



Songa Container AS

Financial Report Q4 2018

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SONGA CONTAINER

Fourth Quarter 2018 Highlights, Events, Results and Fleet

FOURTH QUARTER 2018 HIGHLIGHTS

Songa Container AS' (the Issuer and its subsidiaries, hereinafter the "Company") net result in Q4 2018 was -\$2.23 million and \$0.25 million YTD Q4 2018. Please find highlights as follows:

- EBITDA was \$2.28 million in Q4 2018.
- Adjusted Time Charter Equivalent (TCE¹) in Q4 2018 was \$9 379 per day.
- Total time charter equivalent earnings² were \$11.6 million in Q4 2018.
- Net loss was \$2.23 million in Q4 2018.
- Total Operating days³ were 1 380 in Q4 2018. Total Trading days⁴ was 1 240 days, implying a utilization of 89.9%
- Operating expenses (OPEX⁵) in Q4 2018 were \$5 329 per day.

FOURTH QUARTER 2018 EVENTS

- On 22 October 2018, the Company entered into purchase agreements for scrubber installations on all 15 vessels in the fleet. The installations are due to take place within the course of 2019 and first quarter 2020.
- On 14 December 2018, the Company issued a \$130 million senior secured bond. The bond has a floating interest rate of LIBOR plus a margin of 6.0%, and the final maturity is 14 December 2021.

SUBSEQUENT EVENTS:

- On 17 January 2019, the scrubber contract for installation of the Songa Antofagasta was cancelled due to a potential sale of the vessel.
- On 22 January 2019, the technical and crew management agreements for the vessels Hammonia Toscana, Songa Antofagasta and Calabria were cancelled with the respective technical managers as well as crew managers. Managers Hartmann will take over management of the Hammonia Toscana and Songa Antofagasta and Sunship under the Lauterjung group will take over full management of the Calabria. The handovers are scheduled to take place by end of March 2019.

¹ **Adjusted Time Charter Equivalent (TCE)** represents time charter revenue and pool revenue, adjusted for the Songa City AS controlled vessels, divided by the number of Trading days for the consolidated vessels during the reporting period.

² **Time charter equivalent revenue** is operating income and other operating income (-expenses).

³ **Operating days** per day represents the number of ownership days of consolidated vessels during the reporting period.

⁴ **Trading days** are ownership days minus days without revenue, including commercial, uninsured technical and dry dock related off-hire days.

⁵ **Operating Expenses per day (OPEX)** represents operating expenses divided by the number of ownership days of consolidated vessels during the reporting period.

FOURTH QUARTER 2018 RESULTS

in \$ thousands			
Financial performance	Q4 2018	YTD Q4 2018	YTD Q4 2017
Operating revenue	9 007	33 099	11 201
Operating expenses, incl. G&A and depr.	8 195	27 865	10 959
Operating profit (-loss)	812	5 235	241
Interest income from long-term receivables	597	1 595	0
Net result	-2 233	247	-350
Financial position	31.12.2018	31.12.2017	
Total assets	208 167	109 321	
Cash and cash equivalents	54 331	15 914	
Total equity	74 493	61 540	
Cash flow statement	Q4 2018	Q4 2017	
Net cash flow from operating activities	7 004	-911	
Net cash flow used in investing activities	-66 214	-89 265	
Net cash flow from financing activities	97 627	106 090	
Net change in cash and cash equivalents	38 417	15 914	

Financial performance

The Company increased operating profit by \$4.9 million in YTD Q4 2018, from a profit of \$0.2 million in YTD Q4 2017 to a profit of \$5.2 million in YTD Q4 2018. The Company reports a net profit of \$0.2 million in YTD Q4 2018, compared to a net loss in YTD Q4 2017 of \$0.3 million.

During 2018, the Company has taken delivery of four vessels and acquired three loans against three companies, that each own one vessel. Operating income increased from \$11.2 million in YTD Q4 2017 to \$33.1 million in YTD Q4 2018. The interest income from loans toward three vessel owning companies increased from \$0 in YTD Q4 2017 to \$1.6 million in YTD Q4 2018. In 2017 the Company sold one vessel and the gain from the sale was \$1.9 million.

Due to the fleet growth in 2018, the operating expenses were \$27.89 million in YTD 2018 compared to \$11.0 million in YTD Q4 2017. The increase in operating expenses relates mainly to ship operating expenses since operating days increased.

Net financial loss was \$4.9 million in YTD Q4 2018, down from a net financial loss of \$0.5 million in YTD Q4 2017. The increase in financial expenses relates to increased interest expenses and other financial costs due to refinancing and the bond issuance in Q4 2018.

Financial position

The Company's total assets amounted to \$208.2 million at 31 December 2018, up from \$109.3 million at 31 December 2017. Non-current assets, which comprise of vessels delivered and acquired loans, increased from \$89.5 million at 31 December 2017 to \$150.3 million at 31 December 2018. This was mainly due to the Company taking delivery of four vessels and loans against three companies that each own one vessel.

The total equity has increased from \$61.5 million at 31 December 2017 to \$74.5 million at 31 December 2018 and is mainly related to a capital increase of \$14 million in Q2 2018. The interest-bearing debt has increased from \$44.3 million at 31 December 2017 to \$128.3 million at 31 December 2018 through increased mortgage loans in Q1 2018, Q2 2018 and Q3 2018 and then through refinancing and the bond issuance in Q4 2018.

Cash flow

Net cash flow from operating activities was \$7.0 million in Q4 2018. Net cash flow from financing activities was \$97.6 million, which were the net proceeds from refinancing and the bond issuance during Q4 2018. \$66.2 million were used in investment activities in 2018, hereunder the purchase of additional vessels and loans. Net change in cash and cash equivalents from 31 December 2017 to 31 December 2018 was \$38.4 million. Cash and cash equivalents at the end of Q4 2018 were \$54.3 million.

THE FLEET

By the end of the fourth quarter 2018, the fleet consists of 15 container vessels:

Vessel Name	TEU	DWT	Built	Yard	Reefer plugs	Gear
Anne Sibum	1 036	13 172	2007	SSW Schicau Seebeck, Germany	250	Gearless
Grete Sibum	1 036	13 172	2008	SSW Schicau Seebeck, Germany	250	Gearless
Stefan Sibum	1 036	13 172	2008	SSW Schicau Seebeck, Germany	251	Gearless
FS Ipanema	1 794	25 860	2009	Taizhou Kouan, China	319	Gearless
Songa Bonn	1 970	28 632	2010	Hyundai Mipo, South Korea	442	Gearless
Songa Nuernberg	1 970	28 630	2010	Hyundai Mipo, South Korea	442	Gearless
O.M. Iridium	2 015	27 247	2008	Zhejiang Shipyard, China	506	Gearless
City of Beijing	2 564	34 333	2009	Xiamen Shipbuilding, China	342	Gearless
City of Hongkong	2 564	34 295	2009	Xiamen Shipbuilding, China	342	Gearless
City of Shanghai	2 564	34 269	2009	Xiamen Shipbuilding, China	342	Gearless
Songa Antofagasta	2 851	35 534	2008	Zhejiang Yangfan, China	638	Gearless
Nordic Stralsund	3 421	46 000	2014	Rongcheng Shenfei, China	538	Gearless
Songa Haydn	3 534	41 989	2010	Shanghai & Chengxi, China	595	Gearless
Songa Calabria	4 256	50 353	2010	Jiangsu New Yanzijiang, China	698	Gearless
Hammonia Toscana	4 957	62 272	2013	Jiangsu New Yanzijiang, China	600	Gearless

MARKET

Market, Outlook, Strategy and Forward-Looking Statements

CONTAINER MARKET IN Q4 2018

The charter market experienced a significant uptick during the first half of the year, whilst slowing down and going through a significant correction during Q4 2018. The 1 year time charter rates for 2,750 TEU box ship experienced a fall of ~20% during the 2H 2018. The full year of 2018 appear to have been affected by lack of profitability with the operators. Increasing bunker prices and relatively low box rates, coupled with trade tensions and increased macroeconomic uncertainty appears to have affected operators to reduce their risk appetite, thereof affecting vessel demand and obtainable charter rates. Consolidation during the second half of 2018 meant changes in trade lanes which influenced the demand for feeders negatively during the fourth quarter.

The tonnage supply grew by 5.6% in 2018. Whilst consensus was a delivery of 1.7 mTEU in new container carrying capacity, the fleet only grew by 1.3 mTEU. The high scrapping number of 2017 (0.3 mTEU) did not continue into 2018 due to the improved rates during 1H 2018. Scrapping ended at 0.1 mTEU, a number significantly lower than both 2016 and 2017, and actually representing the lowest scrapping number since 2011. The low scrapping levels is a direct reflection of the uplift in earnings compared to 2016/2017 levels. It furthermore illustrates the sensitivity scrapping levels have to charter earnings. The average age of scrapped vessels was 23 in 2018, up from 21 years in 2017 and only 19 years in 2016.

Vessels delivered during 2018 was highly concentrated in the largest vessel sizes, with close to 85% being delivered in sizes larger than 10,000 TEU. No new vessels were delivered in the size segment 4,000 TEU-10,000 TEU, a reflection of where the industry is going on vessel sizes crossing continents on their trade. Roughly 100 vessels representing 0.2 mTEU were delivered in the size segment below 4,000 TEU, the segment in which the majority of the Songa Container fleet is operating. As per February 2019, the total containership fleet was ~5,264 vessels as per year end 2018, of which the feeder fleet capacity sub-3.000TEU stood at 2,921 vessels.

The overall demand growth for container vessels was outpaced by the net supply growth in 2018. Demand grew by a total of ~4% versus ~5.6% growth in box ship capacity. However, looking at the feeder and intra regional trade segment, it is estimated that the trade growth will increase by ~5% going forward versus a fleet growth of ~1.5-2.0% year-on-year.

INDICATIVE MARKET TIME CHARTER RATES

700 TEU	N	All	5,300	5,300	5,200	-1.9%
1,100 TEU	Y	All	6,750	6,500	6,300	-3.1%
1,700 – 1,800 TEU	Y	All	9,100	8,000	7,000	-12.5%
2,400 – 2,600 TEU	Y	All	11,000	10,000	10,000	0.0%
2,700 – 2,800 TEU	N	All	10,600	10,000	9,250	-7.5%
3,300 – 3,600 TEU	N	All	10,750	10,250	9,750	-4.9%
4,000 – 4,500 TEU	N	< 32.2 m	11,000	10,000	9,500	-5.0%
5,000 – 5,300 TEU	N	< 32.2 m	10 000	8 500	7 000	-17.6%
4,500 – 5,400 TEU	N	> 32.3 m	13,750	13,250	13,000	-1.9%
5,500 – 6,000 TEU	N	All	9,500	8,750	9,250	+5.7%
6,300 – 7,000 TEU	N	All	12,000	10,500	11,500	+9.5%
8,000 – 9,000 TEU	N	< 48 m	12,500	12,500	14,000	+12.0%

Source: Maersk Broker January 2019 report

OUTLOOK AND STRATEGY

Fourth quarter was an active quarter for Songa Container AS. The Company entered into purchase contracts for scrubbers on its fleet, as well as refinancing all outstanding loans with a 3 year secured bond of USD 130 million.

The Company will continue its present chartering strategy with its fleet employed in a mix of revenue sharing pools and on direct TC contracts with durations depending on the prevailing market at any given time. The Company's low cash breakeven based on 15 sailing vessels excluding CAPEX/dry docking costs should enable the Company to successfully manage its CAPEX program and still have a sound buffer to withstand a prolonged period of corrected charter rates going forward.

The Board of Songa Container is satisfied with the size of the fleet of the Company. Going forward, much focus will be on the CAPEX program related to the retrofit of exhaust gas cleaning systems ("EGCS", or "scrubbers"). The Company is one of very few tonnage providers in the container feeder segment able to offer the Liner Operators vessels equipped with scrubbers.

The Company remains firm in its belief that the strategy of installing scrubbers will enable the Company to provide a technically proven, environmentally beneficial, commercially attractive and risk mitigating fleet of container vessels to the Liner Operators for their future business development. Due to the very low penetration of scrubber-fitted container vessels in the feeder segment, the Company expects to have a comparative advantage on its fleet compared to its peers. Whilst there are still many uncertainties concerning the consequences surrounding the implementation of the IMO2020 regulation, the Company believes that taking a position to the IMO2020 regulation by retrofitting scrubbers in a worst case scenario, represents an opportunity to maximize its fleet utilization.

The Company was set up as an asset play on the container market in 2017. The strategy remains unchanged.

Going forward, the Company expects there to be a modest recovery of market conditions in 2019. Net supply growth of tonnage is expected to slow from 2018 levels, giving grounds to expect a tightening of market conditions and an increase in obtainable charter rates. The newbuilding orderbook is at a low level historically with a predictable delivery schedule up to 2021. Fleet capacity growth for the container sector is expected to moderate to ~3.0% in 2019 and 2020, unadjusted for effects concerning vessels spending time out of service to adjust for the IMO2020 regulations. Some analysts expect the potential consequences of this to represent a reduction of fleet capacity growth mentioned above of 1% p.a.

The container shipping is in the frontline of exposure to macroeconomic shifts and world economic growth. The outcome of the trade talks between the world's two largest exporting and importing countries will have an impact on the business.

FORWARD-LOOKING STATEMENTS

Forward-looking statements presented in this report are based on various assumptions. The assumptions were reasonable when made but are subject to uncertainties and contingencies that are difficult or impossible to predict. The Company cannot give assurances that expectations regarding the outlook will be achieved or accomplished.

RISK FACTORS

Risk Factors and Responsibility Statement

MAIN RISK FACTORS

The Company is through its operations exposed to a variety of market, operational and financial risks. The risk factors below are a summary of the risk factors that might affect the Company. The order of appearance is not intended to indicate importance or likelihood of occurrence.

- The demand for, and the pricing of the underlying assets depend, among other things, on the global economy and global trade growth, ordering of new vessels and scope of future scrapping. Future obtainable day rates may not be sufficient to cover operating expenses.
- All vessels carry pollutants. Accordingly, there will always be certain environmental risks and potential liabilities involved in the ownership of commercial shipping vessels. The Company's insurances and indemnities may not adequately cover all risks or expenses.
- The Company is a relatively newly formed entity with limited operating history upon which to evaluate the Company's likely performance.
- The Company's operations are subject to regulations and restrictions governing health and safety as well as environmental requirements, social impacts, and other laws and regulations. Changes in legal, governmental, tax and regulatory regimes within the relevant jurisdictions may have an adverse effect on the Company's business.
- The Company's success will materially depend upon the skill and expertise of key persons involved in the management of the Company.
- Political and economic policies may affect the Company's business and results of operations.
- The financial performance of the Company depends heavily on its counterparties' ability to perform their obligations under agreed charter parties.
- The Company may not have sufficient funds to make the required redemption of Bonds upon a Change of Control Event and the Bonds may be subject to optional redemption.
- Norwegian government issued a white paper in October 2015 describing a tax reform for the period 2016-2018 which includes the possible introduction of withholding tax on interest payments from Norway. Any changes in Norwegian law with respect to the possible introduction of withholding tax on interest (and possibly with retroactive effect), may result in the Bondholders receiving a lower coupon payment than originally agreed in the Bond Terms since the Company is under no obligation to make any gross up on interest in order to guarantee that the investors will receive the coupon payments in full (without any such deductions).
- The Songa City Vessels (as defined in the Bond Presentation/Bond Term Sheet) are not currently owned by the Company, but subject to contractual purchase options in favour of Songa City AS, and the transfer of legal title and ownership is dependent on the counterparty granting such purchase options' ability to comply with their obligations under the Option Agreements (as defined in the Bond Presentation/Bond Term Sheet).
- The Company will conduct a CAPEX program as described in the Bond Presentation/ Bond Term Sheet and this is subject to risk. All related items, including, but not limited to, cost, off-hire and positioning may deviate from the company's estimates.
- Fuel prices are volatile. Significant changes in future fuel prices may have material adverse effect on the Company's business.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that this condensed set of financial statements have been prepared in accordance with Norwegian Accounting Act of 1998 and generally accepted accounting principles, and gives a true and fair view of the Company's assets, liabilities, financial position and profit as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during this quarter of the financial year and their impact on the set of financial statements, and a description of the main risks and uncertainties going forward.

Oslo, 1 March 2018

The Board of Directors of Songa Container AS

Arne Blystad
Chairman

Magnus Leonard Roth
Director

Jon Christian Syvertsen
Director

Fredrik Platou
Director

Rowil Ponta
Director

FINANCIAL INFORMATION

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

in \$ thousands	Q4 2018	YTD Q4 2018	YTD Q4 2017
	(Unaudited)	(Unaudited)	
Time charter revenue	9 007	33 099	9 225
Gain on non-current asset			1 976
Total operating income	9 007	33 099	11 201
Ship operating expenses	5 402	18 968	8 216
General and administrative expenses	1 328	3 471	875
Depreciation	1 465	5 426	1 868
Total operating expenses	8 195	27 865	10 959
Operating profit (-loss)	812	5 235	241
Interest income	597	1 595	2
Interest expenses	-1 921	-4 498	-508
Other financial income (-expenses)	-1 721	-2 010	23
Net financial income	-3 044	-4 913	-483
Loss before taxes	-2 233	321	-241
Tax expense	0	74	109
Net result	-2 233	247	-350
Total comprehensive result	-2 233	247	-350

CONDENSED STATEMENT OF FINANCIAL POSITION

in \$ thousands	31.12.2018	31.12.2017
	(Unaudited)	
Goodwill		16
Vessels	110 385	86 565
Docking	4 383	2 956
Project under construction	3 701	-
Long-term receivables	31 840	-
Total non-current assets	150 309	89 537
Inventories	781	560
Trade receivables	789	1 258
Other receivables	1 956	2 053
Cash and cash equivalents	54 331	15 914
Total current assets	57 857	19 785
TOTAL ASSETS	208 167	109 321
Share capital	7 325	5 925
Share premium	65 925	53 320
Other paid-in capital	-4	-0
Retained earnings	-823	-147
Total equity	72 423	59 098
Minority interest	2 070	2 442
Total equity incl. Minority interest	74 493	61 540
Interest-bearing debt	128 259	44 348
Total non-current liabilities	128 259	44 348
Trade payables	3 282	1 164
Income taxes payable	76	109
Other liabilities	2 057	2 161
Total current liabilities	5 415	3 434
Total liabilities	133 674	47 782
TOTAL EQUITY AND LIABILITIES	208 167	109 321

CONDENSED STATEMENT OF CASH FLOWS

in \$ thousands	YTD Q4 2018 (Unaudited)
Loss before taxes	321
Tax payables	-35
Depreciation	5 426
Net change in inventories, trade receivables/payables	2 365
Net change in other current items	-1 113
Currency items	40
Net cash flow from operating activities	7 004
Purchase of vessels	-34 374
Purchase of long-term receivables	-32 110
Repayment long-term receivables	271
Net cash flow used in investment activities	-66 214
Long-term debt and bond issued	85 692
Fees related to long-term debt and bond issued	-1 321
Payment of equity	14 000
Incorporation costs	-1
Repayment of capital (minorities)	-743
Net cash flow from financing activities	97 627
Net change in cash and cash equivalents	38 417
Cash and bank deposits at beginning of period	15 914
Cash and bank deposits at end of period	54 331