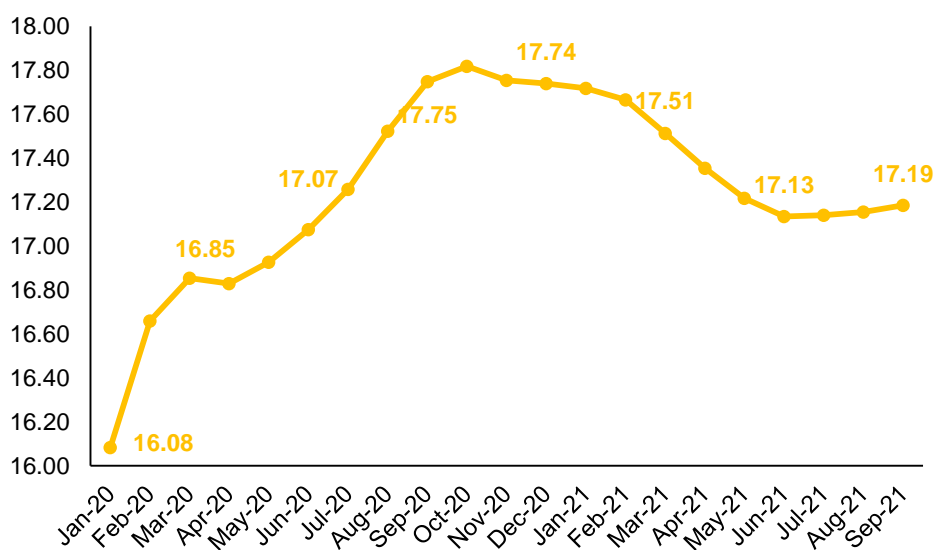




transporting clean cargoes, such as gasoil, in their maiden voyages from Asia to Europe, and as more LR2s lured by the attractive earnings, switch into dirty markets – apparently 17 such vessels made this move in Q4 2019.

**The long-anticipated-and-much-discussed IMO 2020 regulations are not only expected to have a major impact on the supply side, but also on the demand for product tankers.** In particular, they are expected to lead to an increase in refining margins for marine diesel oil (MDO), as demand for this product, which will also be used as blending feedstock for the production of Low Sulphur Fuel Oil (LSFO), surges. Global refinery throughput is expected to be high throughout 2020, as refined products demand growth accelerates to 0.8 million bpd, the highest rate since 2017. For FY'20, the IEA estimates 1.0 million bpd growth in refining throughput, after a 0.2 million bpd decline in FY'19.

### Gasoil crack (US\$ per barrel)



Source: Morgan Stanley, 6 January 2020

Furthermore, the increase in demand for MDO should lead to an increase in refinery runs, as refineries, in particular the older ones that are less flexible in determining their output slate, will have to run more crude oil through their systems, to produce the pent-up volumes of MDO demanded, churning out as a result also more of the other refined products. Some fuel oil could also be transported for further processing to reduce sulphur content at refineries with secondary units, resulting in such refined products being transported twice. Longer-term, the IMO 2020 rules should penalise the older less-flexible refineries in Europe that produce more fuel oil, which has already experienced a sharp drop in prices, resulting in increasingly negative refining margins for such products. This trend should lead eventually lead to more refinery closures in Europe, with their output replaced by imports from the more competitive refineries in Asia, the Middle East and the US Gulf. **Although, the complex and not always transparent refining industry, and the almost as complex nature of the seaborne trade for refined products, are an obstacle to accurately forecasting the impact of these new regulations on demand, most analysts expect a positive effect, with Clarksons' as at December 2019, estimating a rapid growth of the seaborne trade of refined oil of 5.4% in 2020, exceeding by a comfortable margin our forecast for the product tankers' fleet growth of 1.5%-2.0%, excluding the expected contractionary effects on effective supply from scrubber installations and congestion.**



From an operational perspective we are glad to confirm that despite the challenges posed to bunker procurement by the new IMO 2020 regulations, we have timed our high-sulphur and low-sulphur fuel oil purchases appropriately last year, allowing us from 1 January 2020 to count on a fleet that was fully compliant with the new regulations.

**In partial recognition to the positive fundamentals outlined above our share price has traded up significantly following the capital increase in April 2019.** After reaching a bottom of € 0.0858 per share on 28 March 2019 our shares have increased by 69.2% to €0.1452 per share as at 14 January 2020. While a marked improvement, **we are still trading at a discount of 32.7% to our 30 September 2019 Net Asset Value (NAV).** Our peers, however, some of which have a very similar fleet size and profile to ours, are trading much closer to NAV, with one possibly at a premium to NAV.

**Through our strong foundations,** which include among others, being part of a shipping group with a long and successful history, which has always shown a strong commitment to DIS, a modern and mostly fuel efficient fleet of 46.5 vessels (23.5 owned, 9 on bareboat with purchase obligations and 14 on time-charter-in, 58% of which eco-design) as at year-end 2019, our commercial reach, our recognised operational and technical excellence, and our valuable relationships with key capital providers, **we aim to continue sailing along the same route, further strengthening our balance sheet and eventually distributing dividends, while benefitting from the ongoing recovery, but always alert to the changing winds and always with the objective of creating substantial value for our shareholders, for many years to come.**

Yours sincerely,

Paolo d'Amico  
Chairman of the Board of Directors and Chief Executive Officer  
d'Amico International Shipping SA



Fine Comunicato n.0912-1

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