



Songa Container AS

Financial Report Q1 2019

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SONGA CONTAINER

First Quarter 2019 Highlights, Events, Results and Fleet

FIRST QUARTER 2019 HIGHLIGHTS

Songa Container AS' (the Issuer and its subsidiaries, hereinafter the "Company") net loss in Q1 2019 was -\$1.94 million, compared to a net loss of -\$2.36 million in Q4 2018¹. Please find highlights as follows:

- EBITDA was \$2.22 million in Q1 2019.
- Adjusted Time Charter Equivalent (TCE²) in Q1 2019 was \$9 242 per day.
- Total time charter equivalent earnings³ were \$11.4 million in Q1 2019.
- Total Operating days⁴ were 1 350 in Q1 2019. Total Trading days⁵ was 1 237 days, implying a utilization of 91.65%
- Operating expenses (OPEX⁶) in Q1 2019 were \$5 829 per day.

FIRST QUARTER 2019 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 Songa Toscana, Songa Antofagasta and Songa Calabria were cancelled with the respective technical managers as well as crew managers.

SUBSEQUENT EVENTS:

- During April 2019, the management of the vessel Songa Antofagasta and Songa Toscana was handed over to Hartmann.
- During April 2019, the management of the vessel Songa Calabria was handed over to Lauterjung/Sunship.

¹ The audited version of the 2018 Financial Statements resulted in a small adjustment of the 2018Q4 numbers compared to last reporting.

² **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.

³ **Time charter equivalent revenue** is operating income and other operating income (-expenses).

⁴ **Operating days** per day represents the number of ownership days of consolidated vessels during the reporting period.

⁵ **Trading days** are ownership days minus days without revenue, including commercial, uninsured technical and dry dock related off-hire days.

⁶ **Operating Expenses per day (OPEX)** represents operating expenses divided by the number of ownership days of consolidated vessels during the reporting period.

FIRST QUARTER 2019 RESULTS

in \$ thousands		
Financial performance	Q1 2019	Q4 2018
Operating revenue	8 953	9 115
Operating expenses, incl. G&A and depr.	8 389	8 472
Operating profit (-loss)	564	643
EBITDA	2 223	2 297
Interest income from long-term receivables	610	597
Net financial result	-2 478	-2 999
Net result	-1 939	-2 364
Financial position	31.03.2019	31.12.2018
Total assets	203 516	207 976
Cash and cash equivalents	49 839	54 376
Total equity	71 970	74 367
Cash flow statement	Q1 2019	Q4 2018
Net cash flow from operating activities	-2 599	7 004
Net cash flow used in investing activities	-1 457	-66 214
Net cash flow from financing activities	-482	97 627
Net change in cash and cash equivalents	-4 538	38 417

Financial performance

The Company's operating profit decreased by \$0.08 million in Q1 2019 compared to the last quarter, from a profit of \$0.64 million in Q4 2018 to a profit of \$0.56 in Q1 2019. EBITDA in Q1 2019 decreased by \$0,7, from a profit of \$2,3 in Q4 2018 to \$2,2 in Q1 2019. The Company reports a net loss of \$1.9 million in Q1 2019, compared to a net loss in Q4 2018 of \$2.4 million.

Operating income decreased from \$9.1 million in Q4 2018 to \$8.9 million in Q1 2019. The interest income from loans toward three vessel owning companies remains stable.

The operating expenses decreased with \$0.08 million in Q1 2019 compared to Q4 2018.

Net financial loss was \$2.5 million in Q1 2019, down from a net financial loss of \$3.0 million in Q4 2018.

The development in the financial performance mainly results from one vessel being idle and one vessel being idle due to dry dock. The bond was issued in December 2018 and extraordinary expenses related to the refinancing occurred. The interest expenses have increased due to the increase in interest-bearing debt.

Financial position

The Company's total assets was \$203.5 million at 31 March 2019, down from \$208.0 million at 31 December 2018. Non-current assets, which comprise of vessels delivered and acquired loans, decreased from \$149.9 million at 31 December 2018 to \$149.7 million at 31 March 2019. The decrease is mainly due to the depreciation of the vessels.

The total equity has decreased from \$74.37 million at 31 December 2018 to \$71.97 million at 31 March 2019, while the interest-bearing issued bond remains stable after the bond issued in December 2018.

Cash flow

Net cash flow from operating activities was negative with \$2.6 million in Q1 2019 and is mainly due to one vessel being idle, one vessel being idle due to dry dock and development in short-term receivables/payables. Net cash flow from

financing activities was negative with \$0.5 million. \$1.5 million were used in investment activities in Q1 2019 and is mainly related to the scrubber investment and one dry dock. Net change in cash and cash equivalents from 31 December 2018 to 31 March 2019 was negative with \$4.5 million. The net change in cash and cash equivalents in Q4 2018 was due to the bond issuance and the financing of the CAPEX program. Cash and cash equivalents at the end of Q1 2019 were \$49.8 million.

THE FLEET

By the end of the first quarter 2019, 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
Songa 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
Songa Toscana*	4 957	62 272	2013	Jiangsu New Yanzijiang, China	600	Gearless

*The vessel O.M. Iridium changed name to Songa Iridium and the Hammonia Toscana changed name to Songa Toscana during Q1 2019.

Total trading days in first quarter was 1,237 out of the total operating days of 1,350. This is mainly due to the vessel Stefan Sibum entering drydock in March and the vessel Songa Iridium being unemployed for the whole quarter.

CAPEX PROGRAM

The preparations of the retrofitting program have continued to progress during the first quarter 2019. The scanning of the vessels together with final design of retrofitting the scrubbers are in the final stages for most of the vessels. The first vessels are scheduled to be retrofitted during July / August 2019, depending on the actual redelivery dates under the relevant Charter Parties.

MARKET

Market, Outlook, Strategy and Forward-Looking Statements

CONTAINER MARKET IN Q1 2019

The correction of the market that took place during 2H 2018 carried on into the beginning of the quarter whilst a basket of charter rates ended up 6% at the end of the quarter compared to early January. The idle fleet was reduced towards the end of the quarter, in particular for the larger vessel sizes where rates increased significantly towards the end of the quarter. As an example, according to Clarksons, the 1 year charter rate for a 6,800 TEU ship increased from \$11,000 pd at the end of 2018 to \$17,500 at the end of Q1 2019, whilst the charter rate for a 1,700 TEU increased ~4% from beginning to the end of the quarter.

The pace of recycling of ships increased during Q1 19 compared to 2018 numbers. The pressure on charter market rates incentivized older and inefficient vessels to be taken out, leaving the final scrapping numbers at the end of Q1 2019 representing more than half of all tonnage scrapped FY 2018. Demolition in 2019 is expected to more than double compared to 2018, reaching ~0.3 mTEU. The impact of regulatory change to equipment requirements such as BWTS and sulphur regulations has strengthened the expectations of increased demolitions going forward.

The fleet growth during Q1 2019 was 0.5% due to a reduced level of deliveries compared to same period last year. It is expected that the total fleet capacity delivered will fall by 35% in 2019 compared to 2018. The order book currently stands at 13% of fleet capacity, a historically low number, whereof 75% of the orderbook consists of vessels above 12,000 TEU. The largest vessels accounted for ~70% of the capacity delivered during the quarter. The feeder segment had 0% supply growth during the quarter, and the feeder fleet expansion is expected to be outpaced by demand growth going forward.

The sale and purchase market continued to be subdued during the quarter with relatively low transaction volumes with less than half number of vessels changing hands during Q1 2019 compared to the same period last year. The improvement in charter rates and sentiment of late has yet to materialize into increased activity and prices, possibly due to all the various opinions surrounding the consequences of the paradigm shift ahead of the industry as a result of IMO 2020.

As per May 2019, the total containership fleet was ~5,264 vessels as per end of Q1 2019, of which the feeder fleet capacity sub-3,000TEU stood at 2,926 vessels.

INDICATIVE MARKET TIME CHARTER RATES

FIRST QUARTER

Size	Gear	Beam	Jan 2019	Feb 2019	Mar 2019
700 TEU	N	All	5,000	5,000	5,000
1,100 TEU	Y	All	6,500	6,700	6,700
1,700 – 1,800 TEU	Y	All	7,100	7,100	7,400
2,400 – 2,600 TEU	Y	All	9,750	10,000	10,000
2,700 – 2,800 TEU	N	All	8,800	8,600	8,700
3,300 – 3,600 TEU	N	All	8,500	8,500	8,500
4,000 – 4,500 TEU	N	< 32.2 m	8,600	8,500	8,500
5,000 – 5,300 TEU	N	< 32.2 m	7,000	7,000	7,300
4,500 – 5,400 TEU	N	> 32.3 m	13,500	14,500	15,000
5,500 – 6,000 TEU	N	All	9,250	11,500	13,500
6,300 – 7,000 TEU	N	All	14,500	15,000	17,500
8,000 – 9,000 TEU	N	< 48 m	16,250	19,000	22,500

Source: Maersk Broker April 2019 report

AS PER MAY 2019

Size	Gear	Beam	Feb 2019	Mar 2019	Apr 2019
700 TEU	N	All	5,000	5,000	5,000
1,100 TEU	Y	All	6,700	6,700	6,500
1,700 – 1,800 TEU	Y	All	7,100	7,400	8,000
2,400 – 2,600 TEU	Y	All	10,000	10,000	9,500
2,700 – 2,800 TEU	N	All	8,600	8,700	9,000
3,300 – 3,600 TEU	N	All	8,500	8,400	8,500
4,000 – 4,500 TEU	N	< 32.2 m	8,500	8,500	8,750
5,000 – 5,300 TEU	N	< 32.2 m	7,000	7,300	8,500
4,500 – 5,400 TEU	N	> 32.3 m	14,500	15,000	15,000
5,500 – 6,000 TEU	N	All	11,500	13,500	14,500
6,300 – 7,000 TEU	N	All	15,000	17,500	17,500
8,000 – 9,000 TEU	N	< 48 m	19,000	22,500	24,000

Source: Maersk Broker May 2019 report

OUTLOOK AND STRATEGY

The first quarter was a quarter devoted to ongoing operations and preparing for the scrubber retrofit of the Company's fleet that will take place later in the year.

The Company's chartering strategy remains unchanged 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 Board of Songa Container is satisfied with the size of the fleet of the Company. Going forward, focus is 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 is closely working with its commercial managers and potential Charterers to develop a fuel profit sharing clause which now is in the process of being deployed in the charter market for the vessels coming up for contract renewals.

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. The Company is experiencing signals that the charter market is positively interested in adopting this strategy. This reaffirms our belief that the principally important concept of fuel profit sharing entices end users to charter the Company's vessels ahead of similar tonnage, at appealing fuel profit sharing ratios.

The Company expects the historically low order book to yield moderate capacity growth for smaller tonnage going forward and expects gradually more favourable conditions for the Company's fleet in the remaining part of 2019 and 2020. The effects of tonnage being taken out of the market for scrubber/BWTS retrofit is expected to contribute to a reduction of the implied fleet capacity growth. The expected increase in bunker prices following the IMO2020 sulphur cap is expected to increase slow steaming reducing the fleet capacity growth. The shipping industry is approaching a very important crossroad wherein the Company remains confident in its scrubber strategy.

The container market is in the frontline of exposure to macroeconomic shifts and world economic growth. The unresolved trade war between China and the US is currently affecting the sentiment of new business development more than measurable negative effects to the containerized trade. The potentially coupled consequences of an unresolved Trade War and a steep increase in diesel prices because of the IMO2020 sulphur cap is one of the largest threats to world economic growth. It should be expected that this would spill over to the container shipping market unless being resolved. With both parties of the Trade War presumably being incentivized to come to an agreement, the Company remains optimistic about the foreseeable future within the markets it operates.

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, 31 May 2019

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	Q1 2019	Q4 2018	YTD Q4 2018
	(Unaudited)		
Time charter revenue	8 953	9 115	33 208
Total operating income	8 953	9 115	33 208
Ship operating expenses	5 746	5 665	19 232
General and administrative expenses	985	1 153	3 296
Depreciation	1 658	1 653	5 614
Total operating expenses	8 389	8 472	28 142
Operating profit (-loss)	564	643	5 066
EBITDA	2 223	2 297	10 680
Interest income	680	597	1 595
Interest expenses	-2 872	-1 913	-4 490
Other financial income (-expenses)	-286	-1 684	-1 974
Net financial income	-2 478	-2 999	-4 868
Loss before taxes	-1 914	-2 356	198
Tax expense	25	8	82
Net result	-1 939	-2 364	115
Total comprehensive result	-1 939	-2 364	115

CONDENSED STATEMENT OF FINANCIAL POSITION

in \$ thousands	31.03.2019	31.12.2018
	(Unaudited)	
Vessels	108 585	110 298
Docking	4 716	4 315
Project under construction	4 951	3 517
Long-term receivables	31 471	31 793
Total non-current assets	149 722	149 923
Inventories	1 134	842
Trade receivables	755	794
Other receivables	2 066	2 041
Cash and cash equivalents	49 839	54 376
Total current assets	53 794	58 053
TOTAL ASSETS	203 516	207 976
Share capital	7 325	7 325
Share premium	65 925	65 925
Other paid-in capital	-	-
Retained earnings	-3 245	-839
Total equity	70 005	72 411
Minority interest	1 965	1 956
Total equity incl. Minority interest	71 970	74 367
Interest-bearing debt	128 292	128 286
Total non-current liabilities	128 292	128 286
Trade payables	1 082	3 038
Income taxes payable	54	81
Other liabilities	2 118	2 204
Total current liabilities	3 254	5 323
Total liabilities	131 546	133 609
TOTAL EQUITY AND LIABILITIES	203 516	207 976

CONDENSED STATEMENT OF CASH FLOWS

in \$ thousands	YTD Q1 2019
	(Unaudited)
Loss before taxes	-1 914
Tax payables	-27
Depreciation	1 658
Net change in inventories, trade receivables/payables	-2 208
Net change in other current items	-112
Currency items	4
Net cash flow from operating activities	-2 599
Vessel related investments	-1 780
Repayment long-term receivables and related items	323
Net cash flow used in investment activities	-1 457
Bond issuance costs	6
Currency items	-488
Net cash flow from financing activities	-482
Net change in cash and cash equivalents	-4 538
Cash and bank deposits at beginning of period	54 376
Cash and bank deposits at end of period	49 838