

FIRST
SHIP LEASE
TRUST



Annual Sustainability Report

31 DECEMBER 2018

BACKGROUND

This report covers the significant environmental, corporate governance, and social aspects of the Trust's business arising from the Trust's principal activities, namely the ownership and leasing to third parties of a diversified fleet of vessels in the following shipping sub-sectors:

Containerships



Crude Oil Tankers



Product Tankers



Chemical tankers



For vessel details/profile refer to **Appendix I**.

BOARD STATEMENT

The Board of Directors of the Trustee Manager is fully committed to creating a sustainable future for the Trust, its Unitholders and Stakeholders, and to following high standards of corporate governance.

FSL Trust has reported on Sustainability in its Annual Reports since FY2013, but acknowledges there is no room for standing still in respect of addressing and improving our approach to Sustainability issues, and in particular continually ensuring that the fleet's vessels are managed in a sustainable and environmentally friendly manner.

As a matter of long standing policy, FSL Trust is aiming to work only with third parties with similar Sustainability values, who are also focussed on protecting the environment, who strive for sustainable and responsible business operations, and are mindful of all their stakeholders' interests including investors, customers, staff and the community at large. The Trust's strategy, its growth, its progress and future should not be at the expense of environmental, community and social well-being.

CONTENTS

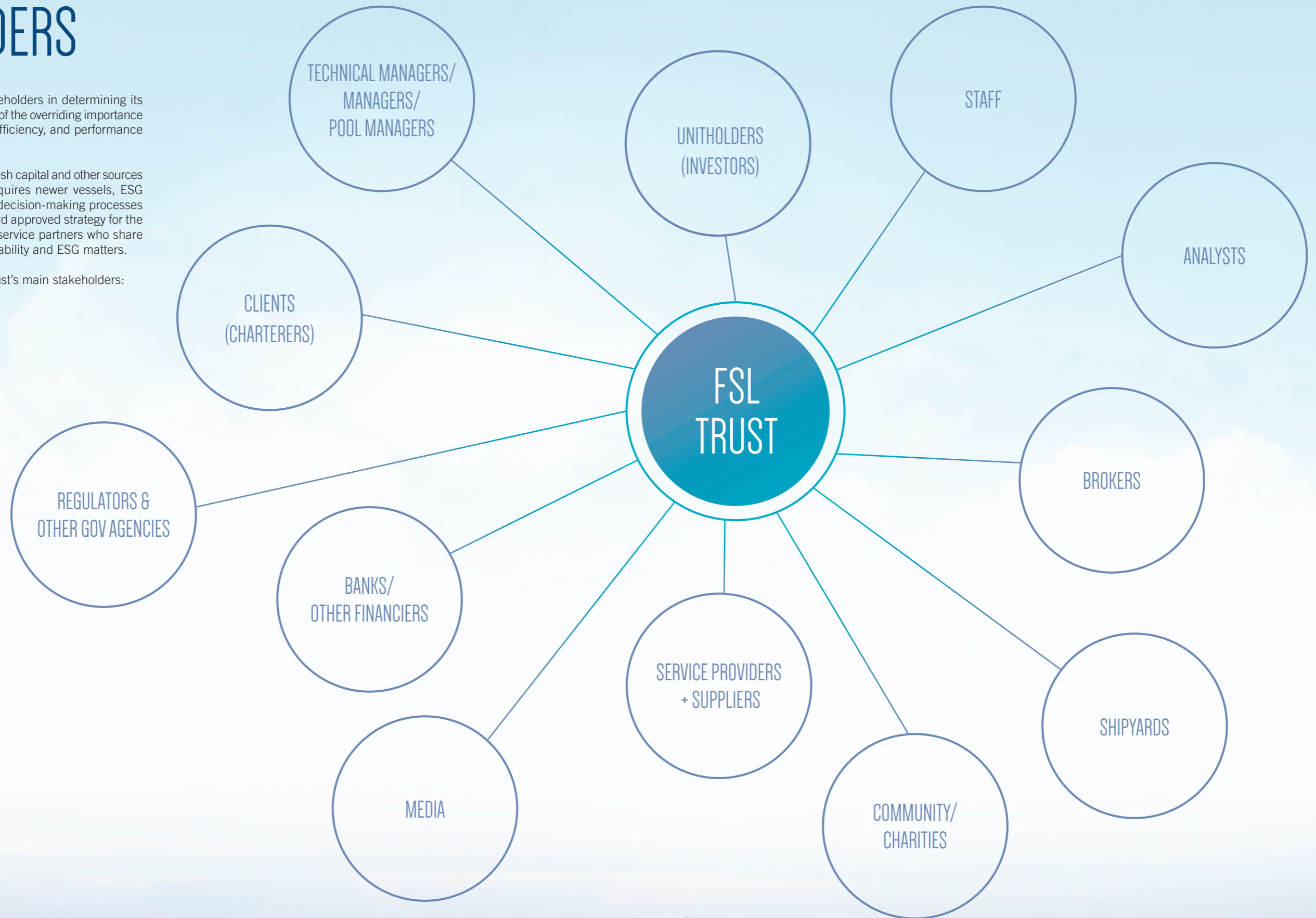
- 02 Background
- 02 Board Statement
- 03 Stakeholders
- 05 Material ESG Factors
- 06 Policies, Practices & Performance
- 08 Targets
- 08 Sustainability Reporting Framework
- 09 Corporate Governance
- 10 Social - Labour Practices
- 10 Environmental Responsibility
- 11 Appendix I (FSL Trust - Fleet)

STAKEHOLDERS

FSL Trust has considered all its stakeholders in determining its sustainable business strategy, mindful of the overriding importance of the financial viability, operational efficiency, and performance of the fleet.

As the Trust moves forward in raising fresh capital and other sources of funding, renews the fleet and acquires newer vessels, ESG issues will be fully considered in the decision-making processes and in the implementation of the Board approved strategy for the fleet, as we partner with clients and service partners who share the same vision in respect of Sustainability and ESG matters.

The chart beside summarises the Trust's main stakeholders:



MATERIAL ESG FACTORS

The key material Environmental, Social and Governance factors for FSL Trust have been identified and will be regularly reviewed by the Trust's Management team, the Audit & Risk Committee, and the Board of Directors.

In this first reporting year, the Trust team has considered various Global Sustainability Initiatives, the Sustainability challenges in the global maritime sector, the challenges presented by the Trust's ageing fleet, how the Trust should ensure that its sustainable business strategy continues to be compatible with profitability and returns to unitholders, and ensuring that a culture of sustainability continues to develop within the entire Trust team.

Material ESG factors selected, in the context of the value chain of the business, are as follows:

Environment



- Selection of Technical Managers, Charterers, & Pool Managers
- Fleet management & renewal
- Vessel Condition – including repairs & maintenance
- Pollution – fuel efficiency, emissions, ballast water and waste management treatment
- Technology – ongoing monitoring of developments and relevance to the fleet

Refer to the Environmental Responsibility section below.

Social



- Staff – fair pay & benefits (*)
- Health & Safety (*) – high quality operations to avoid accidents at sea
- Employee training & qualifications (*)
[* applies to Vessel Crew & Trust Staff]

Refer to the Social – Labour Practices section below.

Governance



- Policies & Procedures
- Compliance with Laws, Rules & Regulations
- Conflicts of Interest
- Whistle-Blowing
- Audit & Risk Committee – responsibilities as delegated by the Board of Directors

Refer to the Corporate Governance section below.



POLICIES, PRACTICES & PERFORMANCE

The sustainability of FSL Trust's operations are of high importance to the Trustee-Manager, and it aims to continuously monitor and manage the activities of the Trust to ensure that it advances the sustainability of the business.

The Trustee-Manager is committed to sound governance and balanced, transparent disclosure, to adopting best labour practices and to minimising its environmental impact. As a part of the annual reporting process, FSLTM measures and evaluates its performance, and communicates its progress and challenges. This annual exercise of collecting, analysing and reviewing the report content and data will engage and educate its employees, unitholders and stakeholders on sustainability issues while driving performance improvements.

The Trust has a number of Policies and Procedures in place to cover significant aspects of the Trust's operations, and these are reviewed by Management on an annual basis, with recommendations for changes submitted for approval to the Audit and Risk Committee. During calendar year 2019, these Policies and Procedures will again be subject to review, and where appropriate updated to incorporate material ESG issues therein.

In respect of the material ESG factors, brief comments are set out below on the Trust's policies and practices:

Selection of Technical Managers, Charterers, & Pool Managers

Critical to the Trust's success and financial performance is the selection of suitable business partners who have excellent reputations in the market, and strong track records in managing their own vessels and third party owned vessels. Management recommendations for any such engagements are subject to Board approval.

Fleet management & renewal

Management and Board regularly monitor the fleet's age profile, and seek to balance each vessel's age with its earnings capacity and potential, the vessel's acceptability to charterers (for tankers acceptability to Global Oil Majors), banking requirements for the financing of older vessels (many banks will not consider financing vessels of age over 15 years), as well as considering sustainability issues such as fuel consumption and operational efficiency.

The Trust's SGX announcement dated 6 December 2018 in respect of the Newbuilding Acquisitions demonstrates the implementation of fleet strategy in managing the fleet's age profile and earnings capacity and potential, seeking to modernise the fleet in conformity with the latest IMO standards. These newbuild vessels will be constructed to newer designs than the current fleet, and will

utilise new technologies to comply with IMO 2020, ballast water management treatment and all recent environmental regulations.

Vessel Condition - Repairs & Maintenance

Whilst vessel age is reviewed on a regular basis, the operational condition of each vessel is as critical in ensuring stable and renewable lease income. How the Trust's vessels are operated and maintained by Charterers/Technical Managers is regularly monitored, ensuring regular maintenance and timely repairs, satisfactory Class, Flag and Port inspections with timely follow-up, in addition to exercising strict budgetary control of vessel expenses, and the monitoring of the monthly financial and operational performance of each vessel.

Pollution – fuel efficiency, emissions, and waste management

The Trust's Operations team maintains regular contact with Charterers and Technical Managers, where appropriate agreeing Key Performance Indicators ("KPIs") according to industry standards with the Technical Manager, with a view to ensuring compliance with Safety, Security, Health and Environmental standards, policies and procedures on the Trust's vessels. In addition Class, Flag and Port inspection reports are obtained by the Trust's Operations team, and are scrutinised for any potential problem issues.

Technology

The Trust will pursue the installation of approved technology in line with global initiatives to help minimise pollution and to protect the oceans and environment.

Over time with the strategic renewal of the fleet, the intention is to phase out vessels utilising older technologies, or those which are fuel inefficient, or which cannot meet current standards for waste management, emissions, and environmental protection.

Staff – fair pay & benefits

The Remuneration Committee, consisting of Independent Directors, ensures that the Trust's employee remuneration structure and benefits packages are competitive, are reviewed on a regular basis, and as necessary consults with third party employment & benefits specialists.

In respect of vessel crews, reliance is placed on Technical Managers, with the Trust's Operations team following up as required to ensure that pay, benefits and conditions are as standardised / agreed with the respective Trade Unions, that there are no matters of dispute which might hinder operational efficiency.

POLICIES, PRACTICES & PERFORMANCE

Health & Safety

In respect of health and safety on the Trust's vessels, the Trust's Operations team liaises with Technical Managers to ensure annual Class inspections have taken place, to ensure compliance with IMO/other Maritime regulations, and to follow up in respect of any incident reports.

Training & qualifications

The Trust's Operations team ensures that the Technical Managers have hired suitably qualified officers and crew, following up as necessary in respect of officer and crew certifications and evidence of safety and emergency fire and evacuation training etc.

Compliance with Laws, Rules & Regulations

Such full compliance is considered a critical component to maintaining high standards of corporate governance in order to protect the reputation and future of the Trust. Where required, expert independent legal advice may be sought, as well as direct discussions with regulatory authorities.

Conflicts of Interest

ARC responsibilities include monitoring procedures established to regulate interested persons transactions, ensuring no conflicts of interest, and which include ensuring compliance with the Listing Manual and Business Trust Act.

Whistle-Blowing

The Whistle-Blowing Committee, headed by the Audit and Risk Committee Chairman, 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. [Further details may be viewed on the Trust's website and in Annual Reports.]

Technical Managers are expected to have their own Whistle-Blowing policies and procedures in place, including the provision of a Phone Number Notice on-board all vessels to enable crew members to make contact with a "Designated Person Ashore" for the anonymous reporting of such matters as pollution incidents, and breaches of policies and procedures which may result in increased health, safety and security risks etc.

Audit & Risk Committee ("ARC")

Headed by the Lead independent Director, the ARC ensures that there is an effective system of risk management in place, and which includes ensuring the thorough assessment of third party technical managers, and lessees. Risk assessments include consideration of sustainability issues and potential reputational risk with respect to the parties under review.



TARGETS

- ⚓ Discussions & meetings in 2019 with Technical Managers in respect of Sustainability issues, initiatives, and KPIs for the FSL fleet (an ongoing requirement);
- ⚓ Formation of a Sustainability Committee – to include members of the Trust's Operations & Finance teams (target Q1 2019);
- ⚓ In respect of future vessel recycling, the Trust will endeavour to shortlist only Recycling Yards with an environment friendly sustainability and safe track record;
- ⚓ Increased Annual Report disclosures in the interests of improved transparency;
- ⚓ Aim for improved scoring in SGTI corporate governance disclosures and practices;
- ⚓ Trust Deed – investors to be able to access through the Trust's website;
- ⚓ Sustainability issues to be included each Quarter as an ARC agenda item;
- ⚓ Ongoing zero exceptions target in respect of compliance with Singapore laws and regulations;
- ⚓ Consideration during 2019 of a Charitable, Educational, or Community Initiative and budget;
- ⚓ Consideration of appointment of third party consultant to take the Trust to the next stage of Sustainability reporting, and to provide staff training;
- ⚓ 2019 – Management to determine GRI Standards applicable for the Trust's future sustainability reporting.

SUSTAINABILITY REPORTING FRAMEWORK

Global Reporting Initiative (GRI) Standards (2016) are considered the appropriate Framework for the Trust to utilise for its ongoing Sustainability reporting obligations.

The Trust is currently unable to report that it has prepared the Report according to GRI Standards. However, the intention is that future Sustainability Reports will begin to reference specific sections of the GRI Standards.

CORPORATE GOVERNANCE

FSLTM is guided by the Code of Corporate Governance 2012 (as updated in 2018) on all its dealings with regard to FSL Trust. It is committed to managing the Trust's business and engaging with stakeholders in an open and transparent manner based on high standards of integrity, professionalism and ethical principles.

FSLTM adopts a code of conduct that sets out the standards of ethical practices expected of its directors and employees in the conduct of the Trust's business. The code of conduct not only applies to directors and employees but also to external parties and service providers, which includes the employees of FSL Asset Management Pte. Ltd. The code of conduct covers all aspects

of the Trust's activities, including compliance with laws and regulations, conflict of interest, privacy of information, business and workplace conduct, fair dealing, gifts and entertainment, and workplace health and safety.

Employees are encouraged to report violations or potential violations of laws, rules and regulations of the code of conduct to the Chairman of the Audit and Risk Committee directly.

Violations of the code of conduct will be duly investigated and may result in disciplinary action.



SOCIAL – LABOUR PRACTICES

FSLTM recognises that its employees are critical to the success of the Trust and is committed to building a strong, diverse workforce. FSLTM continues to adopt fair employment and human resource practices to create a healthy environment for its workforce to thrive.

FSLTM recognises the value of its workforce: all of its employees contribute to FSLTM's success and it is committed to providing equal opportunity in all aspects of employment. The Trustee-Manager adopts a consistent and fair treatment of employees to support improved communications and foster a positive workplace environment. In addition, FSLTM strives to ensure the well-being

of all its employees, providing readily available guidance on employee welfare entitlements.

Abusive, offensive conduct or harassment is unacceptable, whether verbal, physical or visual. The Trustee-Manager offers its employees the opportunity to report, confidentially and without fear of retaliation, such conduct or harassment to the Chairman of the Audit and Risk Committee when it occurs.

ENVIRONMENTAL RESPONSIBILITY

FSL Trust is the owner and lessor of 19 vessels. Pursuant to the Trust's bareboat leases, the operation of 10 of its vessels as at the date of this report rests entirely with their international lessees. These lessees carry out their operations in accordance with the standard operating procedures contained in the lease agreement and they are required to comply with all applicable Maritime environmental laws and regulations.

The remaining 9 vessels are managed by FSL Trust's agents in compliance with all applicable Maritime environmental laws and regulations. FSL Trust's agents are currently Columbia Shipmanagement (Singapore) Pte. Ltd. (Columbia), Thome Ship Management Pte. Ltd. (Thome), Wallem Shipmanagement Limited (Wallem), and Prime Tanker Management Inc. (Prime), who are committed to promoting safe, effective and efficient environmental management in their organisations.

Technical Managers

For further information on the Technical Managers their websites are as follows:

- Columbia – www.columbia-shipmanagement.com
- Thome – www.thome.com.sg
- Wallem – www.wallem.com
- Prime – www.prime-marine.net

In its ongoing effort towards sustainable and environmentally business operations, the Trustee-Manager only engages agents who are committed to managing health, safety and environmental matters as an essential part of excellence in the management and operation of vessels.

FSLTM is mindful that the Trust's activities impact the environment and, as such, it strives to responsibly manage those activities.

As part of the Trust's efforts to minimise its environmental footprint, FSLTM opted to only issue this report on its website, and in respect of the Trust's Annual Reports to print them on fully-recycled paper certified by the Forest Stewardship Council (FSC). The FSC's mission is to promote environmentally sound, socially beneficial and economically prosperous management of the world's forests. FSC certification is only granted after a document has flowed through the FSC Chain of Custody from the FSC-certified forest, to a paper manufacturer, merchant, and finally to a printer that has FSC Chain-of-Custody certification. The Chain-of-Custody process reassures the consumer that the FSC-certified products they purchase are coming from responsibly managed sources. For a consumer to purchase an FSC-certified product, every company that previously had ownership of the forest product material components of the end product would have had to be FSC certified.

APPENDIX I

FSL TRUST - FLEET

Company	Ship Name	Flag	Class	Built	Capacity	Charterer/ Pool/ Manager	Employment Type
FSL - 1	Cumbrian Fisher	Bahamas	LRS	2004	12,921 DWT	James Fisher	Bareboat Charter
FSL - 2	Clyde Fisher	Bahamas	LRS	2005	12,984 DWT	James Fisher	Bareboat Charter
FSL - 3	Shannon Fisher	Bahamas	LRS	2006	5,421 DWT	James Fisher	Bareboat Charter
FSL - 4	Solway Fisher	Bahamas	LRS	2006	5,421 DWT	James Fisher	Bareboat Charter
FSL - 9	FSL New York	Singapore	NKK	2006	19,970 DWT	Golden Agri Stena	Time Charter
FSL - 10	FSL London	Singapore	NKK	2006	19,966 DWT	Golden Agri Stena	Time Charter
FSL - 14	Speciality	Bahamas/UK	LRS	2006	4,426 DWT	James Fisher	Bareboat Charter
FSL - 15	Seniority	Bahamas/UK	LRS	2006	4,426 DWT	James Fisher	Bareboat Charter
FSL - 16	Superiority	Bahamas/UK	LRS	2007	4,426 DWT	James Fisher	Bareboat Charter
FSL - 18	FSL Hamburg	Singapore	DNVGL	2005	47,496 DWT	Hafnia	Pool
FSL - 19	FSL Singapore	Singapore	DNVGL	2006	47,470 DWT	Hafnia	Pool
FSL - 20	YM Eminence	Liberia	LRS	2008	4,250 TEU	Yang Ming Marine	Bareboat Charter
FSL - 21	YM Elixir	Liberia	LRS	2008	4,250 TEU	Yang Ming Marine	Bareboat Charter
FSL - 22	YM Enhancer	Liberia	ABS	2008	4,250 TEU	Yang Ming Marine	Bareboat Charter
FSL - 23	FSL Hong Kong	Singapore	DNVGL	2007	115,000 DWT	Teekay	Pool
FSL - 24	FSL Shanghai	Singapore	DNVGL	2007	115,000 DWT	Teekay	Pool
FSL - 25	FSL Piraeus	Singapore	LRS	2006	109,672 DWT	Heidmar	Pool
FSL - 26	FSL Perth	Singapore	LRS	2006	109,672 DWT	Heidmar	Pool
FSL - 27	FSL Osaka	Singapore	NKK	2007	45,998 DWT	Hafnia	Pool