FSL TRUST

HEADING IN THE RIGHT DIRECTION

ANNUAL REPORT 2014

CONTENTS

First Ship Lease Trust ("FSL Trust" or the "Trust") is a Singapore-based business trust which owns a fleet of vessels that are chartered or leased across major shipping sub-sectors. FSL Trust presently has a diversified portfolio of 23 modern and high quality oceangoing vessels comprising containerships and a variety of tankers. Of these, 14 vessels are leased to international shipping companies on long-term bareboat charters. The remaining nine vessels are employed on short-term time charters, in a pool or revenue-sharing arrangements.

The bulk 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 market-rate charters allows the Trust to seek opportunities arising from market volatility.

FSL Trust is managed by FSL Trust Management Pte. Ltd. ("FSLTM"), 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 FSL Trust's portfolio. The Trustee-Manager aims to optimise the returns on the Trust's vessel portfolio through 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 main board of the Singapore Exchange Securities Trading Limited (SGX-ST) and its American Depository Receipts (ADR) are quoted on the PrimeQX tier of International OTCQX.

CHAIRMAN'S LETTER TO UNITHOLDERS

Tim Reid
Chairman

> **"The Board is of the view that Unitholders' interests will be best served through ensuring that the projected revenue stream, expenses and loan principal repayment will allow sustained distributions prior to recommencement of distributions."**

Dear Unitholders,

The Trust, having been in default of the original borrowing covenants of the 2011 term loan facility since June 2012, is now fully compliant with the original covenants. The Independent Auditors' Report no longer contains the emphasis of matter which in the 2013 Annual Report indicated the existence of "material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern".

That this has been achieved in a relatively short period of time and given the current state of the global shipping market, I respectfully suggest, demonstrates the effectiveness of key decisions made by the new Board and Management in their determination to stabilise the Trust and secure its future. We still have some way to go to ensure that stakeholders' interests are appropriately financially addressed, but progress has been significant.

The Trust's Lenders continued to support the Trust notwithstanding it was in default of its financial covenants from June 2012 until December 2014. The new Board was regularly not in agreement with the positions taken by the Lenders which led to the earlier decisions to halt and suspend trading in the units. Despite this the Lenders remained supportive of the Trust and I believe they now recognise and appreciate the significant improvement in the Trust's financial position and performance that has been achieved during the last 18 months. The Board is grateful for the continued support of the Lenders.

Before the new Board and Management effectively took control of the Trust it had suffered defaults or restructurings of bareboat charter agreements on 11 vessels out of a fleet of 25. This was clearly not an ideal situation which brought about a significant change in the nature of the Trust's business with the Trust becoming less a vessel financing business to one that required more vessel management. I am confident that the management team, led by Alan Hatton and Roger Woods, is very ably managing the vessel fleet and thus protecting and enhancing stakeholders' interests in the fleet.

There has been an almost complete change in senior staff at the Trustee-Manager and this transition, while being difficult at times, has been managed well. There have also been further changes in the Board. Michael J Montesano III resigned from the Board on 30 June 2014 and the Board records its thanks for his assistance as a Director. Esben Poulsson joined the Board on 30 September 2014, bringing significant experience and skill in the shipping sector. Esben's Director Profile is recorded on page 17 of this report. It is important that the composition of the Board adequately addresses the skills needed to ensure a sound future for the Trust and, if necessary, further Director appointments and changes will be made.

As the Trust is no longer subject to terms of the banking covenant relaxations which prohibited distributions to unitholders, the Board is of the view that unitholders' interests will be best served through ensuring that the projected revenue stream, expenses and loan principal repayment will allow sustained distributions prior to recommencement of distributions. In 2016, two Panamax container vessels on bareboat charter will be returned to the Trust and it is anticipated, given they were built in 1994 and 1995, that they will be scrapped or sold at prevailing scrap prices. This will result in a reduction of contracted revenue of US$11.7 million per annum. The majority of the realisation proceeds arising from scrapping the vessels will be returned to the Lenders in accordance with the loan agreement. However, this would not result, under current circumstances, in a reduction in the quarterly principal repayments to the Lenders of US$11.0 million. Consequently, we project that these factors may create some cash flow pressure in 2016 if distributions were to recommence immediately at a reasonable and sustained level. The Board is presently considering various strategies to develop a level of cash flow that is reliable and sustainable enough to allow projected financial obligations to be met with a high degree of certainty and, at the same time, not placing at risk regular distributions to unitholders. The Board, therefore, requests further indulgence from unitholders in being patient a little longer while further steps are taken to secure a sound future for the Trust that will support regular, sustainable distributions.

Tim Reid
Chairman

CEO'S STATEMENT

Alan Hatton
Executive Director and
Chief Executive Officer

"While much hard work lies ahead of us, we are now able to move forward no longer requiring the relaxation of our loan covenants; and, with a strong team at the Trustee-Manager, well positioned to deliver long-term value for unitholders."

FSL Trust ended 2014 in compliance with its original 2011 loan covenants, it became profitable for the first time in four years and it generated more cash from operations than in any other year since 2011. While much hard work lies ahead of us, we are now able to move forward no longer requiring the relaxation of our loan covenants; and, with a strong team at the Trustee-Manager, well positioned to deliver long-term value for unitholders.

Market overview

The year has been one of mixed fortunes for the shipping industry. The market was significantly affected by the Organisation of Petroleum Exporting Countries' (OPEC) failure to reach agreement on production curbs and the subsequent effect on the oil price. Downward oil pricing pressure reduced bunker fuel costs which have benefitted all owners and operators, and increased the ton-miles[1] transported for seaborne crude and petroleum products. This has led to significantly higher demand in much of the tanker sector and thus associated freight rates.

FSL Trust's exit from the dry bulk market in early 2014 proved to be a timely decision, with valuations and freight rates capitulating during the year: the Baltic Dry Index (BDI) recently hit an all-time low of 509 points on 15 February 2015.

The container market has continued to be difficult, with tonnage oversupply negating reasonably strong trade fundamentals. Parts of the container market, including the feeder containership market that the Trust has exposure to through the *FSL Santos and FSL Busan*, have yielded improved results, and FSL Trust's strong partnerships with *Yang Ming* and *Evergreen* have provided insulation from the more challenging Panamax market.

The tanker market was the source of better news. Volatility returned to spot chartering markets in 2014, reflecting a better supply and demand balance. This led to higher rates, both in the near and longer term, and tanker valuations to rise. While we remain optimistic about the tanker market for 2015, especially within the crude sector, the current contango in the price of oil suggests that the price is likely to

1 As reported in The Platou Report 2015 edition, RS Platou Economic Research estimate that average trading distances for the entire seaborne oil trade increased by 3% in 2014, offsetting the decrease in volume and leading to an increase in ton-miles of more than 2%. This represented a significant improvement from 2013, when ton-mile demand was flat.

increase. With this, the expense of running vessels would increase, and ships currently being used as floating storage would be released on to the market. Overall, FSL Trust has benefitted from maintaining its exposure to markets that displayed significantly improved performance in 2014.

Financial highlights

The Trust reported full year 2014 revenues of US$93.4 million, 3.8% higher than the previous year, despite having a reduced fleet of 23 ships following the sale of two dry bulk vessels in March. Net cash from operations increased by 47.7% to US$53.2 million and net profit for the year was US$4.1 million, representing the first annual net profit of FSL Trust since 2009.

The Trust also reduced its indebtedness and gearing significantly during 2014. Net debt moved from US$361.2 million on 31 December 2013 to US$287.8 million on 31 December 2014, a reduction of 20.3%. Gearing, at 59.0% at the end of 2013, was 54.6% at the end of 2014[2]. These improvements culminated in FSL Trust meeting a key covenant ratio, being its Value-To-Loan (VTL) target of 125%, by 31 December 2014.

Vessel employment

14 of the Trust's 23 vessels remain on original bareboat charters, with two scheduled feeder container vessel redeliveries having occurred in the summer of 2014. Significant management effort has been employed to optimise the commercial performance of the redelivered vessels in order to create unitholder value. This continues to include working closely with our technical managers to increase vessel utilisation as well as speed and consumption performance, beyond prudently managing the portfolio of vessels by partnering with first class commercial managers or charterers. Here, we have endeavoured to maintain exposure to sectors we feel will enjoy improved conditions, to secure good returns.

2014: Strengthening the foundations

The year brought significant improvement in operational and financial performance and this was driven and illustrated by the following milestones:

- February 2014: successfully negotiating with lenders to secure a loan covenant relaxation until 31 December 2014
- March 2014: the disposal of two 15 year old loss making dry bulk vessels, reducing capital expenditure by approximately US$3.0 million and the cost of debt service in the first half of 2014 by US$5.3 million
- June 2014: securing a new time charter agreement with *Tesoro* on significantly improved rates for *FSL Shanghai*
- December 2014: achieving compliance with the terms of the original loan agreement dated December 2011

2015 to date and beyond

2015 continues to present encouraging signs for the Trust. Tanker markets have remained strong, and the feeder containership market is also showing signs of improvement. We started the year with a good result from selling the shares in *TORM* that had been obtained in the 2012 restructuring of underlying bareboat charters. Following the lending banks' release of their security position over the shares, FSL Trust took advantage of a very short-lived spike in the *TORM* share price to liquidate the holding. Proceeds of the sale totalled US$2.6 million, with the Trust able to recognise a gain of US$1.7 million in 1Q2015.

Continuing in the vein of prudently managing the portfolio of Trust-owned vessels, we have also recently fixed the *FSL Hong Kong* on a two-year time charter with *Tesoro*, with whom we have forged a strong relationship following the agreement with them last summer of a time charter on the *FSL Shanghai*. The rate represents a significant increase from the rate secured last summer and provides another strong and reliable source of medium-term cash flow for the Trust.

The Trust is now far better positioned to face the future challenges posed by scheduled fleet redeliveries in 2015 and, more significantly, early 2016. We have strong senior management, supported by a hard-working, talented team of individuals and an effective and decisive Board of Directors.

Acknowledgements

I extend my thanks to the team at FSL Trust Management who have worked tirelessly to improve the business and to the Board for their steadfast support during 2014. Our ship managers, *Columbia Ship Management* and *Thome Ship Management*, have helped us drive operational efficiencies across the fleet without compromising on quality or safety. Our commercial managers, *UPT*, *Teekay* and *Nordic Tankers* have helped ensure improved rates on our redelivered vessels and we are grateful to our charter counterparties, *Yang Ming*, *Evergreen*, *James Fisher*, *TORM*, *Petrobras* and *Tesoro* for their support. Our lenders remained supportive during our effort to improve financial performance and restructuring of the business, so I extend our thanks to them too. Finally, I would like to thank you, our Unitholders, for your faith in the Trust. The Trust has been through a tumultuous two years and we remain focused on rewarding you by delivering sustainable, long-term value.

Alan Hatton
Executive Director and
Chief Executive Officer

2 Gearing ratio = secured bank loans/(total unitholders' funds + secured bank loans)

PERFORMANCE HIGHLIGHTS

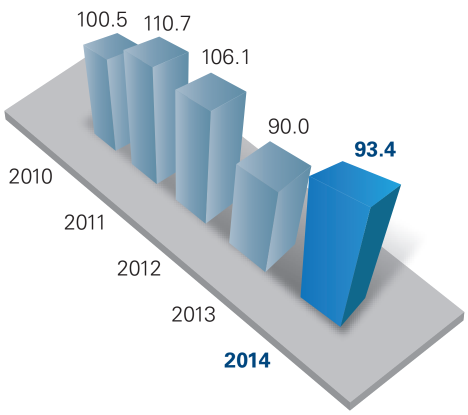
	FY 2014 US$'000	FY 2013 US$'000	FY 2012 US$'000	FY 2011 US$'000	FY 2010 US$'000
Income Statement					
Revenue	93,414	89,993	106,107	110,714	100,494
Results from Operating Activities	16,797	(40,628)	19,280	3,404	19,964
Profit/(Loss) for the Year	4,051	(65,213)	(8,387)	(17,066)	(5,699)
Net Cash Generated From Operations	53,225	36,035	47,608	63,846	60,479
Financial Position					
Total Assets	594,916	662,627	774,935	822,415	836,029
Total Liabilities	328,183	396,991	457,703	497,436	493,581
Shareholder's Equity	266,733	265,636	317,232	324,979	342,448
Financial Ratios					
Earnings per unit* (US cents/unit)	0.62	(9.96)	(1.28)	(2.72)*	(0.95)
Net Asset Value (US cents/unit)	0.41	0.41	0.48	0.50	0.57

* Based on weighted average number of issued units.

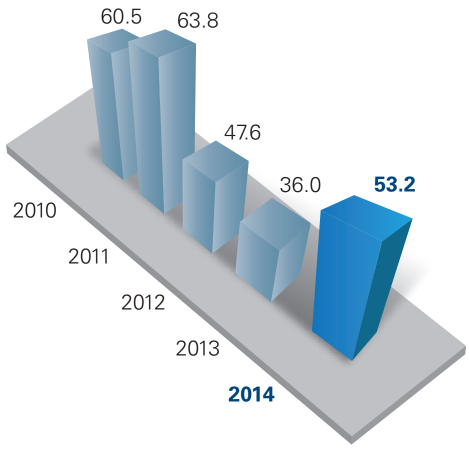
“[THE TRUST] RETURNED TO THE BLACK IN LESS THAN A YEAR AFTER THE NEW MANAGEMENT'S ARRIVAL”

Lloyd's List – The Road Ahead for First Ship Lease Trust
12 January 2015

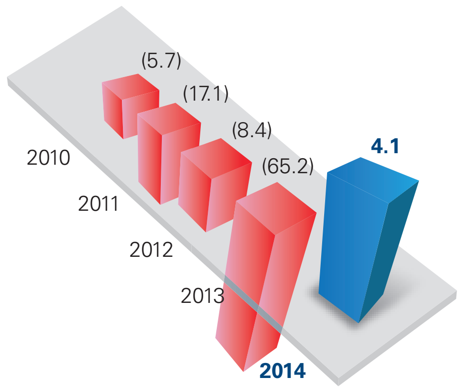
Revenue (US$ million)



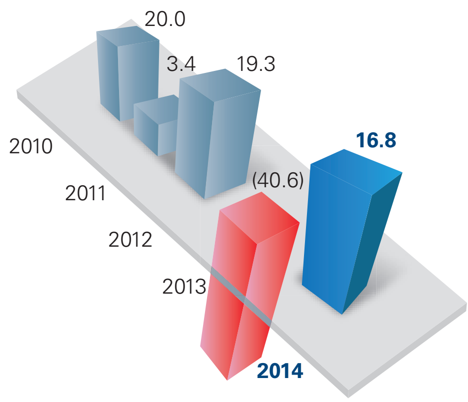
Net cash generated from operations (US$ million)



Net profit after tax (US$ million)



Results from operating activities (US$ million)



FINANCIAL & OPERATIONAL REVIEW

FINANCIAL OVERVIEW

Return to growth and profitability

For the financial year ended 31 December 2014 ("FY2014"), the Trust recorded revenue of US$93.4 million, a 3.8% increase from the previous financial year ("FY2013"). This marks the Trust's return to revenue growth after two consecutive years of decline. The Trust's stronger topline performance was achieved despite a reduced fleet size, reflecting an improvement in commercial performance. This comprised both more efficient and effective technical management and successful redeployment of the Trust's redelivered vessels.

The Trust reported a net profit of US$4.1 million for FY2014 (FY2013: net loss of US$65.2 million), recording a full year profit for the first time since FY2009.

Net cash generated from operations in FY2014 grew 48% year-on-year to US$53.2 million (FY2013: US$36.0 million), while cash and cash equivalents stood at US$32.8 million as at 31 December 2014 (31 December 2013: US$20.4 million).

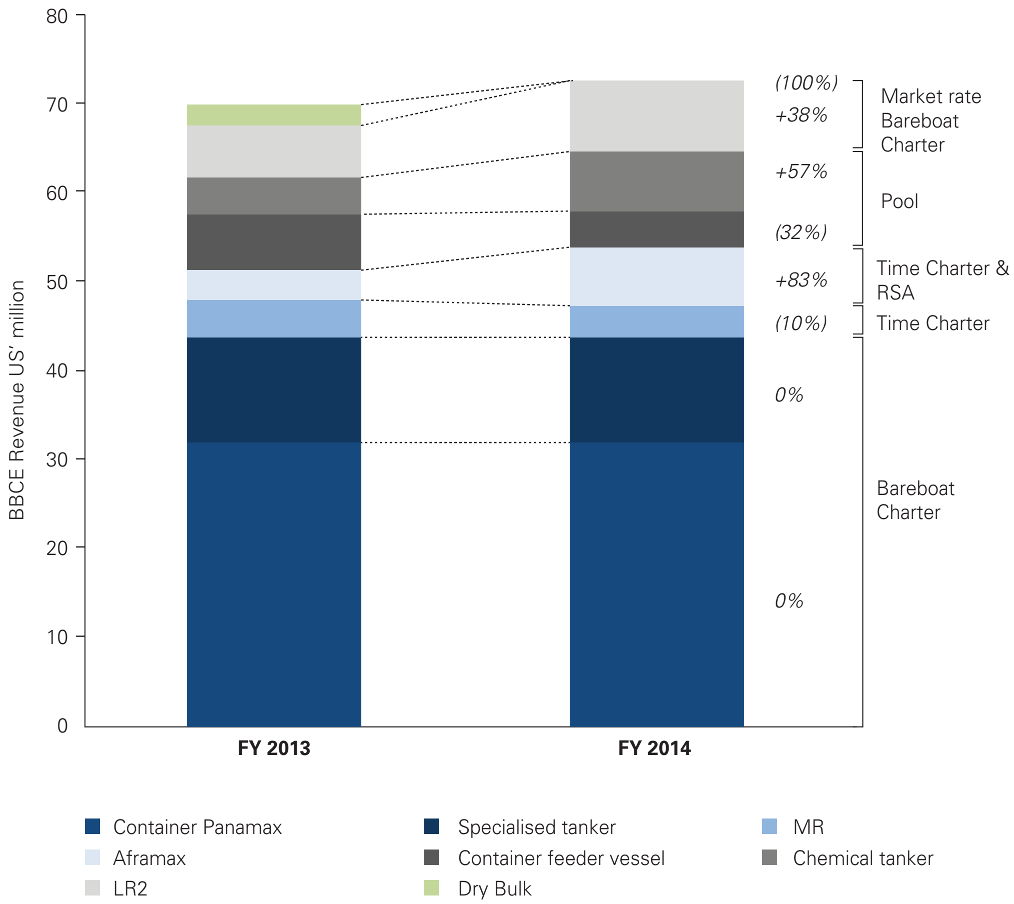
Revenue increase

In FY2014, the Trust focused on maximising earnings on the redelivered vessels in its fleet. As illustrated in Figure 1, on a bareboat charter equivalent ("BBCE") basis, total revenue for FY2014 grew 3.2% year-on-year to US$72.3 million, despite a reduction in fleet size, following the Trust's disposal of its two dry bulk vessels. This achievement was attributable to improved technical and commercial management of the fleet and retaining exposure to markets that performed well during the year.

Operating Expenses and Other Income

The Trust's bareboat charterers are responsible for all expenses relating to the operation and maintenance of the vessels leased. Due to a number of vessels being redelivered in FY2013 – and subsequently redeployed on time charter or placed in pool or revenue-sharing arrangements ("RSA") – the Trust incurred higher vessel operating expenses in FY2014.

Figure 1: BBCE revenue grew 3.2% y-o-y despite reduced fleet size, largely attributable to improved results from redeployed vessels



Other trust expenses decreased by 46.4% (US$2.2 million) due to lower non-recurring vessel-related expenses during FY2014 (US$0.1 million vs. US$2.3 million for FY2013). The non-recurring vessel-related expenses incurred in FY2013 pertained to the redeliveries of the Trust's two crude oil tankers (FSL Hong Kong and FSL Shanghai) and two dry bulk carriers (Stella Fomalhaut and FSL Durban).

Depreciation expense for FY2014 declined 10.7% to US$48.7 million (FY2013: US$54.5 million). This was as a result of the smaller fleet and a revision to the expected useful life and residual values of some vessels that was made during the year under review. (Please see pages 54 to 57 for details).

Finance expenses for FY2014 were reduced by 33.5% (US$8.3 million) as a result of a debt prepayment following the disposal of the dry bulk vessels and the expiry of certain interest rate swaps. The Trust paid all principal and interest due during the year and consequently reduced its outstanding loan balance by US$61.0 million to US$320.5 million as at 31 December 2014.

Other income of US$5.0 million recorded in FY2014 relates to the partial settlement of an ongoing legal claim during the fourth quarter.

Opportunistic Disposals

Dry Bulk Vessels

In March 2014, the Trust disposed of its two 15 year-old dry bulk vessels. These were loss-making in FY2013 and despite a loss of US$1.4 million relating to the disposal being recorded, it was a sensible transaction for the Trust to undertake.

The rationale behind the disposal was:

(1) Significant expected capital expenditure in the first quarter of FY2014 due to a dry docking requirement expected to be US$3.0 million

(2) Dry bulk asset values had increased by approximately 20% since September 2013 and that recovery provided an opportunity to exit (values have since fallen up to 40%)

(3) FSL Trust's lenders agreed that US$5.3 million of the sale proceeds could be applied to FY2014 scheduled loan repayments, thus reducing operating cash required for debt service during 2014

TORM Shares

The quoted price of shares in TORM A/S ("TORM") continued to decline over FY2014 and as a result the Trust recorded an impairment loss on available-for-sale financial assets of US$1.9 million for the year.

The TORM shares owned by FSL Trust were issued as part of a restructuring of non-performing bareboat charters in relation to TORM Margrethe and TORM Marie in 2012. The shares were pledged to FSL Trust's lenders under the term loan facility and subsequently remained in their custody: without their consent, FSL Trust was not in a position to sell the shares. This consent was provided to enable the sale to take place.

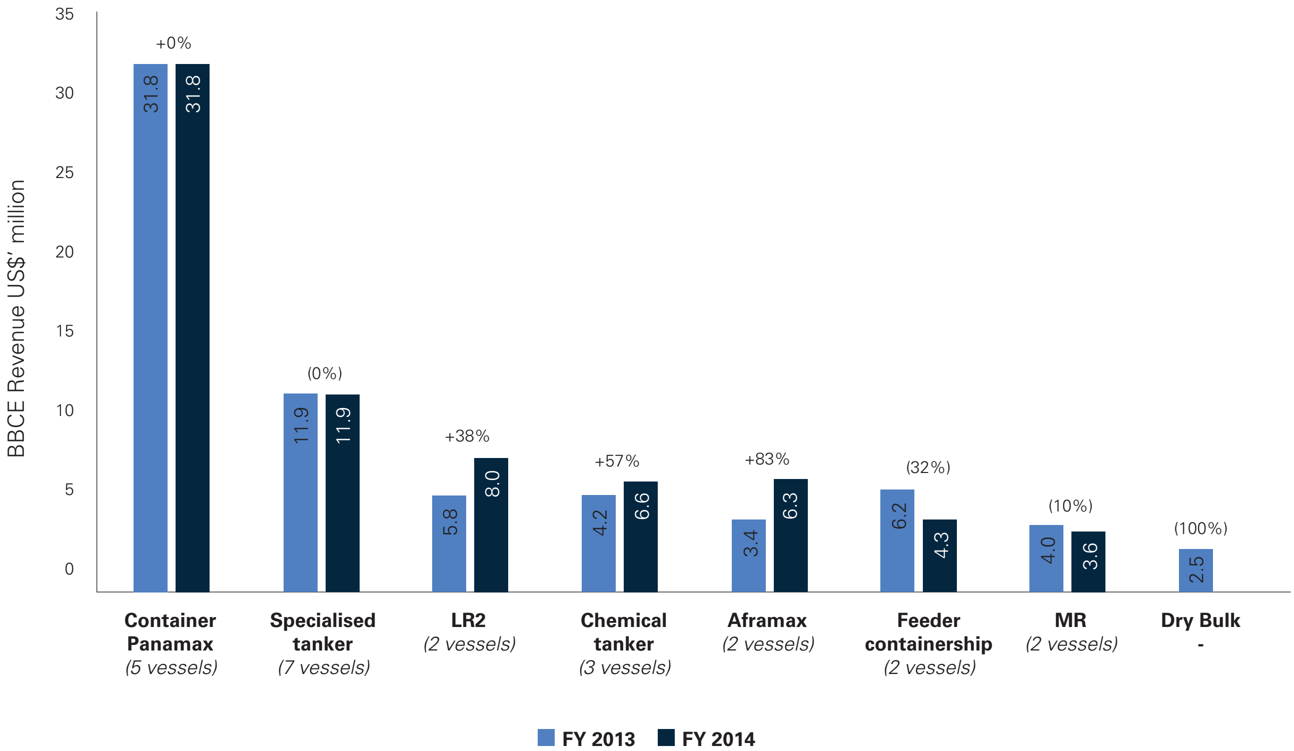
The Trust disposed of its entire equity stake in TORM, taking advantage of a short spike in the price of the shares between 21 January 2015 and 28 January 2015. The Trust will recognise a gain in disposal of the TORM shares of US$1.7 million in the first quarter of its financial year ending 31 March 2015 ("Q1 FY2015").

Operational Performance

The year-on-year BBCE revenue increase was largely attributable to improved performance of the LR2 product, crude oil and chemical tankers (see Figure 2) and partially offset the lower bareboat charter revenue resulting from the disposal of the two dry bulk vessels and the natural expiry of the leases relating to the Trust's two feeder containerships.

FINANCIAL & OPERATIONAL REVIEW

Figure 2: Breakdown of FY2014 BBCE revenue by vessel type



LR2 product tankers

The Trust's two LR2 vessels, TORM Margrethe and TORM Marie, which are currently leased on market rate bareboat charters, benefitted from improved LR2 tanker spot rates over the course of 2014 and contributed an additional US$2.2 million to bareboat charter rental for the year.

Chemical tankers

The Trust's three chemical tankers, which have been employed in the 'Nordic Tankers 19,000 Stainless Steel Pool' since the third quarter of FY2012, collectively earned BBCE revenue of US$6.6 million in FY2014 (FY2013: US$4.2 million). This revenue increase is attributable to good commercial performance by the pool and the improved technical management of the vessels that enabled the Trust's vessels to attract higher pool points, thus improving earnings.

Aframax crude oil tankers

In the first half of FY2014, FSL Shanghai generated BBCE revenue of US$1.0 million under a variable rate short-term time charter. The Trust was successful in securing a new fixed rate time charter agreement with Tesoro Corporation at improved rates in July 2014, generating BBCE revenue of $1.6 million in the second half of FY2014. The increased rate reflected the general improvement in the Aframax charter market, an improvement in the operation of the vessel and achievement of better commercial terms through reduced Third Party commissions.

FSL Hong Kong was employed with Teekay in its revenue-sharing agreement pool ("RSA") and generated BBCE revenue of US$3.6 million in FY2014 (FY2013: US$2.1 million).

Feeder containerships

The Trust's two feeder containerships, FSL Busan (ex Cape Ferro) and FSL Santos (ex Cape Falcon), were redelivered in July 2014 following the natural expiry of their bareboat leases and were subsequently reemployed in a 1200-1400/1700 TEU earnings pool managed by HANSE Bereederung GmbH ("Hanse Pool"). After deducting vessel operating expenses, these vessels earned BBCE revenue of US$4.3 million in FY2014.

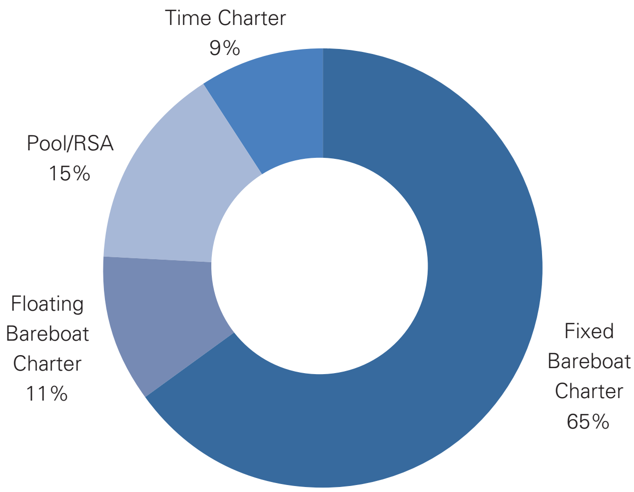
MR product tankers

The Trust's two MR vessels, FSL Hamburg and FSL Singapore, remained employed on time charter arrangements with Petròleo Brasileiro S.A. After deducting vessel operating expenses, these vessels generated BBCE revenue of US$3.6 million in FY2014 (FY2013: US$4.0 million). The lower contribution was due to reduced revenue arising from the dry-docking of FSL Hamburg in the first quarter of 2014.

Portfolio Analysis

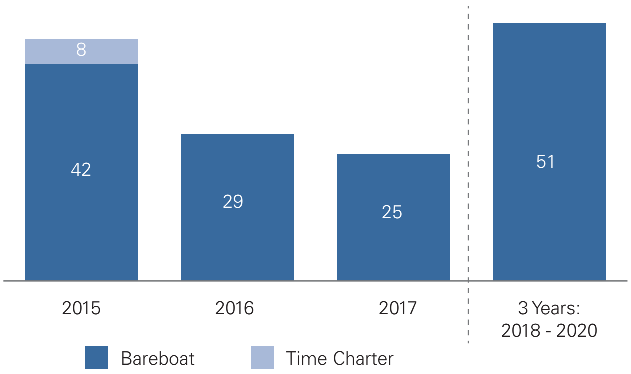
As at 31 December 2014, 14 out of the 23 vessels in the Trust's fleet were leased on bareboat charters. These charters collectively remained the largest contributor to the Trust's BBCE revenue and stable bedrock of income. The remaining nine vessels employed on time charters, pools and RSAs provide the Trust with flexibility and opportunities to capture upside from managed exposure to the short-term and spot markets. A breakdown of the Trust's FY2014 BBCE revenue by employment type is provided in Figure 3. More information on the fleet's existing lease terms can be found on pages 82 to 85.

Figure 3: Breakdown of FY2014 BBCE revenue by employment type



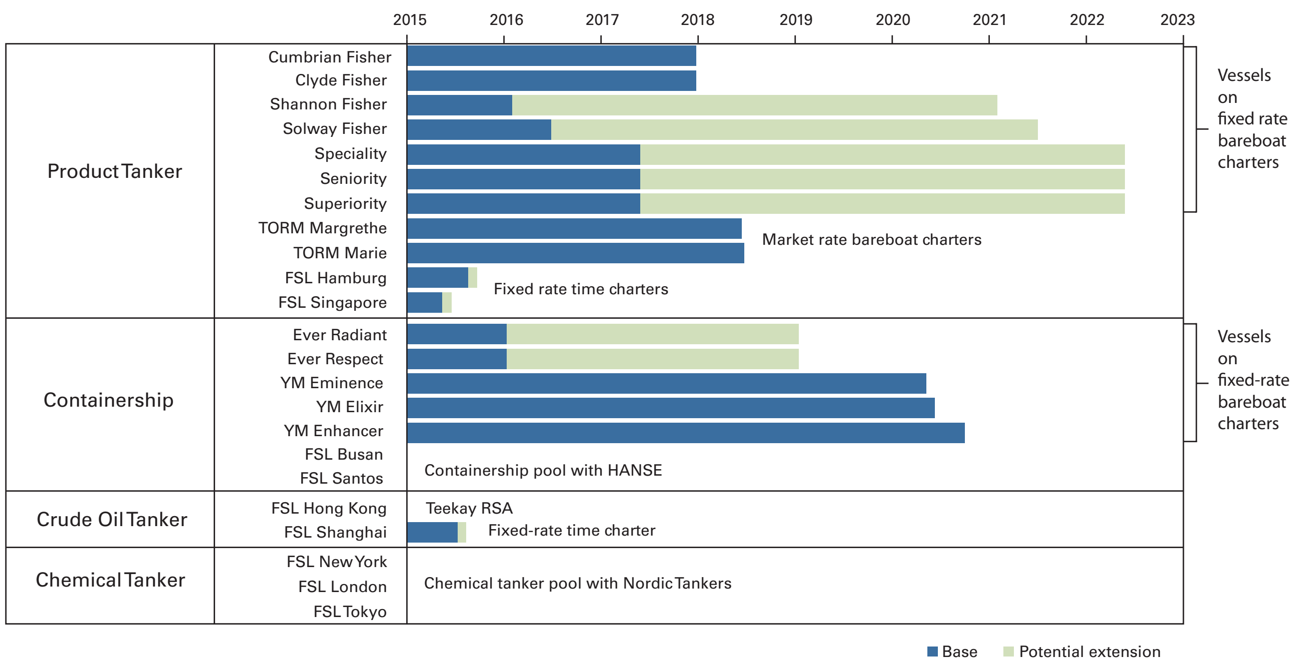
As at end-December 2014, the dollar-weighted average remaining lease term of the 14 vessels on fixed-rate, long-term bareboat charters was four years (excluding early buyout and extension options). Excluding the TORM charters which are now on variable rates, the remaining contracted Bareboat Charter and Time Charter revenue of the leases is approximately US$155.0 million (see Figure 4).

Figure 4: Remaining contracted revenue stood at US$155.0 million as at 31 December 2014



The lease maturities of the vessels on long-term bareboat charters are staggered so that only a small portion of the overall lease portfolio would mature in any one year. In 2015, the Trust has three leases expiring in the months of May, July and August respectively (see Figure 5).

Figure 5: Lease maturity of vessels (2014 to 2022) – dollar weighted average remaining lease term is four years as at 31 December 2014



FINANCIAL & OPERATIONAL REVIEW

LOAN FACILITY AND LOAN COVENANTS

Achieving compliance

As a result of the successful restructuring efforts of the Board and management team, the Trust announced in January 2015 that it was in compliance with the terms of the original loan agreement, following a covenant relaxation period of two and a half years.

FSL Trust has a 6-year amortising term loan with an outstanding loan balance of US$317.6 million as of 31 December 2014 that will mature in 2017. This term loan facility, secured against FSL Trust's 23 vessels, was fully drawn down in December 2011. Under this loan facility, FSL Trust will make quarterly loan repayments of US$11.0 million, which will progressively reduce its outstanding loan balance and reduce its refinancing risk at loan maturity (see page 64, Note 13 for more details on interest margin on the loan facility).

In February 2014, the lenders had granted a loan covenant relaxation extension until 31 December 2014 ("Relaxation extension"), with the following conditions to be adhered to during the Relaxation extension:

i. Meeting the minimum value-to-loan ("**VTL**") ratios as follow:

	1QFY14	2QFY14	3QFY14	4QFY14
VTL ratio	105%	105%	110%	110%

ii. Meeting the relaxed Debt Service Coverage ("**DSC**") ratios as follows:

	1QFY14	2QFY14	3QFY14	4QFY14
DSC ratio	0.90	0.95	1.00	1.10

iii. A cash sweep mechanism, whereby cash balances over US$20.0 million for two consecutive quarters (e.g. Quarter 1 and Quarter 2), the lesser of i) Quarter 1 cash balance less US$20.0 million, or ii) Quarter 2 cash balance less US$20.0 million, would be immediately applied against the loan outstanding. The cash sweep would only apply until the end of the relaxation period or when VTL once more reached 125%, whichever would be earlier;

iv. an upfront fee of 5bps on the loan outstanding; and

v. Pledge of the shares of all the vessel-owning subsidiaries

Liquid Assets during the Relaxation Period should not have been less than the figures applicable for the specified periods in the following schedule:

	US$ '000			
	1QFY14	2QFY14	3QFY14	4QFY14
Liquid Assets	11,500	17,500	20,000	20,000

Other conditions imposed during the period of the Relaxation extension included the retention of a US$10.0 million security deposit with the security agent, and a levy of 2% per annum imposed on the shortfall amount. The shortfall amount is the difference between the outstanding loan balance and the theoretical loan balance, assuming VTL ratio is 125%.

FSL Trust has hedged part of its interest rate risk through a combination of interest rate swaps and/or natural hedges to fix the interest rates. The fixed interest rates range from 1.06% per annum to 1.65% per annum.

OUR LESSEES AND CHARTERERS

Evergreen Marine Corporation Ltd (Taiwan), listed on the Taiwan Stock Exchange (TWSE: 2603), is an owner and operator of containerships. Evergreen Marine was founded by Dr. Chang Yung-Fa in 1968 and has grown into one of the world's leading container shipping companies. Evergreen Marine is also involved in a broad range of other marine transportation related businesses, including shipping agency services, operation of container terminals, logistics services, manufacturing and distribution of shipping containers, and the provision of maritime training and education services. The company operates more than 160 container vessels and provides shipping services in more than 80 countries.

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 exceptional and considerable expertise to operate in various marine and other safety-critical specialized businesses. The company provides comprehensive products, services and support to the oil and gas, renewables, nuclear power, construction, shipping and defence industries. James Fisher, based in United Kingdom, now operates worldwide in six continents under four broad business divisions, namely, Marine Support, Specialist Technical, Offshore Oil and Tankships.

Petròleo Brasileiro S.A. (Brazil), listed on the São Paulo Stock Exchange (PETR3, PETR4), is an integrated oil and gas company. The company is the largest corporation in Brazil and is majority-owned by the Brazilian government. Petrobras operates as an energy company in sectors including exploration and production, refining, oil and natural gas trade and transportation, distribution of petrochemicals, derivatives, electric energy, biofuel and other renewable energy sources.

Tesoro Corporation (USA), listed on the New York Stock Exchange (TSO) and a Fortune 100 company, is an independent refiner and marketer of petroleum products. Tesoro, through its subsidiaries, operates six refineries in the western United States with a combined capacity of approximately 850,000 barrels per day. Tesoro's retail-marketing system includes over 2,250 retail stations under the ARCO®, Shell®, Exxon®, Mobil®, USA Gasoline (TM) and Tesoro® brands.

TORM A/S (Denmark), listed on NASDAQ OMX Copenhagen (TORM), was founded in 1889. The company conducts business worldwide and is headquartered in Copenhagen, Denmark. TORM is one of the world's leading carriers of refined oil products as well as a player in the dry bulk shipping market. The company operates a fleet of approximately 80 modern vessels with a strong commitment to safety, environmental responsibility and customer service.

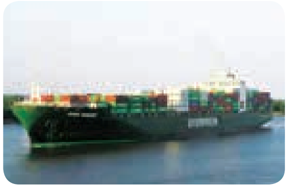
Yang Ming Marine Transport Corporation (Taiwan), listed on the Taiwan Stock Exchange (TWSE: 2609), was established in 1972 and continues to be significantly owned by the Ministry of Transportation and Communications of the Republic of China ("Taiwan"). Yang Ming Marine's principal activity is in the containership liner business but its business profile also includes dry bulk shipping, terminal management, logistic and shipping agency services. Yang Ming Marine is currently ranked as the second largest container shipping company in Taiwan and among the top fifteen largest container liner operators[1] in the world in terms of operating capacity. The company operates a fleet of approximately 100 containerships and provides shipping services in more than 45 countries.

Note: Information about our lessees and ship charterers was obtained from their respective websites and publicly accessible sources.

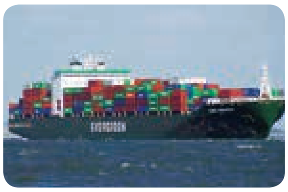
[1] Source: Alphaliner

VESSEL PORTFOLIO

CONTAINERSHIP



EVER RADIANT
Year Built : 1994
Builder : Mitsubishi Heavy Industries, Japan
Capacity : 4,229 TEU
Flag : Panama



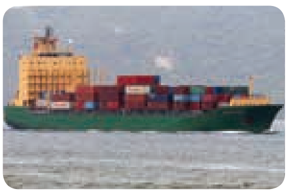
EVER RESPECT
Year Built : 1995
Builder : Mitsubishi Heavy Industries, Japan
Capacity : 4,229 TEU
Flag : Panama

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

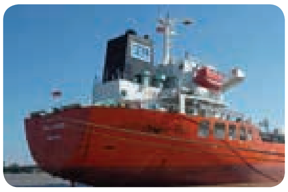
FSL BUSAN
Year Built : 2003
Builder : Peene Werft, Germany
Capacity : 1,221 TEU
Flag : Marshall Islands



FSL SANTOS
Year Built : 2003
Builder : Peene Werft, Germany
Capacity : 1,221 TEU
Flag : Marshall Islands

CHEMICAL TANKER

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

FSL TOKYO
Year Built : 2006
Builder : Shin Kurushima, Japan
Capacity : 20,938 DWT
Flag : Singapore

CRUDE OIL TANKER

FSL HONG KONG
Year Built : 2007
Builder : Samsung Heavy Industries, South Korea
Capacity : 115,000 DWT
Flag : Singapore

FSL SHANGHAI
Year Built : 2007
Builder : Samsung Heavy Industries, South Korea
Capacity : 115,000 DWT
Flag : Singapore

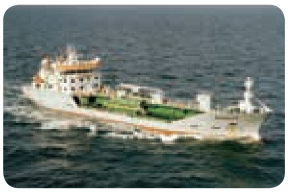
PRODUCT TANKER

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



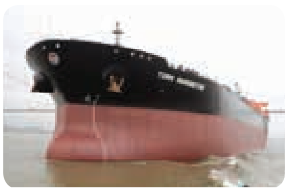
SPECIALITY
Year Built : 2006
Builder : Qingshan Shipyard, Wuhan, PRC
Capacity : 4,426 DWT
Flag : Bahamas/U.K.

SENIORITY
Year Built : 2006
Builder : Qingshan Shipyard, Wuhan, PRC
Capacity : 4,426 DWT
Flag : Bahamas/U.K.

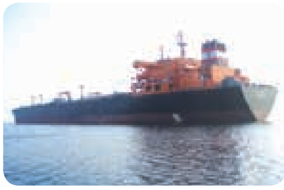
SUPERIORITY
Year Built : 2007
Builder : Qingshan Shipyard, Wuhan, PRC
Capacity : 4,426 DWT
Flag : Bahamas/U.K.

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



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

Note: Dry bulk carriers, Stella Fomalhaut and FSL Durban, were sold in March 2014.

BOARD OF DIRECTORS & EXECUTIVE OFFICERS

TIM REID

Non-Independent, Non-Executive Chairman

Tim Reid was appointed as a Non-Independent Director of the Trustee-Manager on 17 June 2013.

Mr. Reid is a partner with Ferrier Hodgson. He has over 25 years of experience in the accounting profession and specialises in the restructuring of businesses.

Mr. Reid is a member of the Chartered Accountants Australia and New Zealand and a member of the Institute of Singapore Chartered Accountants. He is registered as a Public Accountant; Approved Company Auditor; and Approved Liquidator with the Accounting and Corporate Regulatory Authority, Singapore.

SIMON DAVIDSON

Lead Independent Director

Simon Davidson was appointed as a Director of the Trustee-Manager on 17 June 2013. He is also a member of the Audit Committee.

Mr. Davidson was a partner in Holman Fenwick & Willan from 1994 to 2013 and based in their Singapore office from 1998 to 2013. Mr. Davidson has more than 29 years of experience as a lawyer in London, Hong Kong and Singapore primarily in shipping and commodities litigation and arbitration around the world. He is now an independent arbitrator based in Singapore.

He is a Chartered Arbitrator with the Chartered Institute of Arbitrators and fellow of both the Hong Kong and Singapore Institutes of Arbitrators. He is also admitted as a solicitor in England, Hong Kong and Singapore.

MICHAEL OLIVER

Independent Director

Michael Oliver was appointed as a Director of the Trustee-Manager on 26 June 2013. He is also the Chairman of the Audit Committee.

Mr. Oliver has over 40 years of international experience in the banking and financial services industry.

Based in Singapore since 2001, he served as Regional Board Member, Asia/Oceania for Commerzbank AG until his retirement in 2005. As the regional chief executive, he was responsible for Commerzbank branches in Hong Kong, Shanghai, Singapore and Tokyo as well as its merchant banking subsidiaries and corporate banking business in the Asia Pacific region. During his service of more than 19 years at Commerzbank, he also held senior positions in London and Hong Kong.

Before joining Commerzbank, Mr. Oliver was with The First National Bank of Boston for 18 years, holding a variety of commercial banking, leasing and corporate finance positions in U.S., Australia and Europe.

ESBEN POULSSON
Independent Director

Esben Poulsson was appointed as a Director of the Trustee-Manager on 30 September 2014. He is also a member of the Audit Committee.

Mr. Poulsson has over 44 years of professional experience in the shipping industry internationally.

Based in Singapore for the last eleven years, he is currently Executive Chairman of Enesel Pte. Ltd. and Chairman of Avra International Pte. Ltd. Prior to this, he served as Chief Executive Officer of TORM Singapore Pte. Ltd. before stepping down in 2009. In his 20 year career with TORM, he held a number of senior executive positions in Hong Kong, London and Copenhagen.

He has been a significant contributor in positioning Singapore as a world class maritime center, acting as an advisor to a number of key trade associations and related bodies in Singapore. He is currently a Council Member and Honorary Secretary of the Singapore Shipping Association and represents Singapore on the Board of the International Chamber of Shipping in London, of which he is a Vice Chairman. He is also a Non-Executive Chairman of Cambiaso Risso Asia Pte. Ltd., Non-Executive Director of X-Press Feeders Ltd. and acts as Senior Advisor to Straits Tankers Pte. Ltd.

ALAN HATTON
Executive Director,
Chief Executive Officer

Alan Hatton was appointed as a Director of the Company and the Chief Executive Officer of the Trustee-Manager on 27 August 2013.

Mr. Hatton oversees the general management of the business and is responsible for the Trustee-Manager's performance. He has significant commercial shipping and finance experience including negotiating and executing time charters, sale and purchase deals, risk management strategies, dispute resolution and ship financing.

Mr. Hatton previously served as Chief Executive Officer of FR8 for five years after joining the Company as Chief Financial Officer in 2007. Prior to that, Mr. Hatton was an investment banker specialising in Merger & Acquisitions and Corporate Finance for Lazard and Dresdner Kleinwort in London.

Mr. Hatton holds both a Master and Bachelor of Science from the London School of Economics and Political Science (LSE).

ROGER WOODS
Chief Operating Officer

Roger Woods was appointed as the Chief Operating Officer of the Trustee-Manager on 17 September 2013.

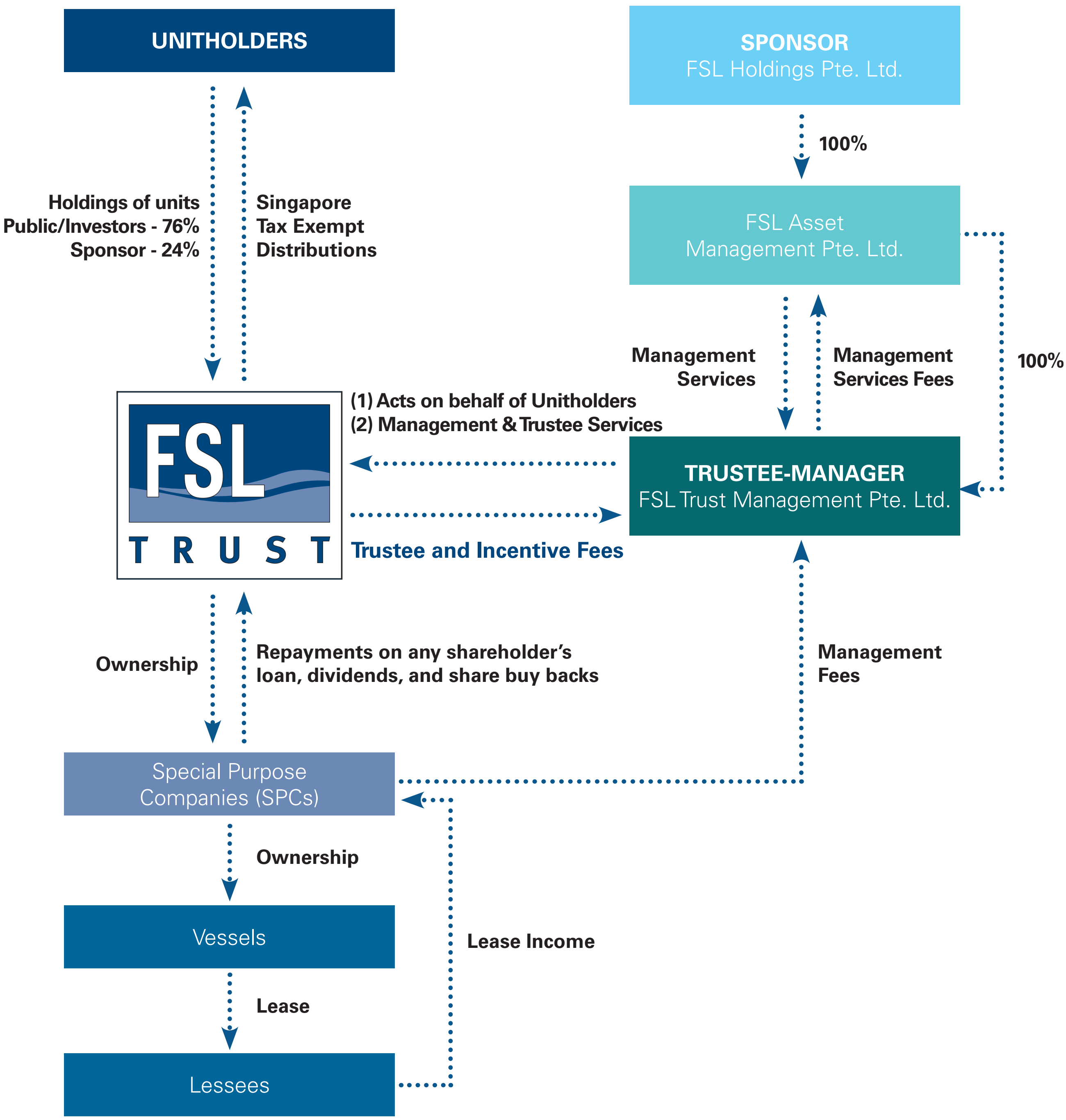
Mr. Woods overseas the general business operations of the Trust including short and medium term commercial deployment of vessels and relationships with technical managers.

He has over 35 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. He has an 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.

Mr. Woods previously served as General Manager at FR8, running its London office and focusing on commercial projects and operational performance. Prior to FR8, he was Managing Director at Tamoil Shipping in London, and also held Chartering Manager and Operations Manager positions over a 14 year tenure. Mr. Woods has also worked onshore for Ugland Brothers Ltd and Jebsens Ship Management Ltd and was at sea for the formative part of his shipping career serving on bulk carriers and product/chemical tankers.

Mr. Woods is a member of the Institute of Chartered Shipbrokers (MICS).

CORPORATE STRUCTURE



CORPORATE INFORMATION

TRUSTEE-MANAGER

FSL Trust Management Pte. Ltd.

BOARD OF DIRECTORS

Tim Reid
Non-Independent
& Non-Executive Chairman

Simon Davidson
Lead Independent Director

Michael Oliver
Independent Director

Esben Poulsson
(appointed on 30 September 2014)
Independent Director

Alan Hatton
Executive Director,
Chief Executive Officer

SENIOR MANAGEMENT TEAM

Alan Hatton
Executive Director,
Chief Executive Officer

Roger Woods
Chief Operating Officer

AUDIT COMMITTEE

Michael Oliver (Chairman)
Simon Davidson
Esben Poulsson

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

AUDITORS OF FIRST SHIP LEASE TRUST

KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
Phone: +65 6213 3388
Fax: +65 6324 2903

Partner-in-charge
Yvonne Chiu

Date of appointment
1 March 2012

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

CORPORATE GOVERNANCE REPORT

First Ship Lease Trust ("FSL Trust") is a business trust constituted under the Business Trusts Act. FSL Trust Management Pte. Ltd. ("FSLTM") 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 2014 with reference to the Code of Corporate Governance 2012 ("the Code") and Business Trusts Regulations 2005.

The Board's Conduct of its Affairs

The principal functions of the Board of Directors include guiding the corporate strategy and directions of management, reviewing the budget and all business plans, approving all acquisitions and borrowings, monitoring the financial and non-financial performance of FSL Trust, putting in place all relevant internal controls and risk management processes 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 Alan Hatton (Director and Chief Executive Officer) and Roger Woods (Chief Operating Officer). The Board is also assisted by the Audit Committee. Certain key matters are reserved for the Board's approval, such as vessel acquisition and divestment and capital expenditure and commitments on loan and credit facilities.

The Board meets at least once every quarter to approve the quarterly and full-year results prior to the release of the results and to deal with all matters requiring consideration. As and when necessary, board meetings are also supplemented by resolutions circulated to directors for decisions.

The attendance of the directors at the Board and Audit Committee meetings for 2014 is set out below:

	Board	**Audit Committee**
Directors	Attendance/No. of Meetings held	Attendance/No. of Meetings held
Alan Hatton	5/5	NA
Tim Reid	5/5	NA
Simon Davidson	4/5	4/4
Michael Oliver	5/5	4/4
Esben Poulsson[(1)]	1/1	1/1
Michael J. Montesano III[(2)]	3/3	2/2

NA: Not Applicable
(1) Esben Poulsson was appointed as a Director and a member of the Audit Committee on 30 September 2014.
(2) Michael J. Montesano III resigned as a Director on 30 June 2014.

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 will participate in relevant training programs to be funded by FSLTM.

CORPORATE GOVERNANCE REPORT

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 and 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.

The Board comprises five directors, three of whom are independent and non-executive. Simon Davidson is the Lead Independent Director. The directors come from diverse backgrounds with expertise in the shipping industry, finance, 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 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 will be 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. As FSLTM is not itself a listed entity, the Board does not consider it necessary to establish a nominating committee.

Chairman and Executive Director/Chief Executive Officer

The Chairman of the Board is Tim Reid. Simon Davidson is the deputy Chairman. The Chief Executive Officer ("CEO") is Alan Hatton. The Chairman, the deputy Chairman and the 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. Where necessary, the independent directors will hold discussions separately without the presence of the other directors. The Lead Independent Director will lead these discussions. The CEO continues to have full executive responsibility over the business direction and operational decisions in the day-to-day operations and management of FSLTM, as trustee-manager. In the absence of the Chairman or if there is a conflict of interest, the deputy Chairman who is also the Lead Independent Director, will assume in the role of Chairman.

Board Membership

The majority of the Board consists of independent non-executive directors. Esben Poulsson was appointed as an Independent Director during the last financial year. Upon his appointment, he was briefed on FSL Trust's business and governance practices. The Board takes into consideration its size, experience and overall competency and expertise to determine if the Board is effective. The Board is 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 Board has considered and is satisfied that each of them is able to and has adequately carried out his duties as a director of the Company. From time to time, new directors may be identified for appointment if necessary to complement the experience and competency of the existing members of the Board.

As a Lead Independent Director, Simon Davidson 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.

CORPORATE GOVERNANCE REPORT

Directors' Independence

The Board has conducted an annual review of the directors' independence in accordance with the requirements of the Business Trusts Regulations 2005. The following directors, Simon Davidson, Michael Oliver and Esben Poulsson are:

(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.

FSL Asset Management Pte. Ltd., the sole shareholder of FSLTM, is the service provider of management services to FSLTM.

Board Performance

As part of the assessment of performance of the Board and the Audit Committee, the Board conducts an annual evaluation based on objective performance criteria. 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 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 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 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.

Remuneration Matters

The structure for the payment of directors' fees for independent directors is based on a framework of basic fees for serving on Board committees and is approved by FSL Asset Management Pte. Ltd., the sole shareholder of FSLTM. All directors' fees payable to the independent directors in respect of services rendered to FSLTM will be reimbursed by FSL Trust. The fees are payable out of the trust property, as provided for in the Deed of Trust dated 19 March 2007 as amended and supplemented from time to time. The non-independent, executive director is not paid any Director's fees out of the trust property and the fee payable to the non-independent, non-executive director is paid by FSL Asset Management Pte. Ltd., who in turn charges the same to FSLTM. As the remuneration of the non-independent directors and management is paid for separately by FSL Asset Management Pte. Ltd. and are not paid for by FSL Trust, the Board does not consider it necessary to set up the remuneration committee and details of such remuneration packages have not been disclosed.

The directors' fees paid/payable to the independent directors are set out below:

Directors	Remuneration
Simon Davidson	S$66,150
Michael Oliver	S$66,150
Esben Poulsson	S$16,538
Michael J. Montesano III	S$33,075

CORPORATE GOVERNANCE REPORT

No compensation is payable to any director or officer in the form of options in FSL Trust units or pursuant to any bonus or profit-sharing plan or any other profit-linked agreement or arrangement under any service agreement.

During the financial year 2014, no officer was 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 2014 are set out in note 24 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 Committee

The members of the Audit Committee ("AC") are the three independent directors, Michael Oliver, Simon Davidson and Esben Poulsson (appointed on 30 September 2014). The AC is chaired by Michael Oliver.

The responsibilities of the AC 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 monitor and evaluate the effectiveness of FSLTM's internal controls;

(iv) To nominate the external auditors;

(v) To review the external audit plan and the adequacy of external audit in respect of cost, scope and performance;

(vi) 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;

(vii) To monitor the procedures in place to achieve compliance with applicable legislation, the Listing Manual and the Business Trusts Act;

(viii) 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;

(ix) To review the assistance given by officers of FSLTM to the external auditors; and

(x) To investigate any reports of improprieties or irregularities.

CORPORATE GOVERNANCE REPORT

The AC's activities for 2014, 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) Review of the effectiveness of internal controls, including financial, compliance and risk management controls, to safeguard the interests of the unitholders as a whole and the trust property; and

(d) Review of all interested person transactions to ensure compliance with the Listing Manual and the Business Trusts Act.

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

The total fees paid to the external auditors for financial year 2014, including fees for audit and non-audit services are set out in note 18 to the financial statements of this annual report.

The AC 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. KPMG LLP were the auditors for all of the Singapore-incorporated subsidiaries in 2014.

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 AC have evaluated the internal financial controls and financial and accounting policies and procedures.

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

The Board is of the opinion, with the concurrence of the AC, 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 27 of this annual report.

For the financial year ended 31 December 2014, the CEO has 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.

CORPORATE GOVERNANCE REPORT

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 AC Chairman. The code of conduct not only applies to directors but also to external parties and service providers, which would include the 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 28 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 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.

CORPORATE GOVERNANCE REPORT

(c) FSLTM does not currently have other businesses other than that of managing FSL Trust but all potential conflicts, if arising, will be identified by the Board and management and reviewed. 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 86 of this annual report. The Audit Committee 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 in a variety of ways. It assesses the risk arising from a new lease or charter transactions; asset disposal and residual values; monitors the potential for lessee or charterer default; hedges currency and interest rate risk through swaps; and, also mitigates operational risk by actively engaging with its third party commercial and technical managers.

Risk Assessment

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. 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.

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 the insight gained from the experience of senior management and the Board, and their extensive networks in the global marine transportation industry.

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 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 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 Mitigation

The Trust is currently operating nine vessels, which were previously employed under long term leases. 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.

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 CEO, 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 and OTCQX (for American Depository Receipts investors) and 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.

In 2014, FSLTM participated in and was represented by the CEO at various conferences regionally and internationally, including the annual Marine Money forums in New York and Singapore and Informa Maritime's annual Ship Finance & Investment Conference in London. FSLTM was also invited to speak at the Sector Connect seminar in Singapore, an SGX-led initiative to educate retail investors on the diversity of companies listed on the stock exchange. The event provided the Trustee-Manager with a platform to engage with retail investors and the opportunity to increase its investor outreach and market visibility.

FSLTM has 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 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.firstshiplease.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 Trustee-Manager is continuously improving how it operates, how it embeds sustainability into the business and this report illustrates the Trustee-Manager's commitment to sound governance and balanced, transparent disclosure. FSLTM is also committed to adopting best labour practices, mitigating its environmental impact and aims to create a culture of sustainability within the Trust.

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 report content and data engages and educates its employees, unitholders and stakeholders on sustainability issues while driving performance improvements.

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 would include 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 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 20.

Social – Labour Practices

FSLTM recognizes 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 encourage a positive workplace environment. 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 Committee when it occurs.

Environmental Responsibility

FSL Trust is the owner and lessor of 23 vessels. Pursuant to the Trust's "hell and high water" bareboat leases, the operation of 14 of its vessels as at 31 December 2014 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 nine 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 Teekay Chartering Limited who are accredited with ISO 14001 standards and are committed to promoting effective and efficient environmental management in their organisations. In its continued effort towards a sustainable and environmentally sound development, 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 the environmental impact of its activities. As part of its efforts to minimize 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 ensures 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 28 for more information on stakeholder engagement.

FINANCIAL STATEMENTS 2014

REPORT OF
THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

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 2014.

Directors

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

Simon Davidson
Tim Reid
Michael Oliver
Esben Poulsson (appointed on 30 September 2014)
Alan Hatton

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.

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 24 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 2015.

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.

As at the end of the financial year, there were no unissued units of the Trust under option.

REPORT OF THE TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

Internal controls

Based on the internal controls established and maintained by the Trustee-Manager, work performed by the external auditors and reviews performed by management and the Board, the Board and the Audit Committee are of the opinion that the Trustee-Manager's internal controls, addressing financial, operational, compliance and information technology risks were effective and adequate as at 31 December 2014. No system can provide absolute assurance against material errors, human errors, fraud or other irregularities and the internal controls of the Trustee-Manager are designed to provide reasonable but not absolute assurance in this regard.

Audit committee

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

Simon Davidson
Michael Oliver
Michael J. Montesano (resigned 30 June 2014)
Esben Poulsson (appointed 30 September 2014)

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

The Audit Committee has recommended to the Board of Directors the nomination of Messrs Moore Stephens LLP for appointment as auditors of the Trust at the forthcoming Annual General Meeting of the unitholders, in place of Messrs KPMG LLP.

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

Timothy Reid.

....
Tim Reid
Director

....
Alan Hatton
Director

18 March 2015

STATEMENT BY THE TRUSTEE-MANAGER

Statement and certification

In our opinion:

(a) the financial statements set out on pages 36 to 80 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Trust as at 31 December 2014 and the results, changes in unitholders' funds and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Business Trusts Act and International Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they fall due.

With respect to the income statement of the Group for the year ended 31 December 2014:

– 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

....	....
Tim Reid	**Alan Hatton**
Director	*Director*

18 March 2015

STATEMENT BY THE CHIEF EXECUTIVE OFFICER

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.

Alan Hatton
Chief Executive Officer

18 March 2015

INDEPENDENT AUDITORS' REPORT

UNITHOLDERS OF FIRST SHIP LEASE TRUST

Report on the financial statements

We have audited the accompanying 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 statements of financial position of the Group and the Trust as at 31 December 2014, the income statement, statement of comprehensive income, statement of changes in unitholders' funds and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 36 to 80.

Trustee-Manager's responsibility for the financial statements

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 Singapore Business Trusts Act, Chapter 31A (the Act) and International Financial Reporting Standards, 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 accounts and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation of financial statements that give a true and fair view 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 Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee-Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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 Act and International Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Trust as at 31 December 2014 and the results, changes in unitholders' funds and cash flows of the Group for the year ended on that date.

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 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.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
18 March 2015

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Note	Group 2014 US$'000	Group 2013 US$'000	Trust 2014 US$'000	Trust 2013 US$'000
Assets					
Vessels	4	556,019	630,968	–	–
Subsidiaries	5	–	–	423,725	479,750
Available-for-sale financial assets	6	919	4,550	–	–
Derivative assets	7	339	233	339	233
Non-current assets		557,277	635,751	424,064	479,983
Derivative assets	7	122	–	122	–
Inventories	8	–	1,185	–	–
Trade and other receivables	9	4,767	5,324	32,241	64,139
Cash and cash equivalents	10	32,750	20,367	21,605	12,091
Current assets		37,639	26,876	53,968	76,230
Total assets		594,916	662,627	478,032	556,213
Equity attributable to unitholders of the Trust					
Units in issue	11	525,412	525,412	525,412	525,412
Reserves	12	(258,679)	(259,776)	(367,157)	(351,832)
Total equity		266,733	265,636	158,255	173,580
Liabilities					
Bank loans	13	273,642	–	273,642	–
Derivative liabilities	13	155	727	155	727
Deferred income	14	3,567	5,011	–	–
Non-current liabilities		277,364	5,738	273,797	727
Trade and other payables	15	4,059	8,923	664	1,020
Bank loans	13	44,000	377,492	44,000	377,492
Derivative liabilities	13	1,316	3,394	1,316	3,394
Deferred income	14	1,444	1,444	–	–
Current liabilities		50,819	391,253	45,980	381,906
Total liabilities		328,183	396,991	319,777	382,633
Total equity and liabilities		594,916	662,627	478,032	556,213

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

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$'000	2013 US$'000
Revenue	16	93,414	89,993
Depreciation expense on vessels	4	(48,665)	(54,483)
Impairment loss on vessels	4	–	(43,408)
Voyage expenses		29	(3,247)
Vessel operating expenses		(20,297)	(16,354)
Management fees		(3,033)	(2,794)
Trustee fees		(125)	(149)
Other trust expenses		(2,619)	(4,888)
Impairment loss on available-for-sale financial asset		(1,907)	(5,298)
Results from operating activities		16,797	(40,628)
Other income		5,000	–
Loss on disposal of vessels		(1,378)	–
Finance income	17	23	63
Finance costs	17	(16,375)	(24,628)
Net finance costs		(16,352)	(24,565)
Profit/(loss) before tax	18	4,067	(65,193)
Income tax expense	19	(16)	(20)
Profit/(loss) for the year		4,051	(65,213)
Income available for distribution	20	–	–
Distribution per unit (US cents)		–	–
Earnings per unit (US cents)			
Basic	21	0.62	(9.96)
Diluted	21	0.62	(9.96)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2014

	2014 US$'000	2013 US$'000
Profit/(loss) for the year	4,051	(65,213)
Other comprehensive income		
Items that are or may be classified subsequently to profit or loss:		
Translation differences relating to financial statements of foreign operations	(3,569)	1,105
Exchange differences on monetary items forming part of net investment in foreign operations	(539)	(110)
Effective portion of changes in fair value of cash flow hedges	(573)	164
Net change in fair value of cash flow hedges reclassified to income statement	3,450	8,247
Net change in fair value of available-for-sale financial assets	(3,630)	(1,087)
Net change in fair value of available-for-sale financial assets reclassified to income statement	1,907	5,298
Other comprehensive income for the year, net of tax	(2,954)	13,617
Total comprehensive income for the year	1,097	(51,596)

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

CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

YEAR ENDED 31 DECEMBER 2014

	Note	Units in issue US$'000	Hedging reserve US$'000	Foreign currency translation reserve US$'000	Fair value reserve US$'000	Accumulated losses US$'000	Total equity US$'000
Group							
At 1 January 2013		525,412	(12,299)	(2,420)	(2,488)	(190,973)	317,232
Total comprehensive income for the year							
Loss for the year		–	–	–	–	(65,213)	(65,213)
Other comprehensive income							
Items that are or may be classified subsequently to profit or loss:							
Translation differences relating to financial statements of foreign operations		–	–	1,105	–	–	1,105
Exchange differences on monetary items forming part of net investment in foreign operations		–	–	(110)	–	–	(110)
Effective portion of changes in fair value of cash flow hedges		–	164	–	–	–	164
Net change in fair value of cash flow hedges reclassified to income statement		–	8,247	–	–	–	8,247
Net change in fair value of available -for-sale financial assets		–	–	–	(1,087)	–	(1,087)
Net change in fair value of available-for-sale financial assets reclassified to income statement		–	–	–	5,298	–	5,298
Total other comprehensive income		–	8,411	995	4,211	–	13,617
Total comprehensive income for the year		–	8,411	995	4,211	(65,213)	(51,596)
Transactions with unitholders, recognised directly in equity							
Distributions to unitholders	20	–	–	–	–	–	–
Total transactions with unitholders		–	–	–	–	–	–
At 31 December 2013		525,412	(3,888)	(1,425)	1,723	(256,186)	265,636

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

CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

YEAR ENDED 31 DECEMBER 2014

	Note	Units in issue US$'000	Hedging reserve US$'000	Foreign currency translation reserve US$'000	Fair value reserve US$'000	Accumulated losses US$'000	Total equity US$'000
Group							
At 1 January 2014		525,412	(3,888)	(1,425)	1,723	(256,186)	265,636
Total comprehensive income for the year							
Profit for the year		–	–	–	–	4,051	4,051
Other comprehensive income							
Items that are or may be classified subsequently to profit or loss:							
Translation differences relating to financial statements of foreign operations		–	–	(3,569)	–	–	(3,569)
Exchange differences on monetary items forming part of net investment in foreign operations		–	–	(539)	–	–	(539)
Effective portion of changes in fair value of cash flow hedges		–	(573)	–	–	–	(573)
Net change in fair value of cash flow hedges reclassified to income statement		–	3,450	–	–	–	3,450
Net change in fair value of available-for-sale financial assets		–	–	–	(3,630)	–	(3,630)
Net change in fair value of available-for-sale financial assets reclassified to income statement		–	–	–	1,907	–	1,907
Total other comprehensive income		–	2,877	(4,108)	(1,723)	–	(2,954)
Total comprehensive income for the year		–	2,877	(4,108)	(1,723)	4,051	1,097
Transactions with unitholders, recognised directly in equity							
Distributions to unitholders	20	–	–	–	–	–	–
Total transactions with unitholders		–	–	–	–	–	–
At 31 December 2014		525,412	(1,011)	(5,533)	–	(252,135)	266,733

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Profit/(loss) before tax		4,067	(65,193)
Adjustments for:			
Depreciation expense on vessels		48,665	54,483
Impairment loss on vessels		–	43,408
Impairment loss on available-for-sale financial assets		1,907	5,298
Amortisation of debt transaction costs		1,176	1,275
Amortisation of initial direct costs		504	568
Amortisation of deferred income		(1,444)	(1,444)
Interest income		(23)	(63)
Interest expense		15,620	23,467
Loss on disposal of vessels		1,378	–
Unrealised foreign exchange gain		(606)	(417)
		71,244	61,382
Changes in trade and other receivables		558	(1,804)
Changes in inventories		1,185	(666)
Changes in trade and other payables		(4,870)	2,142
Changes in lease income received in advance		175	(315)
Cash generated from operations		68,292	60,739
Income taxes refund		(17)	(38)
Net cash from operating activities		68,275	60,701
Cash flows from investing activities			
Costs incurred for dry-docking		(1,361)	(498)
Net proceeds on disposal of vessels		22,261	–
Interest received		23	87
Net cash from/(used in) investing activities		20,923	(411)
Cash flows from financing activities			
Repayment of secured bank loans		(44,000)	(44,000)
Prepayment of secured bank loans		(17,026)	(10,000)
Interest paid		(15,789)	(23,411)
Net cash used in financing activities		(76,815)	(77,411)
Net increase/(decrease) in cash and cash equivalents		12,383	(17,121)
Cash and cash equivalents at 1 January		10,367	27,488
Cash and cash equivalents at 31 December	10	22,750	10,367

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

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Trustee-Manager on 18 March 2015.

1 DOMICILE AND ACTIVITIES

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 on a bareboat charter basis to the international shipping industry. It has a modern, high quality and diverse portfolio of 23 vessels consisting of eleven product tankers, seven containerships, three chemical tankers and two crude oil tankers as at 31 December 2014. As at the authorisation date of the financial statements, 17 vessels are employed on leases (14 vessels on long-term bareboat charters and three vessels on time charters) and have a dollar-weighted average remaining lease period of approximately four years (for long term bareboat charter and excluding extension periods and early buy-out options). The remaining six vessels comprise three chemical tankers employed in a chemical tanker pool, one crude oil tanker in a RSA (Revenue Sharing Agreement) and two containerships in a 1200-1400/1700 TEU earnings pool. The combined portfolio of vessels has a dollar-weighted average age of approximately nine years.

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

The Trust Deed provides 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

1 DOMICILE AND ACTIVITIES (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 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

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

As at 31 December 2014, the Trust is in compliance with the terms of the term loan facility as described in note 13. The financial statements have been prepared on a going concern basis, which assumes that the Trust will continue to meet all financial covenants of the term loan facility, with a carrying amount of US$317,642,000 as at 31 December 2014.

As at 31 December 2014, the Group's current liabilities exceeded current assets by US$13,180,000.

Based on estimated cash flows from the portfolio of vessels, management believes that the repayment of its term loan will occur as required and that the shortfall in net current liabilities will be met from cash flows from operating activities. In addition, having regard to the continuous repayment of the loan and the valuation of vessels as of 31 December 2014, management believes that the Trust will continue to comply with the financial covenants of the term loan facility.

As described above, management is of the view that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, it may not be able to realise its assets and discharge its liabilities in the normal course of business.

2.3 Functional and presentation 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.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Trustee-Manager to make judgements, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

NOTES TO THE FINANCIAL STATEMENTS

2 BASIS OF PREPARATION (CONT'D)

2.4 Use of estimates and judgements (cont'd)

- Note 3.6 – classification of leases; and
- Note 4 – impairment assessment and recoverable amounts of vessels; and depreciation, useful lives and residual values of vessels;

2.5 Change in accounting policy

A number of new standards, amendments to standards and interpretations were effective for annual periods beginning after 1 January 2014, which have been adopted and applied in preparing these financial statements. Those new standards, amendments to standards and interpretations that required significant re-assessment of current assumptions and relevant to the financial statements of the Group, are set out below:

- IAS 36 *Impairment of assets* – As a result of amendments to IAS 36, entities need to expand its disclosures of recoverable amounts when they are based on fair value less costs of disposal and recognised an impairment loss. The adoption of the amendments to IAS 36 in the current year did not result in significant impact to the Group financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2.5, which addresses changes in accounting policies.

With effect from 1 January 2014, the Group has adopted all the applicable new and revised IFRS that are mandatory for application from that date.

The adoption of these new and revised IFRS had no significant impact to these financial statements.

3.1 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 ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

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

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Consolidation (cont'd)

Accounting for subsidiaries by the Trust

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

3.2 Foreign currencies

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. The functional currencies of the Group entities are the US dollar and the Euro. 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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Vessels

Vessels are stated at cost less accumulated depreciation and impairment losses.

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 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.

Except as described below, depreciation on vessels leased on a bareboat charter basis under operating lease agreements is recognised in the income statement on a straight-line basis down to the estimated residual value at the end of the base lease term, which ranges from ten to twelve years. The estimated residual value is based on regression analysis of the median historical values for standard vessels obtained from third party sources, and for non-standard vessels obtained from specialised brokers.

Vessels deployed on spot arrangement, time charter, pool arrangement, bareboat charter with rentals based on market rates, 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 deadweight tonne in recent years.

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

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

3.4 Inventories

Inventories comprise bunkers and consumable stores. 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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 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 the following categories: loans and receivables and available-for-sale financial assets.

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 impairment losses.

Loans and receivables comprise trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and bank deposits.

Available-for-sale financial assets

Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to income statement.

Available-for-sale financial assets comprise equity securities.

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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Financial instruments (cont'd)

Derivative financial instruments and hedging activities

The Group holds 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.

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 loss 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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Financial instruments (cont'd)

Impairment of financial assets: loans and receivables (cont'd)

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 impairment losses are recognised in the income statement.

An impairment loss 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 loss was recognised. The reversal is recognised in the income statement.

Impairment of financial assets: available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to income statement. The cumulative loss that is reclassified from equity to income statement is the difference between the acquisition cost and the current fair value, less any impairment loss recognised previously in income statement. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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.

3.6 Leases

When entities within the Group are lessors of an operating lease

Bareboat/time charter

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 judged that substantially all the risks and rewards of the vessels remain with the Group.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.6 Leases (cont'd)

When entities within the Group are lessors of an operating lease (cont'd)

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.

3.7 Impairment – 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 loss 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. Impairment losses are recognised in the income statement. Impairment losses 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 to sell. 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 loss 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 loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss 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 loss had been recognised.

3.8 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 Revenue recognition

Lease income receivable under operating leases is recognised in the income statement over the period of the respective lease terms.

Deferred income, arising from the shares in TORM A/S ("TORM") 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 percentage of completion method calculated on a discharge-to-discharge basis over the voyage period.

For vessels deployed on pool arrangement, the pool measures revenue based on the contractual rates and the duration of each voyage for each vessel, and revenue is recognised upon delivery of service in accordance with the terms and conditions of the charter parties on a time charter equivalent basis. 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 determined based on the size and performance of the vessel. The pool revenue is net of pool commission, bunkers costs and related voyage expenses.

3.10 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.

3.11 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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Income tax expense (cont'd)

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.

The lease income derived by the Group's entities from the respective bareboat charter and time charter agreements qualifies for tax exemption under the Maritime Sector Incentive ("MSI") scheme (previously known as the Maritime Finance Incentive scheme), with effect from 19 March 2007. This tax exemption on the qualifying income will be granted for the remaining useful life of any vessel that is acquired by the Trust during the initial period of 10 years from the effective date. 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 is also exempted from tax under Section 13A of the Singapore Income Tax Act, 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.

3.12 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements.

The adoption of the new standards, amendments to standards and interpretations are not expected to have any material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

4 VESSELS

Group	Vessels US$'000	Initial direct costs US$'000	Total US$'000
Cost			
At 1 January 2013	1,071,909	7,307	1,079,216
Addition	498	–	498
Translation differences on consolidation	3,508	–	3,508
At 31 December 2013	1,075,915	7,307	1,083,222
Addition	1,361	–	1,361
Disposal	(69,901)	–	(69,901)
Translation differences on consolidation	(10,500)	–	(10,500)
At 31 December 2014	996,875	7,307	1,004,182
Accumulated depreciation/amortisation and impairment losses			
At 1 January 2013	348,576	3,123	351,699
Depreciation/amortisation charge for the year	54,483	568	55,051
Impairment loss	43,272	136	43,408
Translation differences on consolidation	2,096	–	2,096
At 31 December 2013	448,427	3,827	452,254
Depreciation/amortisation charge for the year	48,665	504	49,169
Disposal	(46,262)	–	(46,262)
Translation differences on consolidation	(6,998)	–	(6,998)
At 31 December 2014	443,832	4,331	448,163
Carrying amount			
At 1 January 2013	723,333	4,184	727,517
At 31 December 2013	627,488	3,480	630,968
At 31 December 2014	553,043	2,976	556,019

All of the Group's vessels, with a net carrying value of US$553,043,000 (2013: US$627,488,000), are mortgaged to financial institutions (see note 13).

Depreciation, useful lives and residual values of vessels

Vessels leased on a bareboat charter basis under operating lease arrangements

Except for bareboat charters with rentals based on market rates, these 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 base lease term, excluding any early buy-out options or extended lease periods. At the reporting date, the Group considered the base lease term to be the period which the vessels are expected to be available for use by the lessees. Therefore, should there be any notification received from the lessees to exercise the early buy-out option or to extend the lease period beyond the base lease term, the depreciation expense of the Group's vessels in the future periods may therefore be revised.

NOTES TO THE FINANCIAL STATEMENTS

4 VESSELS (CONT'D)

Depreciation, useful lives and residual values of vessels (cont'd)

Vessels leased on a bareboat charter basis under operating lease arrangements (cont'd)

The residual value is reviewed at each reporting date, with any change in estimate accounted for as a change in estimate prospectively. Except for two vessels nearing the end of their economic useful life and another two vessels on renewed bareboat charter period of not more than three years, the residual value of such vessel is estimated based on regression analysis of the median historical values for standard vessels obtained from third party sources, and for non-standard vessels obtained from specialised brokers. Considering the age of the two vessels nearing the end of their economic useful life and the other two with renewed short term charter by the time of end of the bareboat contract, management expects to realise the value of the asset through scrapping, accordingly, the residual values are estimated based on the average scrap steel price per light deadweight tonne in recent years. Factors such as asset price, quality and fungibility are also taken into consideration to determine the acceptable level of residual value. Any significant changes in the residual value of the Group's vessels in future periods can affect the depreciation expense.

Changes in estimates

During the year, the Trust conducted a review of its residual value of its vessels on bareboat charter. As a result of the review, the estimated residual values of vessels had changed. The aggregate effect of these changes on depreciation expense in current and future years are as follows:

	2014 US$'000	2015 to 2016 US$'000	2017 onwards[1] US$'000
Aggregate increase in depreciation expense	3,472	5,983	13,290

Vessels deployed on time charter, pool arrangement and bareboat charters with rentals based on market rates

These 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 is reviewed at each reporting date, with any change in estimate accounted for as a change in estimate prospectively. The residual value of such vessel is estimated based on the average scrap steel price per light deadweight tonne in recent years.

Changes in estimates

FSL Busan and FSL Santos (previously known as Cape Ferro and Cape Falcon, respectively) were redelivered to FSL Trust upon the expiry of bareboat lease; both vessels are currently deployed in a 1200-1400/1700 TEU earnings pool which is managed by HANSE Bereederung GmbH ('Hanse Pool'). With the expiry of the bareboat charter operating lease arrangements, the expected useful life of each of the two vessels was revised from 10 years to 25 years and the basis of estimating the respective residual values was also changed.

The changes in the expected useful life and residual value of the vessels constitute changes in estimates. The effects of the change were applied prospectively from July 2014.

1 Aggregate effect on depreciation expense from Year 2017 until the end of the useful life.

NOTES TO THE FINANCIAL STATEMENTS

4 VESSELS (CONT'D)

Depreciation, useful lives and residual values of vessels (cont'd)

Changes in estimates *(cont'd)*

The aggregate effects of these changes to useful lives and residual values on depreciation expense in the current year and future years are as follows:

	2014 US$'000	2015 to 2016 US$'000	2017 onwards[1] US$'000
Aggregate increase in depreciation expense	313	1,452	8,375

Impairment assessment of vessels

Impairment loss 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 fair value less costs to sell and value-in-use calculation.

The fair value is determined based on valuation report from independent shipbrokers. The valuation of vessels was prepared assuming a sale between a willing seller and a willing buyer on a charter-free basis.

The recoverable amount of the Group's vessels is determined based on value-in-use calculation.

Vessels leased on a bareboat charter basis under operating lease arrangements

Except for bareboat charters with rentals based on market rates, the value-in-use calculation uses cash flow projections based on the contractual cash flows over the period of the base lease term and projected residual value, discounted at rates which reflect the specific risks relating to each vessel.

In 2013, arising from a reassessment of the residual value, the impairment assessment exercise at the year-end resulted in a recognition of impairment loss amounting to US$6,215,000 on two container vessels under bareboat charter.

Vessels deployed on time charter, pool arrangement and bareboat charters with rentals based on market rates

The value-in-use calculation uses projected cash flows over the remaining useful life of each vessel. The pre-tax discount rate of 7.76% (2013: 7.76%) takes into account the time value of money and the risks specific to the vessels' estimated cash flows. The projected cash inflows are based on inflation-adjusted daily rates from observable historical trends and forecasted rates by independent third parties, under a one-year time charter arrangement for vessels of similar specifications. In the value-in-use calculation for both 2014 and 2013, the Group has also adjusted the projected cash flow with management's assessment of the achievable cash flows based on recent performance of vessels, as well as the age of the vessels. The projected cash outflows also take into account vessels' projected operating expenses. The residual value of each vessel is determined based on the average scrap steel price per light deadweight tonne in recent years.

1 Aggregate effect on depreciation expense from Year 2017 until the end of the useful life.

NOTES TO THE FINANCIAL STATEMENTS

4 VESSELS (CONT'D)

Impairment assessment of vessels (cont'd)

Vessels deployed on time charter, pool arrangement and bareboat charters with rentals based on market rates *(cont'd)*

During 2013, the bareboat charterer (Omni Ships Pte Ltd) of two dry-bulk vessels, Stella Fomalhaut and FSL Durban defaulted and the vessels were deployed by the Group on short term time charter arrangement at rentals lower than previous bareboat arrangement. As at 31 December 2013, the Group was at the initial stage of negotiations for disposal of these two vessels to an external party. In 2014, the disposal was completed for a cash consideration of US$23,550,000 before commission and transaction costs. Accordingly, value-in-use of these two vessels was re-estimated based on net disposal proceeds resulting in recognition of impairment losses.

The Group also recorded impairment losses on its oil tankers in view of the default by a lessee (Geden Lines) of two bareboat charter arrangements and an adjustment to the management's assessment of future cash flows due to the recent performance of the vessels and the reduced earnings potential of tankers as they get older.

For vessels not on fixed bareboat rental arrangement, a total impairment loss of US$37,193,000 was recorded in the consolidated income statement for year 2013.

No further impairment loss was noted for 2014.

5 SUBSIDIARIES

	Trust	
	2014	**2013**
	US$'000	**US$'000**
Equity investments, at cost	121,981	121,981
Amounts due from subsidiaries (non-trade)	306,046	362,071
Impairment loss recognised	(4,302)	(4,302)
	423,725	479,750

NOTES TO THE FINANCIAL STATEMENTS

5 SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Effective equity held by the Group	
		2014 %	2013 %
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	100
FSL-8, Inc.	Marshall Islands	100	100
FSL-9 Pte. Ltd.	Singapore	100	100
FSL-10 Pte. Ltd.	Singapore	100	100
FSL-11 Pte. Ltd.	Singapore	100	100
FSL-12 Pte. Ltd.	Singapore	100	100
FSL-13 Pte. Ltd.	Singapore	100	100
FSL-14, Inc.	Marshall Islands	100	100
FSL-15, Inc.	Marshall Islands	100	100
FSL-16, Inc.	Marshall Islands	100	100
FSL-18 Pte. Ltd.	Singapore	100	100
FSL-19 Pte. Ltd.	Singapore	100	100
FSL-20, Inc.	Marshall Islands	100	100
FSL-21, Inc.	Marshall Islands	100	100
FSL-22, Inc.	Marshall Islands	100	100
FSL-23 Pte. Ltd.	Singapore	100	100
FSL-24 Pte. Ltd.	Singapore	100	100
FSL-25 Pte. Ltd.	Singapore	100	100
FSL-26 Pte. Ltd.	Singapore	100	100
FSL Netherlands B.V.	Netherlands	100	100

KPMG LLP, Singapore are the auditors 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 incorporation.

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 impairment losses.

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

NOTES TO THE FINANCIAL STATEMENTS

6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2014	**2013**
	US$'000	**US$'000**
Non-current		
Available-for-sale financial assets: Equity securities	919	4,550

Available-for-sale financial assets relate to the shares in TORM of 2.5% received by the Group as part of an agreement to permanently amend the terms on its two charter contracts.

Subsequent to the year-end, the shares were disposed for a net cash consideration of US$2.63 million and the Group will record a gain of US$1.71 million in the 1Q FY2015 financial results.

7 DERIVATIVE ASSETS

	Group and Trust	
	2014	**2013**
	US$'000	**US$'000**
Non-current	339	233
Current	122	–
	461	233

The derivative assets relate to the cumulative fair value change of hedging instruments designated as cash flow hedges.

The following are the estimated contractual undiscounted cash inflows of derivatives:

	Carrying amount	**Cash flows**		
		Contractual cash flows	**Within 1 year**	**Within 1 to 5 years**
Group and Trust	**US$'000**	**US$'000**	**US$'000**	**US$'000**
2014				
Derivative financial assets				
Cross currency swap contracts used for hedging				
– inflows	461	461	122	339
2013				
Derivative financial assets				
Cross currency swap contracts used for hedging				
– inflows	233	233	–	233

NOTES TO THE FINANCIAL STATEMENTS

8 INVENTORIES

	Group		Trust	
	2014	2013	2014	2013
	US$'000	US$'000	US$'000	US$'000
Consumable stores – at cost	–	1,185	–	–

9 TRADE AND OTHER RECEIVABLES

	Group		Trust	
	2014	2013	2014	2013
	US$'000	US$'000	US$'000	US$'000
Other receivables	4,588	4,397	15	32
Amounts due from subsidiaries (non-trade)	–	–	32,127	63,931
Trade receivables	26	–	–	–
Loans and receivables	4,614	4,397	32,142	63,963
Prepayments	153	927	99	176
	4,767	5,324	32,241	64,139

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balances.

The ageing of trade receivables at the reporting date was:

	Group	
	2014	2013
	US$'000	US$'000
Past due 1 – 30 days	26	–

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

NOTES TO THE FINANCIAL STATEMENTS

10 CASH AND CASH EQUIVALENTS

	Group		Trust	
	2014	2013	2014	2013
	US$'000	US$'000	US$'000	US$'000
Restricted cash	10,000	10,000	10,000	10,000
Fixed deposits with financial institutions	2,872	2,868	93	93
Cash at bank	19,878	7,499	11,512	1,998
Cash and cash equivalents in the Statement of Financial Position	32,750	20,367	21,605	12,091
Less: Restricted cash	(10,000)	(10,000)	(10,000)	(10,000)
Cash and cash equivalents in the Consolidated Statement of Cash Flows	22,750	10,367	11,605	2,091

In connection with the prior temporary relaxation of two loan covenants under the term loan facility, a deposit of US$10,000,000 (2013: US$10,000,000) was placed with the security agent of the term loan facility (see note 13). This will be released when the Lenders accept and acknowledge that the Trust is compliant with the terms of the original loan agreement.

The weighted average effective interest rate relating to fixed deposits at the reporting date for the Group and Trust is 0.17% (2013: 0.23%) per annum. Interest rates reprice at intervals within 3 months.

All the cash and cash equivalents are primarily denominated in the functional currencies of the Group entities.

11 UNITS IN ISSUE

	Group and Trust	
	2014	2013
	Number of units	Number of units
	'000	'000
Fully paid units:		
At 1 January and 31 December	654,665	654,665

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 Trust. The Trustee-Manager monitors the distribution per unit, which is the annualised distribution to unitholders divided by total number of units.

The cash flows from the operating activities of the Trust are sufficient to fund the anticipated debt service, quarterly distributions to unitholders, payments to 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.

NOTES TO THE FINANCIAL STATEMENTS

11 UNITS IN ISSUE (CONT'D)

Capital management (cont'd)

There were no changes in the Trust's approach to capital management during the year.

The Trust is not subject to externally or regulatory imposed capital requirements.

12 RESERVES

	Group		Trust	
	2014	**2013**	**2014**	**2013**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Hedging reserve	(1,011)	(3,888)	(1,011)	(3,888)
Foreign currency translation reserve	(5,533)	(1,425)	–	–
Fair value reserve	–	1,723	–	–
Accumulated losses	(252,135)	(256,186)	(366,146)	(347,944)
	(258,679)	(259,776)	(367,157)	(351,832)

The hedging reserve comprises 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.

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

The accumulated losses were arrived after deduction of distributions to unitholders. Under the Singapore Business Trusts Act, the distribution to unitholders is allowed even when the cumulative distributions were in excess of the cumulative accounting profits recorded.

NOTES TO THE FINANCIAL STATEMENTS

13 BANK LOANS AND DERIVATIVE LIABILITIES

	Group and Trust	
	2014	2013
	US$'000	US$'000
Secured bank loans		
Non-current	273,642	–
Current	44,000	377,492
	317,642	377,492
Derivative liabilities		
Non-current	155	727
Current	1,316	3,394
	1,471	4,121

The Trustee-Manager, on behalf of the Trust, secured a 6-year amortising term loan facility in 2011. As at 31 December 2014, the outstanding face value of the loan balance was US$320,531,000 (2013: US$381,558,000).

Under the term loan facility, the Trust will make quarterly loan repayments of US$11,000,000 (2013: US$11,000,000) and a lump sum repayment on maturity date.

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) a pledge over the Group's shares in TORM or upon disposal, the cash proceeds from the sale of these shares.

In February 2014, the lenders granted a loan covenant relaxation extension until 31 December 2014 ("Relaxation extension"), with the following additional conditions:

(i) a cash sweep mechanism whereby if cash balances are over US$20 million for two consecutive quarters (e.g. Quarter 1 and Quarter 2), the lesser of i) Quarter 1 cash balance less US$20 million, or ii) Quarter 2 cash balance less US$20 million, will be immediately applied against settlement of the loan outstanding. The cash sweep only applies until the end of the relaxation period or when VTL reaches up to 125%, whichever is earlier;

(ii) an upfront fee of 5bps on the loan outstanding; and

(iii) Pledge of the shares of all the vessel-owning subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

13 BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

The original and relaxed covenants are as follows:

Covenants	Original	After Relaxation 1Q 2014	2Q 2014	3Q 2014	4Q 2014
VTL ratio	125%	105%	105%	110%	110%
Debt Service Coverage ratio	at least 1.10:1	at least 0.90:1	at least 0.95:1	at least 1.00:1	at least 1.10:1

Liquid Assets during the Relaxation Period shall be not less than the figures applicable for the specified periods in the schedules as follows:

Period	1Q 2014 US$ '000	2Q 2014 US$ '000	3Q 2014 US$ '000	4Q 2014 US$ '000
Liquid Assets	11,500	17,500	20,000	20,000

Other conditions imposed during the period of Relaxation extension include the retention of a US$10 million security deposit with the security agent, and a levy of 2% per annum imposed on the shortfall amount. The shortfall amount is the difference between the outstanding loan balance and the theoretical loan balance assuming VTL ratio is 125%.

In Q1 and Q2 of 2014, a total of US$22 million of the proceeds from the sale of the two dry bulk vessels was applied to Prepayment and Repayment of secured bank loans in the amounts of US$17 million and US$5 million respectively.

As at 31 December 2014, the Trust is in compliance with the terms of the original loan agreement. Accordingly, the long term portion of the loan balance was classified under non-current liabilities.

Terms and debt repayment schedule

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

31 December 2014 VTL ratio	31 December 2014 Margin over US$3-month LIBOR	31 December 2013 VTL ratio	31 December 2013 Margin over US$ 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%

As at 31 December 2014, the applicable margin over US$3-month LIBOR was 3.0% (2013: 3.0%). The VTL ratio will be assessed semi-annually.

NOTES TO THE FINANCIAL STATEMENTS

13 BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

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
2014				
US$ floating rate loans	US$3-month LIBOR + applicable margin	2017	320,531*	317,642

* Before the deduction of unamortised debt transaction costs of US$2,889,000.

Group and Trust	Nominal interest rate	Year of maturity	Face value US$'000	Carrying amount US$'000
2013				
US$ floating rate loans	US$3-month LIBOR + applicable margin	2017	381,558*	377,492

* Before the deduction of unamortised debt transaction costs of US$4,065,000.

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

	Carrying amount	Cash flows			
Group and Trust	**US$'000**	**Contractual cash flows US$'000**	**Within 1 year US$'000**	**Within 1 to 5 years US$'000**	**After 5 years US$'000**
2014					
Non-derivative financial liabilities					
US$ floating rate loans^	317,642	(353,636)	(54,674)	(298,962)	–
2013					
Non-derivative financial liabilities					
US$ floating rate loans^	377,492	(444,418)	(57,186)	(387,232)	–

^ Inclusive of accrued interest as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

13 BANK LOANS AND DERIVATIVE LIABILITIES (CONT'D)

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

	Carrying amount		Cash flows	
		Contractual cash flows	Within 1 year	Within 1 to 5 years
Group and Trust	**US$'000**	**US$'000**	**US$'000**	**US$'000**
2014				
Derivative financial liabilities				
Interest rate swaps used for hedging				
– outflows/(inflow)	1,471	1,200	1,333	(133)
2013				
Derivative financial liabilities				
Interest rate swaps used for hedging				
– outflows	4,121	4,398	3,199	1,199

14 DEFERRED INCOME

	Group	
	2014	**2013**
	US$'000	**US$'000**
Non-current		
Deferred income	3,567	5,011
Current		
Deferred income	1,444	1,444

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.

NOTES TO THE FINANCIAL STATEMENTS

15 TRADE AND OTHER PAYABLES

	Group		Trust	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Trade payables	583	1,722	158	282
Accrued financing expenses	331	500	331	500
Accrued operating expenses	57	4,113	167	238
Lease income received in advance	2,763	2,588	–	–
Other payables	325	–	8	–
	4,059	8,923	664	1,020

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

	Carrying amount	Cash flows	
		Contractual cash flows	Within 1 year
Group	US$'000	US$'000	US$'000
2014			
Non-derivative financial liabilities			
Trade and other payables	965	(965)	(965)
2013			
Non-derivative financial liabilities			
Trade and other payables	5,835	(5,835)	(5,835)
Trust			
2014			
Non-derivative financial liabilities			
Trade and other payables	333	(333)	(333)
2013			
Non-derivative financial liabilities			
Trade and other payables	520	(520)	(520)

NOTES TO THE FINANCIAL STATEMENTS

16 REVENUE

	Group	
	2014	2013
	US$'000	US$'000
Bareboat charter lease income	55,245	60,681
Freight income	–	4,765
Time charter income	15,336	11,992
Pool income	22,833	12,555
	93,414	89,993

Bareboat charter lease income relates to lease income derived from operating leases. Included in bareboat charter lease income, US$1,444,000 (2013: US$1,444,000) relates to recognition of the deferred income in the income statement for the year (see note 14).

Time charter income relates to income derived from two vessels, *FSL Singapore* and *FSL Hamburg*, deployed on time charter with Petrobras and the deployment of *FSL Shanghai* to Tesoro Corporation on a short term time charter arrangement in July 2014.

Pool income relates to income substantially derived from three chemical tankers, *FSL New York*, *FSL London* and *FSL Tokyo*, deployed on pool arrangement. On 10 December 2013, *FSL Hong Kong* was redeployed on a Revenue Sharing Agreement ("RSA"), which is similar to pool arrangement, to secure more stable earnings for the Trust. FSL Busan (ex Cape Ferro) and FSL Santo (ex Cape Falcon) were redelivered to FSL Trust in July 2014 and employed in a 1200-1400/1700 TEU earnings pool which is managed by HANSE Bereederung GmbH ('Hanse Pool').

17 FINANCE INCOME AND EXPENSES

	Group	
	2014	2013
	US$'000	US$'000
Recognised in the income statement		
Interest income from cash and cash equivalents	23	63
Finance income	23	63
Interest expense:		
– bank loans	15,620	23,467
– amortisation of debt transaction costs	1,367	1,477
– commitment and bank agency fees	54	59
Net foreign exchange gain	(666)	(375)
Finance expenses	16,375	24,628
Net finance expenses recognised in income statement	16,352	(24,565)

NOTES TO THE FINANCIAL STATEMENTS

18 PROFIT/(LOSS) BEFORE TAX

The following items have been included in arriving at profit/(loss) before tax:

	Group	
	2014 US$'000	2013 US$'000
Other income*	5,000	–
Audit fees paid/payable to auditors of the Trust	114	114
Non-audit fees paid/payable to:		
– auditors of the Trust#	106	150
– other auditors	12	17
Amortisation of initial direct costs	503	568

* Other income relates to a partial settlement of a claim
\# Inclusive of review fees on quarterly results.

19 INCOME TAX EXPENSE

	Group	
	2014 US$'000	2013 US$'000
Current tax expense		
Current year	16	20
	16	20
Reconciliation of effective tax rate		
Profit/(loss) before income tax	4,067	(65,193)
Tax calculated using Singapore tax rate of 17%	691	(11,083)
Effect of tax rate in foreign jurisdiction	10	13
Exempt shipping activities	(685)	11,090
	16	20

NOTES TO THE FINANCIAL STATEMENTS

20 INCOME AVAILABLE FOR DISTRIBUTION

	Group 2014 US$'000	Group 2013 US$'000
Income available for distribution to unitholders at the beginning of the year	–	–
Profit/(loss) for the year	4,051	(65,213)
Net adjustments (Note A)	(4,051)	65,213
Net distributable amount	–	–
Income available for distribution to unitholders at the end of the year	–	–

In connection with a loan covenant relaxation from its lenders, FSL Trust is restricted from paying any distributions to unitholders until the Lenders confirm that the Trust is compliant with the terms of the original loan agreement.

Note A

	Group 2014 US$'000	Group 2013 US$'000
Net adjustments comprise:		
Non-cash adjustments:		
– Depreciation expense on vessels	47,853	54,180
– Amortisation of initial direct costs	86	568
– Amortisation of deferred income	(1,444)	(1,444)
– Unrealised foreign exchange gain	(606)	(417)
– Loss on disposal of vessels	1,378	–
– Impairment loss on vessels	–	43,408
Impairment loss on available-for-sale financial asset	1,907	5,298
	49,174	101,593
Repayment of secured bank loans	(39,000)	(54,000)
Utilisation of cash retained from previous periods	–	17,620
Amount retained in current period	(14,225)	–
Net adjustments	(4,051)	65,213

Repayment of secured bank loans in 2014 amount to US$44 million (excluding prepayments). As US$5 million of repayments was generated from the sale of two dry bulk vessels, this amount has not been included.

NOTES TO THE FINANCIAL STATEMENTS

21 EARNINGS PER UNIT

	Group	
	2014	**2013**
	US$'000	**US$'000**
Basic and diluted earnings per unit is based on:		
Profit/(Loss) for the year	4,051	(65,213)
	Number of units	
	'000	**'000**
Issued units at beginning of the year	654,665	654,665
Effect of units issued	–	–
Weighted average number of units at the end of the year	654,665	654,665

22 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 uses 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.

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 2014 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.

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

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 2014, the Group's current liabilities exceeded its current assets by US$13,180,000 (2013: US$364,377,000). However, in view of estimated cash flows from operations over the next 12 months, the Trustee-Manager expects the Group to pay its liabilities as and when they fall due.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, 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.

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 2014, the Group has interest rate swaps with a total notional contract amount of US$153,398,000 (2013: US$ US187,459,000), whereby it pays fixed interest rates ranging from 1.06% per annum to 1.65% per annum and receives a variable rate equal to US$ 3-month LIBOR. The Trust classifies these interest rate swaps as hedging instruments under the cash flow hedge model.

The fair value of these interest rate swaps as at 31 December 2014 is US$1,471,000 (2013: US$4,121,000). This amount is recognised as derivative liabilities.

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, a change of 50 bp in interest rate at the reporting date would increase (decrease) other comprehensive income and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

Interest rate risk (cont'd)

Sensitivity analysis (cont'd)

Group and Trust	Other comprehensive income 50 bp increase US$'000	Other comprehensive income 50 bp decrease US$'000	Profit or loss 50 bp increase US$'000	Profit or loss 50 bp decrease US$'000
31 December 2014				
Variable rate bank loans	–	–	(1,772)	1,772
Interest rate swaps	1,432	(1,275)	676	(676)
	1,432	(1,275)	(1,096)	1,096
Floating rate lease income	–	–	134	(134)
	1,432	(1,275)	(962)	962
31 December 2013				
Variable rate bank loans	–	–	(2,095)	2,095
Interest rate swaps	1,664	(1,446)	1,069	(1,069)
	1,664	(1,446)	(1,026)	1,026
Floating rate lease income	–	–	597	(597)
	1,664	(1,446)	(429)	429

The Group has entered into two floating rate lease arrangements ("host contracts") which are pegged to the US$3-month LIBOR ("embedded derivatives"). These arrangements provide an economic hedge against the interest rate risk exposure arising from the respective loans relating to these leases.

The Trustee-Manager considers the economic characteristics and risks of these embedded derivatives to be closely related to the economic characteristics and risks of the host contracts. Accordingly, in respect of these embedded derivatives, no separate accounting from the host contracts is required as the embedded derivatives are essentially contingent rentals based on variable interest rates.

Foreign currency risk

The Group is exposed to foreign currency risk on certain lease income denominated in a currency other than the functional currency of the Trust. The currency giving rise to this risk is the Euro.

As at 31 December 2014, the Group hedged 50% of its forecasted lease income denominated in the Euro. The Group uses cross currency swap contracts with a total notional contract amount of US$2,340,000 (2013: US$7,108,000), to hedge the foreign currency risk associated with its forecasted Euro revenue. The fair value for these cross currency swap contracts as at 31 December 2014 is US$178,000 (2013: US$233,000). This amount is recognised as derivative assets.

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.

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

Foreign currency risk (cont'd)

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

	31 December 2014		31 December 2013	
	Euro US$'000	Singapore dollar US$'000	Euro US$'000	Singapore dollar US$'000
Group				
Cross currency swap contracts* (notional amounts)	2,340	–	7,108	–
Other receivables	2	11	36	29
Cash and cash equivalents	174	43	665	24
Trade and other payables	(30)	(253)	(200)	–
Trust				
Cross currency swap contracts* (notional amounts)	2,340	–	7,108	–
Other receivables	–	11	–	28
Cash and cash equivalents	132	28	110	24
Trade payables	–	(157)	–	(128)

* Designated as hedging instruments under cash flow hedge model.

Sensitivity analysis

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

	Group		Trust	
	Other comprehensive income US$'000	Profit or loss US$'000	Other comprehensive income US$'000	Profit or loss US$'000
31 December 2014				
Euro	(122)	(16)	(122)	(15)
Singapore dollar	–	22	–	13

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

Foreign currency risk (cont'd)

Sensitivity analysis (cont'd)

	Group		Trust	
	Other comprehensive income US$'000	Profit or loss US$'000	Other comprehensive income US$'000	Profit or loss US$'000
31 December 2013				
Euro	957	(55)	957	(12)
Singapore dollar	–	(4)	–	8

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

	Group		Trust	
	Other comprehensive income US$'000	Profit or loss US$'000	Other comprehensive income US$'000	Profit or loss US$'000
31 December 2014				
Euro	(590)	16	(590)	15
Singapore dollar	–	(22)	–	(13)
31 December 2013				
Euro	(504)	55	(504)	12
Singapore dollar	–	4	–	(8)

Equity price risk

The Group is exposed to equity price risk on its available-for-sale equity securities.

Sensitivity analysis

A 5% increase (decrease) in the share price of TORM shares at the reporting date would increase (decrease) the Group's net income by US$46,000 (FY 2013: increase (decrease) other comprehensive income by US$227,000). This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

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.

Available-for-sale equity securities

The fair value of available-for-sale equity securities is calculated by reference to quoted share price listed on a stock exchange.

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

The interest rates used to discount estimated cash flows, where applicable, are based on US$ yield curve and Euro yield curve at the reporting date for interest rate swaps and cross currency swap contracts respectively, and were as follows:

	2014	**2013**
	%	**%**
Derivatives	0.23 to 1.08	0.11 to 1.08

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (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$'000	Available -for-sale US$'000	Financial liabilities at amortised cost US$'000	Loan and receivables US$'000	Financial liabilities at amortised cost US$'000
2014					
Trade and other receivables	4,614	–	–	32,142	–
Cash and cash equivalents	32,750	–	–	21,605	–
Available-for-sale financial assets: Equity securities	–	919	–	–	–
Trade and other payables	–	–	4,059	–	664
Secured bank loans	–	–	317,642	–	317,642
	37,364	919	321,701	53,747	318,306

	Group			Trust	
	Loan and receivables US$'000	Available-for-sale US$'000	Financial liabilities at amortised cost US$'000	Loan and receivables US$'000	Financial liabilities at amortised cost US$'000
2013					
Trade and other receivables	4,397	–	–	63,963	–
Cash and cash equivalents	20,367	–	–	12,091	–
Available-for-sale financial assets: Equity securities	–	4,550	–	–	–
Trade and other payables	–	–	8,923	–	1,019
Secured bank loans	–	–	377,492	–	377,492
	24,764	4,550	386,415	76,054	378,511

Derivative financial assets and liabilities disclosed on the balance sheet are categorised as cash flow hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

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	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
31 December 2014				
Assets				
Available-for-sale financial assets:				
Equity securities	919	–	–	919
Derivative assets	–	461	–	461
	919	461	–	1,380
Liabilities				
Derivative liabilities	–	1,471	–	1,471
Trust				
31 December 2014				
Assets				
Derivative assets	–	461	–	461
Liabilities				
Derivative liabilities	–	1,471	–	1,471
Group				
31 December 2013				
Assets				
Available-for-sale financial assets:				
Equity securities	4,550	–	–	4,550
Derivative assets	–	233	–	233
	4,550	233	–	4,783
Liabilities				
Derivative liabilities	–	4,121	–	4,121
Trust				
31 December 2013				
Assets				
Derivative assets	–	233	–	233
Liabilities				
Derivative liabilities	–	4,121	–	4,121

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONT'D)

Fair value hierarchy (cont'd)

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.

23 COMMITMENTS

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

	Group	
	2014	**2013**
	US$'000	**US$'000**
Within 1 year	50,361	56,832
After 1 year but within 5 years	93,809	113,755
After 5 years	10,783	30,838
	154,953	201,425

Operating lease-Bareboat charter

The rental rates of lease arrangements are fixed over the base lease term. The base lease terms under these non-cancellable leases range from ten to twelve years (2013: nine to twelve). In nine lease agreements (2013: nine lease agreements) held by the Group, the lessees have the options to extend the lease period beyond the base lease period up to ten years. The lessees have the option to purchase the related vessels in 12 lease agreements.

Operating lease-Time charter

There are two time charter (2013: two) and one time charter lease arrangements with rental rates fixed over the base lease term of three and one year respectively.

The figures disclosed above exclude two lease agreements with rentals based on market rates as it is impracticable to determine the committed rentals.

NOTES TO THE FINANCIAL STATEMENTS

24 RELATED PARTIES

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:

	Group	
	2014	**2013**
	US$'000	**US$'000**
Transactions with the Trustee-Manager:		
Management fees	3,033	2,794
Trustee fees	125	149
Transactions with other related parties:		
Directors' fees paid to non-executive directors	144	193
Lease rentals received from Schoeller Holdings Ltd*	3,571	6,235
Inspection fees paid to Columbia Shipmanagement Ltd*	35	78
Commission paid to Columbia Shipmanagement Ltd*	48	64
Commission paid to Hanse Bereederung GmbH*	17	–
Shipmanagement fee paid to Columbia Shipmanagement (Singapore) Pte. Ltd.*	903	707
Commission paid to United Product Tankers*	125	139

* Related parties of a unitholder who holds 24% of the Trust's issued units as at 31 December 2014.

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

25 SEGMENT INFORMATION

No operating segment information has been prepared as the Group has only one reportable segment. With respect to the presentation of 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 revenues and non-current assets to specific geographical areas.

Major customers

Each of the following customers accounted for more than 10% of the Group's total revenue in 2014 and 2013:

	Group	
	2014	**2013**
	US$'000	**US$'000**
Yang Ming Marine	20,055	20,055
James Fisher	11,901	11,927
Evergreen Marine	11,696	11,696
	43,652	43,678

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LEASE PORTFOLIO TERMS

AS AT 12 MARCH 2015

Vessel	Lessee	Lease Commencement	Lease Term + Extension, if any (yrs)	Daily Bareboat Charter Rate (Net)^
Chemical Tanker				
FSL New York	N.A. – Vessel is employed in the 'Nordic Tankers 19,000 Stainless Steel Pool'			
FSL London	N.A. – Vessel is employed in the 'Nordic Tankers 19,000 Stainless Steel Pool'			
FSL Tokyo	N.A. – Vessel is employed in the 'Nordic Tankers 19,000 Stainless Steel Pool'			
Containership				
FSL Busan	N.A. – Vessel is employed in the 'Hanse Containership Pool'			
FSL Santos	N.A. – Vessel is employed in the 'Hanse Containership Pool'			
Ever Radiant	Evergreen Marine	24 Jan 2006	10 + 3	USD16,021
Ever Respect	Evergreen Marine	24 Jan 2006	10 + 3	USD16,021
YM Eminence	Yang Ming Marine	20 May 2008	12	USD18,315
YM Elixir	Yang Ming Marine	16 Jun 2008	12	USD18,315
YM Enhancer	Yang Ming Marine	9 Oct 2008	12	USD18,315
Crude Oil Tanker				
FSL Hong Kong	N.A. – Vessel is employed on a revenue sharing agreement			
FSL Shanghai	Tesoro Corporation	14 July 2014	1	–[a]
Dry Bulk Carrier				
Stella Fomalhaut	N.A. – Sold on 18 March 2014			
FSL Durban	N.A. – Sold on 14 March 2014			

^ A commission of 0.5% on the bareboat charter rate is paid to an external broker for *Ever Radiant* and *Ever Respect* while a commission of 1% on the bareboat charter rate is paid for *YM Eminence*, *YM Elixir* and *YM Enhancer*. The daily bareboat charter rate and the lease extension charter rate shown in the above table are net of commission.

a *FSL Shanghai* is leased on 1-year time charter to Tesoro Corporation at a gross daily charter rate of USD15,600.

LEASE PORTFOLIO TERMS

AS AT 12 MARCH 2015

Lease Extension Charter Rate (Net)^	Early Buyout Option	Purchase Option
USD10,946	Nil	Yr 10: USD15.0m or Yr 13: USD7.5m
USD10,946	Nil	Yr 10: USD15.0m or Yr 13: USD7.5m
–	Nil	Yr 12: USD30.0m
–	Nil	Yr 12: USD30.0m
–	Nil	Yr 12: USD30.0m
–	–	–

LEASE PORTFOLIO TERMS

AS AT 12 MARCH 2015

Vessel	Lessee	Lease Commencement	Lease Term + Extension, if any (yrs)	Daily Bareboat Charter Rate (Net)^
Product Tanker				
Cumbrian Fisher	James Fisher	24 Dec 2014	3.00	USD3,450[a]
Clyde Fisher	James Fisher	5 Feb 2015	2.88	USD3,450[a]
Shannon Fisher	James Fisher	1 Feb 2006	10 + 5	EUR3,240
Solway Fisher	James Fisher	30 Jun 2006	10 + 5	EUR3,233
Speciality	James Fisher	1 Jun 2007	10 + 5 + 5	USD4,100/ USD4,500[b]
Seniority	James Fisher	1 Jun 2007	10 + 5 + 5	USD4,100/ USD4,500[b]
Superiority	James Fisher	1 Jun 2007	10 + 5 + 5	USD4,100/ USD4,500[b]
FSL Hamburg	Petrobras	23 Aug 2012	3	–[c]
FSL Singapore	Petrobras	16 May 2012	3	–[c]
TORM Margrethe	TORM	16 Jun 2011	7	–[d]
TORM Marie	TORM	24 Jun 2011	7	–[d]

^ A commission of 0.5% on the bareboat charter rate is paid to an external broker for *Ever Radiant* and *Ever Respect* while a commission of 1% on the bareboat charter rate is paid for *YM Eminence*, *YM Elixir* and *YM Enhancer*. The daily bareboat charter rate and the lease extension charter rate shown in the above table are net of commission.

a In the event that modifications are made to *Cumbrian Fisher* and/or *Clyde Fisher* in order to comply with the Ballast Water Management Convention during the lease period, the bareboat charter rate for the respective vessel(s) will then be adjusted in accordance with the lease agreements by taking into account the installation cost of Ballast Water Management system depreciated over the remaining period till vessel age is 20 years old.

b From years 1 to 5, the daily bareboat charter rate of USD4,100 was applied; from years 6 to 10, the daily bareboat charter rate is USD4,500.

c *FSL Hamburg* and *FSL Singapore* are leased on 3-year time charters to Petrobras at a gross daily charter rate of USD14,000.

d Upon completion of the TORM restructuring in November 2012, the bareboat charter agreements are permanently amended such that (i) the bareboat charter rates are variable rates that TORM achieves in the market and (ii) the early buyout, purchase and lease extension options are all cancelled.

LEASE PORTFOLIO TERMS

AS AT 12 MARCH 2015

Lease Extension Charter Rate (Net)^	Early Buyout Option	Purchase Option
–	Nil	Nil
–	Nil	Nil
Note 1	Yr 6.5: Higher of EUR7.54m and FMV	Yr 10: Higher of EUR4.23m and FMV
Note 1	Yr 6.5: Higher of EUR7.62m and FMV	Yr 10: Higher of EUR4.23m and FMV
Note 2	Nil	Yr 10: USD8.0m + 50% of any excess of FMV over USD8.0m Yr 15: USD4.5m + 50% of any excess of FMV over USD4.5m Yr 20: USD2.5m + 50% of any excess of FMV over USD2.5m
Note 2	Nil	Yr 10: USD8.0m + 50% of any excess of FMV over USD8.0m Yr 15: USD4.5m + 50% of any excess of FMV over USD4.5m Yr 20: USD2.5m + 50% of any excess of FMV over USD2.5m
Note 2	Nil	Yr 10: USD8.0m + 50% of any excess of FMV over USD8.0m Yr 15: USD4.5m + 50% of any excess of FMV over USD4.5m Yr 20: USD2.5m + 50% of any excess of FMV over USD2.5m
–	–	–
–	–	–
–[d]	–[d]	–[d]
–[d]	–[d]	–[d]

Note 1 To be adjusted based on then prevailing amortising EUR interest swap rate and the spot and forward USD/EUR currency exchange rates. For illustrative purpose, on the basis of an amortising Euro interest swap rate of 4.45% at the time of fixing for the extension period and assuming that the currency exchange rates remains constant, the resulting daily charter rate will be EUR 2,660. If the amortising Euro interest swap rate increases to 5.45% at the time of fixing for the extension period and the currency exchange rates remains constant, the resulting daily charter rate will increase to EUR 2,717, and in case the amortising Euro interest swap rate decreases to 3.45% at the time of fixing for the extension period and the currency exchange rates remains constant, the resulting daily charter rate will decrease to EUR 2,610. The amounts will be adjusted pro rata depending on the actual achieved swapped interest and currency exchange rates.

Note 2 There are two 5-year extension periods. If exercised, the daily bareboat charter rate will be USD3,600 for the 1st extension period (year 11 to 15) and USD2,400 for the 2nd extension period (year 16 to 20). The lessee also has an early charter extension option at the expiry of the 5th year to prematurely extend the base lease period (10 years) by a further 5 years. If this is exercised, the daily bareboat charter rate from year 6 to 10 will be revised to USD4,175 (from USD4,500) and the daily lease extension charter rate from year 11 to 15 will be USD4,250 (instead of USD3,600).

ADDITIONAL INFORMATION

INTERESTED PERSON TRANSACTIONS

The transactions entered into with interested persons for the financial period 1 January to 31 December 2014 which fall under the Listing Manual of the SGX-ST and the Business Trusts Act, Chapter 31A of Singapore are:

Name of Interested Person	**Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than S$100,000 (equivalent to approximately US$75,415^))**
Columbia Shipmanagement Ltd†/ Columbia Shipmanagement (Singapore) Pte. Ltd.† – services rendered	US$986,000
United Product Tankers GmbH & Co. KG† – services rendered	US$125,000

Notes:
^ Based on prevailing exchange rate as at 31 December 2014.

† Columbia Shipmanagement Ltd, Columbia Shipmanagement (Singapore) Pte. Ltd. and United Product Tankers GmbH & Co. KG are associates of Schoeller Holdings Ltd, who is deemed interested in the units held by FSL Holdings Pte. Ltd., the controlling unitholder of FSL Trust.

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

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

(b) the lease rentals, fees and charges receivable by FSL Trust under the lease agreements dated 5 July 2005 with Schoeller Holdings Ltd in respect of containerships *Cape Ferro* and *Cape Falcon*,

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

Except as disclosed above, there were no additional interested person transactions (excluding transactions less than S$100,000 (US$75,415) equivalent) entered into up to and including 31 December 2014.

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

STATISTICS OF UNITHOLDINGS

AS AT 12 MARCH 2015

No. of units issued : 654,665,077
Class of units : Ordinary units with 1 vote per unit

DISTRIBUTION OF UNITHOLDINGS

Size of Unitholdings	Number of Unitholders	%	Number of Units	%
1 to 99	2	0.03	2	0.00
100 to 1,000	397	6.60	372,767	0.06
1,001 to 10,000	2,568	42.71	13,260,090	2.02
10,001 to 1,000,000	2,996	49.83	245,353,049	37.48
1,000,001 and above	50	0.83	395,679,169	60.44
	6,013	**100.00**	**654,665,077**	**100.00**

TWENTY LARGEST UNITHOLDERS

No.	Name of Unitholders	Number of Units	%
1.	FSL HOLDINGS PTE. LTD.	154,430,600	23.59
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	32,247,100	4.93
3.	RAFFLES NOMINEES (PTE) LIMITED	29,895,600	4.57
4.	PHILLIP SECURITIES PTE LTD	23,803,900	3.64
5.	CIMB SECURITIES (SINGAPORE) PTE. LTD.	21,222,000	3.24
6.	MAYBANK KIM ENG SECURITIES PTE. LTD.	16,128,029	2.46
7.	DBS NOMINEES (PRIVATE) LIMITED	10,059,290	1.54
8.	YIM WING CHEONG	8,695,000	1.33
9.	HSBC (SINGAPORE) NOMINEES PTE LTD	8,373,500	1.28
10.	LAI CHONG MENG	8,000,000	1.22
11.	FSL TRUST MANAGEMENT PTE LTD	6,122,100	0.94
12.	BANK OF SINGAPORE NOMINEES PTE. LTD.	5,311,800	0.81
13.	UOB KAY HIAN PRIVATE LIMITED	4,679,400	0.71
14.	ANG KONG MENG	4,356,100	0.67
15.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	3,379,800	0.52
16.	ONG EUGENE	3,000,000	0.46
17.	WIRTZ JOCHEN	2,839,000	0.43
18.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	2,537,600	0.39
19.	OCBC SECURITIES PRIVATE LIMITED	2,482,800	0.38
20.	LEE GUAN HUAT	2,480,000	0.38
	TOTAL	**350,043,619**	**53.49**

STATISTICS OF UNITHOLDINGS

AS AT 12 MARCH 2015

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	23.59	6,122,100	0.94
Schoeller Investments Limited[2]	–	–	160,552,700	24.52
Mr Heinrich-Leopold Felix Schoeller[3]	–	–	163,412,700	24.96

Notes:

1. FSL Holdings Pte Ltd is deemed to be interested in 6,122,100 units held by FSL Trust Management Pte Ltd.
2. Schoeller Investments Limited is the beneficial holder of 41.25% of the issued share capital of FSL Holdings Pte Ltd. Accordingly Schoeller Investments Limited is deemed to be interested in all the units in which FSL Holdings Pte Ltd has an interest.
3. Mr Heinrich-Leopold Felix Schoeller is the ultimate shareholder of Schoeller Investments Limited and is therefore deemed to be interested in all the units in which FSL Holdings Pte Ltd has an interest. In addition, Mr Heinrich-Leopold Felix Schoeller also has an interest in 2,860,000 units held through a nominee.

FREE FLOAT

Based on information available as at 12 March 2015, approximately 75.04% 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 Eighth Annual General Meeting of First Ship Lease Trust will be held at SGX Auditorium, 2 Shenton Way, SGX Centre 1, Level 2, Singapore 068804 on Wednesday, 29 April 2015 at 2:30 p.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 2014, together with the Auditor's Report thereon.

(Resolution 1)

2. To appoint Moore Stephens LLP as the Auditors of First Ship Lease Trust in place of KPMG LLP (who retires at this Annual General Meeting), and to authorise the Directors of the Trustee-Manager to fix their remuneration.

(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**") and Clause 6.1 of the deed of trust of First Ship Lease Trust (the "**Trust Deed**"), the Trustee-Manager, on behalf of First Ship Lease Trust, be authorised and empowered 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 shall in its absolute discretion deem fit; and

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

provided that:

(1) the aggregate number of Units to be issued pursuant to this Resolution (including Units to be issued in pursuance of the Instruments made or granted pursuant to this Resolution) shall not exceed 50 per cent. of the issued Units in First Ship Lease Trust (as calculated in accordance with sub-paragraph (2)

NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

below), of which the aggregate number of Units to be issued other than on a *pro-rata* basis to existing Unitholders of First Ship Lease Trust shall not exceed 20 per cent. of the issued Units in First Ship Lease Trust (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("**SGX-ST**")) for the purpose of determining the aggregate number of Units that may be issued under sub-paragraph (1) above, the percentage of issued Units shall be based on the number of issued Units in First Ship Lease Trust at the time of the passing of this Resolution after adjusting for:

(A) any 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.

(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.

(Resolution 4)

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

THAT:

(a) the exercise by the Trustee-Manager of all the powers of First Ship Lease Trust to purchase or otherwise acquire Units of First Ship Lease Trust not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Trustee-Manager from time to time up to the Maximum Price (as hereafter defined), whether by way of:

(i) market purchases (each a "**Market Purchase**") on the SGX-ST; and/or

NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

(ii) off-market purchases (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access scheme (as defined in the Trust Deed) as may be determined or formulated by the Trustee-Manager as it considers fit, which scheme shall satisfy all the conditions prescribed in accordance with the Trust Deed,

and otherwise in accordance with all other laws, regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Unit Buy-back Mandate**");

(b) unless varied or revoked by Unitholders of First Ship Lease Trust in a general meeting, the authority conferred on the Trustee-Manager pursuant to the Unit Buy-back Mandate may be exercised by the Trustee-Manager at any time during the Relevant Period (as hereafter defined); and

(c) the Trustee-Manager be and is hereby authorised to complete and do all such acts and things (including executing such documents or other action as may be required) as it may consider necessary, expedient or in the interests of First Ship Lease Trust to give effect to the transactions contemplated and/or authorised by this Resolution.

In this Resolution:

"**Maximum Limit**" means the number of Units representing not more than 10 per cent. of the total number of issued Units of First Ship Lease Trust as at the date of the passing of this Resolution; and

"**Relevant Period**" means the period commencing from the date on which the annual general meeting is held and this Resolution is passed, and expiring on:

(a) the date on which the next annual general meeting of Unitholders is held;

(b) the date by which the next annual general meeting of Unitholders is required by law or the Trust Deed to be held; or

(c) the date on which the purchases of Units by the Trustee-Manager pursuant to the Unit Buy-back Mandate are carried out to the full extent mandated,

whichever is earliest; and

"**Maximum Price**" in relation to a Unit to be purchased, means an amount (excluding related expenses of the purchase) not exceeding:

(i)	in the case of a Market Purchase:	105 per cent. of the Average Closing Market Price
(ii)	in the case of an Off-Market Purchase:	120 per cent. of the Highest Last Dealt Price

where:

"**Average Closing Market Price**" means the average of the closing market prices of a Unit over the last five (5) market days, on which transactions in Units were recorded, preceding the day of the Market Purchase, and deemed to be adjusted for any corporate action that occurs after such five-day market period in accordance with Rule 884 of the Listing Manual of the SGX-ST;

NOTICE OF ANNUAL GENERAL MEETING OF THE UNITHOLDERS

"**Highest Last Dealt Price**" means the highest price transacted for a Unit as recorded on the market day on which there were trades in the Units immediately preceding the day of the making of the offer pursuant to the Off-Market Purchase; and

"**day of the making of the offer**" means the day on which the Trustee-Manager announces its intention to make an offer for the purchase of Units from Unitholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Unit and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

(Resolution 5)

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

Elizabeth Krishnan
Company Secretary

Singapore
10 April 2015

Notes:

1. A Unitholder entitled to attend and vote at the Annual General Meeting of the Unitholders of First Ship Lease Trust may 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.

2. The instrument appointing a proxy must be deposited at the registered office of FSL Trust Management Pte. Ltd. at 9 Temasek Boulevard #19-03 Suntec Tower Two Singapore 038989 not less than 48 hours before the time appointed for the Annual General Meeting.

Explanatory Notes on Resolution 2

If passed, the Ordinary Resolution set out in Resolution 2 is to approve the appointment of Moore Stephens LLP as the auditors of First Ship Lease Trust in place of the retiring auditors, KPMG LLP, and to authorise the Directors of the Trustee-Manager to fix their remuneration. Detailed information relating to this resolution is set out in the Appendix to this Notice of Annual General Meeting.

Explanatory Notes on Resolution 3

If passed, the Ordinary Resolution set out in Resolution 3 empowers the Trustee-Manager from the date of the Eighth Annual General Meeting until the date of the subsequent Annual General Meeting, 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 the Unitholders, whichever is the earlier, to issue Units, make or grant Instruments convertible into Units and to issue Units pursuant to such Instruments in First Ship Lease Trust up to a number not exceeding in aggregate 50 per cent. of the issued Units in First Ship Lease Trust, of which not more than 20 per cent. may be issued other than on a *pro-rata* basis to Unitholders. For the purpose of determining the aggregate number of Units that may be issued, the percentage of Units will be calculated based on the number of issued Units when Resolution 3 is passed, after adjusting for any 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.

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 Seventh Annual General Meeting held on 30 April 2014.

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.

Explanatory Notes on Resolution 5

Resolution 5 is a renewal of the Unit Buy-back Mandate that was approved by Unitholders at the Extraordinary General Meeting held on 14 April 2010. Please refer to the Appendix to this Notice of Annual General Meeting for details.

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) for the purpose of the processing and administration by the Trustee-Manager (or its agents) 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) 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), 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) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Unitholder will indemnify the Trustee-Manager in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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FIRST SHIP LEASE TRUST
(A business trust constituted on 19 March 2007)

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

PROXY FORM
EIGHTH ANNUAL GENERAL MEETING OF UNITHOLDERS OF FIRST SHIP LEASE TRUST

I/We ______________________________ (Name)

holder of NRIC/Passport Number or Company registration or UEN Number ______________________________ 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		

or failing the person, or either or both of the persons referred to above, the Chairman of the Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf, at the Eighth Annual General Meeting ("**AGM**") of Unitholders of First Ship Lease Trust to be held on Wednesday, 29 April 2015 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 2014 together with the Auditor's Report thereon		
2.	Appointment of Moore Stephens LLP as Auditors of First Ship Lease Trust in place of KPMG LLP (who retires at this AGM) and authorise 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		
5.	Authority to purchase Units pursuant to the Unit Buy-back Mandate		

Dated this __________ day of ______________ 2015

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 stead. A proxy need not be a Unitholder of FSL Trust.
2. 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.
3. 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.
4. 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 130A of the Companies Act, Chapter 50 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.
5. The instrument appointing a proxy or proxies 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. 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 10 April 2015.

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

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FSL TRUST

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

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