MPC CONTAINER SHIPS ASA

# FINANCIAL REPORT

## Q4 2019

# CONTENTS

# MPC CONTAINER SHIPS ASA

## FOURTH QUARTER AND FULL-YEAR 2019 HIGHLIGHTS

- Total operating revenues for Q4 2019 were USD 44.2 million compared to USD 46.0 million for Q3 2019.
- EBITDA was USD 4.8 million in Q4 2019 (Q3 2019: USD 4.5 million).
- Operating cash flow for Q4 2019 was USD 12.7 million (Q3 2019: USD 1.3 million).
- Net loss for the period in Q4 2019 was USD 14.2 million (Q3 2019: net loss of USD 11.4 million).
- Total ownership days of fully owned vessels in Q4 2019 were 5,520 (Q3 2019: 5,520). Total ownership days in 2019 were 21,900 days.
- Total trading days of fully owned vessels in Q4 2019 were 4,890 (Q3 2019: 4,695). Q4 2019 utilization was 95.7%[1] (Q3 2019: 92.9%). Considering off-hire days related to retrofitting works, repositioning of these vessels and class renewals, Q4 2019 utilization was 88.6% (Q3 2019: 85.1%).
- Average time charter equivalent ("TCE") was USD 8,505 per day in Q4 2019 (Q3 2019: USD 8,718 per day) and USD 8,885 per day in 2019.
- Average operating expenses ("OPEX") in Q4 2019 were USD 4,844 per day (Q3 2019: USD 4,969 per day) and USD 5,005 per day in 2019.
- Equity ratio as at 31 December 2019 was 57.2% (31 December 2018: 63.6%) and the leverage ratio was 38.9% (31 December 2018: 34.3%).

## SUBSEQUENT EVENTS

- On 5 February 2020, two subsidiaries of MPC Container Ships ASA (the "Company", together with its subsidiaries the "Group") entered into agreements for the sale of AS Leona and AS Lauretta, two 1,000 TEU vessels. The total sales price is agreed at USD 6.5 million per vessel and the vessels will be delivered to their new owners during H1 2020.
- On 14 February 2020, the Company announced the successful completion of an equity private placement supported by three large shareholders. Subject to approval by an extraordinary general meeting, the Company will issue 7,250,000 new shares at a subscription price of NOK 17.25 per share, thereby raising NOK 125 million to ensure additional liquidity reserves in a continuously volatile market and maintain flexibility to pursue market opportunities.

## BUSINESS OVERVIEW AND CORPORATE DEVELOPMENT

The Company's principal business activity is to invest in and operate maritime assets in the container shipping segment. As a dedicated owner and operator of container ships, the Group has a focus on feeder vessels, mainly between 1,000 and 3,000 TEU, that are chartered out to liner shipping companies and regional carriers.

In order to position the Group to benefit from expected market improvements whilst ensuring manoeuvrability under current conditions, the Group focuses on maintaining a low cash break-even, prudent leverage profile and stringent capital allocation.

[1] Utilization in percentage represents total trading days including off-hire days related to dry-docks divided by the total number of ownership days during the period

## TRANSITION INTO IMO 2020

With the International Maritime Organisation's ("IMO") Sulphur emission cap regulation entering into force on 1 January 2020, the Group successfully transited into the new year with its balanced strategy of retrofitting a selected 10 vessels with exhaust gas cleaning systems ("scrubbers") while having remaining 58 vessels undergo a fuel change-over programme.

As per mid-February 2020, all 10 vessels have successfully completed scrubber retrofittings. For the same vessels, the Group has concluded charter contracts with major operators at attractive terms and saving sharing mechanisms linked to the fuel spread between compliant low-sulphur fuel and high-sulphur fuel (eight vessels until 2022/2023 and two trading on shorter periods until end-of 2020/early 2021).

For the remaining fleet of 58 vessels being subject to operations on compliant, low-sulphur fuel oils, the Group concluded an extensive fuel change-over programme with individual ship implementation plans and tank cleaning activities. By beginning of 2020, the 58 vessels had either consumed or discharged all remaining high-sulphur fuel oil quantities.

With approximately 77% of global scrubber retrofits undertaken in China, the outbreak of the COVID-19 coronavirus is heavily impacting both scrubber installation lead times and future planned retrofitting works at Chinese ship yards. The Group finalized all its scrubber installations at Chinese yards prior to the COVID-19 outbreak and hence the virus will not affect the Group's scrubber installations.

## FOURTH QUARTER AND FULL YEAR 2019 RESULTS

**Financial performance**

The Group's vessels are chartered out on time charter contracts to global and regional liner shipping companies. Operating revenues were USD 44.2 million during Q4 2019 (Q3 2019: USD 46.0 million) and 184.7 million in 2019. The gross profit from vessel operations was USD 7.7 million in Q4 2019 (Q3 2019: USD 6.7 million) and USD 32.1 million in 2019.

As container shipping continued in Q4 2019 to face a high degree of uncertainty, ranging from the additional costs and off-hire associated with IMO 2020 including US-China trade tension, the Group's earnings continue to be affected by the challenging shipping markets.

The Group reports a loss of USD 14.2 million in Q4 2019 (Q3 2019: USD 11.4 million) and a loss of USD 39.7 million in 2019.

**Financial position**

The Group's total assets amounted to USD 718.1 million as at 31 December 2019 (USD 722.1 million as at 31 December 2018). Non-current assets in the amount of USD 649.3 million comprises of vessels operated by the Group as well as the equity investments into a joint venture.

Total equity was USD 410.6 million as at 31 December 2019 (USD 459.2 million as at 31 December 2018) with non-controlling interest of USD 1.7 million. The decrease in equity mainly relates to the net loss for the period on USD 39.7 million and to the negative fair value change of USD 4.8 million for the hedging reserves. As at 31 December 2019, the Group had interest-bearing debt in the amount of USD 279.6 million (USD 247.7 million as at 31 December 2018). The increase in long-term debt is mainly due to a drawdown of the revolving credit facility in 2019 and the additional draw down on the Non-recourse senior secured term loan during Q3 2019. This is partly offset by repayments of debt during 2019.

### Cash flow

In Q4 2019, the Group generated a positive cash flow from operating activities of USD 12.7 million (Q3 2019: USD 1.3 million). The cash flow from investing activities was USD -17.3 million (Q3 2019: USD -23.1 million) mainly due to investments into dry-dockings, scrubber retrofits and other upgrades. The Group had a positive cash flow from financing activities of USD 1.3 million (Q3 2019: USD 13.6 million) mainly due to the drawdown on the revolving credit facility and the non-recourse senior secured term loan (see Note 8).

Cash and cash equivalents as at 31 December 2019 were USD 40.2 million.

## CONTAINER MARKET UPDATE

### Global Economy

In January 2020, The International Monetary Fund ("IMF") downward-revised its October 2019 World Economic Outlook growth forecasts. Currently, the IMF expects a global economic growth of 3.3% for 2020 (downward revision of 0.1 percentage points) and 3.4% for 2021 (downward revision of 0.2 percentage points). The revisions accounted for surprises to the economic performance of India and increased social unrest, they did not reflect implications of the COVID-19 coronavirus. As such, we expect further downward revisions within the coming months.

In December 2019, COVID-19 spread from a farmers market in Wuhan (China). By end-of January 2020, the virus was declared a global public health emergency by the World Health Organization ("WHO"). While short-term impacts are severe, the extent of long-term implications from COVID-19 are still uncertain. Potential downside risks for economic growth in China are forecasted with -2 percentage points in Q1 2020 and -0.5 percentage points for the full year. Global growth could be reduced by approximately 0.2 percentage points in 2020. However, global economic activity is expected to recover during 2020 so as to regain momentum.

### Container Demand

The slow-down of economic growth, the US-China trade war and geopolitical tensions put downward pressure on seaborne container demand in 2019. Full-year container trade growth was 1.8%, the lowest growth rate observed since the financial crises twelve years ago. Thus far in 2020, COVID-19 has placed a firm dampening on economic recovery. Clarkson research foresee a container demand growth of 2.8% in 2020 and 3.3% in 2021, but has yet to account for the implications of the COVID-19 virus and hence is expected to be revised downwards. On a positive note, the signing of the "Phase 1 Deal" between the US and China and the customs reduction announced by the Chinese government is believed to weigh in on improved container demand.

Intra-regional trades (i.e. Intra-Asia, Intra-Europe and Intra-Caribbean trades) are expected to contribute with the strongest growth rates in the coming years. Until 2024, intra-regional container trade is forecasted to grow by 4.3% p.a., albeit not yet considering the on-going COVID-19 turmoil and its implications. To that end, Intra-Asian trade growth disruptions should be expected in H1 2020.

### Fleet Development

As per January 2020, the global container fleet comprised 5,369 vessels with a total capacity of 23.0 million TEU. The feeder segment fleet (1,000 to 3,000 TEU) amounted to 1,926 vessels with a total capacity of 3.5 million TEU.

For the total container fleet, only 1,060,745 TEU worth of capacity has been delivered in 2019. New capacity has been modest also in the feeder segment, with a total of 146,289 TEU delivered in 2019. While the order book is at historically low levels (10.6% for the total fleet), the number of feeder orders is slightly larger compared to other segments (431,000 TEU; 12.4% of the feeder fleet). Of these, 312,000 TEU (72%) is scheduled for delivery in 2020. Thereafter, delivery of new tonnage is expected to drop sharply. A modest 95,858 TEU of feeder capacity was ordered in 2019 (-63% down from 261,974 TEU feeder orders in 2018), and no new feeder tonnage has been contracted thus far in 2020.

On the supply side, COVID-19 is creating significant market disruptions on the account of e.g. Chinese ship yards, where reduced activity is resulting in delays both in delivery of newbuild tonnage and scrubber retrofit programmes.

Vessel demolition is at relative low levels, totalling 182,556 TEU throughout 2019. For the feeder segment, recycled tonnage amounted to 93,063 TEU in 2019. Due to the IMO's Ballast Water Management Systems Code, enforced from October 2019, increased demolition activity is expected particularly in the feeder segment, where average fleet age is relatively old.

In accordance with above-mentioned market data, the expected 3.1% supply growth in 2020 should outperform the 2.8% growth in container demand. While IMO 2020 effects will contribute in reducing net supply growth in 2020, COVID-19 implications will put downward pressure on demand. 2020 container supply growth is forecasted as reduced by 1.9 percentage points due to scrubber retrofitting and other IMO 2020 preparatory works, resulting in a full-year "net supply growth" of 1.2%. On the demand side, Alphaliner has offered a first set of COVID-19 impact calculations, estimating a 0.7 percentage point reduction and hence a "net demand growth" of 2.1% for 2020.

**Asset Prices**

Newbuilding prices for larger feeder vessels (2,750 TEU gls) have decreased by 10% since the start of 2019, from USD 35 million to USD 31.5 million. Nevertheless, these prices are still 3% above the 10-year average. For a 1,700 TEU grd container vessel, the newbuild acquisition price was quoted at USD 26.0 million in January 2020, while the assumed price for a 1,000 TEU grd vessel was USD 18.8 million. Prices decreased slightly compared to January 2019 (-4% for a 1,000 TEU grd vessel and -1% for a 1,700 TEU grd vessel) and are on par with or slightly above their latest 10-year averages (0% for 1,700 TEU grd vessels and 2% for the 1,000 TEU grd vessels). It is important to note, however, that these price indices are based on traditional forms of propulsion. Consequently, price reductions may have only limited effects on attracting new orders as propulsion uncertainties add additional market entry barriers.

Second-hand container vessel prices are currently witnessing large fluctuations. The price for a 10-year old 2,750 TEU gls vessel was estimated at USD 9.0 million in February 2020 (-28% compared with January 2019). As per the same date, second-hand prices for a 10-year old 1,700 TEU gls and a 10-year old 1,000 TEU grd vessel were estimated at USD 7.75 million and USD 4.75 million, respectively (down by 18% and 5% compared to January 2019).

**Charter Market**

Thus far in 2020, COVID-19 and its implications on trade, transportation and production has heavily impacted the container charter market. Due to restrictions and reduced container trade in and around China, open vessels in Asia across all size segments are facing difficulties finding new employment. Moreover, a prolonged Chinese New Year holiday and on-going transportation restrictions is effectively extending the usually calm start of the year. However, once regional container transportation and logistics resume normal operations, available feeder vessels should again be in high demand.

Scrubber retrofits affected the market in Q4 2019 and are assumed to continue reducing supply in 2020. While larger vessel segments enjoyed significant charter rate increases during 2019, the rate development in the feeder segment during the same period was a story of two tales. Earnings increased for >1,700 TEU vessels but saw larger fluctuations and only modest growth in the smaller feeder segments.

The number of available vessels decreased during H1 2019 following a slight market consolidation. Since July 2019, however, idle numbers have risen within all TEU segments. A significant part of the idle capacity, being 63% of the total idle fleet and 14% of the idle feeder fleet, is currently in dry-dock for scrubber retrofitting.

Time charter rates (6-12 months) in January 2020 (Source: Clarksons Research):

- 1,000 TEU: USD 6,200 (up 3% since January 2019)
- 1,700 TEU: USD 8,300 (up 19% since January 2019)
- 2,750 TEU: USD 10,600 (up 19% since January 2019)
- 4,300 TEU: USD 13,300 (up 55% since January 2019)

**Market Outlook**

After a 2019 with modest growth, the world economy in January 2020 saw encouraging signs of recovery. First, the US and China signed a much-anticipated “Phase 1 Deal”, thereby lessening uncertainties surrounding the two countries’ trade conflict. Second, the UK left the EU with an agreed-upon 11-month Transition Period wherein the former effectively remains in the latter's customs union and single market while negotiating a trade deal.

At the same time as above-mentioned milestones contributed in easing market uncertainties, news broke about the spreading COVID-19. During February, the virus outbreak caused severe short-term effects and has effectively deterred further global economic recovery. While the long-term implications are still uncertain and much remains to be done to respond and recover, current base case scenarios indicate Q2 2020 as a turning point in recorded new cases. Once container logistics return to normal, economic activity will rebound and resume its growth trajectory.

With regards to the container vessel market in particular, containerized seaborne trade is expected to grow by 2.8% in 2020 and by 3.3% in 2021, respectively. 2020 net demand growth is currently projected at 2.1% on account of the COVID-19 virus. On the supply side, forecasts point to a container fleet capacity growth of 3.1% in 2020 and 2.8% in 2021, respectively. Due to vessels entering dry-dock for scrubber retrofitting, a net supply growth of only 1.2% is expected for 2020. A total of 104 vessels with 835,000 TEU carrying capacity are currently in dry-dock for scrubber installations. Of these, 18 ships totalling 41,000 TEU are feeder vessels. As COVID-19 is significantly reducing yard and dock activity, retrofit projects are already delayed. Moreover, while 312,000 TEU of new feeder tonnage (representing 72% of the total feeder order book) is scheduled for delivery in 2020, no new feeder orders have been recorded thus far in 2020 and analysts expect the feeder order book-to-fleet ratio to decrease to 6% until 2024.

Lastly, while the effects of COVID-19 will put near-term pressure on shipping logistics and transportation, feeder container market fundamentals remain intact and should provide for attractive opportunities going forward.

## FORWARD-LOOKING STATEMENTS

Forward-looking statements presented in this report are based on various assumptions. The assumptions are subject to uncertainties and contingencies that are difficult or impossible to predict. MPC Container Ships ASA cannot give assurances that expectations regarding the outlook will be achieved or accomplished.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

| in USD thousands | Notes | Q4 2019 (unaudited) | Q3 2019 (unaudited) | Q4 2018 (unaudited) | FY 2019 (unaudited) | FY 2018 (audited) |
|---|---|---|---|---|---|---|
| Operating revenues | 5 | 44,227 | 46,044 | 52,489 | 184,743 | 183,483 |
| Commissions | | -1,670 | -1,550 | -1,800 | -6,566 | -6,649 |
| Vessel voyage expenditures | | -5,390 | -7,535 | -8,056 | -22,233 | -18,999 |
| Vessel operation expenditures | | -27,243 | -28,365 | -27,650 | -114,356 | -97,343 |
| Ship management fees | | -2,353 | -2,161 | -2,129 | -9,042 | -7,396 |
| Share of profit or loss from JV | 6 | 109 | 264 | -1,071 | -434 | 654 |
| **Gross profit** | | **7,681** | **6,698** | **11,782** | **32,111** | **53,751** |
| Administrative expenses | | -2,391 | -2,308 | -2,107 | -8,817 | -8,505 |
| Other expenses | | -685 | -172 | -718 | -3,692 | -1,682 |
| Other income | | 243 | 234 | 527 | 2,521 | 1,704 |
| **EBITDA** | | **4,847** | **4,451** | **9,484** | **22,123** | **45,268** |
| Depreciation | 7 | -10,988 | -10,373 | -9,091 | -41,109 | -29,271 |
| Impairment | 7 | -2,583 | 0 | 0 | -2,583 | |
| Gain/loss from disposal of vessels | 7 | 0 | 0 | 0 | 3,129 | 0 |
| **Operating result (EBIT)** | | **-8,724** | **-5,922** | **393** | **-18,439** | **15,997** |
| Other finance income | | 163 | 117 | 73 | 530 | 565 |
| Finance costs | 8 | -5,611 | -5,628 | -5,378 | -21,746 | -17,755 |
| **Profit/Loss before income tax (EBT)** | | **-14,172** | **-11,433** | **-4,912** | **-39,656** | **-1,193** |
| Income tax expenses | | 21 | -3 | -142 | -81 | -406 |
| **Profit/Loss for the period** | | **-14,151** | **-11,435** | **-5,054** | **-39,736** | **-1,599** |
| Attributable to: | | | | | | |
| Equity holders of the Company | | -14,141 | -11,432 | -5,144 | -39,701 | -1,608 |
| Minority interest | | -10 | -3 | 90 | -35 | 9 |
| **Basic earnings per share – in USD** | | **-0.17** | **-0.14** | **-0.06** | **-0.47** | **-0.02** |
| **Diluted earnings per share – in USD** | | **-0.17** | **-0.14** | **-0.06** | **-0.47** | **-0.02** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in USD thousands | Note | Q4 2019 (unaudited) | Q3 2019 (unaudited) | Q4 2018 (unaudited) | FY 2019 (unaudited) | FY 2018 (audited) |
|---|---|---|---|---|---|---|
| Profit/loss for the period | | -14,151 | -11,435 | -5,054 | -39,736 | -1,599 |
| **Items that may be subsequently transferred to profit or loss** | | **1,053** | **-716** | **-1,589** | **-4,803** | **845** |
| Foreign currency effects, net of taxes | | 70 | -41 | -52 | -22 | -30 |
| Change in hedging reserves, net of taxes | | 983 | -675 | -1,537 | -4,781 | 875 |
| **Items that will not be subsequently transferred to profit or loss** | | **0** | **0** | **0** | **0** | **0** |
| Other comprehensive profit/loss, net of taxes | | 0 | 0 | 0 | 0 | 0 |
| Other comprehensive profit/loss from joint ventures and affiliates | | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive profit/loss** | | **-13,098** | **-12,151** | **-6,643** | **-44,540** | **-754** |
| Attributable to: | | | | | | |
| Equity holders of the Company | | -13,087 | -12,148 | -6,733 | -44,505 | -763 |
| Non-controlling interest | | -10 | -3 | 90 | -35 | 9 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| in USD thousands | Notes | At 31 December 2019 (unaudited) | At 31 December 2018 (audited) |
|---|---|---|---|
| **Assets** | | **718,079** | **722,062** |
| Non-current Assets | | 649,287 | 633,658 |
| Vessels | 7 | 621,861 | 605,749 |
| Prepayment on vessels | 7 | 0 | 1,549 |
| Investment in joint venture | 6 | 27,426 | 26,360 |
| Current Assets | | 68,792 | 88,404 |
| Inventories | | 4,538 | 4,853 |
| Trade and other receivables | | 24,049 | 23,322 |
| Cash and cash equivalents | | 40,205 | 60,228 |
| Unrestricted cash | | 26,765 | 44,087 |
| Restricted cash | | 13,440 | 16,141 |
| **Equity and Liabilities** | | **718,079** | **722,062** |
| Equity | | 410,458 | 459,150 |
| Ordinary shares | 10 | 456,544 | 457,726 |
| Share capital | | 101,121 | 101,121 |
| Share premium | | 356,566 | 356,605 |
| Treasury shares | | -1,143 | 0 |
| Retained losses | | -43,948 | -4,247 |
| Other reserves | | -3,819 | 984 |
| Non-controlling interest | | 1,682 | 4,688 |
| Non-current Liabilities | | 276,862 | 244,766 |
| Interest bearing loans | 8 | 276,862 | 244,766 |
| Current Liabilities | | 30,758 | 18,145 |
| Interest bearing loans and borrowings | 8 | 2,753 | 2,942 |
| Trade and other payables | | 20,519 | 6,369 |
| Payables to affiliated companies | | 46 | 53 |
| Other liabilities | | 7,439 | 8,781 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In USD thousands | Share capital (unaudited) | Share premium (unaudited) | Treasury shares (unaudited) | Retained losses (unaudited) | Other reserves (unaudited) | Non-controlling interest (unaudited) | Total equity (unaudited) |
|---|---|---|---|---|---|---|---|
| Equity as at 1 Jan. 2019 | 101,121 | 356,605 | 0 | -4,247 | 985 | 4,687 | **459,150** |
| Purchase of own shares | 0 | 0 | -1,143 | 0 | 0 | | **-1,143** |
| Capital increase to non-controlling interest | 0 | 0 | 0 | 0 | 0 | 391 | **391** |
| Changes in ownership in subsidiaries that do not result in loss of control | 0 | -39 | 0 | 0 | 0 | -3,361 | **-3,400** |
| Result of the period | 0 | 0 | 0 | -39,701 | 0 | -35 | **-39,736** |
| Foreign currency effects | 0 | 0 | 0 | 0 | -22 | 0 | **-22** |
| Hedging reserves | 0 | 0 | 0 | 0 | -4,781 | 0 | **-4,781** |
| **Equity as at 31 Dec. 2019** | **101,121** | **356,566** | **-1,143** | **-43,948** | **-3,819** | **1,682** | **410,458** |
| Equity as at 1 Jan. 2018 | 77,155 | 261,322 | 0 | -2,639 | 140 | 4,542 | **340,520** |
| Share issuance | 23,966 | 95,283 | 0 | 0 | 0 | 0 | **119,249** |
| Capital increase to non-controlling interest | 0 | 0 | 0 | 0 | 0 | 136 | **136** |
| Result of the period | 0 | 0 | 0 | -1,608 | 0 | 9 | **-1,599** |
| Foreign currency effects | 0 | 0 | 0 | 0 | -30 | 0 | **-30** |
| Hedging reserves | 0 | 0 | 0 | 0 | 875 | 0 | **875** |
| **Equity as at 31 Dec. 2018** | **101,121** | **356,605** | **0** | **-4,247** | **985** | **4,687** | **459,150** |

## CONSOLIDATED STATEMENT OF CASH FLOW

| in USD thousands | Q4 2019 (unaudited) | Q3 2019 (unaudited) | Q4 2018 (unaudited) | FY 2019 (unaudited) | FY 2018 (unaudited) |
|---|---|---|---|---|---|
| Profit/Loss before income tax | -14,172 | -11,433 | -4,912 | -39,656 | -1,193 |
| Income tax expenses paid | 0 | 0 | 0 | 0 | 0 |
| Net change in current assets | 1,534 | -446 | 1,433 | -412 | -22,624 |
| Net change in current liabilities (ex. capex payables) | 5,412 | -1,797 | -1,686 | 7,112 | 6,456 |
| Fair value change in derivatives | 984 | -675 | -1,537 | -4,766 | 874 |
| Depreciation | 10,988 | 10,373 | 9,091 | 41,109 | 29,271 |
| Finance costs (net) | 5,449 | 5,511 | 5,305 | 21,216 | 17,190 |
| Share of profit or loss from joint venture | -109 | -264 | 1,071 | 434 | -654 |
| Impairment | 2,583 | 0 | 0 | 2,583 | 0 |
| Gain/loss from disposal of vessels | 0 | 0 | 0 | -3,129 | 0 |
| **Cash flow from operating activities** | **12,668** | **1,269** | **8,764** | **24,491** | **29,320** |
| Purchase of vessels | 0 | 0 | 0 | 0 | -331,323 |
| Proceeds from disposal of vessels | 0 | 0 | 0 | 10,739 | 0 |
| Scrubbers, dry docks and other upgrades on vessels | -17,413 | -23,070 | -11,323 | -61,314 | -40,437 |
| Investment in subsidiaries and affiliated companies | 0 | 0 | 0 | -4,900 | -9,313 |
| Interest received | 163 | 117 | 62 | 530 | 495 |
| Purchase of own shares | 0 | -175 | 37 | -1,143 | 0 |
| **Cash flow from investing activities** | **-17,250** | **-23,129** | **-11,224** | **-56,088** | **-380,578** |
| Proceeds from share issuance | 0 | 0 | 0 | 391 | 122,378 |
| Share issuance costs | 0 | 0 | 0 | 0 | -3,134 |
| Proceeds from debt financing | 6,000 | 20,000 | 0 | 39,000 | 151,150 |
| Repayment of debt | 0 | -1,183 | -160 | -7,566 | -1,503 |
| Interest paid | -4,815 | -4,845 | -4,736 | -19,012 | -16,061 |
| Debt issuance costs | 87 | -404 | -95 | -1,240 | -5,604 |
| **Cash flow from financing activities** | **1,273** | **13,568** | **-4,991** | **11,573** | **247,226** |
| Net change in cash and cash equivalents | -3,309 | -8,292 | -7,450 | -20,024 | -104,079 |
| Net foreign exchange differences | 0 | 0 | 0 | 0 | -63 |
| Cash and cash equivalents at beginning of period | 43,514 | 51,806 | 67,678 | 60,228 | 164,323 |
| **Cash and cash equivalents at the end of period[2]** | **40,205** | **43,514** | **60,228** | **40,205** | **60,228** |

[2] Whereof USD 13.4 million is restricted as at 31 December 2019, USD 13.3 million at 30 September 2019 and USD 16.1 million at 31 December 2018.

# NOTES

## Note 1 - General information

MPC Container Ships ASA (the “Company”) is a public limited liability company (Norwegian: *allmennaksjeselskap*) incorporated and domiciled in Norway, with registered address at Munkedamsveien 45 A, 0250 Oslo, Norway and Norwegian enterprise number 918 494 316. The Company was incorporated on 9 January 2017 and commenced operations in April 2017, when the first vessels were acquired. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”). The principal activity of the Group is to invest in and to operate maritime assets in the container shipping segment.

The shares of the Company are listed at the Oslo Stock Exchange under the ticker “MPCC”.

## Note 2 - Basis of preparation

The unaudited interim financial statements for the period ended 31 December 2019 are prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and as adopted by the European Union (“EU”). The statements have not been subject to audit. The statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements as at 31 December 2018. The consolidated financial statements are presented in USD thousands unless otherwise indicated.

Only standards and interpretations that are applicable to the Group have been included and the Group reviews the impact of these changes in its financial statements. The Group will adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

## Note 3 - Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial reporting are consistent with those applied in the preparation of the Group’s consolidated financial statements for the period ended 31 December 2018 except for the new standards effective as at 1 January 2019.

The Company implemented IFRS 16 starting 1 January 2019. The new standard is replacing IAS 17 Leases. The Company has implemented the new standard using the modified retrospective approach for the implementation of IFRS 16 where comparative figures are not restated. The Company has used the practical expedients when applying the new standard to leases previously classified as operating leases under IAS 17. As the Group do not charter in any vessels and do not have any other lease agreements exceeding 12 months, there has been no material impacts from the implementation of the new standard.

## Note 4 - Segment information

All of the Group’s vessels earn revenue from seaborne container transportation globally. The vessels exhibit similar economic, trading and financial characteristics. The Group is organized in one operating segment, i.e. the container shipping segment.

### Note 5 - Revenue

| in USD thousands | Q4 2019 (unaudited) | Q4 2018 (unaudited) |
|---|---|---|
| Time charter revenue | 32,607 | 37,030 |
| Pool charter revenue | 8,987 | 10,330 |
| Other revenue | 2,634 | 5,129 |
| **Total operating revenue** | **44,227** | **52,489** |

The Group's time charter contracts are separated into a lease element and a service element. The lease element of the vessel represents the use of the vessel without any associated performance obligations and are accounted for in accordance with the lease standard. Revenues from time charter services (service element) and other revenue (e.g. bunkers and other services) are accounted for in accordance IFRS 15. The Group's performance obligation is to provide time charter services to its charterers.

| in USD thousands | Q4 2019 (unaudited) | Q4 2018 (unaudited) |
|---|---|---|
| Service element | 17,746 | 25,489 |
| Other revenue | 2,634 | 5,129 |
| **Total revenue from customer contracts** | **20,380** | **30,618** |
| Lease element | 23,847 | 21,870 |
| **Total operating revenue** | **44,227** | **52,489** |

### Note 6 - Interest in joint ventures

The Group has a 50% interest in 2. Bluewater Holding Schiffahrtsgesellschaft GmbH & Co. KG, Hamburg (Germany), a company owning eight container vessels through respective wholly-owned subsidiaries.

| in USD thousands | Q4 2019 (unaudited) | Q4 2018 (unaudited) |
|---|---|---|
| Operating revenue | 5,993 | 5,680 |
| Operating costs and depreciation | -5,518 | -7,535 |
| Net financial income/expense | -255 | -269 |
| Income tax | -3 | -17 |
| **Profit after tax for the period** | **218** | **-2,142** |
| **Total comprehensive income for the period** | **218** | **-2,142** |
| **Group's share of profit for the period** | **109** | **-1,071** |

In view of the shared control structure in the joint venture, the Group's interest in 2. Bluewater Holding Schifffahrtsgesellschaft GmbH & Co. KG is accounted for using the equity method.

## Note 7 - Vessels and prepayments

| in USD thousands | At 31 December 2019 (unaudited) | At 31 December 2018 (audited) |
|---|---|---|
| **Acquisition cost at 1 January** | **639,871** | **268,158** |
| Acquisition of vessels | 0 | 273,536 |
| Prepayments reclassified to vessels | 1,549 | 57,787 |
| Prepayments | -1,549 | 1,549 |
| Capitalized scrubbers, dry-docking and other expenses | 65,616 | 38,841 |
| Disposals of vessels | -7,361 | 0 |
| **Acquisition cost** | **698,125** | **639,871** |
| Accumulated depreciations 1 January | -32,573 | -3,302 |
| Depreciation for the year-to-date | -41,109 | -29,271 |
| Impairment for the year-to-date | -2,583 | |
| **Accumulated depreciations at end of period** | **-76,265** | **-32,573** |
| | | |
| **Closing balance at end of period** | **621,861** | **607,298** |
| | | |
| *Depreciation method* | *Straight-line* | *Straight-line* |
| *Useful life (vessels)* | *25 years* | *25 years* |
| *Useful life (dry docks)* | *5 years* | *5 years* |

The scrubber installations are depreciated over the remaining useful life of the vessels. The disposal of vessel relates to the declaration of AS Fortuna as a total loss after her grounding in September 2018 and the subsequent sale of the vessel in June 2019. These events lead to a gain on disposals in H1 2019 of USD 3.1 million. Subsequent to the balance sheet date the Group entered into sales agreement for AS Leona and AS Lauretta (see Note 11), resulting in an impairment of USD 2.6 million recognized in Q4 2019 seeing as estimated net sales prices were below the carrying amounts.

For the remaining fleet, the Group has performed an impairment test as impairment indicators existed as at 31 December 2019. As the recoverable amounts exceeded the carrying amounts for all remaining vessels, no additional impairment is recorded as at 31 December 2019.

## Note 8 Interest-bearing debt

| in USD thousands | Ticker | Currency | Facility amount | Interest | Maturity | As at 31 December 2019 (unaudited) | As at 31 December 2018 (audited) |
|---|---|---|---|---|---|---|---|
| Nominal value of issued bonds | MPCBV | USD | 200,000 | Floating + 4.75% | September 2022 | 200,000 | 200,000 |
| Non-recourse senior secured term loan | N/A | USD | 59,150 | Floating + 4.75% | May 2023 | 57,921 | 50,127 |
| Revolving Credit Facility* | N/A | USD | 40,000 | Floating + 3.5% | April 2022 | 29,000 | 0 |
| Other long-term debt incl. accrued interest | | | | | | 310 | 5,484 |
| **Total outstanding** | | | | | | **287,231** | **255,611** |
| Debt issuance costs | | | | | | -7,615 | -7,903 |
| **Total interest bearing debt outstanding** | | | | | | **279,616** | **247,708** |

** The amount of USD 40 million presented under facility amount represents the maximum commitments that are available for the Group under the agreement.*

On 25 April 2019, MPCC Second Financing GmbH & Co. KG, a wholly-owned subsidiary of the Group, entered into an agreement for a three-year revolving credit facility of USD 40 million (the “RCF”).

For the non-recourse senior secured term loan, the Group has an accordion option at the lender’s discretion for additional approximately USD 240 million.

The Group has entered into fixed interest-rate swap agreements for USD 50 million of the USD 200 million bond loan in MPC Container Ships Invest B.V. For the remaining bond loan of USD 150 million the Group has entered into interest cap and collar agreements. For the non-recourse senior secured term loan, the Group has entered into collar agreements.

The following main financial covenants are defined in the terms for the bond loan:

- Vessel loan-to-value ratio of MPC Container Ships Invest B.V. and its subsidiaries shall not exceed 75%;
- MPC Container Ships Invest B.V., together with its subsidiaries, shall maintain a minimum liquidity of 5% of the financial indebtedness of MPC Container Ships Invest B.V. and its subsidiaries; and
- the book-equity ratio of the Group shall at all times be higher than 40%.

The following main financial covenants are defined in the terms of the non-recourse senior secured term loan:

- Vessel loan-to-value ratio of MPCC First Financing GmbH & Co. KG and its subsidiaries shall not exceed 75%; and
- MPCC First Financing GmbH & Co. KG shall maintain a minimum liquidity of 5% of the financial indebtedness of MPCC First Financing GmbH & Co. KG and its subsidiaries.

The following main financial covenants are defined in the terms of the RCF:

- Vessel loan-to-value ratio of MPCC Second Financing GmbH & Co. KG and its subsidiaries shall not exceed 55%;
- the book-equity ratio of the Group shall at all times be higher than 40%;
- the Group shall maintain a minimum liquidity of the higher of 5% of the financial indebtedness of the Group and USD 200 thousand multiplied with the number of consolidated vessels within the Group; and
- the Group shall maintain an EBITDA to total interest expenses for at least 2.5 if the Vessel loan-to-value ratio of the MPCC Second Financing GmbH & Co. KG and its subsidiaries exceeds 40%.

The Group is in compliance with all bond and loan covenants as at 31 December 2019.

**Note 9 - Related party disclosure**

The following table provides the total amount of service transactions that have been entered into with related parties in Q4 2019:

| in USD thousands – Q4 2019 | Type of services | Group | 2. Bluewater Holding Schifffahrtsgesellschaft GmbH & Co. KG |
|---|---|---|---|
| Ahrenkiel Steamship GmbH & Co. KG / B.V. | Technical | 2,332 | 211 |
| Harper Petersen & Co. GmbH | Commercial | 542 | 72 |
| MPC Maritime Investments GmbH | Corporate | 129 | 0 |
| MPC Münchmeyer Petersen Capital AG | Corporate | 171 | 0 |
| **Total** | | **3,174** | **283** |

All related party transactions are carried out at market terms. Please see Note 19 in the Company's 2018 Annual Report for additional description.

See Note 10 – Share capital regarding warrants allocated to the founding shareholders.

### Note 10 - Share capital

The share capital of the Company consists of 84,253,000 shares as at 31 December 2019, with nominal value per share of NOK 10. All issued shares are of equal rights and are fully paid up.

| | Number of shares | Share capital (USD thousands) |
|---|---|---|
| **1 January 2018** | **65,253,000** | **101,121** |
| 16 February 2018 | 77,003,000 | 92,254 |
| 20 June 2018 | 83,289,000 | 99,939 |
| 2 July 2018 | 84,253,000 | 101,121 |
| **31 December 2018** | **84,253,000** | **101,121** |
| Changes in shares and share capital in the period | 0 | 0 |
| **31 December 2019** | **84,253,000** | **101,121** |

As at 31 December 2019 the Company holds 351,098 treasury shares.

During 2017, the Company issued a total of 2,121,046 warrants to MPC Capital Beteiligungsgesellschaft mbH & Co. KG as the founding shareholder. Each warrant gives the holders the right, but no obligation, to subscribe for one share in the Company at the exercise price of the NOK equivalent of USD 5.00 per share, given that the vesting conditions are met. The warrants issued to the founding shareholder are recognized as equity instruments in accordance with IAS 32. See Note 22 in the Company's Annual Report 2018 for further information.

### Note 11 - Subsequent events

On 5 February 2020, two subsidiaries of the Group entered into agreements for the sale of AS Leona and AS Lauretta, two TEU 1,000 vessels. The total sales price is agreed at USD 6.5 million per vessel and the vessels will be delivered to their new owners during H1 2020.

On 14 February 2020, the Company announced the successful completion of an equity private placement supported by three large shareholders. Subject to approval by an extraordinary general meeting, the Company will issue 7,250,000 new shares at a subscription price of NOK 17.25 per share, thereby raising NOK 125 million to ensure additional liquidity reserves in a continuously volatile market and maintain flexibility to pursue market opportunities.

# ALTERNATIVE PERFORMANCE MEASURES

The Group's financial information is prepared in accordance with international financial reporting standards ("IFRS"). In addition, it is the management's intent to provide alternative performance measures that are regularly reviewed by management to enhance the understanding of the Group's performance, but not instead of, the financial statements prepared in accordance with IFRS. The alternative performance measures presented may be determined or calculated differently by other companies. The Group is in the initial phase of operation and performance measures are therefore subject to change. The alternative performance measures are intended to enhance comparability of the results and to give supplemental information to the users of the Group's external reporting.

## GROSS PROFIT

Gross profit is a key financial parameter for the Group and is derived directly from the income statement by deducting cost of sales (vessel voyage expenditures, ship management fees, vessel operating expenditures and commissions) from the operating revenues.

## EBITDA

Earnings before interest, tax, depreciations and amortizations ("EBITDA") is a key financial parameter for the Group and is derived directly from the income statement by adding back depreciation and gain/loss from disposals of vessels to the operating result ("EBIT").

| in USD thousands | Q4 2019 (unaudited) | Q3 2019 (unaudited) | Q4 2018 (unaudited) | FY 2019 (unaudited) | FY 2018 (audited) |
|---|---|---|---|---|---|
| Operating result (EBIT) | -8,724 | -5,922 | 393 | -18,439 | 15,997 |
| Depreciation | 10,988 | 10,373 | 9,091 | 41,109 | 29,271 |
| Impairment | 2,583 | 0 | 0 | 2,583 | 0 |
| Gain/loss from disposal of vessels | 0 | 0 | 0 | -3,129 | 0 |
| **EBITDA** | **4,847** | **4,451** | **9,484** | **22,123** | **45,268** |

## AVERAGE TIME CHARTER EQUIVALENT ("TCE")

TCE is a commonly used Key Performance Indicator ("KPI") in the shipping industry. TCE represents time charter revenue and pool revenue divided by the number of trading days for the consolidated vessels during the reporting period. Trading days are ownership days minus days without revenue, including commercial, uninsured technical and dry dock related off-hire days.

## AVERAGE OPERATING EXPENSES ("OPEX") PER DAY

OPEX per day is a commonly used KPI in the shipping industry. OPEX per day represents operating expenses excluding tonnage taxes and operating expenses reimbursed by the charterers divided by the number of ownership days of consolidated vessels during the reporting period.

## UTILIZATION

Utilization in percentage is a commonly used KPI in the shipping industry. Utilization in percentage represents total trading days including off-hire days relates to dry docks divided by the total number of ownership days during the period.

## LEVERAGE RATIO

Interest bearing long-term debt and interest bearing short-term debt divided by total assets.

## EQUITY RATIO

Total book equity divided by total assets.

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