

Sustainalytics' Opinion International Seaways Sustainability Linked Loan

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Introduction

International Seaways, Inc. ("International Seaways" or the "Company") is a shipping company incorporated in the Marshall Islands and headquartered in New York, which focuses on the transportation of oil and petroleum products. One of the world's largest tanker companies, International Seaways, through International Seaways Operating Corporation (the "Borrower"), its wholly-owned subsidiary, owns and operates a fleet of 42 vessels, including 13 very large crude carriers (VLCCs).

International Seaways is negotiating a Sustainability Linked Loan (SLL) where the interest rate of the loan is tied to a Sustainability Performance Target (SPT) that includes one Key Performance Indicator (KPI) associated with the Company's material sustainability-related issues.

The Company has engaged Sustainalytics to review the SLL and provide an opinion on the alignment of the loan with the Sustainability Linked Loan Principles (SLLP).¹

As part of this engagement, Sustainalytics held conversations with various members of the Company's management team to understand the SPT and associated KPI, the Company's sustainability strategy, as well as the processes that it has in place to verify its performance in relation to the SPT. Sustainalytics also reviewed relevant public documents.

This document contains Sustainalytics' opinion of International Seaways' SLL, reviewed against the SLLP.

Sustainalytics' Opinion

Alignment with the Sustainability Linked Loan Principles 2019

The four core components of the SLLP are:

1. Relationship to Borrower's Overall Corporate Social Responsibility (CSR) Strategy
2. Target Setting – Measuring the Sustainability of the Borrower
3. Reporting
4. Review

Sustainalytics is of the opinion that International Seaways' SLL aligns to the four core components of the SLLP 2019.

¹ The Sustainability Linked Loan Principles (SLLP) were launched by the Loan Markets Association in ("LMA") March 2019. They are administered by the LMA and are available at: https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf.

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Section 1: Relationship to International Seaways' Sustainability Strategy

International Seaways, describes its core philosophy as “transport[ing] energy safely and efficiently through diligent and environmentally compliant operations of well-maintained assets by well trained and dedicated crews”.² In its 2018 Annual Report, the Company provides disclosure of sustainability commitments and strategy.³ The Annual Report describes how the Company strives to meet, and when possible and appropriate, exceed minimum compliance levels for applicable environmental, social and governance rules and regulations for the maritime industry. Sustainalytics highlights the following key aspects of the Borrower's sustainability strategy and performance that relate to International Seaways' Sustainability Linked Loan:

- The Company strives to ensure that the operation of its vessels is in compliance with environmental laws and regulations and that it is prepared to implement future regulations. It has established a compliance program to address the IMO 2020 Low-Sulfur Emissions Regulations.⁴
- International Seaways has implemented a 'Get to Green' initiative through which the Company encourages its onboard crew to regularly monitor and report equipment performance parameters in order to improve vessel efficiency.⁵ As a result of this initiative, International Seaways reported an improvement in propulsion efficiency of 5.8% which translates into fuel savings of 8,582 tonnes between October 2018 to September 2019.⁶
- The international shipping sector is entirely powered by fossil fuels.⁷ International Seaways recognizes that it operates in an industry that is heavily reliant on fossil fuels and has identified improved efficiency of its vessels as an important operational KPI which is reported at the Board of Directors level. It therefore seeks to implement measures that reduce its CO₂ emissions such as the purchase of ships that have demonstrated lower overall fuel consumption and the implementation of a third-party data collection and analysis platform which uses analytics aiming to reduce fuel consumption.⁸
- International Seaways' Board of Directors, which includes independent members as well as experts in shipping and compliance, regularly engages in discussions pertaining to environmental matters that affect the Company. The Company's management team, led by the Chief Executive Officer, is responsible for implementing the action plans formulated and approved by the Board of Directors, to address climate change-related risks and opportunities.

Sustainalytics is of the opinion that International Seaways' sustainability strategy and management systems demonstrate the Company's commitment to improving its sustainability performance. The Company's SPT and associated KPI are aligned with the Company's sustainability strategy. Given this alignment and International Seaways' approach to sustainability, Sustainalytics is of the view that the SLL will help to advance the Company's overall sustainability strategy.

² International Seaways, Philosophy, (Accessed on January 2020), at: <http://www.intlseas.com/Ownership>

³ International Seaways, Form 10-K, 2018, <http://www.intlseas.com/Cache/397084075.pdf>

⁴ Ibid.

⁵ International Seaways, Investor conference presentation, April 2019, at:

<http://www.intlseas.com/Cache/1001250803.PDF?O=PDF&T=&Y=&D=&FID=1001250803&iid=4805115>

⁶ Based on corporate documents provided by International Seaways to Sustainalytics which are confidential in nature.

⁷ International Maritime Organization, Third IMO GHG Study 2014, at:

<http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Documents/Third%20Greenhouse%20Gas%20Study/GHG3%20Executive%20Summary%20and%20Report.pdf>

⁸ International Seaways, Form 10-K, 2018, <http://www.intlseas.com/Cache/397084075.pdf>

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Section 2: Target Setting

The SLLP state that appropriate SPTs should be negotiated and set between the borrower and lender for each loan transaction. As outlined in the SLLP, a borrower may elect to tie the interest rate of the loan to improved performance on KPIs associated with the company's material sustainability-related issues. Sustainalytics' ESG Risk Rating⁹ identifies Carbon - Own Operations as one of the most material sustainability issues for the Oil & Gas Storage and Transportation subindustry (see rationale below).

International Seaways' SPT is based on the following KPI (see Appendix 1 for a detailed definition):

SPT	KPI ¹⁰	KPI definition	Baseline Date
Reduction of CO ₂ Emissions in line with IMO 50% by 2050 trajectory	Fleet Sustainability Score	International Seaways to achieve or exceed an annual Fleet Sustainability Score based on Average Efficiency Ratio (AER) Trajectory set for each year (see Appendix 1)	Annual trajectory based on IMO 50% decarbonisation by 2050 target

Over 90% of worldwide trade by volume is transported by sea. Emissions from the shipping industry were estimated to account for approximately 3% of global greenhouse gas (GHG) emissions by the International Maritime Organization (IMO)'s most recent study, and projected to rise to 6% by 2020 and to 15% by 2050. Recognizing these trends, the IMO has established emissions reduction targets, with a stated ambition of having shipping sector GHG emissions peak as soon as possible and subsequently decrease, resulting in a reduction of annual emissions of at least 50% by 2050, from a 2008 baseline.¹¹ This target is reflected within the Poseidon Principles, which used the IMO 50% target as the metric by which the climate alignment of ship finance portfolios is assessed.¹² It is recognized that the IMO 50% target is not fully aligned with the Paris Agreement 2-degree scenario, but is nevertheless a meaningful target for the maritime shipping sector.

Sustainalytics notes that carbon intensity of vessels is only one of several material sustainability issues for the shipping industry. The Borrower has disclosed that, although the SLL is currently linked to only one KPI, it strives for high sustainability performance in other areas, for example, through its end-of-life management of vessels, mitigation of non-carbon emissions, and management of spills. Sustainalytics also recognizes that, as the Borrower's core business is the transport of oil and petroleum products, its business model is inherently exposed to carbon-related risks.

The SLLP specify that targets should be based on recent measurements of selected KPI performance. Sustainalytics notes that the Borrower's baseline performance is based on information validated by a Recognized Organization (RO)¹³ and submitted to the IMO for the calendar year 2020, which falls within the SLLP's suggested time period of the previous 6-12 months.

Sustainalytics is of the opinion that the KPI selected by International Seaways is material to its business model. The KPI is directly linked to the identified issue, and improvements in performance on the KPI by the Borrower will lower the Company's carbon emissions intensity and enhance its sustainability performance. Therefore, on this basis, Sustainalytics is of the opinion that linking performance improvements on the KPI to the loan is meaningful and appropriate and will contribute to mitigating material environmental risk associated with the Company's core business.

⁹ See Appendix for ESG Risk Rating methodology.

¹⁰ Please refer to Appendix 1 for further details on International Seaways' KPI

¹¹ International Maritime Organization, Greenhouse Gas Emissions, (accessed in January 2020), at:

<http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Pages/GHG-Emissions.aspx>

¹² Poseidon Principles, A global framework for responsible ship finance, (accessed in January 2020), at: <https://www.poseidonprinciples.org/#about>

¹³ Recognized Organization (RO) is an authorized organization that performs Statutory requirements on behalf of the flag state of a vessel. It can perform functions such as checking and verifying if data is in accordance with regulation, carrying out surveys and may also issue certificates on behalf of flag States.

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Section 3: Reporting

The SLLP recommends that borrowers make and keep readily available up-to-date information relating to their SPTs. The loan agreement describes that International Seaways will report to the lenders annually, within 150 days after the end of the calendar year, on its fleet-wide performance. This reporting cycle is aligned with existing regulatory reporting required under IMO convention. Sustainalytics considers this reporting to be aligned with the SLLP.

Section 4: Review

International Seaways will calculate its yearly fleet emissions by accounting for the weighted average carbon intensity of all its owned and operated vessels. The estimates for vessel carbon intensity will be certified by a RO. Sustainalytics believes that International Seaways' external assurance practices, along with the involvement of a recognized third-party organization for validation, enhance credibility and transparency of underlying information linked to the Company's SPT.

Conclusion

Sustainalytics is of the opinion that International Seaways' SLL will support the Company's overall sustainability strategy and contribute to the low carbon transition of the shipping industry. In addition, the use of a KPI associated with material sustainability-related issues as a basis for target-setting is recognized as meaningful by the Sustainability Linked Loan Principles, and the Borrower has committed to providing updates to its KPI on an annual basis. Sustainalytics highlights in particular the alignment of the selected KPI with credible industry standards. Based on the above considerations, Sustainalytics is of the opinion that International Seaways' Sustainability Lined Loan is aligned with the SLLP.

Appendix 1: International Seaways Key Performance Indicator

The Borrower's SPT is the reduction in its fleet CO₂ emissions, and as such has selected as a KPI its Fleet Sustainability Score. The Loan's Sustainability Price Adjustment depends on achieving a Fleet Sustainability Score that is compliant with the IMO's 50% decarbonization trajectory, as calculated using the methodology described by the Poseidon Principles.

The Fleet Sustainability Score is an average of the Vessel Sustainability Scores, weighted for capacity (deadweight tonnes) and owned days, of all the owned and operated vessels in International Seaways' fleet. A Vessel Sustainability Score measures if a given ship, based on its capacity, is performing with the efficiency required to be in alignment with the IMO trajectory for a given calendar year. This vessel-level calculation is based on performance data verified by a Recognized Organization, and then compared to the established Average Efficiency Ratio (AER) for that vessel class in that year. In mathematical terms, the Vessel Sustainability Score can be described as a ship's total carbon emissions as a factor of the product of its total distance traveled and design deadweight capacity in a given calendar year, divided by the AER for its class.

The table below shows the AER which is required of various vessel types, over time, to comply with the IMO Trajectory. These figures have been derived by comparing the average performance of a vessel in that class in the year 2012, based on actual data reported in the IMO's Third GHG Study, to a required rate of decarbonization.

AER Trajectory Value

Segment	Size (DWT)	2020	2021	2022	2023	2024	2025
MR	20000-59999	6.76992000	6.59007900	6.41023800	6.23039700	6.05055600	5.87071500
Panamax	60000-79999	4.77192075	4.64515604	4.51839132	4.39162660	4.26486188	4.13809716
Aframax	80000-119999	3.73638909	3.63713298	3.53787686	3.43862075	3.33936463	3.24010852
Suezmax	120000-199999	3.18718706	3.10252034	3.01785362	2.93318690	2.84852018	2.76385347
VLCC	200000+	2.32400667	2.26227009	2.20053352	2.13879694	2.07706036	2.01532379

Appendix 2: About the Sustainalytics ESG Risk Rating

With a clear focus on financial materiality, Sustainalytics' ESG Risk Ratings measure the degree to which a company's enterprise value is exposed to material ESG issues. Specifically, the ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an assessment of unmanaged ESG risk. The ESG Risk Rating for a company is a quantitative score based on a scale from 0-100 and is categorized between five levels of risk: negligible, low, medium, high and severe. The numerical assessments represent units of unmanaged ESG risk, with lower scores representing less unmanaged ESG risk. The risk assessments are absolute, meaning that a high-risk assessment reflects a comparable degree of unmanaged ESG risk relative to any other company in the research universe.

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