

Ref: 2020-06

16 April, 2020

**To: The President of the Stock Exchange of Thailand (“SET”)**

**Subject: Reporting on the amendments to the Secured Loan Agreement from BNP Paribas**

We, Precious Shipping Public Company Limited (the “Company” or “PSL”), would like to notify the Stock Exchange of Thailand that on 15 April, 2020, the Company along with its Singaporean subsidiaries, Precious Skies Pte. Ltd. and Precious Tides Pte. Ltd., as Joint Borrowers, have executed a first amendment and restatement deed (“Deed”) in relation to the Loan Agreement of up to USD 42 million (“Loan Agreement”) (disclosure made to the SET on 30 December 2014) which originally was for financing two 64,000 DWT Ultramax Dry Bulk Vessels (i.e. M.V. Savitree Naree and M.V. Savita Naree). The aforesaid Deed is mainly to upsize the original Loan by an additional loan amount of up to USD 10.6 million (“Upsize Loan”) with the following main terms of the Upsize Loan:

<b>Upsize Loan Amount:</b>	The maximum amount of USD 10.60 million divided into two tranches; a Green Tranche and a General Tranche.
<b>Purpose:</b>	The Green Tranche is to finance and/or refinance part of the aggregate cost related to Ballast Water Treatment Systems. The Company has obtained the attached second party opinion on the Green financing from Vigeo Eiris.  The General Tranche is for general corporate use.
<b>Availability Period:</b>	Up to 1 <sup>st</sup> May, 2020.
<b>Interest Rate:</b>	USD LIBOR plus Margin.
<b>Commitment Fee:</b>	0.60% per annum of undrawn facility until drawn or the end of the availability period.
<b>Repayment:</b>	The Upsize Loan shall be repaid over 4 years, in 16 quarterly installments of USD 662,500 beginning from three calendar months after drawdown date.
<b>Additional Security:</b>	There is no additional security apart from that provided under the original Loan Agreement.
<b>Green Undertakings:</b>	The Joint Borrowers shall at all times maintain the Green Loan Framework and submit a Green Report annually to the Lenders.

<b>Financial Covenants:</b>	<p>By way of the Deed, the Financial Covenants under the Loan Agreement has been amended to be as follows:</p> <p>PSL shall comply with the following to be measured quarterly based on its consolidated USD Financial Statements:</p> <ul style="list-style-type: none"><li>a) Maximum Funded Debt to Total Shareholders' Equity ratio of 2:1;</li><li>b) Minimum Total Shareholders' Equity of USD 300,000,000;</li><li>c) Maintain a minimum Free Cash Balance of USD 200,000 per vessel owned by PSL and its subsidiaries.</li></ul>
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Please be informed accordingly.

Yours sincerely,  
Precious Shipping Public Company Limited

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Khalid Moinuddin Hashim  
Managing Director

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Gautam Khurana  
Director

# SECOND PARTY OPINION<sup>1</sup>

## ON THE SUSTAINABILITY OF PRECIOUS SHIPPING PUBLIC COMPANY LIMITED'S GREEN LOAN TRANCHE

April 2020

### SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green Loan Tranche<sup>2</sup> (“Loan Tranche”) to be offered to Precious Skies Pte Ltd and Precious Tides Pte Ltd (the “Borrowers”), both of which are special purpose companies wholly owned<sup>3</sup> by Precious Shipping Public Company Limited (“PSL” or the “Joint Borrower”) in compliance with the Green Loan Framework (the “Framework”) created by PSL to govern the Loan Tranche.

Our opinion is established according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the Green Loan Principles (“GLP”) voluntary guidelines developed by the EMEA Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association (revised in December 2018).

Our opinion is built on the review of the following components:

- 1) **Joint Borrower:** we assessed the integration of ESG factors in the Joint Borrower’s commitments and strategy, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>4</sup>.
- 2) **Loan Tranche:** we assessed the Framework, including the coherence between the Framework and the Joint Borrower’s environmental commitments, the Loan Tranche’s potential contribution to sustainability and its alignment with the four core components of the GLP 2018.

Our sources of information are multichannel, combining data from (i) information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris’ exclusive ESG rating database, and (iii) information provided by the Joint Borrower through documents and interviews conducted with the Joint Borrower’s managers and stakeholders involved in the Loan Tranche issuance, held *via* a telecommunications system.

We carried out our due diligence assessment from February 3<sup>rd</sup> to April 1<sup>st</sup>, 2020. We consider that we were provided with access to all the appropriate documents. To this purpose we use our reasonable efforts to verify such data accuracy.

### VIGEO EIRIS’ OPINION

**Vigeo Eiris is of the opinion that the Green Loan Framework of PSL is aligned with the four core components of the Green Loan Principles 2018.**

**We express a moderate assurance<sup>5</sup> (our medium level of assurance) on PSL’s commitments and on the contribution of the contemplated Loan Tranche to sustainability.**

#### 1) Joint Borrower (see Part I):

- ▶ As of February 2020, PSL’s integration of ESG factors in its commitments and strategy is considered moderate. We reach a reasonable level of assurance on PSL’s capacity to integrate its most material environmental and governance factors, and a moderate level of assurance on its capacity to integrate its most material social factors in its strategy.
- ▶ As of today, the review conducted by Vigeo Eiris did not reveal any controversy against PSL over the past 4 years.

<sup>1</sup> This opinion is to be considered as the “Second Party Opinion” described in the GLP voluntary guidelines (December 2018 Edition) edited by the International Capital Market Association ([www.icmagroup.org](http://www.icmagroup.org)).

<sup>2</sup> The “Green Loan Tranche” is to be considered as the Loan Tranche to be potentially issued, subject to the discretion of the Joint Borrower. The name “Green Loan Tranche” has been decided by the Joint Borrower: it does not imply any opinion from Vigeo Eiris.

<sup>3</sup> The 100% ownership of Precious Skies Pte Ltd and Precious Tides Pte Ltd by PSL is confirmed from page 10 of the 2018 Annual Report: [https://www.preciousshipping.com/images/AnnualReports/260219\\_PSL\\_AR2018\\_EN.pdf](https://www.preciousshipping.com/images/AnnualReports/260219_PSL_AR2018_EN.pdf)

<sup>4</sup> The 17 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Unconventional Oil and Gas, Fossil Fuel Industry, Gambling, Genetic engineering, Human Embryonic Stem Cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

<sup>5</sup> Definition of Vigeo Eiris’ scales of assessment (as detailed in the Methodology section):

- Level of Evaluation: Advanced, Good, Limited, Weak.
- Level of Assurance: Reasonable, Moderate, Weak.

- ▶ PSL has a minor involvement in the midstream of the Fossil Fuel Industry (the transportation of fossil fuels using dry bulk carriers, mainly coal, which is below 10% percentage of its total turnover) and is not involved in any of the other 16 controversial activities screened under our methodology.

## 2) Loan Tranche (see Part II):

PSL has described the main characteristics of the Loan Tranche within a formalized Green Loan Framework which covers the four core components of the GLP 2018 (the last updated version provided to Vigeo Eiris was dated March 31<sup>st</sup>, 2020).

We are of the opinion that the Green Loan Framework is coherent with PSL's main sector sustainability issues, with its publicly disclosed strategic sustainable development priorities, and that it contributes to achieve its sustainable development commitments and targets.

### Use of Proceeds

- ▶ The net proceeds of the Loan Tranche will exclusively finance or refinance, in part, one category of Eligible Green Projects ("Eligible Projects"), namely: Ballast Water Treatment Systems. We consider the Eligible Projects are clearly defined.
- ▶ The Eligible Projects are intended to contribute to one main environmental objective (aquatic biodiversity conservation). The objective is formalized in the Framework and considered clearly defined and relevant.
- ▶ The Eligible Projects are considered to provide clear environmental benefits. PSL has committed to assess and, as feasible, quantify the expected environmental benefits of the Loan issued. An area for improvement consists in defining *ex-ante* quantified environmental targets, for the Eligible Projects.
- ▶ The Eligible Projects are likely to contribute to one of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 14. Life Below Water.
- ▶ PSL has communicated transparently on the estimated share of refinancing for the Loan Tranche issuance, which will be 50/50. PSL has committed that, in case of re-financing, a look-back period of maximum 36 months (3 years) from the date when the Loan Tranche is drawn will be applied, in line with market practices.

### Process for Projects Evaluation and Selection

- ▶ The governance and process for the evaluation and selection of the Eligible Projects are formalized in the Framework. We consider that the process is partially structured, transparent and relevant.
- ▶ The process relies on explicit eligibility criteria (for selection), relevant to the environmental objectives defined for the Eligible Projects.
- ▶ The identification and management of the environmental and social risks associated with the Eligible Projects appear to be good.

### Management of Proceeds

- ▶ The rules for the management of proceeds are clearly defined. We consider that they would enable a documented and transparent allocation process.

### Reporting

- ▶ The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Projects.
- ▶ The selected reporting indicators of the fund's allocation and environmental benefits are relevant.

PSL has committed that its Loan Tranche will be supported by external reviews:

- A pre-issuance consultant review: the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Loan Tranche, based on pre-issuance assessment and commitments, to be made publicly available by PSL on its website<sup>6</sup>, after the grant of the Loan Tranche.

*This Second Party Opinion is based on the review of the Framework and information provided by the Joint Borrower, according to our exclusive assessment methodology and to the GLP voluntary guidelines (December 2018). PSL acknowledges that in case of changes of such standards and market practices and expectations, VIGEO EIRIS shall exclude any liability regarding the use of the concerned Second Party Opinion and its compliance with then-current standards and market practices and expectations.*

April 1<sup>st</sup>, 2020

### Project team

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### Disclaimer

**Transparency on the relation between Vigeo Eiris and the Joint Borrower:** Vigeo Eiris has not carried out any audit mission or consultancy activity for PSL. No established relation (financial or commercial) exists between Vigeo Eiris and the Joint Borrower

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Loan, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by PSL. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of PSL. PSL is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Loan, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

**Restriction on distribution and use of this opinion:** The deliverables remain the property of Vigeo Eiris. The draft version of the Second Party Opinion by Vigeo Eiris is for information purpose only and shall not be disclosed by the client. Vigeo Eiris grants PSL all rights to use the final version of the Second Party Opinion delivered for external use via any media that PSL shall determine in a worldwide perimeter. The Issuer Borrower has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned loan issuance.

<sup>6</sup> <https://www.preciousshipping.com/index.php?lang=en>

## DETAILED RESULTS

### Part I. JOINT BORROWER

Precious Shipping Public Company Limited (PSL) is a ship owner providing regional marine shipping services. The Company operates in the tramp freight market sector where its vessels are employed on a time charter as well as voyage charter basis. Precious Shipping has a network of shipping agents worldwide.

#### Level of ESG commitments

As of February 2020, PSL's integration of ESG factors in its commitments and strategy is considered moderate.

Domain	Comments	Opinion
Environment	<p><b>We reach a reasonable level of assurance on PSL's capacity to integrate its most material environmental factors in its strategy.</b></p> <p>PSL has made formalized commitments to environmental protection in its Environmental Policy document as well as its annual Sustainability Report.</p> <p>In terms of direct impacts from energy/fuel use, PSL set a target of a 3-5 percent reduction for fuel and diesel oil consumption for the year 2018. However, there is no mid-to-long term quantitative target set at the company level.</p> <p>In terms of relevant nuisance sources of local pollution (such as noise, etc.), the company does not seem to have specific commitment or policy to monitor and/or manage them.</p> <p>Annual targets on waste reduction are communicated to the VE team; however, these targets are not formulated in internal policies or public reports.</p> <p>Regarding the integration of environmental factors in the supply chain, PSL commits that the company's new ship building contracts will ensure the compliance with IMO's "The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships" (2009). Moreover, new vessels will be maintaining an inventory of Hazardous material in compliance with the convention recommendation, specifically by prohibiting/restricting the use of hazardous materials at the ship construction stage.</p>	Reasonable
		Moderate
		Weak
Social	<p><b>We reach a moderate level of assurance on PSL's capacity to integrate its most material social factors in its strategy.</b></p> <p>In terms of Human Rights, PSL has issued a formalised commitment in its Business Ethics &amp; Code of Conduct as well as its Annual Report to respect human rights in society. It specifically requires that all of its Directors, Management and staff strictly respect International human rights principles including forced labour or child labour as part of the operations and the Company does not tolerate any violations thereof.</p> <p>In terms of Human Resources, PSL does not disclose any commitment to promote labour relations, nor regarding responsible management of reorganisations. PSL made some general statements promoting career management and training as well as the quality of its remuneration systems in its corporate policy and the Annual Report. Moreover, PSL has made a formalised commitment to health and safety issues, covering both its employees and sub-contracted workforce, and established a Safety Management System.</p> <p>Regarding promoting local social and economic development, PSL's Annual Report lists activities for community and society, however there is no formalised commitment. PSL's CSR activities involve its employees and it has also established a CSR Fund to provide a permanent and formal framework to manage CSR activities.</p> <p>PSL has issued a formalised commitment on responsible contractual agreements and/or the quality of the services delivered in its Annual Report and Sustainability Report. Although there is limited information on exact measures, it has implemented a computer-based Management Information System that covers all the operations and links all the vessels.</p> <p>Regarding the integration of social factors in the supply chain, PSL's commitment is limited to compliance with local laws and regulations.</p>	Reasonable
		Moderate
		Weak
Governance	<p><b>We reach a reasonable level of assurance on PSL's performance in the Governance pillar.</b></p> <p>In terms of Corporate Governance, the roles of Chairman and Managing Director are separated and a lead non-executive director considered as independent has been designated as the Chairman. 5 members of the 11-member Board are considered</p>	Reasonable

	<p>independent. Some of the relevant CSR issues are discussed at Board meetings. However, information obtained from the company and public sources regarding the regular election of board members is insufficient.</p> <p>In terms of Business Behaviour, PSL has formalised a commitment to prevent corruption and anti-competitive practices in its Corporate Governance Policy and the Annual Report. However, it is unclear regarding the ownership of such commitment within the company. The visibility of the company's commitment to ensuring transparency and integrity of lobbying practices is also insufficient.</p>	Moderate
	<p>In terms of Audit &amp; Internal Controls, PSL's internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations. Relevant processes dedicated to management of some of the relevant CSR risks are in place.</p>	Weak

### **Management of stakeholder-related ESG controversies**

As of today, the review conducted by Vigeo Eiris did not reveal any controversy against PSL over the past 4 years.

### **Involvement in controversial activities**

PSL has a minor involvement in the midstream of the Fossil Fuel Industry.

- PSL has an estimated turnover from fossil fuels which is below 10% percentage of total turnover. PSL is engaged in transportation services serving the fossil fuels industry, transporting coal. In 2018, the Company reported that coal accounted for 9.61% of the total voyages of its cargoes.

PSL appears to be not involved in any of the other 16 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Unconventional Oil and Gas, Gambling, Genetic engineering, Human Embryonic Stem Cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

## Part II. LOAN TRANCHE

### Coherence between the loan tranche and the Joint Borrower

#### Context note:

According to the International Chamber of Shipping (ICS), the international shipping industry is responsible for the carriage of around 90% of world trade<sup>7</sup> and has a lower impact in terms of GHG emissions per ton of freight transported compared to other transport solutions<sup>8</sup>. According to WWF, it is accepted that whilst shipping is relatively safe and clean compared with other transport modes, the industry does have a significant impact on the environment<sup>9</sup>. In particular, the sector is energy intensive, and is responsible for large amounts of greenhouse gas (GHG) emissions (around 2-3% of the world's GHG emissions).

The main sustainability challenges of the shipping industry are the energy efficiency, the reduction of emissions related to energy use, the eco-design strategy to reduce environmental impacts of the vessels and the integration of environmental and social factors in the supply chain. The industry's efforts to reduce emissions related to energy use in the short term has been rather limited at sector level, due to few technological options available for full scale application to replace Heavy Fuel Oil (HFO). However, in April 2018, the International Maritime Organization (IMO) adopted an initial strategy for the reduction of GHG emissions from ships, with the targets of reducing the total annual GHG emissions by at least 50% by 2050 and reducing the average carbon intensity by 70% in 2050, compared to 2008. The IMO's 0.5% sulphur cap on marine fuel has been put into force since January 1<sup>st</sup>, 2020.

#### Ballast Water Treatment Systems

Ballast water may pose serious ecological, economic and health problems due to the multitude of marine species carried in ships' ballast water, which include bacteria, microbes, small invertebrates, eggs, cysts and larvae of various species. The discharge of such ballast water lead to the spread of invasive species.<sup>10</sup> On 13 February 2004, the *International Convention for the Control and Management of Ships' Ballast Water and Sediments* (BWM Convention) was adopted between IMO Member States<sup>11</sup>. Since then, 15 sets of guidelines<sup>12</sup> have been developed for the uniform implementation of the BWM Convention, which entered into force on 8 September 2017.

**We are of the opinion that the contemplated Loan Tranche is coherent with PSL strategic sustainability priorities and sector issues, and contribute to achieving the Joint Borrower's sustainability commitments.**

PSL appears to acknowledge its role in proving solutions to support society's transition to a low carbon and sustainable economy. It has clearly stated in its Environment Protection Policy to conduct its operations in an environmentally sustainable manner.

Since 2019, PSL has become a member of the Getting to Zero Coalition (with more than 90 companies), a partnership between the Global Maritime Forum, the Friends of Ocean action, and the World Economic Forum. The ambition of this coalition is to have commercially viable ZEVs operating along deep sea trade routes by 2030.<sup>13</sup>

By creating a Framework to issue a Loan Tranche intended to finance/refinance the Eligible Projects for vessels owned by PSL, PSL coherently aligns with its sustainability strategy and commitments, and addresses the main issues of the sector in terms of sustainable development.

<sup>7</sup> <https://www.ics-shipping.org/shipping-facts/shipping-facts>

<sup>8</sup> <https://www.ics-shipping.org/shipping-facts/environmental-performance/comparison-of-co2-emissions-by-different-modes-of-transport>

<sup>9</sup> [https://www.wwf.at/de/view/files/download/showDownload/?tool=12&feld=download&sprach\\_connect=2395](https://www.wwf.at/de/view/files/download/showDownload/?tool=12&feld=download&sprach_connect=2395), page 1

<sup>10</sup> <http://www.imo.org/en/ourwork/environment/ballastwatermanagement/pages/default.aspx>

<sup>11</sup> [http://www.imo.org/en/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Control-and-Management-of-Ships%27-Ballast-Water-and-Sediments-\(BWM\).aspx](http://www.imo.org/en/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Control-and-Management-of-Ships%27-Ballast-Water-and-Sediments-(BWM).aspx)

<sup>12</sup> <http://www.imo.org/en/OurWork/Environment/BallastWaterManagement/Documents/Compilation%20of%20relevant%20Guidelines%20and%20guidance%20documents%20-%20May%202018.pdf>

<sup>13</sup> <https://www.globalmaritimeforum.org/getting-to-zero-coalition>



### Use of proceeds

The net proceeds of the Loan Tranche will exclusively finance or refinance, in part, one category of Eligible Green Projects (“Eligible Projects”), namely: Ballast Water Treatment Systems. We consider the Eligible Projects are clearly defined.

The Eligible Projects are intended to contribute to one main environmental objective (aquatic biodiversity conservation). The objective is formalized in the Framework and considered clearly defined and relevant.

The Eligible Projects are considered to provide clear environmental benefits. PSL has committed to assess and, as feasible, quantify the expected environmental benefits of the Loan Tranche issued. An area for improvement consists in defining *ex-ante* quantified environmental targets, for the Eligible Projects.

PSL has communicated transparently on the estimated share of refinancing for the Loan Tranche issuance, which will be 50/50. PSL has committed that, in case of re-financing, a look-back period of maximum 36 months (3 years) from the date when the Loan Tranche is drawn will be applied, in line with market practices.

PSL Green Loan Framework			Details of Eligible Projects to be financed/refinanced by the Loan Tranche	Vigeo Eiris Analysis
Category of Eligible Projects	Definition	Objective and benefits		
Ballast Water Treatment Systems ("BWTS")	Finance/refinance Ballast Water Treatment Systems for vessels owned by PSL	<p><b>Aquatic biodiversity conservation</b></p> <p>Protection of marine biodiversity</p>	<p><i>The BWTS used is OceanGuard® Ballast Water Management System manufactured by Qingdao Headway Technology Co. Ltd., which uses the electrocatalysis method.</i></p> <p><i>The BWTS is expected to comply with applicable requirements in both IMO (i.e. the BWM Convention) and local regulation. Examples of Certificates on the BWTS issued by Lyoyd's Register (21 April 2017), ClassNK (last intermediate survey on 19 July 2019) as well as United States Coast Guard (6 November 2018) are provided.</i></p> <p><i>The net proceeds of the Loan Tranche will refinance BWTSs already installed on 11 vessels, and finance new BWTSs on another 11 vessels. PSL has identified the list of vessels whose BWTSs will be financed/refinanced.</i></p>	<p>The <u>definition</u> of the Eligible Project is clear.</p> <p>The Eligible Projects are intended to contribute to one main <u>environmental objective</u> (aquatic biodiversity conservation), which is considered clearly defined and relevant:</p> <ul style="list-style-type: none"> <li>- <u>Aquatic biodiversity conservation</u>: the installation of BWTS could help reduce the spread of invasive species when discharging ballast water into the ocean.</li> </ul> <p>The Eligible Project is considered to be able to provide clear <u>environmental benefits</u> in terms of protection of marine biodiversity.</p>

In addition, the Eligible Projects are likely to contribute to one of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 14. Life Below Water.



Eligible Green Projects	UN SDGs identified	UN SDGs targets
Ballast Water Treatment Systems ("BWTS")	SDG 14. Life Below Water	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

### **Process for Project Evaluation and Selection**

**The governance and process for the evaluation and selection of the Eligible Projects are formalized in the Framework. We consider that the process is partially structured, transparent and relevant.**

The process for evaluation and selection of Eligible Projects is clearly defined.

Although there is no dedicated green loan/finance committee being set up, the evaluation and selection of Eligible Projects rely on relevant internal technical expertise, with well-defined roles and responsibilities:

- A "Technical Team", composed of senior managers from Technical department, is in charge of evaluation of Eligible Projects. Although there is no external expert is involved in the evaluation and selection process, the Technical team is considered to have sufficient industry knowledge for evaluating various technological solution relevant to the Eligible Projects;
- A "Finance Team", composed of senior managers from the Finance department, is responsible for evaluating and selecting green projects, based on the eligibility criteria, PSL's company action plan and the consideration of environmental impacts;
- The "Executive Committee", which involves senior managers/representatives from every department including those involved in operations, will review the viability of each project/expense in meeting the company's target to reduce environmental impact;
- The Managing Director (MD) and CFO will make the final decision based on initial assessment; and
- In addition, PSL also relies on external environmental data provided by the manufacturers/suppliers as well as relevant BWTS certifications for internal evaluation and selection.

The traceability and verification of the selection and evaluation of the projects is considered limited as there is no formal documentation and reporting of the internal evaluation and selection and the decision-making process:

- It is noted that the initial selection is based on technical criteria defined by the Technical department. However, such criteria are not formulated in internal documentations;
- Examples of email communication with three BWTS manufacturers/suppliers during 2014 and 2015 are checked to confirm the initial evaluation process.

An area for improvement consists in having formal process to document and report the internal evaluation and selection and the decision-making process.

**The process relies on explicit eligibility criteria (for selection), relevant to the environmental objectives defined for the Eligible Projects.**

- The selection is based on the Eligible Projects defined in the Use of Proceeds section of the Framework.

- Although the Framework does not include the specific exclusion criteria, the Eligible Projects are clearly and explicitly defined and the procedures on management of proceeds are considered to enable a documented and transparent allocation process.

**The identification and management of the environmental and social risks associated with the Eligible Projects appear to be good.**

PSL has established an integrated Safety Quality and Environment Management System (SQEMS) which covers most environmental and social risks associated with its business operation as well as the Eligible Projects.

- At the operational level, the Technical Department is responsible for the management of environmental issues along with safety management.

Environmental risks

- **Environmental management and eco-design** (good): PSL implements an Environment Management System (EMS) at the company level in compliance with the ISO 14001 standards, which includes a formalised Environmental Policy and covers all the activities of PSL and its subsidiaries including the Eligible Projects to be financed/refinanced by the Loan Tranche. With regards to the Eligible Projects, the BWTS systems received certificates issued by credible third-party certification body to confirm the compliance with applicable requirements in IMO's BWM Convention.
- **Protection of biodiversity** (good): Biodiversity is covered by the materiality assessment done in PSL Annual report 2018. For the Eligible Projects, it is understood that once BWTS is installed on a vessel and in use, 100% of ballast water will be treated by the system before discharging into the environment. PSL's policy is also to carry out mid ocean ballast water exchange, as a means to prevent the transfer of harmful aquatic organisms at the point of discharge. Although PSL does not directly monitor the environmental benefit or impact on marine biodiversity, third-party classification societies will issue annual certificates confirming the operational efficiency of the BWTS and its compliance with IMO regulations.
- **Energy use** (good): It is relevant to the Eligible Projects as the BWTS consumes energy onboard. As per PSL's public Sustainability Report 2018, measures such as installation of fuel saving devices, improved voyage planning with reduced/minimized ballast passage and speed optimisation are implemented amongst its fleet to achieve higher fuel efficiency<sup>14</sup>. PSL also implements the Ship Energy Efficiency Management Plan (SEEMP) and uses the DANAOS system, a third-party Maritime Software and Shipping ERP<sup>15</sup>, to monitor fuel consumption of the vessels.
- **Preventing and controlling air emissions** (good): The improvement in fuel efficiency from company-wide measures mentioned above can potentially prevent a certain amount of air emissions such as SO<sub>x</sub> and CO<sub>2</sub>. CO<sub>2</sub> emissions are calculated in the form of ship energy efficiency operational indicator (EEOI) by the third party ClassNK. Although PSL does not directly monitor other air emissions such as SO<sub>x</sub> and NO<sub>x</sub>, it reports that it only uses low-sulphur fuel oil (LSFO) in compliance with IMO requirements, in force since January 1<sup>st</sup>, 2020, and the sulphur contents of bunkers consumed by PSL are indicated in the invoices produced by bunker suppliers and also receive sample tests from third-parties (e.g. Marittec PTE LTD as per in one example). For NO<sub>x</sub> emissions, PSL reports that classification societies will issue compliance certificates for ship engines on a yearly basis.
- **Prevention and control of water pollution** (good): The installation of BWTS is expected to help reduce the spread of invasive species when discharging ballast water into the ocean and control the quality of water discharged. PSL commits to obtain International Ballast Water Management Certificate for all the BWTSs included in the Eligible Projects. It is understood that once BWTS is installed on a vessel and in use, 100% of ballast water will be treated by the system before discharging into the environment. PSL also commits to test total residual oxidant (TRO), which is required by IMO<sup>16</sup> for ballast water management systems using the electrolysis methods<sup>17</sup>. Although PSL does not directly monitor other pollutants of the discharged ballast water, third-party classification societies will issue annual certificates confirming the operational efficiency of the BWTS and its compliance with IMO regulations. In addition, the BWTS may also be subject to checks by authorities in certain regions where the use of such system is mandatory.

<sup>14</sup> [https://www.preciousshipping.com/images/SustainabilityReport/Sustainability\\_Report\\_2018\\_E.pdf](https://www.preciousshipping.com/images/SustainabilityReport/Sustainability_Report_2018_E.pdf), page 15

<sup>15</sup> <https://web2.danaos.gr>

<sup>16</sup> <http://www.imo.org/en/KnowledgeCentre/IndexofIMOResolutions/Marine-Environment-Protection-Committee-%28MEPC%29/Documents/MEPC.300%2872%29.pdf>

<sup>17</sup> <https://www.sciencedirect.com/science/article/pii/S2405535216300080>

- **Integration of environmental factors in the supply chain** (limited): there is no formal inclusion of environmental requirements in PSL's procurement processes, however, factors such as legal compliance and technical performance are taken into consideration during the selection of suppliers.

#### Social Risks

- **Health and safety of workers** (good): The International Safety Management (ISM) code is implemented onboard the vessels and offices ashore, and PSL has set an internal target of zero violation of ISM Code. Moreover, as per PSL's Annual Report, it is confirmed that PSL is legally required to be fully compliant with the regulations imposed by the IMO and other regulatory bodies, including Safety of Life at Sea (SOLAS), Maritime Regulations for Prevention of Pollution (MARPOL), Standards for Training Certification and Watchkeeping (STCW) & the Maritime Labour Convention (MLC).

One potential risk is associated with the first Eligible Project (BWTS): the electrocatalysis method used may emit hydrogen (electrochlorination), which is highly flammable. According to the test report of hydrogen concentration in the Electro-Catalysis Ultrasonic Treatment Unit (EUT) of the deployed BWTS, which is checked by DNV (stamped on 7 November 2011), the hydrogen concentration is confirmed to be zero or negligible.

- **Safety for other stakeholders** (limited): PSL does not have specific internal process, other than to ensure compliance with relevant IMO and local regulation. The BWTS is supplied by a third-party supplier and the installation of the systems will be managed by PSL's Technical Department. There is no visible internal process or measure to identify, monitor and manage potential safety risks for other stakeholders.
- **Fundamental labour and human rights** (limited): PSL does not have specific internal process for the Eligible Projects. The company's Business Ethics & Code of Conduct<sup>18</sup> and Corporate Governance Policy<sup>19</sup> ensure the respect of these rights across all of its operations. PSL commits to meet all labour protection law requirements in terms of leaves, holidays, working hours, severance pay etc. It has set up a full-fledged Maritime Training Center at its Head Office in Bangkok since 2008 to provide training for its staff both onshore and onboard the ships.
- **Integration of social factors in the supply chain** (limited): there is no formal inclusion of such requirements in PSL's procurement processes, however, factors such as legal compliance and quality certification are taken into consideration during the selection of suppliers.

<sup>18</sup> [https://www.preciousshipping.com/images/CorporateGovernance/080219\\_PSL\\_Business\\_Ethics\\_n\\_COC\\_Manual\\_En.pdf](https://www.preciousshipping.com/images/CorporateGovernance/080219_PSL_Business_Ethics_n_COC_Manual_En.pdf)

<sup>19</sup> [https://www.preciousshipping.com/images/CorporateGovernance/080219\\_PSL\\_CG%20Policy\\_En.pdf](https://www.preciousshipping.com/images/CorporateGovernance/080219_PSL_CG%20Policy_En.pdf)

### **Management of proceeds**

**The rules for the management of proceeds are clearly defined. We consider that they would enable a documented and transparent allocation process.**

The allocation and management of the proceeds are clearly detailed in the Framework:

- The proceeds will be fully drawn after signing of the loan tranche documentation in one drawdown and managed by PSL's Account & Finance Department through its internal accounting and reporting system.
- Proceeds earmarked for refinancing will immediately be applied towards reimbursement, whilst the balance of the proceeds (i.e. for financing) will be deposited either in the bank accounts of any of the two borrowers (i.e. Precious Skies Pte Ltd or Precious Tides Pte Ltd) or in PSL's bank account, in accordance with the loan tranche documentation.
- Balance funds earmarked for financing will be allocated in no more than 3 years after drawdown.
- In the event the Loan Tranche is not drawn within a pre-agreed timeframe, it will be cancelled and not drawn.
- Based on information provided by PSL, it is confirmed that the portfolio of identified Eligible Projects (the sum of both incurred and estimated future expenditures) is larger than the total proceeds of the Loan Tranche, which ensures sufficient Eligible Projects for the proceeds to be allocated to.
- In case of temporarily unallocated proceeds, PSL has communicated in the Framework that the unallocated funds would be held within PSL's treasury in accordance with its usual treasury investment strategy and it may consider placing the balance in interest-bearing accounts. For temporary placement of unallocated proceeds, PSL has committed in the Framework that it will report to the Lenders and will strictly exclude financing of GHG intensive activities, controversial activities, or activities facing material ESG issues.

Traceability of both the tracking method and allocation of the proceeds are ensured throughout the process:

- The legal documentation for the Loan Tranche raised by PSL and its subsidiaries shall formalize the drawdown mechanisms and proceeds tracking methods.
- As per standard shipping finance practice, the Lenders will check evidence of payment or expenditure provided by PSL such as copies of invoices from relevant suppliers and/or contractors to PSL for the purchase or installation cost of the Eligible Projects and, where such invoice has been paid by PSL, evidence that such payment have been received by the relevant suppliers and/or contractors or has been remitted by PSL.
- The proceeds will be managed and tracked by PSL's internal accounting system.
- An internal audit process will track and monitor the net proceeds allocation and management.
- In addition, PSL's existing annual financial audit at the company level involve external auditors, which may cover allocation of proceeds incurred during the audited financial year.

### **Monitoring & Reporting**

**The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Projects.**

The processes for monitoring, data collection, consolidation, validation and reporting are covered by the internal Management Information System as per PSL's Sustainability Report and described in the Framework.

The processes are partially structured and based on relevant internal and external expertise and involve relevant departments of the Joint Borrower:

- PSL's internal accounting system will be used to monitor the financial aspects of the projects;
- As per standard shipping finance practice, the Lenders will receive document evidence such as copies of invoices by relevant suppliers of the Eligible Projects, to crosscheck the allocation of proceeds;
- PSL's Technical Department will manage the installation of BWTS; and
- PSL's internal Management Information System and other systems/devices will monitor data on environmental benefits associated with the Eligible Projects.

PSL has committed to report annually to the Lenders and until the maturity of the Loan Tranche, and later in case of material changes, through the respective annual green loan tranche reports. The reporting will be at Loan Tranche level. The Joint Borrower will submit both the proceeds' allocation report and the environmental impact report to the Lenders.

The Joint Borrower has committed to transparently communicate at the Eligible Category level, on:

- Allocation of proceeds: the selected reporting indicators are relevant.

<b>Reporting indicators</b>
<ul style="list-style-type: none"> <li>- Total capex incurred for BWTS project in a given year, share financed by the Loan Tranche (i.e. via drawn debt) and share financed by PSL's own funds (if any).</li> <li>- Total amount of unallocated proceeds (in USD)</li> <li>- Share of refinancing (in %)</li> </ul> <p>The type and amount of temporary placement of unallocated funds</p>

- Environmental benefits: the selected reporting indicators are relevant.

<b>Eligible Projects</b>	<b>Environmental benefits indicators</b>	
	<b>Outputs and outcomes</b>	<b>Impact Indicators</b>
Ballast Water Treatment Systems ("BWTS")	<ul style="list-style-type: none"> <li>- Number of BWTS installed</li> <li>- For each vessel with BWTS installed:               <ul style="list-style-type: none"> <li>o Date of installation of BWTS</li> <li>o Date of start of utilization of BWTS in line with IMO/US coast guard regulations</li> <li>o Number of days of BWTS utilization vs. number of vessel operating days</li> <li>o Confirmation of BWTS operation efficiency through certificate issued by classification society</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- For each vessel with BWTS installed:               <ul style="list-style-type: none"> <li>o Share (in %) of the volume of treated ballast water defined as the volume of ballast water treated (mt/vessel/year) over the total volume of ballast water used (mt/vessel/year)</li> </ul> </li> </ul>

Although there is no quantitative indicator on the expected environmental benefit (i.e. protection of marine biodiversity), relevant performance indicators related to the installation and operation of the BWTS have been selected by PSL. Moreover, for vessels equipped with BWTS, 100% of the ballast water will be treated as per IMO regulations and the requirements of local authorities in certain regions where the use of BWTS is mandatory, before discharging to the environment.

PSL has also committed to report to the Lenders in its Green Loan Annual Report in case of any material developments relating to the Loan Tranche, including ESG controversies.

Apart from the confirmation of BWTS operation efficiency certified by a third-party, an area for improvement is to have an independent external reviewer verify the reported information on the tracking method and allocation of the proceeds, and the reported environmental benefits.

## METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Joint Borrower's Corporate Social Responsibility as an organization, and on the process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on our generic Transport & Logistics sector's ESG assessment frameworks and on specific issues considering the Joint Borrower's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Director of Sustainable Finance and/or the Director of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

### Part I. JOINT BORROWER

*NB: The ESG performance of the Joint Borrower has not been assessed following the complete process of rating and benchmark developed by Vigeo Eiris. In this SPO, the assessment has been limited to the integration of ESG factors in the Joint Borrower's commitments and strategy, i.e. the content, visibility and ownership of its ESG policies.*

#### Level of the Joint Borrower's ESG commitments

PSL's ESG commitments have been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).

#### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against a Joint Borrower on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

Vigeo Eiris reviewed information provided by the Joint Borrower, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by a Joint Borrower to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.



### Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

## **Part II. LOAN TRANCHE**

*The Framework has been evaluated by Vigeo Eiris according to the GLP 2018 and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.*

### Use of proceeds

The definition of the Eligible Projects and of their sustainable objectives and benefits are a core element of Green/Social/Sustainable Loan standards. Vigeo Eiris evaluates the definition of the Eligible Projects, as well as the definition and the relevance of the aimed sustainability objectives. We evaluate the definition of the expected benefits in terms of assessment and quantification. In addition, we evaluate the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

### Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria have been assessed on their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Projects are analysed based Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applying in terms of ESG management and assessment.

### Management of proceeds

The rules for the management of proceeds and the allocation process are evaluated by Vigeo Eiris on their transparency, coherence and efficiency.

### Reporting

Monitoring process and commitments, reporting commitments, reporting indicators and methodologies are defined by the Joint Borrower to enable transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed. Vigeo Eiris has evaluated the reporting based on its transparency and relevance.

## **VIGEO EIRIS' ASSESSMENT SCALES**

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable Loan, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: [www.vigeo-eiris.com](http://www.vigeo-eiris.com)