FIRST
SHIP LEASE
TRUST

ANNUAL REPORT

2017

CONTENTS

Corporate Profile	1
Corporate Structure	2
Corporate Information	3
Chairman's Letter to Unitholders	4
CEO's Statement	6
Performance Highlights	8
Board of Directors	10
Executive Officers	13
Vessel Portfolio	14
Financial & Operational Review	16
Our Lessees and Charterers	21
Corporate Governance Report	22
Risk Management	30
Investor Relations	32
Sustainability Report	33
Whistle-Blowing Policy	35
Financial Statements 2017	37
Lease Portfolio	87
Additional Information	88
Statistics of Unitholdings	89
Notice of Annual General Meeting of the Unitholders	91
Form of Proxy	

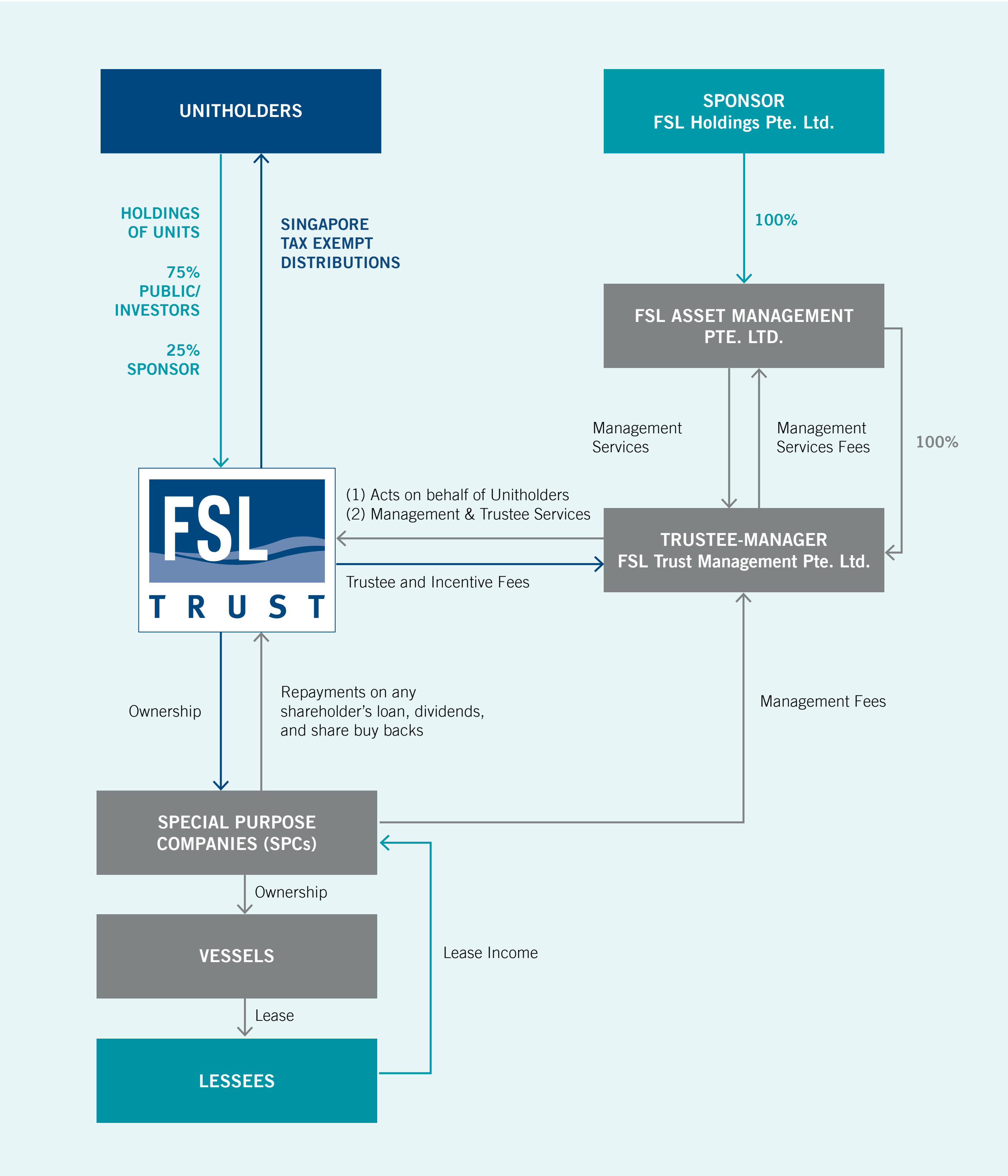
CORPORATE PROFILE

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 oceangoing vessels comprising containerships and a variety of tankers. Of these, 12 vessels are leased to international shipping companies on long-term bareboat charters. The remaining 7 vessels are employed on short-term time charters or in pools or spot markets.

Around half 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 upside. 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

- ABN AMRO Bank N.V., Singapore Branch
- Deutsche Bank AG, Singapore Branch
- ITF International Transport Finance Suisse AG
- Goldman Sachs Holdings (Singapore) Pte. Ltd.
- Oversea-Chinese Banking Corporation Limited
- Sumitomo Mitsui Banking Corporation, Singapore Branch
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- The Korean Development Bank
- UniCredit Bank AG, Singapore Branch

CHAIRMAN'S LETTER TO UNITHOLDERS

DEAR UNITHOLDERS,

I am pleased to be addressing our Trust's valued Unitholders after joining the Board on 28 February 2018, as ownership of the Sponsor changed to Prime Shareholdings Inc., a member of the Prime Group ("Prime"). Prime was founded in 1998 and has since grown to become a leading international ship-owning and management group headquartered in Athens, currently managing 27 Product Tankers, 2 Suezmax Oil Tankers and 7 LPG Carriers. This event represents a significant milestone in securing a stronger and sustainable future for the Trust.

On 9 March 2018, I was appointed as Chairman of the Board upon Tim Reid's resignation. I would like to take this opportunity to thank Mr. Reid for his service and contribution to the Trust since his appointment in 2013, and also to welcome Michael Chalkias, a Co-Founder of Prime, to the Board. Michael brings to the Board his extensive experience in the shipping industry.

2017 was a challenging year for FSL Trust, with ongoing market conditions and declining charter rates continuing to impact the Trust's operations. Nevertheless, the Trust remained cash flow positive, and achieved a considerable debt reduction through both scheduled repayments and prepayments. During the year the Trust repaid US$71.9m of its Syndicated Loan Facility ("the Loan Indebtedness"), with the outstanding loan balance falling to US$151.3m as at 31 December 2017. Post year end, the debt was further reduced to US$124.9m from the proceeds of vessel sales and cash flow from operations.

Over the past year the Board was in continued discussions with the Trust's Syndicate of Lenders (the "Lenders") for extending the repayment of the Loan Indebtedness beyond 20 December 2017.

THE TRUST CONTINUED TO GENERATE CASH OVER THE COURSE OF THE YEAR IN SPITE OF THE DIFFICULT OPERATING ENVIRONMENT ACROSS GLOBAL SHIPPING MARKETS.

Absent of the necessary unanimous consent of the Lenders for the extension terms, the Board received advice that it was able to seek court protection for the Trust by relying upon the newly enhanced scheme of arrangement provisions of the Singapore Companies Act. An application was subsequently filed with the Singapore High Court ("the Court") prior to 20 December 2017 proposing a Scheme of Arrangement based on the terms agreed with the six supporting Lenders. On 16 January 2018, the Court granted leave to convene a meeting of the Lenders to be held by 28 February 2018 to consider the Scheme.

Due to the imminent change of Sponsor, it was subsequently necessary to seek leave from the Court to hold the meeting at a later date. Accordingly, the Board expects that the meeting of Lenders will be held within the further period allowed by the Court i.e. by 27 April 2018. The Board is very grateful to the Lenders who remained steadfast and continued to support the Trust through this difficult period.

In the interim, as highlighted at the outset, Prime Shareholdings Inc. has acquired ownership of the Sponsor after a protracted negotiation. The Board acknowledges the importance of having been able to rely upon the newly enacted provisions of the Singapore Companies Act in order to gain protection in the interests of the Unitholders together with the responsiveness of the Court in dealing with the various applications that have been taken out. These factors undoubtedly preserved Unitholder value.

While Unitholders have received no distributions from the Trust during the period since 2013, the decision of the Board to focus on deleveraging during this prolonged crisis in the shipping market and not pay distributions, has resulted in the Trust still being in existence today, in the midst of the failure of many Singapore shipping and offshore oil and gas entities over recent years.

While the shipping market continues to be challenging, I am confident that the Trust, with Prime being a long term strategic investor now controlling the Sponsor, has a sound and promising future.

Last but not least, I would like to thank FSL's Chief Executive Officer, Mr. Roger Woods, and his team who have efficiently managed the Trust's affairs during the last challenging year.

The Board is grateful for Unitholders' continued patience.

STATHIS TOPOUZOGLOU
Chairman

CEO'S STATEMENT

2017 HAS BEEN A CHALLENGING YEAR. HOWEVER, THE FSL TEAM HAS BEEN STEADFAST IN ITS COMMITMENT TO THE ONGOING OPERATION OF THE TRUST.

DEAR UNITHOLDERS,

Management's focus during 2017 was to ensure the continued full deployment of the fleet, to improve fleet operational efficiency, and to position the Trust to take advantage in future of improved market rates. Ongoing market volatility continued to take its toll on the shipping industry in 2017, however the Trust reported four consecutive quarters of positive cash generation, and made significant headway in reducing debt through scheduled and unscheduled repayments, and selective vessel disposal.

MARKET OVERVIEW

2017 was a year of flux in the shipping markets, with all sectors remaining under pressure and overcapacity constraining recovery.

The container market saw long-awaited consolidation with significant M&A activity amongst the larger players, however rates remained depressed. Meanwhile, the tanker market remained challenging with rates under pressure from vessel oversupply and the Organisation of Petroleum Exporting Countries' ("OPEC") announcing extended production cuts, impacting demand.

On the regulatory front, the International Maritime Organisation ("IMO") delayed its implementation of the Ballast Water Management ("BWM") Convention by a further two years, pushing back the timeline from 2017 to the market's relief. Nevertheless, vessel-scrapping is expected to increase in the coming years given the impending BWM implementation and sulphur fuel limits which will become effective in 2020.

The geopolitical landscape also contributed to market uncertainty, with the inauguration of President Trump raising concerns around protectionist trade policies and a weakening in US crude imports.

FINANCIAL HIGHLIGHTS

With continued volatility across global shipping markets and the sustained softening of rates across all of the Trust's vessel sub-sectors, the Trust reported a decline in revenue for the full year 2017 of US$81.5m, 17.0% lower than 2016.

In light of the deterioration in vessel values, the Trust recognised a non-cash impairment on vessels of US$72.2m on 12 vessels for 2017, and a further US$8.9m impairment on a vessel sold in early 2018. These impairments contributed to a net loss of US$73.9m for the year.

Despite the prolonged market downturn and challenging operating environment, the Trust continued to make progress in bringing down debt in compliance with its loan covenants, repaying US$71.9m of debt through a series of scheduled and voluntary payments and the sale of FSL Santos, thereby reducing the outstanding loan to US$151.3m. The Trust's gearing ratio was marginally reduced to 46.6% from 47.3%. Vessel sale proceeds and cash generated from operations post year end further reduced the loan to US$124.9m.

VESSEL EMPLOYMENT

Although shipping markets remained under pressure in the near term, the Trust's proactive management of the charter book provided some insulation from current market volatility.

Twelve of the Trust's vessels are leased to international shipping companies on long-term bareboat charters. As part of its ongoing efforts to secure quality contract cover for the fleet, the Trust signed

extension agreements for the bareboat charters for Speciality, Superiority and Seniority in April 2017, securing ongoing stable income for the Trust.

In addition, the Trust successfully employed FSL Hong Kong in the Teekay Group Revenue Sharing Agreement following its dry-docking in March 2017, building on our longstanding partnership with the world's largest Aframax owner.

In December, the Trust reported the disposal of one of its oldest containerships, FSL Santos, for US$6.2m, saving the Trust the expense of a third special survey in 2Q 2018. Following the year end, the Trust announced two further disposals. FSL Tokyo, a chemical tanker, and FSL Busan, a containership, which were sold for a gross cash consideration of US$13.8m and US$6.2m respectively, allowing further significant reductions in the outstanding debt.

The Trust remains focused on optimising the commercial deployment and operational performance of the fleet by securing quality contract cover for 2018 and beyond.

2018: THE YEAR AHEAD

Revised global economic forecasts suggest potential improvement in the shipping market. We continue to proactively manage our vessel portfolio to explore market-accretive opportunities to ensure the Trust is well positioned for any pick-up in the market.

In addition to ensuring the efficient ongoing operational performance of the fleet, and reducing debt, the Board of Directors and Management of the Trust remain committed to securing the Trust's future for the benefit of our Unitholders. In March, the ownership of the Sponsor of the Trust changed to Prime Group. With the long-term support of Prime Group, our priority remains in securing an optimum refinancing solution for the future stability of the Trust. Discussions in this respect remain ongoing, and we remain optimistic for a successful outcome in due course.

ACKNOWLEDGEMENTS

2017 has been a challenging year however the FSL team has been steadfast in its commitment to the ongoing operation of the Trust. I would like to thank the entire team and the Board of Directors for their support and dedication throughout this period.

I am delighted to welcome our new Chairman, Stathis Topouzoglou, and Non-Executive Director, Michael Chalkias, and look forward to working with them both closely as we look to the future. Having known Prime and Stathis for over 10 years, I am confident that their business experience and global connections in the shipping industry will be of value to the Trust and our Unitholders.

I would like to extend my gratitude to the commitment and continued efforts of our crew and technical managers in helping to ensure that our vessels are operating in the most efficient manner. In addition, we are also appreciative of our commercial managers and customers who have continued to support us over the last year.

Finally, we thank Unitholders for their continued patience during this time. We will stay focused on generating sustainable earnings and cash flow capabilities, and are committed to identifying a debt refinancing solution at the earliest opportunity. Ultimately, our goal is to secure the future and the long-term stability of the Trust.

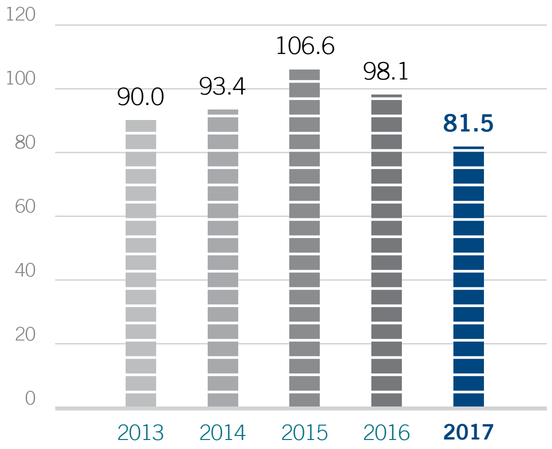
ROGER WOODS
Chief Executive Officer

PERFORMANCE HIGHLIGHTS

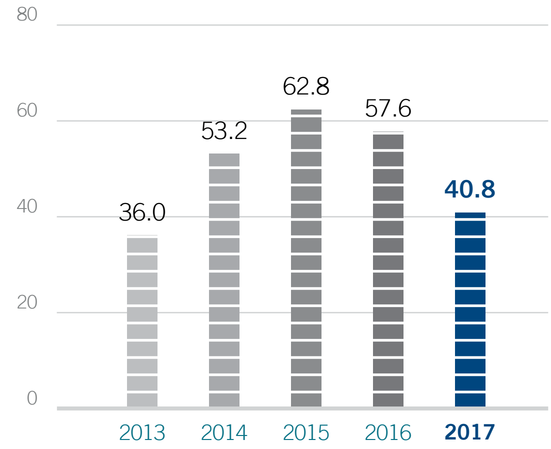
	FY2017 US$'000	FY2016 US$'000	FY2015 US$'000	FY2014 US$'000	FY2013 US$'000	FY2012 US$'000	FY2011 US$'000	FY2010 US$'000
Income Statement								
Revenue	81,499	98,144	106,583	93,414	89,993	106,107	110,714	100,494
Results from Operating Activities	(66,006)	(17,660)	23,348	16,797	(40,628)	19,280	3,404	19,964
Profit / (Loss) for the Year	(73,888)	(30,995)	14,147	4,051	(65,213)	(8,387)	(17,066)	(5,699)
Net Cash Generated from Operations (1)	**40,758**	**57,584**	**62,823**	**53,225**	**36,035**	**47,608**	**63,846**	**60,479**
Financial Position								
Total Assets	331,042	474,425	560,206	594,916	662,627	774,935	822,415	836,029
Total Liabilities	157,354	226,971	282,024	328,183	396,991	457,703	497,436	493,581
Shareholder's Equity	173,688	247,454	278,182	266,733	265,636	317,232	324,979	342,448
Financial Ratios								
(Loss) / Earnings per unit (US cents/unit) (2)	(11.59)	(4.86)	2.19	0.62	(9.96)	(1.28)	(2.72)	(0.95)
Net Asset Value (US$/unit)	0.27	0.39	0.44	0.41	0.41	0.48	0.50	0.57
Gearing Ratio (3) (%)	46.6	47.3	49.4	54.4	58.7	57.6	59.3	57.2

(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 = secured bank loans/(total Unitholders' funds + secured bank loans)

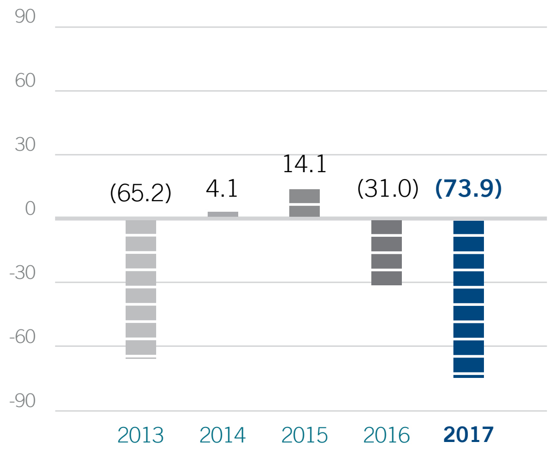
Revenue
(US$million)



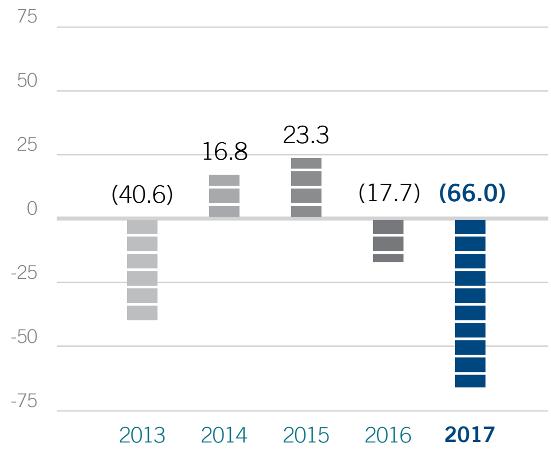
Net Cash Generated from Operations
(US$million)



Profit / (loss) for the Year
(US$million)



Results from Operating Activities
(US$million)



BOARD OF DIRECTORS

STATHIS TOPOUZOGLOU (61)
NON-INDEPENDENT, NON-EXECUTIVE CHAIRMAN

Date of Appointment as a Director
28 February 2018

Length of Service as a Director (as at 31 December 2017)
Nil

Units in the Trust or Shares in 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 2017)
- 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 35 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.
- Prime Marine Management, Greece (1999-present).

Past Directorships over the last 3 years – 2015 to 2017 (excluding Subsidiaries and Associates of the Trust)
- Energean E&P Holdings Limited

Awards
Nil

MICHAEL CHALKIAS (47)
NON-INDEPENDENT, NON-EXECUTIVE DIRECTOR

Date of Appointment as a Director
9 March 2018

Length of Service as a Director (as at 31 December 2017)
Nil

Units in the Trust or Shares in 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
- Master of Science with Distinction in Shipping, Trade & Finance from the City University of London
- Bachelor of Science with Honours in Maritime Business and Law from the University of Plymouth

Present Directorships (as at 31 December 2017)
- Prime Marine Management Inc.
- Dynamic Product Tankers LLC
- Flagship Marine Ventures LLC
- Prime Marine Corporation
- Poseidon Containers Holdings Corp.

Major Appointments (other than Directorships)
Nil

Background and Working Experience
- Over 20 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 (1999 – present), a leading international product tanker and gas carrier management company, which has managed more than 75 vessels since its inception.
- 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 – 2015 to 2017 (excluding Subsidiaries and Associates of the Trust)
- Prime Energy S.A.
- Prime Green S.A.

Awards
Nil

MICHAEL GRENVILLE GRAY (72)
LEAD INDEPENDENT, NON-EXECUTIVE DIRECTOR

Date of Appointment as a Director
11 May 2015

Length of Service as a Director (as at 31 December 2017)
2 years 7 months

Units in the Trust or Shares in Related Corporations
1,000,000

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

Academic & 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 2017)
Listed Company
- Avi-Tech Electronics Limited
- GSH Corporation Ltd.

Others-non-listed
(excluding Subsidiaries and Associates of the Trust)
- TGY Property Investments Pte. Ltd.
- Tras Street Property Investment Ltd.
- UON Singapore Pte. Ltd.
- Vietnam Hospitality Ltd.

Major Appointments (other than Directorships)
- PAVE (President)
- Singapore Grand Prix

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 – 2015 to 2017
(excluding Subsidiaries and Associates of the Trust)
- Ascendas Property Fund Trustee Pte. Ltd.
- VinaCapital Vietnam Opportunity Fund Limited
- Asian Cruising Pte. Ltd.
- The Masonic Hall Board Ltd.
- Raffles Marina Holdings Ltd.

Awards
- Public Service Star (Bar) – B.B.M. [L] (2010)
- Philip Henman Medal – Chartered Institute of Transport (1984)

MICHAEL JOHN OLIVER (69)
INDEPENDENT, NON-EXECUTIVE DIRECTOR

Date of Appointment as a Director
26 June 2013

Length of Service as a Director (as at 31 December 2017)
4 years 6 months

Units in the Trust or Shares in 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 2017)
Nil

Major Appointments (other than Directorships)
- Member of the court-appointed Committee of Inspection in the matter of the liquidation of Peregrine Fixed Income Ltd., Hong Kong (1998 to 2017)

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 – 2015 to 2017
(excluding Subsidiaries and Associates of the Trust)
Nil

Awards
Nil

BOARD OF DIRECTORS

NARAYANAN SREENIVASAN (56)
INDEPENDENT, NON-EXECUTIVE DIRECTOR

Date of Appointment as a Director
20 September 2016

Length of Service as a Director (as at 31 December 2017)
1 year 3 months

Units in the Trust or Shares in 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 2017)
Listed Company
- Q & M Dental Group (Singapore) Limited

Others-non-listed
(excluding Subsidiaries and Associates of the Trust)
- Straits Law Practice LLC
- Singapore Business Federation Foundation Limited
- Hydroinformatics Institute Pte. Ltd.

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 – 2015 to 2017
(excluding Subsidiaries and Associates of the Trust)
- MUFG Fund Services (Singapore) Pte. Ltd.

Awards
- Pingat Bakti Masyarakat (2014)

EXECUTIVE OFFICERS

ROGER WOODS (55)
CHIEF EXECUTIVE OFFICER (CEO)

Date of Appointment
3 May 2017

Length of Service in the Trust (as at 31 December 2017)
4 years 3 months

Roles and Responsibilities
- Joined the Trust as the Chief Operating Officer on 17 September 2013
- Promoted to Deputy CEO on 30 November 2016, appointed as Acting CEO on 2 February 2017 and confirmed as CEO 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 39 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

ALAN CHRISTOPHER MITCHELL (60)
CHIEF FINANCIAL OFFICER (CFO)

Date of Appointment
26 September 2016

Length of Service in the Trust (as at 31 December 2017)
1 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 30 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). CFO, 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[1]

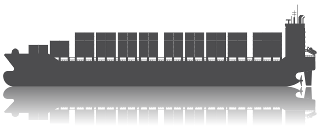
FSL NEW YORK

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[2]



YM EMINENCE

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

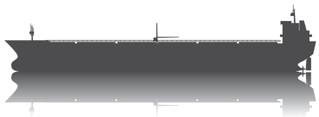
YM ELIXIR

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

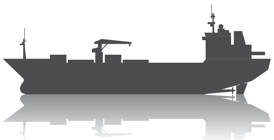
YEAR BUILT	2007
BUILDER	Samsung Heavy Industries, South Korea
CAPACITY	115,000 DWT
FLAG	Singapore

FSL SHANGHAI

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

(1) Chemical tanker, FSL Tokyo, was disposed in January 2018
(2) Containerships, FSL Busan and FSL Santos were disposed in January 2018 and December 2017 respectively

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

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

TORM MARGRETHE

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

TORM MARIE

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

FINANCIAL & OPERATIONAL REVIEW

POSITIVE CASH GENERATION DESPITE CHALLENGING MARKET CONDITIONS

For the financial year ended 31 December 2017 ("FY2017"), the Trust recorded lower revenue of US$81.5m, a 17.0% decrease from the previous financial year ("FY2016"). The decline in revenue was primarily due to ongoing market volatility and the continued softening of rates across all shipping sectors which weighed on the Trust's earnings from its product tankers, crude oil tankers, chemical tankers and feeder 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$40.8m in FY2017 (FY2016: US$57.6m). Cash and cash equivalents decreased by 69.2% from US$42.9m in FY2016 to US$13.2m in FY2017, as funds were utilised in reducing the Trust's syndicated debt exposure.

In light of the continuing deterioration in vessel values, the Trust recognised a non-cash impairment on vessels of US$72.2m on 12 vessels in FY2017, and a further US$8.9m impairment was recognised on a vessel sold post year end. Together, these impairments contributed to a net loss of US$73.9m for FY2017.

Despite the difficult operating environment, the Trust made headway in reducing its outstanding debt and in strengthening its balance sheet. During the course of FY2017, the Trust repaid US$71.9m of debt. As a result, the Group's gearing was improved from 47.3% at the end of FY2016 to 46.6% at the end of FY2017, notwithstanding the impairment charges taken.

PROGRESS IN 2017

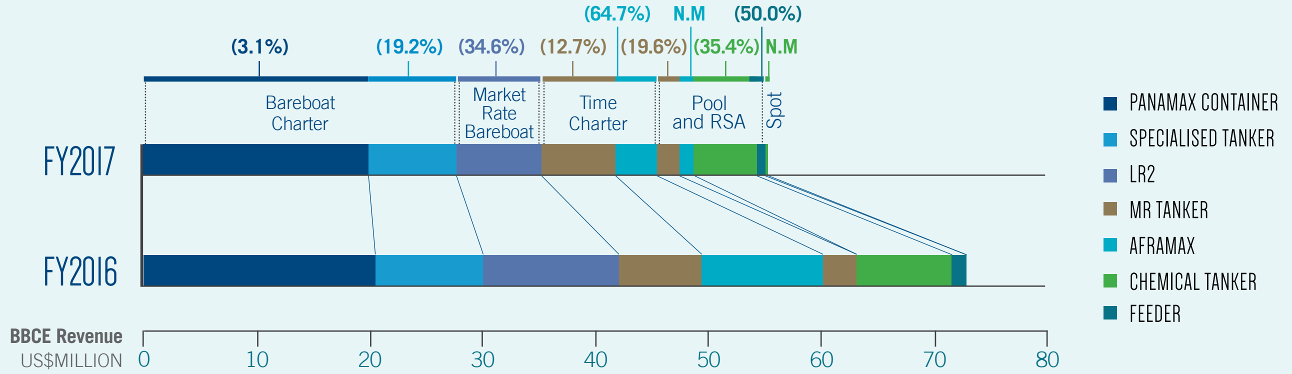
Redelivery of Nine Vessels

Nine vessels were redelivered in FY2017. These nine vessels were *Speciality, Superiority, Seniority, FSL Hong Kong, FSL Shanghai, FSL Hamburg, FSL Singapore, Cumbrian Fisher* and *Clyde Fisher*. All vessels were redeployed or their leases were extended. In respect of *FSL Hong Kong* and *FSL Shanghai* their redeployment was after completion of their dry-docking.

Disposal of Feeder Containership

In December 2017, the Trust sold containership, *FSL Santos*, for a gross 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 4Q2017. As one of the oldest vessels, the Trust also saved the expense of a third party special survey due in 2Q2018.

Figure 1:
BBCE revenue



2018 UPDATES

Scheduled Redelivery of Six Vessels

Six vessels are expected to be redelivered in FY2018. These vessels are *Torm Margrethe, Torm Marie, FSL Singapore, Speciality, Seniority* and *Superiority*.

Disposal of Vessels to Further Reduce Debt

To further reduce debt, the Trust disposed of two vessels in January 2018. *FSL Tokyo*, a chemical tanker, and *FSL Busan*, a containership, were sold for gross cash considerations of US$13.8m and US$6.2m respectively. The net proceeds from the disposal of *FSL Tokyo* and *FSL Busan* will be applied in full to the outstanding loan facility in 1Q2018. The Trust recorded a related impairment charge of approximately US$8.9m on *FSL Tokyo* in 4Q2017. The disposal of *FSL Busan* will result in a gain on disposal of approximately US$0.75m in 1Q2018.

Successful Renewal of BBC

The Trust successfully renegotiated a two-year fixed-rate bareboat charter renewal for *Cumbrian Fisher* and *Clyde Fisher* at market adjusted bareboat rates.

OPERATIONALLY WELL-POSITIONED

As illustrated in Figure 1, on a bareboat charter equivalent ("BBCE") basis, total BBCE revenue for FY2017 decreased by 24.1% year-on-year to US$55.3m. This was largely attributable to uncertain shipping markets resulting in bareboat contracts being renewed at lower daily rates. Additionally, the Trust's two LR2 tankers (on variable bareboat charter terms) and two crude oil tankers (on time charter), also experienced difficult market conditions, generating lower revenue.

OPERATING EXPENSES AND OTHER INCOME

The Trust's vessel operating expenses reduced 4.5% in FY2017 to US$23.1m as a result of a smaller fleet and increased focus on controlling costs.

Other Trust expenses increased by 32.4% to US$2.2m, due to increased professional fees including legal and independent financial advisory fees.

Depreciation expense on vessels decreased 13.1% to US$37.1m (FY2016: US$42.7m). This reduction was mainly due to the impairment for a number of vessels and the disposal of one containership in December 2017. With vessel values continuing to fall, an impairment charge of US$72.2m was taken in respect of three chemical tankers, two crude oil tankers, five product tankers and two containerships in FY2017. This was necessary as it was assessed that the carrying amounts of these twelve vessels had exceeded the recoverable amounts.

US$71.9M

OF DEBT PAID DOWN IN 2017

US$81.5M

REVENUE

FINANCIAL & OPERATIONAL REVIEW

FSL Tokyo was reclassified to "Non-current asset classified as held-for-sale" and an impairment of US$8.9m was recognised in line with the net sale price. *FSL Busan* was also reclassified, but a gain was recorded in line with the net sale price.

The Trust reduced its finance expenses in FY2017 by 16.1% to US$9.1m, mainly due to the lower outstanding indebtedness and reduction in interest costs.

The Trust fully serviced all principal and interest payments due during the year, as well as utilising cash for unscheduled repayments, and consequently reduced its outstanding loan balance by US$71.9m to US$151.3m as at 31 December 2017.

OPERATIONAL PERFORMANCE

During the year, BBCE revenue declined by 24.1% year-on-year to US$55.3m. This was mainly due to the renewal of bareboat contracts for *Shannon Fisher, Solway Fisher, Cumbrian Fisher, Clyde Fisher, Speciality, Seniority* and *Superiority* at a lower daily rates, weaker performance of the two LR2 tankers, *Torm Margrethe* and *Torm Marie*, two crude oil tankers, *FSL Hong Kong* and *FSL Shanghai*, and the three chemical tankers, *FSL New York, FSL London* and *FSL Tokyo*.

LR2 product tankers

The Trust's two LR2 vessels, *TORM Margrethe* and *TORM Marie*, are currently leased on floating-rate bareboat charters to TORM A/S. Due to softening rates in the LR2 market, the vessels contributed lower revenue of US$4.1m to bareboat charter rental for the year.

Chemical tankers

The Trust's three chemical tankers, *FSL New York, FSL London* and *FSL Tokyo* (disposed on 12 January 2018), were employed in the 'Nordic Tankers 19,000 Stainless Steel Pool' until 4Q2017. Collectively, these vessels generated net pool revenue of US$12.0m in FY2017 (FY2016: US$16.1m). After deducting vessel operating expenses, these vessels earned BBCE revenue of US$5.3m in FY2017.

Upon exiting the 'Nordic Tankers 19,000 Stainless Steel Pool', the three chemical tankers traded in the spot market and generated US$3.4m of freight income in FY2017. After deducting voyage and vessel operating expenses, the three vessels generated BBCE revenue of US$0.3m in FY2017.

Aframax crude oil tankers

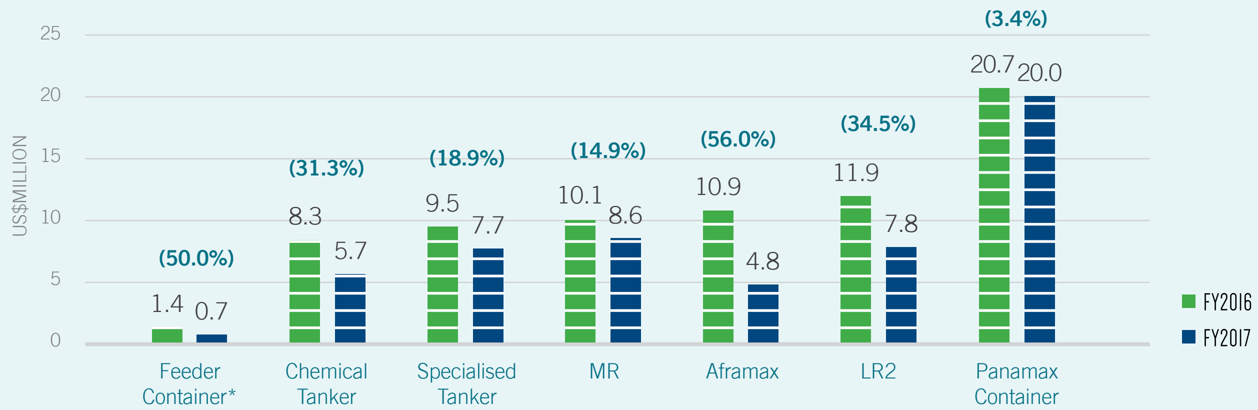
FSL Hong Kong was employed on time charter (Tesoro), and generated BBCE revenue of US$1.0m up to April 2017, the vessel then entered a Revenue Sharing Agreement ("RSA") from 14 April 2017. The vessel generated net pool revenue of US$2.9m for the remainder of FY2017. After deducting vessel operating expenses, the vessel earned BBCE revenue of US$0.8m in FY2017.

FSL Shanghai was employed on time charter (Trafigura), and generated BBCE revenue of US$2.6m up to August 2017, when the vessel then entered a RSA in September 2017. The vessel generated net pool revenue of US$1.4m for the remainder of FY2017. After deducting vessel operating expenses, the vessel earned BBCE revenue of US$0.5m in FY2017.

Feeder containerships

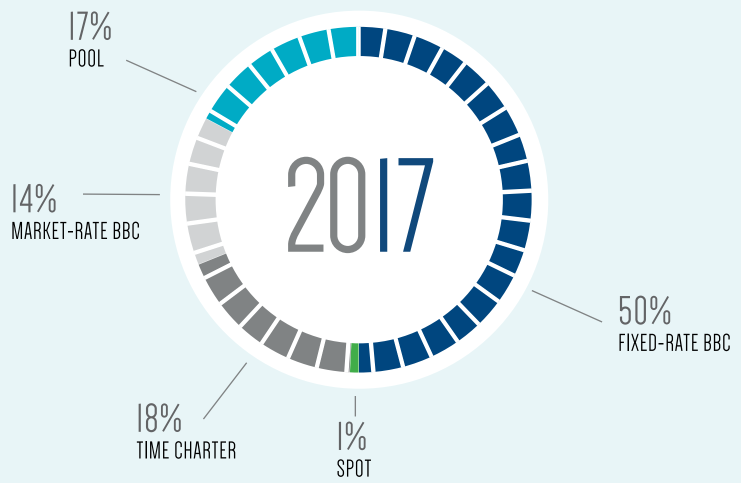
FSL Busan (disposed on 17 January 2018) and *FSL Santos* (disposed on 7 December 2017) were employed in a 1200-1400/1700 TEU pool which is managed by HANSE Bereederung GmbH ("Hanse Pool"). Collectively, these vessels generated net pool revenue of US$4.1m in FY2017 (FY2016: US$4.8m). After deducting vessel operating expenses, these vessels earned BBCE revenue of US$0.7m in FY2017 (FY2016: US$1.4m).

Figure 2:
Breakdown of FY2017 BBCE revenue by vessel type



* Reduced fleet with the disposal of a containership in Dec 2017

Figure 3:
Breakdown of FY2017 BBCE revenue by employment type



MR product tankers

FSL Singapore continued to be employed on time charter and generated BBCE revenue of US$3.2m in FY2017 (FY2016: US$3.7m). *FSL Hamburg* was employed on time charter till 7 October 2017 and then subsequently redeployed to an MR pool. *FSL Hamburg* generated BBCE revenue of US$3.1m in FY2017 (FY2016: US$3.6m), and generated net pool revenue of US$1.1m in FY2017. After deducting vessel operating expenses, the vessel earned BBCE revenue of US$0.5m in FY2017.

FSL Osaka, acquired by the Trust on 18 November 2015, entered an MR pool managed by Hafnia Management. The vessel generated net pool revenue of US$4.2m in FY2017 (FY2016: US$5.1m). After deducting vessel operating expenses, the vessel earned BBCE revenue of US$1.8m in FY2017 (FY2016: US$2.8m).

PORTFOLIO ANALYSIS

As at 31 December 2017, 12 out of the 21 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 64%. These charters have a dollar-weighted average remaining lease period of approximately two years (excluding extension periods and early buy-out options).

The remaining nine vessels employed on time charter and in pools provided the Trust with the flexibility and opportunity to capture any upside through managing exposure to the short-term and spot markets.

The combined portfolio of 21 vessels has a dollar-weighted average age of approximately eleven years. A breakdown of the Trust's FY2017 bareboat charter/BBCE revenue by employment type is provided in **Figure 3**.

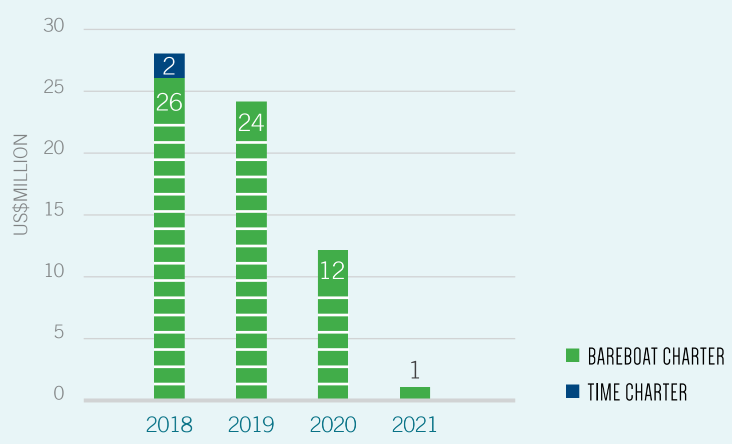
As at 31 December 2017, based on revenue from ten bareboat charters (excluding the TORM charters which are on floating rates) and from time charter contracts, the remaining contracted revenue of the leases was approximately US$65.0m (See **Figure 4**).

The lease maturities of the vessels on long-term bareboat charters remain staggered so that only a small portion of the overall lease portfolio would mature in any one year.

LOAN FACILITY AND LOAN COVENANTS

In January 2011, the Trust secured a 6-year amortising loan facility which was fully drawn in December that year. This term loan facility is secured against FSL Trust's 19 vessels (after the disposal of *FSL Santos* in 2017, as well as *FSL Busan* and *FSL Tokyo* post year end). This facility expired on 20 December 2017 and negotiations with the Trust's Syndicated Lenders ("the Lenders") are ongoing for an extension of the maturity date by one year to allow for the refinancing of this facility. A majority of the Lenders under the Syndicated Loan Facility have indicated their support for the extension to

Figure 4:
Remaining contracted revenue stood at US$65.0m as at 31 December 2017



FINANCIAL & OPERATIONAL REVIEW

the Trustee-Manager. The extension would require the consent of all lenders under the Syndicated Loan Facility, unless the Trustee-Manager was to be successful in obtaining protection through a scheme of arrangement under section 210 of the Companies Act (Chapter 50) (“the Scheme”). To this end, the Trustee-Manager made an application to the High Court of Singapore on 18 December 2017 with regard only to its obligations under the Syndicated Loan Facility. The Court granted leave to convene a meeting of the Lenders to be held by 27 April 2018 to consider the Scheme. The Scheme proposes the extension on terms that the Trustee-Manager believes the majority of the Lenders have indicated their support for. The Trustee-Manager remains wholly committed to achieving a resolution for the long term future of the Trust. During FY2017, the Trust reduced the outstanding debt by US$71.9m, which includes proceeds from the sale of *FSL Santos*. The outstanding face value of the loan balance was US$151.3m as at 31 December 2017.

Following the disposal of *FSL Busan* and *FSL Tokyo* post year end, the outstanding loan was further reduced to US$124.9m through sale proceeds and cash flow from operations.

Figure 5:
Lease maturity of vessels (2018 to 2022) - dollar weighted average remaining lease term is two years as at 31 December 2017

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, ports, terminals, shipping and defence industries. Based in United Kingdom, James Fisher operates worldwide in six continents under four broad business divisions, namely, Marine Support, Specialist Technical, Offshore Oil and Tankships.

TORM SINGAPORE PTE. LTD.

TORM PLC (UNITED KINGDOM)

TORM PLC (United Kingdom), dual listed on NASDAQ Copenhagen (CPH: TRMD A) and on NASDAQ New York (NASDAQ: TRMD), was founded in 1889. TORM is a pure play product tanker company and one of the world's leading carriers of refined oil products such as gasoline, jet fuel, naphtha and diesel oil. The company operates a large and modern fleet of around 80 product tankers. TORM is headquartered in Copenhagen, Denmark, with offices in London, Houston, Manila, Cebu, Delhi, Mumbai and Singapore.

NOVATEK GAS & POWER GMBH

PAO NOVATEK (RUSSIAN FEDERATION)

PAO NOVATEK, listed on the Moscow Exchange (NVTK:RM), is one of the largest independent natural gas producers in Russia. The company is principally engaged in the exploration, production, processing and marketing of natural gas and liquid hydrocarbons and has 20 years of operational experience in the Russian oil and natural gas sector. NOVATEK delivers its natural gas in the Russian domestic market and its liquid hydrocarbons in both the Russian domestic and international markets.

ALL OCEANS TRANSPORTATION INC.

YANG MING MARINE TRANSPORT CORPORATION (REPUBLIC OF CHINA, TAIWAN)

Yang Ming Marine Transport Corporation (Republic of China, Taiwan), listed on the Taiwan Stock Exchange (TWSE: 2609), was established in 1972 and continues to be substantially 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, logistics 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[1] in the world in terms of operating capacity. The company provides shipping services to more than 45 countries by operating a fleet of approximately 102 vessels with a total operating capacity of 598,000 TEUs (twenty foot equivalent units).

(1) Source: Alphaliner

Note: Information about our lessees and ship charterers was obtained from our own enquiries of those counterparties, their respective group management, group websites and publicly accessible sources.

CORPORATE GOVERNANCE

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 2017 with reference to the Code of Corporate Governance 2012 ("the Code") and Business Trusts Regulations 2005. Where there are significant deviations from the Code, appropriate explanations are provided in this report.

CHANGE OF SPONSOR AND BOARD COMPOSITION

Subsequent to the financial year ended 31 December 2017, Prime Shareholdings Inc. ("Prime") acquired all the shares of FSL Holdings Pte. Ltd., the Sponsor of FSL Trust and indirect holding company of the Trustee-Manager. Stathis Topouzoglou was appointed as Non-Independent, Non-Executive Director on the Board of Directors ("the Board") of the Trustee-Manager with effect from 28 February 2018. He was designated as Chairman of the Board with effect from 9 March 2018, in place of Tim Reid who had resigned as director on 9 March 2018. Michael Chalkias was appointed as a Non-Independent, Non-Executive Director with effect from 9 March 2018.

THE BOARD'S CONDUCT OF ITS AFFAIRS

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 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"). 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.

The Board meets at least once every quarter and as often as warranted by particular circumstances. 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 2017 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
Tim Reid[(1)]	5/5	N.A.	N.A.	N.A.
Michael Gray[(2)]	5/5	4/4	-	2/2
Michael Oliver[(3)]	5/5	4/4	-	2/2
N. Sreenivasan[(4)]	5/5	4/4	-	2/2

(1) Tim Reid resigned as director on 9 March 2018.
(2) Michael Gray was appointed as member of the Nominating Committee on 23 February 2017.
(3) Michael Oliver was appointed as the Chairman and member of the Nominating Committee on 23 February 2017.
(4) N. Sreenivasan was appointed as a member of the Nominating Committee on 23 February 2017.
N.A. – Not applicable.

Stathis Topouzoglou joined the Board on 28 February 2018.
Michael Chalkias joined the Board on 9 March 2018.
No Nominating Committee meeting was held in 2017.
The Audit and Risk Committee also functions as Whistle-Blowing Committee.

There are no alternate directors on the Board.

The directors are expected to diligently discharge their duties and responsibilities, always acting in the best interests of FSL Trust and Unitholders. 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. 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.

BOARD COMPOSITION AND GUIDANCE

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.

Michael Gray is the Lead Independent Director. 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. The Board has the appropriate balance of independent directors. The three Independent Directors are particularly

CORPORATE GOVERNANCE

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 is reviewed periodically to ensure that the Board comprises 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.

Profiles of the directors can be found on page 10 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year, Tim Reid was the Chairman of the Board. Following his resignation, Stathis Topouzoglou was designated as Chairman 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. 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

The Nominating Committee ("NC") of FSLTM was formed on 23 February 2017, comprising 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.

Prior to the formation of the NC, the Board had undertaken the above responsibilities.

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. 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. Having considered the recommendation of the Code, the Board, at the recommendation of the NC, limits the number of directorships of listed companies to five. 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.

Subsequent to the financial year end, Stathis Topouzoglou and Michael Chalkias were proposed to be appointed as Non-Independent, Non-Executive Directors on the Board of FSLTM. 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.

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.

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 to attend to shareholders' queries.

Directors' Independence

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");

(b) Independent from management and business relationships with FSLTM and from every substantial shareholder of FSLTM; and

(c) Independent from every substantial shareholder of FSLTM.

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

BOARD PERFORMANCE

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. The directors had the opportunity to gauge their effectiveness individually, collectively and identify areas of improvement.

ACCESS TO INFORMATION

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. Directors have independent access to the Company Secretary at all times. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

REMUNERATION MATTERS

The Remuneration Committee ("RC") of FSLTM comprises three directors, namely Michael Oliver (Chairman of the RC), 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.

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

CORPORATE GOVERNANCE

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 payable to Tim Reid, the preceding Non-Independent, Non-Executive Director, was paid by FSL Asset Management Pte. Ltd. who charges the same to FSLTM. As the remuneration of the Non-Independent Director and management is paid for separately by FSL Asset Management Pte. Ltd. and are not paid for by FSL Trust, details of remuneration packages have not been disclosed.

The directors' fees paid/payable in respect of FY2017 to the independent directors are set out below:

DIRECTORS	REMUNERATION
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 2017 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

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.

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee ("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:

(i) To review the financial statements;
(ii) To monitor and evaluate the quality and reliability of information prepared for inclusion in financial statements;
(iii) To appoint the internal auditors;
(iv) To monitor and evaluate the effectiveness of FSLTM's internal controls and risk management process;
(v) To nominate the external auditors and review their independence annually;
(vi) To review the external audit plan and the adequacy of external audit in respect of cost, scope and performance;
(vii) 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;
(viii) To monitor the procedures in place to achieve compliance with applicable legislation, the Listing Manual and the Business Trusts Act;

(ix) 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;
(x) To review the assistance given by officers of FSLTM to the external auditors;
(xi) 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;
(xii) To meet the internal and external auditors without the presence of management, annually; and
(xiii) To review the adequacy of financial risk management processes.

The ARC's activities for 2017, in accordance with its responsibilities and duties, included the following:

(a) Review of the quarterly and full-year financial statements and announcements required by the SGX for recommendation to the Board for approval;
(b) 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 appointment/re-appointment of the external auditors;
(c) The ARC met the external and internal auditors without the presence of management;
(d) 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
(e) 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 2017 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.

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 FY2017.

RISK MANAGEMENT AND INTERNAL CONTROLS

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 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 has to the best of its ability, maintained its independence 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,

CORPORATE GOVERNANCE

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 opinion, with the concurrence of the ARC, that FSLTM has adequate and effective risk management and internal controls including financial, operational, compliance and information technology controls.

The risk management approach can be found on page 30 of this annual report.

For the financial year ended 31 December 2017, 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 effective risk management and internal control system has been put in place.

WHISTLE-BLOWING POLICY

FSLTM has adopted a code of conduct which incorporates the reporting of violation or potential violation of laws, rules and regulations to the ARC Chairman. The code of conduct not only applies to directors but also to external parties and service providers, including employees of FSL Asset Management Pte. Ltd..

COMMUNICATION WITH UNITHOLDERS

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.** 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 regularly to promote FSL Trust, communicate its business performance and developments and gather views and feedback. Please refer to the investor relations information on page 32 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 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.

As recommended by the Code, 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.

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) for a period of five years from 6 April 2011 (and following the expiry of such period, for such additional period as may be agreed between FSL Holdings Pte. Ltd. and FSLTM), (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 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 88 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

FSLTM 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 ARC has appointed a Risk Management Committee chaired by the Chief Financial Officer (“CFO”), who has also assumed the role of the 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.

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 7 vessels, which were mostly employed under long term leases previously. 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 Trust 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

FSLTM 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.

OPEN COMMUNICATION

The Trustee-Manager, through its Investor & Public Relations Department headed by the CFO, 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**. The website contains an extensive archive of FSL Trust's announcements, 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**.

SUSTAINABILITY REPORT

FSLTM is responsible for creating a sustainable future for FSL Trust, its Unitholders and stakeholders. 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. This report outlines the Trustee-Manager's commitment 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 engages and educates its employees, Unitholders and stakeholders on sustainability issues while driving performance improvements.

To further develop the Trust's sustainability practices, the Trustee-Manager will publish its first comprehensive Sustainability Report, including development of material environmental, social and governance factors, by 31 December 2018 in line with the Singapore Exchange (SGX); SGX-ST Listing Rules 711A and 711B and which references the internationally recognised Global Reporting Initiative (GRI) Standards (2016).

CORPORATE GOVERNANCE

FSLTM is guided by the Code of Corporate Governance 2012 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.

Our latest corporate governance report is set out on page 22.

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.

SUSTAINABILITY REPORT

ENVIRONMENTAL RESPONSIBILITY

FSL Trust is the owner and lessor of 19 vessels. Pursuant to the Trust's "hell and high water" bareboat leases, the operation of 12 of its vessels as at the date of this Annual 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 environmental laws and regulations. The remaining 7 vessels are managed by FSL Trust's agents in compliance with all applicable environmental laws and regulations. FSL Trust's agents include Columbia Shipmanagement (Singapore) Pte. Ltd., Thome Ship Management Pte. Ltd. and Wallem Shipmanagement Limited, who are committed to promoting effective and efficient environmental management in their organisations. In its continued 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 its efforts to minimise its environmental footprint, FSLTM opted to print this annual report 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.

STAKEHOLDER ENGAGEMENT

Please refer to the investor relations section on page 32 for more information on stakeholder engagement.

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 in the Trust's affairs. The role of the Whistle-Blowing Committee has been assumed by 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

The Trust 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; and
   c. Telephone call to the mobile number of the Chairman of the Whistle-Blowing Committee at +65 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 2017

Report of the Trustee-Manager of First Ship Lease Trust	38
Statement by the Trustee-Manager	40
Statement by the Chief Executive Officer	41
Independent Auditor's Report	42
Statements of Financial Position	47
Consolidated Income Statement	48
Consolidated Statement of Comprehensive Income	49
Consolidated Statement of Changes in Unitholders' Funds	50
Consolidated Statement of Cash Flows	52
Notes to the Financial Statements	54

REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2017

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 2017.

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 Gray
Michael Oliver
Narayanan Sreenivasan
Michael Chalkias (Appointed on 9 March 2018)

2. DIRECTORS' INTERESTS

According to the register kept by the Trustee-Manager for the purposes of Section 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:

	Direct Interest	
	As At 31 December 2017	**As At 1 January 2017**
Name of director	**(Number of Units)**	
Michael Gray	1,000,000	–

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 2018.

REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

31 DECEMBER 2017

3. UNIT OPTIONS

During the financial year, 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.

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

20 March 2018

STATEMENT BY THE TRUSTEE-MANAGER

31 DECEMBER 2017

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 2017 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 with reference to Note 2.2 to the financial statements, 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 2017; 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

20 March 2018

STATEMENT BY THE CHIEF EXECUTIVE OFFICER

31 DECEMBER 2017

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

20 March 2018

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 2017, 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 2017 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.2 to the financial statements which states that the Group incurred a net loss of US$73,888,000 (2016: US$30,995,000) and a total comprehensive loss of US$73,766,000 (2016: US$30,728,000) for the financial year ended 31 December 2017. As at 31 December 2017, the Group's and the Trust's current liabilities exceeded current assets by US$115,389,000 (2016: US$179,375,000) and US$108,232,000 (2016: US$170,963,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Trust to continue as going concerns and therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Nevertheless, in the preparation of the financial statements, the management of the Trustee-Manager believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

(i) The management of the Trustee-Manager has prepared a cash flow projection and is of the view that the Group and the Trust will have sufficient cash resources to satisfy their working capital requirements and to meet their obligations as and when they fall due; and

(ii) The management of the Trustee-Manager is of the view that the Group and the Trust would continue to receive support from their lenders and the restructuring of the current bank loan would be successful through the proposed Scheme of Arrangement as disclosed in Note 12 to the financial statements.

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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
Estimated useful life and residual value of vessels We refer to Note 2.5, Note 3.1 and Note 3.2 to the financial statements. The carrying value of the Group's vessels amounted to US$289,077,000 as at 31 December 2017. 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. 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.	**Our response** 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. 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. **Our findings** We found that the estimates and assumptions used to determine the useful life and residual value of vessels to be reasonable based on available evidence.

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

(CONT'D)

Key Audit Matters (cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Impairment assessment of vessels We refer to Note 2.5, Note 2.10, Note 3.3 and Note 4 to the financial statements. The carrying value of the Group's vessels amounted to US$289,077,000 as at 31 December 2017. 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$81,129,000 for 12 vessels during the financial year ended 31 December 2017. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values and no further impairment provision was required. 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.	**Our response** 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. **Our findings** We found that the significant estimates, judgements and assumptions made by management to determine the recoverable amounts of the vessels to be reasonable based on available evidence.

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
20 March 2018

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	Group 2017 US$'000	Group 2016 US$'000	Trust 2017 US$'000	Trust 2016 US$'000
Assets					
Vessels	4	289,077	427,508	–	–
Subsidiaries	5	–	–	215,863	297,438
Non-current assets		289,077	427,508	215,863	297,438
Inventories	6	–	122	–	–
Trade and other receivables	7	10,504	3,896	38,991	18,708
Cash and cash equivalents	8	13,201	42,899	5,507	33,535
Non-current assets classified as held-for-sale	4,9	18,260	–	–	–
Current assets		41,965	46,917	44,498	52,243
Total assets		331,042	474,425	260,361	349,681
Equity attributable to unitholders of the Trust					
Units in issue	10	523,284	523,284	523,284	523,284
Reserves	11	(349,596)	(275,830)	(415,653)	(396,809)
Total equity		173,688	247,454	107,631	126,475
Liabilities					
Deferred income	13	–	679	–	–
Non-current liabilities		–	679	–	–
Trade and other payables	14	5,370	2,413	1,424	771
Bank loans	12	151,306	222,313	151,306	222,313
Derivative liabilities	12	–	122	–	122
Deferred income	13	678	1,444	–	–
Current liabilities		157,354	226,292	152,730	223,206
Total liabilities		157,354	226,971	152,730	223,206
Total equity and liabilities		331,042	474,425	260,361	349,681

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

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 US$'000	2016 US$'000
Revenue	15	81,499	98,144
Expenses:			
Depreciation expense on vessels		(37,106)	(42,710)
Impairment on vessels	4	(81,129)	(44,137)
Voyage expenses		(1,701)	(39)
Vessel operating expenses		(23,054)	(24,129)
Management fees	22	(2,241)	(3,029)
Trustee fees	22	(86)	(108)
Other trust expenses		(2,188)	(1,652)
Total operating expenses		(147,505)	(115,804)
Results from operating activities		(66,006)	(17,660)
Other income		400	1,600
Gain/ (Loss) on disposal of vessels	4	771	(4,136)
Finance income	16	54	50
Finance costs	16	(9,106)	(10,849)
Net finance costs		(9,052)	(10,799)
Loss before tax	17	(73,887)	(30,995)
Income tax expense	18	(1)	–
Loss for the year		(73,888)	(30,995)
Income available for distribution	19	–	–
Distribution per unit (US cents)		–	–
(Loss)/Earnings per unit (US cents)			
Basic	20	(11.59)	(4.86)
Diluted	20	(11.59)	(4.86)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	2017 US$'000	2016 US$'000
Loss for the year	(73,888)	(30,995)
Other comprehensive income		
Items that are or may be classified subsequently to profit or loss:		
Translation differences relating to financial statements of foreign operations	–	(206)
Exchange differences on monetary items forming part of net investment in foreign operations	–	152
Effective portion of changes in fair value of cash flow hedges	8	(288)
Net change in fair value of cash flow hedges reclassified to income statement	114	609
Other comprehensive income for the year, net of tax	122	267
Total comprehensive loss for the year	(73,766)	(30,728)

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 2017

Group	Note	Units in issue US$'000	Hedging reserve US$'000	Foreign currency translation reserve US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2017		523,284	(122)	(6,725)	(268,983)	247,454
Total comprehensive loss for the year						
Loss for the year		–	–	–	(73,888)	(73,888)
Other comprehensive income						
Items that are or may be classified subsequently to profit or loss:						
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
Total other comprehensive income		–	122	–	–	122
Total comprehensive loss for the year		–	122	–	(73,888)	(73,766)
Transactions with unitholders, recognised directly in equity						
Distributions to unitholders	19	–	–	–	–	–
Total transactions with unitholders		–	–	–	–	–
At 31 December 2017		523,284	–	(6,725)	(342,871)	173,688

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 2017

(CONT'D)

Group	Note	Units in issue US$'000	Hedging reserve US$'000	Foreign currency translation reserve US$'000	Accumulated losses US$'000	Total equity US$'000
At 1 January 2016		523,284	(443)	(6,671)	(237,988)	278,182
Total comprehensive loss for the year						
Loss for the year		–	–	–	(30,995)	(30,995)
Other comprehensive income						
Items that are or may be classified subsequently to profit or loss:						
Translation differences relating to financial statements of foreign operations		–	–	(206)	–	(206)
Exchange differences on monetary items forming part of net investment in foreign operations		–	–	152	–	152
Effective portion of changes in fair value of cash flow hedges		–	(288)	–	–	(288)
Net change in fair value of cash flow hedges reclassified to income statement		–	609	–	–	609
Total other comprehensive income		–	321	(54)	–	267
Total comprehensive loss for the year		–	321	(54)	(30,995)	(30,728)
Transactions with unitholders, recognised directly in equity						
Distributions to unitholders	19	–	–	–	–	–
Total transactions with unitholders		–	–	–	–	–
At 31 December 2016		523,284	(122)	(6,725)	(268,983)	247,454

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 US$'000	2016 US$'000
Cash flows from operating activities			
Loss before tax		(73,887)	(30,995)
Adjustments for:			
Depreciation expense on vessels	4	37,106	42,710
Impairment on vessels	4	81,129	44,137
Amortisation of debt transaction costs		851	965
Amortisation of initial direct costs		345	518
Amortisation of deferred income		(1,445)	(1,444)
Interest income		(54)	(50)
Interest expense		8,127	9,720
(Gain)/ Loss on disposal of vessels		(771)	4,136
Unrealised foreign exchange loss		–	79
Operating cash flows before movements in working capital		51,401	69,776
Changes in trade and other receivables		(6,630)	742
Changes in inventories		122	(77)
Changes in trade and other payables		87	(1,318)
Changes in lease income received in advance		2,555	(2,152)
Cash generated from operations		47,535	66,971
Income taxes refunded		5	–
Net cash generated from operating activities		47,540	66,971
Cash flows from investing activities			
Costs incurred for dry-docking		(3,451)	(2,220)
Net proceeds on disposal of vessels		5,813	9,593
Interest received		70	35
Net cash generated from investing activities		2,432	7,408
Cash flows from financing activities			
Repayment of secured bank loans	12	(38,283)	(42,711)
Prepayment of secured bank loans	12	(33,575)	(8,026)
Interest paid		(7,812)	(9,577)
Net cash used in financing activities		(79,670)	(60,314)
Net (decrease)/ increase in cash and cash equivalents		(29,698)	14,065
Cash and cash equivalents at 1 January		42,899	28,834
Cash and cash equivalents at 31 December	8	13,201	42,899

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

(CONT'D)

Reconciliation of liabilities arising from financing activities:

	At 1 January 2017 US$	Principal and Interest payments US$	Non-cash changes Interest expense US$	Non-cash changes Amortisation of debt upfront fees US$	At 31 December 2017 US$
Secured bank loans (Note 12)					
Secured bank loans	223,164	(71,858)	–	–	151,306
Less: Unamortised upfront fees	(851)	–	–	851	–
	222,313	(71,858)	–	851	151,306
Accrued financing expenses (Note 14)					
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 2017

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 2017, the Trust had a modern, high quality and diverse portfolio of 21 vessels consisting of 12 product tankers, four containerships, three chemical tankers and two crude oil tankers. As at the authorisation date of the financial statements, 13 vessels are employed on leases (12 vessels on bareboat charters and one vessel 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 six vessels comprise two chemical tankers trading in the spot market, two crude oil tankers in a RSA (Revenue Sharing Agreement) and two product tankers in an MR product tanker pool. The combined portfolio of vessels has a dollar-weighted average age of approximately eleven 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 20 March 2018.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

1. GENERAL INFORMATION (CONT'D)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 also requires to 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.

Adoption of New and Revised IFRS

For the financial year ended 31 December 2017, the Group has adopted the following new and revised IFRS which are relevant to the Group and mandatory for application:

Amendments to IAS 7 *Statement of Cash Flows*

The amendments require new disclosure about changes in liabilities arising from financing activities in respect of:

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) the effect of changes in foreign exchange rates;

(d) changes in fair values; and

(e) other changes.

The above disclosure also applies to changes in financial assets if cash flows from those financial assets are included in cash flows from financing activities. As this is a disclosure standard, it did not have any impact on the financial performance or financial position of the Group upon implementation. The above disclosure is reflected in the Statement of Cash Flows.

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 9 *Financial Instruments*

IFRS 9 was introduced to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. IFRS 9 also provides a simplified hedge accounting model that will align more closely with companies' risk management strategies. The standard is effective for annual periods beginning on or after 1 January 2018. The adoption of this standard does not have a material impact on the financial performance or the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of Preparation (cont'd)

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

<u>IFRS 15</u> *Revenue from Contracts with Customers*

IFRS 15 changes the revenue recognition model under IFRS. The core principle of IFRS 15 is to recognise the revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for annual periods beginning on or after 1 January 2018. The adoption of this standard does not have a material impact on the financial performance or the financial position of the Group.

<u>IFRS 16</u> *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.

2.2 Going Concern Assumption

The Group incurred a net loss of US$73,888,000 and a total comprehensive loss of US$73,766,000 for the financial year ended 31 December 2017. As at 31 December 2017, the Group's and the Trust's current liabilities exceeded current assets by US$115,389,000 (2016: US$179,375,000) and US$108,232,000 (2016: US$170,963,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Trust to continue as going concerns and therefore that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

Nevertheless, in the preparation of the financial statements, the management of the Trustee-Manager believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

(i) The management of the Trustee-Manager has prepared a cash flow projection and is of the view that the Group and the Trust will have sufficient cash resources to satisfy their working capital requirements and to meet their obligations as and when they fall due; and

(ii) The management of the Trustee-Manager is of the view that the Group and the Trust would continue to receive support from their lenders and the restructuring of the current bank loan would be successful through the proposed Scheme of Arrangement as disclosed in Note 12 to the financial statements.

2.3 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Basis of Consolidation (cont'd)

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.

2.4 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 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 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.

2.6 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 profit or loss.

2.7 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 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Financial Instruments

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. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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.

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, and trade and other payables.

Derivative financial instruments and hedging activities

The Group from time to time may enter into derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Financial Instruments (cont'd)

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income and transferred to hedging reserve in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Revenue Recognition (cont'd)

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, net foreign currency losses, and losses on hedging instruments that are recognised in the income statement.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 2017, 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 2017 amounted to US$37,106,000 (2016: US$42,710,000). As at 31 December 2017, the carrying amount of the vessels amounted to US$289,077,000 (2016: US$427,508,000). 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$3,243,000 (2016: US$3,773,000) and US$3,964,000 (2016: US$4,666,000) 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.

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 "value-in-use" methodology.

In determining the fair value less costs of disposal, the Group has obtained valuation reports from third parties sources in December 2017. 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 13% (2016: 8%).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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

Critical Accounting Estimates and Assumptions (cont'd)

3.3 Impairment Assessment of Vessels (cont'd)

The projected cash outflows take into consideration each vessel's inflation-adjusted actual and budgeted operating expenses. The pre-tax discount rate is 6.62% (2016: 6.39% to 7.76%) 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 increase by 1%, the carrying values of the vessels will decrease by approximately 3% (2016: 3%).

During the financial year ended 31 December 2017, the Group recognised an impairment on vessels amounting to US$81,129,000 (2016: US$44,137,000). As at 31 December 2017, the carrying amount of the vessels was US$289,077,000 (2016: US$427,508,000).

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 2017, the Group earned bareboat charter lease income and time charter income of US$35,516,000 and US$17,054,000 (2016: US$42,183,000 and US$29,981,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

4. VESSELS

Group	Vessels US$'000	Initial direct costs US$'000	Total US$'000
2017			
Cost			
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
Less:			
Accumulated depreciation/amortisation and impairments			
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
Carrying amount			
At 31 December 2017	288,343	734	289,077
2016			
Cost			
At 1 January 2016	1,019,199	7,561	1,026,760
Addition	2,220	–	2,220
Disposal	(117,169)	–	(117,169)
Write off fully amortised dry-docking	(3,384)	–	(3,384)
Translation differences on consolidation	(356)	–	(356)
At 31 December 2016	900,510	7,561	908,071
Less:			
Accumulated depreciation/amortisation and impairments			
At 1 January 2016	495,408	4,836	500,244
Depreciation/amortisation charge for the year	42,710	518	43,228
Disposal	(103,440)	–	(103,440)
Impairment charged to income statement	43,605	532	44,137
Write off fully amortised dry-docking	(3,384)	–	(3,384)
Translation differences on consolidation	(222)	–	(222)
At 31 December 2016	474,677	5,886	480,563
Carrying amount			
At 31 December 2016	425,833	1,675	427,508

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

4. VESSELS (CONT'D)

The Group's vessels with a net carrying value of US$289,077,000 (2016: US$427,508,000), are mortgaged to financial institutions (see Note 12).

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 2017, the net carrying value of dry docking amounted to US$5,979,000 (2016: US$4,513,000).

During the financial year ended 31 December 2017, the Group disposed one container vessel, FSL Santos for a net cash consideration of approximately US$5,813,000, resulting in a gain on disposal of US$771,000.

The Group recorded an impairment on a non-current asset classified as held-for-sale amounting to US$8,919,000 on the chemical tanker which was disposed subsequent to the financial year end based on the fair value less cost to sell. This is a non-recurring fair value which has been measured using observable inputs, being the prices based on Memorandum of Agreement comparable to sale of similar vessel and is therefore within Level 2 of the fair value hierarchy.

In addition, the Group also recorded impairment of US$72,210,000, comprising

- US$47,274,000 based on the value in use calculation; and
- US$24,936,000 based on fair value less cost of disposal.

The value-in-use calculation 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 sale of similar vessels and is therefore within Level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. SUBSIDIARIES

	Trust 2017 US$'000	Trust 2016 US$'000
Equity investments, at cost	122,031	122,031
Amounts due from subsidiaries (non-trade)	169,426	207,459
Impairment recognised	(65,647)	(32,052)
Return of equity	(9,947)	–
	215,863	297,438

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
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-7, Inc.	Marshall Islands	–	100
FSL-8, Inc.	Marshall Islands	–	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 Netherlands B.V.	Netherlands	100	100

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. SUBSIDIARIES (CONT'D)

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 and in Netherlands under the laws of their respective countries of incorporation.

During the financial year ended 31 December 2017, the subsidiaries incorporated in Marshall Islands, FSL-7, Inc. and FSL-8, Inc., were dissolved.

The amounts due from subsidiaries are unsecured and interest-free. As the amounts are, in substance, part of the Trust's net investments in the subsidiaries, they are included as interests in subsidiaries and stated at cost less impairments.

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.

Management performed an impairment test for the investment in its subsidiaries. An impairment of US$33,595,000 (2016: US$23,052,000) was recognised for the financial year ended 31 December 2017 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 2017.

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**
Amounts due from subsidiaries	**Gross amounts-financial assets US$'000**	**Gross amounts-financial liabilities US$'000**	**US$'000**
2017	48,948	(11,289)	37,659
2016	49,671	(31,010)	18,661

6. INVENTORIES

	Group 2017 US$'000	**Group 2016 US$'000**
Bunkers – at cost	–	122

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

7. TRADE AND OTHER RECEIVABLES

	Group		Trust	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Trade receivables	3,106	1,399	–	–
Other receivables	793	674	25	21
Amounts due from subsidiaries	–	–	37,659	18,661
Deposits placed with Commercial/Pool Managers	4,946	1,550	–	–
Deposits with third parties	1,240	–	1,240	–
Loans and receivables	10,085	3,623	38,924	18,682
Prepayments	419	273	67	26
	10,504	3,896	38,991	18,708

The amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

8. CASH AND CASH EQUIVALENTS

	Group		Trust	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Fixed deposits with financial institutions	–	23,006	–	20,000
Cash at bank	13,201	19,893	5,507	13,535
Cash and cash equivalents in the Consolidated Statement of Cash Flows	13,201	42,899	5,507	33,535

As at 31 December 2017, there were no fixed deposits with financial institutions.

As at 31 December 2016, the weighted average effective interest rate relating to fixed deposits at the reporting date for the Group and Trust were 0.76% and 0.72% per annum respectively. Interest rates reprice at intervals within three months.

9. NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

	Group	
	2017 US$'000	2016 US$'000
Non-current assets classified as held-for-sale	18,260	–

During the financial year ended 31 December 2017, the Group reclassified two vessels as "Non-current assets classified as held-for-sale". These vessels were disposed subsequent to the financial year end (Note 25).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

10. UNITS IN ISSUE

	Group and Trust			
	2017		2016	
	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.

11. RESERVES

	Group		Trust	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Hedging reserve	–	(122)	–	(122)
Foreign currency translation reserve	(6,725)	(6,725)	–	–
Accumulated losses	(342,871)	(268,983)	(415,653)	(396,687)
	(349,596)	(275,830)	(415,653)	(396,809)

The hedging reserve comprised the effective portion of the cumulative net change in the fair value of cash flow hedging instruments until they are derecognised or impaired.

The foreign currency translation reserve comprises:

(a) 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

(b) 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 2017

12. BANK LOANS AND DERIVATIVE LIABILITIES

	Group and Trust	
	2017 US$'000	2016 US$'000
Secured bank loans		
Current	151,306	222,313
Derivative liabilities		
Current	–	122

The Trustee-Manager, on behalf of the Trust, secured a 6-year amortising term loan facility in 2011. Under the term loan facility, the Trust made total loan repayments in 2017 of US$38,283,000. This comprises of 3 quarters of US$10,678,000 over 1Q 2017 to 3Q 2017 and a repayment in 4Q 2017 of US$6,249,000 (2016: US$10,678,000).

During the financial year ended 31 December 2017, a prepayment of US$33,575,000 was made to reduce the outstanding secured loan balance of which US$5,575,000 was proceeds from the sale of a container vessel (Note 4).

This facility expired on 20 December 2017 and negotiation with the Syndicated Lenders is ongoing for an extension of the maturity date by one year to allow for the refinancing of this facility (the "Extension"). The outstanding face value of the loan balance was US$151,306,000 as at 31 December 2017.

A majority of the lenders under the Syndicated Loan Facility have indicated their support for the Extension to the Trustee-Manager. The Extension would require the consent of all lenders under the Syndicated Loan Facility, unless the Trustee-Manager were to be successful in obtaining protection through a scheme of arrangement under section 210 of the Companies Act (Chapter 50) ("the Scheme"). To this end, the Trustee-Manager made an application to the High Court of Singapore on 18 December 2017 with regard only to its obligations under the Syndicated Loan Facility. The Scheme proposes the extension on terms that the Trustee-Manager believes the majority of the lenders have indicated their support for. FSLTM remains wholly committed to achieving a resolution for the long term future of the Trust.

Subsequent to the financial year end, on the application of the Trust, the High Court granted an extension of time to 27 April 2018 for the Trust to convene a meeting of Lenders for the purpose of considering and, if thought fit, approving with or without modification (which modification may be made any time prior to or at the Court Meeting) a Scheme of Arrangement proposed to be made between the Trust and its Lenders pursuant to section 210 of the Companies Act (Chapter 50).

The term loan facility is secured on the following:

(i) a first priority mortgage over the Group's vessels in the portfolio;

(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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

12. BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

The interest margin on the term loan facility is as follows:

31 December 2017		31 December 2016	
Value to Loan ratio	**Margin over US$ 3-month LIBOR**	**VTL ratio**	**Margin over US$ 3-month LIBOR**
>100% to 140%	3.0%	>100% to 140%	3.0%
>140% to 180%	2.8%	>140% to 180%	2.8%
>180%	2.6%	>180%	2.6%

During the financial year ended 31 December 2017, the applicable margin over US$ 3-month LIBOR was 2.8% (2016: 2.8%). The Value to Loan ratio was assessed semi-annually.

The terms and conditions of the term loan facility are as follows:

Group and Trust	Nominal interest rate	Year of maturity	Face value US$'000	Carrying amount US$'000
2017				
US$ floating rate loans	US$ 3-month LIBOR + applicable margin	2017	151,306	151,306
2016				
US$ floating rate loans	US$ 3-month LIBOR + applicable margin	2017	223,164*	222,313

* Before the deduction of unamortised debt transaction costs of US$851,000.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

12. BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

The following are the expected contractual undiscounted cash outflows, including interest payments and excluding the impact of netting agreements:

Group and Trust	Carrying amount US$'000	Cash flows Contractual cash flows US$'000	Cash flows Within 1 year US$'000
2017			
Non-derivative financial liabilities			
US$ floating rate loans^	151,306	(159,560)	(159,560)
2016			
Non-derivative financial liabilities			
US$ floating rate loans^	222,313	(231,864)	(231,864)

^ Inclusive of accrued interest as at the reporting date.

The derivative financial liabilities related to the cumulative fair value change of hedged instruments designated as cash flow hedges. The following were the expected contractual undiscounted cash outflows of derivatives:

Group and Trust	Carrying amount US$'000	Cash flows Contractual cash flows US$'000	Cash flows Within 1 year US$'000
2016			
Derivative financial liabilities			
Interest rate swaps used for hedging – outflows	122	127	127

The derivative financial liabilities expired during 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

13. DEFERRED INCOME

	Group	
	2017 US$'000	2016 US$'000
Deferred Income		
Non-current	-	679
Current	678	1,444
	678	2,123

Deferred income is recognised on the Statement of Financial Position upon the receipt of shares in TORM by the Group and is amortised to the Income Statement over the remaining lease term on the TORM charter contracts.

14. TRADE AND OTHER PAYABLES

	Group		Trust	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Trade payables	436	302	–	–
Accrued financing expenses	930	615	930	615
Accrued operating expenses	626	292	407	117
Lease income received in advance	2,643	88	–	–
Other payables	669	981	84	35
Amounts due to related parties	2	4	2	4
Amounts due to the Trustee-Manager	64	131	1	–
	5,370	2,413	1,424	771

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

15. REVENUE

	Group	
	2017 US$'000	**2016 US$'000**
Bareboat charter lease income	35,516	42,183
Time charter income	17,054	29,981
Pool income	25,538	25,980
Freight income	3,391	–
	81,499	98,144

Bareboat charter lease income relates to lease income derived from operating leases. Included in bareboat charter lease income, US$1,445,000 (2016: US$1,444,000) 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 four vessels, three of which were time chartered to a leading global commodities trader.

Pool income relates to income substantially derived from three chemical tankers, FSL New York, FSL London and FSL Tokyo, two containerships, FSL Busan and FSL Santos, two crude oil tankers, FSL Hong Kong and FSL Shanghai and two product tankers, FSL Hamburg and FSL Osaka, deployed on pool arrangements.

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

16. FINANCE INCOME AND EXPENSES

	Group	
	2017 US$'000	**2016 US$'000**
Finance income		
Interest income from cash and cash equivalents	54	50
Finance costs:		
– bank loans	(8,127)	(9,720)
– amortisation of debt transaction costs	(851)	(965)
– commitment and bank agency fees	(51)	(54)
Net foreign exchange loss	(77)	(110)
	(9,106)	(10,849)
Net finance costs recognised in the income statement	(9,052)	(10,799)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

17. LOSS BEFORE TAX

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

	Group	
	2017 US$'000	**2016 US$'000**
Other income*	(400)	(1,600)
(Gain)/Loss on disposal of vessels	(771)	4,136
Audit fees paid/payable to auditors of the Trust	99	84
Non-audit fees paid/payable to:		
– auditors of the Trust	5	9
Professional fees**	803	50
Amortisation of initial direct costs	345	518

* Other income relates to income received from claims and legal settlements.

** Professional fees included cost incurred on the loan restructuring.

18. INCOME TAX EXPENSE

	Group	
	2017 US$'000	**2016 US$'000**
Current Tax Expense		
Under provision in prior years	1	–
Reconciliation of effective tax rate		
Loss before income tax	(73,887)	(30,995)
Tax calculated using the Singapore tax rate of 17%	(12,561)	(5,269)
Effect of tax rate in foreign jurisdiction	(2)	(1)
Expenses not deductible for tax purposes (1)	15,438	9,476
Income not subject to tax	2	(1)
Exempt shipping activities	(2,877)	(4,205)
Under provision in prior years	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 is 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 2017, the Group has estimated unutilised tax exempt losses and unabsorbed capital allowance of approximately US$420,000 (2016: US$420,000) and US$11,209,000 (2016: US$11,915,000) 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 2017

19. INCOME AVAILABLE FOR DISTRIBUTION

	Group	
	2017 US$'000	2016 US$'000
Income available for distribution to unitholders at the beginning of the year	–	–
Loss for the year	(73,888)	(30,995)
Net adjustments (Note A)	73,888	30,995
Net distributable amount	–	–
Income available for distribution to unitholders at the end of the year	–	–

Note A

	2017 US$'000	2016 US$'000
Net adjustments comprise:		
Non-cash adjustments:		
– Depreciation expense on vessels (1)	35,676	41,583
– Amortisation of initial direct costs (2)	57	88
– Amortisation of deferred income	(1,445)	(1,444)
– Unrealised foreign exchange loss	–	79
– (Gain)/ Loss on disposal of vessels	(771)	4,136
– Impairment on vessels	81,129	44,137
Total non-cash adjustments	114,646	88,579
Repayment of secured bank loans	(66,283)	(42,711)
Amount utilised/ (retained) in current period	25,525	(14,873)
Net adjustments	73,888	30,995

(1) Excluding dry-docking of US$1,430,000.
(2) Excluding deferred arrangement fees of US$288,000.

During the financial year ended 31 December 2017, the total repayment of secured bank loans amounted to US$38,283,000 (2016: US$42,711,000) (excluding prepayments).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

20. (LOSS)/EARNINGS PER UNIT

	Group 2017 US$'000	Group 2016 US$'000
Basic and diluted (loss)/earnings per unit is based on:		
Loss for the year	(73,888)	(30,995)

	Number of units '000	Number of units '000
Weighted average number of units at the end of the year	637,457	637,457
Basic (loss)/earnings per unit (US cents)	(11.59)	(4.86)
Diluted (loss)/earnings per unit (US cents)	(11.59)	(4.86)

21. COMMITMENTS

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

	Group 2017 US$'000	Group 2016 US$'000
Within 1 year	27,721	44,490
Within 1 to 5 years	36,974	56,610
	64,695	101,100

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 four years (2016: five months to five years) at the end of the financial year. In seven lease agreements (2016: three lease agreements) held by the Group, the lessees have the option to extend the lease period beyond the base lease period up to three years (2016: ten years). The lessees have the option to purchase the related vessels in seven lease agreements (2016: eight lease agreements).

Operating lease-Time charter

As at 31 December 2017, there is one time charter lease arrangement (2016: four time charter lease arrangements) with rental rates fixed over a period of five months (2016: two years).

The rentals received from the two lease agreements with rentals based on market rates for the year ended 31 December 2017 amounted to US$7,800,000 (2016: US$11,800,000).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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	
	2017 US$'000	2016 US$'000
Transactions with the Trustee–Manager:		
Management fees	2,241	3,029
Trustee fees	86	108
Disposal fees	31	–
Transactions with other related parties:		
Directors' fees paid to non–executive directors	159	208
Commission paid to Columbia Shipmanagement Ltd*	–	5
Commission paid to Hanse Bereederung GmbH*	–	7
Shipmanagement fees paid to Columbia Shipmanagement (Singapore) Pte. Ltd.*	–	84

* Related parties of a unitholder who holds 25% of the Trust's issued units as at 1 January 2016. During the financial year ended 31 December 2016, the unitholder disposed the units in the Trust and ceased to be a substantial unitholder.

No separate consideration is paid to the Trustee-Manager (other than the fees disclosed above) for services rendered by the executive directors.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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	
	2017 US$'000	**2016 US$'000**
Americas	2,194	9,060
Asia	25,553	33,516
Europe	29,481	35,513
Others	24,271	20,055
	81,499	98,144

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 2017, the Group has three customers (2016: three customers) each accounted for more than 10% (2016: 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Credit Risk (cont'd)

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 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position.

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 A-.

The ageing of trade receivables at the reporting date was:

	Group	
	2017	**2016**
	US$'000	**US$'000**
Not past due	3,106	1,320
Past due 60 – 90 days	–	79

No impairment allowance is necessary for trade receivables, including the past due receivables as there are no indications from customers and related parties on their inability to pay their outstanding balances.

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. As at the reporting date, there were no outstanding commitments for any acquisition of vessels.

As at 31 December 2017, the Group's current liabilities exceeded its current assets by US$115,389,000 (2016: US$179,375,000).

Nevertheless, in the preparation of the financial statements, the management of the Trustee-Manager believes that the use of the going concern assumption is appropriate after taking into consideration the following factors:

(i) The management of the Trustee-Manager has prepared a cash flow projection and is of the view that the Group and the Trust will have sufficient cash resources to satisfy their working capital requirements and to meet their obligations as and when it fall due; and

(ii) The management of the Trustee-Manager is of the view that the Group and the Trust would continue to receive support from their lenders and the restructuring of the current bank loan would be successful through the proposed Scheme of Arrangement as disclosed in Note 12 to the financial statements.

The contractual undiscounted cash outflows for the non-current liabilities are disclosed in Note 12 to the financial statements. The contractual undiscounted cash outflows for the current liabilities approximate their carrying amounts stated in the Statements of Financial Position due to their short term maturity.

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 2017

24. FINANCIAL RISK MANAGEMENT (CONT'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.

As at 31 December 2017, the Group does not have any interest rate swaps. As at 31 December 2016, the Group had interest rate swaps with a total notional contract amount of US$87,246,000 whereby it paid fixed interest rates ranging from 1.06% per annum to 1.65% per annum and received a variable rate equal to US$ 3-month LIBOR. The Trust classified these interest rate swaps as hedging instruments under the cash flow hedge model. The interest rate swaps expired in June 2017.

The fair value of these interest rate swaps as at 31 December 2016 was disclosed in Note 12 to the financial statements.

Sensitivity analysis

With respect to the interest rate swaps (designated as hedging instruments under cash flow hedge model), variable rate bank loans and certain floating rate lease agreements, an increase of 50 bps in interest rate at the reporting date would increase/(decrease) other comprehensive income/loss and results by the amounts shown below. This analysis assumes that all other variables remain constant.

Group and Trust	Other comprehensive income 2017 US$'000	Other comprehensive income 2016 US$'000	Loss for the year 2017 US$'000	Loss for the year 2016 US$'000
Variable rate bank loans	–	–	967	1,277
Interest rate swaps	–	210	–	(543)
	–	210	967	734

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.

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:

	2017		2016	
	Euro US$'000	Singapore dollar US$'000	Euro US$'000	Singapore dollar US$'000
Group				
Other receivables	–	26	9	7
Cash and cash equivalents	14	137	56	189
Trade and other payables	(30)	(157)	(5)	(177)
Trust				
Other receivables	–	26	–	6
Cash and cash equivalents	4	62	4	106
Trade and other payables	–	(85)	–	(114)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

24. FINANCIAL RISK MANAGEMENT (CONT'D)

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) other comprehensive income and income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Strengthening of US Dollars		Weakening of US Dollars	
Group	**Other comprehensive income US$'000**	**Income statement US$'000**	**Other comprehensive income US$'000**	**Income statement US$'000**
2017				
Euro	–	(2)	–	2
Singapore dollar	–	1	–	(1)
2016				
Euro	–	7	–	(7)
Singapore dollar	–	2	–	(2)

Estimation of Fair Values

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

Derivatives

The fair value of derivative instruments is based on broker's quotes, calculated by reference to current forward exchange rates and interest rates for contracts with similar maturity profiles, and discounting the estimated future cash flows based on the terms and maturity of each contract.

Non-derivative financial liabilities

The Group believes that the carrying amount of the variable rate bank loans, which are repriced on a quarterly basis, 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 because of the short period to maturity.

Interest rates used in determining fair values

In financial year 2016, the interest rates used to discount estimated cash flows, where applicable, were based on US$ yield curve and Euro yield curve at the reporting date for interest rate swaps and cross currency swap contracts respectively, and ranged from 0.88% to 1.01%. The above-mentioned swaps expired during financial year 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

24. FINANCIAL RISK MANAGEMENT (CONT'D)

Estimation of Fair Values (cont'd)

Carrying amount of financial assets and liabilities

The following table summarises the carrying amount of non-derivative financial assets and liabilities recorded at the end of the reporting period by IAS 39 categories:

	Group		Trust	
	Loan and receivables US$'000	Financial liabilities at amortised cost US$'000	Loan and receivables US$'000	Financial liabilities at amortised cost US$'000
2017				
Trade and other receivables	10,085	–	38,924	–
Cash and cash equivalents	13,201	–	5,507	–
Trade and other payables	–	5,370	–	1,424
Secured bank loans	–	151,306	–	151,306
	23,286	156,676	44,431	152,730
2016				
Trade and other receivables	3,623	–	18,682	–
Cash and cash equivalents	42,899	–	33,535	–
Trade and other payables	–	2,413	–	771
Secured bank loans	–	222,313	–	222,313
	46,522	224,726	52,217	223,084

Derivative financial assets and liabilities disclosed on the statement of financial position were categorised as cash flow hedging instruments.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- 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).

Group and Trust	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
2016				
Liabilities				
Derivative liabilities	–	122	–	122

The above excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature and where the effect of discount is immaterial.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

24. FINANCIAL RISK MANAGEMENT (CONT'D)

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	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Bank loans	151,306	222,313	151,306	222,313
Equity	173,688	247,454	107,631	126,475
Total debt and equity	324,994	469,767	258,937	348,788
Bank loans against total debt and equity	0.47	0.47	0.58	0.64

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 anticipated debt service, payments to the Trustee-Manager and working capital requirements. To the extent that financing for additional vessels 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. SUBSEQUENT EVENTS

(a) Subsequent to year-end, the Group disposed FSL Busan and FSL Tokyo for a net cash consideration of approximately US$5,761,000 and US$13,254,000 respectively, resulting in a total net gain on disposal of approximately US$755,000. These vessel sale proceeds were utilised to reduce the bank loan.

(b) On 28 February 2018, Godan GMBH, the controlling unitholder of the Trust and the sole shareholder of FSL Holdings Pte. Ltd. (the sponsor) entered into and completed a sale and purchase agreement for the sale of all of its shares in FSL Holdings Pte. Ltd. to Prime Shareholdings Inc., an affiliate of Prime Tanker Management Inc..

(c) Subsequent to the financial year end, on the application of the Trust, the High Court granted an extension of time to 27 April 2018 for the Trust to convene a meeting of Lenders for the purpose of considering and, if thought fit, approving with or without modification (which modification may be made any time prior to or at the Court Meeting) a Scheme of Arrangement proposed to be made between the Trust and its Lenders pursuant to section 210 of the Companies Act (Chapter 50).

LEASE PORTFOLIO

AS AT 1 MARCH 2018

Vessel	Year Built	Capacity	Employment	Lessee	Lease Commencement
Chemical Tanker					
FSL New York	2006	19,970 DWT	Vessel is employed in 'Spot Market'		
FSL London	2006	19,966 DWT	Vessel is employed in 'Spot Market'		
Crude Oil Tanker					
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'		
Product Tanker					
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	Time Charter	Novatek	13 Nov 2017
FSL Osaka	2007	45,998 DWT	Vessel is employed in 'Hafnia MR Pool'		
TORM Margrethe	2006	109,672 DWT	Bareboat Charter	TORM	16 Jun 2011
TORM Marie	2006	109,672 DWT	Bareboat Charter	TORM	24 Jun 2011
Containership					
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

For details on Lease maturities, please refer to page 20.

ADDITIONAL INFORMATION

INTERESTED PERSON TRANSACTIONS

Apart from 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;

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.

There were no additional interested person transactions (excluding transactions less than S$100,000 (US$74,850) equivalent) entered into up to and including 31 December 2017.

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

STATISTICS OF UNITHOLDINGS

AS AT 28 MARCH 2018

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

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	Number of Unitholders	%	Number of Units	%
1 – 99	3	0.06	52	0.00
100 – 1,000	371	7.45	341,967	0.05
1,001 – 10,000	2,200	44.16	11,092,800	1.74
10,001 – 1,000,000	2,353	47.23	199,298,833	31.27
1,000,001 and above	55	1.10	426,722,925	66.94
Total	**4,982**	**100.00**	**637,456,577**	**100.00**

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	44,918,500	7.05
3.	CITIBANK NOMINEES SINGAPORE PTE LTD	29,929,400	4.70
4.	MAYBANK KIM ENG SECURITIES PTE. LTD.	28,075,471	4.40
5.	DBS NOMINEES (PRIVATE) LIMITED	27,522,590	4.32
6.	HL BANK NOMINEES (SINGAPORE) PTE LTD	13,832,500	2.17
7.	NG HWEE KOON	12,995,900	2.04
8.	PHILLIP SECURITIES PTE LTD	8,556,900	1.34
9.	LAI CHONG MENG	8,000,000	1.25
10.	YIM WING CHEONG	7,820,200	1.23
11.	PEH KOK WAH @ PEH WAH CHYE	4,401,900	0.69
12.	ANG ZHIHAO	4,300,000	0.67
13.	HSBC (SINGAPORE) NOMINEES PTE LTD	4,123,900	0.65
14.	ONG EUGENE	3,675,000	0.58
15.	FSL TRUST MANAGEMENT PTE LTD	3,447,031	0.54
16.	UOB KAY HIAN PRIVATE LIMITED	3,382,900	0.53
17.	TAN SIEW KENG CHRISTINA	3,360,000	0.53
18.	CHAN CHOON YUAN (CHEN JUNYUAN)	3,350,000	0.53
19.	LEE GUAN HUAT	3,144,900	0.49
20.	CHIO KIAN HUAT	3,000,000	0.47
	Total	**372,267,692**	**58.41**

STATISTICS OF UNITHOLDINGS

AS AT 28 MARCH 2018

SUBSTANTIAL UNITHOLDERS

(As shown in the Register of Substantial Unitholders)

Name of Substantial Unitholder	Direct Interests	%	Deemed Interests	%
FSL Holdings Pte. Ltd.[1]	154,430,600	24.23	3,447,031	0.54
Prime Shareholdings Inc.[2]	–	–	157,877,631	24.77
Prime Investments and Holdings Ltd[2]	–	–	157,877,631	24.77
Prime Marine Corporation[2]	–	–	157,877,631	24.77
PMC Holding Inc.[2]	–	–	157,877,631	24.77
Joelma Holding Inc.[2]	–	–	157,877,631	24.77
Geomel Holding Inc.[2]	–	–	157,877,631	24.77
Stella Maris Holding Inc.[2]	–	–	157,877,631	24.77
Stathis Topouzoglou[2]	–	–	157,877,631	24.77
Michael Chalkias[2]	–	–	157,877,631	24.77
George Kouleris[2]	–	–	157,877,631	24.77

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 Stathis Topouzoglou, 21.5% held by Geomel Holding Inc., which is 100% held by Michael Chalkias, and 21.5% held by Stella Maris Holding Inc., which is 100% held by George Kouleris.

FREE FLOAT

Based on information available as at 28 March 2018, approximately 75.08% 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 Eleventh 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 Wednesday, 9 May 2018 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 2017, 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):

(A) by way of renounceable rights issues on a pro rata basis to Unitholders of First Ship Lease Trust ("**Renounceable Rights Issues**") to be issued and listed by 31 December 2018, shall not exceed 100 per cent. (100%) of the total number of issued Units excluding treasury Units and subsidiary holdings (as calculated in accordance with paragraph (2) below); and

NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

(B) otherwise than by way of Renounceable Rights Issues ("**Other Unit Issues**") shall not exceed 50 per cent. (50%) of the total number of issued Units excluding treasury Units and subsidiary holdings (as calculated in accordance with paragraph (2) below), of which the aggregate number of Units to be issued other than on a pro rata basis to Unitholders of First Ship Lease Trust shall not exceed 20 per cent. (20%) of the total number of issued Units excluding treasury Units and subsidiary holdings (as calculated in accordance with paragraph (2) below);

the Renounceable Rights Issues and Other Unit Issues shall not, in aggregate, exceed 100 per cent. (100%) of the total number of issued Units excluding treasury Units and subsidiary holdings (as calculated in accordance with paragraph (2) below);

(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 paragraphs (1)(A) and (1)(B) above, the percentage of issued Units shall be based on the total number of issued Units (excluding treasury Units and subsidiary holdings) 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, or (iii) in the case of Renounceable Rights Issues, until 31 December 2018, by which date, Units issued pursuant to the Renounceable Rights Issues must be listed on the SGX-ST.

(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
20 April 2018

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.

<u>Explanatory Notes on Resolution 3</u>

If passed, the Ordinary Resolution set out in Resolution 3 empowers the Trustee-Manager from the date of the Eleventh Annual General Meeting until:

(a) in the case of Renounceable Rights Issues of Units, 31 December 2018; and

(b) in the case of Other Unit Issues, 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, up to a number not exceeding (i) 100% for Renounceable Rights Issues and (ii) 50% for Other Unit Issues, of which up to 20% may be issued other than on a pro rata basis to Unitholders, provided that, the total number of Units which may be issued pursuant to (i) and (ii) shall not exceed 100% of the issued Units (excluding treasury Units and subsidiary holdings).

The aggregate number of Units which may be issued shall be based on the total number of issued Units (excluding treasury Units and subsidiary holdings) 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.

The authority for 100% Renounceable Rights Issues ("**Enhanced Rights Issue Limit**") is proposed pursuant to SGX-ST's news release dated 13 March 2017 titled "SGX raises pro-rata renounceable rights issue cap to 100% of share capital" and the Practice Note 8.3 of the Listing Manual of the SGX-ST which introduced measures to help issuers raise funds expediently for expansion activities or working capital. The Enhanced Rights Issue Limit will be effective until 31 December 2018, by which date, the Units issued pursuant to the Enhanced Rights Issue Limit must be listed on the SGX-ST. This unit issue mandate (including the Enhanced Rights Issue Mandate) shall be subject to the conditions as set out in Practice Note 8.3 of the Listing Manual of the SGX-ST and any other guidelines, notices or practice notes which the SGX-ST may issue from time to time. Unless renewed, the mandate sought for the Other Unit Issues at this meeting shall expire at the subsequent 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.

The Board of Directors of the Trustee-Manager is of the view that the Enhanced Rights Issue Limit is in the interests of First Ship Lease Trust and its unitholders as it will allow First Ship Lease Trust to raise funds expediently for expansion activities or working capital.

NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

Explanatory Notes on Resolution 4

Resolution 4 is a renewal of the resolution that was approved by Unitholders at the Tenth Annual General Meeting held on 28 April 2017.

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.

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

ELEVENTH 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**	
NRIC/Passport Number	**No. of Units**	**%**
Address		

and/or (delete as appropriate)

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

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf, at the Eleventh Annual General Meeting ("**AGM**") of Unitholders of First Ship Lease Trust to be held on Wednesday, 9 May 2018 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 2017 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 ____________ 2018

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 20 April 2018.

Fold this flap for sealing

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

MIX
Paper from
responsible sources
FSC™ C041355
FSC
www.fsc.org

FSL TRUST MANAGEMENT PTE. LTD.
as Trustee-Manager for First Ship Lease Trust
(Co. Reg. No.: 200702265R)

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

Investor Relations
Email: Investors@FirstShipLease.com
Website: www.FSLTrust.com