

ANNUAL REPORT

# 2018

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FIRST  
SHIP LEASE  
TRUST





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## CORPORATE PROFILE

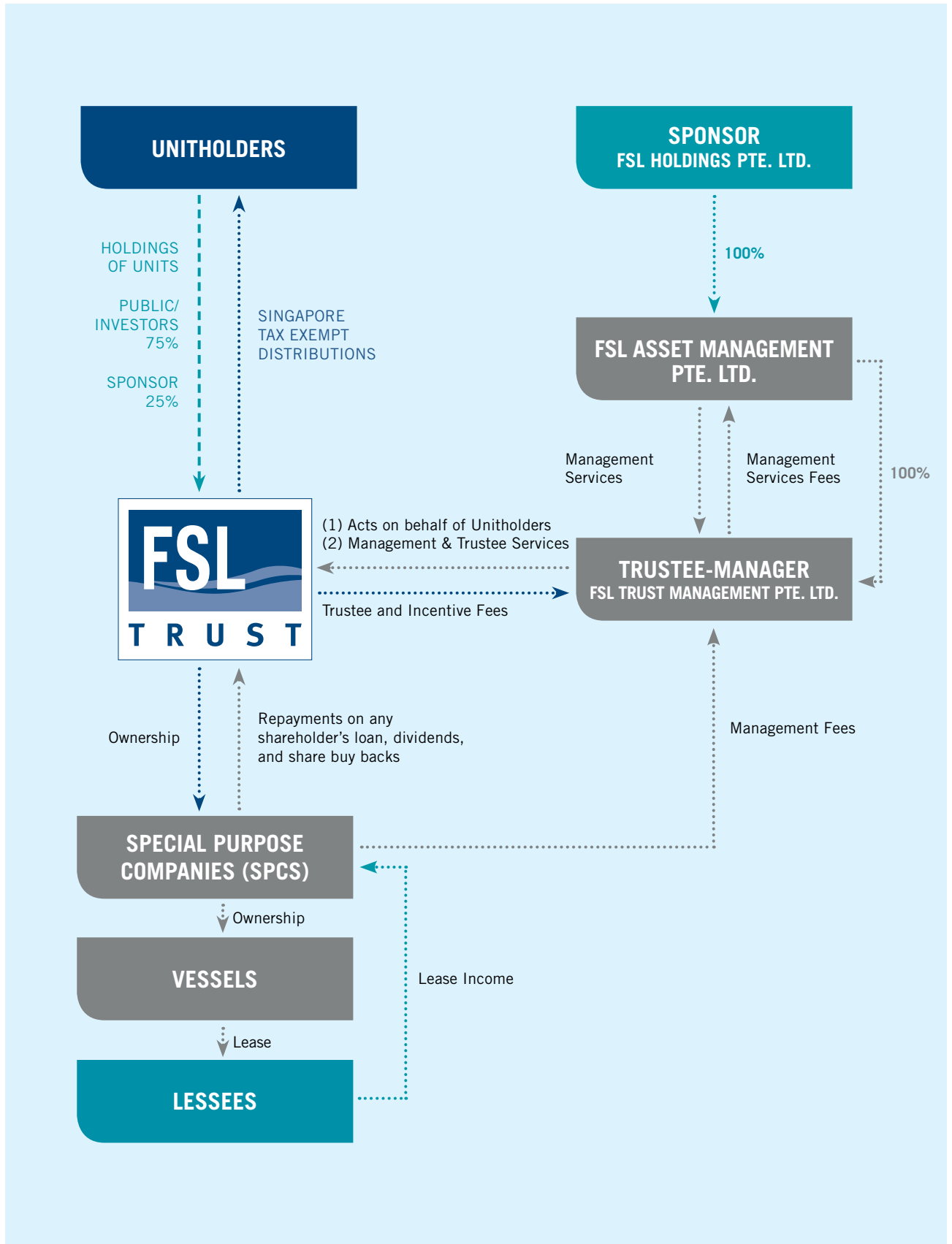
First Ship Lease Trust (“FSL Trust” or the “Trust”) is a Singapore-based business trust which owns a fleet of vessels across major shipping sub-sectors. FSL Trust presently has a diversified portfolio of 19 well-maintained vessels comprising containerships and a variety of tankers. Of these, 10 vessels are leased to international shipping companies on long-term bareboat charters. 8 vessels are employed on short-term time charters or in pools and 1 vessel is held for sale.

Around 60% of the Trust’s revenue is derived from the rentals received from fixed-rate bareboat charters. The fixed-rate charters provide the Trust with stable and predictable long-term revenue and cash flow, while the vessels employed on shorter-term charters or in pools provide the Trust with flexibility and opportunity to capture any market upsides.

FSL Trust is managed by FSL Trust Management Pte. Ltd. (“FSLTM” or the “Trustee-Manager”). The Trustee-Manager is responsible for safeguarding the interests of unitholders and for FSL Trust’s investment and financing strategies, asset acquisition and disposal policies, and the overall management of the Trust’s portfolio. The Trustee-Manager aims to optimise the returns on the Trust’s vessel portfolio by ensuring that the vessels are well run, managing the various risks and opportunities of the Trust and improving cash flow generation for unitholders of the Trust.

FSL Trust (D8DU) is listed on the Mainboard of the Singapore Exchange Securities Trading Limited (SGX-ST).

# CORPORATE STRUCTURE



# CORPORATE INFORMATION

## TRUSTEE-MANAGER

FSL Trust Management Pte. Ltd.

## CORPORATE DIRECTORY

UEN/Company Registration  
No. 200702265R  
Corporate website:  
www.FSLTrust.com

## REGISTERED OFFICE

9 Temasek Boulevard  
#19-03 Suntec Tower Two  
Singapore 038989  
Phone: +65 6836 3000  
Fax: +65 6836 6001

## COMPANY SECRETARY

Elizabeth Krishnan

## UNIT REGISTRAR OF FIRST SHIP LEASE TRUST

Boardroom Corporate & Advisory  
Services Pte. Ltd.  
50 Raffles Place  
#32-01 Singapore Land Tower  
Singapore 048623  
Phone: +65 6536 5355  
Fax: +65 6536 1360

## BOARD OF DIRECTORS

**Stathis Topouzoglou**  
(appointed on 28 February 2018)  
Non-Independent,  
Non-Executive Chairman

**Michael Chalkias**  
(appointed on 9 March 2018)  
Non-Independent,  
Non-Executive Director

**Michael Gray**  
Lead Independent Director,  
Non-Executive Director &  
Chairman of the Audit and Risk  
Committee

**Michael Oliver**  
Independent, Non-Executive Director  
& Chairman of the Remuneration  
Committee and the Nominating  
Committee

**Narayanan Sreenivasan**  
Independent,  
Non-Executive Director

## SENIOR MANAGEMENT TEAM

**Roger Woods**  
Chief Executive Officer

**Alan Mitchell**  
Chief Financial Officer

## AUDIT AND RISK COMMITTEE

**Michael Gray** (Chairman)  
**Michael Oliver**  
**Narayanan Sreenivasan**

## REMUNERATION COMMITTEE

**Michael Oliver** (Chairman)  
**Michael Gray**  
**Narayanan Sreenivasan**

## NOMINATING COMMITTEE

**Michael Oliver** (Chairman)  
**Michael Gray**  
**Narayanan Sreenivasan**

## EXTERNAL AUDITORS OF FIRST SHIP LEASE TRUST

**Moore Stephens LLP**  
10 Anson Road  
#29-15 International Plaza  
Singapore 079903  
Telephone: +65 6221 3771  
Fax: +65 6221 3815

Partner-in-charge  
**Neo Keng Jin**

Date of appointment  
29 April 2015

## INTERNAL AUDITORS OF FIRST SHIP LEASE TRUST

**BDO LLP**  
600 North Bridge Road  
#23-01 Parkview Square  
Singapore 188778  
Telephone: +65 6828 9118

Partner-in-charge  
**Willy Leow**

Date of appointment  
13 July 2015

## PRINCIPAL BANKERS

- Amsterdam Trade Bank N.V
- Chailease International Financial Services Co Ltd
- Deutsche Bank AG, Singapore Branch
- Hellenic Bank Public Company Ltd

## CHAIRMAN'S LETTER TO UNITHOLDERS



The Trust, supported by Prime Group, concluded a major milestone during 2018 with the refinancing of the US\$151.3 million outstanding under the previous syndicated bank loan, and is now pursuing operational sustainability by renewing its fleet.

**Stathis Topouzoglou**  
Chairman

### DEAR UNITHOLDERS

It is my pleasure to update our valued Unitholders on the developments and progress made during the financial year 2018, the year during which Prime Shareholdings Inc. acquired the ownership of the Sponsor, and to re-affirm the Sponsor's commitment and support to the Trust's future.

We are pleased to have concluded a major milestone with the refinancing of the Trust's syndicated loan during the summer of 2018, following which the Trust emerged with a strengthened balance sheet and withdrew from the Court Protection which had been a necessary protective step taken by the Board and Management.

Prime Group's shipping industry and banking connections supported the Trust in securing three new bank facilities, totalling US\$108 million. Together with the proceeds from selected vessel sales, the issue of a Convertible Bond, as well as surplus cash from operations, the Trust fully repaid the US\$151.3 million outstanding balance under the syndicated loan.

With the financial sustainability risk having been addressed by establishing a solid capital structure, we shifted our focus to pursuing operational sustainability while promoting sound environmental stewardship and respecting upcoming regulations. To this end, the Trust entered into shipbuilding contracts for the construction of two Tier III LR2 product tankers and agreed to sell the M/T FSL Hamburg, one of its older MR product tankers. The new vessels will be more fuel efficient and have modern design encompassing latest technological advancements.

Global shipping markets appear to be on course for recovery and this initiative will position the Trust well for the upcoming challenges and opportunities in and beyond 2019, including the imminent IMO 2020 regulations taking effect as of 1 January 2020 aiming to drastically reduce sulphur emissions. IMO 2020 will reshape the entire shipping industry and the product tanker fleet is expected

to benefit from increased demand and newly emerging trade routes as different types of compliant fuels will be transported to new destinations. The Board continuously monitors global economic and political affairs and their impact on the shipping industry, and will adapt the Trust's strategy and capital investment plans as necessary in the face of global trading trends and developing environmental requirements.

Additional initiatives include the announcements of the Preferential Offering, and post year end the Sponsor Bridging Loan, all important steps towards enhancing further the Trust's operational performance and cash generation capacity.

Whilst the Board is of the view that there will be sufficient cash resources to meet the Trust's ongoing working capital requirements, the Preferential Offering will provide additional capital to progress with the Trust's fleet renewal plan in anticipation of improved market conditions, while providing investors with the opportunity to capture the benefits of the Trust's recovery and growth journey. The Board remains steadfast in implementing strategies developed to return value to our Unitholders.

2018 continued to be a period of challenging market conditions, but despite this, the Trust achieved a Profit before impairments of US\$1.6 million. Post refinancing the Trust's cash generation remained positive, with reduced debt levels being comfortably

serviced, a strengthened balance sheet and an improved working capital position.

The only drawback was the necessary further impairments of US\$20.6 million during the year, as compared to US\$81.1 million in 2017, arising from the prolonged crisis in the maritime sector and the high historical book values of the Trust's vessels.

The Trust's risk management approach remains effective, with a balanced fleet consisting of a variety of vessel types in different shipping segments, which has demonstrated its resilience and ability to generate sufficient income and attractive cash flows.

The Board and Management are jointly focussing on the future of the Trust and I have full confidence that with the support of our unitholders, business partners and banks, our dedicated Management team, ably led by Roger Woods with the full support of the Board of Directors, our collective efforts to rebuild the Trust's business will bear fruit over time, with the ultimate aim of recommencing prudent distributions. In that regard the Board is most grateful for the Unitholders' continued patience.



**Stathis Topouzoglou**  
Chairman

First Ship Lease Trust



## CEO'S STATEMENT

Despite the difficult overall global shipping environment, the Trust can now look back on 2018 as a year of progress on a number of important fronts, a year in which the Trust has repositioned itself to rebuild its future.

**Roger Woods**  
Chief Executive Officer



### DEAR UNITHOLDERS,

Despite the difficult overall global shipping environment, the Trust can now look back on 2018 as one of progress on a number of important fronts, a year in which the Trust has continued to position itself to rebuild for its future.

Highlights of the year were the Trust successfully refinancing its outstanding syndicated debt, and looking to the future announcements in respect of the Rights Issue and Newbuilding acquisitions.

With the full support and engagement of the New Sponsor and Board, the Management team's focus during the year was on continuing to secure the fleet's full employment, extending a number of bareboat charters, increasing efficiency through management of the Trust's technical manager relationships, and ensuring a smooth transition with our new bankers post refinancing of the Trust's syndicated loan.

### MARKET OVERVIEW

Shipping markets continued to face numerous challenges and risks, with pressure on rates across all sectors the Trust has exposure to and with the added impending changes in environmental regulation led to a lack of long term employment opportunities. In spite of this, the Trust continued to generate positive net cash flows across all quarters of 2018.

Risks to shipping industry remain, global growth was forecast by the World Bank at 2.9% for 2019. The geopolitical trade tensions are impacting the markets directly with visible reduction in activity in some sectors.

The tanker market where the Trust has the biggest exposure remained pressured with demand also impacted by the "Organisation of Petroleum Exporting Countries" decision to cut production, while ongoing consolidation in container shipping did little to boost rates and financial returns. Overcapacity continued to squeeze shipping profit margins.



During the last quarter of 2018, the Tanker market started to experience the usual seasonal increase in rates with the added impact of fewer new buildings entering the market. This resulted in substantial increase in incomes, but unfortunately from the low base levels.

## FINANCIAL HIGHLIGHTS

Given the continuing volatility and uncertainty in global shipping markets and a smaller fleet the Trust's revenues saw a decline of 17.7% for the year to US\$67.0m, from US\$81.5m in 2017.

Results from operating activities saw a significant improvement as lower impairment charges were required at US\$20.6m, versus US\$81.1m in 2017. The net loss for the year was reduced to US\$19.0m, from US\$73.9m in 2017.

The balance sheet position improved through US\$45.8m reduction in debt during FY2018, from a combination of proceeds from vessel sales, net proceeds of the Convertible Bond, and operating cash flows. The Trust's new loans from three banks amounted to US\$108m.

As at 31 December 2018 bank debt stood at US\$98.9 million. The Trust's gearing ratio (including the Convertible Bond) improved to 40.0% from 46.6% at the end of the prior year.

## VESSEL EMPLOYMENT

Over the course of the year, the Trust fully deployed its fleet to maximise avenues of income generation and presently, ten of the Trust's vessels are leased to international shipping companies on long-term bareboat charters, with the remaining nine vessels employed on time charters or in pools or spot markets. We continue to work closely with our technical and commercial managers to strengthen the performance, utilisation and maintenance of the fleet.

A number of positive steps were taken during 2018 in respect of charter renewals and vessel deployment, leaving the Trust the flexibility for the future.

FSL London and FSL New York, commenced two-year time charters in June with Golden Agri Stena.

Speciality, Seniority and Superiority bareboat charters were extended by James Fisher Everard in December. Cumbrian Fisher and Clyde Fisher

bareboat charters were extended in October for substantial periods.

FSL Singapore entered the Hafnia Pool in April after completing a short time charter.

After completing the seven-year bareboat charter, FSL Piraeus (ex-Torm Margrethe) and FSL Perth (ex-Torm Marie) were delivered back to the Trust. Both vessels required extensive repairs due to the poor condition and claims were submitted to the High Court in England to recover these costs. Subsequently in August, both vessels entered into Heidmar Inc's Sigma Pool and are now fully employed.

In December, the Trust secured the newbuilding agreement for the construction of two LR2 product tankers with COSCO Shipping Heavy Industry (Yangzhou) Co., Ltd. The funding for the new vessels will be partly from funds raised from the proposed preferential offering, in part from the sale proceeds of ageing vessels from FSLT's existing fleet, and also by way of bank financing. The new vessels will operate more efficiently and are expected to be more competitive with market standards, making them attractive for premium chartering rates and long-term leases.

Post year end, on 18 January 2019 the Trust announced that terms for the sale of FSL Hamburg had been agreed, a disposal of an older vessel in line with the Trust's fleet renewal strategy.

## 2019: THE YEAR AHEAD

The near-term outlook remains uncertain until full confidence is restored to the markets but there are reasons to be hopeful. We expect that the low sulphur cap imposed by the International Maritime Organization will increase the need for clean trading tankers and with the continuing changes in global trading patterns that will drive demand versus a slowing supply of new buildings in some

sectors. This should set the scene for a positive market later this year and next.

We continue to pro-actively manage our vessel portfolio to explore market-accretive opportunities. The fleet's fixed-rate charters provide the Trust with stable, long-term revenue and cash flow, while it retains the flexibility to capture market upsides with vessels employed in market related pools.

## ACKNOWLEDGEMENTS

I would like to thank the FSL team, and the wise council from our Board of Directors which supports the achievements throughout the year, to help rebuild the business and return value to our unitholders, which remains of paramount importance.

Finally, we thank the crews and managers who help run our vessels safely and efficiently day and night with steadfast commitment.

With the debt refinancing now behind us, and a commitment to prudent capital management and operational efficiency, the Trust is well positioned for the future ahead and I look forward to your continued support.



**Roger Woods**  
Chief Executive Officer  
First Ship Lease Trust





## PERFORMANCE HIGHLIGHTS

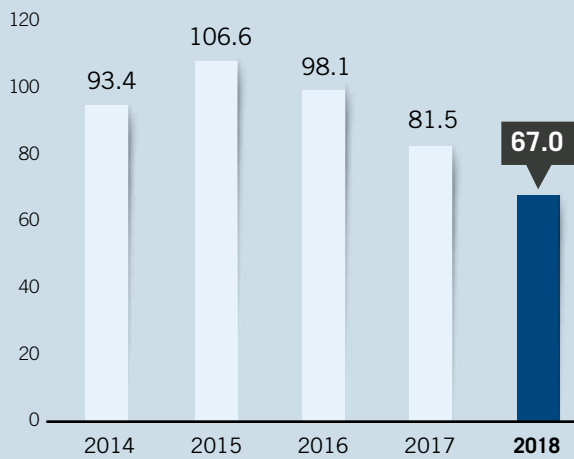
	FY2018 US\$'000	FY2017 US\$'000	FY2016 US\$'000	FY2015 US\$'000	FY2014 US\$'000
<b>Income Statement</b>					
Revenue	67,046	81,499	98,144	106,583	93,414
Results from Operating Activities	(11,375)	(66,006)	(17,660)	23,348	16,797
Profit / (Loss) for the Year	(18,986)	(73,888)	(30,995)	14,147	4,051
<b>Net Cash Generated from Operations (1)</b>	<b>30,247</b>	<b>40,758</b>	<b>57,584</b>	<b>62,823</b>	<b>53,225</b>
<b>Financial Position</b>					
Total Assets	263,168	331,042	474,425	560,206	594,916
Total Liabilities	107,906	157,354	226,971	282,024	328,183
Shareholder's Equity	155,262	173,688	247,454	278,182	266,733
<b>Financial Ratios</b>					
(Loss) / Earnings per unit (US cents/unit) <sup>(2)</sup>	(2.98)	(11.59)	(4.86)	2.19	0.62
Net Asset Value (US\$/unit)	0.24	0.27	0.39	0.44	0.41
Gearing Ratio <sup>(3)</sup> (%)	40.0	46.6	47.3	49.4	54.4

(1) Net cash generated from operations = (Loss) / Profit for the year + Non-cash adjustments (Refer to Note 19)

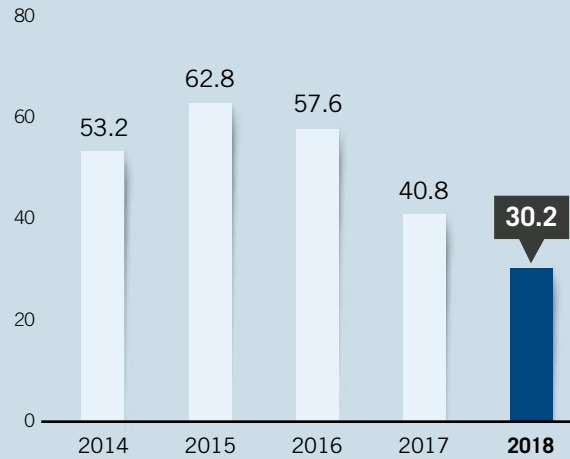
(2) Based on weighted average number of issued units

(3) Gearing ratio = outstanding debt including convertible bonds / (total unitholders' funds + outstanding debt including convertible bonds)

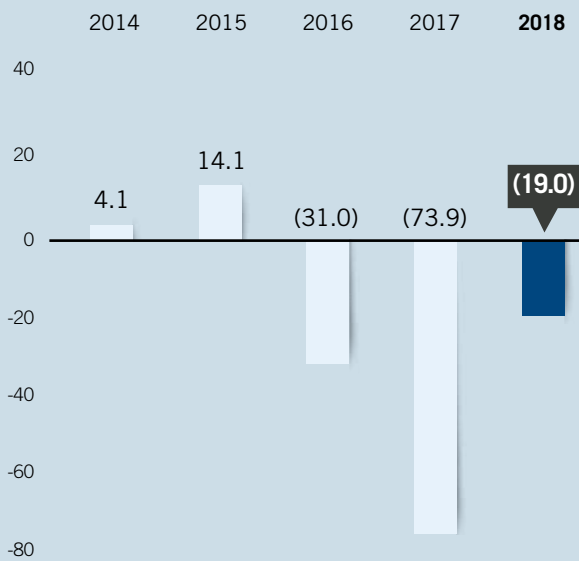
### REVENUE (US\$million)



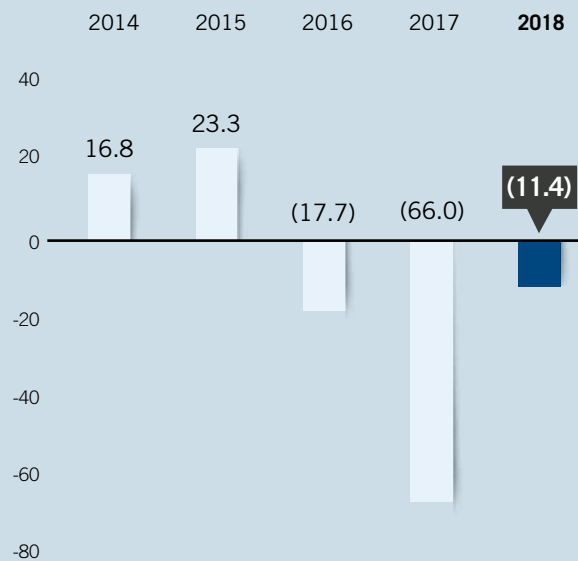
### NET CASH GENERATED FROM OPERATIONS (US\$million)



### PROFIT / (LOSS) FOR THE YEAR (US\$million)



### RESULTS FROM OPERATING ACTIVITIES (US\$million)



## BOARD OF DIRECTORS



1

### Stathis Topouzoglou (62)

Non-Independent, Non-Executive Chairman

Date of Appointment as a Director  
28 February 2018

Length of Service as a Director (as at 31 December 2018)  
10 months

Shares in the Company or Related Corporations  
Deemed interest in 24.77% of the Units in First Ship Lease Trust and 100% of the Shares in FSL Trust Management Pte. Ltd

Committee Memberships  
NIL

#### Academic & Professional Qualifications

- Bachelor of Business Administration and Economics from the University of Athens

#### Present Directorships (as at 31 December 2018)

- Prime Marine Management Inc.
- Dynamic Product Tankers LLC
- Flagship Marine Ventures LLC
- Prime Marine Corporation
- Energean Oil & Gas Societe Anonyme
- Kavala Oil Societe Anonyme
- Energean Oil & Gas PLC.

Major Appointments (other than Directorships)  
Nil

#### Background and Working Experience

- Over 36 years of experience in the shipping industry.
- Since 1978, Mr Topouzoglou has worked in the chartering and operations departments of various companies in Greece and the United Kingdom, during which time he obtained broad experience and built strong relationships within the shipping industry.
- CEO Prime Marine Management Inc., Prime Tanker Management Inc. and Prime Gas Management Inc., Greece (1999 - Present)

Past Directorships over the last 3 years – 2016 to 2018 (excluding Subsidiaries and Associates of the Company)

- Energean E&P Holdings Limited

Awards  
NIL



2



3



4



5

2

**Michael Chalkias (48)**

Non-Executive and Non-Independent Director

Date of Appointment as a Director  
9 March 2018Length of Service as a Director (as at 31 December 2018)  
10 months

## Shares in the Company or Related Corporations

Deemed interest in 24.77% of the Units in First Ship Lease Trust and 100% of the Shares in FSL Trust Management Pte. Ltd

## Committee Memberships

NIL

## Academic &amp; Professional Qualifications

- Master of Science with Distinction in Shipping, Trade & Finance from the Cass Business School (fka City University Business School)
- Bachelor of Science with Honours in Maritime Business and Law from the University of Plymouth

## Present Directorships (as at 31 December 2018)

- Prime Marine Management Inc.
- Dynamic Product Tankers LLC
- Flagship Marine Ventures LLC
- Prime Marine Corporation
- Global Ship Lease Inc. (NYSE: GSL)

## Major Appointments (other than Directorships)

NIL

## Background and Working Experience

- 25 years of experience in the shipping industry, during which he has accumulated broad experience in all aspects of the business.
- Mr. Chalkias co-founded Prime Marine Management, a leading international product tanker and gas carrier management company, which has managed more than 75 vessels since its inception.
- Co-CEO Prime Marine Management Inc., Prime Tanker Management Inc. and Prime Gas Management Inc., Greece (1999 - Present)
- Prior to co-founding Prime Marine, he was employed by Tufton Oceanic Limited, a specialized shipping finance and investment firm in London, where he was involved with debt and equity instruments as well as structured financing (1995 – 1999).

## Past Directorships over the last 3 years – 2016 to 2018 (excluding Subsidiaries and Associates of the Company)

- Prime Energy S.A.
- Prime Green S.A.

## Awards

NIL

3

**Michael Grenville Gray (73)**

Non-Executive and Lead Independent Director

Date of Appointment as a Director  
11 May 2015Length of Service as a Director (as at 31 December 2018)  
3 years 7 months

## Shares in the Company or Related Corporations

1,000,000

## Committee Memberships

- Audit and Risk Committee (Chairman), Remuneration Committee and Nominating Committee

## Academic &amp; Professional Qualifications

- Bachelor of Science in Maritime Studies, University of Plymouth, UK
- Master of Arts in South East Asian Studies, National University of Singapore
- Fellow of Institute of Chartered Accountants in England & Wales
- Fellow of Institute of Singapore Chartered Accountants
- Fellow of Singapore Institute of Directors
- Fellow of Chartered Institute of Transport & Logistics

## Present Directorships (as at 31 December 2018)

## Listed Company

- Avi-Tech Electronics Limited
- GSH Corporation Ltd

## Others -Non-listed (excluding Subsidiaries and Associates of the Company)

- TGY Property Investments Pte Ltd
- Tras Street Property Investment Ltd
- UON Singapore Pte Ltd

## Major Appointments (other than Directorships)

- PAVE (President)

## Background and Working Experience

- Merchant Navy Officer (1962 to 1973)
- Coopers & Lybrand UK (1973 to 1978)
- Coopers & Lybrand/ PricewaterhouseCoopers Singapore (1978 to 2004). Partner from 1981 and Managing Partner Indochina (1994 to 2001)

## Past Directorships over the last 3 years – 2016 to 2018 (excluding Subsidiaries and Associates of the Company)

- Ascendas Property Fund Trustee Pte Ltd
- VinaCapital Vietnam Opportunity Fund Limited
- Asian Cruising Pte Ltd
- The Masonic Hall Board Ltd
- Raffles Marina Holdings Ltd
- Vietnam Hospitality Ltd

## Awards

- Public Service Star (Bar) – B.B.M. [L] (2010)

## BOARD OF DIRECTORS

4

### Michael John Oliver (70)

Non-Executive and Independent Director

Date of Appointment as a Director  
26 June 2013

Length of Service as a Director (as at 31 December 2018)  
5 years 6 months

Shares in the Company or Related Corporations  
Nil

#### Committee Memberships

- Remuneration Committee (Chairman), Nominating Committee (Chairman), Audit and Risk Committee

Academic & Professional Qualifications  
Nil

Present Directorships (as at 31 December 2018)  
Nil

Major Appointments (other than Directorships)  
Nil

#### Background and Working Experience

- The National Bank Limited, London (1965 to 1967)
- The First National bank of Boston, London, Luxembourg, Frankfurt, Sydney and Boston (1967 to 1985)
- Commerzbank AG, London, Hong Kong and Singapore (1986 to 2005). Regional Board Member (Regional Chief Executive), Asia Oceania (2001 to 2005)

Past Directorships over the last 3 years – 2016 to 2018 (excluding Subsidiaries and Associates of the Company)  
Nil

Awards  
Nil

5

### Narayanan Sreenivasan (57)

Non-Executive and Independent Director

Date of Appointment as a Director  
20 September 2016

Length of Service as a Director (as at 31 December 2018)  
2 years 3 months

Shares in the Company or Related Corporations  
Nil

#### Committee Memberships

- Audit and Risk Committee, Remuneration Committee and Nominating Committee

#### Academic & Professional Qualifications

- LLB Hons, the National University of Singapore
- Fellow, Chartered Institute of Arbitrators (UK)
- Fellow, Singapore Institute of Arbitrators

Present Directorships (as at 31 December 2018) Listed Company

- Q & M Dental Group (Singapore) Limited

#### Others -non-listed (excluding Subsidiaries and Associates of the Company)

- K & L Gates Straits Law LLC
- Singapore Business Federation Foundation Limited

#### Major Appointments (other than Directorships)

- Senior Counsel

#### Background and Working Experience

- Registry of Companies and Ministry of Defence (1985 to 1990)
- Derrick Ravi Partnership (1990 to 2001)
- Straits Law Practice LLC (2001 to present). Managing Director since 2003

Past Directorships over the last 3 years – 2016 to 2018 (excluding Subsidiaries and Associates of the Company)

- MUFG Fund Services (Singapore) Pte Ltd
- Hydroinformatics Institute Pte. Ltd.

#### Awards

- Pingat Bakti Masyarakat (2014)

## EXECUTIVE OFFICERS



**Roger Woods (56)**  
Chief Executive Officer

Date of Appointment  
3 May 2017

Length of Service in the Trust (as at 31 December 2018)  
5 years 3 months

### Roles and Responsibilities

- Joined the Trust as the Chief Operating Officer on 17 September 2013
- Promoted to Deputy Chief Executive Officer on 30 November 2016, appointed as Acting Chief Executive Officer on 2 February 2017 and confirmed as Chief Executive Officer on 3 May 2017
- Responsible for overseeing the general business operations of the Trust, including short and medium term commercial deployment of vessels and relationships with technical managers

### Academic & Professional Qualifications

- Member of the Institute of Chartered Shipbrokers (MICS)
- Diploma in Nautical Science

### Background and Working Experience

- Over 40 years of shipping-related experience and has held senior positions across chartering, operations and ship management dealing with crude oil, oil products and dry cargoes
- Established track record of negotiating favourable time charters and sale and purchase deals as well as dealing with legal disputes, insurance matters and operational issues
- Merchant Navy Officer (1979 – 1983)
- Ugland Brothers Limited (1985 to 1992). Assistant Operations Manager (1989 to 1992) and Assistant Purchasing Manager (1985 to 1989)
- Tamoil Shipping Limited (1992 to 2006). Managing Director / General Manager (2002 to 2006), Chartering Manager (1996 to 2002) and Operations Manager (1992 to 1996)
- FR8, Singapore and London (2007 to 2013). General Manager & Projects



**Mr Alan Christopher Mitchell (61)**  
Chief Financial Officer

Date of Appointment  
26 September 2016

Length of Service in the Trust (as at 31 December 2018)  
2 year 3 months

### Roles and Responsibilities

- Responsible for the financing, treasury and accounting functions of the Trustee-Manager's operations

### Academic & Professional Qualifications

- Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW)
- Associate of the Chartered Institute of Bankers

### Background and Working Experience

- Over 31 years of finance-related experience as an auditor, banker and CFO, including handling regulatory and compliance matters, renegotiating banking facilities, business restructuring, undertaking fraud investigations as well as managing and disposing of non-performing loans
- Deloitte, UK and Dubai (1975 to 1983). Audit Team Leader
- KPMG, Hong Kong (1983 to 1986). Deputy Manager (Insolvency, Receivership and Investigations)
- HSBC, Hong Kong, Indonesia and South Korea (1986 to 2000). Held various roles where he undertook assignments in internal audit (specialising in credit audit), corporate banking, banking operations, special investigations, and bank acquisition due diligence and integration planning across HSBC's global network
- INFA Telecom Group, Hong Kong (2000 to 2002). Finance Director and Executive Committee Member
- Rothschild, Hong Kong and Singapore (2003 to 2014). Chief Financial Officer, Rothschild South East Asia, Singapore (2012 to 2015), and Chief Financial & Operations Officer, Rothschild Asia, Hong Kong & Singapore (2003 to 2012)
- TSA Consultancy Services Pte Ltd (June 2015 to November 2015). Consultant

# VESSEL PORTFOLIO

## CHEMICAL TANKERS



### FSL NEW YORK



YEAR BUILT	2006
BUILDER	Usuki Shipyard, Japan
CAPACITY	19,970 DWT
FLAG	Singapore

### FSL LONDON



YEAR BUILT	2006
BUILDER	Usuki Shipyard, Japan
CAPACITY	19,966 DWT
FLAG	Singapore

## CONTAINERSHIPS



### YM EMINENCE



YEAR BUILT	2008
BUILDER	CSBC Corporation, Taiwan
CAPACITY	4,250 TEU
FLAG	Liberia

### YM ELIXIR



YEAR BUILT	2008
BUILDER	CSBC Corporation, Taiwan
CAPACITY	4,250 TEU
FLAG	Liberia

### YM ENHANCER



YEAR BUILT	2008
BUILDER	CSBC Corporation, Taiwan
CAPACITY	4,250 TEU
FLAG	Liberia

## CRUDE OIL TANKERS



### FSL HONG KONG



YEAR BUILT	2007
BUILDER	Samsung Heavy Industries, South Korea
CAPACITY	115,000 DWT
FLAG	Singapore

### FSL SHANGHAI



YEAR BUILT	2007
BUILDER	Samsung Heavy Industries, South Korea
CAPACITY	115,000 DWT
FLAG	Singapore



## PRODUCT TANKERS



### CUMBRIAN FISHER



YEAR BUILT	2004
BUILDER	Samho, South Korea
CAPACITY	12,921 DWT
FLAG	Bahamas

### CLYDE FISHER



YEAR BUILT	2005
BUILDER	Samho, South Korea
CAPACITY	12,984 DWT
FLAG	Bahamas

### SHANNON FISHER



YEAR BUILT	2006
BUILDER	Damen Galati, Romania
CAPACITY	5,421 DWT
FLAG	Bahamas

### SOLWAY FISHER



YEAR BUILT	2006
BUILDER	Damen Galati, Romania
CAPACITY	5,421 DWT
FLAG	Bahamas

### SPECIALITY



YEAR BUILT	2006
BUILDER	Qingshan Shipyard, Wuhan, PRC
CAPACITY	4,426 DWT
FLAG	Bahamas/U.K.

### SENIORITY



YEAR BUILT	2006
BUILDER	Qingshan Shipyard, Wuhan, PRC
CAPACITY	4,426 DWT
FLAG	Bahamas/U.K.

### SUPERIORITY



YEAR BUILT	2007
BUILDER	Qingshan Shipyard, Wuhan, PRC
CAPACITY	4,426 DWT
FLAG	Bahamas/U.K.

### FSL HAMBURG<sup>2</sup>



YEAR BUILT	2005
BUILDER	Hyundai Mipo Dockyard, South Korea
CAPACITY	47,496 DWT
FLAG	Singapore

### FSL SINGAPORE



YEAR BUILT	2006
BUILDER	Hyundai Mipo Dockyard, South Korea
CAPACITY	47,470 DWT
FLAG	Singapore

### FSL OSAKA



YEAR BUILT	2007
BUILDER	Shin Kurushima Dockyard, Japan
CAPACITY	45,998 DWT
FLAG	Singapore

### FSL PIRAEUS<sup>1</sup>



YEAR BUILT	2006
BUILDER	Dalian Shipbuilding Industry Co. Ltd., PRC
CAPACITY	109,672 DWT
FLAG	Singapore

### FSL PERTH<sup>1</sup>



YEAR BUILT	2006
BUILDER	Dalian Shipbuilding Industry Co. Ltd., PRC
CAPACITY	109,672 DWT
FLAG	Singapore

(1) Product Tankers, TORM Margrethe and TORM Marie have been renamed to FSL Piraeus and FSL Perth respectively as of 1 August 2018.  
(2) Product Tanker, FSL Hamburg is classified as held for sale as at 31 December 2018.

## FINANCIAL & OPERATIONAL REVIEW

Revenue  
US\$ **67.0**  
million

US\$ **45.8M**  
reduction in debt in 2018

Net Cash Flow from  
Operations<sup>1</sup>  
US\$ **30.2**  
million

### POSITIVE CASH GENERATION CONTINUES POST SYNDICATED LOAN REFINANCING

For the financial year ended 31 December 2018 ("FY 2018"), the Trust recorded lower revenue of US\$67.0m, a 17.7% decrease from the previous financial year ("FY 2017"). The decline in revenue was mainly attributable to the disposal of two feeder containerships (*FSL Busan* & *FSL Santos*) at the end of 2017/early 2018 and one chemical tanker (*FSL Tokyo*) in early 2018, reducing the fleet size to 19 vessels as well as the ongoing rate pressures across all shipping markets, which has weighed on the Trust's earnings from its diverse fleet of product tankers, crude oil tankers, chemical tankers, and container vessels.

The Trust posted four quarters of positive cash generation over the course of the year, with net cash generated from operations of US\$30.2m in FY 2018 (FY 2017: US\$40.8m). The Trust's net

loss reduced to US\$19.0m in FY 2018 from US\$73.9m in FY 2017, mainly due to lower depreciation expenses as well as significantly reduced vessel impairments recognised during the year.

The Trust's impairment loss in FY 2018 was US\$20.6m on 8 vessels, as compared to US\$81.1m in the preceding year. Impairments remained a main contributor to the recorded net loss of US\$19.0m for FY 2018. Financing costs reduced by 6.7% to US\$8.5million from US\$9.1 million, a reflection of the efforts made to reduce the Trust's bank debt during FY 2018 and FY2017.

Although the shipping market environment was challenging, the Trust successfully refinanced its outstanding syndicated debt, using funds from the utilisation of New Facilities, totalling US\$108m, vessel sale proceeds, convertible bond proceeds, as well as internal resources.



(1) Net cash generated from operations = (Loss) / Profit for the year + Non-cash adjustments (Refer to Note 19)

**PROGRESS IN 2018**

**Redelivery of six vessels**

Six vessels were redelivered in FY 2018. These vessels were *FSL Piraeus* (ex *Torm Margrethe*), *FSL Perth* (Ex *Torm Marie*), *FSL Singapore*, *Speciality*, *Superiority* and *Seniority*. All vessels were redeployed, or their leases extended. Upon completion of dry docking for necessary repairs, *FSL Piraeus* and *FSL Perth* were redeployed into Heidmar’s Sigma Pool in August 2018.

**Disposal of containership and chemical tanker**

The Trust sold one of its oldest vessels in January 2018, *FSL Busan* a feeder containership, for a cash consideration of US\$6.2m. The proceeds from the sale were applied in full to the Trust’s outstanding loan facility while recording a gain on disposal of approximately US\$0.8m for 1Q2018. The Trust’s chemical tanker *FSL Tokyo* was also sold in January 2018, for US\$13.8m, with the net proceeds also applied against the syndicated loan facility.

**Fleet Renewal Programme/Newbuilding Agreements**

In December 2018, the Trust announced that shipbuilding contracts had been entered into for two latest technology

scrubber fitted 114,000 dwt Tier III LR2 product tankers for an aggregate consideration of US\$97.6m. Deliveries scheduled for late 2020/early 2021, and to be funded from a combination of the proceeds of the preferential offering, vessel sale proceeds, and bank financing.

**2019 UPDATES**

**Disposal of vessel for fleet renewal**

Post yearend, and in line with the ongoing fleet renewal, in December 2018 the Trust executed a Memorandum of Agreement for the sale of *FSL Hamburg*. The proceeds from this sale will help fund the Newbuilding Acquisitions.

The vessel was classified as “held for sale” in accordance to International Financial Reporting Standards, resulting in the Trust recognising an impairment charge of approximately US\$6.3m in 4Q2018. Completion of the sale is scheduled for before end March 2019.

**Scheduled redeliveries**

*Speciality* is expected to be redelivered in 4QFY2019. The vessel is currently deployed in under a fixed-rate bareboat charter with James Fisher. The Trust will be looking into options to either extend or source for a new contract to

ensure the continued full deployment of the fleet.

**Successful contract renewals with James Fisher**

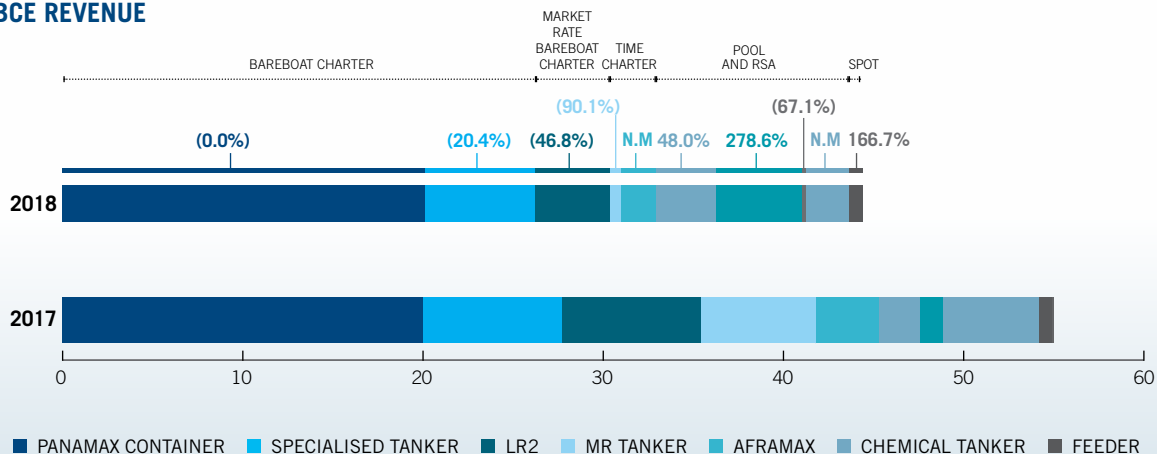
The Trust successfully renegotiated three-year and five-year fixed-rate bareboat charter renewals respectively for *Clyde Fisher* and *Cumbrian Fisher* at market adjusted bareboat rates.

**STABLE REMAINING CONTRACTED REVENUE**

As illustrated in **Figure 1**, on a bareboat charter equivalent (“BBCE”) basis, total BBCE revenue for FY 2018 decreased by 21.0% year-on-year to US\$43.7m. This was mainly attributable to the difficult market conditions, causing renewal of bareboat contracts at lower daily rates, reduced fleet size, as well as the lost revenue from the *FSL Piraeus* and *FSL Perth* while the vessels were dry docked for repairs.

Throughout FY 2018, the Trust managed to maximise its earnings by ensuring the employability of the fleet. Improvements in the aframax tanker sector towards year end helped to limit the impact of the Trust’s exposure to the more pressured sectors, and helped lift 4Q2018 results.

Figure 1: BBCE REVENUE



N.M. = NOT MEANINGFUL  
% = Increase/(Decrease) for FY2018 versus FY2017 of BBCE revenues in each vessel category

## FINANCIAL & OPERATIONAL REVIEW

### OPERATING EXPENSES AND OTHER INCOME

The Trust's vessel operating expenses reduced 15.6% in FY 2018 to US\$19.5m due to the reduced fleet size from 21 to 19 vessels. Other Trust expenses increased slightly by 9.8% to US\$2.4m as there were an increase in professional fees for the purpose of vessel inspections and valuations, expenditure necessary/requested by banks for the debt refinancing exercise.

Depreciation expense on vessels decreased 14.5% to US\$31.7m (FY 2017: US\$37.1m). This was attributable to the lower depreciation expenses as a result of the disposal of two containerships and one chemical tanker (US\$1.9m), as well as the impact on depreciation from FY2017's impairments (US\$3.7m). An impairment charge of US\$20.6m for seven vessels was taken in FY 2018 in respect of three containerships and five product tankers.

The Trust reduced its finance expenses in FY 2018 by 6.7% to US\$8.5m, due mainly to the Trust's lower outstanding indebtedness and expiry of existing swaps, offset with bond interest and amortisation of debt upfront fees.

With the secured term loan facilities as well as the utilisation of cash from the Convertible Bond Issue and vessel disposals, the Trust further reduced its outstanding loan balance by US\$52.4m to US\$98.9m as at 31 December 2018.

### OPERATIONAL PERFORMANCE

During the year, BBCE revenue declined by 21.0% year-on-year to US\$43.7m. This was largely due to the renewal of bareboat contracts for *Cumbrian Fisher* and *Clyde Fisher* at lower daily rates, reduced fleet size, and the period FSL Piraeus and FSL Perth underwent repairs.

#### LR2 Product Tankers

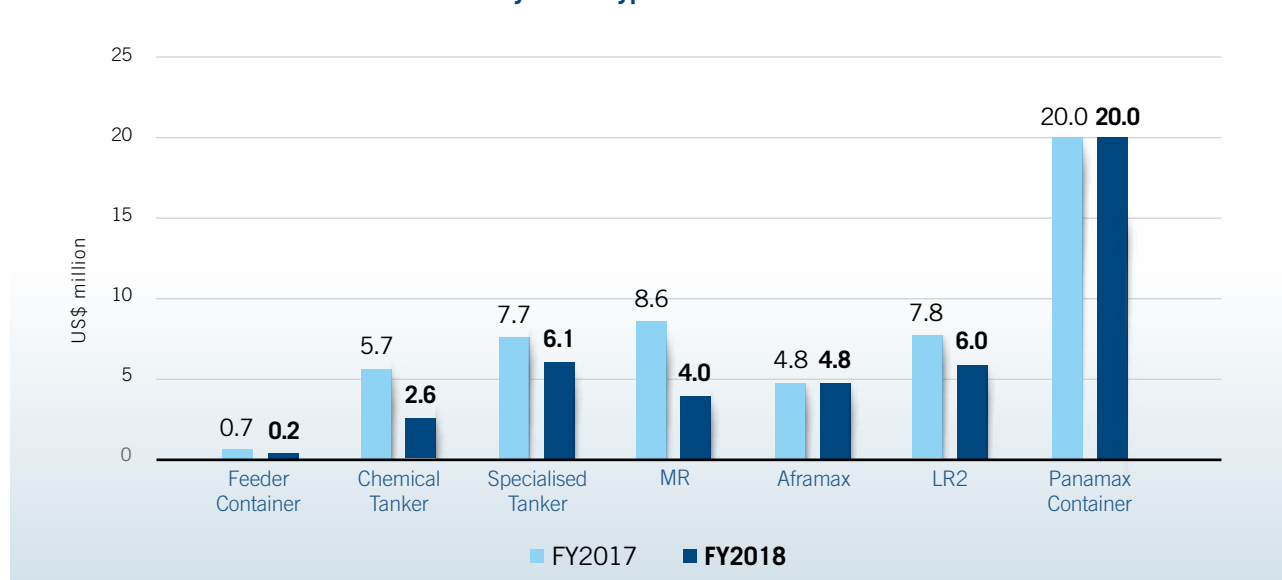
The Trust's two LR2 vessels, *FSL Piraeus* and *FSL Perth*, post bareboat charter expiry and repairs, entered the Sigma Pool managed by Heidmar Inc on 21 August 2018 and 25 August 2018 respectively. Both vessels generated a net pool revenue off US\$4.1m in FY 2018. After deducting vessel operating expenses, the vessels earned BBCE revenue of US\$6.0m in FY 2018.

#### Chemical Tankers

The Trust's two chemical tankers, *FSL New York* and *FSL London* have been employed on time charter from 12 June 2018 and 19 June 2018 respectively upon exiting the spot market. These vessels generated BBCE revenue of US\$1.9m in FY 2018.

Upon exiting the 'Nordic Tankers 19,000 Stainless Steel Pool', the three chemical tankers (including *FSL Tokyo*, disposed on 12 January 2018) traded in the spot market from October 2017

Figure 2:  
**Breakdown of FY2018 bbce revenue by vessel type**



to June 2018 and generated US\$5.8m of freight income in FY 2018 (FY 2017: US\$ 3.4m). After deducting voyage and vessel operating expenses, the vessels earned BBCE revenue of US\$0.8m in FY 2018 (FY 2017: US\$ 0.3m).

**Aframax Crude Oil Tankers**

The Trust's two crude oil tankers, *FSL Hong Kong* and *FSL Shanghai* were employed on a RSA (Revenue Sharing Agreement) from 14 April 2017 and 12 September 2017 respectively. These vessels together generated net pool revenue of US\$9.9m in FY 2018 (FY 2017: US\$ 4.3m). After deducting vessel operating expenses, the vessels earned BBCE revenue of US\$4.8m in FY 2018 (FY 2017: US\$ 1.3m).

**MR Product Tankers**

*FSL Hamburg* and *FSL Singapore* entered an MR pool managed by Hafnia Management ('Hafnia Pool') on 7 October 2017 and 23 April 2018 respectively. These vessels together generated net pool revenue of US\$6.2m in FY 2018 (FY 2017: US\$ 1.1m). After deducting vessel operating expenses, the vessels earned BBCE revenue of US\$2.3m in FY 2018 (FY 2017: US\$0.5m).

*FSL Osaka* entered an MR pool managed by Hafnia Management ('Hafnia Pool') since November 2015. The vessel generated net pool revenue of US\$4.3m in FY 2018 (FY 2017: US\$4.2m). After deducting vessel operating expenses, the vessel earned BBCE revenue of US\$1.7m in in FY 2018 (FY 2017: US\$1.8m).

**PORTFOLIO ANALYSIS**

As at 31 December 2018, 10 out of the 19 vessels in the Trust's fleet were leased on bareboat charters. These charters collectively remained the largest contributor to the Trust's BBCE revenue, contributing 69% of total BBCE revenues. These charters have a dollar-weighted average remaining lease period of approximately two years (excluding extension periods and early buy-out options).

8 vessels are employed on time charter arrangements and in pools and 1 vessel is held for sale.

The combined portfolio of 19 vessels has a dollar-weighted average age of approximately twelve years. A breakdown of the Trust's FY 2018 bareboat charter/BBCE revenue by employment type is provided in **Figure 3**.

As at 31 December 2018, based on revenue from ten bareboat charters and from time charter contracts, the remaining contracted Bareboat Charter revenue of the leases was approximately US\$59m (See **Figure 4**).

Figure 3: Breakdown of FY 2018 BBCE revenue by employment type

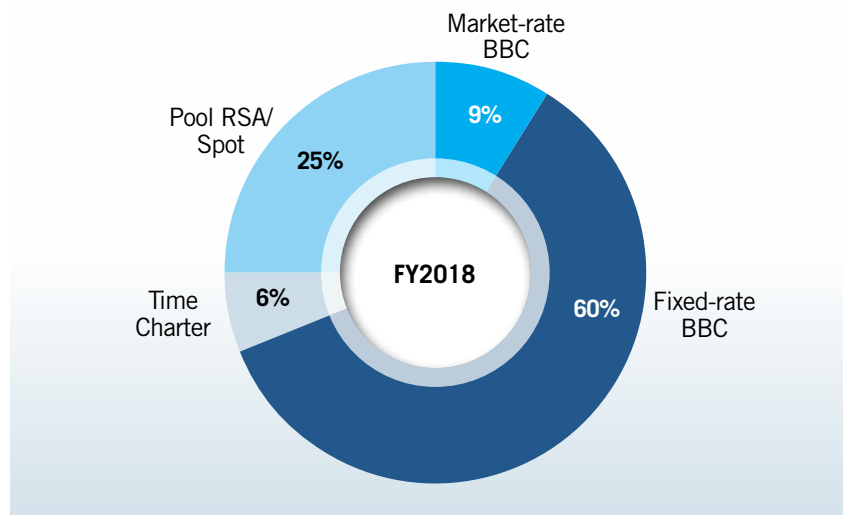
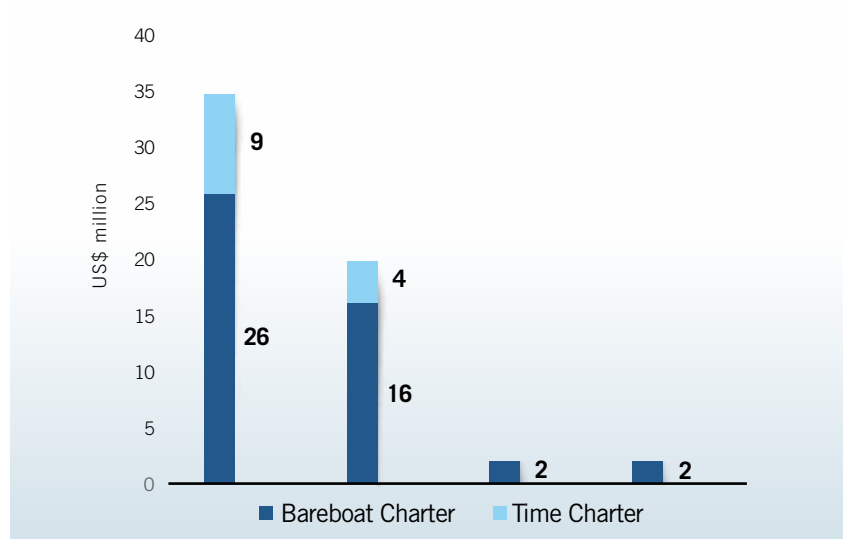


Figure 4: Remaining contracted revenue stood at US\$59m as at 31 December 2018

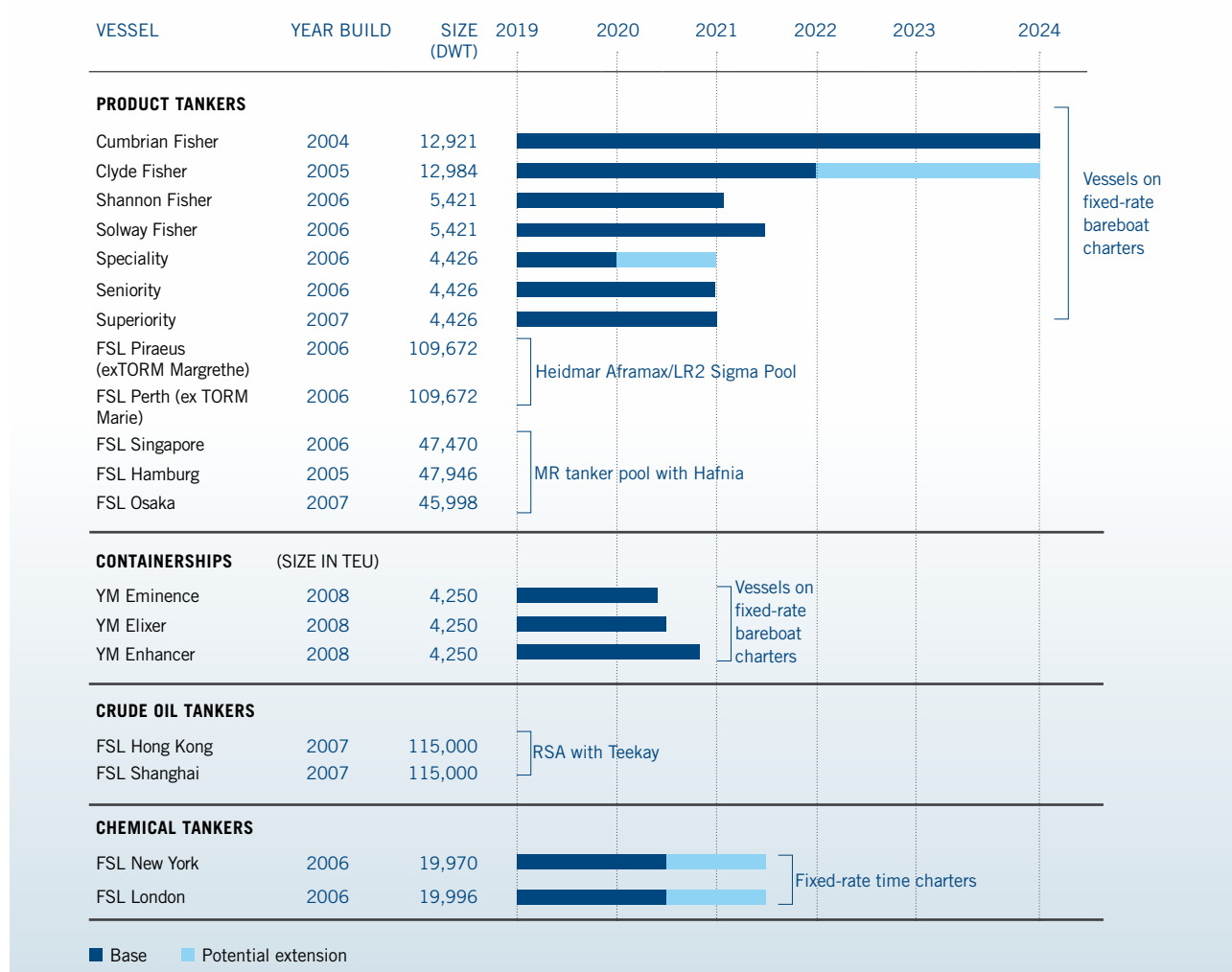


# FINANCIAL & OPERATIONAL REVIEW

The lease maturities of the vessels on long-term bareboat charters remain staggered through to 2023.

Figure 5:

**Lease maturity of vessels (2019 to 2023) - dollar weighted average remaining lease term is two years as at 31 december 2018**



## LOAN FACILITY AND LOAN COVENANTS

The Trust made several loan repayments during the year, which were drawn from ongoing operations, the proceeds from the sale of *FSL Busan* and *FSL Tokyo* in 1QFY18, and the issue of convertible bonds.

In July 2018, The Trust completed the refinancing of all outstanding debt amounts under the Existing Syndicated Loan arranging 3 new loan facilities totalling US\$108m. This allowed the Trustee-Manager to be granted leave by the

High Court to withdraw its application to convene the Court Meeting to approve the Scheme of Arrangement as well as discharge the moratoria obtained by the Group.

During FY 2018, the Trust reduced its outstanding debt by US\$48.0m. The outstanding face value of the new loans was reduced to US\$98.9m by 31 December 2018.

## OUR LESSEES AND CHARTERERS

### James Fisher Everard Limited

James Fisher & Sons PLC (United Kingdom)

James Fisher & Sons plc (United Kingdom), listed on the London Stock Exchange (LSE: FSJ), is a leading provider of marine and specialist engineering services. From its beginnings in 1847 as a ship owner and operator in England, James Fisher has developed considerable expertise in operating various marine and other safety-critical specialised businesses. The company provides comprehensive products, services and support to the oil and gas, renewables, nuclear power, construction, shipping and defence industries. Based in United Kingdom, James Fisher operates worldwide across 18 countries under four broad business divisions, namely, Marine Support, Specialist Technical, Offshore Oil and Tankships.

### All Oceans Transportation Inc

Yang Ming Marine Transport Corporation (Taiwan, Republic of China)

Yang Ming Marine Transport Corporation (Taiwan, Republic of China), listed on the Taiwan Stock Exchange (TWSE: 2609), was established in 1972 and continues to be significantly government owned. Yang Ming Marine's principal activity is in the containership liner business, but its business profile also includes dry bulk shipping, terminal management, logistic and shipping agency services. Yang Ming Marine is currently ranked as the second largest container shipping company in Taiwan and among the top ten largest container liner operators in the world in terms of operating capacity. The company provides shipping services to more than 70 countries by operating a fleet of approximately 100 vessels with a total operating capacity of around 630,000 TEUs (twenty-foot equivalent units).

### Golden Agri-Stena Pte. Ltd.

Golden-Agri Stena (Republic of Singapore)

Golden-Agri Stena Pte. Ltd. (Republic of Singapore) was established in 2012 as a joint venture between Stena Bulk, Sweden, one of the world's leading tanker shipping companies, and Golden Agri-Resources, Indonesia, one of the world's largest palm oil producer. Today, Golden-Agri Stena has grown to become one of the larger intermediate-sized chemical tanker operator in Asia, with offices in Singapore and Dubai. To further expand its chemical tanker business, Golden-Agri Stena went on to start a new joint venture, GSB Tankers, in 2018 with Bay Crest Management, Japan. GSB Tankers has been set up to undertake the operation and commercial management of chemical tankers. GSB Tankers commenced operations in 2019 out of the existing premises of Golden-Agri Stena. Apart from its headquarters in Singapore, GSB Tankers has offices in both Dubai and Japan.



# CORPORATE GOVERNANCE REPORT

First Ship Lease Trust (“FSL Trust” or “the Trust”) is a business trust constituted under the Business Trusts Act. FSL Trust Management Pte. Ltd. (“FSLTM” or “the Trustee-Manager”) as trustee-manager of FSL Trust is responsible for managing the business of FSL Trust. This includes the trust property as defined in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time, safeguarding the interests of Unitholders as a whole and ensuring and upholding high governance standards. FSLTM is fully committed to this responsibility in all its dealings with regard to FSL Trust.

This report sets out the corporate governance practices in place for financial year 2018 with reference to the Code of Corporate Governance 2018 (“the Code”) and Business Trusts Regulations 2005. Where there are significant deviations from the Code, appropriate explanations are provided in this report.

## THE BOARD’S CONDUCT OF ITS AFFAIRS

*Principle 1 - FSLTM is headed by an effective Board which is collectively responsible and works with Management for the long-term success of FSL Trust.*

### Board’s role

The principal functions of the Board include guiding the corporate strategy and directions of management, reviewing the budget and all business plans, approving all investments, divestments and borrowings, monitoring the financial and non-financial performance of FSL Trust, putting in place all relevant internal controls and risk management processes, approval of all public announcements, the quarterly and full year announcements and financial statements, identifying key stakeholder groups and overseeing the management of FSL Trust. The Board is accountable to the unitholders of FSL Trust for the long term performance and financial stability of FSL Trust.

### Board organisation and support

The Board has delegated and outsourced the day-to-day operations to FSL Asset Management Pte. Ltd. which is led by Roger Woods, the Chief Executive Officer. The Board has also delegated specific functions to three sub-committees, the Audit and Risk, Nominating and Remuneration Committees (“the Board Committees”). The Management of FSL Asset Management Pte. Ltd. reports to the Board and Board Committees and the Board Committees report to the Board. The Board has put in place a Code of Conduct that outlines FSLTM’s expectation and guidelines in the conduct of its business. The Code of Conduct applies to all employees and officers of FSL Asset Management Pte. Ltd, and directors. Certain key matters are reserved for the Board’s approval, such as vessel acquisition and sales, vessel leases and extensions, capital expenditure, SGX submissions, policies and procedures and commitments on loan and credit facilities. Matters for board approval form part of internal guidelines for Management.

### Director competencies

The directors come from diverse backgrounds with expertise in the shipping industry, accounting and finance, banking, legal, business and management fields and are able to apply their experience to further the interests of FSL Trust. Profiles of the directors can be found on page 10 of this annual report.

The Board has the appropriate balance of independent directors. The three Independent Directors are particularly aware of their responsibility to constantly place the interests of Unitholders as a whole foremost in the consideration of all relevant matters. The composition of the Board and Board Committees is reviewed periodically to ensure that the Board and the Committees comprise an appropriate mix of expertise and experience to best serve the interests of FSL Trust and all of its Unitholders. None of the Independent Directors have served on the Board for more than nine years.

The directors are expected to diligently discharge their duties and responsibilities, always acting in the best interests of FSL Trust and Unitholders. Updates on business and operations are provided and discussed at board meetings.

To enable the directors to fully discharge their duties and obligations, directors have been furnished with a legal and compliance regulatory manual prepared by professional advisers. As and when necessary, they have also been provided with updates on relevant practices, new laws, rules and regulations, changes in accounting standards and risk management issues applicable to FSL Trust or FSLTM, including briefings by relevant professionals. The directors are encouraged to participate in relevant training programmes to be funded by FSLTM. During the last financial year, the following training programs were attended: -



- Singapore Governance & Transparency Index (SGTI)
- Corporate Governance Code Briefing by SID, Wong Partnership and Morgan Lewis Stamford
- Launch of the Singapore Directorship Report 2018
- SID Audit Committee Pit Stop Sessions
- Audit Committee Seminar by ACRA, SID and SGX

The Board also receives regular updates on the Shipping industry extracted from worldwide sources from the Business and Shipping press

#### Scope of Director duties - Executive Directors, Non-executive directors, Independent directors

All the directors are non-executive directors. This enables management to benefit from their external, diverse and objective perspective on issues that are brought before the Board. It also enables the Board to interact and work with management through an open exchange of ideas and views to help shape the strategic process. As all board members are non-executive directors, the Board is able to constructively challenge Management and help to develop strategies. With a majority of directors being independent, it strengthens the corporate governance of FSLTM.

Directors are provided with relevant information in a timely manner before or at each meeting to enable them to be properly informed of matters to be discussed or approved and to enable them to make informed decisions to discharge their duties and responsibilities as directors. Directors are entitled to request for additional information as needed. In addition, quarterly and full-year financial statements are submitted to the Board for approval prior to release to the Singapore Exchange Securities Trading Ltd ("SGX").

Directors have separate and independent access to Management and the Company Secretary at all times. The external and internal auditors are also available on-hand to provide additional insight when financial statements are considered. Directors may seek further independent professional advice, if required, to allow directors to fulfill their duties properly, and such expenses will be paid by FSLTM.

The Company Secretary attends all formal Board and Board Committee meetings. The Company Secretary is responsible for ensuring that procedures are followed and that FSLTM has complied with the requirements of the BTA and all other relevant rules and regulations applicable to the Trust. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board meets at least once every quarter and as often as warranted by particular circumstances. Meetings are also held via teleconference for matters requiring urgent attention. Board meetings are also supplemented by resolutions circulated to directors for decisions.

The attendance of the directors at the Board and Audit and Risk, Nominating and Remuneration Committees meetings for 2018 is set out below: -

Directors	Board Attendance / No. of meetings held	Audit and Risk Committee Attendance / No. of meetings held	Nominating Committee Attendance / No. of meetings held	Remuneration Committee Attendance / No. of meetings held
Stathis Topouzoglou <sup>(1)</sup>	7/7	N.A.	N.A.	N.A.
Michael Chalkias <sup>(2)</sup>	6/7	N.A.	N.A.	N.A.
Michael Gray	7/8	4/4	1/1	2/2
Michael Oliver	8/8	4/4	1/1	2/2
N. Sreenivasan	8/8	4/4	1/1	2/2
Tim Reid <sup>(3)</sup>	1/1	N.A.	N.A.	N.A.

(1) Stathis Topouzoglou joined the Board on 28 February 2018.

(2) Michael Chalkias joined the Board on 9 March 2018.

(3) Tim Reid resigned as director on 9 March 2018.

N.A. – Not applicable.

The Audit and Risk Committee also functions as Whistle-Blowing Committee.

# CORPORATE GOVERNANCE REPORT

## Conflicts of interest

FSLTM requires directors to refrain from participation in Board discussions and the decision-making process on a particular agenda item when they have a conflict of interest.

## BOARD COMPOSITION AND GUIDANCE

*Principle 2 - The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of FSL Trust.*

### Proportion of non-executive directors

The composition of the Board of FSLTM is determined using the following principles:

- (i) The majority of Board members should be Non-Executive, Independent Directors;
- (ii) The Chairman of the Board should be a Non-Executive Director;
- (iii) The Board should comprise directors with a wide range of commercial and management experience; and
- (iv) At least a majority of the directors should be independent from management and business relationships with FSLTM and from every substantial shareholder of FSLTM.

Currently, the Board comprises five directors, three of whom are independent and non-executive. The directors are Stathis Topouzoglou (Non-Independent, Non-Executive Director) (appointed on 28 February 2018), Michael Chalkias (Non-Independent, Non-Executive Director) (appointed on 9 March 2018) and Independent Directors, Michael Gray, Michael Oliver and N. Sreenivasan.

### Director independence

A director is considered to be Independent if he is:

- (a) Independent from management and business relationships with FSLTM (“Trustee-Manager”); and
- (b) Independent from every substantial shareholder of FSLTM.

### Role of the lead independent director

Michael Gray is the Lead Independent Director. As a Lead Independent Director, Michael Gray leads and co-ordinates the activities of the Independent Directors. He is the principal liaison on board issues between the Independent Directors and the Chairman. The Independent Directors hold informal meetings as and when required without the presence of management and the Non-Independent Directors. He is also available and has attended to shareholders’ queries.

### Board diversity policy

FSLTM does not have any specific board diversity policy as it considers the above guiding principles adequate for ensuring an effective board.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

*Principle 3 – There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.*

Following the resignation of Tim Reid, Stathis Topouzoglou was designated as Chairman of the Board on 9 March 2018. Roger Woods is the Chief Executive Officer (“CEO”). The Chairman and CEO are not related to one another. The Chairman and the CEO have separate and distinct roles resulting in an effective balance of power and authority. At general meetings, the Chairman facilitates constructive dialogue and ensures effective communication between the Board, Management and Unitholders. The Chairman is responsible for the effective functioning of the Board in the interests of Unitholders as a whole. Board meetings are helmed by the Chairman and there is a culture of openness and debate and all directors are given ample opportunity and time to express their views. The CEO has full executive responsibility over the business direction and operational decisions in the day-to-day operations and management of FSLTM, as Trustee-Manager.

The Independent Directors have held discussions separately without the presence of the other directors. The Lead Independent Director led these discussions. In the absence of the Chairman or if there is a conflict of interest, the Lead Independent Director, will assume the role of Chairman.

## BOARD MEMBERSHIP

*Principle 4 – The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.*

The Nominating Committee (“NC”) of FSLTM comprises the Independent Directors, namely, Michael Oliver (Chairman), Michael Gray and N. Sreenivasan.

The scope and responsibilities of the NC include:

- 1) identifying, reviewing and recommending candidates for nomination for appointment as directors and/or executive staff and the members of various committees;
- 2) reviewing the Board structure, size and composition and making recommendations to the Board with regard to any adjustments that are deemed necessary;
- 3) reviewing the strength and assessing the effectiveness of the Board as a whole;
- 4) determining on an annual basis the independent status of the directors;
- 5) deciding whether or not a director is able to and has been adequately carrying out his duties as a director of FSLTM, particularly when he has multiple board representations;
- 6) overseeing the management, development and succession planning of FSLTM; and
- 7) identifying training and professional development programmes for directors.

The NC consists of Independent Non-Executive Directors. The NC takes into consideration the Board’s size, experience and overall competency and expertise to determine if the Board is effective.

### Multiple directorships

The NC and the Board are satisfied that the directors have given sufficient time and attention to the affairs of FSL Trust and FSLTM. Where the directors have multiple directorships and/or other principal commitments, the NC and the Board had considered and are satisfied that each of them is able to and has adequately carried out his duties as a director of FSLTM. The Board, at the recommendation of the NC, limits the number of directorships of listed companies to five.

### Selection, appointment and re-appointment process

From time to time, new directors may be identified by the NC for appointment if necessary to complement the experience and competency of the existing members of the Board.

Stathis Topouzoglou and Michael Chalkias were proposed to be appointed as Non-Independent, Non-Executive Directors on the Board of FSLTM in 2018. In determining the suitability of the proposed candidates, the NC reviewed their background, qualification and experience and recommended them to be appointed to the Board. The Board appointed Stathis Topouzoglou as a Non-Executive, Non-Independent Director on 28 February 2018. Michael Chalkias was appointed to the Board on 9 March 2018. Stathis Topouzoglou was designated as Chairman of the Board on 9 March 2018.

New directors receive formal letters of appointment setting out their duties and obligations and also comprehensive induction training and orientation by Management on the business, governance and regulatory affairs of the Trust and its strategic decisions.

The NC conducted an annual review of the directors’ independence in accordance with the requirements of the Business Trusts Regulations 2005. A director is considered to be Independent if he is:

- (a) Independent from management and business relationships with FSLTM (“Trustee-Manager”); and
- (b) Independent from every substantial shareholder of FSLTM.

Michael Gray, N. Sreenivasan and Michael Oliver are considered Independent.

# CORPORATE GOVERNANCE REPORT

## Appointment of alternate directors

There are no alternate directors on the Board.

## BOARD PERFORMANCE

*Principle 5 – The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.*

As part of the assessment of performance of the Board and the Board Committees, the NC conducts an annual evaluation based on objective performance criteria, agreed by the Board. Board evaluation questionnaire was completed by each director in 2018. The directors had the opportunity to gauge their effectiveness individually, collectively and identify areas of improvement.

## REMUNERATION MATTERS

*Principle 6 – The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.*

*Principle 7 – The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of FSL Trust, taking into account the strategic objectives of FSL Trust.*

*Principle 8 – FSLTM is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationship between remuneration, performance and value creation.*

The Remuneration Committee (“RC”) of FSLTM comprises three directors, namely Michael Oliver (Chairman), Michael Gray and N. Sreenivasan, all of whom are Independent Directors.

The RC’s responsibilities include:

- 1) Reviewing and recommending remuneration policies;
- 2) Oversee major changes in employee benefits and remuneration structure;
- 3) Set performance measures and determine targets for any performance related pay schemes; and
- 4) Reviewing and recommending to the Board the remuneration packages and terms of employment of the CEO and senior executives.

Disclosure of relationships between remuneration, performance and value creation

The structure for the payment of directors’ fees for independent directors is based on a framework of basic fees for serving on Board Committees and is approved by FSL Asset Management Pte. Ltd., the sole shareholder of FSLTM. All directors’ fees payable to the Independent Directors in respect of services rendered to FSLTM will be reimbursed by FSL Trust. The fees are payable out of the trust property, as provided for in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time. The fee paid to Tim Reid, the preceding Non-Independent, Non-Executive Director, (for the period from 1 January 2018 to 9 March 2018) was paid by FSL Asset Management Pte. Ltd. which charges the same to FSLTM. The current Non-Independent, Non-Executive Chairman, Mr Stathis Topouzoglou and Non-Independent, Non-Executive Director, Mr Michael Chalkias have waived the fees payable to them for 2018. As the remuneration of the Management is paid for separately by FSL Asset Management Pte. Ltd. and not by FSL Trust, details of remuneration packages have not been disclosed.

The directors’ fees paid/payable in respect of FY2018 to the independent directors are set out below:

<b>DIRECTORS</b>	<b>REMUNERATION</b>
Michael Gray	S\$73,500
Michael Oliver	S\$73,500
N. Sreenivasan	S\$73,500

No officer is an immediate family member of any director of FSLTM.

The fees payable to FSLTM are set out in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time. The fees payable are the management fees, trustee fees, incentive fees, acquisition fees and disposal fees, which particulars are detailed in note 1 to the financial statements of this annual report. The fees paid to FSLTM in financial year 2018 are set out in note 22 to the financial statements.

FSL Asset Management Pte. Ltd. was constituted in 2010 as the resource centre for the FSL group of companies. Pursuant to a management services agreement between FSLTM and FSL Asset Management Pte. Ltd., FSL Asset Management Pte. Ltd. (also the sole shareholder of FSLTM) provides FSLTM all agreed management services, including the services of the Chief Executive Officer and other management personnel and staff. FSLTM is charged and bears the cost of management services rendered to it by FSL Asset Management Pte. Ltd.. This is determined according to a market-based benchmarked formula.

## **ACCOUNTABILITY AND AUDIT RISK MANAGEMENT AND INTERNAL CONTROLS**

*Principle 9 – The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of FSL Trust and its unitholders.*

The Board, through its quarterly and full-year results, announcements and press releases, aims to provide a balanced and understandable assessment of FSL Trust's performance and prospects.

The Board is mindful that it needs to ensure that management maintains a sound system of risk management and internal controls to safeguard the interests of Unitholders as a whole and the trust property. The Board and the Audit and Risk Committee ("ARC") have evaluated the internal financial controls and financial and accounting policies and procedures.

In compliance with the Guidelines on Outsourcing, FSLTM maintains a register of the outsourced arrangements with third parties. FSLTM undertakes due diligence of the service provider and from time to time conducts self-assessment of materiality of the outsourced arrangement.

The internal audit function of FSL Trust is outsourced to BDO LLP. The internal auditors report directly to the ARC on audit matters and to the Board on administrative matters. The ARC is of the view that the internal auditor has adequate resources to perform its functions and is effective and independent from the activities that it audits.

However, no system can provide absolute assurance against material errors, human errors, fraud or other irregularities and the internal financial controls of FSLTM are designed to provide reasonable but not absolute assurance that trust property is safeguarded, accounting records are properly maintained and financial information and records are reliable. These controls are designed with the risks of the relevant exposure in mind, the likelihood of it occurring and costs involved to protect against it.

The Board is of the view that FSLTM has adequate and effective internal controls including financial, operational, compliance and information technology controls and risk management systems. The ARC concurs with the Board's view, having regard to the feedback it has received from the internal and external auditors and after discussion with the Management on matters highlighted by the internal auditors.

The risk management approach can be found on page 32 of this annual report.

For the financial year ended 31 December 2018, the CEO and CFO have provided assurance to the Board that the financial records of FSL Trust have been properly maintained and the financial statements give a true and fair view of the operations and finances and that an adequate and effective risk management and internal control system has been put in place.

# CORPORATE GOVERNANCE REPORT

## AUDIT AND RISK COMMITTEE

*Principle 10 – The Board has an Audit and Risk Committee which discharges its duties objectively.*

The members of the ARC of FSLTM are the Independent Directors, Michael Gray, N. Sreenivasan and Michael Oliver. The ARC is chaired by Michael Gray.

The responsibilities of the ARC include the following:

- 1) To review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements and any announcements relating to the financial performance;
- 2) To monitor and evaluate the quality and reliability of information prepared for inclusion in financial statements;
- 3) To appoint the internal auditors, review their scope of services, results of their report and recommend their remuneration;
- 4) To monitor and evaluate the adequacy and effectiveness of FSLTM's internal controls and risk management systems;
- 5) To nominate the external auditors and review their independence annually;
- 6) To review the external audit plan and the adequacy of external audit in respect of cost, scope and performance;
- 7) To review external audit reports to ensure that where deficiencies in risk management and internal controls have been identified, appropriate and prompt remedial action is taken by management;
- 8) To monitor the procedures in place to achieve compliance with applicable legislation, the Listing Manual and the Business Trusts Act;
- 9) To monitor the procedures established to regulate interested person transactions, including ensuring compliance with the provisions of the Listing Manual and Business Trusts Act in relation to them and to review such interested person transactions;
- 10) To review the assistance given by officers of FSLTM to the external auditors;
- 11) To investigate any reports of improprieties or irregularities and assess areas where internal controls need to be improved or corrective measures need to be taken;
- 12) To meet the internal and external auditors without the presence of management, annually;
- 13) To assess the adequacy, effectiveness and independence of the internal audit function; and
- 14) To review the adequacy of financial risk management processes.

The ARC's activities for 2018, in accordance with its responsibilities and duties, included the following:

- (i) Review of the quarterly and full-year financial statements and announcements required by the SGX for recommendation to the Board for approval;
- (ii) Discussion with the external auditors on the audit plan and the report on the audit of the financial statements; review of the external auditors' objectivity and independence; review of the audit fees payable, and making recommendations to the Board on the re-appointment of the external auditors;
- (iii) The ARC met the external and internal auditors without the presence of management;
- (iv) Discussion with the internal/external auditors and management to review the effectiveness of internal controls and risk management practices pertaining to, financial, operational, compliance and information technology controls to safeguard the interests of the Unitholders as a whole and the trust property; and
- (v) Review of all interested person transactions to ensure compliance with the Listing Manual and the Business Trusts Act.

The ARC is authorised to investigate any matters it deems appropriate within its written terms of reference. The ARC also has full discretion to invite any director or personnel to attend its meetings, and to meet the external auditors and internal auditors without the presence of management. The ARC has been given all reasonable resources to perform its duties. With the assistance of the Auditors, the ARC assesses changes in accounting standards and issues that have an impact on the financial statements.

The total fees paid to the external auditors for the financial year 2018 including fees for audit and non-audit services are set out in note 17 to the financial statements of this annual report.

The ARC has undertaken a review of the fees and expenses paid to the external auditors, including fees paid for non-audit services during the period, and is satisfied that the external auditors' independence has not been compromised. The ARC has also evaluated the performance of the external auditor taking into account, the Audit Quality Indicators Disclosure Framework published by ACRA.

FSL Trust has complied with Rules 712 and 715 of the Listing Manual of SGX. Moore Stephens LLP were the auditors for FSL Trust and for all of the Singapore-incorporated subsidiaries in FY2018.

#### Key Audit Matters

- (i) Estimated useful lives and residual values of vessels - the ARC has reviewed, has discussed with management, and has challenged where appropriate, the estimated useful lives and residual values used by management, and has concluded that the estimates and assumptions used in determining estimated useful lives and residual value of vessels are reasonable;
- (ii) Impairment assessment of vessels - the ARC has required management to present and discuss the methodologies used to estimate the value-in-use calculations of the Trust's vessels, has ensured that these have been discussed with the external auditors, and has concluded that the estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable, and that the impairment charges recognized in the Trust's financial statements are reasonable.

#### SHAREHOLDER RIGHTS AND ENGAGEMENT

##### SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

*Principle 11 – FSLTM treats all unitholders fairly and equitably in order to enable them to exercise unitholders' rights and have the opportunity to communicate their views on matters affecting FSL Trust. FSLTM gives unitholders a balanced and understandable assessment of FSL Trust's performance, position and prospects.*

*Principle 12 – FSLTM communicates regularly with the unitholders of FSL Trust and facilitates the participation of unitholders during general meetings and other dialogues to allow unitholders to communicate their views on various matters affecting FSL Trust.*

FSLTM believes in prompt disclosure of pertinent and relevant information to Unitholders. Quarterly and full-year financial statements, distribution notices (where applicable), information on lease and charter transactions and acquisitions of vessels and other material developments are announced through the SGX, press releases and through its website at [www.FSLTrust.com](http://www.FSLTrust.com). Media and analysts' briefings are held as and when necessary.

The investor relations function is handled by Management. Management meets with analysts, institutional investors and fund managers to promote FSL Trust, communicate its business performance and developments and gather views and feedback. Please refer to the investor relations information on page 34 of this annual report.

Unitholders are entitled to attend and vote at the Unitholder meetings and will be given the opportunity to raise questions and seek clarifications regarding any rules governing general meetings, resolutions or other business of FSL Trust. The Board, external auditors and management will be present at such Unitholder meetings to address questions that Unitholders may have. At the AGM held on 9 May 2018, all the Directors were present at the meeting. For a unitholder who is unable to attend the general meeting, he may appoint a proxy to attend the general meeting. Presentations made at the general meetings are uploaded on SGXNet for the benefit of unitholders. Minutes of general meetings of unitholders are available upon a unitholder's request.

All resolutions at general meetings will be voted by poll. Detailed results showing the number of votes cast for and against each resolution and the respective percentages will be announced after the meeting.

The Board notes that there should be separate resolutions at general meetings on each substantially separate issue and supports the Code's provision regarding "bundling" of resolutions. In the event that there are resolutions which are interlinked, the Board will explain the reasons and material implications.

The Trust Deed has not been amended to provide for absentia voting methods, which call for elaborate and costly implementation of a foolproof system, the need for which does not arise presently. The Board of Directors have concluded, given the continued challenging conditions in the shipping industry, that the recommencement of distributions would not as yet be a prudent use of the Trust's cash resources.

# CORPORATE GOVERNANCE REPORT

## MANAGING STAKEHOLDERS RELATIONSHIPS ENGAGEMENT WITH STAKEHOLDERS

*Principle 13 – The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of FSL Trust are served.*

The Board identifies and considers the needs and interests of material stakeholders. A sustainability report for the financial year ended 31 December 2018 will be issued by 31 May 2019. Stakeholders are encouraged to communicate through FSLTM's corporate website any queries that they may have. If required, the Management will arrange dialogue sessions with the stakeholders.

FSLTM has also adopted a whistle-blowing policy which incorporates the reporting of violation or potential violation of laws, rules and regulations to the ARC Chairman. The Policy not only applies to directors but also to external parties and service providers, including employees of FSL Asset Management Pte. Ltd. A copy of the whistle-blowing policy is available on FSLTM's website.

## DEALING IN SECURITIES

FSLTM has adopted an internal code based on the Listing Manual on dealings in securities and FSL Trust, FSLTM, directors of FSLTM and directors and employees of its holding company have been guided that they should refrain from dealing in units of FSL Trust during the period commencing two weeks before the announcement of FSL Trust's quarterly results and one month before the announcement of the annual results and ending on the date of the announcement of the relevant results.

All directors of FSLTM and directors and employees of its holding company are also informed that they (A) must not deal in (i) the units on short-term considerations; (ii) the units while in possession of unpublished material price sensitive information; and (iii) the securities of other listed companies while in possession of unpublished material price sensitive information relating to those securities; and (B) must be mindful of the laws relating to insider trading.

## STATEMENT OF POLICIES AND PRACTICES

FSLTM has established the following policies and practices in relation to its management and governance:

- (a) The trust property of FSL Trust is properly accounted for and trust property is kept distinct from the property of FSLTM held in its own capacity and the property of FSL Asset Management Pte. Ltd. ("FSLAM"). Different bank accounts are opened for FSLTM in its capacity as Trustee-Manager of FSL Trust, FSLTM in its own capacity and FSLAM, and regular internal reviews are carried out to ascertain that all trust property has been fully accounted for.
- (b) The Board is required to approve all business ventures and acquisitions for FSLTM and FSL Trust. FSLTM remains focused on vessel acquisitions with bareboat charters and time charters, which are the approved businesses of FSL Trust as set out in the Deed of Trust dated 19 March 2007 as amended and supplemented by the Second Supplemental Deed dated 6 April 2011. FSLTM has not engaged in other businesses on behalf of FSL Trust. Management provides regular briefings to the Board about the potential projects that it is looking into on behalf of FSL Trust and the Board ensures that all such projects are within the approved business scope of FSL Trust.
- (c) FSLTM does not currently have other businesses other than that of managing FSL Trust. Any potential conflicts, that may arise will be reviewed by the Board and management. In addition, the majority of the Board are independent directors of FSLTM who do not have management or business relationships with the substantial shareholder of FSLTM (namely, FSL Asset Management Pte. Ltd. and FSL Holdings Pte. Ltd.) or the substantial shareholders of FSL Holdings Pte. Ltd. and are therefore able to examine any potential conflict between the interests of FSLTM in its own capacity and the interests of all Unitholders of FSL Trust as a whole, independently and objectively. In respect of matters in which a director has an interest, direct or indirect, such interested director will abstain from participating in the review and approval process with regard to the matter.



(d) FSL Holdings Pte. Ltd. has also given two undertakings in favour of FSL Trust not to compete in the businesses of FSL Trust, namely,

- (1) the financing lease of shipping assets through long-term bareboat charters for a lease term of seven years or longer,
- (2) (aa) the financing lease of vessels on a bareboat basis which have a lease term of less than seven years and (bb) any vessels on a time charter basis (regardless of the duration of the charters of such vessels),

save where it has first offered to FSLTM (on behalf of FSL Trust) the opportunity to acquire the charter/lease, together with the relevant vessel and FSLTM has declined to acquire such vessel and charter/lease. FSL Holdings Pte. Ltd. will not enter into any charter/lease that has not first been offered by it to FSLTM (on behalf of FSL Trust).

As at the date of this annual report, all vessel acquisitions and charter leasing to lessees, subsequent to the initial public offering, have been with independent third parties unrelated to FSL Trust, FSLTM, FSLAM or FSL Holdings Pte. Ltd..

- (e) Interested person transactions in relation to FSL Trust have been identified by management and have been fully disclosed on page 87 of this annual report. The ARC conducts an annual review of all such transactions to determine if such transactions have been undertaken on normal commercial terms and will not be prejudicial to the interests of FSL Trust and the Unitholders as a whole. In addition, all such interested person transactions conducted and any contract entered into by FSLTM on behalf of FSL Trust with a related party of FSLTM or FSL Trust, shall comply with and be in accordance with all applicable requirements of the Listing Manual and the Business Trusts Act as well as such other guidelines as may from time to time be prescribed to apply to business trusts.
- (f) The expenses payable to FSLTM in its capacity as Trustee-Manager of FSL Trust out of trust property are appropriate and in accordance with the Deed of Trust dated 19 March 2007 as amended and supplemented, and regular internal reviews are carried out to ensure that such expenses payable are in order.
- (g) FSLTM has engaged the services of and obtained advice from professional advisers and consultants from time to time, particularly with regard to transactions on vessel acquisitions and facility borrowings, and has complied with the requirements of the Business Trusts Act and the Listing Manual.

# RISK MANAGEMENT

**F**SLTM manages risk under an overall strategy determined by the Board of Directors and supported by the Audit and Risk Committee (ARC).

At the Management level the Board has established a Risk Management Committee chaired by the Chief Financial Officer, who has taken on the role of Chief Risk Officer. This committee oversees and ensures that risks are being managed by appropriate units holistically across the Trust.

The Risk Management Committee assesses the risk arising from a new lease or charter transaction; asset disposal and residual values; monitors the potential for lessee or charterer default; actively sources for additional financing options before the expiry of current facilities; hedges currency and interest rate risk through swaps; and, also mitigates operational risk by actively engaging with its third party commercial and technical managers.

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## ENTERPRISE RISK MANAGEMENT

FSLTM is committed to ensuring that the Trust has an effective and practical Enterprise Risk Management framework in place to safeguard unitholder's interest, the sustainability of the Trust and to make informed decisions on value creation. As such, the Board commissioned BDO to facilitate the implementation of the Enterprise Risk Management programme for the Trust. The purpose of this exercise was to recommend a monitoring process over key risks to the Trust and to recommend a reporting process by which ARC is kept updated on how ongoing and new risks are being addressed by the Trust. The Board and key management personnel review the significant risks on a regular basis and update the Enterprise Risk Management Plan to reflect any changes that may be relevant.

## RISK ASSESSMENT

### Credit Risk

Prior to entering a lease transaction, the Trust's risk assessment process focuses on the credit risk associated with a potential lessee; and any asset and concentration risk attached to the transaction to ensure investment returns are commensurate with the lease's overall risk profile. The process involves performing due diligence to ascertain the credit strength of the potential lessee. This includes obtaining third party credit reports.

To evaluate the suitability of counterparties and transaction parameters, risk assessment does not only focus on the financial records and credit ratings of potential counterparties. It is also supported by insight gained from the experience of senior management and the Board, and their extensive networks in the global marine transportation industry.

### Asset risk

The asset risk assessment process also evaluates the residual value, estimating asset residual values based on a statistical analysis of reputable third-party historical transaction data and asset price, quality and fungibility.

### Market Risk

With the future redelivery of more vessels upon expiry of their long-term leases, the Trust's risk management is also actively considering the availability of new or alternative time charter counterparties, the options and prospects for vessel redeployment; and when deemed appropriate, weighing the costs and benefits of asset disposals.

## RISK MONITORING

FSLTM monitors risks through regular reviews of the lessees' financial performance, lease payment conduct, credit rating and compliance with the respective vessel insurance covenants. FSLTM also maintains a regular dialogue with each lessee to monitor developments in their business. With the rebalancing of the Trust's vessel portfolio to include more time charters and pool/revenue sharing agreements, FSLTM now takes a more active approach towards the management of the Trust's vessels through the rigorous assessment and appointment of third party commercial and technical managers.

## RISK MITIGATION

### Concentration Risk

The Trust is currently operating 10 of its fleet of 19 vessels on long-term bareboat charters. Hence, the Trust is now exposed to more types of risks than a pure lessor would be exposed to. These include counterparty or deal-specific exposures. Operating its own fleet of vessels also exposes the Trust to industry and market-related risks, as well as operational and compliance risks. FSLTM mitigates these risks by actively managing its relationships with third party commercial and technical managers and thorough consultation with intermediaries, insurance service providers, legal advisers and regulatory authorities. This ensures that the Trust is able to operate safely and maintain a fleet of commercially viable vessels.

### Interest Rate and Foreign Currency Risk Hedging

To manage interest rate and foreign exchange risks that may arise in the course of FSL Trust's business as well as in the financing of its transactions, FSLTM may from time to time enter into derivative transactions. This includes interest rate swaps (to convert floating interest rates to fixed rates), foreign currency forward contracts and cross currency swaps. FSLTM believes that the use of these risk hedging instruments may help to reduce the volatility of and increase the stability of the cash flows from the lease portfolio. FSL Trust does not hedge the credit risk related to its lessees.

## RISK REPORTING

### Periodic Risk Reports

Periodic risks report will be prepared by the Chief Risk Officer to highlight any emerging risks or high risk issues to the ARC on a timely basis. In addition, any new risk of significant values will be assessed using prescribed risk templates and reported to the ARC.

### Annual Risk Report

Annually, a risk refresher will be performed within the Group to understand if there are any changes to the existing top risks identified and if there are any risks that require more detailed assessment. A report with the updated top risks to the company will be compiled by the Chief Risk Officer and submitted to the ARC. The Risk Register maintained will also be updated to reflect any changes highlighted.

## INVESTOR RELATIONS

**F**SLTM, as Trustee-Manager of FSL Trust, takes an open and proactive approach to its communications with the investment community, maintaining regular dialogue with its stakeholders. Its investor relations activities serve as a guide to promote and demonstrate a high standard of integrity and transparency through timely, accurate, quality and fair disclosure. This is aimed at communicating fairly and accurately, the Trust's strategies, developments, financial results and prospects to investors, the financial community and other stakeholders.

### TRANSPARENT COMMUNICATION

The Trustee-Manager, through its Investor & Public Relations Department headed by the Chief Financial Officer, provides an avenue for two-way communication between the Trust and its Unitholders, investors and the media.

FSLTM ensures transparency and good corporate governance by promptly disseminating corporate information (such as all major corporate developments, financial performance and other relevant information) to the Unitholders and investors via announcements or press releases on SGXNet, as well as through dialogues with analysts and the media.

Press releases are also disseminated to local and industry related media so as to ensure important information related to the Trust reaches a wider audience.

### PROACTIVE ENGAGEMENT THROUGH APPROPRIATE CHANNELS

FSLTM actively updates the investment community and relevant stakeholders with key developments about the Trust and provides industry information, as and when necessary, to foster a better understanding of the Trust's business and the wider global marine transportation industry.

FSLTM maintains regular and proactive communication with its Unitholders and stakeholders through one-on-one meetings, conference calls and emails. The Trustee-Manager organises quarterly meetings and results briefing sessions via conference calls, giving investors and analysts an opportunity to have an in-depth discussion with senior management on the Trust's performance. Recordings of such calls are subsequently made available to the public through FSL Trust's website.

### STRENGTHENING RELATIONSHIP BETWEEN FSL TRUST AND UNITHOLDERS

While the Annual General Meeting (AGM) is the principal forum for dialogue with unitholders, the Trustee-Manager may also call for Extraordinary General Meetings (EGM) as and when such meetings are required. Notices of general meetings and annual reports are sent to Unitholders at least 14 calendar days ahead of the meeting date to enable unitholders to have sufficient time to peruse the annual report and papers supporting the resolutions proposed.

At general meetings, Unitholders are given the opportunity to ask questions regarding resolutions being proposed, before putting the resolutions to the vote, as well as matters relating to the Trust's operations in general. The Board encourages participation at general meetings and encourages poll voting for all resolutions.

### USING INFORMATION TECHNOLOGY FOR EFFECTIVE DISSEMINATION OF INFORMATION

To sustain a high level of transparency and accessibility, FSLTM maintains a corporate website at [www.FSLTrust.com](http://www.FSLTrust.com). The website contains an extensive archive of FSL Trust's corporate announcements filed to the Singapore Exchange Limited (SGX), financial statements, annual reports, press releases, presentation slides, audio presentations as well as the Trust's operational information including information on its vessel portfolio. Investors and stakeholders are encouraged to sign up for the Trust's email alert service to receive updates as and when announcements are made by FSLTM.

Investors and stakeholders can also direct their queries to a dedicated email contact: [investors@firstshiplease.com](mailto:investors@firstshiplease.com)

# WHISTLE-BLOWING POLICY

## WHISTLE-BLOWING COMMITTEE

The Whistle-Blowing Committee is responsible for ensuring that the Trust has an independent channel and appropriate procedures for the receipt, retention and handling of complaints about possible improprieties of the Trust's affairs. The Whistle-Blowing Committee will consist of Independent directors, who are also members of the Audit and Risk Committee.

## THE POLICY

All employees of the Trust and any other persons (such as vendors, customers, business partners and other external parties) are encouraged to raise genuine concerns regarding possible improprieties in the conduct of business activities, financial reporting and other malpractices at the earliest opportunity, and in an appropriate way.

This policy is designed to:

- Support the Trust's values; and
- Ensure that employees and any other persons can raise concerns without fear of reprisal; and
- Provide a transparent and confidential process for dealing with concerns.

This policy not only covers possible improprieties in matters of financial reporting, but also:

- Fraud; and
- Corruption, bribery or blackmail; and
- Criminal offences; and
- Failure to comply with a legal or regulatory obligation; and
- Miscarriage of justice; and
- Deliberate failure to follow/operate systems and procedures, which may put the assets or Trust's reputation at risk; and
- Endangering the health and safety of an individual; and
- Concealment of any of the above.

## PRINCIPLES

All concerns raised will be treated fairly and properly; and  
We will not tolerate the harassment or victimisation of anyone raising a genuine concern; and

Any individual making a disclosure will retain their anonymity unless they agree otherwise; and

The Trust will ensure that any individual raising a concern is aware of who is handling the matter; and

The Trust will ensure that no one will be at risk of suffering reprisal as a result of raising a concern even if they are mistaken. The Trust does not however extend this assurance to someone who maliciously raises a matter they know to be untrue.

## PROCEDURES FOR REPORTING OF CONCERNS

If any employee believes reasonably and in good faith that malpractice exists in the workplace, then he or she should report this immediately to the CEO. However, if for any reason, they are reluctant to do so, then they should report their concerns to:

- I. An independent third party by calling the whistle-blowing hotline on 6828 9185. This is provided through the independent party who provides the employee care counselling and legal advice service. The concerns will be reported to the Trust without revealing the identity of the whistle-blower.
- II. The chairman of the Audit and Risk Committee, currently Michael Gray, particularly if employees and any other persons still have concerns. If they feel that the matter is so serious that it cannot be discussed with any of the above, they can also report suspected wrongdoings via;
  - a. Regular mail or other means of delivery, addressed to the corporate address of the Trust, by which complaints may be submitted in a sealed envelope marked "Attention of the: Chairman, Whistle Blowing Committee, FSL Asset Management Pte Ltd – Private and Confidential to be opened by addressee only". The envelope will be forwarded, unopened, to the Audit and Risk Committee Chairman in his capacity as Chairman of the Whistle Blowing Committee; and
  - b. Email sent directly to the Chairman of the Whistle-Blowing Committee at [mikeggray@hotmail.com](mailto:mikeggray@hotmail.com); and
  - c. Telephone call to the mobile number of the Chairman of the Whistle-Blowing Committee at 9855 0055.

# WHISTLE-BLOWING POLICY

## HANDLING OF CONCERNS

Employees and any other persons, who have raised concerns internally, will be informed of who is handling the matter, how they can make contact with them and if there is any further assistance required. We will give as much feedback as we can without any infringement on a duty of confidence owed by us to someone else.

- I. Employees' and any other persons' identities will not be disclosed without prior consent (except where disclosure obligations are required under law and regulations). Where concerns cannot be resolved without revealing the identity of the employee and any other persons raising the concern, (e.g., if their evidence is required in court), we will enter in to a dialogue with all who are concerned to discuss how we can proceed.
- II. In all cases, upon receipt of the concern, the Whistle-Blowing Committee shall:
  - a. Acknowledge the receipt to the person reporting the concern (where the identity has been disclosed); and
  - b. Make an initial assessment as to the prima facie merits; and
  - c. Investigate the concerns raised expeditiously, without sacrificing thoroughness; and
  - d. Inform the person reporting the concern (where the identity has been disclosed) in writing of the outcome of the investigations; and
  - e. Ensure that the principles of due process and natural justice.
- III. If the Whistle-Blowing Committee deems it appropriate, they may engage, at the Trust's expense, independent advisors such as lawyers and accountants who are unaffiliated with the Trust's lawyers or external auditors to assist in its deliberations.
- IV. Following the investigation and evaluation of the concern, the Whistle-Blowing Committee will prepare a written report on its finding, recommended disciplinary, remedial or other actions, if any.

## RIGHT OF APPEAL

If someone who has reported a concern remains dissatisfied with the outcome of the investigation, they have a right of appeal on the following grounds:

- I. They believe the procedures have not been followed properly or; and
- II. They are convinced that the decision is one which no reasonable person could have reached.

The Chairman of the Board (or the Chairman of the Audit and Risk Committee, if the Whistle-Blowing allegation involves the Chairman) will appoint a person to hear the appeal. This will be an external lawyer or qualified accountant not involved with the Trust and who has experience with such matters.



# Financial Statements 2018

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# REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2018

The directors of FSL Trust Management Pte. Ltd., the Trustee-Manager of First Ship Lease Trust (the “Trust”) and its subsidiaries (together referred to as the “Group”), are pleased to submit this annual report to the unitholders of the Trust, together with the audited financial statements for the financial year ended 31 December 2018.

## 1. DIRECTORS

The directors of the Trustee-Manager in office at the date of this report are as follows:

Stathis Topouzoglou (Appointed on 28 February 2018)  
 Michael Chalkias (Appointed on 9 March 2018)  
 Michael Gray  
 Michael Oliver  
 Narayanan Sreenivasan

## 2. DIRECTORS' INTERESTS

According to the register kept by the Trustee-Manager for the purposes of Section 13 and 76 of the Singapore Business Trusts Act (the “Act”), no director who held office at the end of the financial year had interests in units, debentures, warrants or unit options of the Trust, or of related corporations, either at the beginning, or at the date of appointment, or at the end of the financial year except as follows:

Name of director	Direct Interest		Deemed Interest	
	At 31 December 2018	At 1 January 2018/ date of appointment (Number of Units)	At 31 December 2018	At 1 January 2018/ date of appointment (Number of Units)
Michael Gray	1,000,000	1,000,000	–	–
Stathis Topouzoglou	–	–	157,877,631	157,877,631
Michael Chalkias	–	–	157,877,631	157,877,631

Neither at the end of, nor at any time during the financial year was the Trustee-Manager a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Trustee-Manager to acquire benefits by means of the acquisition of units, debentures or unit options of the Trust.

Except as disclosed in Note 22 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Trust or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

There were no changes in any of the above mentioned interests in the Trust between the end of the financial year and 21 January 2019.

## 3. UNIT OPTIONS

During the financial year, other than disclosed in Note 12, there were:

- (i) no options granted by the Trustee-Manager to any person to take up unissued units in the Trust; and
- (ii) no units issued by virtue of any exercise of option to take up unissued units of the Trust. At the end of the financial year, there were no unissued units of the Trust under option.



# REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2018

## 4. AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee as at the date of this report comprise three independent and non-executive directors:

Michael Gray (Chairman)  
Michael Oliver  
Narayanan Sreenivasan

The Audit and Risk Committee carried out its functions in accordance with Regulation 13(6) of the Singapore Business Trusts Regulations and the SGX Listing Manual.

In performing its functions, the Audit and Risk Committee reviewed the overall scope of the external audit and the assistance given by the Trustee-Manager's officers to the auditors. It met with the external auditors to discuss the scope and results of their annual audit. In addition, the Audit and Risk Committee reviewed the financial statements of the Group and the Trust before their submission to the Board of Directors of the Trustee-Manager.

## 5. INDEPENDENT AUDITORS

The independent auditors, Moore Stephens LLP, Public Accountants and Chartered Accountants have expressed their willingness to accept re-appointment.

For and on behalf of the Board of Directors of the Trustee-Manager



.....  
Stathis Topouzoglou  
Director



.....  
Michael Chalkias  
Director

18 March 2019

# STATEMENT BY THE TRUSTEE-MANAGER

31 DECEMBER 2018

## STATEMENT AND CERTIFICATION

In our opinion:

- (a) the financial statements are drawn up so as to give a true and fair view of the financial position of the Group and of the Trust as at 31 December 2018 and of the financial performance, changes in unitholders' funds and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Business Trusts Act and International Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they fall due.

With respect to the income statement of the Group for the year ended 31 December 2018; we further certify that:

- fees or charges paid or payable out of the trust property to the Trustee-Manager are in accordance with the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time;
- interested person transactions are not detrimental to the interests of all the unitholders as a whole based on the circumstances at the time of the transaction; and
- the Board is not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the unitholders as a whole.

The Board of Directors has, on the date of this statement, authorised the above statements and these financial statements for issue.

For and on behalf of the Board of Directors of the Trustee-Manager



.....  
Stathis Topouzoglou  
Director



.....  
Michael Chalkias  
Director

18 March 2019

## STATEMENT BY THE CHIEF EXECUTIVE OFFICER

31 DECEMBER 2018

In accordance with Section 86 of the Singapore Business Trusts Act, I certify that I am not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the unitholders of the Trust as a whole.



.....  
Roger Woods  
Chief Executive Officer

18 March 2019

# INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST SHIP LEASE TRUST

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of First Ship Lease Trust (the "Trust") (constituted in the Republic of Singapore pursuant to a Deed of Trust dated 19 March 2007) and its subsidiaries (the "Group") which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Trust as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in unitholders' funds and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Trust are properly drawn up in accordance with the provisions of the Singapore Business Trusts Act, Chapter 31A (the Act) and International Financial Reporting Standards (IFRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Trust as at 31 December 2018 and of the consolidated financial performance, consolidated changes in unitholders' funds and consolidated statement of cash flows of the Group for the financial year ended on that date.

### Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST SHIP LEASE TRUST

(CONT'D)

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Estimated useful life and residual value of vessels</b></p> <p>We refer to Note 2.4, Note 3.1 and Note 3.2 to the financial statements.</p> <p>The carrying value of the Group's vessels amounted to US\$225,538,000 as at 31 December 2018.</p> <p>The Group estimates the useful life of the vessels based on the period over which the vessel is expected to be available for use. The estimated economic useful life of the vessels and residual value of the vessels are reviewed annually and are revised if expectations differ from previous estimates. The residual values of the vessels are estimated based on the average scrap steel price per light weight tonne in recent years.</p> <p>The estimation of the useful life and residual value of vessels requires the use of estimations and assumptions which require judgements. Changes to the estimates and assumptions will result in changes to the carrying values of the vessels recognised at the reporting period end.</p>	<p><b>Our response</b></p> <p>We reviewed and compared the estimated useful life and residual value of the vessels to actual past performance and industry benchmarks and challenged the key estimates and assumptions used by management.</p> <p>We recomputed the scrap steel price per light weight tonne in recent years based on reputable industry sources and compared this to the residual values used by the Group; and reviewed the reasonableness of the economic useful life of the vessels used by the Group against the current age of similar vessels in the industry.</p> <p><b>Our findings</b></p> <p>We found the estimates and assumptions used to determine the useful life and residual value of vessels to be reasonable based on available evidence.</p>
<p><b>Impairment assessment of vessels</b></p> <p>We refer to Note 2.4, Note 2.10, Note 3.3 and Note 4 to the financial statements.</p> <p>The carrying value of the Group's vessels amounted to US\$225,538,000 as at 31 December 2018.</p> <p>Following the less than favourable outlook of the industry, the Group carried out a detailed impairment review of the vessels. The Group determined the recoverable amount for each vessel based on the higher of the fair value of the vessel less the estimated costs of disposal and the carrying value of the vessels based on the "value-in-use" (the "VIU") methodology. As a result of the assessment, the Group recognised a total impairment of US\$20,648,000 for eight vessels during the financial year ended 31 December 2018. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values and no further impairment provision was required.</p> <p>These conclusions are dependent upon management estimates, judgements and assumptions in respect of: estimated resale values provided by third party sources, estimated utilisation, disposal values, residual values, current and historical charter hire rates, operating costs, recent performance, condition of the vessels and pre-tax discount rates.</p>	<p><b>Our response</b></p> <p>We assessed the methodologies used by management to estimate the value-in-use calculations of the vessels. We checked the accuracy and relevance of the input data used by management to estimate the value-in-use calculations compared to information obtained from reputable industry sources. We performed a sensitivity analysis and headroom analysis on the key assumptions, where necessary.</p> <p><b>Our findings</b></p> <p>We found the significant estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable based on available evidence.</p>

# INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST SHIP LEASE TRUST

(CONT'D)

## Other Information

The management of the Trustee-Manager is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Directors of the Trustee-Manager for the Financial Statements

The management of the Trustee-Manager is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets that are part of the trust property of the registered business trust are safeguarded against loss from unauthorised use or disposition; and transactions by the Trustee-Manager entered into on behalf of or purported to be entered into on behalf of the registered business trust are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, the management of the Trustee-Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The responsibilities of the directors of the Trustee-Manager include overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the Trustee-Manager.

# INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF FIRST SHIP LEASE TRUST

(CONT'D)

## Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Conclude on the appropriateness of the use of the going concern basis of accounting by the management of the Trustee-Manager and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors of the Trustee-Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of the Trustee-Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors of the Trustee-Manager, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Trustee-Manager on behalf of the Trust and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Neo Keng Jin.

**Moore Stephens LLP**  
Public Accountants and  
Chartered Accountants

Singapore  
18 March 2019

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Group		Trust	
		2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>Assets</b>					
Vessels	4	225,538	289,077	–	–
Subsidiaries	5	–	–	45,312	215,863
<b>Non-current assets</b>		<b>225,538</b>	<b>289,077</b>	<b>45,312</b>	<b>215,863</b>
Trade and other receivables	6	12,760	10,504	76,586	38,991
Cash and cash equivalents	7	13,881	13,201	1,331	5,507
Non-current assets classified as held-for-sale	4, 8	10,989	18,260	–	–
<b>Current assets</b>		<b>37,630</b>	<b>41,965</b>	<b>77,917</b>	<b>44,498</b>
<b>Total assets</b>		<b>263,168</b>	<b>331,042</b>	<b>123,229</b>	<b>260,361</b>
<b>Equity attributable to unitholders of the Trust</b>					
Units in issue	9	523,284	523,284	523,284	523,284
Reserves	10	(368,022)	(349,596)	(407,040)	(415,653)
<b>Total equity</b>		<b>155,262</b>	<b>173,688</b>	<b>116,244</b>	<b>107,631</b>
<b>Liabilities</b>					
Bank loans	11	73,765	–	–	–
Convertible bonds	12	6,287	–	6,287	–
<b>Non-current liabilities</b>		<b>80,052</b>	<b>–</b>	<b>6,287</b>	<b>–</b>
Trade and other payables	14	4,585	5,370	698	1,424
Bank loans	11	23,269	151,306	–	151,306
Deferred income	13	–	678	–	–
<b>Current liabilities</b>		<b>27,854</b>	<b>157,354</b>	<b>698</b>	<b>152,730</b>
<b>Total liabilities</b>		<b>107,906</b>	<b>157,354</b>	<b>6,985</b>	<b>152,730</b>
<b>Total equity and liabilities</b>		<b>263,168</b>	<b>331,042</b>	<b>123,229</b>	<b>260,361</b>

The accompanying notes form an integral part of these financial statements.



# CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 US\$'000	2017 US\$'000
Revenue	15	67,046	81,499
Expenses:			
Depreciation expense on vessels		(31,731)	(37,106)
Impairment on vessels	4	(20,648)	(81,129)
Voyage expenses		(2,281)	(1,701)
Vessel operating expenses		(19,456)	(23,054)
Management fees	22	(1,842)	(2,241)
Trustee fees	22	(61)	(86)
Other trust expenses		(2,402)	(2,188)
Total operating expenses		<u>(78,421)</u>	<u>(147,505)</u>
<b>Results from operating activities</b>		(11,375)	(66,006)
Other income		–	400
Gain on disposal of vessels	4	886	771
Finance income	16	–	54
Finance costs	16	(8,498)	(9,106)
<b>Net finance costs</b>		<u>(8,498)</u>	<u>(9,052)</u>
<b>Loss before tax</b>	17	(18,987)	(73,887)
Income tax expense	18	1	(1)
<b>Loss for the year</b>		<u>(18,986)</u>	<u>(73,888)</u>
<b>Income available for distribution</b>	19	<u>–</u>	<u>–</u>
<b>Distribution per unit (US cents)</b>		<u>–</u>	<u>–</u>
<b>(Loss) per unit (US cents)</b>			
Basic	20	<u>(2.98)</u>	<u>(11.59)</u>
Diluted	20	<u>(2.98)</u>	<u>(11.59)</u>

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 US\$'000	2017 US\$'000
Loss for the year	(18,986)	(73,888)
<b>Other comprehensive income</b>		
<b>Items that are or may be classified subsequently to profit or loss:</b>		
Effective portion of changes in fair value of cash flow hedges	-	8
Net change in fair value of cash flow hedges reclassified to income statement	-	114
Other comprehensive income for the year, net of tax	-	122
<b>Total comprehensive loss for the year</b>	<b>(18,986)</b>	<b>(73,766)</b>

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Units in issue US\$'000	Option premium on convertible bonds US\$'000	Foreign currency translation reserve US\$'000	Accumulated losses US\$'000	Total equity US\$'000
<b>At 1 January 2018</b>		523,284	–	(6,725)	(342,871)	173,688
<b>Total comprehensive loss for the year</b>						
<b>Loss for the year</b>		–	–	–	(18,986)	(18,986)
<b>Other comprehensive income</b>		–	–	–	–	–
<b>Total comprehensive loss for the year</b>		–	–	–	(18,986)	(18,986)
<b>Transactions with unitholders, recognised directly in equity</b>						
Issue of convertible bonds – equity component	12	–	560	–	–	560
Distributions to unitholders	19	–	–	–	–	–
<b>Total transactions with unitholders</b>		–	560	–	–	560
<b>At 31 December 2018</b>		523,284	560	(6,725)	(361,857)	155,262
	Note	Units in issue US\$'000	Hedging reserve US\$'000	Foreign currency translation reserve US\$'000	Accumulated losses US\$'000	Total equity US\$'000
<b>At 1 January 2017</b>		523,284	(122)	(6,725)	(268,983)	247,454
<b>Total comprehensive loss for the year</b>						
<b>Loss for the year</b>		–	–	–	(73,888)	(73,888)
<b>Other comprehensive income</b>						
<b>Items that are or may be classified subsequently to profit or loss:</b>						
Effective portion of changes in fair value of cash flow hedges		–	8	–	–	8
Net change in fair value of cash flow hedges reclassified to income statement		–	114	–	–	114
<b>Total other comprehensive income</b>		–	122	–	–	122
<b>Total comprehensive loss for the year</b>		–	122	–	(73,888)	(73,766)
<b>Transactions with unitholders, recognised directly in equity</b>						
Distributions to unitholders	19	–	–	–	–	–
<b>Total transactions with unitholders</b>		–	–	–	–	–
<b>At 31 December 2017</b>		523,284	–	(6,725)	(342,871)	173,688

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 US\$'000	2017 US\$'000
<b>Cash flows from operating activities</b>			
Loss before tax		(18,987)	(73,887)
Adjustments for:			
Depreciation expense on vessels	4	31,731	37,106
Impairment on vessels	4	20,648	81,129
Amortisation of debt transaction costs		533	851
Amortisation of initial direct costs		217	345
Amortisation of deferred income		(678)	(1,445)
Interest income		–	(54)
Interest expense		7,838	8,127
Gain on disposal of vessels		(886)	(771)
Operating cash flows before movements in working capital		40,416	51,401
Changes in trade and other receivables		(2,256)	(6,630)
Changes in inventories		–	122
Changes in trade and other payables		262	87
Changes in lease income received in advance		(955)	2,555
Cash generated from operations		37,467	47,535
Income taxes refunded		1	5
<b>Net cash generated from operating activities</b>		<b>37,468</b>	<b>47,540</b>
<b>Cash flows from investing activities</b>			
Net proceeds on disposal of vessels		19,146	5,813
Costs incurred for dry-docking	4	(6)	(3,451)
Vessels initial direct costs	4	(40)	–
Interest received		–	70
<b>Net cash generated from investing activities</b>		<b>19,100</b>	<b>2,432</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of convertible bonds	12	6,585	–
Loan drawdown	11	108,000	–
Payment of debt transaction costs		(2,407)	–
Pledged deposit	7	(500)	–
Repayment of secured bank loans	11	(124,781)	(38,283)
Prepayment of secured bank loans	11	(35,617)	(33,575)
Interest paid		(7,668)	(7,812)
<b>Net cash used in financing activities</b>		<b>(56,388)</b>	<b>(79,670)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>180</b>	<b>(29,698)</b>
Cash and cash equivalents at 1 January		13,201	42,899
<b>Cash and cash equivalents at 31 December</b>	7	<b>13,381</b>	<b>13,201</b>

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(CONT'D)

Reconciliation of liabilities arising from financing activities:

	At 1 January		Loan drawdown/ Net proceeds from issuance of convertible bonds	Debt transaction costs payments	Non-cash changes		At 31 December
	US\$'000	US\$'000	US\$'000	US\$'000	Interest expense US\$'000	Amortisation of debt transaction costs/bond interest US\$'000	US\$'000
<b>2018</b>							
<u>Secured bank loans (Note 11)</u>							
Secured bank loans	151,306	(160,398)	108,000	-	-	-	98,908
Less: Unamortised debt transaction costs	-	-	-	(2,407)	-	533	(1,874)
	151,306	(160,398)	108,000	(2,407)	-	533	97,034
<u>Convertible bonds (Note 12)</u>							
Convertible bonds	-	-	6,025	-	574	(312)	6,287
Option premium on convertible bonds	-	-	560	-	-	-	560
	-	-	6,585	-	574	(312)	6,847
<u>Accrued financing expenses (Note 14)</u>							
Accrued loan interest	930	(7,473)	-	-	7,252	-	709
Accrued interest for amount due to agent	-	(10)	-	-	12	-	2
Accrued bond interest	-	(185)	-	-	-	312	127
	930	(7,668)	-	-	7,264	312	838
<b>2017</b>							
<u>Secured bank loans (Note 11)</u>							
Secured bank loans	223,164	(71,858)	-	-	-	-	151,306
Less: Unamortised debt transaction costs	(851)	-	-	-	-	851	-
	222,313	(71,858)	-	-	-	851	151,306
<u>Accrued financing expenses (Note 14)</u>							
Accrued loan interest	611	(7,693)	-	-	8,012	-	930
Accrued swap interest	4	(119)	-	-	115	-	-
	615	(7,812)	-	-	8,127	-	930

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

## 1. GENERAL INFORMATION

First Ship Lease Trust (the “Trust”) is a Singapore-domiciled business trust constituted pursuant to a Deed of Trust dated 19 March 2007 as amended and supplemented from time to time (the “Trust Deed”) with FSL Trust Management Pte. Ltd. (the “Trustee-Manager”). The Trustee-Manager’s registered office is 9 Temasek Boulevard, #19-03, Suntec Tower Two, Singapore 038989. The Trust Deed is governed by the laws of the Republic of Singapore. The Trustee-Manager is under a duty to take into custody and hold the assets of the Trust in trust for the unitholders as a whole.

The Trust was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited on 27 March 2007.

The Trust is a shipowner and provider of leasing services to the international shipping industry. As at 31 December 2018, the Trust had a modern, high quality and diverse portfolio of 19 vessels consisting of 12 product tankers, 3 containerships, 2 chemical tankers and 2 crude oil tankers. As at the authorisation date of the financial statements, 12 vessels are employed on leases (10 vessels on bareboat charter and two vessels on time charter) and have a dollar-weighted average remaining lease period of approximately two years (excluding extension periods and early buy-out options). The remaining seven vessels comprise two crude oil tankers in a RSA (Revenue Sharing Agreement), three product tankers in an MR product tanker pool and two product tankers in Sigma Tanker Pool. The combined portfolio of vessels has a dollar-weighted average age of approximately twelve years.

The consolidated financial statements relate to the Trust and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

The financial statements were authorised for issue by the Trustee-Manager on 18 March 2019.

The Trust Deed provides for the following fees payable to the Trustee-Manager:

### Management fees

The Trustee-Manager is entitled to receive a management fee of 4.0% of the cash lease income in the relevant calendar year.

Any change in the structure of the management fee must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

The management fee payable to the Trustee-Manager is payable in the form of cash and/or units (as the Trustee-Manager may elect, such election to be irrevocable). Where the management fee is paid in cash, the amount is paid monthly, in arrears. Where the management fee is paid in the form of units, the amount is paid quarterly, in arrears.

### Incentive fees

The Trustee-Manager is entitled to receive an incentive fee, payable quarterly and calculated as at 31 March, 30 June, 30 September and 31 December each year for the three-month period ending on each of the said dates. The incentive fee is determined on the basis of comparing the net distribution amount per unit against a benchmark quarterly distribution per unit in accordance with the formula stipulated in the Trust Deed.

The incentive fee payable to the Trustee-Manager is payable in the form of cash or, at the option of the Trustee-Manager, by way of the issue of new units as soon as practicable after the end of the relevant quarter.

Any change in the structure of the incentive fees must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 1. GENERAL INFORMATION (CONT'D)

### Trustee fees

The Trustee-Manager is entitled to receive a trustee fee of 0.02% per annum of the value of the Trust Property (being all the assets of the Trust, as stipulated in the Trust Deed). The trustee fee is payable out of the Trust Property of the Trust in cash on a quarterly basis. Each quarterly payment shall be determined based on the value of the Trust Property as at the last day of the immediately preceding quarter and as reflected in the quarterly financial information of the Group for that quarter. The Trustee-Manager is also entitled to reimbursement of expenses incurred in the performance of its duties under the Trust Deed.

Any change in the structure of the trustee fee must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

### Other fees

The Trustee-Manager is also entitled to the following:

- An acquisition fee amounting to 1.0% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the acquisition price of vessels acquired directly or indirectly by the Trust, pro-rated if applicable, to the proportion of the Trust's interest. The acquisition fee is payable in the form of cash and/or units (as the Trustee-Manager may elect, such election to be irrevocable and made before the payment of the acquisition fee). No acquisition fee is payable on the acquisition of the initial portfolio of vessels.
- A disposal fee amounting to 0.5% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the sale price of vessels disposed, pro-rated if applicable, to the proportion of the Trust's interest. The disposal fee is payable in cash.

Any increase in the acquisition fee or disposal fee above the permitted limit or any change in the structure of such fees shall be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the Trustee-Manager to exercise its judgement and make certain critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.1 Basis of Preparation (cont'd)

#### Adoption of New and Revised IFRS

For the financial year ended 31 December 2018, the Group has adopted the following new and revised IFRS which are relevant to the Group and mandatory for application:

<u>IFRS 9</u>	Financial Instruments
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IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new “expected credit loss” model. The Group adopted IFRS 9 from 1 January 2018.

In accordance with the transitional provisions in IFRS 9 paragraph 7.2.15 and 7.2.26, comparative figures have not been restated. Accordingly, requirements of IAS 39 Financial Instruments: Recognition and Measurement will continue to apply to financial instruments up to the financial year ended 31 December 2017 (Accounting policy Note 2.7(b)). Additionally, the Group is exempted from complying with IFRS 7 for the comparative period to the extent that the disclosures required by IFRS 7 relate to the items within the scope of IFRS 9. As a result, the requirements under IFRSs are applied in place of the requirements under IFRS 7 and IFRS 9 to comparative information about items within the scope of IFRS 9.

Changes in accounting policies resulting from the adoption of IFRS 9 have been generally applied by the Group retrospectively, except as described below:

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
  - The determination of the business model within which a financial asset is held; and
  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- If a debt instrument has a low credit risk at 1 January 2018, the Group had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

Details of their impact on the Group's consolidated financial statements as well as the new requirements are described below.

(i) Classification and measurement of financial assets

For financial assets held by the Group on 1 January 2018, management has assessed the business models that are applicable on that date to these assets so as to classify them into the appropriate categories under IFRS.

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policy for financial assets and liabilities except that trade and other receivables and cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

(ii) Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortised cost.

The application of IFRS 9 impairment requirements at 1 January 2018 did not have a significant impact on the financial performance and financial position of the Group. Additional information about how the Group measures the allowance for impairment is described in Note 6 and Note 24.



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.1 Basis of Preparation (cont'd)

Adoption of New and Revised IFRS (cont'd)

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under IFRS 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group adopted IFRS 15 in its financial statements using the retrospective application approach. The adoption of IFRS 15 did not have a significant impact on the financial performance or financial position of the Group.

New and Revised IFRS Issued But Not Yet Effective

As at the date of authorisation of these financial statements, the Group has not adopted the following standards that have been issued but are not yet effective:

#### IFRS 16 Leases

IFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees. The standard is effective for annual periods beginning on or after 1 January 2019. At the date of this report, management is of the view that the adoption of this standard will have no impact on the financial performance or the financial position of the Group upon implementation.

#### Amendments to IFRS 9 Prepayment Features with Negative Compensation and Modifications of Financial Liabilities

The amendments provide an exception for entities to measure at amortised cost some prepayable financial assets with negative compensation (i.e prepayment amount that is substantially less than unpaid amounts of principal and interest).

The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in de-recognition. It clarifies that an entity should recognise a gain or loss in profit or loss immediately at the date of such modification or exchange. The amendments are effective for annual periods beginning on or after 1 January 2019.

At the date of this report, management is of the view that the adoption of this standard will have no impact on the financial performance or the financial position of the Group upon implementation.

#### Amendments to IAS 28 Long Term Interest in Associates and Joint Venture

The amendments clarify that IFRS 9 Financial Instruments, including its impairment requirements, applies to long-term interests in an associate or joint venture to which the equity method is not applied but, in substance, form part of the net investment in associate or joint venture. The amendments are effective for annual periods beginning on or after 1 January 2019.

At the date of this report, management is of the view that the adoption of this standard will have no impact on the financial performance or the financial position of the Group upon implementation.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.1 Basis of Preparation (cont'd)

New and Revised IFRS Issued But Not Yet Effective (cont'd)

#### Improvements to IFRS 3 and IFRS 11 Business Combinations and Joint Arrangements

This amendment prescribes the accounting requirements when an entity obtains control of a business that met the definition of a joint operation immediately before the date at which control is obtained. In such a situation, the entity should apply the accounting requirements applicable to business combinations achieved in stages, which includes re-measuring in accordance with IFRS 3 the entire interest in the joint operation that was held prior to the date at which control is obtained. The amendment is applicable to annual periods beginning on or after 1 January 2019.

At the date of this report, management is of the view that the adoption of this standard will have no impact on the financial performance or the financial position of the Group upon implementation.

#### IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies that in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity first determines whether to consider each uncertain tax treatment separately or together as a Company. An entity should determine the accounting tax position, on the assumption that a taxation authority has the right to examine the amounts reported to them and has full knowledge of all relevant information. IFRIC 23 provides the following guidance on determining an entity's accounting tax positions:

- If it is probable that the taxation authority will accept the uncertain tax treatment, the entity determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in the entity's income tax filing.
- If it is not probable, an entity should estimate the effect of the uncertainty in determining the related accounting tax position, using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

The amendments are effective for annual periods beginning on or after 1 January 2019. At the date of this report, management is of the view that the adoption of this standard will not have any impact on the financial performance or financial position of the Group.

#### Amendments to IAS 12 Income Taxes

This amendment requires an entity to recognise the income tax consequences of dividends paid in profit or loss, other comprehensive income, or equity, according to where the entity originally recognised those past transactions or events. The tax consequences should be recognised when the liability to pay the dividend is recognised. The amendments are effective for annual periods beginning on or after 1 January 2019. At the date of this report, management is of the view that the adoption of this standard will not have any impact on the financial performance or financial position of the Group.

#### Amendments to IAS 23 Borrowing Costs

This amendment clarifies that after a qualifying asset is ready for its intended use or sale, any outstanding borrowings made specifically to obtain that qualifying asset should be included within the pool of general borrowings used to calculate capitalised borrowing costs.

The amendments are effective for annual periods beginning on or after 1 January 2019. At the date of this report, management is in the process of adopting the standard.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Basis of Consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### Accounting for subsidiaries by the Trust

Investments in subsidiaries are stated in the Trust's statement of financial position at cost less accumulated impairments.

### 2.3 Foreign Currencies

#### Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The financial statements are presented in United States ("US") dollars which is the Trust's functional currency. All financial information presented in US dollars has been rounded to the nearest thousand, unless otherwise stated.

#### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in a foreign operation (see below).

#### Foreign operations

The assets and liabilities of foreign operations are translated to US dollars at exchange rates at the end of the reporting date. The income and expenses of foreign operations are translated to US dollars at exchange rates prevailing at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented within equity in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to the income statement.

#### Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Trust's net investment in a foreign operation are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in the foreign currency translation reserve is transferred to the income statement as an adjustment to the profit or loss arising on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 Vessels

Vessels are stated at cost less accumulated depreciation and accumulated impairments.

Cost includes expenditure that is directly attributable to the acquisition of the vessel as well as initial direct costs incurred in negotiating and arranging the operating lease of the vessel.

The cost of replacing part of an item of a vessel is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

Vessels are depreciated on a straight-line basis at rates which are calculated to write-down their cost to their estimated residual values at the end of the economic useful life of 25 years. The residual value of such vessel is estimated based on the average scrap steel price per light weight tonne in recent years.

Vessels leased on a long-term bareboat charter basis under operating lease agreements are depreciated on a straight-line basis down to the estimated residual value at the end of the base lease term of twelve years.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

On disposal of a vessel, the difference between the disposal proceeds and its carrying amount is recognised in the income statement.

Dry-docking costs are capitalised and included in vessels costs and depreciated on a straight-line basis over the period to the next scheduled dry-docking, which is generally five years.

### 2.5 Non-current Assets Classified as Held-for-Sale

Non-current assets are classified as held for sale or distribution if their carrying amount will be recovered through a sale transaction or distribution rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria set out above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell (fair value less costs to distribute).

The assets are not depreciated or amortised while they are classified as held-for-sale. Any impairment on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment that has been previously recognised) is recognised in income statement.

### 2.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is derived on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. When inventories are consumed, the carrying amount of these inventories is recognised as an expense in the year in which the consumption occurs.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.7 Financial Instruments

#### (a) Financial assets (accounting policies are applicable from 1 January 2018)

##### Recognition and de-recognition

Financial assets are recognised when, and only when the Group becomes party to the contractual provisions of the instruments. All regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

##### Classification and measurement

The Group classifies its financial assets at amortised cost.

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Debt instruments mainly comprise of cash and cash equivalents and trade and other receivables.

The Group measures its debt instruments at amortised cost. These are debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the income statement when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

##### Impairment

The Group assesses on a forward looking basis the expected credit losses associated with (i) financial assets measured at amortised cost and (ii) intra-company financial guarantee contracts.

Loss allowances of the Group are measured on either of the following bases:

- 12-month expected credit losses – represents the expected credit losses that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime expected credit losses – represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument or contract asset.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.7 Financial Instruments (cont'd)

#### (a) Financial assets (accounting policies are applicable from 1 January 2018) (cont'd)

##### Impairment (cont'd)

##### Simplified approach – Trade receivables

The Group applies the simplified approach to provide expected credit losses for all trade receivables. The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

##### General approach – Other financial instruments and financial guarantee contracts

The Group applies the general approach to provide for expected credit losses on all other financial instruments and financial guarantee contracts, which requires the loss allowance to be measured at an amount equal to 12-month expected credit losses at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. In assessing whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information that is reasonable and supportable, including the Group's historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month expected credit losses.

The Group considers a financial guarantee contract to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditor and the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

##### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired.

##### Measurement of expected credit losses

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.7 Financial Instruments (cont'd)

#### (a) Financial assets (accounting policies are applicable from 1 January 2018) (cont'd)

##### Impairment (cont'd)

##### Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

#### (b) Financial assets (accounting policies are applicable up to 31 December 2017)

##### Non-derivative financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset.

##### Non-derivative financial assets

The Group classifies non-derivative financial assets into loans and receivables.

##### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairments.

Loans and receivables comprise trade and other receivables and cash and cash equivalents. Cash and cash equivalents comprise cash balances and bank deposits.

##### Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

##### Impairment of financial assets: loans and receivables

An impairment in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant loans and receivables are tested for impairment on an individual basis. The remaining loans and receivables are assessed collectively in groups that share similar credit risk characteristics.

All impairments are recognised in the income statement. An impairment in respect of financial assets measured at amortised cost is reversed if the subsequent increase in fair value can be related objectively to an event occurring after the impairment was recognised. The reversal is recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.7 Financial Instruments (cont'd)

#### (c) Financial liabilities and units in issue

##### Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise bank loans, convertible bonds and trade and other payables.

##### Units in issue

Units issued are classified as equity.

Unit issue costs represent expenses incurred in connection with the issue of units. All such expenses are deducted directly from unitholders' funds, net of any tax effects.

When the Trust purchases the units issued, the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within statement of changes in unitholders' funds, until they are cancelled, sold or reissued.

When units are subsequently cancelled, the costs of units are deducted against the units in issue if the units are purchased out of capital of the Trust.

### 2.8 Borrowings

#### (a) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

#### (b) Convertible bonds

The total proceeds from convertible bonds issued are allocated to the liability component and the equity component, which are separately presented on the Statement of Financial Position.

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

The difference between the total proceeds and the liability component is allocated to the conversion option (equity component), which is presented in equity net of any deferred tax effect. The carrying amount of the conversion option is not adjusted in subsequent periods. When the conversion option is exercised, its carrying amount is transferred to the share capital. When the conversion option lapses, its carrying amount is transferred to retained profits.



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.9 Leases (when entities within the Group are lessors of an operating lease)

The Group owns vessels and leases them to lessees under fixed and floating rate bareboat/time charter arrangements. These charters are classified as operating leases. In determining lease classification at inception, the Group evaluated the terms and conditions of the charter arrangement. As the present values of minimum lease payments do not amount to substantially the fair values of the vessels, and the purchase options, where applicable, are not expected to be sufficiently lower than the fair values at the date the options become exercisable, the Group has assessed that substantially all the risks and rewards of the vessels remain with the Group.

Lease income is recognised in the income statement on a straight-line basis over the lease term. Initial direct costs incurred by the Group in negotiating and arranging an operating lease added to the carrying amount of the leased asset are recognised as an expense in the income statement over the lease term on the same basis as the lease income.

### 2.10 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairments are recognised in the income statement. Impairment recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment in respect of non-financial assets recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

### 2.11 Revenue Recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

Revenue from bareboat charters and time charters, which are an operating lease in nature, is recognised on a straight-line basis over the period of the charter contracts (Note 2.9).

Deferred income, arising from the consideration received by the Group as part of an agreement to permanently amend the terms on its two TORM charter contracts, is recognised in the income statement as 'bareboat charter lease income' over the remaining lease term on the TORM charter contracts. These contracts expired during the financial year ended 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.11 Revenue Recognition (cont'd)

For vessels deployed in the spot market, freight income is recognised over time as the performance obligation is satisfied based on the percentage of completion method calculated on a load-to-discharge basis over the voyage period.

For vessels deployed on a pool arrangement, the pool measures revenue on a time charter equivalent basis based on the contractual rates and the duration of each voyage for each vessel, and revenue is recognised by the Group upon delivery of the service in accordance with the terms and conditions of the charter parties. Total pool revenue is derived by aggregating the revenues earned by each vessel participating in the pool. Each vessel owner's share of the total pool revenue is primarily dependent on the (i) number of days the vessel has been available for the pool in relation to the total available pool earning days during the period, and (ii) pool points assigned to each vessel in the pool. Pool points are generally determined based on the size and performance of the vessel. The pool revenue is net of pool commission, bunkers costs and related voyage expenses.

### 2.12 Finance Income and Finance Expense

Finance income comprises interest income on funds invested, net foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings and net foreign currency losses.

All borrowing costs are recognised in the income statement using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

### 2.13 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.14 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management of the Trustee-Manager who are responsible for allocating resources and assessing performance of the operating segments.

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are reviewed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical Accounting Estimates and Assumptions

The following are the key sources of estimation and assumptions at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 3.1 Estimated Useful Lives of Vessels

The Group estimates the useful lives of the vessels based on the period over which the vessel is expected to be available for use. The estimated economic useful lives of the vessels (25 years) are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical obsolescence and legal or other limits on the use of the relevant asset. In addition, the estimation of the useful lives of the vessels is on the collective assessment of industry practice, internal technical evaluation and experience with similar vessels.

During the financial year ended 31 December 2018, the Group has reviewed and is satisfied that the useful lives of these vessels remained appropriate. The depreciation charged on the vessels for the financial year ended 31 December 2018 amounted to US\$31,731,000 (2017: US\$37,106,000). As at 31 December 2018, the carrying amount of the vessels amounted to US\$225,538,000 (2017: US\$289,077,000). If the expected useful lives of the vessels are to increase/decrease by 10% from management estimates, the Group's depreciation will decrease and increase by approximately US\$2,738,000 (2017: US\$3,243,000) and US\$3,347,000 (2017: US\$3,964,000) respectively.

### 3.2 Estimated Residual Values of Vessels

The Group reviews the residual values of the vessels at each reporting date to ensure that the carrying amounts are consistent with the estimated value of a future disposal.

The residual values of the vessels are estimated based on the average scrap steel price per light weight tonne in recent years. In determining the residual values of vessels leased on a long-term bareboat charter basis under operating lease agreements, the Group has considered various factors such as the type, size, age of these vessels and the existing lease arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONT'D)

Critical Accounting Estimates and Assumptions (cont'd)

### 3.3 Impairment Assessment of Vessels

Impairment is recognised when events and circumstances indicate that the vessel may be impaired and the carrying amount of the vessel exceeds the recoverable amount. The recoverable amount for each vessel is determined based on the higher of the fair value of the vessel less the estimated costs of disposal and the carrying value of the vessels based on a "value-in-use" methodology.

In determining the fair value less costs of disposal, the Group has obtained valuation reports from third party sources in December 2018. The valuation of the vessels was prepared assuming a sale between a willing seller and a willing buyer on a charter-free basis.

For the value-in-use calculations, the Group determined the cash flows based on past performance and their expectation of market development. The Group prepared the value-in-use calculation based on projected cash flows over the remaining useful life of each vessel and its projected residual value.

The projected cash inflows are based on existing charter contract rates and/or inflation-adjusted daily rates from observable historical trends of five to 10 years. Management has adjusted the projected cash flows with management's assessment of the achievable cash flows based on recent performance of the vessels and the age of the vessels. If the Group were to project cash flows based on the current average rates, the carrying values of the vessels will decrease by approximately 15% (2017: 7%).

The projected cash outflows take into consideration each vessel's inflation-adjusted actual and budgeted operating expenses. The pre-tax discount rate is 8.18% (2017: 6.62%) and takes into account the time value of money and the risks specific to the vessels' estimated cash flows. If the pre-tax discount rates increases by 1%, the carrying values of the vessels will decrease by approximately 3% (2017: 3%).

During the financial year ended 31 December 2018, the Group recognised an impairment on vessels amounting to US\$20,648,000 (2017: US\$81,129,000). As at 31 December 2018, the carrying amount of the vessels was US\$225,538,000 (2017: US\$289,077,000).

#### Critical Judgements

In the process of applying the Group's accounting policies, the application of judgements that are expected to have a significant effect on the amounts recognised in the financial statements are as follows:

### 3.4 Classification of Leases

The Group owns vessels and leases them to lessees under fixed and floating rate bareboat/time charter arrangements. These charters are classified as operating leases. In determining lease classification at inception, the Group evaluated the terms and conditions of the charter arrangement. As the present values of minimum lease payments do not amount to substantially the fair values of the vessels, and the purchase options, where applicable, are not expected to be sufficiently lower than the fair values at the date the options become exercisable, the Group has assessed that substantially all the risks and rewards of the vessels remain with the Group.

During the financial year ended 31 December 2018, the Group earned bareboat charter lease income and time charter income of US\$30,310,000 and US\$6,205,000 (2017: US\$35,516,000 and US\$17,054,000) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 4. VESSELS

Group	Vessels US\$'000	Initial direct costs US\$'000	Total US\$'000
<b>2018</b>			
<b>Cost</b>			
At 1 January 2018	799,324	7,561	806,885
Addition	6	40	46
Reclassified to non-current assets classified as held-for-sale	(58,037)	(696)	(58,733)
At 31 December 2018	741,293	6,905	748,198
<b>Less:</b>			
<b>Accumulated depreciation/amortisation and impairments</b>			
At 1 January 2018	510,981	6,827	517,808
Depreciation/amortisation charge for the year	31,731	217	31,948
Impairment recognised in the income statement	20,648	–	20,648
Reclassified to non-current assets classified as held-for-sale	(47,048)	(696)	(47,744)
At 31 December 2018	516,312	6,348	522,660
<b>Carrying amount</b>			
At 31 December 2018	224,981	557	225,538
<b>2017</b>			
<b>Cost</b>			
At 1 January 2017	900,510	7,561	908,071
Addition	3,451	–	3,451
Disposal	(24,467)	–	(24,467)
Reclassified to non-current assets classified as held-for-sale	(80,170)	–	(80,170)
At 31 December 2017	799,324	7,561	806,885
<b>Less:</b>			
<b>Accumulated depreciation/amortisation and impairments</b>			
At 1 January 2017	474,677	5,886	480,563
Depreciation/amortisation charge for the year	37,106	345	37,451
Disposal	(19,425)	–	(19,425)
Impairment recognised in the income statement	80,533	596	81,129
Reclassified to non-current assets classified as held-for-sale	(61,910)	–	(61,910)
At 31 December 2017	510,981	6,827	517,808
<b>Carrying amount</b>			
At 31 December 2017	288,343	734	289,077

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 4. VESSELS (CONT'D)

The Group's vessels with a net carrying value of US\$225,538,000 (2017: US\$289,077,000), are mortgaged to financial institutions (Note 11).

Dry-docking costs included in vessel costs are capitalised and depreciated on a straight-line basis over the period to the next scheduled dry-docking, which is generally five years. As at 31 December 2018, the net carrying value of dry-docking amounted to US\$3,785,000 (2017: US\$5,979,000).

As at 31 December 2018, the Group reclassified one product tanker (2017: one chemical tanker and one containership) to non-current assets classified as held-for-sale. The Group recorded an impairment on the vessel amounting to US\$6,335,000 (2017: US\$8,919,000) in the income statement. These are non-recurring fair value which have been measured using observable inputs, being the prices based on Memorandum of Agreements comparable to sale of similar vessel and these are within Level 2 of fair value hierarchy (Note 24).

In addition, during the financial year ended 31 December 2018, the Group recorded a further impairment of US\$14,313,000 for the remaining vessels based on value in use calculations. During the previous financial year ended 31 December 2017, the Group recorded a further impairment of US\$72,210,000 for the remaining vessels, comprising of US\$47,274,000 based on value in use calculations and US\$24,936,000 based on fair value less cost of disposal.

The value in use calculations use discounted cash flow projections based on the projected cash flows over the remaining useful life of each vessel and its projected residual value, which was based on the average scrap steel price per light weight tonne in recent years or the values obtained from third party sources. The fair value less cost of disposal is based on the sale of similar vessels and is therefore within Level 2 of the fair value hierarchy (Note 24).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 5. SUBSIDIARIES

- (a) Total interests in subsidiaries

	Trust	
	2018	2017
	US\$'000	US\$'000
<b>Equity investments</b>		
At cost (Note (i))	78,079	122,031
Return of equity	(9,947)	(9,947)
Impairment recognised <sup>(1)</sup>	(22,820)	(60,519)
	<u>45,312</u>	<u>51,565</u>
<b>Amount due from subsidiaries (non-trade)</b>		
At cost	–	169,426
Impairment recognised <sup>(1)</sup>	–	(5,128)
	<u>–</u>	<u>164,298</u>
<b>Total interests in subsidiaries</b>	<u>45,312</u>	<u>215,803</u>
<b>(i) Movement of Equity investments, At cost</b>		
At 1 January	122,031	122,031
Addition during the year (Note (b))	2	–
De-register during the year (Note (b))	(24)	–
Write off against impairment	(43,930)	–
At December	<u>78,079</u>	<u>122,031</u>

(1) Impairment recognized is eliminated at consolidation

- (b) During the financial year ended 31 December 2018, the Trust incorporated three new subsidiaries, namely FSL 9 & 10 Holding Ltd, FSL-28, Inc. and FSL-29, Inc.. The principal activity of FSL 9 & 10 Holding Ltd is that of an investing holding company of FSL-9 Pte. Ltd. and FSL-10 Pte. Ltd. The principal activities of FSL-28, Inc. and FSL-29, Inc. are that of ship ownership. The Trust de-registered its subsidiary in Netherlands, FSL Netherlands B.V. during the year.
- (c) Management performed an impairment test for the investment in its subsidiaries. An impairment of US\$6,231,000 (2017: US\$33,595,000) was recognised for the financial year ended 31 December 2018 to write down the investment in subsidiaries to their recoverable amount. The recoverable amount of the investment in these subsidiaries have been determined based on value in use which approximates their net assets as at 31 December 2018.
- (d) The amounts due from subsidiaries were unsecured and interest-free. As the amounts were in substance, part of the Trust's net investments in the subsidiaries, they were included as interests in subsidiaries and stated at cost less impairments. During the financial year ended 31 December 2018 as part of the Trust settlement of its bank loans (Note 11), part of the amounts due from subsidiaries were repaid and the remaining amounts have been classified as current receivables (Note 6).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 5. SUBSIDIARIES (CONT'D)

(e) Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective equity held by the Group	
		2018 %	2017 %
FSL-1, Inc.	Marshall Islands	100	100
FSL-2, Inc.	Marshall Islands	100	100
FSL-3, Inc.	Marshall Islands	100	100
FSL-4, Inc.	Marshall Islands	100	100
FSL-5, Inc.	Marshall Islands	100	100
FSL-6, Inc.	Marshall Islands	100	100
FSL-9 Pte. Ltd.	Singapore	100	100
FSL-10 Pte. Ltd.	Singapore	100	100
FSL-11 Pte. Ltd.	Singapore	100	100
FSL-12 Pte. Ltd.	Singapore	100	100
FSL-13 Pte. Ltd.	Singapore	100	100
FSL-14, Inc.	Marshall Islands	100	100
FSL-15, Inc.	Marshall Islands	100	100
FSL-16, Inc.	Marshall Islands	100	100
FSL-18 Pte. Ltd.	Singapore	100	100
FSL-19 Pte. Ltd.	Singapore	100	100
FSL-20, Inc.	Marshall Islands	100	100
FSL-21, Inc.	Marshall Islands	100	100
FSL-22, Inc.	Marshall Islands	100	100
FSL-23 Pte. Ltd.	Singapore	100	100
FSL-24 Pte. Ltd.	Singapore	100	100
FSL-25 Pte. Ltd.	Singapore	100	100
FSL-26 Pte. Ltd.	Singapore	100	100
FSL-27 Pte. Ltd.	Singapore	100	100
FSL-28, Inc.	Marshall Islands	100	–
FSL-29, Inc.	Marshall Islands	100	–
FSL 9 & 10 Holding Ltd	Cyprus	100	–
FSL Netherlands B.V.	Netherlands	–	100

Moore Stephens LLP, Singapore is the auditor for all of the Singapore-incorporated subsidiaries. No statutory audit is required for subsidiaries incorporated in Marshall Islands, in Cyprus and in Netherlands under the laws of their respective countries of incorporation.

All of the Singapore-flagged vessel-owning subsidiaries are subject to externally imposed capital requirements, as required under Regulation 5 of the Merchant Shipping (Registry of Ships) Regulations, which have been complied with.



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 6. TRADE AND OTHER RECEIVABLES

	Group		Trust	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Trade receivables	4,218	3,106	–	–
Other receivables	785	793	39	25
Amounts due from subsidiaries	–	–	76,538	37,659
Deposits placed with Commercial/Pool Managers	5,547	4,946	–	–
Deposits with third parties	9	1,240	2	1,240
Claims receivables due from a former charterer (Note 25)	2,020	–	–	–
Trade and other receivables	12,579	10,085	76,579	38,924
Prepayments	181	419	7	67
	12,760	10,504	76,586	38,991

- (a) Trade receivables are amounts due from charterers which are unsecured, interest-free and repayable within 60 days. As at 31 December 2018, the trade receivables are classified as current debts. The Group does not have historical credit loss and loss allowance measured at an amount equal to lifetime expected credit losses are assessed to be minimal.
- (b) The amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand. During the financial year ended 31 December 2018, the Trust recognised an impairment of US\$10,151,000 in the income statement due to changes in credit risk. As at 31 December 2018, the Trust has an accumulated allowance for impairment amounting to US\$15,279,000.
- (c) Other receivables (including deposits placed with commercial/pool managers) are considered to have low credit risk. Loss allowance measured at an amount equal to 12-month expected credit loss are assessed to be minimal.
- (d) In place was a master offsetting agreement between the Trust and its subsidiaries to settle the net amount due to or from each other if required. For such arrangements, the receivables and payables from each counterparty are presented on a net basis.

	Related amounts set of in the statement of financial position		Net amounts-financial assets presented in the statement of financial position US\$'000
	Gross amounts- financial assets US\$'000	Gross amounts- financial liabilities US\$'000	
<b>Amounts due from subsidiaries</b>			
<b>2018</b>	100,635	(24,097)	76,538
<b>2017</b>	48,948	(11,289)	37,659

## 7. CASH AND CASH EQUIVALENTS

	Group		Trust	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Cash at bank	13,881	13,201	1,331	5,507
Less: Restricted cash at bank	(500)	–	–	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	13,381	13,201	1,331	5,507

The restricted cash at bank is the minimum cash balance maintained with the lender as part of the loan facility entered during the year ended 31 December 2018 (Note 11).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 8. NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

	Group	
	2018 US\$'000	2017 US\$'000
Non-current assets classified as held-for-sale	10,989	18,260

During the financial year ended 31 December 2018, the Group reclassified the product tanker, FSL Hamburg (2017: one chemical tanker, FSL Tokyo and one containership, FSL Busan) as "Non-current assets classified as held-for-sale".

During the financial year ended 31 December 2018, the Group disposed two vessels (one chemical tanker, FSL Tokyo and one containership, FSL Busan) for a total net cash consideration of approximately US\$19,146,000, resulting in a gain on disposal of US\$886,000. During the previous financial year ended 31 December 2017, the Group disposed one containership, FSL Santos for a net cash consideration of approximately US\$5,813,000, resulting in a gain on disposal of US\$771,000.

## 9. UNITS IN ISSUE

	Group and Trust			
	2018		2017	
	Number of units '000	Amount paid US\$'000	Number of units '000	Amount paid US\$'000
Fully paid units: At 1 January and 31 December	637,457	523,284	637,457	523,284

All issued units are fully paid. There is no par value for these units. The holders of units are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at meetings of the Trust. All units rank equally with regard to the Trust's residual assets.

## 10. RESERVES

	Group		Trust	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Option premium on convertible bonds (Note 12)	560	–	560	–
Foreign currency translation reserve	(6,725)	(6,725)	–	–
Accumulated losses	(361,857)	(342,871)	(407,600)	(415,653)
	(368,022)	(349,596)	(407,040)	(415,653)

The foreign currency translation reserve comprises: foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Trust; and foreign exchange differences on monetary items which form part of the Group's net investment in foreign operations.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 11. BANK LOANS

	Group		Trust	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>Secured bank loans</b>				
Non-current	73,765	–	–	–
Current	23,269	151,306	–	151,306
Total carrying amount of secured bank loans	97,034	151,306	–	151,306
Add: Unamortised debt transaction costs	1,874	–	–	–
Total face value of secured bank loans	98,908	151,306	–	151,306

(a) During the financial year ended 31 December 2018, the Group repaid in full the term loan facility entered in 2011 amounting to US\$151,306,000. In the same year, the Group secured new loan facilities with three lenders, amounting to US\$108,000,000. The loans bear interest at margin over US\$ 1-month or US\$ 3-month LIBOR. In 2018, the principal weighted average interest margin over LIBOR was 4.012% (2017: 2.8%).

(b) The term loan facilities are secured on the following:

- (i) a first priority mortgage over the Group's vessels;
- (ii) a first priority assignment of the Group's rights, title, interest in the insurances to and for each vessel, including insurance for hull and machinery, protection and indemnity and war risks;
- (iii) a first priority assignment of the Group's rights, title and interest in and to the charter agreements and the charter income of each vessel; and
- (iv) pledge of the shares of all the vessel-owning subsidiaries.

As at 31 December 2018, the Group is in compliance with the terms of the loan agreements.

(c) Under the terms of the three new loan facilities entered during the financial year ended 31 December 2018, the loans are repayable in monthly or quarterly instalments, and mature between 2020 and 2022. During the financial year ended 31 December 2018, the Group made total loan repayments amounting to US\$9,092,000. The table below summarises the maturity profile of the Group's bank loans at the end of the reporting period based on contractual undiscounted repayment obligations.

	Carrying amount US\$'000	Cash flows including interest		
		Total Contractual cash flows US\$'000	Within one year US\$'000	Within one to five years US\$'000
<b>Group</b>				
<b>Secured bank loans</b>				
<b>2018</b>	97,034	(113,476)	(30,439)	(83,037)
<b>2017</b>	151,306	(159,560)	(159,560)	(159,560)

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 12. CONVERTIBLE BONDS

In May 2018, the Trust issued 7% redeemable convertible bonds denominated in United States Dollars (US\$) with a nominal value of US\$7,250,000. The bonds will mature in November 2020. The bonds may be converted into units of the Trust at the option of the subscriber, at an agreed conversion price of US\$0.05687 per unit. The agreed conversion price will be subject to adjustment due to the anti-dilution clause upon the occurrence of certain adjustment events, including rights issues of Units. The maximum number of new units that may be issued by the Trust to the Subscriber will be 127,483,735 new units. The Trust has the option to redeem all the bonds at any time. On maturity date, the Trust will redeem any remaining bonds at 100% of the principal amount of the bond together with any unpaid accrued interest on the maturity date.

The fair value of the liability component, included in non-current liabilities is calculated using a market interest rate for an equivalent non-convertible bond at the date of issue. The residual amount, representing the value of the equity conversion component, is included in the Statement of Changes in Equity. The carrying amount of the liability component of the convertible bonds at the reporting date is derived as follows:

Group and Trust	2018 US\$'000
Face value of convertible bonds at issuance, net of cost	6,585
Equity conversion component on initial recognition (Note 10)	(560)
Liability component on initial recognition	6,025
Accumulated amortisation of interest expense	574
Accumulated payments of interest	(312)
Liability component at end of financial year	6,287

The table below summarises the maturity profile of the Group's convertible bonds at the end of the reporting period based on contractual undiscounted repayment obligations.

Group and Trust	Carrying amount US\$'000	Cash flows including interest		
		Total Contractual cash flows US\$'000	Within one year US\$'000	Within one to five years US\$'000
<b>2018</b>	6,287	8,209	507	7,702

## 13. DEFERRED INCOME

Deferred Income	Group	
	2018 US\$'000	2017 US\$'000
Current	-	678

Deferred income recognised on the Statement of Financial Position upon the receipt of shares in TORM by the Group was amortised to the Income Statement over the remaining lease term on the TORM charter contracts. These contracts expired in June 2018.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 14. TRADE AND OTHER PAYABLES

	Group		Trust	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Trade payables	93	436	–	–
Accrued financing expenses	838	930	127	930
Accrued operating expenses	383	626	136	407
Lease income received in advance	1,688	2,643	–	–
Other payables	890	669	431	84
Amounts due to agent	539	–	–	–
Amounts due to related parties	57	2	4	2
Amounts due to the Trustee-Manager	97	64	–	1
	<u>4,585</u>	<u>5,370</u>	<u>698</u>	<u>1,424</u>

The amounts due to related parties are trade in nature, unsecured, interest-free and repayable within credit terms. The amounts due to the Trustee-Manager are non-trade in nature, unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's and the Trust's financial liabilities have a maturity of less than one year and approximate the contractual undiscounted cash flows amounts.

## 15. REVENUE

	Group	
	2018 US\$'000	2017 US\$'000
<b>Performance obligations satisfied overtime</b>		
Bareboat charter lease income	30,310	35,516
Time charter income	6,205	17,054
Pool income	24,749	25,538
Freight income	5,782	3,391
	<u>67,046</u>	<u>81,499</u>

Bareboat charter lease income relates to lease income derived from operating leases. Included in bareboat charter lease income, US\$678,000 (2017: US\$1,445,000) relates to recognition of the deferred income in the income statement for the year (see Note 13).

Time charter income relates to income derived from three vessels, two of which were time chartered to an international transportation provider.

Pool income relates to income substantially derived from two crude oil tankers, FSL Hong Kong and FSL Shanghai and five product tankers, FSL Hamburg, FSL Singapore, FSL Piraeus, FSL Perth and FSL Osaka, deployed on pool arrangements.

Freight income relates to income derived from the three chemical tankers and two product tankers trading in the spot market.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 16. FINANCE INCOME AND EXPENSES

	2018 US\$'000	Group 2017 US\$'000
<b>Finance income</b>		
Interest income from cash and cash equivalents	–	54
<b>Finance costs:</b>		
– bank loans and convertible bonds	(7,826)	(8,127)
– interest to agent	(12)	–
– amortisation of debt transaction costs	(533)	(851)
– commitment and bank agency fees	(113)	(51)
Net foreign exchange loss	(14)	(77)
	<u>(8,498)</u>	<u>(9,106)</u>
Net finance costs recognised in the income statement	<u>(8,498)</u>	<u>(9,052)</u>

## 17. LOSS BEFORE TAX

The following items have been included in arriving at loss before tax:

	2018 US\$'000	Group 2017 US\$'000
Other income <sup>(1)</sup>	–	(400)
Gain on disposal of vessels	(886)	(771)
Audit fees paid/payable to auditors of the Trust	97	99
Non-audit fees paid/payable to:		
– auditors of the Trust	6	5
Professional fees <sup>(2)</sup>	897	803
Amortisation of initial direct costs	217	345

(1) Other income relates to income received from claims and legal settlements.

(2) Professional fees included cost incurred on the loan restructuring.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 18. INCOME TAX EXPENSE

	2018 US\$'000	Group 2017 US\$'000
<b>Current tax expense</b>		
(Over)/Under provision in prior years	(1)	1
	2018 US\$'000	Group 2017 US\$'000
Reconciliation of effective tax rate		
Loss before income tax	(18,987)	(73,887)
Tax calculated using the Singapore tax rate of 17%	(3,228)	(12,561)
Effect of tax rate in foreign jurisdiction	(2)	(2)
Expenses not deductible for tax purposes <sup>(1)</sup>	4,379	15,438
Income not subject to tax	69	2
Exempt shipping activities	(1,218)	(2,877)
(Over)/Under provision in prior years	(1)	1
	(1)	1

(1) Includes impairment on vessels.

The lease income derived by the Group's entities from the respective bareboat charters qualifies for tax exemption under the Maritime Sector Incentive ("MSI") scheme and further extension for a period of five years from 8 February 2017 was granted to 12 vessels. The distributions made out of the tax exempt income less allowable expenses will also be exempt from Singapore income tax in the hands of the unitholders. The freight income and pool income derived by the Group's Singapore entities are also exempted from tax under Section 13A of the Singapore Income Tax Act ("SITA"), Chapter 134.

The Group is subject to tax on its non-tax exempt income such as interest income at the prevailing corporate tax rate, after adjusting for allowable expenses.

As at 31 December 2018, the Group has estimated unutilised tax exempt losses and unabsorbed capital allowance of approximately US\$267,000 (2017: US\$267,000) and US\$12,275,000 (2017: US\$11,209,000) that are available for set-off against future taxable profits, subject to the agreement of the tax authorities and compliance with the relevant provisions of the Income Tax Act. The deferred tax benefit arising from these unutilised tax exempt losses and unabsorbed capital allowances has not been recognised in the financial statements in accordance with the Group's accounting policies (Note 2.13).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 19. INCOME AVAILABLE FOR DISTRIBUTION

	Group	
	2018	2017
	US\$'000	US\$'000
Income available for distribution to unitholders at the beginning of the year	–	–
Loss for the year	(18,986)	(73,888)
Net adjustments (Note A)	18,986	73,888
Net distributable amount	–	–
Income available for distribution to unitholders at the end of the year	–	–

### Note A

Net adjustments comprise:

Non-cash adjustments:

– Depreciation expense on vessels <sup>(1)</sup>	30,120	35,676
– Amortisation of initial direct costs <sup>(2)</sup>	29	57
– Amortisation of deferred income	(678)	(1,445)
– Gain on disposal of vessels	(886)	(771)
– Impairment on vessels	20,648	81,129
Total non-cash adjustments	49,233	114,646
Repayment of secured bank loans <sup>(3)</sup>	(141,014)	(66,283)
Loan drawdown	108,000	–
Amount utilised in current period	2,767	25,525
Net adjustments	18,986	73,888

(1) Excluding dry-docking of US\$1,611,000 (2017: US\$1,430,000).

(2) Excluding deferred arrangement fees of US\$188,000 (2017: US\$288,000).

(3) This included the total repayment of secured bank loans amounted to US\$124,781,000 (2017: US\$38,283,000) and prepayment of secured bank loans amounted to US\$16,233,000 (2017: US\$28,000,000) arising from the proceeds from disposal of vessels.

## 20. (LOSS) PER UNIT

	Group	
	2018	2017
Basic and diluted (loss) per unit is based on:		
Loss for the year (US\$'000)	(18,986)	(73,888)
Weighted average number of units at the end of the year ('000)	637,457	637,457
Basic (loss) per unit (US cents)	(2.98)	(11.59)
Diluted (loss) per unit (US cents)	(2.98)	(11.59)

As the conversion of convertible bonds to units were anti-dilutive, the weighted average number of issued units remained at 637,456,577 for financial year ending 31 December 2018. If the conversion is dilutive, the weighted average number of units in issue would be 716,042,441 taking into account the dilutive effect arising from full conversion of convertible bonds to units.



# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 21. COMMITMENTS

### (a) Operating lease commitments

The non-cancellable operating lease rentals receivable are as follows:

	Group	
	2018 US\$'000	2017 US\$'000
Within one year	34,902	27,721
Within one to five years	24,784	36,974
	59,686	64,695

### Operating lease-Bareboat charter

The rental rates of lease arrangements are fixed over the lease term. The remaining lease period under these non-cancellable leases range from one to five years (2017: one to four years) at the end of the financial year. In two lease agreements (2017: seven lease agreements) held by the Group, the lessees have the option to extend the lease period beyond the base lease period up to two years (2017: three years). The lessees have the option to purchase the related vessels in seven lease agreements (2017: seven lease agreements).

### Operating lease-Time charter

As at 31 December 2018, there are two time charter lease arrangements (2017: one time charter lease arrangement) with rental rates fixed over a period of one year six months (2017: five months). For both lease agreements held by the Group, the lessees have the option to extend the lease period beyond the base lease period up to one year and the option to purchase the related vessels.

The rentals received from the two lease agreements with rentals based on market rates for the year ended 31 December 2018 amounted to US\$4,100,000 (2017: US\$7,800,000).

### (b) Capital commitments

Capital expenditures contracted for at the reporting date but not recognised in the financial statements are as follows:

	Group	
	2018 US\$'000	2017 US\$'000
Shipbuilding contracts (Two LR2 Product Tankers)		
Within one year	24,400	–
Within one to five years	73,200	–
	97,600	–

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 22. RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the entity that is preparing its financial statements (“reporting entity”).

Parties are considered to be related if (a) a person or a close member of that person’s family is related to a reporting entity, if that person (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to a reporting entity if (i) the entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity; (vi) the entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity; and (viii) the entity or any member of a group of which is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

The Trustee-Manager is a subsidiary of a substantial unitholder of the Trust. Other than disclosed elsewhere in the financial statements, significant transactions with related parties are as follows conducted at terms agreed between the parties:

	Group	
	2018	2017
	US\$'000	US\$'000
Transactions with the Trustee-Manager:		
Management fees	1,842	2,241
Trustee fees	61	86
Disposal fees	100	31
Transactions with other related parties:		
Directors’ fees paid to non-executive directors <sup>(1)</sup>	164	159
Technical management fees paid to Prime Tanker Management Inc <sup>(2)</sup>	170	–

(1) Directors’ fees paid to ex-Chairman, Tim Reid, and the three Non-Executive and Independent Directors.

(2) Prime Tanker Management Inc. is an affiliate of Prime Shareholdings Inc., who is deemed interested in 157,877,631 of the Trust’s issued units as at 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 23. SEGMENT INFORMATION

The Trustee-Manager has determined the Group as one reportable segment as the Group is only involved in the leasing and chartering of vessels which is carried out in international waters.

Geographical information

Revenues from external customers are attributed to the regions based on the customers' country of origin.

	Revenue	
	2018 US\$'000	2017 US\$'000
Americas	–	2,194
Asia	14,210	25,553
Europe	18,391	29,481
Others	34,445	24,271
	<u>67,046</u>	<u>81,499</u>

With respect to the presentation of vessels by geographical information, the Group deals with several lessees and the vessels are deployed to various parts of the world at the discretion and direction of these lessees. Accordingly, the Trustee-Manager does not consider it meaningful to allocate vessels to specific geographical locations.

All other non-current assets are attributed to the countries based on the Group's country of domicile.

As at 31 December 2018, the Group has four customers (2017: three customers) each accounted for more than 10% (2017: 10%) of the Group's total revenue.

## 24. FINANCIAL RISK MANAGEMENT

Overview

Risk management is integral to the whole business of the Group. The Group is exposed to credit, liquidity and market risks. The Group from time to time may use derivative financial instruments to hedge its interest rate and foreign currency risk exposures. The Group does not hold or issue derivative financial instruments for trading purposes.

Management uses natural hedges or closely monitors the Group's business risk exposures in connection with its financial assets and financial liabilities and adopts the appropriate measures including the use of other financial instruments when considered necessary to reduce any potential financial risk exposures or losses.

### (a) Credit Risk

As part of the Trustee-Manager's due diligence activities and prior to the completion of a lease transaction, each new lessee is analysed individually for creditworthiness. The Trustee-Manager then incorporates the results from its due diligence activities into a risk-adjusted pricing model. This model incorporates a credit loss component which takes into account the likelihood of default, the level of recoverability following a default and the credit exposure at the time of default.

Upon the completion of a lease transaction, the Trustee-Manager conducts on-going credit reviews annually or semi-annually to monitor each lessee's financial performance and compliance with financial covenants (if any). In addition, the payment conduct of a lessee is monitored on a monthly basis.

The Group's credit risk is concentrated in lessees in the shipping industry; and the Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations as of 31 December 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 24. FINANCIAL RISK MANAGEMENT (CONT'D)

### (a) Credit Risk (cont'd)

#### Cash and cash equivalents and other financial assets

The Group does not expect to incur material credit losses on its financial assets. Cash and cash equivalents are placed with financial institutions which are regulated. Deposits are held with a major financial institution with external credit rating (as provided by independent rating agency) of A3.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Group uses a similar approach for assessment of expected credit loss for cash and cash equivalents to those used for debt investments. The amount of the allowance on cash and cash equivalents are assessed to be minimal.

#### Credit risk grading guideline

The Group has established the Group's internal credit risk grading to the different exposures according to their degree of default risk. The internal credit risk grading which are used to report the Group's credit risk exposure to key management personnel for credit risk management purposes are set out in Note 2.7(a) to the financial statements.

#### Credit risk exposure and significant credit risk concentration

The Group have assessed the financial assets as performing, counterparties having low risk of default and does not have any past due amounts. The basis of recognition of expected credit loss for trade and other receivables are set out in Note 6 to the financial statements. The ageing of trade receivables at the reporting date was:

	Group	
	2018	2017
	US\$'000	US\$'000
Not past due	4,218	3,106

### (b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations.

The contractual undiscounted cash outflows for bank loans and convertible bonds are disclosed in Note 11 and Note 12 to the financial statements. The contractual undiscounted cash outflows for trade and other payables approximate their carrying amounts stated in the Statements of Financial Position due to their short term maturity.

### (c) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 24. FINANCIAL RISK MANAGEMENT (CONT'D)

### (d) Interest Rate Risk

The Trustee-Manager, on behalf of the Trust, reviews any unhedged exposures periodically and will consider hedging them after taking into consideration the prevailing interest rate environment.

Sensitivity analysis

With respect to the variable rate bank loans, an increase of 50 bps in interest rate at the reporting date would increase/(decrease) results and other comprehensive loss by the amounts shown below. This analysis assumes that all other variables remain constant.

Group and Trust	Loss for the year and total comprehensive loss	
	2018	2017
	US\$'000	US\$'000
Variable rate bank loans	539	967

A decrease of 50 bps in interest rate at the reporting date would have equal but opposite effects of the amounts as shown above, on the basis that all other variables remain constant.

### (e) Foreign Currency Risk

In respect of other monetary assets and liabilities held in currencies other than the US dollar, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, where necessary, to address short term imbalances.

The Group's and the Trust's exposures to foreign currencies are as follows:

	2018		2017	
	Euro US\$'000	Singapore dollar US\$'000	Euro US\$'000	Singapore dollar US\$'000
<b>Group</b>				
Other receivables	2	47	–	26
Cash and cash equivalents	9	121	14	137
Trade and other payables	–	(213)	(30)	(157)
<b>Trust</b>				
Other receivables	–	39	–	26
Cash and cash equivalents	2	60	4	62
Trade and other payables	–	(139)	–	(85)

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 24. FINANCIAL RISK MANAGEMENT (CONT'D)

### (e) Foreign Currency Risk (cont'd)

#### Sensitivity analysis

A 10% strengthening/weakening of US dollar against the following currencies at the reporting date would increase/(decrease) results and other comprehensive loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Group	Loss for the year and other comprehensive loss	
	Strengthening of US Dollars US\$'000	Weakening of US Dollars US\$'000
<b>2018</b>		
Euro	1	(1)
Singapore dollar	(5)	5
<b>2017</b>		
Euro	(2)	2
Singapore dollar	1	(1)

### (f) Fair Values Measurements

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and the Trust.

#### Non-derivative financial liabilities

The carrying amount of the variable rate bank loans, which are repriced on a monthly or quarterly basis at prevailing market interest rates (Level 2), closely reflects the corresponding fair values.

#### Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) approximate their fair values due to their short period to maturity and where the effect of discount is immaterial.

#### Fair Value Hierarchy

Fair value measurement disclosure of other assets that are recognised or measured at fair value, are disclosed in Note 4 and Note 8 to the financial statements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 24. FINANCIAL RISK MANAGEMENT (CONT'D)

### (g) Capital Management

The Trustee-Manager defines “capital” to include funds raised through the issuance of units, revenue reserves and proceeds raised from debt facilities. The Trustee-Manager’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Group and the Trust. The Trustee-Manager monitors capital based on a gearing ratio.

	Group		Trust	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Total Debt <sup>(1)</sup>	103,321	151,306	6,287	151,306
Equity	155,262	173,688	116,244	107,631
Total debt and equity	258,583	324,994	122,531	258,937
Total debt against total debt and equity	0.40	0.47	0.05	0.58

(1) Total debt = Bank loans + Convertible bonds

The Trustee-Manager also monitors the distribution per unit (if any), which is the annualised distribution to unitholders divided by total number of units (Note 19).

The cash flows from the operating activities of the Group and the Trust are sufficient to fund the scheduled debt service, payments to the Trustee-Manager and working capital requirements. To the extent that financing for additional vessels as described in Note 21 (b) or otherwise is required, additional equity or debt securities may be issued or additional secured borrowings may be incurred.

There were no changes in the Group’s and the Trust’s approach to capital management during the year. Other than disclosed elsewhere in the financial statements, the Group and the Trust are not subject to externally or regulatory imposed capital requirements.

## 25. LEGAL CASE

FSL-25 Pte. Ltd. (“FSL-25”) and FSL-26 Pte. Ltd. (“FSL-26”), wholly-owned subsidiaries of the First Ship Lease Trust (“FSLT”) and respective owners of the LR2 Product Tankers “FSL Piraeus” (formerly known as “Torm Margrethe”) and “FSL Perth” (formerly known as “Torm Marie”), had entered into seven year bareboat charter agreements with Torm Singapore Pte. Ltd. (“TORM”) in June 2011.

In mid 2018, TORM redelivered these two vessels back to FSL-25 and FSL-26 in breach of the redelivery provisions of the bareboat charters.

Consequently, in order to protect the interests of the Unitholders, FSL-25 and FSL-26 performed all necessary repairs. Litigation claims against TORM for the costs and losses has commenced.

## 26. SUBSEQUENT EVENTS

On 7 February 2019, the Group announced a bridging loan agreement of US\$25,000,000 with FSL Holdings Pte. Ltd. to partially finance the new shipbuilding contracts for FSL-28 Inc. and FSL-29 Inc. (Note 21(b)). A first drawdown of US\$10,000,000 was then made to facilitate the first instalment of US\$9,760,000, which was paid to COSCO Shipping Heavy Industry (Yangzhou) Co., Ltd on 13 February 2019.

# LEASE PORTFOLIO

31 December 2018

Vessel	Year Built	Capacity	Employment	Lessee	Lease Commencement
<b>Chemical Tanker</b>					
FSL New York	2006	19,970 DWT	Time Charter	Golden-Agri Stena	12 Jun 2018
FSL London	2006	19,966 DWT	Time Charter	Golden-Agri Stena	19 Jun 2018
<b>Crude Oil Tanker</b>					
FSL Hong Kong	2007	115,000 DWT	Vessel is employed in 'Teekay RSA Aframax Pool'		
FSL Shanghai	2007	115,000 DWT	Vessel is employed in 'Teekay RSA Aframax Pool'		
<b>Product Tanker</b>					
Cumbrian Fisher	2004	12,921 DWT	Bareboat Charter	James Fisher	24 Dec 2017 *
Clyde Fisher	2005	12,984 DWT	Bareboat Charter	James Fisher	24 Dec 2017 *
Shannon Fisher	2006	5,421 DWT	Bareboat Charter	James Fisher	01 Feb 2016 *
Solway Fisher	2006	5,421 DWT	Bareboat Charter	James Fisher	01 Jul 2016 *
Speciality	2006	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2017 *
Seniority	2006	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2017 *
Superiority	2007	4,426 DWT	Bareboat Charter	James Fisher	01 Jun 2017 *
FSL Hamburg	2005	47,496 DWT	Vessel is employed in 'Hafnia MR Pool'		
FSL Singapore	2006	47,470 DWT	Vessel is employed in 'Hafnia MR Pool'		
FSL Osaka	2007	45,998 DWT	Vessel is employed in 'Hafnia MR Pool'		
FSL Piraeus	2006	109,672 DWT	Vessel is employed in 'Heidmar's Sigma Tanker Pool'		
FSL Perth	2006	109,672 DWT	Vessel is employed in 'Heidmar's Sigma Tanker Pool'		
<b>Containership</b>					
YM Eminence	2008	4,250 TEU	Bareboat Charter	Yang Ming Marine	20 May 2008
YM Elixir	2008	4,250 TEU	Bareboat Charter	Yang Ming Marine	16 Jun 2008
YM Enhancer	2008	4,250 TEU	Bareboat Charter	Yang Ming Marine	09 Oct 2008

Note: \* Commencement date for lease renewal period



## ADDITIONAL INFORMATION

### INTERESTED PERSON TRANSACTIONS

The transactions entered into with interested persons for the financial period 1 January to 31 December 2018 which fall under the Listing Manual of the SGX-ST and the Business Trusts Act, Chapter 31A of Singapore are:

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S\$100,000 (equivalent to approximately US\$73,357 <sup>^</sup> ))
Prime Tanker Management Inc. <sup>+</sup> – services rendered	US\$ 170,100

#### Notes:

<sup>^</sup> Based on prevailing exchange rate as at 31 December 2018.

<sup>+</sup> Prime Tanker Management Inc. is an affiliate of Prime Shareholdings Inc., who is deemed interested in the units held by FSL Holdings Pte. Ltd., the controlling unitholder of FSL Trust.

The above does not include the following on-going interested person transactions:

- (a) the fees and charges payable by FSL Trust to FSLTM under the deed of trust dated 19 March 2007 as amended and supplemented from time to time; and

which are deemed to be specifically approved by the unitholders upon subscription for the units at the initial public offering and which are not subject to Rules 905 and 906 of the Listing Manual to the extent that there is no subsequent change to the rates and/or bases of the fees, rentals and charges charged thereunder which will adversely affect FSL Trust.

Except as disclosed above, there were no additional interested person transactions (excluding transactions less than S\$100,000 (US\$73,357) equivalent) entered into up to and including 31 December 2018.

FSL Trust does not have any unitholders' mandate for interested person transactions.

# STATISTICS OF UNITHOLDINGS

As at 7 March 2019

No. of units issued	:	637,456,577
Class of units	:	Ordinary units with 1 vote per unit
Treasury Units	:	Nil

## DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	Number of Unitholders	%	Number of Units	%
1 – 99	3	0.06	52	0.00
100 – 1,000	365	7.61	335,350	0.05
1,001 – 10,000	2,145	44.70	10,757,200	1.69
10,001 – 1,000,000	2,236	46.59	182,675,503	28.66
1,000,001 and above	50	1.04	443,688,472	69.60
<b>Total</b>	<b>4,799</b>	<b>100.00</b>	<b>637,456,577</b>	<b>100.00</b>

## TWENTY LARGEST UNITHOLDERS

No.	Name of Unitholders	Number of Units	%
1.	FSL HOLDINGS PTE. LTD.	154,430,600	24.23
2.	RAFFLES NOMINEES (PTE) LIMITED	88,325,100	13.86
3.	DBS NOMINEES (PRIVATE) LIMITED	28,661,790	4.50
4.	MAYBANK KIM ENG SECURITIES PTE. LTD.	24,127,119	3.78
5.	CITIBANK NOMINEES SINGAPORE PTE LTD	22,886,200	3.59
6.	NG HWEE KOON	13,605,000	2.13
7.	HSBC (SINGAPORE) NOMINEES PTE LTD	11,908,700	1.87
8.	LAI CHONG MENG	8,000,000	1.25
9.	PHILLIP SECURITIES PTE LTD	6,635,800	1.04
10.	YIM WING CHEONG	5,743,200	0.90
11.	ANG ZHIHAO	4,900,000	0.77
12.	PEH KOK WAH @ PEH WAH CHYE	4,564,000	0.72
13.	CHIO KIAN HUAT	4,190,000	0.66
14.	ONG EUGENE	3,778,000	0.59
15.	FSL TRUST MANAGEMENT PTE LTD	3,447,031	0.54
16.	TAN SIEW KENG CHRISTINA	3,360,000	0.53
17.	LEE GUAN HUAT	3,144,900	0.49
18.	WIRTZ JOCHEN	2,951,800	0.46
19.	GOH KOK KEONG	2,922,600	0.46
20.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	2,458,500	0.39
	<b>Total</b>	<b>400,040,340</b>	<b>62.76</b>

# STATISTICS OF UNITHOLDINGS

As at 7 March 2019

## SUBSTANTIAL UNITHOLDERS

(As shown in the Register of Substantial Unitholders)

Name of Substantial Unitholder	Direct Interests	%	Deemed Interests	%
FSL Holdings Pte. Ltd. <sup>1</sup>	154,430,600	24.23	3,447,031	0.54
Prime Shareholdings Inc. <sup>2</sup>	–	–	157,877,631	24.77
Prime Investments and Holdings Ltd <sup>2</sup>	–	–	157,877,631	24.77
Prime Marine Corporation <sup>2</sup>	–	–	157,877,631	24.77
PMC Holding Inc. <sup>2</sup>	–	–	157,877,631	24.77
Joelma Holding Inc. <sup>2</sup>	–	–	157,877,631	24.77
Geomel Holding Inc. <sup>2</sup>	–	–	157,877,631	24.77
Stella Maris Holding Inc. <sup>2</sup>	–	–	157,877,631	24.77
Efstathios Topouzoglou <sup>2</sup>	–	–	157,877,631	24.77
Michail Chalkias <sup>2</sup>	–	–	157,877,631	24.77
Georgios Kouleris <sup>2</sup>	–	–	157,877,631	24.77
Tiger Group Investments Ltd.	44,790,600	7.03	–	–

### Notes:

1. FSL Holdings Pte. Ltd. ("FSLH") is the 100% shareholder of FSL Asset Management Pte. Ltd., which in turn wholly-owns FSL Trust Management Pte. Ltd. FSLH is therefore deemed to be interested in 3,447,031 units held by FSL Trust Management Pte. Ltd.
2. FSLH is a wholly-owned subsidiary of Prime Shareholdings Inc. ("PSI"). PSI is a wholly-owned subsidiary of Prime Investments and Holdings Ltd, which is a wholly-owned subsidiary of Prime Marine Corporation, which is in turn a wholly-owned subsidiary of PMC Holding Inc. ("PMCHI"). PMCHI is 57% held by Joelma Holding Inc., which is 100% held by Efstathios Topouzoglou, 21.5% held by Geomel Holding Inc., which is 100% held by Michail Chalkias, and 21.5% held by Stella Maris Holding Inc., which is 100% held by Georgios Kouleris.

## FREE FLOAT

Based on information available as at 7 March 2019, approximately 68.05% of the units of First Ship Lease Trust is in the hands of the public and accordingly Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

# NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

NOTICE IS HEREBY GIVEN THAT the Twelfth Annual General Meeting of First Ship Lease Trust will be held at Meeting Room 303 & 304, Level 3, Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Monday, 22 April 2019 at 10:00 a.m. for the purpose of transacting the following businesses:

## ORDINARY BUSINESSES

1. To receive and adopt the Report of the Trustee-Manager, Statement by the Trustee-Manager and Audited Financial Statements of First Ship Lease Trust for the financial year ended 31 December 2018, together with the Auditor's Report thereon. **(Ordinary Resolution 1)**
2. To re-appoint Moore Stephens LLP as the Auditors of First Ship Lease Trust to hold office until the conclusion of the next annual general meeting of First Ship Lease Trust, and to authorise the Directors of the Trustee-Manager to fix their remuneration. **(Ordinary Resolution 2)**
3. To transact any other ordinary business which may properly be transacted at an annual general meeting of the Unitholders.

## SPECIAL BUSINESSES

4. To consider and, if thought fit, to pass the following resolution with or without modifications as an Ordinary Resolution:

THAT:

pursuant to Section 36 of the Business Trusts Act, Chapter 31A of Singapore (the "**Business Trusts Act**") Clause 6.1 of the deed of trust dated 19 March 2007 constituting First Ship Lease Trust (as amended) (the "**Trust Deed**") and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Trustee-Manager, on behalf of First Ship Lease Trust, be authorised to:

- (a) (i) issue units in First Ship Lease Trust ("**Units**") whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that would or might require Units to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Units,

at any time to such persons and on such terms and conditions whether for cash or otherwise as the Trustee-Manager may in its absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Units in pursuance of any Instrument made or granted by the Trustee-Manager while this Resolution was in force,

provided that:

- (1) the aggregate number of Units to be issued pursuant to this Resolution (including Units to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) shall not exceed 50 per cent. (50%) of the total number of issued Units excluding treasury Units (as calculated in accordance with sub-paragraph (2) below); of which the aggregate number of Units to be issued other than on a pro rata basis to existing Unitholders of First Ship Lease Trust shall not exceed 20 per cent. (20%) of the total number of issued Units excluding treasury Units in First Ship Lease Trust (as calculated in accordance with sub-paragraph (2) below);

## NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

- (2) (subject to such calculation as may be prescribed by SGX-ST) for the purpose of determining the aggregate number of Units that may be issued under sub-paragraph (1) above, the percentage of issued Units shall be based on the total number of issued Units (excluding treasury Units) in First Ship Lease Trust at the time of the passing of this Resolution, after adjusting for:
- (a) new Units arising from the conversion or exercise of any Instruments that are convertible into Units; and
  - (b) any subsequent bonus issue, consolidation or subdivision of Units;
- (3) in exercising the authority conferred by this Resolution, the Trustee-Manager shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST), the Trust Deed and the Business Trusts Act; and
- (4) unless revoked or varied by ordinary resolution of Unitholders of First Ship Lease Trust in a general meeting, such authority shall continue in force (i) until the conclusion of the next annual general meeting of the Unitholders of First Ship Lease Trust or the date by which the next annual general meeting of the Unitholders of First Ship Lease Trust is required by law to be held, whichever is earlier, or (ii) in the case of Units to be issued in pursuance of the Instruments made or granted pursuant to this Resolution, until the issuance of such Units in accordance with the terms of the Instruments. **(Ordinary Resolution 3)**
5. To consider and, if thought fit, to pass the following resolution with or without modifications as an Ordinary Resolution:
- THAT:
- authority be and is hereby given to the Trustee-Manager to allot and issue from time to time such number of Units as may be required to be allotted and issued pursuant to the First Ship Lease Trust Distribution Reinvestment Scheme. **(Ordinary Resolution 4)**

By Order of the Board  
FSL Trust Management Pte. Ltd.  
As Trustee-Manager of First Ship Lease Trust

Elizabeth Krishnan  
Company Secretary

Singapore  
4 April 2019

# NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

## Notes:

1. A Unitholder entitled to attend and vote at the Annual General Meeting of the Unitholders of First Ship Lease Trust is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder of First Ship Lease Trust. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.
2. The instrument appointing a proxy or proxies (the “**Proxy Form**”) must be deposited at the registered office of FSL Trust Management Pte. Ltd. at 9 Temasek Boulevard #19-03 Suntec Tower Two Singapore 038989 not less than 48 hours before the time appointed for the Annual General Meeting.

## Explanatory Notes on Resolution 3

If passed, the Ordinary Resolution set out in Resolution 3 empowers the Trustee-Manager from the date of the Twelfth Annual General Meeting until the date of the subsequent Annual General Meeting or the date by which the subsequent Annual General Meeting is required by law to be held or such authority is varied or revoked by First Ship Lease Trust in a general meeting of Unitholders, whichever is the earlier, to issue Units, make or grant Instruments convertible into Units and to issue Units pursuant to such Instruments in First Ship Lease Trust up to a number not exceeding in aggregate 50% of the issued Units in First Ship Lease Trust of which up to 20% may be issued other than on a pro rata basis to Unitholders.

The aggregate number of Units which may be issued shall be based on the total number of issued Units (excluding treasury Units) at the time Resolution 3 is passed after adjusting for new Units arising from the conversion or exercise of any Instruments that are convertible into Units, as well as any subsequent bonus issue, consolidation or subdivision of Units.

## Explanatory Notes on Resolution 4

Resolution 4 is a renewal of the resolution that was approved by Unitholders at the Eleventh Annual General Meeting held on 9 May 2018.

If passed, the Ordinary Resolution set out in Resolution 4 authorises the Trustee-Manager to issue Units pursuant to the First Ship Lease Trust Distribution Reinvestment Scheme, which was adopted by resolution of the Unitholders at the Extraordinary General Meeting held on 9 October 2008, to Unitholders who, in respect of a qualifying distribution, have elected to receive Units in lieu of the cash amount of that qualifying distribution.

## **Personal data privacy:**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting (“**AGM**”) and/or any adjournment thereof, a Unitholder of First Ship Lease Trust (i) consents to the collection, use and disclosure of the Unitholder’s personal data by the Trustee-Manager (or its agents or service providers) for the purpose of the processing, administration and analysis by the Trustee-Manager (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Trustee-Manager (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “**Purposes**”), (ii) warrants that where the Unitholder discloses the personal data of the Unitholder’s proxy(ies) and/or representative(s) to the Trustee-Manager (or its agents or service providers), the Unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Trustee-Manager (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Unitholder will indemnify the Trustee-Manager in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.

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**FIRST SHIP LEASE TRUST**

(A business trust constituted on 19 March 2007)

**FSL TRUST MANAGEMENT PTE. LTD.**

(Incorporated in the Republic of Singapore)

Company Registration No. 200702265R

(as Trustee-Manager of First Ship Lease Trust)

**PROXY FORM****TWELFTH ANNUAL GENERAL MEETING OF UNITHOLDERS OF FIRST SHIP LEASE TRUST**

I/We \_\_\_\_\_ (Name)

holder of NRIC/Passport Number or Company registration or UEN \_\_\_\_\_ of

\_\_\_\_\_ (Address)

being a Unitholder/Unitholders of First Ship Lease Trust hereby appoint:

Name	Proportion of Unitholdings	
	No. of Units	%
NRIC/Passport Number		
Address		

and/or (delete as appropriate)

Name	Proportion of Unitholdings	
	No. of Units	%
NRIC/Passport Number		
Address		

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf, at the Twelfth Annual General Meeting ("AGM") of Unitholders of First Ship Lease Trust to be held on Monday, 22 April 2019 and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the AGM.

(\*If you wish to exercise all your votes "For" or "Against", please tick (  ) within the box provided. Alternatively, please indicate the number of votes as appropriate.)

No.	Resolutions relating to:	No. of votes 'For'*	No. of votes 'Against'*
1.	Adoption of the Report of the Trustee-Manager, Statement by the Trustee-Manager and Audited Financial Statements of First Ship Lease Trust for the financial year ended 31 December 2018 together with the Auditor's Report thereon		
2.	Re-appointment of Moore Stephens LLP as Auditors of First Ship Lease Trust and authority of Directors of Trustee-Manager to fix their remuneration		
3.	Authority to issue new Units		
4.	Authority to issue new Units pursuant to the First Ship Lease Trust Distribution Reinvestment Scheme		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2019

Total No. of Units in:	No. of Units
CDP Register:	

\_\_\_\_\_  
Signature of Individual Unitholder(s) or  
Common Seal of Corporate Unitholder

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

**NOTES:**

1. A Unitholder entitled to attend and vote at the Annual General Meeting of Unitholders ("**AGM**") of First Ship Lease Trust ("**FSL Trust**") is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder of FSL Trust. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.
  2. Completion and return of this instrument appointing a proxy shall not preclude a Unitholder from attending and voting at the AGM. Any proxy or proxies shall be deemed to be revoked if a Unitholder attends the AGM in person, and in such event, FSL Trust Management Pte. Ltd. ("**FSLTM**") reserves the right to refuse to admit any person or persons appointed under the instrument of proxy, to the AGM.
  3. A Unitholder should insert the total number of Units held. If the Unitholder has Units entered against his/her name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of Units. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by the Unitholder.
  4. The instrument appointing a proxy or proxies ("**Proxy Form**") must be deposited at the registered office of FSLTM at 9 Temasek Boulevard #19-03 Suntec Tower Two Singapore 038989 not less than 48 hours before the time appointed for the AGM.
  5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
- 
6. A corporation incorporated in Singapore which is a Unitholder may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
  7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney or duly authorised officer, the letter or power of attorney or board resolution duly authorising the officer or a duly certified copy thereof must (failing previous registration with FSLTM) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
  8. FSLTM shall be entitled to reject the instrument appointing a proxy or proxies which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument. In addition, in the case of Units entered in the Depository Register, FSLTM may reject the instrument appointing a proxy or proxies if the Unitholder, being the appointor, is not shown to have Units entered against his name in the Depository Register as at 48 hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited ("**Depository**") to FSLTM.
  9. For the purposes of determining the number of Units held in respect of Units registered in the name of the Depository and the number of votes which a particular Unitholder may cast in respect of such Units, FSLTM shall be entitled and bound to accept as accurate the number of Units credited in the securities account(s) of the relevant depositor as shown in the records of the Depository as at a time not earlier than 48 hours prior to the time of the relevant meeting supplied by the Depository to FSLTM, and accept as the maximum number of votes which in aggregate that depositor and his proxy(ies) (if any) are able to cast on a poll a number which is the number of Units credited into the securities account(s) of the relevant depositor, as shown in the aforementioned records of the Depository, whether that number is greater or smaller than that specified by the depositor in the instrument of proxy. FSLTM shall not, under any circumstances, be responsible for, or liable to any person as a result of it, acting upon or relying on the aforementioned records of the Depository.

**Personal Data Privacy:**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the Unitholder accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 4 April 2019.

Please affix  
postage  
stamp

**THE COMPANY SECRETARY**  
**FSL TRUST MANAGEMENT PTE. LTD.**  
(as Trustee-Manager of First Ship Lease Trust)  
9 Temasek Boulevard  
#19-03 Suntec Tower Two  
Singapore 038989



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**FSL TRUST MANAGEMENT PTE. LTD.**

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(Co. Reg. No.: 200702265R)

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