

Euronav

IMO 2020 Preparation Webinar

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**CORPORATE PARTICIPANTS**

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## **PRESENTATION**

### **Operator**

Good day, and welcome to the Euronav IMO 2020 Preparation Presentation and Webinar. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would like to turn the conference over to Brian Gallagher, Head of Investor Relations. Please go ahead.

### **Brian Gallagher**

Thank you. Good morning and afternoon to everyone, and welcome to Euronav's IMO 2020 Preparation Presentation Webinar and Presentation.

Before we start, I'd like to say a few words. The information discussed on this call is based on the information as of today, Thursday the 5<sup>th</sup> of September 2019, and may contain forward looking statements that involve risks and uncertainties. Forward looking statements reflect current views with respect to future events and financial performance, and may include statements concerning plans, objectives, goals, strategies, future events, performance, underlying assumptions, and other statements which are not statements of historical fact.

All forward looking statements attributable to the company or to persons acting on its behalf are expressly qualified in their entirety by reference to the risks, uncertainties, and other factors discussed in the company's filings with SEC, which are available free of charge on SEC's website at [www.sec.gov](http://www.sec.gov), and on our own company's website at [www.euronav.com](http://www.euronav.com). You should not place undue reliance on forward looking statements. Each forward looking statement speaks only as of the date of this particular statement and the company undertakes no obligation to publicly update or revise any forward looking statements. Actual results may differ materially from these forward looking statements. Please take a moment to read our Safe Harbor statement on page 2 of the slide presentation.

Now let's get on with the details and have a look at the agenda on agenda slide 3. There are a number of objectives we want to achieve today. Firstly, we want to give some background, how we got here, and the framework and thinking that has driven our approach to various facets around IMO 2020. We then want to compare where we are today to where we've come from. After that we will look to run through the various risks as we see them, look closer at what we have actually done so far, and then finally look forward to assess some of the impacts from the new regulations and initiatives that we are currently engaged with.

To run through this presentation, Euronav is represented by the following. Firstly, myself as Head of Investor Relations at Euronav. I will pass on later to Hugo De Stoop, our Chief Executive, and after that, Rustin Edwards, who is our Head of Fuel Procurement, who joined the company earlier this year, and he will give stronger details on what we've achieved so far. Hugo will then wrap up proceedings with a conclusion, and then we'll happily move to Q&A.

So without further ado, on to the main deck on slide 4. On slide 4 we have a glossary, which we do not intend to go through in detail but just want to highlight the fact that we will be referring to HFO as bunkers or residual fuels along with HFSO referring to fuel with a 3.5% sulfur content. VLSFO and LSFO refer to marine fuel with a maximum sulfur content of 0.5%. The presentation, by the way, is already on our website and included under the Presentations tab.

Moving on to slide 5 in the presentation proper, and to start with, we'd like to look at where we came from in 2018 on slide 6. The options for a ship owner were relatively straightforward in preparing for compliance with IMO 2020 and there was basically four choices. Firstly, use compliant fuel available, like MGO fuel, but this was expensive and is expensive compared to low and high sulfur bunkers. Secondly, look at new compliant fuel or blends which will be under the 0.5% sulfur content rule after January 1, 2020. Thirdly, to look at high sulfur fuel oil and its continued use after investing in scrubbers. And finally using LNG or other alternative technologies and converting your vessel accordingly.

Non-compliance, which has been discussed in many reports, is simply out of the question for a responsible ship owner like Euronav or our large tanker peers. The cost of switching to LNG is very expensive, more than \$15 million to retrofit a ship. Using MGO or diesel is a short-term solution, but an expensive one given the high premium for bunker prices. So that essentially is left a choice in most observers' minds at looking at using HSFO with scrubbers or using the new compliant fuel LSFO. However before that, we need to make an assessment of what's required on our fleet and looking at the fleet profile, as we cover in slide 7.

Of the larger 42 tankers in our fleet, the biggest consumers in fuel, the VLCC ships, we already have a modern and efficient fleet which is largely eco or eco-type. This has driven a lot of our thinking given that around 70% of our VLCCs are of this eco-type. Fitting scrubber technology to such efficient vessels is more difficult to justify than on older, higher consuming ships.

But what did we assess then? If we now look to slide 8, you can see that this meant there were a number of factors to consider on each variable, compliant fuel and not all scrubber technology. Taking compliant fuels to start with on slide 9, there are a number of variables that we've consistently looked at since 2018. The availability of LSFO is key, as is its quality. As with any commodity, price is also very important. We will look at these in a bit more detail going forward and also other fuel initiatives, including procurement, blending, and future propulsion considerations.

When we look at the scrubber technology on slide 10, we have always and will continue to consider the technology based on four key parameters. The fact that the investment is an upfront capital investment with uncertainty of return as long as the LSFO derivatives market has not developed in size. Secondly, uncertainty over the scale and as importantly the duration of the spread. Thirdly, various operational factors in retrofitting and running a scrubber on a large tanker. And finally of course, the regulatory background. The reason for taking time in outlining this framework is to illustrate the consistent framework that we have adopted and applied in assessing our approach over the last two years.

Moving on to factors that we then considered in detail on slide 11, and there is one clear conclusion we need to assert. On slide 11, this has been the conventional view that you see at the top of the slide, which has been not been not only a convention but a binary view for many. That is, a choice between scrubbers or compliant fuel. Black or white, with no shade of grey. Euronav has always believed it is a case of "and" rather than "or," as we show in slide's 11 title. We have been and remain cautious on the risk reward for investing in scrubber technology, but then, as now, we continue to evaluate the merits of utilizing all scrubber technologies, as we will show in more detail later.

Let's now move on to more detailed analysis of these factors that we have and will continue to consider and how they've evolved over the last 18 months or so. With that, I'll put it back over to our Chief Executive, Hugo De Stoop, to take up the reins. Hugo, over to you.

**Hugo De Stoop**

Thank you very much, Brian. So indeed, let's have a look at these factors in turn from how they looked in 2018 and how they look today in the third quarter of 2019. So when we move to slide 14, we show our fleet, in which Euronav substantially increased the share of eco-type VLCC when we completed the generate mergers 15 months ago. Today about 75% of our fleet is modern and economic in consumption, so applying the scrubber technology to this efficient vessel makes far less economic sense than it could be for an older, more thirsty vessel. As a matter of fact, most scrubbers being fitted are targeting older, higher consuming ships today.

Now what about fuel availability as a factor? On slide 16 we show that in 2018, on initial consideration it was thought there would be limited scrubber penetration, with less than 500 ships fitted globally, and there was very limited engagement of visibility on availability of compliant fuel. But if we fast forward to where we are today, on the following slide, slide 17, it is clear that the landscape has changed considerably with most of the oil majors and refiners committing to providing sufficient availability in the major bunkering ports.

So in short, the market has moved in our view from a position of limited scrubbers and uncertain compliant fuel provision to a market where about a million barrels of HSFO per day would be required by the scrubbers and what looks like sufficient supply of the new compliant fuel. This is also backed up on slide 18, where Crockett Marine, a subsidiary of Vitol, indicates that over 100 major ports globally will offer compliant fuel come January.

The other point of attention on slide 18 is that the entry into the wider bunkering market by high quality operators from the refinery and oil majors is a factor to be welcomed by all shipping companies. And this professionalization [ph] of the sector will improve the quality for customers and suppliers alike, in our view.

On slide 19 we highlight China as a wild card in this market. Should certain tax regime changes be made, then China has stated that it could use its hydrogenation capability to produce up to 900,000 barrels of low sulfur fuel. Though there remains uncertainty on how quickly and feasible this move could be, but it is an important factor to remain aware of in this dynamic picture ahead of 2020.

We now turn to the question of retrofitting and investing in scrubber technologies. On slide 21, the picture regarding retrofitting has, like compliant fuel, undergone considerable change since 2018, when there were only three makers of marine scrubbers of any scale. Fast forward to slide 22, and there are now over 20 important manufacturers.

As far as the technology is concerned, it was once thought [indiscernible] a big shower with no major issue to fit on a large vessel. But the rapid increase in orders and the more complex operation has caused some bottlenecks, with delays in retrofits being reported and delays for early adopters of the technology. However, this is likely to leave capacity for retrofits once the bottleneck is cleared just after January 2020.

How does the investment case for scrubbers compare with last year? On slide 23 the case for scrubbers was simple. Installation and equipment cost was considered a basic \$3.5 million with limited loss of higher and low opex. However, as we show in slide 24, the case is more complex now, with a crude tanker player recently reporting retrofits, we're now costing \$6.5 million for him rather than the \$5.5 million he previously guided on. And as we highlighted, the installation is proving more problematic than first thought and opex cost higher given the additional power required to run this cover.

But perhaps the key variable is the fuel spread, which we look at on slide 25 and then slide 26.

Consensus was very clear, and with a degree of conviction during last summer in 2018, that the spread between LSFO and HSFO come 2020 would be \$400 per ton or more, as slide 25 shows from August, and there was also to be added a forecast of the duration of the spread at these sorts of levels would remain largely in place.

However, if we again fast forward to the following slide, on slide 27, we can see that the forecast spread for 2020 is coming a long way, almost halving over the past 15 to 18 months. The two key reasons for this are the increasing visibility that there will be sufficient compliant fuel in 2020 and as scrubber penetration has increased, therefore, there will be less downward pressure on HSFO demand, as there should be around a million-barrels of demand from scrubbers.

The penetration and growth in scrubbers' orders is provided on slide 28. For the VLCCs [indiscernible] sector, which as high consumers of bunkers has been a key factor in diluting the view that there will be a large quantity of stranded HSFO. Moving to slide 29, the final factor that we look at is the regulatory background which has always been a key consideration for Euronav. There's been a lot of change in that area as well, the initial assessment being benign and with little regulation.

However, on slide 31 we have seen 70 different locations heed a ban of severely restricted use of scrubbers in their territory over the past 12 months or so, and the IMO will continue to assess scrubber impact next year. And the pressure for investors, and other bodies from ESG or environmental perspective, continues to build, and rapidly so. This has therefore reduced the number of days in a year when one can use the scrubber and somewhat extended the payback time for an investment in scrubber.

So where does that leave us? What are the residual risks left that we face going forward? Well we cover that on slide 32. For us the key risk continues to lie in the fuel spread between LSFO and HSFO. Risk number one is the LSFO prior spikes [ph] in either general or specific locations. As we have laid out, Euronav believes the risk has reduced over the past year, but it remains a risk factor, especially during the initial period when the regulation comes into place.

Risk number two, HSFO price could fall in value and fall a long way. It remains unclear exactly how much high sulfur heavy fuel oil will be available and its quality. Should the price fall to a very low level, however, as we illustrate later, this could provide Euronav with an opportunity.

Finally, risk number three, and this factor in our view is often overlooked, not the size of the fuel spread but its duration, how long is it expected to remain at high levels? Should the spread narrow over a short period of time, then this has an impact on the return on investment that you made in the scrubber. However, should the spread widen or remain at elevated levels for a sustained period of time, then that scenario also has ramification for those without scrubbers.

Well that concludes my section. I will now hand over to Rustin Edwards, our Head of Fuel Procurement, to cover what we have actually done over the course of 2019—so this year—in preparing for IMO 2020, and what our thoughts and plans are going forward. Rustin, over to you.

### **Rustin Edwards**

Thank you, Hugo. So what have we been up to? Well first, I joined Euronav in the early part of February of 2019 from Macquarie. And just a brief synopsis of my background. I've been in the oil petroleum industry for over 20 years. I've worked at Macquarie, leading the IMO 2020 team there for a time. Prior to that I worked for Cargill as Head of Fuel Oil and Feedstocks Trading on a worldwide desk. Prior to my experience at Cargill, I worked at Chevron, managing fuel oil and feedstock trading in positions managing a bunker book in Latin America, US Gulf Coast, and US East Coast. Prior to that I

worked at the Amerada Hess Corporation, both in operations and in refinery port operations, two years as a Port Captain at Hovensa, when the refinery was in operation, and then five years working supply operations in New York, managing supply into 30 different terminals and across the Hess network.

Prior to coming ashore, I worked seven years in the maritime industry as a deck officer, achieving the rank of Master Mariner of Unlimited Tonnage Oceans. I graduated from the US Merchant Marine Academy in 1994, and have a Master's degree from the Fuqua School of Business at Duke University.

So to give you a brief summary of what we've accomplished over the last six months, in slide number 34 please. Firstly, we've established a dedicated procurement team with commercial, operational, technical, and financial expertise. We opened an office in Geneva, which is a commercial fuel oil trading hub, and we have been engaged in four key areas of procurement, logistics, testing, and development of business relationships across the world.

First, the procurement and buying of low sulfur fuel, we've been doing this for most of the calendar year for the Oceania. We have seen the availability and parcel size on offer increase in the recent months, which reflects our view that there will be sufficient compliant fuel available come 2020.

Secondly, on the logistics side, we've been arranging transportation from point of origin into the ULCC Oceania when she was stationed off Malta until last month. And that experience has provided us with a large number of challenges, which we had overcome and we have developed expertise on how to handle the logistic side of the delivery. We also have developed the offloading logistics that will meet our demand profile for the fleet once the Oceania is in position in Malaysia.

Thirdly, we have tested all the fuel and distillates that the Oceania has stored, and this is critical for us. We have purchased direct from a refinery production, and that has given us confidence in the provenance of the fuel that we have received. All the fuel has been tested, and we have done bench blend of all the products onboard the ship, across the spectrum of all the products on the ship, developing a fuel compatibility stability matrix which gives us a fair amount of market knowledge on how the fuel will be reactive to each other.

We have also done testing of third party oil that we did not procure in order to test the cross-reactivity of other production in the marketplace that we could potentially buy on a future basis, because again, for us, the key point is understanding the stability and the compatibility of the fuel on a go forward market. So this has basically given us a clear advantage in fuel quality management in handling onboard our vessels as well as working with some of our suppliers and better developing their fuel oil offerings.

This has led us into our fourth factor, namely the relationships we have developed in the dynamic and fledgling fuel market. As we mentioned before, this is a brand new fuel market in bunkers that is emerging within the refining sector and the oil traders seeking to expand their presence. As the bunker market becomes more professionalized, we are in the forefront and have worked to help develop this offering from the different participants.

Now one thing to remember, that this is not a short-term project for us and we're not going to disband our experience and expertise that we've built up prior to 2020. We anticipate this to be in the start of a number of initiatives concerning the procurement, management, storing, and trading of fuel oil and distillates going forward. Our experience so far gives us cause for optimism in this field and we look forward to provide future updates on the ongoing initiatives once they've developed more fully.

Now turning to more specifically what we have done in terms of fuel oil on slide number 35, we have procured 420,000 tons of compliant fuel split between 0.5% fuel and 0.1% sulfur, paying on an average

price for the 0.5% fuel \$447 per ton, which compares to a current retail price of approximately \$520 a ton, which is currently trading in the market on a Q4/Q1 basis in Singapore. This also compares with the average price of \$400 a ton for high sulfur fuel that has been used for the fleet during the acquisition of the 0.5% fuel that we had done. This covers a considerable part of our bunker fuel requirements for 2020, and it substantially de-risks our exposure to the initial introduction of the IMO 2020 spec change, as it will protect us from any price spikes or lack of availability as the market moves forward.

This fuel has been stored on the Oceania, one of the world's two ULCCs, which has been working off Malta until recently. The other ULCC, the T.I. Europe, is on commercial storage charter until the beginning of 2020.

In terms of financing this approach, we secured an additional credit facility of \$100 million with a set of banks at terms similar to our other funding. As at the end of August, the inventory we held of compliant fuel was approximately \$201 million in value and Euronav's underlying liquidity remains unaffected by this program and remains at similar levels as it was in the end of June of 2019.

Now for more details on the program, on slide 36, this shows how our purchasing was done in more detail. The 0.5% compliant fuel purchase at \$447 per ton compares with bunker fuel over the same period of \$400 a ton on average. The mix of MGO and distillate was purchased at approximately \$566 per ton, which compares to a price of \$606 for MGO during the same purchase period.

So where do we go from here? On slide number 37, you can see on the bottom right of this slide amid much speculation, Oceania is currently on her way from Malta to Singapore and she's due to arrive towards the end of September. The added benefit of purchasing most of the compliant fuel in Europe and moving it to the east was that the 0.5% arbitrage has been opened between Europe and Singapore, where the prices for compliant fuel were approximately \$35 per ton cheaper than they were in Asia.

So why do we want to be in Singapore? And slide 38 covers this. Firstly on the map, we highlight our bunkering activities for both VLCCs and Suezmaxes in our year-to-date. We anticipate that this rise next year will move approximately 70% of our bunker demand into Singapore from the current positions that we have in Asia, as we'll focus our demand profile to meet our supply point. And if you look at our voyage trading patterns, most of our ships do pass through the Singapore Strait, so it makes it a very convenient location that we can meet the needs of our fleet.

Slide number 39. So we see four key benefits from buying forward our fuel oil requirements. Firstly, we have quality control over our fuel needs and security of supply. As we transition into 2020, we understand what quality we have on board and we understand that we have quality at a certain price.

On the safety and reliability, this has given us the opportunity to test and to prove the fuel on a variety of different platforms. So as we have said earlier, we have gone through a significant amount of bench testing, and we've also put parcels on some of Euronav's ships and have run it through the main engine to ensure that the operation of the ships are unaffected. And it also helps us to develop processes and procedures to handle the oil on board the ships to make sure that we transition safely from high sulfur into low sulfur come the end of the year.

On quality control, again, everything is stable and tested, and we regularly retest. And we're able to now take what we have purchased and run that against other offerings that we're seeing in the market and the laboratory to understand how the reactivity of new fuel will react with the fuel that we've already procured. And finally, from an ecological standpoint, running low sulfur fuel does decrease our CO2 emissions from the fleet, as we won't be running extra units to man a scrubber at this time.

Slide number 40, please. So two of the things that we see that are eventually going to happen come 2020. First off, is the change in the fuel oil arbitrage trade. Currently, fuel oil arbitrage has moved from product source areas in Northwest Europe and US Gulf Coast into Asia, which is the major demand center of the world for bunkers, from primarily Singapore. As we go into 2020, we do see that trade routes will adjust and change, opening up potential new arbitrage trades for Suezmaxes. We see trade that can develop from low sulfur fuel, from refinery hubs in Europe into the US Gulf Coast, from production hubs in South America to Asia, and then also potentially from China down to Singapore. This adds extra opportunities for the Suezmax fleet outside of just crude oil trades and opens up other opportunities for developing different business lines.

Next slide. In slide number 41, one of the other items we have coming up, and it's currently developing on the forward curve, is the current contango in high sulfur fuel. So despite the fact that the amount of scrubber uptake has increased over time, we do see developing a very strong contango on the Cal20/Cal21 high sulfur fuel curves. Part of this oversupply, which will create floating storage activity for us to look at. One of the things that have happened is that tank farms have swapped out tanks from high sulfur service into low sulfur service to meet the new bunker demand that's going to develop over time, reducing the amount of storage that's available in major pricing hubs. Tank farms have also allocated tankage for blending because the 0.5% market will require more blending currently than the high sulfur pool because you're using a bunch of different components that are not readily available for high sulfur blending at this time.

So that being said, is that the infrastructure onshore has been reduced considerably when you look at 3.5% fuel oil supply and distribution to the demand profile. So from that we believe that a deep contango will develop and develop quickly as we get into the end of Q4/beginning of Q1, which will open up floating storage for large vessels in pricing hubs until such point that there's enough scrubber capacity to alleviate the supply overhang.

I will pass back over to Hugo De Stoop for the two concluding slides.

### **Hugo De Stoop**

Thank you very much, Rustin. A very comprehensive explanation [indiscernible]. I would like to sum up briefly before we turn to Q&A, starting on indeed the conclusion slide on 43, the summary of what's our current positioning at IMO 2020 is and conclude on what we have achieved in that strategy so far. So we firmly believe that Euronav has a high degree of optionality in our stance. We believe that far from being left behind by the dash to fit scrubbers, there could be a considerable second mover advantage because of the experience gained from the first installation cycle. And this could result in reduced costs, reduced time between ordering and installation, and reduced uncertainty over the retrofit itself.

Secondly, Euronav has the balance sheet, operating capacity with our own tankers and now above all with the skillsets gained from the fuel procurement team and their experience over 2019, the opportunity to capture value from developments in the fuel oil market going forward. We could potentially purchase any stranded HSFO at low price, and having captured these advantages then store this fuel and utilize it, having retrofitted scrubber technology ourselves.

Finally, we strongly believe that there will be a dynamic derivatives market in fuel oil and especially in low sulfur fuel oil, which does not exist today. This can be used in a strategy of de-risking a speculative investment in scrubber technologies.

Moving on to the last slide, so to sum up, and in terms of Euronav preparation for the IMO 2020

regulations, number one, we have a fuel efficient fleet, especially within our VLCC fleet, which is the high consumers in the tanker space. By the looks of it, it seems that there should be enough LSFO available and the remaining issues around production seems to be more a question of location than capacity. As we've explained, we firmly believe that there is an opportunity, and if there is an economic case there will be a second mover advantage for Euronav, although we know that the bunker spreads have narrowed considerably over the past 12 months. So we'll have to monitor that and how it develops in 2020.

But most importantly, we're pleased today to give more details of the activities that our Fuel Procurement team has delivered and the potential for further value creation we believe the fuel markets could provide for Euronav going forward. We face the new regulations in 2020, having substantially de-risked the operation, the operational, financial, and technical risks facing our business, and yet retain a high degree of optionality as well.

With that, I will conclude our prepared remarks. I thank you for your attention, and I look forward to any questions. So, operator, I pass that back to you. Thank you.

## **QUESTIONS AND ANSWERS**

### **Operator**

Thank you. We will now begin the question and answer session. To ask a question, you may press the star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and one follow up question. If you have further questions, you may reenter the question queue.

The first question today comes from Chris Weatherby [ph] with Citigroup. Please go ahead.

### **Chris Weatherby**

Yes, thank you. Thanks for taking the question and thanks for the very comprehensive presentation. We certainly appreciate it. From a strategy perspective, I just want to make sure I understand how you're thinking about the next couple of years relative to scrubbers versus burning the low sulfur. Have there been any sort of—have you made any decisions relative to potential scrubber investments? It seems like there's options out there for you, and obviously that second mover advantage that you talk about, but have you made any firm decisions relative to that?

### **Hugo De Stoop**

No. No firm decisions have been made because we're waiting to see how the market develops in the early days of the regulation, i.e. in January 2020. We will have two elements that we don't possess today, and that is the spread at the start. But also the forward curve. And the forward curve of both LSFO and HSFO, which should enable us, if we were to decide to put scrubbers, to lock in a certain value and therefore guarantee a return on investment. If you remember what we have always said in the last year or year and a half, we never really said that we were against scrubbers, even though some people had thought we had said that. But we said that we were what we call scrubber watchers, i.e. we wait for the market to build up and we don't do a speculative investment. We prefer to lock in the reserve that's possible. And if the spread is narrow and the forward curve shows that it will be narrow for a long period of time, then it's not probably not necessary to install, retrofit any vessels with scrubbers. So in short, no firm decision yet, but we continue to monitor the market.

### **Chris Weatherby**

Okay, that's helpful. And then maybe a bigger picture question about the fuel procurement, your

thoughts on doing in in-house for Euronav's fleet as opposed to sort of going wider. You obviously mentioned the slides about potentially procuring high sulfur fuel oil and storing it yourself. You have another ULCC out there that I guess frees up at the beginning of 2020. I guess two questions. First, would you consider using another ULCC for storage?

And then second, when you think about fuel procurement, are you thinking about building [ph] outside of the Euronav fleet? That seems like a somewhat of a different business than what you've historically been in. So not sure necessarily the value assigned to that when you think about the equity value of the company. So I just want to get a sense of how you think about handling the fuel for Euronav's needs versus potentially doing something with optionality for other company's needs.

### **Hugo De Stoop**

No, a very good question and very important that we are very precise about what our intentions are. First of all, there are a couple of ships, and certainly the two ULCCs in the last 11 years has been used mostly as storage units. Of course there was more of a classical ship owner operation because we were just renting or chartering out those ships to a lot of people and mostly traders or oil majors who needed the storage capacity. You also know that we have two FSOs, so I would say that the knowledge that we have for this type of operation is probably a little bit better than some of our competition.

Now it's the first time that we have used it for our own needs, absolutely correct. We did that because we believe there was a lot of value to be gathered ahead of the regulation, so ahead of the pricing being put on the sulfur content. And what we have talked in our earlier remarks was to do the same but with the HSFOs. So basically we would use that one or potentially two vessels to gather the HSFO if the price would collapse and if the forward curve would prove that it's the right move, we would start to collect it and put it onboard one or two of those ULCC, because you are right to say that the second one will be charter free or open for business come January 2020.

We're not therefore moving into a new business line. It is also true that we have learned a lot about the fuel market and something that I believe very few people could gather [ph]. Buying wholesale versus retail is, for example, something that seems to be very attractive from a pricing point of view, and we mention a few numbers there. That doesn't mean we're going to become a bunker provider for others. Absolutely not.

### **Chris Weatherby**

Okay. Okay. That's very helpful. I appreciate the time this morning. Thank you.

### **Hugo De Stoop**

Thank you very much, Chris.

### **Operator**

The next question today comes from Jon Chappell with Evercore ISI. Please go ahead.

### **Jon Chappell**

Thank you. Good afternoon, guys.

### **Hugo De Stoop**

Hi, John.

### **Jon Chappell**

Hugo, first, can you put 420,000 tons into perspective? I think you mentioned at one point in the

presentation that that could be enough to fuel Euronav's entire fleet for 2020, but then one of the later slides said 70% of your fleet would pass through that area with the vessels to do storage. So the 420,000 tons, is that going to meet the majority of your low sulfur fuel requirements for 2020 and potentially into 2021, or do you need to top that off at any point? How do you view that versus your requirements for next year?

### **Hugo De Stoop**

Yes, thank you for asking the question. So it's very important to understand that the part of the fleet that we are trying to protect is especially the VLCC. So when we look at it, and certainly when we decide to locate the Oceania in Singapore—and it's actually not in Singapore, the Singapore area—we looked at the number of vessels that will pass through this area and it will be easy to bunker there from the Oceania.

As we said earlier also, we want to make sure that we keep all flexibility, so for all the ships that are passing by we will always compare market pricing with what we have gathered onboard. And simply because we believe that the initial period—and the initial period could be six months, nine months, one year, maybe more—I mean, we believe that markets are pretty efficient so we have a hard time to believe that the [indiscernible] period should last more than that, means that at some point you could have pricing that are at the same levels or maybe a little bit under what you have purchased. But at some other points you have the market which will exacerbate the pricing that will depend on the availability at a certain point in time.

So the decision to use our own fuel over a certain period of time will depend on what we find in the market. So it's very hard for me to tell you okay, it will last six months, it will last nine months, it will last twelve months, because it's more dynamic than static.

### **Jon Chappell**

Okay. That makes sense. That's helpful too. And then also the financial impact. So if I just take 420,000 tons and multiply it by the average \$447, it looks like it's about \$187 million or \$188 million. And you said you had the \$100 million facility. So could we assume that that's, number one, been drawn down, the remainder has been fused with cash on hand, or working capital? And then as we think about the economy through the rest of this year into next year, is there going to be kind of a perceived release of working capital or is that going to be tied up until the ship's completely drawn down of its inventory?

### **Hugo De Stoop**

So on the financing, our intention is to finance about half of what we have gathered. So we've gathered for about \$201 million, and when we talked about a pricing of \$447, that is for the LSFO, but in fact we have gathered LSFO as well as MGO. The MGO can be used, because everybody needs to use MGO when they are in [indiscernible] in some port it requires 0.1. Or it can be used to blend, which is also very interesting because we have the capability to blend on board the Oceania. So you can very well imagine that going forward if we use the 0.5% and we haven't touched upon one, we could buy 1% material or 2% material and then blend it down with the MGO that we have gathered also at attractive value.

But just to come back to your question, the \$100 million is a dedicated line for—yes, you could call it working capital, because after all those bunkers go in inventory and tied up a little bit more our working capital. So we want to finance it. We have decided to be conservative, i.e. finance 50%, and the rest has been financed with the cash on hand. And it's directly linked to the usage of the fuel that we have gathered, i.e. every time we use our [indiscernible] out of the Oceania and we fill one of our vessels, we will have to repay a portion of that line. So, it's completely linked to the usage of what we have today.

It's also revolving, so if we were to gather more after having used part of the Oceania, then we can reuse that specific line for that specific purpose.

**Jon Chappell**

Got it. That's very helpful. Thanks for that, and thanks for a great presentation.

**Hugo De Stoop**

Thank you, Jon.

**Operator**

The next question today comes from Randy Giveans with Jefferies. Please go ahead.

**Randy Giveans**

Hi, gentlemen. How's it going?

**Hugo De Stoop**

Hi, Randy, very well. And you?

**Randy Giveans**

Excellent, excellent. Following up on your scrubber comments, what is your expected timeframe for if and when maybe you order a scrubber to actually getting it installed?

**Hugo De Stoop**

First of all, it will depend on the position of the ships. But obviously we will make that decision for the ships that are near the area where the expertise to retrofit scrubbers has been gained, because that's very important. It's basically one of the pillars of the idea of having a second mover advantage. I suppose that like us and many other players in the market, you've heard that the retrofit was not an easy exercise. But of course they are doing that on a lot of ships at the moment, on different sort of ships, certainly on tankers but also different makers, and you have sister ships. So, by the time we would be in a position to make the decision on that, we're pretty certain that the yards that are currently retrofitting ships would have done at least one or many more of the same type of ships that we have, which will save us a lot of time.

As a matter of fact, talking to some of our peers, they said the earlier ship, the first ship that they retrofitted was very long delays and was a very difficult operation; whereas, the latter ones are lasting a much shorter time, not yet the time that they had expected, so we're still talking about delays, but not massive delays. So, that's the first point.

The second point is obviously that if you order a scrubber today, and by the way, we've been offered to retrofit at least four ships if we wanted to between now and November, so there is still some availability, but as I said earlier, this is not the intention. But come 2020, obviously everybody will be far less busy, because everybody that does not have the capability of doing what we've done, either because they didn't have the capital to do it, or they didn't have the operational means, i.e. the ULCC to do it, they were in a rush, basically on a race to be ready before January 2020. And so today that adds to also some delays. It's not that the manufacturer cannot provide kits in a matter of a couple of weeks, it's just that you are in a queue.

In 2020 there is only 20% of the amount of ships compared to 2019 that will be retrofit. So, the space availability is far greater and we believe that if we had a ship in position, and obviously we have done a lot of work on the planning and these kind of things just to be ready, it would be between four weeks and eight weeks, depending on where the ship is at the point of order. So, it could be very, very quick.

**Randy Giveans**

Yes, delays around getting the scrubber or these slots, but it sounds like you can work around that.

Then I guess one more question—

**Hugo De Stoop**

Just one more point on that, because it's very important that you understand, we don't need the scrubber to start receiving the economics. Basically, the idea is that if we gather HSFO we have the relative market for LSFO for a pretty long period of time, and we would gather the HSFO for the needs that we have and for the period that we decide to have. So, the point of installing the scrubber is a little bit independent of capturing the value in the market.

**Randy Giveans**

Got it. Okay. Yes, it makes sense. Then the other question, have you been able to mix various 0.5% sulfur fuel blends in the same tanks without any compatibility or mixing issues?

**Rustin Edwards**

I'll take that question.

**Hugo De Stoop**

Please.

**Rustin Edwards**

At the moment we have done physical blending in the ship, and the physical blending we have done on board has proven to be stable and compatible, no issues. But that was all done with a lot of pre-work in the lab. We wanted to make sure that as we bought oil, we tested the oil, and we checked the cross-compatibility and the reactivity of the oil, just to ensure that the oils were stable by themselves as well as stable in combination.

**Hugo De Stoop**

But it's also fair to say, Rustin, that in the lab we had some surprises, and from time to time we've seen that there was some incompatibility, so we are very happy to have run those tests, because going forward obviously that's very important. It's one of the risks that's been highlighted by other people in the market, that you need to be very careful, because when you buy one sort of 0.5 material and you want to switch over to another one, you should make sure that you do that with a process. And that's what we've put in place in our fleet, because we've seen, in the lab at least, that from time to time there was some incompatibility between two products that seemed similar otherwise.

**Rustin Edwards**

Yes, that is correct. And even though the two products that had compatibility issues when mixed together, in themselves they are stable and compatible with other products that we have bought. So, it's not just that we have one bad player. There were a couple of lab tests that showed up, okay, there could be a potential issue of these two products if put together, but with other products, not a big issue.

**Randy Giveans**

Perfect. Thanks so much for the color.

**Hugo De Stoop**

Thank you.

**Operator**

The next question today comes from Amit Mehrotra with Deutsche Bank. Please go ahead.

**Amit Mehrotra**

Thank you. Hi, everybody. Thanks for the presentation. I wanted to follow up on the first part of Jon Chappell's question regarding the 420,000 stockpile relative to six or nine months. You obviously have 42 VLCCs, so it just looks like you have reserved 10,000 metric tons for each VLCC, which based on just normal utilization it looks like that's only 45 tons per vessel per day. So, I don't know if that 420,000 is earmarked for a specific sub-sector of the VLCCs, or maybe there's something wrong with my calculation, but if you can just help us reconcile that 420,000 against the average daily burn of the VLCC fleet.

**Hugo De Stoop**

First of all, we're not looking to grow the entire year. We believe that the most [indiscernible] and volatile period will be earlier in the year. That's point number one.

Point number two, on the 42 VLCCs that we have, we have at the moment 5 that are on TC, even if it could be short, it could be up until the middle of next year, but we would hope to renew them. So, obviously we won't have to provide any bunkers to those ships. So, the rest, as I said, would be a little bit opportunistic, and given the fact the Oceania is located in Singapore, we cannot expect to be able to bunker all of our ships. And some of the VLCCs we'll need to bunker when they're on the other side of the world, and there they will either go into the market, or we will have some swap agreement with people in order to swap the material that we have in Singapore with the material that they can give us, say in the carriers [ph], for instance.

**Amit Mehrotra**

Okay. Yes, that makes sense. And then just maybe as a follow-up at more of a basic level, just based on your experience, what happens to the freight price when there's this overnight shock on the fuel bill? I think consensus is that tankers are a big beneficiary of IMO 2020, and we obviously certainly share that view as well, but I just want to understand the risks to demand or elasticity to the seaborne demand, at least when the fuel component of the seaborne trade bill increases significantly in a relatively short period of time? Any thoughts based on your experience around what happens to the freightway in that dynamic?

**Hugo De Stoop**

I think no one has any experience. This is the first time that it happens to us in such a short period of time. And that's a little bit the problem with the regulation, is that overnight, so the 31<sup>st</sup> of December you're in a position and then 1<sup>st</sup> of January you're in another position. So, there's a number of questions that still remain to be answered. What is the world scale rate going to look like? How is that panel going to—what sort of pricing are they going to use? One-third of the VLCCs will be scrubber equipped and will use one sort of fuel, which will have its own pricing, and two-thirds will use a [indiscernible] material, which is likely to be more expensive. So, which one will they take into account and what sort of price will they give for the year 2020?

The second thing is obviously, and we talked about it many times in the market in different forums, is every single time you fix a ship you enter into a negotiation, and that negotiation is at the end of a mini auction. And the mini auction is, there is one cargo and there is from time to time, unfortunately six, seven eight ships available to pick up the cargo. There is a first selection that is made on the basis of the ship itself, and some ships are not acceptable to some cargo owners, etc. Then you come down to a negotiation, and that negotiation, you have someone in front of you that takes a lot of parameters [ph]

and use that as arguments to negotiate it down.

You can be sure that some of those arguments will be around how much did you pay for your fuel, and so if you have a big benefit because you've put a scrubber, well, you're not too sure that the entire benefits will go into your pocket, because that may very well be the advantage that you have to use over someone that has no scrubber, i.e. give a discount. So, that discount is giving part of your benefit to your customer.

So, it's going to be very complex, and it's going to be interesting to see if a two tier market develops. But fundamentally, we continue to believe that the market will be strong, because it's always a question of supply and demand, and supply and demand means number of ships compared to the number of cargos that need to be picked up and over which distance they need to be picked up. And from that point of view, it seems that the balance is slowly but surely tilting in the favor of the ship owners.

Amit, are you still alive?

**Amit Mehrotra**

That's it for me. Thanks.

**Hugo De Stoop**

Okay. Thank you. I was a bit worried.

**Operator**

The next question today comes from Tucker Long with Stifel. Please go ahead.

**Ben**

Hi. Actually, this is Ben on for Tucker. My question has to do with just thinking through the immediate economics, it's harder I guess to say what's happened exactly with the LSFO prices, but clearly since August the HSFO prices have fallen from \$400 a ton to \$275 a ton, something like that. That on paper would seem that your inventory, you would have some sort of mark to market loss associated with that if it was unhedged. I'm just curious if there are hedges in place or something like that that effectively removes the commodity risk exposure for you.

**Hugo De Stoop**

First, let's make sure that we compare apples and apples. For the material that we call LSFO, which is the 0.5 material, we've paid on average \$447. If you want to buy a ton of LSFO today, Rustin, you would pay, what \$515?

**Rustin Edwards**

\$515 to \$525. The current market has been trading, not even on a fuel oil related basis but on a gas oil related basis. So, if you look at the recent physical trades that have been done, both in Rotterdam and Singapore for Q4 and Q1 supply, trades are being quoted at gas oil futures minus \$70 to minus \$80 a ton, which in today's market is approximately \$520 to \$525 a ton in Rotterdam, and a similar value in Singapore.

**Hugo De Stoop**

So, as you can see, there's absolutely no reason for us to impair the value of what we've gathered because we're well in the money. But maybe just to answer the other question, which was did we hedge, or did we try to hedge our position? Well, first of all, we have a natural hedge, and the natural hedge is that we have these quantities and the cost of carrying over the quantity and not using it is very limited because of the economies of scale that we have, i.e. using a ULCC.

So, if we see that come January or the first quarter and we see that pricing is below the 447, we may very well decide not to use the material that we have on board. Because some people at the moment are saying that there is quite a lot of LSFO that is being gathered in different storage, and that could be investors as well as land storage, so the shock that everybody is expecting in January 2020 may very well come only a month later or two months later, because of all of this material that has been gathered in order to absorb it. So, that's what we call the natural hedge.

But the second real hedge, and that's obviously a paper hedge, we have looked at it many times and we've tried to find the right correlation between LSFO, which we've purchased, and something else, and that something else could be brand [ph] or that something else could be MGO, that something else could be HSFO. And as a matter of fact, no one can guarantee that the current correlation, to the extent it exists, between the two products that I mentioned and LSFO will exist beyond 2020, because the supply and demand of the product will be completely different after January 2020.

So we were at the point of taking a hedge based on MGO, and we decided not to do that because we thought that the correlation was not high enough and the assurance that the correlation will remain was not high enough either. And in fact, we're very happy, because I believe, Rustin, it was, what, two, three weeks ago that there was a complete decoupling from MGO and LSFO.

#### **Rustin Edwards**

Yes, that was back in the early part of August of this year high sulfur values collapsed and the entire fuel spectrum collapsed in value initially, and gas oil did nothing.

#### **Hugo De Stoop**

And it was a full collapse as well. I'm not that kind of a trader, so for him \$2 in one minute is a collapse. But it moved in value significantly over a couple of days, and in fact the correlation of the LSFO was much more linked to the HSFO than it was for the MGO. So, obviously we would have been sorry for ourselves had we taken a hedge. Again, the perfect hedge will only be there when there is enough volume of paper trade around LSFO, and that volume is going up every day, but we have not reached the point where we can rely on that paper. But we do believe that once material is being used by everyone, and that will be ahead of January 2020, there will be a possibility to take a hedge there, and we'll certainly contemplate doing that if we feel it's appropriate.

#### **Ben**

Okay. And I suppose the other way to think about it is outside of your natural hedge really it's \$200 million of inventory risk here that, given the size of the company is probably pretty manageable one way or the other, I would suppose.

#### **Hugo De Stoop**

Well, we can consume it of course, and then it's not the full \$200 million that is at risk. It's just a portion of it, which is observed by the potential decline in value. But all the indicators so far are pretty much going up. Otherwise, we are absolutely all in the market completely wrong.

#### **Ben**

Right.

#### **Hugo De Stoop**

That's [indiscernible] in order to not have to pay a high price on LSFO, and we have gathered some material because we believe that the pressure is also on the upside.

**Ben**

Right, right. I understand. Although if oil prices were to collapse, theoretically the whole system would be down a little bit. But I certainly appreciate your point, that you have the natural hedge that helps anyway, and it's hard to hedge on a paper basis. I was just curious how you're handling that commodity price risk, so, it was very helpful, though. I appreciate it.

**Hugo De Stoop**

Thank you.

**Operator**

The next question today comes from Greg Lewis with BTIG. Please go ahead.

**Greg Lewis**

Hi. Thank you and good afternoon, everybody.

**Rustin Edwards**

Hi, Greg.

**Greg Lewis**

Clearly, Euronav's selling customers are big, small, private, and public. Are you having any conversations with any of your customers whether they're ESG friendly or they're just not fans of burning high sulfur fuel oil, that really want you to just stay and are more focused on having you just burn compliant fuel oil? Is that a conversation that the company's having with any of its customers across the industry?

**Hugo De Stoop**

No, clearly not. I believe it's fair to say that on the European side, when you look at the oil majors, they might be a little bit more ESG friendly than the people across the Americas or across Asia, so we do have a conversation. They were certainly less active on the TC front to book ships equipped with scrubbers, but you have seen that in the last, I would say until before the summer the vast majority of the deals that were done on a time charter basis was for scrubber ships. Then it shifted away, and since the beginning of the summer, and we took advantage of that, there have been a number of deals done on ships that are not scrubber equipped.

And I think that represents the view of the market, or the view of our customers, that in the end it might not be as good as it was once foreseen. And we've showed in our presentation obviously if the spread was \$400, it would have been extremely interesting to put a scrubber at \$200, and with the curve, with a forward spread that is narrowing it's far less interesting. But from an ESG point of view, I think that the pressure is much more on from the investor side, so only when you're a public company do you feel the heat. The environmental agencies were putting pressure on the various regulators, and some of the ports who have decided to ban the use of scrubbers were certainly doing so because they had a conversation with representatives of the local opposition, i.e. local environmental agencies. But that's what we refer to by ESG pressure.

**Greg Lewis**

Okay, great. Then just one for me. On the one slide where you talked about low sulfur fuel oil arbitrage opportunities and the potential new Suezmax trades that you could see developing, could you talk a little bit about that? I'm assuming the Suezmaxes would just be competing against an LR2, is that how we should be thinking about that? Any kind of color you can give around that that would be super helpful.

### **Rustin Edwards**

With the poor development of new trade flows around the whole 0.5 fuel, a lot of it is going to have to do with quality dislocations, where some regions don't have enough of a, let's call it a low sulfur residuum base when they make fuel. They're more doing a low sulfur distillate base, which will be more expensive in price and have its own operational issues compared to a low sulfur residuum.

So, what we see in the future is that the low sulfur resids that are going to be produced out of North Europe, Black Sea, West Africa, are going to be produced at such size and such scale that the Suezmax becomes the more attractive way to move the oil, a) economy of scale size, you're moving 150,000 tons versus 80,000 tons of an LR2; and b) the ability to take advantage of storage economics as well that you can set a Suezmax take advantage of the carry because it will be cheaper cost a barrel, load it up with a low sulfur fuel and move it across the market.

Suezmax, you can get into most docks as well, so you don't have the problems that you do with the VLCC when it comes to discharge, as you see a lot with the high sulfur fuel arbitrage flow, where you can be limited in how much cargo you can actually load due to the delivery drafts at ports like in Singapore and the ability to handle large vessels at certain terminals.

So, that's where a lot of the idea comes around how the arbitrage flows could change, and when you think of the natural crude exports that are coming out of US going into Europe and US going into other markets, it's a natural backhaul that you start to develop.

### **Greg Lewis**

Perfect. Thank you very much for the time, gentlemen.

### **Hugo De Stoop**

Thank you, Greg.

### **Operator**

The next question today comes from Espen Landmark with Fearnley. Please go ahead.

### **Espen Landmark**

Good afternoon. On the price differentials, there's a lot of talk about the spreads for next year, but also this summer has been a growing regional price difference for bunkers with Singapore HFO price, I think as high as \$100 per ton more expensive than Rotterdam. So, you expect to bunker 70% of the fleet in Singapore next year and I would imagine many other tanker owners would say the same. So, the question is, could we see very different prices for compliant fuel and HFO next year and also depending on where you look to bunker?

### **Hugo De Stoop**

That's totally correct. But you will admit with this that you don't always have a choice, right? You cannot fill up your ship so that you can go around the world without having to re-bunker, so the reason why most of the people bunker in Singapore is because they pass through Singapore. It's a good bunker hub with plenty of availability.

The next port is probably Fujairah, but obviously that depends if you're going back to the Atlantic or if you're expecting to load the cargo in the India AG [ph]. And Fujairah is indeed historically a little bit cheaper than Singapore. The cheapest of all is Rotterdam, but as you know, very few—well, VLCC certainly and some Suezmaxes come to Europe or come to Rotterdam to deliver oil, compared to the global fleet, and then Caribs, which is more defined by the Houston pricing, is usually a little bit higher than Rotterdam and a little bit cheaper than Singapore.

I completely agree with you that what we have seen in the last, I would say, four to six weeks is exacerbated by the tension around the preparation of IMO 2020. I think that people are trying to, from time to time, abuse the market. And a difference of \$100 is totally unjustified because normally the difference between Rotterdam and Singapore should only be the freight to transport the fuel oil between those two places.

So, it's interesting to think about how we can procure our fuel going forward, way beyond what we have done now. And I think what we have learned gives us a couple of ideas on how to do that. And as we mentioned in the presentation, there is certainly a lot of value to be gathered around the idea of buying wholesale, i.e., in large quantities, versus retail, when you are a little bit hostage to the bunker provider at the port where you need it.

### **Espen Landmark**

That's interesting. And if you don't mind, I was thinking in a somewhat different follow-up. We've entered September and in a few weeks' time we've shaved off more than 10 points on most trades. And one of the arguments for holding back on the scrubbers was also the amount of oil price that resulted in kind of the expectations for a very firming second half of the year. In drawing containers, we've seen a meaningful rate boost by the scrubber installations, so far not so much on the VLs. Some of it kind of relates to the installation sitting a bit later in the year, but have your views on the oil price and the impact on the market changed over the summer?

### **Hugo De Stoop**

No, to be frank, it's very difficult to get a view because it's not reported upon. There's no broker in between that can report, so we rely on the information that we hear from the market.

I would tend to agree with you that when we look at the, some schedules that we've seen, it seems that the tanker players have tried to book their slots between sort of late September and, well, up until January-February of 2020. So we can hopefully expect a better squeeze of the market around those months.

Having said that, I can nevertheless tell you that we are very happy to see green numbers again. And that today we're booking in the mid-30s, whereas four weeks ago, we were still in the low 20s, if not lower than that. So, what you said is not meaningful for us is very meaningful because we come from making a loss to making a profit and, after all, we're here to make a profit.

### **Espen Landmark**

Fair enough. I would just imagine if VLCCs turn up being 50,60 [ph] that just went through, I think a lot of ship owners would be disappointed.

### **Hugo De Stoop**

And we would be part of that gang.

### **Espen Landmark**

All right. Thank you very much.

### **Hugo De Stoop**

Thank you.

### **Operator**

The next question today comes from Peter Hoggin [ph] with Kepler [ph]. Please go ahead.

### **Peter Hoggin**

Good afternoon, guys. A follow-up question on the hedging here. So, I understand from the previous answers that you would prefer to hedge only in compliant fuel. But, if you had to hedge your position today, trying to eliminate the oil price risk in this, how would you do that in type of instruments and what underlying, so Brent or bunkers, swaps or options?

### **Hugo De Stoop**

It's funny because of course we are asking ourselves the questions for at least three months. And as I have admitted, we haven't come up with a perfect solution because perfect solution does not exist. I don't think that you need to be too impatient, because I do believe that the market for us is going to develop sooner than what people expect. People are starting to buy LSFO. They're starting to store it on board their vessels because for the vessels that are doing long voyages, obviously, they will have to switch on the 1<sup>st</sup> of January and so they will need that compliant fuel on board for the time they switch.

But, coming back to your question, it was mentioned earlier in the call that a collapse in the oil market would obviously lead to some discounts in all the products that we talked about, LSFO, HSFO, MGO, distillate, etc. So, it might not be a bad solution to book something on Brent, and we did the study between Brent and WTI and Brent seemed to be more appropriate than WTI. Because as I said, MGO seemed to be the natural hedge, simply because a lot of people believe that LSFO is going to be produced on the basis of six portion of MGO and one portion of HSFO. Then, very quickly, everybody realizes that was so unstable that it wouldn't be a perfect recipe to aid the product and it would come from other source than people had invested in their refineries in order to produce LSFO from straight runs. There is a degree of blending, but it's not at all what I just mentioned.

So, the more we think about it, the less we're convinced that the MGO is the good way to hedge. But if you're not convinced by either-or, maybe you mix your hedges and you do a bit of both.

### **Peter Hoggin**

Understood. Okay. And a pure swap, not the option structures?

### **Rustin Edwards**

We've looked at those structures, the option structures we looked at, but haven't again been able to find the right correlative instrument that's going to move and give us the same rates protection that we're looking for as just per a futures hedge. And from the swaps market, nothing's been really developed that we felt comfortable executing on.

### **Hugo De Stoop**

Yes. We would probably be more comfortable with an option and obviously with a put option, be it on oil or MGO, if it goes through a certain level. But, of course, if you talk about options, then you have to pay for them and given the volatility of the market, the volatility, it means that it's expensive compared to a place where it would be less volatile and more stable, like the one we expect to see going forward.

### **Peter Hoggin**

Okay. So, thank you. But, a follow-up question and it's the same [indiscernible], I think. To what extent do you expect the change in crude oil trades to materialize on the back of these changes? A follow-up point is in what they will optimally source. I'm thinking perhaps US light qualities could be, for instance, more in favor of low complex refineries and Europe probably wanting lower sulfur and so forth.

So, any changes to that trade in the crude space on the back of the changes here in the relations?

**Rustin Edwards**

So, from what we can see on a forward crystal ball as well as anybody else can, when you look at the different refinery kit you just alluded to, we can start with the US Gulf Coast, Asia, India, and China, where you have fairly high complexity refineries that need to have high-sulfur molecules in order to fully destruct and fully utilize the equipment.

Naturally, we think that on a forward curve that the incentive is going to be there, that high sulfur material is going to arb into the US Gulf Coast refining sector, the Indian refining sector, and into Asia with China and so they can fully utilize their plants, fully destroy the oil, create distillates that the market is going to need in order to meet the demand profile of the bunker shift from high sulfur into low sulfur.

Conversely to that, the low-sulfur fuel production that you see coming out of South America, West Africa, and out of the US Gulf Coast basin, those arbitrage barrels should move barrels into the less complex refineries that can take advantage of the fact that they can produce a low-sulfur fuel oil distillate again that is going to be needed in the market, where the low complexity will allow them to make those barrels from the crudes that come from a low-sulfur crude producing region. So, there is a potential of shifting arb flow that can happen. Some of that should benefit the Suezmax versus the VLCC, although the VLCC still will have a fair amount of movement as they can move high sulfur from high-producing areas to areas where the refineries can take advantage of that crude.

**Peter Hoggin**

I think that was the best qualified answer I heard after asking that question for four years, different people. So, thank you for that.

**Hugo De Stoop**

Thank you. Thank you for the compliment. Thank you.

**CONCLUSION****Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Hugo De Stoop for any closing remarks.

**Hugo De Stoop**

Well, nothing to add. It has been an hour and 15 minutes, so very happy to have provided you with some additional information about what we have done in terms of preparation. And looking forward to keeping the dialogue open. And if you have any other questions, you know where we are. Thank you very much, everyone. Thank you.

**Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.