

FSL TRUST MANAGEMENT PTE. LTD.
(As Trustee-Manager of First Ship Lease Trust)
(Company Registration No. 200702265R)
(Incorporated in Singapore)

ANNUAL GENERAL MEETING OF UNITHOLDERS – QUESTIONS AND ANSWERS

The Board of Directors (the “**Board**”) of FSL Trust Management Pte. Ltd., as trustee-manager (the “**Trustee-Manager**”) of First Ship Lease Trust (“**FSL Trust**” or the “**Trust**”), wishes to share the responses to questions received from unitholders and the Securities Investors Association (Singapore) in advance of the Annual General Meeting (“**AGM**”) of the unitholders of FSL Trust held on 23 April 2021.

- 1) What the strategy of FSL Trust will be to create value in the future after the disposal of the newbuildings and the expected distributions per unit for the next two financial years.

Answer: The disposal of the newbuildings was to protect the Trust’s capital and driven by weak short-term earnings prospects for LR2 product tankers due to the adverse impact of the Covid-19 pandemic on the oil and oil products trade, as well as the medium- to long-term prospects due to the environmental regulatory framework which has dramatically changed since the newbuildings were ordered in 2018. The Trustee-Manager continues to follow its strategy of divesting older, environmentally less friendly vessels to reduce the market and regulatory risk and create value for the Trust and its unitholders. The Trustee-Manager is furthermore evaluating the economic viability of various projects which can potentially deliver long-term cash flow and meet future environmental regulation to create sustainable value to the Trust and its unitholders.

In relation to potential distributions per unit for the next years, the form, frequency and amount of distributions, if any, will depend on the earnings situation and financial position of the Trust, the investment environment and attractive investment opportunities available and the overall shipping market conditions and outlook, amongst other things. The complete distribution policy providing the guiding principles is available on the website of FSL Trust, under the section Investor Relations. On the basis of these factors, the Board of Directors considers and decides quarter by quarter whether or not to pay distributions and what the appropriate amount is when it has been concluded to make a distribution.

- 2) Why the NAV per unit declined from 39 US cents (as at 31 December 2016) to 7 US cents (as at 31 December 2020).

Answer: The reduction of NAV between 31 December 2016 and 31 December 2020 was driven by several factors: 1) losses suffered by the Trust in 2017 and 2018 as a result of vessel impairments, 2) the issuance new units under the preferential offering in 2019 and the full conversion of a convertible bond in the same year, and 3) distributions to unitholders for the 4th quarter 2019, 2nd quarter 2020 and 3rd quarter 2020.

- 3) Whether the Trust would have been able to achieve higher prices if it was waiting to sell the vessels until the economy has recovered.

Answer: The Trust has achieved firm prices for the vessel disposed in the last 12 to 18 months and the disposal of vessels has helped to create substantial value for the Trust and its unitholders and to de-risk in an otherwise challenging market environment, characterised by severe disruptions due to the Covid-19 pandemic leading to reduced oil production, refinery throughput and seaborne oil exports, whilst demand for oil and oil products remains below pre-pandemic levels. Whilst significant uncertainty remains as to when the markets will recover, a prolonged market environment of weak earnings can substantially adversely impact the cash flow and profitability of vessels and the Trust and furthermore reduce the recoverable amount for the vessels, which are depreciating assets.

- 4) What the current debt situation of FSL Trust is.

Answer: One of the focus areas of the Trustee-Manager in the last years has been to de-lever to de-risk the profile of FSL Trust given the cyclical nature of the shipping industry. As announced on 10 March 2021, the Trust prepaid in full the amounts outstanding under the loans from Amsterdam

Trade Bank N.V. and Hellenic Bank Public Company Limited and is currently free of any bank debt. At the same time, and given the extension of the charters of some of the smaller product tankers announced on 3 February 2021, which increases the debt capacity, the Trustee-Manager has arranged a new loan for the refinancing of those vessels as announced on 1 March 2021, and the process of completing the refinancing is very advanced.

- 5) What the rationale of selling vessels and the use of proceeds from the disposals is.

Answer: The disposal of several vessels over the last 12 to 18 months has created substantial value for the Trust and its unitholders as it not only allowed the Trust to repay all its debt as announced on 10 March 2021, but to de-risk in an otherwise challenging shipping market environment and resume distributions to unitholders after more than 7 years of no distributions. The total amount of distributions paid to unitholders was US\$ 79.6 million in 2020, for the 4th quarter 2019, 2nd quarter 2020 and 3rd quarter 2020.

- 6) I would like to congratulate the management team for another year of strong result. The management team has been working hard to turn around the trust, paying down debt, bringing in positive cash flow and selling vessel at good price. Please keep up the fabulous work! Thank you.

Answer: Thank you for the positive feedback on the achievements of the last years.

- 7) What the pace of the divestment of older vessels will be and whether the sale of vessels makes the portfolio too small to be efficiently managed given the overhead cost.

Answer: The pace of the disposal of the older vessels without period employment is driven by the conditions in the sale and purchase market for second hand vessels as the Trustee-Manager's goal is to maximise value for FSL Trust and its unitholders. The Trustee-Manager keeps tight control over the overhead cost of the Trust.

- 8) What the main criteria are taken into consideration in the decision to buy or sell vessels.

Answer: The Trustee-Managers considers a variety of factors in evaluating a potential acquisition or sale of a vessel, which include, *inter alia*:

- (a) the prevailing and expected charter market conditions of the vessel(s);
- (b) the employment and earnings prospects for the vessel(s);
- (c) (anticipated) changes in environmental regulation and the reduction of carbon emissions in particular;
- (d) technological innovation;
- (e) the operating expenses and depreciation of the vessel(s);
- (f) the cost of maintenance of and (upcoming) capital expenditures for the vessel(s);
- (g) the expected economic life of the vessel(s);
- (h) the expected residual value of the vessel(s);
- (i) the prevailing conditions in the sale and purchase market for second hand vessels, including the supply and demand for vessels of the same type and with similar specifications;
- (j) the price(s) achievable for the vessel(s) in the market;
- (k) the age profile of the world fleet, the current orderbook and expected tonnage supply;
- (l) changes in trade patterns and the structural demand for specific vessel sizes;
- (m) the composition of the vessel portfolio of FSL Trust, including, but not limited to, the age profile and types of vessels in the portfolio; and
- (n) the market exposure of FSL Trust and the overall risk profile.

- 9) What the long-term prospects of the industry are.

Answer: Shipping is the environmentally friendliest and cost efficient means of transporting large quantities of cargo over long distances and, in a global economy and with a growing global population and the Board believes that there will be incremental demand growth for seaborne in the future. However, the shipping industry is structurally cyclical as the supply of and demand for vessels impact freight rates and market values. Moreover, geopolitical and socio-economic developments and the tightening environmental regulation the shipping industry is facing create a certain level of uncertainty. Changing environmental regulation will potentially have an impact on the attractiveness and economic life of conventionally fueled vessels and, as such, the Trustee-Manager believes that carbon neutrality will probably be the most significant transition in the shipping industry since the introduction of diesel engines in the 20th century.

- 10) How net zero emissions for vessels can be achieved.

Answer: There are currently means to help reducing carbon emissions, including efficient vessel designs, hull coatings, exhaust gas cleaning systems, engine optimisation and transitional fuels and fuel technologies, such as LNG and LPG. However, these means do not have the potential to reach (net) zero emissions and there are currently no commercially viable zero-emission fuels and fuel technologies available to achieve the goal of (net) zero emission. Research and development of commercially viable (net) zero emission fuels and fuel technologies is just at the beginning and there are different initiatives, such as the Getting to Zero Coalition, of which FSL Trust is a member, for industry stakeholders to collaborate achieving the goal of getting commercially viable deep sea zero emission vessels powered by zero emission fuels into operation by 2030. As such, it is too early today to state with confidence what the fuel and fuel technology to achieve (net) zero emissions will be.

- 11) What the potential changes to the regulatory framework that would post the most risk to vessel owners such as FSL Trust are.

Answer: The International Maritime Organisation (IMO) has set the goal to reduce greenhouse gas emissions from shipping by at least 40% by 2030 and pursues efforts towards 70% by 2050 (each compared to 2008) and the introduction of the IMO 2020 Sulphur cap was just the first of many steps shaping the environmental regulatory framework. There are further regulations such as the introduction of the Energy Efficiency Design Index (EEDI) and the Energy Efficiency Existing Ship Index (EEXI) becoming effective in the next years and the Trustee-Manager expects that other regulatory measures such as the introduction of carbon-taxes for shipping will probably be introduced.

- 12) What the cost savings achievable with the refinancing are and whether the new loan has lower borrowing rates.

Answer: The Trust is currently debt free following the prepayment in full of the amounts outstanding under the loans from Amsterdam Trade Bank N.V. and Hellenic Bank Public Company Limited, as announced on 10 March 2021. Given the extension of the charters of some of the smaller product tankers announced on 3 February 2021, which increases the debt capacity, the Trustee-Manager has arranged a new loan for the refinancing of those vessels as announced on 1 March 2021. The cost of the new loan is lower than the cost of equity and the rationale for the new loan is to optimize the capital structure of the Trust.

- 13) What the financial position of the Trust is following the sale of the LR2 product tanker newbuildings and the prepayment of loans and when the new loan will be utilised.

Answer: The disposal of the two LR2 product tanker newbuildings released US\$ 44.1 million (unaudited) of cash after payment of the remaining instalments to the shipyard, other construction related cost and the cost of the disposal of the newbuildings. US\$ 28.8 million of the net cash proceeds from the disposal of the newbuildings were used towards the prepayment in full of the amounts outstanding under the loans from Amsterdam Trade Bank N.V. and Hellenic Bank Public Company Limited, as announced on 10 March 2021. The process of completing the refinancing announced on 1 March 2021 is very advanced and the Trustee-Manager anticipates the completion very soon.

By Order of the Board
FSL Trust Management Pte. Ltd.
(Company registration no. 200702265R)
as Trustee-Manager of First Ship Lease Trust

Mr Efsthios Topouzoglou
Non-Independent Non-Executive Chairman
23 April 2021