MPC CONTAINER SHIPS INVEST B.V.

# ANNUAL REPORT 2019

# CONTENTS

# MANAGEMENT BOARD'S REPORT

## BUSINESS OVERVIEW AND CORPORATE DEVELOPMENT

MPC Container Ships Invest B.V. (the “Company”, together with its subsidiaries the “Group”) is a private limited liability company incorporated and domiciled in the Netherlands, with registered address at Oever 5, 3161 GR Rhoon, and Dutch enterprise number 69545103. The Company was incorporated on 6 September 2017 and its operating activity commenced in September 2017. The Group’s consolidated financial statements include the financial reports of the Company and its subsidiaries. he principal activity of the Group is the investment in, as well as operating and financing of, container vessels. The Group has a focus on feeder vessels, that are chartered out to liner shipping companies and regional carriers.

The Company is controlled by MPC Container Ships ASA (the "Parent"), a public limited liability company incorporated and domiciled in Norway, with registered address at Munkedamsveien 45 A, 0250 Oslo, Norway and Norwegian enterprise number 918 494 316. The Group is included in the consolidated financial statements of the Parent. The shares of the Parent are listed on the Oslo Stock Exchange under the ticker “MPCC”.

In the first half of 2019, the Group declared a constructive total loss for vessel AS Fortuna after her grounding in September 2018. The vessel was fully insured and proceeds exceeded the book value of the vessel. The vessel was sold and delivered to new owners in June 2019. A total gain on sale of vessel amounting to USD 3.1 million is reflected in the profit and loss accounts for 2019.

On 5 February 2020, a subsidiary of the Group entered into agreements for the sale of AS Lauretta, a 1,000 TEU vessel. The total sales price agreed to is USD 6.5 million and the vessel will be delivered to its new owner during H1 2020, resulting in an impairment of USD 1.5 million recognized in Q4 2019.

Further, on 14 February 2020, the Parent announced the successful completion of an equity placement supported by three large shareholders. The private placement was later approved by the extraordinary general meeting on 9 March 2020. In the transaction, the Parent issued 7,250,000 new shares at a subscription price of NOK 17.25 per share, thereby raising NOK 125 million to maintain flexibility and ensure additional liquidity reserves in a continuously volatile market impacted especially by the Novel Coronavirus (“COVID-19”).

**Transition to 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 five vessels with exhaust gas cleaning systems (“scrubbers”) while the remaining 34 vessels undergo a fuel change-over programme.

As per mid-February 2020, all five vessels have successfully completed scrubber retrofitting’s. For the same vessels, the Group has agreed charter contracts with major operators at attractive terms and fuel-saving sharing mechanisms linked to the fuel spread between compliant low-sulphur fuel and high-sulphur fuel (some vessels until 2022/2023 while others on shorter periods until end-of 2020/early 2021).

For the remaining fleet of 34 vessels subject to operations on compliant, low-sulphur, fuel oils, the Group completed an extensive fuel change-over programme with individual ship implementation plans and tank cleaning activities. At the beginning of 2020, the 34 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 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.

As of 31 December 2019, the Company's share capital is EUR 1 comprised by 1 share, with a nominal value of EUR 1. As of the same date, the Group is the owner of 39 container vessels between 1,100 and 2,800 TEU.

**Key performance indicators[1] 2019**:

- Total ownership days of the vessels were 14,235 (2018: 13,246)
- Total trading days of the vessels were 12,664 (2018: 12,206)
- The utilization in 2019 was 89% (2018: 91%)
- Average time charter equivalent ("TCE") was USD 8,272 per day in 2019 (2018: USD 9,395)
- Average vessel operating expenditures ("OPEX") was USD 4,891 per day in 2019 (2018: USD 5,000)
- Equity ratio as of 31 December 2019 was 48.0% and the leverage ratio was 47.3% (2018: 50.5% and 46.8%)

**COVID-19**

While the global economy was expected to recover in 2020, the outbreak of COVID-19 has affected the markets and postponed economic recovery with severe implications around the globe. 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"). Until mid-February 2020, the virus spread extensively in China, inducing nearly a standstill in production. Because of the importance of the Chinese economy for global production and international trade (accounting for 22% of global imports), ports and yards closures, transportation constraints and interruptions of logistical chains immediately led to a spill-over of the economic implications to the rest of the world. Global gross domestic product ("GDP") growth forecasts were significantly reduced downwards. The transportation and logistics industry in particular, including seaborne trade, will face severe disruptions, and stock markets have plunged. The NYSE halted trading both on Monday and Thursday of Week 11. Moreover, the breakout of an oil price war between Russia and Saudi Arabia led to significant decline in the oil price.

The reduced Chinese production and port activities in the beginning of February had significant effects on operations world-wide. Seaborne container trade was strongly impacted as operators announced void sailings or kept on sailing with only 10% of cargo loaded. In the first two months of 2020, 334 fixtures were concluded by vessels across all size categories, which was notably below the comparable figure during the same period in 2019. Reduced port and yard activity also posed risks to technical operations with potential delays in the delivery of spare-parts and effects on outstanding class services, one consequence being that class renewals are expected to require more lead time due to limited yard availabilities and limited personnel. Further, crew-related risks such as crew changes and follow-up effects on physical and psychological health are keeping operators busy.

During these uncertain weeks, the Parent has implemented detailed business continuity plans with its partners and suppliers, securing the continuation of operations while also caring about the health and well-being of its employees. Liquidity and covenant risks are being monitored on an on-going basis. The sale of two vessels in a challenging market at acceptable prices, as well as the successful completion of a private placement for the Parent of 7,250,000 new shares raising gross proceeds of NOK 125 million subsequent to the balance sheet date have ensured additional liquidity in a volatile and uncertain market environment.

[1] See separate section Alternative Performance Measures in this annual report for further description

The Parent concluded 36 fixtures by mid-March 2020 with an average duration period of 4.9 months, securing continuous employment of the vessels. The fixtures were made on time charter rates with sufficient margin to the average OPEX per day within the Group. Accordingly the Parent has secured cash flows on these vessels in an environment of increasing uncertainty in relation to trade demand.

Due to reduced demand in the market, time charter rates have decreased since the beginning of 2020. The ClarkSea index is down 26% year-to-date. However, the ClarkSea year-to-date average is still 22% above the average for the same period in 2019. Combined with the recent pick-up of Chinese port and yard activities, these are encouraging data points for the container shipping industry. In China, the number of new COVID-19 cases is significantly reduced as of late, production is returning to normal, chartering activity has improved and port calls has already reached 2019 levels. Meanwhile, the virus is spreading aggressively across Europe and the US. Governments have implemented unprecedented measures such as travel bans and lockdowns to mitigate further spread. Implications are highly uncertain and in need of cautious monitoring as the risk of a severe recession remains. According to figures recently published by Clarksons Research, analysts expect a reduction in 2020 global GDP growth to 1.4% while Chinese GDP is expected to barely surpass 4% over the same period. Seaborne container trade growth forecasts are revised downwards by 1.2 percentage points to a modest 1.6% in 2020.

Since temporary restrictions in China driven by the outbreak of COVID-19 and impacting global trade were initiated after the balance sheet date, this is considered a non-adjusting event. Future charter rates and utilization are the key drivers for the Group's liquidity and financial results. See also Note 13 Vessels, Note 21 Financial risk management and Note 24 Subsequent events.

## CONSOLIDATED FINANCIAL RESULTS

### INCOME STATEMENT

The Group's vessels are chartered out on time charter contracts to global and regional liner shipping companies. Operating revenues during 2019 was USD 113.2 million (2018: USD 122.7 million). Vessel-related expenses were USD 97.5 million (2018: USD 90.4 million), resulting in gross profit from vessel operations of USD 15.7 million (2018: USD 32.3 million). The decrease in gross profit mainly relates to lower utilization and TCE per day resulting in a reduction USD 9.5 million and higher OPEX per day resulting in a reduction of USD 6.3 million.

Administrative expenses, depreciation and impairment, gain on sale of vessel, other income and other expenses totalled USD 25.7 million in 2019 (2018: USD 20.7 million). The Group reported an operating loss (EBIT) of USD 10.0 million, compared to an operating profit of USD 11.6 million in 2018.

Finance costs amounted to USD 15.7 million in 2019 (2018: USD 14.7 million). Net loss for the twelve-month period ending 31 December 2019 was USD 25.9 million (2018: USD 3.1 million). The negative development in net profit/loss compared to 2018 was mainly driven by higher costs due to the first twelve months of operation for the full fleet, less revenues due a softening of the market and significant off-hire related to scrubber installations, higher depreciation and an impairment, partly offset by a gain on disposal of a vessel. The Management Board has proposed that the net loss for the period is allocated to retained losses.

### FINANCIAL POSITION

The Group's total assets amounted to USD 412.9 million as of 31 December 2019 (31 December 2018: USD 414.0 million). Non-current assets in the amount of USD 391.5 million (31 December 2018: USD 388.0 million) mainly comprise of vessels taken over and operated by the Group. The increase in non-current assets during 2019 was mainly caused by significant investments into scrubbers for five of the vessels within the Group.

Total equity was USD 198.2 million as of 31 December 2019 (31 December 2018: USD 208.3 million) and non-current financial liabilities were USD 195.3 million (31 December 2018: USD 194.0 million), resulting from a bond issued by the Company in both 2017 and 2018.

In 2019, capital injection of USD 19.2 million from the Parent took place (2018: USD 86.9 million).

**CASH FLOW**

During 2019, the Group generated positive cash flow from operating activities of USD 4.5 million (2018: USD 9.0 million). The cash flow absorbed by investing activities into vessels was USD 27.4 million (2018: USD 145.9 million) and mainly related to investments into scrubbers on 5 of the vessels, dry-docking and other vessel upgrades. The positive cash flow from financing activities of USD 19.5 million (2018: USD 96.6 million) was mainly due to the capital injection from the Parent during the year.

Largely driven by the above, the total net change in cash and cash equivalents was USD -3.4 million in 2019, compared to USD -40.3 million in 2018.

Cash and cash equivalents are USD 15.8 million as of 31 December 2019 (31 December 2018: USD 19.3 million), whereof USD 10 million is restricted cash related to the minimum liquidity terms in the bond agreements.

## GOING CONCERN

The Management Board confirms that the financial statements of the Company have been prepared on a going concern basis. This assumption is based on profit forecasts for 2020 and long-term strategic forecasts for both the Group and Parent as guarantor. The Group's economic and financial position is deemed sound.

## WORK ENVIRONMENT AND EQUAL OPPORTUNITIES

The Group is still in a growth phase of its operations after the delivery of the remaining vessels in 2018. At present, no further significant investments are expected in 2020. As of 31 December 2019, the Group has only one employee. It has assessed its working environment, leave of absence, incidences or reporting of work-related accidents resulting in significant material damage or personal injury occurred during the year. There are no issues here to report.

The Group is committed to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith.

The Group is working actively, determined and systematically to encourage equal rights within our business, and aims to be a workplace with equal opportunities. This is reflected in the Parent's Code of Conduct, applicable to the Company and to the entities controlled by the Parent and to all employees, directors, officers and agents.

## CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

The Group is subject to the corporate governance and corporate social responsibility requirements as set out by the Parent. The Group shall:

- operate our business with integrity and respect laws, different cultures and human dignity;
- operate our business in accordance with fundamental human rights as enshrined in the United Nations Universal Declaration of Human Rights and follow the standards of the International Labour Organization, which are guiding principles encouraged and implemented by the European Union;
- show consideration for the local communities in which we are a part of
- contribute to learning and distribution of knowledge; and

- establish long-term working relationships and utilise the shipping sector's expertise for the further development of the industry.

The corporate governance principles of the Company are based on the corporate governance principles as adopted by the Board of Directors of the Parent.

Please see the Corporate Governance Report and Corporate Social Responsibility Statement embedded in the 2019 Annual Report of the Parent. The Corporate Governance Report, Corporate Social Responsibility Statement and the Parent's Code of Conduct may also be found on the Parent's website: www.mpc-container.com.

## MANAGEMENT BOARD AND RISK & AUDIT COMMITEE

As of 31 December 2019, the Management Board of the Company comprises three men. The company aims to have women represent at least 30% of its members of the Management Board. Any searches for new board members will focus on women if the target of 30% has not been achieved.

Corporate management fees for an amount of USD 1.6 million are charged by the Parent to the Group in 2019, which include remuneration for key executive positions and other admin support services. The audit committee requirements within Article 2(2) of the Royal Decree of 26 July 2008 is served through by the Management Board of the Company. The Risk & Audit Committee is considered to have sound knowledge of the relevant sector of the Company, to be independent of the Company and to have the required competence.

## CONTAINER MARKET UPDATE

### GLOBAL ECONOMY

Due to Implications of COVID-19 (see above), analysts expect a reduction of global GDP growth for full year 2020 down to 1.4% (from previously forecasted 3.3%). Growth prospects for China were downgraded significantly below 5% this year.[2]

### 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 1.6% in 2020, already including the latest downward revisions due to COVID-19 of -1.2 percentage points. 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 situation as the economies get back to normal.[3]

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-regional trade disruptions are expected as soon as the reduced amount of containers leaving China arrive at other regional trade hubs. Disruptions may be short-dated as an increase in Chinese port calls and TEU lifts to levels seen 12 months ago is already observed.[4]

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[2] Clarksons Research, COVID-19: Shipping Impact Assessment, 16 March 2020, Update No 4.1
[3] Clarksons Research, Shipping Intelligence Network, March 2020; Clarksons Research, COVID-19: Shipping Impact Assessment, 16 March 2020, Update No 4.1
[4] Maritime Strategies International, MSI Horizon, March 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.[5]

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. It is thus expected that a significant share of newbuild deliveries will be postponed to 2021. The situation in China has meanwhile improved but subsequent effects in Europe and the US need to be monitored.

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.[6]

In accordance with above-mentioned market data, IMO 2020 effects will contribute in reducing net supply growth in 2020, whereas 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, Clarksons Research currently expects a 1.2 percentage point reduction and hence a "net demand growth" of 1.6% for 2020.[7]

**ASSET PRICES**

Newbuilding prices for larger feeder vessels (2,750 TEU gls) have decreased by 10% since the start of 2019, from USD 35.0 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.[8]

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).[9]

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[5] Clarksons Research, Shipping Intelligence Network, March 2020
[6] Alphaliner, March 2020
[7] Clarksons Research, Shipping Intelligence Network, March 2020
[8] Clarksons Research, Shipping Intelligence Network, March 2020
[9] Ibid.

## 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. As the situation seems to stabilize in China, the COVID-19 implications spill-over to the US and Europe with long-term implications still uncertain.

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. In China, recorded cases of new infections has already come down. Recently, other countries in the European Union and the US are affected. 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 1.6%, taking COVID-19 implications into account. On the supply side, due to vessels entering dry-dock for scrubber retrofitting, a net supply growth of only 1.2% is expected for 2020. A total of 92 vessels with 704,000 TEU carrying capacity are currently in dry-dock for scrubber installations. Of these, 13 ships totalling 27,500 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.[10]

[10] Clarksons Research, Shipping Intelligence Network, March 2020

# OUTLOOK AND STRATEGY

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. How severe long-term implications of COVID-19 may affect the global economy and the shipping industry in particular will depend crucially on how fast and extensive the virus will spread among major industrialized economies.

The Parent and the Group have taken measures with the sale of two 1,000 TEU vessels and the private placement with gross proceeds of NOK 125 million to cope with the volatile market environment and uncertainty, especially related to the COVID-19 outbreak. In addition the additional liquidity shall provide the Group with flexibility to take advantage of market opportunities once the markets return to normality.

The above mentioned uncertainty but also pre-emptive measures taken by the Parent and the Group confirm the strategic principles of the company maintaining a low cash break-even, prudent leverage profile and stringent capital allocation to ensure manoeuvrability under current conditions and to benefit from expected market improvements.

The Group does not conduct research and development activities and does not intend to employ additional own workforce.

# RISK FACTORS

The Company is exposed to a variety of risks. It is considered practically impossible to systematically and sustainably generate risk-free profit. Risks are part and parcel of every company's business activities, and dealing with these risks is among the most important entrepreneurial duties. The Company is a part of the systematic risk management system of the Parent, developed not only to satisfy the requirements set out by law but also to ensure dynamic growth for the Group. The objective of the Group's risk management is to manage, rather than eliminate, exposure to risks related to the successful conduct of the Group's business.

Through (i) quarterly reviews of the Group's most prominent areas of risk exposure and its internal control arrangements, (ii) management guidelines, (iii) the appointment of a Risk & Audit Committee on Parent level to act as a preparatory and advisory body for the Parent's Board of Directors (the "Board") and support the Board in the exercise of its responsibility for financial reporting, internal control and risk management and (iv) the appointment of a dedicated risk management unit at Parent level to perform risk monitoring and provide regular risk management updates to the Risk & Audit Committee, the Board aims to ensure that the Group has sound internal control systems for risk management that are appropriate in relation to the extent and nature of the Group's activities.

The Parent has identified approximately 52 Group-level risk factors divided into seven categories. The Risk Inventory is quantified and monitored taking a Probability-Impact approach. Each risk is assigned a Risk Owner within the Parent's organization and a defined set of countermeasures and control frequencies. A summary of the Group's risk categories is outlined below. Descriptions are not exhaustive, and the sequence of risk categories is not set out according to importance or priority. None of the below risks had a significant impact on the Group in 2019.

### MARKET AND INDUSTRY RISKS

As a supplier of ocean-going container vessels to the international sea trade, the Company is exposed to changes in trade patterns and the supply/demand for (imports/exports of) containerised goods caused by e.g. macroeconomic and geopolitical events, which in turn necessitates risk surveillance and mitigation procedures related to the charter market, fluctuation in vessel values and competitors, among others As recently seen with the COVID-19, see above for separate section. The Group strives to maintain a dynamic chartering strategy, a reliable fleet and a close dialogue with the shipping market intelligence community so as to proactively adjust operations according to prevailing and future market environments.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

Risks related to climate change impacts mitigation and adaptation, environmental management practices and duty care working and safety condition, respect for human rights, gender diversification, anti-bribery and corruption practices, and compliance to relevant laws, regulations and best-practise guidelines. See separate section “Sustainability report” and “Corporate Governance report” in the Annual report of the Parent for further description of the risks and how the Parent and then the Group performs measures to mitigate the relevant risks.

## PERFORMANCE RISKS

The Company’s performance depends heavily on the Group’s technical, operational, environmental and reputational factors that carries both risks and opportunities. The Group addresses these risk and opportunities by assigning responsibilities, monitoring and reporting routines to dedicated teams within its organization (e.g. asset management, treasury and owner controlling), utilizing and continuingly develop portfolio management tools, and by engaging subject matter consultants to conduct routine compliance and quality management assessments. In order to operate its business efficiently, the Company accepts a low to moderate risk appetite for certain operational and technical risks. Nevertheless, the Group stresses a zero tolerance for performance risks related to health, safety and the environment.

The Company’s vessels have insurance covering (where applicable) P&I, hull & machinery, loss of hire and crew negligence. Moreover, all vessels carry Loss Prevention, Safety and Quality manuals to ensure sound HSE routines. Third party contracting related to the Company’s and the Group’s performance shall comply with applicable laws and regulations, for instance and where applicable the International Maritime Organization’s ISM Code and the SOLAS, STCW and Maritime Labour conventions.

## LEGAL RISKS

The Company is exposed to changes in legal, tax and regulatory regimes within relevant jurisdictions as well as potential private litigation and public prosecutions. For operational considerations, the Company accepts a certain degree of legal risks. The Group seeks to mitigate these risks by maintaining a well-functioning risk management system, management guidelines and dedicated compliance and legal functions.

## PERSONNEL RISKS

The continued progress of the Group depends heavily on the knowledge and network of key personnel as well as access to new talent. Personnel risks are inevitable and hence acceptable to certain degree, but only in parallel with risk mitigation procedures such as pre- and post-hire preparations, routine employee development reviews, jour fixes and a methodical expansion of the Group’s human resources on business-critical processes.

## IT RISKS

IT and cyber risks make up an increasing share of a company’s risk universe, as evident from the 2017 WannaCry and NotPetya cyber attacks which disrupted a host of industries around the world, including the shipping sector. The Group purchases IT services from third parties that offer comprehensive security strategies that closely matches the Group’s business objectives, with an aim to reduce IT risks to an absolute minimum.

## FINANCIAL RISKS

The Group seeks to actively manage its financial risk exposures through the use of dedicated finance, treasury and owner controlling teams within its organization. The Company’s liquidity and covenant risks are monitored on an on-going basis, also considering latest macroeconomic events such as COVID-19, see above for separate section. Currency and interest rate risks are mitigated via financial instruments where deemed appropriate. The Group acknowledges that financial risks will not be eliminated in full, and accepts residual risks placed under systematic monitoring.

#### OTHER RISKS

From time to time, the Company will be required to consider major business initiatives which – if implemented – entail a considerable amount of costs and resources. Moreover, if executed without due care and planning, such strategic initiatives may have a material adverse impact on the Group. The need to consider major initiatives may arise from strategic considerations or from shifts in market dynamics or regulatory changes outside of the Group's control. The Group will seek to mitigate risks arising from such initiatives, as well as all other risks not assorted into the above-mentioned six risk categories, on a case-by-case basis by implementing e.g. project steering committees comprising relevant stakeholders/expertise, be it internal or external.

## FORWARD-LOOKING STATEMENTS

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

# RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the consolidated and company financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole. We also confirm to the best of our knowledge that the Management Board's report includes a fair review of the development and performance of the business and the position of the Group and a description of risks and uncertainties.

23 March 2020

The Management Board of
MPC Container Ships Invest B.V.

| | | |
|---|---|---|
| ____________________ | ____________________ | ____________________ |
| Lammert de Graaf | Constantin Baack | Hans Bouma |

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

| in USD thousands | Note | 2019 | 2018 |
|---|---|---|---|
| Operating revenues | 6 | 113,246 | 122,730 |
| Commissions | | -4,147 | -4,707 |
| Vessel voyage expenditures | 7 | -13,945 | -12,738 |
| Vessel operation expenditures | 8 | -73,450 | -67,340 |
| Ship management fees | | -5,980 | -5,604 |
| **Gross profit** | | **15,724** | **32,341** |
| Administrative expenses | 9 | -3,020 | -2,310 |
| Depreciation | 13 | -24,070 | -18,698 |
| Impairment | 13 | -1,469 | 0 |
| Other expenses | | -723 | -452 |
| Gain/loss sale of vessels | 13 | 3,129 | 0 |
| Other income | | 444 | 713 |
| **Operating result (EBIT)** | | **-9,986** | **11,593** |
| Finance income | 10 | 290 | 251 |
| Finance costs | 10. 16 | -16,087 | -14,954 |
| **Profit/Loss before income tax (EBT)** | | **-25,783** | **-3,110** |
| Income tax expenses | 11 | -108 | -30 |
| **Profit/Loss for the period** | | **-25,892** | **-3,140** |
| Attributable to: | | | |
| Equity holders of the Company | | -25,883 | -3,153 |
| Minority interest | | -9 | 13 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in USD thousands | Notes | 2019 | 2018 |
|---|---|---|---|
| Profit/loss for the period | | -25,892 | -3,140 |
| **Items that may be subsequently transferred to profit or loss** | | **-3,767** | **879** |
| Cash flow hedge reserve | 17 | -3,767 | 865 |
| Foreign currency | | 0 | 14 |
| **Items that will not be subsequently transferred to profit or loss** | | **0** | **0** |
| **Total comprehensive profit/loss** | | **-29,658** | **-2,261** |
| Attributable to: | | | |
| Equity holders of the Company | | -29,650 | -2,274 |
| Non-controlling interest | | -9 | 13 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| in USD thousands | Notes | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Assets** | | **412,911** | **414,040** |
| Non-current Assets | | 391,458 | 388,003 |
| Vessels | 13 | 381,458 | 376,507 |
| Long-term restricted cash | 14 | 10,000 | 10,000 |
| Other assets | | 0 | 1,496 |
| Current assets | | 21,453 | 26,037 |
| Inventories | | 2,501 | 3,545 |
| Trade and other receivables | 15 | 13,142 | 13,240 |
| Cash and cash equivalents | 14 | 5,810 | 9,252 |
| **Equity and liabilities** | | **412,911** | **414,040** |
| Equity | | 198,220 | 208,306 |
| Capital | 19 | 232,273 | 213,090 |
| Share capital | | 0 | 0 |
| Share premium | | 232,273 | 213,090 |
| Retained losses | | -31,987 | -6,104 |
| Legal reserve | 17 | -2,749 | 1,018 |
| Minority interest | 12 | 683 | 302 |
| Non-current Liabilities | | 195,339 | 193,963 |
| Interest bearing loans | 16 | 195,094 | 193,963 |
| Other liabilities | | 245 | 0 |
| Current Liabilities | | 19,352 | 11,771 |
| Trade payables | 17 | 14,037 | 6,419 |
| Payables to affiliated companies | | 4,135 | 2,789 |
| Other current liabilities | | 1,180 | 2,562 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in USD thousands | Share capital | Share premium | Retained losses | Legal reserve | Total equity attributable to the equity holders of the Company | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| Equity as at 1 Jan. 2018 | 0 | 126,150 | -2,951 | 139 | **123,338** | 152 | **123,490** |
| Contribution in kind | 0 | 86,940 | 0 | 0 | **86,940** | 0 | **86,940** |
| Capital increase from non-controlling interest | 0 | 0 | 0 | 0 | **0** | 136 | **136** |
| Result of the period | 0 | 0 | -3,153 | 0 | **-3,153** | 13 | **-3,140** |
| Cash flow hedge reserve | 0 | 0 | 0 | 865 | **865** | 0 | **865** |
| Foreign currency translation | 0 | 0 | 0 | 14 | **14** | 0 | **14** |
| **Equity as at 31 Dec. 2018** | **0** | **213,090** | **-6,104** | **1,018** | **208,004** | **302** | **208,306** |
| | | | | | | | |
| Equity as at 1 Jan. 2019 | 0 | 213,090 | -6,104 | 1,018 | **208,004** | 302 | **208,306** |
| Contribution in kind | 0 | 19,183 | 0 | 0 | **19,183** | 0 | **19,183** |
| Capital increase from non-controlling interest | 0 | 0 | 0 | 0 | **0** | 390 | **390** |
| Result of the period | 0 | 0 | -25,883 | 0 | **-25,883** | -9 | **-25,892** |
| Cash flow hedge reserve | 0 | 0 | 0 | -3,767 | **-3,767** | 0 | **-3,767** |
| Foreign currency translation | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| **Equity as at 31 Dec. 2019** | **0** | **232,273** | **-31,987** | **-2,749** | **197,538** | **683** | **198,221** |

## CONSOLIDATED STATEMENT OF CASH FLOW

| in USD thousands | Notes | 2019 | 2018 |
|---|---|---|---|
| Profit/Loss before taxes | | -25,783 | -3,110 |
| Income tax paid | | -31 | 0 |
| Finance expenses, net | 10 | 15,798 | 14,703 |
| Interest paid | 16 | -14,737 | -13,651 |
| Interest received | | 291 | 250 |
| Net change in current assets | | 1,142 | -13,185 |
| Net change in current liabilities | | 7,423 | 5,771 |
| Cash upfront payment for hedge instruments | | -2,026 | -474 |
| Depreciation and impairment | 13 | 24,070 | 18,698 |
| Impairment | 13 | 1,469 | 0 |
| Gain/loss from disposal of vessels | 13 | -3,129 | 0 |
| **Cash flow from operating activities** | | **4,487** | **9,003** |
| Proceeds from disposals of vessels | 13 | 10,739 | 0 |
| Purchase of vessels | 13 | 0 | -117,463 |
| Dry-docking and other investments | 13 | -37,314 | -28,414 |
| Prepayment on vessels | 13 | -856 | 0 |
| **Cash flow from investing activities** | | **-27,431** | **-145,877** |
| Proceeds from shareholder's contribution[11] | | 19,573 | 136 |
| Gross proceeds debt financing | 16 | 0 | 100,000 |
| Bond issuing costs | 16 | -72 | -3,555 |
| **Cash flow from financing activities** | | **19,502** | **96,581** |
| Net change in cash and cash equivalents | | -3,442 | -40,293 |
| Net foreign exchange differences | | 0 | -3 |
| Cash and cash equivalents at beginning of period | | 9,252 | 49,548 |
| **Cash and cash equivalents at the end of period** | | **5,810** | **9,252** |
| Long-term restricted cash[12] | | 10,000 | 10,000 |
| **Total cash and cash equivalents** | | **15,810** | **19,252** |

[11] In 2018, the Parent contributed, fully or partially, 19 vessels to the Group by means of contributions in kind, for USD 86.9 million. In total, as at 31 December 2019, the Parent has contributed, fully or partially, a total of 34 vessels to the Group (see Note 13 – Vessels)
[12] Cash not available for general use by the Group due to loan restrictions

# NOTES

## Note 1 - General information

MPC Container Ships Invest B.V. (the “Company”, together with its subsidiaries the “Group”) is a private limited liability company incorporated and domiciled in the Netherlands, with registered address at Oever 5, 3161 GR Rhoon NL, the Netherlands and Dutch enterprise number 69545103. The Company was incorporated on 6 September 2017 and operating activity commenced in September 2017. These consolidated financial statements comprise the Company and its subsidiaries. The principal activity of the Group is the investment in, as well as operating and financing of container vessels.

The Company is controlled by MPC Container Ships ASA (the “Parent”), a public limited liability company incorporated and domiciled in Norway, with registered address at Munkedamsveien 45 A, 0250 Oslo, Norway and Norwegian enterprise number 918 494 316. The Group is included in the consolidated financial statements of the Parent. The shares of the Parent are listed on the Oslo Stock Exchange under the ticker “MPCC”.

This consolidated financial statements and accompanying notes were approved by the Company’s Management Board on 23 March 2020.

## Note 2 - Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU).

*Going concern assumption*

The financial statements are based on the going concern assumption. This assumption is based on budgeted future cash flows for 2020 and long-term strategic forecasts for both the Group and Parent as guarantor. See also Note 21 - Financial risk management and Note 24 Subsequent events.

*Financial statement classification*

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

Current assets are assets that are:

- expected to be realized in the Group's normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period; or
- cash and cash equivalents (unless restricted)

The current share of long-term assets and liabilities is classified as current. All other assets are non-current.

Current liabilities are those:

- expected to be settled within the Group's normal operating cycle;
- held for purpose of trading;
- due to be settled within 12 months; or
- for which the Group does not have an unconditional right to defer settlement beyond 12 months.

All other liabilities are non-current. If a liability has become payable given a breach of a condition under a long-term loan agreement, the liability is classified as current.

The income statement of the Group is presented using the cost of sales method.

The cash flow statement of the Group is prepared using the indirect method.

*Basis of measurement*

The consolidated financial statements are prepared on the basis of historical cost convention, unless otherwise stated.

*Basis of consolidation*

The consolidated financial statements comprise the financial statements of MPC Container Ship Invest B.V. and its subsidiaries may only be included in the consolidated financial statements for subsidiaries over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over such entity.

In general, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights in an investee, the Group considers all relevant facts and circumstances in assessing whether it has control, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- Potential voting rights.

The consolidation of subsidiaries is carried out from the date as of which the Group obtains control over such companies and subsidiaries continue to be consolidated until the date that such control ceases. A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in the income statement. Any investment retained is recognized at fair value.

The financial reports of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, income and expenses, unrealized gains and losses, as well as cash flows resulting from intercompany transactions, are eliminated.

Minority interests represent the portion of income (or loss), comprehensive income (or loss), and net assets that are not attributable to the Parent of the Group, and are presented separately in the consolidated statement of income, comprehensive income, within equity in the consolidated statement of financial position and in the consolidated statement of changes in equity.

The subsidiaries of the Company listed in Note 23 have been included in this consolidated financial statements.

*Functional and presentation currency*

The consolidated financial statements are presented in US Dollar (USD), which is the functional currency of the Company given that revenues, expenses as well as other financial obligations are predominantly denominated in USD. All financial information presented in USD has been rounded to the nearest thousand USD, except where otherwise indicated.

*New and amended standards and interpretations not yet effective*

Only standards and interpretations that are applicable to the Group have been included and the Group reviews the impact of these changes on its financial statements. The Group's intention is to adopt 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**

*Implementation of IFRS 16 Leases*

The Group implemented IFRS 16 starting 1 January 2019. The new standard supersedes IAS 17 Leases. The Group has implemented the new standard using the modified retrospective approach for the implementation of IFRS 16 where comparative figures are not restated. The Group has used the practical expedients when applying the new standard to leases previously classified as operating leases under IAS 17. The Group's principal activity is to investment in, as well as operating and financing of container vessels, and accordingly therefore mainly act as the lessor in lease arrangements. Further as the Group do not charter in any vessels, do not have other significant lease agreements, the implementation of IFRS 16 did not have any impact on the Group's result and financial position.

*Foreign currency translation*

In accordance with IAS 21, foreign exchange gains and losses resulting from the settlement of monetary transactions denominated in currencies different from the functional currency are recognized in the income statement. Non-monetary items that are recognized in a foreign currency are maintained at the exchange rates as at the dates of the initial recognition.

For those subsidiaries with functional currencies other than USD, financial position items are translated into USD, which is the presentation currency of these financial statements, at the exchange rate at the balance sheet date, whereas income statement items are translated at the exchange rate prevailing at the date of the transaction. Exchange differences arising on the translation are recognised in other comprehensive income as foreign currency differences.

*Vessels and other property, plant and equipment*

Fixed assets are stated at historical cost, less subsequent depreciation and impairment. For vessels purchased, these costs include capitalizable expenditures that are directly attributable to the acquisition of the vessels. Upon acquisition, each component of the vessels, with a cost significant to the total acquisition costs, is separately identified and depreciated over that component's useful life on a straight-line basis.

Depreciation is calculated on a straight-line basis over the useful life of the assets, taking residual values into consideration, and adjusted for impairment charges, if any. Residual values of the vessels are estimated as the lightweight tonnage of each vessel multiplied by scrap value per ton. Expected useful lives of assets and related residual values are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation calculations are altered accordingly.

Ordinary repairs and maintenance expenses are charged to the income statement as incurred. Costs related to dry-docking or other major overhauls are recognized in the carrying amount of the vessels. Recognition occurs when the dry-docking has been performed and is depreciated based on estimated time to the next class renewal. The remaining costs that do not meet the recognition criteria are expensed as repairs and maintenance.

The scrubber installations are recognized in the carrying amount of the vessels, and depreciated over the remaining useful life of the vessels.

Vessels and other property, plant and equipment are derecognized upon disposal, or when no future economic benefits are expected from their use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the asset is derecognized.

*Impairment of vessels*

Vessels and other fixed assets are assessed for impairment indicators each reporting period. If impairment indicators are identified, the recoverable amount is estimated; if the carrying amount exceeds its recoverable amount, an impairment loss is recognized (i.e. the asset is written down to its recoverable amount). An asset's recoverable amount is calculated as the higher of the net fair value less cost of sale and its value in use. The net realizable value is the amount obtainable from the sale of an asset in an arm's length transaction less the costs to sell and the value in use is the present value of estimated future cash flows expected from the continued use of an asset.

Assets are grouped at the lowest level where there are separately identifiable independent cash flows. The following assumptions are made when calculating the value in use of container vessels:

Each vessel is considered to be a separate cash generating unit.

Future cash flows are based on an assessment of expected development in charter rates and estimated level of operating expense (including maintenance and repair) and dry-docking over the remaining useful life of the vessel, plus any residual value.

The net present value of future estimated cash flows of each cash generating unit is based on a discount rate according to a pre-tax weighted average cost of capital (see Note 13 – Vessels). The weighted average cost of capital is calculated based on the expected long-term borrowing rate and risk-free rate, plus a risk premium.

An impairment loss recognized in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset´s recoverable amount since the last impairment loss was recognized.

*Intangible assets*

Intangible assets acquired are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

*Provisions*

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense related to any future obligation is recognized through income statement, net of any expected reimbursement.

*Trade payables*

Trade and other payables represent non-interest-bearing liabilities for goods and services provided to the Group prior to the reporting date. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest method.

*Trade and other receivables*

Trade receivables and other short-term receivables are measured at fair value upon initial recognition and subsequently measured at amortized cost less expected credit losses.

*Inventories*

The Group values its inventories, which comprise mainly bunkers, lube oils and stores on board of the vessels, at the lower of cost and net realizable value. Inventories are accounted for on a first-in/first-out basis.

*Cash and cash equivalents*

Cash and short-term deposits in the statement of financial position comprise cash at banks, on hand and short-term deposits with an original maturity of three months or less. Cash equivalents represent short-term, liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less.

Cash and cash equivalents are recorded at their nominal values. Liquid funds denominated in foreign currencies are translated at the exchange rate at the balance sheet date.

*Share issuance*

Costs related to share issuances are recognized directly in equity.

*Financial liabilities*

All loans and borrowings are initially recognized at fair value, less directly attributable transaction costs, and have been classified as other financial liabilities at amortised cost under IFRS 9. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

*Fair value estimation*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, using assumptions that market participants would use when pricing the asset or the liability.

All assets and liabilities for which fair values are measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant for the fair value measurement as a whole:
Level 1: quoted market prices in active markets for identical assets or liabilities.
Level 2: inputs other than quoted market prices included in Level 1 are directly or indirectly observable.
Level 3: inputs are unobservable.

Additional explanations on fair values can be found in Note 17 – Financial instruments.

*Derivative financial instruments and hedging*

The Group may use certain hedging instruments, such as forward contracts or options, to manage foreign exchange or interest rate risk, for instance. Such derivative financial instruments are initially recognized at fair value as at the date on which a derivative contract is entered into, and are subsequently remeasured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive, and as financial liabilities when the fair value is negative.

At the inception of a hedge relationship, the Group formally documents the relationship between the hedge instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment at inception and on an on-going basis according to IFRS 9, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash flow hedges: as at 31 December 2019 the Group uses interest rate swaps and interest rate caps as hedges for its exposure to interest rate fluctuations in connection with its bond financing.

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the income statement. Amounts recognized in OCI are transferred to profit or loss when the hedged transaction is incurred, such as when the hedged financial income or financial expense is recognized, or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

*Leases as lessor*

The determination of whether an arrangement contains a lease element is based on the substance of the arrangement at the inception of the lease. Leases are classified as finance leases if the terms of the lease agreement transfer substantially all the risks and benefits related to ownership of the leased item. All other leases are classified as operating leases.

The Group leases its assets to liner shipping companies through time charter contracts. Payments made under operating leases are charged to the profit and loss on a straight-line basis over the period of the time charter contract.

There are no significant leases in place whereby the Group acts as the lessee.

*Revenue recognition*

The Group's time charter contract revenues are separated into a lease element accounted for in accordance with IFRS 16 *Leases* (see above under leases as lessor) and service element which is accounted for in accordance with IFRS 15 *Revenue from Contracts with Customers*.

Time charter, pool revenue and other revenue from contracts with customers is recognized when control of goods or services are transferred to the customer and when each separate performance obligation in the customer contract is fulfilled following the "over-time principle". It is recognized at an amount that reflects the consideration which the Group expects to receive in exchange for those goods or services. Revenues are presented net of indirect sales taxes.

The Group acts as a participant in the pool arrangements. Revenues for the vessels employed in the pool are based on average revenues across the pool the vessels are employed in, i.e. the vessels earn the average charter rate of the pool for the respective month. The average charter rate of the pool contains a bareboat and a service element.

The service element from the Group's time charter contracts and pool arrangements are recognized over time, as the performance obligation is satisfied over time. This since the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from bunkers and other goods and services from customers are recognized in the period the goods or services are transferred to the customer, following the "point in time principle".

*Operating expenses*

Operating expenses are accounted for on an accruals basis. Expenses are charged to the income statement, except for those incurred in the acquisition of an investment, which are capitalized as part of the cost of the investment. Expenses arising from the disposal of investments are deducted from the disposal proceeds.

Operating expenses of the Group are expenses related to the operation of vessels, such as (but not limited to) crewing expenses, expenses for maintenance and repair, insurance and lube oil.

*Interest income and expenses*

Interest income and expenses recognized are presented as financial income and expenses in the income statement. The interest expenses incurred on the senior secured bond are recognized in the income statement using the effective interest method.

*Taxes*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

The Group is subject to the Dutch tonnage tax regime, i.e. taxable income is calculated as a lump sum depending on the net tonnage of the respective vessels, and is therefore independent of the realized earnings. Income not derived from the operation of the vessels in international waters, such as financial income, is usually taxed according to the ordinary taxation rules applicable in the resident country of each respective company. Tonnage tax is classified as "Vessel operation expenditures".

Deferred tax liabilities are classified as non-current liabilities and are recognized for all taxable temporary differences, to the extent not related to operations which are subjected to the tonnage tax regime. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized, and if not related to operations which are subjected to the tonnage tax regime.

*Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers in the Group. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Management Board of the Company. The Group has identified one operating segment, as it employs one type of vessels: "Container vessels".

## Note 4 - Significant judgements, estimates and assumptions

The preparation of consolidated financial statements conforming to IFRS requires management to make judgments, estimates and assumptions that may affect assets, liabilities, revenues, expenses and information in the notes to these consolidated financial statements. Estimates are management's best assessment based on information available at the date the financial statements are authorized for issuance. Changes in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis.

*Judgements*

In the process of applying the Group's accounting policies, management has made the following judgements, which have a significant effect on the amounts recognized in the consolidated financial statements:

Assets contributions and acquisitions: judgement is required to determine if a transaction qualifies as a business combination or an asset acquisition, depending on the nature of the transaction. Management makes this determination based on whether the Group has acquired an "integrated set of activities and assets", as defined in IFRS 3 Business Combination, by assessing the underlying inputs, processes applied to those inputs, and resulting outputs. 34 of the vessels reported as at 31 December 2019 represent full or partial contributions from the Parent, and were accounted for in the Parent's consolidated financial accounts as assets acquisitions. The carrying values in the Parent's consolidated financial accounts have been deemed representative of related fair values given that they were purchased in an open market and in the same year in which they were contributed to the Group. The remaining eight vessel acquisitions completed by the Group were considered asset acquisitions, given that no processes capable to generate outputs were part of the acquisitions.

*Assumptions and estimation uncertainties*

The following assumptions and estimation uncertainties can result in a material adjustment to the carrying amounts of the Group's vessels and/or impact the reported results prospectively:

*Initial recognition and depreciation of vessels*: depreciation is based on estimates of the vessels' useful lives, the related residual values less scrapping costs and the depreciation method, which are reviewed by the management at each balance sheet date. Any changes in estimated useful lives and/or residual values would impact the depreciation of the vessels prospectively. Also, upon acquisition of each vessel, management makes an assumption regarding the allocation of vessel purchase prices to residual values of existing time charter contracts and dry-dockings, which also have an impact on the depreciation timeline and related charges.

*Impairment of vessels*: indicators of impairment of assets are assessed at each reporting date. The impairment assessments demand a considerable degree of estimation. Changes in circumstances and assumptions may significantly affect the estimated recoverable amounts, and a prolonged weak market may result in future impairment losses. The Group's impairment test for operating vessels is based on the value in use as assessed by performing discounted cash flow calculations. Value in use calculations involve a high degree of estimation and a number of critical assumptions, such as time charter rates, operational expenses, residual values and discount rates. The key assumptions used in the impairment assessment are disclosed in Note 13.

## Note 5 - 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.

The chief operating decision maker measures the financial performance based on the consolidated results of the Group's vessels as a whole. Further, the assets and liabilities are reviewed at the consolidated basis and in a consistent manner with the consolidated statement of financial position.

The following customers of the Group represent more than 10% of the Group's total charter revenue: CMA CGM S.A., France (13.0%) and Maersk Line, Denmark (14.2%).

The Group's vessels trade globally and are suitable to be deployed in various global trading patterns. Therefore, there is no particular focus on a geographic region. The Company provides geographical data for revenue only, as the Group's revenue predominantly stems from vessels that may be employed globally. Gross revenue specific foreign countries which contribute significantly to total revenue are disclosed below.

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Asia | 37,499 | 36,907 |
| South America | 36,556 | 30,489 |
| Europe | 14,245 | 22,177 |
| Middle East | 3,666 | 1,623 |
| Africa | 5,237 | 0 |
| Other geographical locations (worldwide trades) | 7,542 | 23,480 |
| **Total time charter and pool revenue** | **104,746** | **114,676** |

## Note 6 - Revenue

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Time charter revenue | 68,543 | 75,783 |
| Pool charter revenue | 36,203 | 38,893 |
| Other revenue | 8,500 | 8,055 |
| **Total operating revenue** | **113,246** | **122,730** |

The Group's time charter contracts and pool charter revenues are separated into a lease element and a service element. The lease element represents the use of the vessel, and is accounted for in accordance with IFRS 16. Revenues from time charter services (service element) and other revenue (e.g. revenues from bunkers sold and other services provided to customers) are accounted for in accordance with IFRS 15. The Group's performance obligation is to provide time charter services to its charterers.

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Service element | 42,317 | 55,259 |
| Other revenue | 8,500 | 8,055 |
| **Total revenue from customer contracts** | **50,817** | **63,314** |
| Lease revenue | 62,429 | 59,416 |
| **Total operating revenue** | **113,246** | **122,730** |

Other revenue includes USD 6.8 million and USD 6.6 million for the years ended 31 December 2019 and 31 December 2018 respectively, related to revenue from sale of bunker to charterers.

Contracted revenues based on fixed time charter contracts open as at 31 December 2019 are set out below, based on minimum contract periods of vessels held in subsidiaries:

| in USD thousands | < 6 months | 6 – 12 months | >12 months | Total |
|---|---|---|---|---|
| Time charter revenue | 31,081 | 7,106 | 14,152 | **52,339** |

The table below shows a comparable table for the fixed time charter contracts open as at 31 December 2018:

| in USD thousands | < 6 months | 6 – 12 months | >12 months | Total |
|---|---|---|---|---|
| Time charter revenue | 31,597 | 16,098 | 48,345 | **96,040** |

### Note 7 - Voyage expenditures

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Bunker consumption | -12,681 | -11,789 |
| Other voyage expenses | -1,264 | -949 |
| **Total voyage expenses** | **-13,945** | **-12,738** |

When the vessels are on time charter contracts, bunker consumption is a charterer's expense. Bunker consumption also includes costs related to periods when the vessels have been idle, repositioning or under maintenance and repair, which is a Group's expense

### Note 8 - Operating expenditures

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Crew | -38,595 | -36,361 |
| Lube oil | -3,722 | -3,417 |
| Insurances | -7,366 | -6,472 |
| Maintenance and repair | -19,003 | -15,710 |
| General OPEX | -4,764 | -5,380 |
| **Total operating expenses** | **-73,450** | **-67,340** |

### Note 9 - Administrative expenses

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Legal and advisory services | -486 | -486 |
| Auditor services | -409 | -371 |
| Other administrative expenses | -2,125 | -1,453 |
| **Total administrative expenses** | **-3,020** | **-2,310** |

Other administrative expenses includes corporate management fees from the Parent. See Note 18 for further description. The number of FTE in 2019 was 1.

### Note 10 - Finance income and costs

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Interest income | 290 | 251 |
| **Total financial income** | **290** | **251** |
| | | |
| Interest expenses | -14,646 | -13,528 |
| Other financial expenses | -1,441 | -1,425 |
| **Total financial expenses** | **-16,087** | **-14,954** |

During 2019 interest paid under the bond agreement and including interest on derivatives amounted to USD 14.7 million. Financial costs mainly relate to interest expenses incurred on the senior secured bond and are recognized using the effective interest method.

### Note 11 - Income tax

The Group is subject to Dutch tonnage tax. Companies subject to tonnage tax are exempt from ordinary tax.

The Company is subject to ordinary corporation tax in the Netherlands for activities unrelated to the shipping operations.

### Note 12 - Non-controlling interests

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Non-controlling interest | 683 | 302 |
| **Total non-controlling interests** | **683** | **302** |

The non-controlling interest is the sum of the 0.1% contributions including the non-controlling interest share of result that the ship managers hold in the ship-owning entities of the Group, see Note 23 – Group companies.

### Note 13 - Vessels

| in USD thousands | 2019 | 2018 |
|---|---|---|
| **Acquisition cost at 1 January** | **396,851** | **150,032** |
| Contributions of fixed assets and capitalized investments | 0 | 86,940 |
| Disposals of vessels | -7,954 | 0 |
| Acquired vessels and capitalized dry-docking, scrubbers and other expenses | 37,852 | 159,879 |
| **Acquisition cost at 31 December** | **426,748** | **396,851** |
| Accumulated depreciation 1 January | -20,344 | -1,646 |
| Disposal of vessels | 593 | 0 |
| Depreciation for the year | -24,070 | -18,698 |
| Impairment for the year | -1,469 | 0 |
| **Accumulated depreciation 31 December** | **-45,291** | **-20,344** |
| **Closing balance** | **381,458** | **376,507** |
| *Depreciation method* | *Straight-line* | *Straight-line* |
| *Useful life (vessels)* | *25 years* | *25 years* |
| *Average remaining useful life (vessels)* | *13 years* | *14 years* |
| *Useful life (dry docks)* | *5 years* | *5 years* |

As at 31 December 2019, the Group owns and operates 39 vessels through consolidated subsidiaries, compared to 40 vessels as at 31 December 2018.

The increase in depreciations in 2019 compared to 2018 are mainly due to the fact that 2019 was the first year with full twelve months operations after vessel deliveries in first half of 2018, in addition to additional depreciations on subsequent capital expenditures after the delivery 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 of USD 3.1 million in 2019.

On 5 February 2020, a subsidiary of the Company entered into agreements for the sale of AS Lauretta, a 1,000 TEU vessels. The total sales price is agreed at USD 6.5 million and the vessel will be delivered to her new owners during the first half of 2020. The sale decision was based on a portfolio analysis resulting in sale of a non-tier TEU 1,000 ships in a still illiquid sale & purchase market resulting in an estimated loss of USD 1.5 million which was recognized as an impairment.

*Vessels contributions:* as at 31 December 2019, a total of 34 vessels has been partially or fully contributed from the Parent. The original transactions to acquire the vessels were accounted for as asset acquisitions in the Parent's consolidated accounts.

*Impairment*: As the container market conditions that have been present with increased idle fleet and reduced charter rates in 2019 impacted by global trade tension and low container growth. And that the Parent's market capitalization has been below the carrying value of the Company's equity, management has performed impairment tests on all vessels in the Group as at 31 December 2019. This assessment did not lead to any impairment charges as the recoverable amounts are higher than carrying amounts for all vessels (except AS Lauretta with reference to above). The value in use calculations are based on a discounted cash flow model with the following main inputs:

- Weighted average cost of capital: 7.8% p.a.
- Growth rate for operating expenses: 1.0 - 2.0% p.a.
- Charter rates: Contractual values and historic long-term as estimates of time charter rates for open periods. The historical long-term estimate rates are based on using the newbuilding parity rates, based on the current observable newbuilding prices.
- Utilization: 95% of available trading days
- Residual value: Scrap value based on estimated scrap prices less cost scrapping

A few of the Group's cash generating units ("CGUs") are more sensitive for changes in the assumptions applied in the value in use calculation. For most of the CGU's minor changes in the assumptions applied in the value in use calculations will not lead to impairment charges.

In total, the Group would experience a USD 0.2 million impairment loss with a utilization at 92%, a USD 0.0 million impairment loss if the long-term TC rates was decreased by 5% and a USD 4.1 million impairment loss if a utilization at 92% and the long-term TC rates was decreased by 5%.

Thus far in 2020, COVID-19 and its implications on trade, transportation and production has heavily impacted the container charter market as described in note 24 subsequent event. Since temporary restrictions in China impacting global trade was initiated after balance sheet date, this is considered a non-adjusting event, and is not reflected in the impairment test. So far in 2020, the Company has experienced a drop in freight rates and utilisation and the Company have performed additional stress-testing of the vessel values, and with an assumed 5 % drop in for open charter rates during 2020 and unchanged charter rates in the long run, would not have resulted in any impairment if the restrictions were put in place in 2019. Since implications of COVID-19 is on an early stage, there are significant uncertainty related to impact on the container market on short and long term. Vessels subject to scrubber retrofitting had left the restricted areas prior to restrictions.

### Note 14 - Cash and cash equivalents

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank deposits denominated in USD | 15,211 | 17,955 |
| Bank deposits denominated in EUR | 599 | 1,297 |
| **Total cash and cash equivalents** | **15,810** | **19,252** |

The fair value of cash and cash equivalents at 31 December 2019 is USD 15.8 million. Based on the terms of the senior secured bond, USD 10.0 million in cash is restricted due to the minimum liquidity requirement (see Note 16), and classified as long-term restricted cash.

Bank deposits earn interest at floating rates. Short-term deposits are made for varying periods, depending on the cash requirements of the Group.

### Note 15 - Trade and other receivables

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade receivables | 4,432 | 3,794 |
| Receivables to affiliated companies | 359 | 144 |
| Claims related to insurance cases | 2,363 | 5,467 |
| Other receivables and prepayments | 5,989 | 3,836 |
| **Total Trade and other receivables** | **13,142** | **13,240** |

Trade receivables relate to receivables due from the charterers for the Group's time charter contracts. Insurance claims are receivables for reimbursements of damages and repairs covered by insurance agreements, which the Group expects to receive within the next 12 months. The table below shows the ageing of trade receivables:

| in USD thousands | Total | Current | Days past due | | | |
|---|---|---|---|---|---|---|
| | | | <30 days | 30-60 days | 61-90 days | >90 days |
| 31 December 2019 | 4,432 | 4,432 | | 0 | 0 | 0 |

| in USD thousands | Total | Current | Days past due | | | |
|---|---|---|---|---|---|---|
| | | | <30 days | 30-60 days | 61-90 days | >90 days |
| 31 December 2018 | 3,794 | 3,794 | | 0 | 0 | 0 |

The Group applies the simplified approach to provide for lifetime expected credit losses in accordance with IFRS 9. The nominal amount is considered to approximate the amortised cost method due to the short maturity of the receivables. No impairment losses have been recognised in 2019 and 2018, hence the estimated credit losses has been waived due to materiality. See Note 21 – Financial risk management, regarding management of credit risk.

### Note 16 - Interest-bearing debt

On 8 September 2017, the Company issued a USD 100 million senior secured bond with a total borrowing limit of USD 200 million. The bond has a floating interest rate of LIBOR + 4.75%, and a 5-year maturity. Settlement of the bond was 22 September 2017, and the bond shall be repaid in full on the maturity date (22 September 2022).

On 2 February 2018, a USD 100 million tap issue on the above-mentioned bond was completed. As such, the total nominal amount of bonds outstanding is USD 200 million, which shall be repaid in full at the maturity date on 22 September 2022. On 22 May 2018 the Group announced that all USD 200 million bond proceeds had been successfully invested in accordance with the bond terms. On 14 June 2018, the Group listed the bond at the Oslo Stock Exchange (regulated market), with ticker code "MPCBV".

The Group has entered into fixed interest-rate swap agreements for USD 50 million to cover the interest rate risk. For the remaining USD 150 million the Group has entered into interest cap and collar agreements.

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Nominal value of issued bonds | 200,000 | 200,000 |
| Issuance costs | -4,906 | -6,036 |
| **Total Interest bearing loans** | 195,094 | 193,963 |

In addition to customary protection rights for the benefit of the bondholders, the following financial covenant, as defined in the bond terms, is applicable at the level of the Parent's consolidated figures at all times and shall be reported quarterly:

- The consolidated equity ratio of the Parent shall at all times be higher than 40%. As at 31 December 2019, the consolidated equity ratio of the Parent was 57.1%.

The following financial covenants, as defined in the bond terms, are applicable at the level of the Company's consolidated figures at all times and shall be reported quarterly (minimum liquidity) or semi-annually (vessel loan to value ratio):

- The Group shall maintain a minimum liquidity of 5% of the consolidated financial indebtedness; and
- Vessel loan to value ratio of the Company and its subsidiaries shall not exceed 75%. As at 31 December 2019, the Vessel loan to value ratio of the Company was 54%.

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

The bond is guaranteed by the Parent and by all the subsidiaries of the Company.

The bond terms contain voluntary call options to early redeem the bonds, which is currently not expected. In addition, there is also a mandatory put option upon change in controlling shareholder.

See Note 10 for further information on interest income and total interest expenses and Note 21 for an overview of the future repayment structure for the interest bearing loans. The table below shows the reconciliation of movements of interest bearing loans to cash flows from financing activities, including non-cash movements and reconciliation to total interest bearing loans at 31 December 2019 and 31 December 2018 respectively.

| in USD thousands | Other current liabilities | Interest bearing long-term loans | Total |
|---|---|---|---|
| **31 December 2018** | **158** | **193,963** | **194,121** |
| Proceeds from bond tap | 0 | 0 | 0 |
| Repayment of bond loan | 0 | 0 | 0 |
| Interest paid | -14,737 | 0 | -14,737 |
| Bond issuance cost | 0 | -72 | -72 |
| **Total cash flow from financing activities** | **-14,738** | **-72** | **-14,809** |
| Amortization of bond issuance costs | 0 | 1,203 | 1,203 |
| Accrued interest | 14,886 | 0 | 14,886 |
| **31 December 2019** | **307** | **195,094** | **195,401** |

| in USD thousands | Other current liabilities | Interest bearing long-term loans | Total |
|---|---|---|---|
| **31 December 2017** | **129** | **96,242** | **96,371** |
| Proceeds from bond tap | 0 | 100,000 | 100,000 |
| Repayment of bond loan | 0 | 0 | 0 |
| Interest paid | -13,651 | 0 | -13,651 |
| Bond issuance cost | 0 | -3,553 | -3,553 |
| **Total cash flow from financing activities** | **-13,651** | **96,447** | **82,796** |
| Amortization of bond issuance costs | 0 | 1,273 | 1,273 |
| Accrued interest | 13,680 | 0 | 13,680 |
| **31 December 2018** | **158** | **193,963** | **194,121** |

### Note 17 - Financial instruments

Set out below is a comparison by category for carrying amounts and fair values of all the Group's financial instruments that are carried in the consolidated financial statements. The estimated fair value amounts of the financial instruments have been determined using appropriate market information and valuation techniques.

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Derivatives designed as hedging instruments** | | |
| Interest rate swap | 0 | 733 |
| Interest rate collar | 0 | 289 |
| **Debt instruments at amortised cost** | | |
| Trade and other receivables | 13,142 | 13,240 |
| **Total financial assets** | **13,142** | **14,263** |
| **Derivatives designed as hedging instruments** | | |
| Interest rate swap | 699 | 0 |
| Interest rate collar | 2,046 | 0 |
| **Financial liabilities at amortised cost** | | |
| Interest bearing debt | 195,094 | 193,963 |
| Trade and other payables | 19,352 | 11,771 |
| **Total financial liabilities** | **217,191** | **205,734** |

Fair value of trade receivables, cash and cash equivalents and trade and other current payables approximate their carrying amounts due to the short-term maturities of these instruments.

Fair value of interest-bearing debt approximates its carrying amount as there have been no significant changes in the market rates for the listed bond between the date of securing the debt financing and the reporting date.

*Cash Flow Hedges*

The details of new hedge activities entered into by the Group and hedges with significant changes in fair values during the year ended 31 December 2019 are described below.

The Group uses interest rate swaps and interest rate caps as hedges of its exposure to interest rate fluctuations in connection with its bond financing.

| in USD thousands | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Interest rate swap | 0 | 699 | 733 | 0 |
| Interest rate collar | 0 | 2,046 | 289 | 0 |
| **Total** | **0** | **2,745** | **1,022** | **0** |

The terms of the derivatives match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognized in the statement of profit or loss. An amount of USD -2.8 million and USD 1.0 million is included in OCI as at 31 December 2019 and 31 December 2018 respectively. The respective liability and asset position is recognized in the consolidated statement of financial position.

The swaps and caps agreements classified as effective cash flow hedges under IFRS 9 terminate consistent with the maturity of the senior secured bond

**Note 18 - Related party disclosure**

Technical ship management of the vessels owned by the Group is contracted to the Parent. The ship management fees paid to the Parent total USD 6.0 million (2018: USD million 5.2) in the year ended 31 December 2019. The Parent has sub-contracted parts of the ship-management activities to Ahrenkiel Steamship, a subsidiary of MPC Münchmeyer Petersen Capital AG, which also holds 0.1% ownership in the ship-owning entities within the Group. MPC Münchmeyer Petersen Capital AG is considered a related party as the chairman of the Board of Directors of the Parent is the Chief Executive Officer of this company. In addition, the vessel-owning subsidiaries of the Company have corporate management fee agreements with the Parent. Total fees paid under the corporate management agreements in 2019 amounted to USD 1.6 million (2018: 0.8 million).

Commercial ship management of the vessels owned by the Group is contracted to Harper Petersen B.V., a subsidiary of MPC Münchmeyer Petersen Capital AG. The commission fees paid to the Harper Petersen in 2019 was a total of USD 1.4 million (2018: USD 1.5 million).

All transactions with related parties are carried out at market terms.

No vessels were contributed to the Group from the Parent in 2019, compared to 19 vessels in 2018. The vessels were contributed to the Group at book values as the best estimate of market values.

None of the Directors of the Company received compensation for the directorships in the Company from the Group in 2019 or 2018. Corporate management fees are charged by the Parent to the Group, which include remuneration for key executive positions and other admin support services.

**Note 19 - Share capital**

| | Number of shares | Share capital (USD) | Share premium (USD) |
|---|---|---|---|
| 31 December 2018 | 1 | 1 | 213,090 |
| Capital contribution in kind | 0 | 0 | 19,184 |
| **31 December 2019** | **1** | **1** | **232,273** |

The share capital of the Company consists of 1 share at 31 December 2019, with nominal value per share of EUR 1, paid on 13 October 2017. Share premium represents the additional contributions made by the Parent (substantially through vessels).

**Note 20 - Commitments**

In 2018, the Parent announced that it had entered into agreements for the purchase of a total of ten scrubbers. Out of this ten vessels, a total of five are in the Group. Net of payments made in 2018 and 2019, the remaining off-balance sheet commitments for the Group are USD 4.3 million as at 31 December 2019.

**Note 21 - Financial risk management**

This section provides additional information about the Group's policies that are considered most relevant in understanding the operations and management of the Group, in particular objectives and policies of how the Group manages its financial risks, liquidity positions and capital structure.

The Group owns and operates ships for worldwide transportation of containerized cargo. Through its operation, the Group is exposed to market risk, credit risk, liquidity risk and other risks that may negatively influence the value of assets, liability and future cash flows.

*Market risk*

Market risk from financial instruments is the risk that future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: interest rate risk, foreign currency risk, credit risk and price risk. Future charter rates and utilization are the key drivers for the Group's financial results, see Note 24 Subsequent events and COVID-19 section in Management Board report for further description.

*Interest rate risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligation with floating interest rates, i.e. interests payable on the bond issued in September 2017 and in February 2018 depend on the short-term LIBOR. The Group manages its interest rate risk by using interest rate hedging instruments. To do so, the Group entered into interest rate swaps and interest rate caps. These hedging instruments are accounted for using hedge accounting. Taking into account these hedging instruments, an increase of the short-term LIBOR rate by 50 basis points would cause the Group's annualized interest expenses to increase by USD 0.4 million, or 3%.

*Foreign currency risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currency of almost all of the entities in the Group is USD, and the Group has only minor currency risk from its operations since all income and all major vessel costs are in USD. However, the Group has exposure to EUR as parts of administration and vessel operating expenses and a portion of cash and cash equivalents, other short-term assets, trade payables and provisions and accruals are denominated in EUR. Currently, no financial instruments have been entered into to mitigate this risk. An increase of the USD/EUR exchange rate by 10% would increase the vessel operating expenses by approximately 2%.

The Group is subject to *price risk* related to the charter market for feeder container vessel, which is uncertain and volatile and depends upon, among other things, the global and regional macroeconomic developments. In addition, the future financial position of the Group depends on valuations of the vessels owned by the Group. Currently, no financial instruments have been entered into to reduce this shipping market risk. The Group will normally have limited exposure to risks associated with bunker costs, as the bunkers are a charterers' cost when the vessels are on time charter contracts.

*Credit risk*

Credit risk refers to the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

It is the aim of the Group to enter into contracts with creditworthy counterparties, only. Prior to concluding a charter contract, the Group evaluates the credit quality of the customer, assessing its financial position, past experience and other factors. Charter hire is paid in advance, effectively reducing the potential exposure to credit risk. Bank deposits are only made with internationally recognized financial institutions.

*Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity and/or undrawn committed credit facilities at all times to meet its obligations. See Management report for further description and a separate section on COVID-19 for further description. To ensure this, the Group continuously monitors projected cash flows using a liquidity planning tool. This includes, weekly cash reporting and monthly liquidity forecasts to management, including rolling 12 months liquidity forecasts to executive management.

The following table summarizes the contractual maturities of financial liabilities of the Company on an undiscounted basis as at 31 December 2019:

| in USD thousands | < 1 year | 1-3 years | > 3 years | Total |
|---|---|---|---|---|
| Interest bearing loans and borrowings | 0 | -200,000 | 0 | **-200,000** |
| Interest payments | -13,856 | -23,850 | 0 | **-37,705** |
| Trade payables | -14,037 | 0 | 0 | **-14,037** |
| **Total** | **-27,893** | **-223,850** | **0** | **-251,742** |

The senior secured bond settled on 22 September 2017 will mature on 22 September 2022 in the amount of its nominal value of USD 200 million (of which USD 100 million was drawn down in February 2018).

The following table summarizes the contractual maturities of financial liabilities of the Company on an undiscounted basis as at 31 December 2018:

| in USD thousands | < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|
| Interest bearing loans and borrowings | 0 | -200,000 | 0 | **-200,000** |
| Interest payments | -14,233 | -38,838 | 0 | **-53,071** |
| Trade payables | -651 | 0 | 0 | **-651** |
| **Total** | **-14,884** | **-238,838** | **0** | **-253,722** |

## Note 22 - Capital management

A key objective of the Group's capital management is to ensure that the Group maintains a capital structure in order to support its business activities and maximize the shareholders' return. The Group evaluates its capital structure in light of current and projected cash flows, the state of the shipping markets, new business opportunities and the Group's financial commitments. Capital is primarily managed at the Group level.

The Group monitors its capital structure using the book equity ratio, which stands at 48.0% as at 31 December 2019.

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Book equity | 198,221 | 208,306 |
| Total assets | 412,912 | 414,040 |
| **Book-equity ratio** | 48.0% | 50.3% |

The Parent is subject to financial covenants under the bond issued in 2017 and 2018 (see Note 16 – Interest-bearing debt): at 31 December 2018 the consolidated equity ratio of the Parent was 57.1%.

The Group's intention is to pay dividends in support of the Group's objective of maximizing returns to shareholders. Any future dividends proposed will be at the discretion of the Management Board and will depend upon the Group's financial position, earnings, capital requirements, debt covenants and other factors. There are no current estimates regarding the potential future dividend level or timing of dividend payments.

## Note 23 - Group companies

The Group's consolidated financial statements include the financial reports of the Company and its subsidiaries listed in the table below.

| Entity | Principal activity | Country of incorporation | Equity interest | Initial consolidation |
|---|---|---|---|---|
| "AS LAETITIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS LAGUNA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS PAULINA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS PETRONIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS CLARA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS ANGELINA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FATIMA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FLORETTA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FAUSTINA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FABRIZIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FIORELLA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS COLUMBIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS CLARITA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FRIDA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS CALIFORNIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FIONA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS CONSTANTINA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FORTUNA" ShipCo C.V. | Former ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS LAURETTA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS SAVANNA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2017 |
| "AS FILIPPA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS SOPHIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS SERENA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS CLEMENTINA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS SARA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS SICILIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS SEVILLA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS PATRIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS PALATIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS CYPRIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS CARELIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS FABIANA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS FEDERICA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS FELICIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS FLORIANA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS RICCARDA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS RAGNA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS ROMINA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS ROSALIA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |
| "AS FLORA" ShipCo C.V. | Ship-owning entity | Netherlands | 99.9% | 2018 |

Ownership rights equal voting rights in all subsidiaries.

**Note 24 - Subsequent events**

Thus far in 2020, COVID-19 and its implications on trade, transportation and production haves 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 have been facing difficulties finding new employment. However, recently the number of COVID-19 cases in China is significantly down and the number of port calls in Chinese ports is normalising and there are indications that manufacturing and inland logistics are getting back towards a level of normality. The virus however, meanwhile also spread to Europe and the US and the implications in these regions are uncertain and the risk for a recession remains. Future charter rates and utilization are the key drivers for the Group's liquidity and financial results. See also Note 13 Vessels and Note 21 Financial risk management.

On 5 February 2020, a subsidiary of the Group entered into agreements for the sale of AS Lauretta, a 1,000 TEU vessel. The total sales price is agreed to USD 6.5 million and the vessel will be delivered to her new owner during H1 2020.

On 14 February 2020, the Parent announced the successful completion of an equity private placement supported by three large shareholders, the private placement was later approve by the extraordinary general meeting at 9 March 2020. In the transaction the Parent has 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.

# COMPANY FINANCIAL STATEMENTS

## INCOME STATEMENT

| in USD thousands | Notes | 2019 | 2018 |
|---|---|---|---|
| Administrative expenses | 5 | -457 | -669 |
| Impairment on investments in subsidiaries | 8 | -2,579 | 0 |
| Other expenses | | -4 | -25 |
| Other income | | 5 | 21 |
| **Operating result (EBIT)** | | **-3,035** | **-673** |
| Other finance income | 6 | 290 | 251 |
| Finance costs | 6 | -16,087 | -14,951 |
| **Profit/Loss before income tax (EBT)** | | **-18,832** | **-15,373** |
| Income tax expenses | 7 | -94 | -30 |
| **Profit/Loss for the period** | | **-18,925** | **-15,403** |
| Attributable to: | | | |
| Equity holders of the Company | | -18,925 | -15,403 |

## STATEMENT OF COMPREHENSIVE INCOME

| in USD thousands | Notes | 2019 | 2018 |
|---|---|---|---|
| Profit/loss for the period | | -18,925 | -15,403 |
| **Items that may be subsequently transferred to profit or loss** | | **-3,767** | **865** |
| Cash flow hedge reserve | 12 | -3,767 | 865 |
| **Items that will not be subsequently transferred to profit or loss** | | **0** | **0** |
| **Total comprehensive profit/loss** | | **-22,692** | **-14,538** |
| Attributable to: | | | |
| Equity holders of the Company | | -22,692 | -14,538 |

## STATEMENT OF FINANCIAL POSITION

| in USD thousands | Notes | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Assets** | | **391,438** | **393,029** |
| Non-current Assets | | 388,217 | 391,673 |
| Investments in subsidiaries | 8 | 388,217 | 390,177 |
| Prepayments on vessels | | 0 | 0 |
| Other assets | | 0 | 1,496 |
| Current assets | | 3,220 | 1,356 |
| Trade and other receivables | 10 | 737 | 47 |
| Cash and cash equivalents | 9 | 2,484 | 1,309 |
| Restricted cash | | 0 | 0 |
| Unrestricted cash | | 2,484 | 1,309 |
| **Equity and liabilities** | | **394,438** | **393,029** |
| Equity | | 193,841 | 197,020 |
| Capital | 14 | 232,604 | 213,090 |
| Share capital | | 0 | 0 |
| Share premium | | 232,604 | 213,090 |
| Retained losses | | -36,018 | -17,093 |
| Legal reserve | | -2,745 | 1,022 |
| Non-current Liabilities | | 195,339 | 193,963 |
| Interest bearing loans | 11 | 195,094 | 193,963 |
| Other liabilities | | 245 | |
| Current Liabilities | | 2,258 | 2,046 |
| Trade and other payables | 12 | 254 | 651 |
| Payables to affiliated companies | | 1,639 | 1,395 |
| Other current liabilities | | 365 | 0 |

## STATEMENT OF CHANGES IN EQUITY

| in USD thousands | Share capital | Share premium | Retained losses | Legal reserve | Total equity |
|---|---|---|---|---|---|
| Equity as at 1 Jan 2018 | 0 | 126,150 | -1,690 | 158 | **124,618** |
| Additional capital contribution | 0 | 86,940 | 0 | 0 | **86,940** |
| Result of the period | 0 | 0 | -15,403 | 0 | **-15,403** |
| Other comprehensive income | 0 | 0 | 0 | 865 | **865** |
| **Equity as at 31 Dec 2018** | **0** | **213,090** | **-17,093** | **1,023** | **197,020** |

| in USD thousands | Share capital | Share premium | Retained losses | Legal reserve | Total equity |
|---|---|---|---|---|---|
| Equity as at 1 Jan 2019 | **0** | **213,090** | **-17,093** | **1,023** | **197,020** |
| Additional capital contribution | 0 | 19,514 | 0 | 0 | **19,514** |
| Result of the period | 0 | 0 | -18,925 | 0 | **-18,925** |
| Other comprehensive income | 0 | 0 | 0 | -3,768 | **-3,768** |
| **Equity as at 31 Dec 2019** | **0** | **232,604** | **-36,018** | **-2,745** | **193,841** |

# STATEMENT OF CASH FLOW

| in USD thousands | Notes | 2019 | 2018 |
|---|---|---|---|
| Profit/Loss before income tax | | -18,832 | -15,373 |
| Income taxes paid | | -31 | 0 |
| Finance expenses, net | | 15,797 | 14,701 |
| Interest paid | | -14,737 | -13,651 |
| Interest received | | 291 | 250 |
| Other finance costs | | -212 | -158 |
| Net change in current assets | | -690 | 144 |
| Net change in current liabilities | | 212 | -787 |
| Cash upfront payment for hedge instruments | | -2,026 | -474 |
| Depreciation and impairment | | 2,579 | 0 |
| **Cash flow from operating activities** | | **-17,648** | **-15,348** |
| Investments in subsidiaries | | -619 | -134,059 |
| Prepayment on vessels | | 0 | 0 |
| **Cash flow from investing activities** | | **-619** | **-134,059** |
| Contributions from Parent | | 19,514 | 0 |
| Gross proceeds debt financing | | 0 | 100,000 |
| Bond issuing costs | | -72 | -3,555 |
| **Cash flow from financing activities** | | **19,442** | **96,445** |
| Net change in cash and cash equivalents | | 1,174 | -52,962 |
| Cash and cash equivalents at beginning of period | | 1,309 | 54,271 |
| **Cash and cash equivalents at the end of period** | | **2,483** | **1,309** |

# NOTES

## Note 1 - General information

MPC Container Ships Invest B.V. (the “Company“, together with its subsidiaries the “Group”) is a private limited liability company incorporated and domiciled in the Netherlands, with registered address at Oever 5, 3161 GR Rhoon, The Netherlands and Dutch enterprise number 69545103. The Company was incorporated on 6 September 2017 and its operating activity commenced in September 2017.

The Company is controlled by MPC Container Ships ASA (the "Parent"), a public limited liability company incorporated and domiciled in Norway, with registered address at Munkedamsveien 45 a, 0250 Oslo, and Norwegian enterprise number 918 494 316. The Company is included in the consolidated financial statements of the Parent. The shares of the Parent are listed at Oslo Stock Exchange under the ticker “MPCC”.

These financial statements and accompanying notes were approved by the Company’s Management Board on 23 March 2020.

## Note 2 - Basis of preparation

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The difference in equity and net result between the consolidated financial statements and the company financial statements relates to the result of the subsidiaries, since they are measured at cost.

Certain reclassifications have been made to the prior year reported balances in order to conform to the current year presentation.

*Going concern assumption*

The financial statements are based on the going concern assumption. This assumption is based on budgeted future cash flows for 2020 and long-term strategic forecasts for both the Company and the Parent as guarantor on the bond. See also note 15 – Financial risk and capital management and Note 16 Subsequent events.

*Financial statement classification*

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

Current assets are assets that are:

- expected to be realized in the Company's normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 months after the reporting period;
- cash and cash equivalents (unless restricted).

Cash and cash equivalents are classified as current assets unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. The current share of long-term assets or liability will be classified as current. All other assets are non-current.

Current liabilities are those:

- expected to be settled within the Company's normal operating cycle;
- held for purpose of trading;
- due to be settled within 12 months, or:
- for which the Company does not have an unconditional right to defer settlement beyond 12 months.

All other liabilities are non-current. If a liability has become payable given a breach of a condition under a long-term loan agreement, the liability is classified as current.

The income statement of the Company is presented using the cost of sales method.

The cash flow statement of the Company is prepared using the indirect method.

*Basis of measurement*

The financial statements are prepared on the basis of historical cost convention, unless otherwise stated.

*Functional and presentation currency*

The financial statements are presented in US Dollar (USD), which is the functional currency of the Company, given that revenues, expenses as well as other financial obligations are predominantly denominated in USD. Differences from currency translations are classified as financial income/expense. All financial information presented in USD has been rounded to the nearest thousand USD, except where otherwise indicated.

*New and amended standards and interpretations not yet effective*

Standards and interpretations that are issued but not yet effective are disclosed below. Only standards and interpretations that are applicable to the Company has been included and the Company reviews the impact of these changes on its financial statements. The Company's intention is to 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**

*Implementation of IFRS 16 Leases*

*The Company implemented IFRS 16 starting 1 January 2019. The new standard supersedes 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. IFRS 16 did not have any impact on the Company's result and financial position.*

*Foreign currency translation*

The financial statements are presented in USD, which is the functional currency of the Company.

Foreign exchange gains and losses resulting from the settlement of monetary transactions denominated in currencies different from the functional currency are recognized in the income statement. Non-monetary items that are recognized in a foreign currency are maintained at the exchange rates as at the dates of the initial recognition.

*Investments in subsidiaries*

Investments in subsidiaries are accounted for using the cost method and adjusted for impairment, if applicable. Investments are impaired to their fair value if a reduction in value is expected to be of a non-temporary nature.

Dividends from such investments are recognized only to the extent received or receivable.

*Intangible assets*

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

*Provisions*

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any future obligation is recognized through income statement, net of any expected reimbursement.

*Trade and other payables*

Trade and other payables represent non-interest-bearing liabilities for goods and services provided to the Company prior to the reporting date. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

*Trade and other receivables*

Trade receivables and other short-term receivables are measured at fair value upon initial recognition and subsequently measured at amortized cost less expected credit losses.

*Cash and cash equivalents*

Cash and short-term deposits in the statement of financial position comprise cash at banks, on hand and short-term deposits with an original maturity of three months or less. Cash equivalents represent short-term, liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less.

Cash and cash equivalents are recorded at their nominal values. Liquid funds denominated in foreign currencies are translated at the exchange rate at the balance sheet date.

*Share issuance*

Costs related to share issuances are recognized directly in equity.

*Financial liabilities*

All loans and borrowings are initially recognized at fair value, less directly attributable transaction costs, and have not been classified as other financial liabilities at amortized cost under IFRS 9. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

*Fair value estimation*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, using assumptions that market participants would use when pricing the asset or the liability.

All assets and liabilities for which fair values are measured or disclosed in the financial reports are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant for the fair value measurement as a whole:

- Level 1: quoted market prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted market prices included in Level 1 are directly or indirectly observable.
- Level 3: inputs are unobservable.

Additional explanations of fair values can be found in Note 11 – Financial instruments.

*Derivative financial instruments and hedging*

The Company may use certain hedging instruments, such as forward contracts or options, to manage foreign exchange or interest rate risk, for instance. Such derivative financial instruments are initially recognized at fair value as at the date on which a derivative contract is entered into and are subsequently re-measured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At the inception of a hedge relationship, the Company formally documents the relationship between the hedge instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness if the hedging relationship.

The Company makes an assessment at inception and on an on-going basis according to IFRS 9, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

<u>Cash flow hedges</u>: As at 31 December 2019, the Company uses interest rate swaps and interest rate caps as hedges of its exposure to interest rate fluctuations in connection with its bond financing.

The effective portion of the gain or loss on the hedging instrument is recognized in Other Comprehensive Income ("OCI") in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. Amounts recognized as OCI are transferred to profit or loss when the hedged transaction is incurred, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

*Interest income and expenses*

Interest income and expenses are recognized as accrued and are presented as financial income and expenses in the income statement. The interest expenses incurred on the senior secured bond are recognized in the income statement using the effective interest method.

*Taxes*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

The Company is subject to tax on its income in accordance with the general tax rules pertaining to companies' tax resident in the Netherlands for operations not related to shipping activities.

The Company's vessel-owning subsidiaries are expected to be subject to the Dutch tonnage tax regime, i.e. taxable income is calculated as a lump sum depending on the net tonnage of the respective vessels, independent of the realized earnings. Income not derived from the operation of the vessels in international waters, such as financial income, is usually taxed according the ordinary taxation rules applicable in the resident country of each respective company.

Deferred tax liabilities are classified as non-current liabilities and are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized, and if not related to operations which are subjected to the tonnage tax regime.

### Note 4 - Significant judgements, estimates and assumptions

The preparation of financial statements conforming to IFRS requires management to make judgments, estimates and assumptions that may affect assets, liabilities, revenues, expenses and information in notes to these financial statements. Estimates are management's best assessment based on information available at the date the financial statements are authorized for issue. Changes in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis.

*Judgements*

In the process of applying the Company's accounting policies, management has made the following judgements, which have a significant effect on the amounts recognized in the financial statements:

Assets contributions and acquisitions: judgement is required to determine if a transaction qualifies as a business combination or an asset acquisition, depending on the nature of the transaction. Management makes this determination based on whether the Company has acquired an "integrated set of activities and assets", as defined in IFRS 3 Business Combination, by assessing the underlying inputs, processes applied to those inputs, and resulting outputs. During 2017 and 2018, 34 vessels were partially or fully contributed from the Parent to the Company and subsequently from the Company to the subsidiaries based on their carrying values, deemed representative of related fair value.

*Assumptions and estimation uncertainties*

The following assumptions and estimation uncertainties can result in a material adjustment to the carrying amounts of assets:

Impairment of subsidiaries: indicators of impairment of subsidiaries are based on the assessment of indicators for impairment for the respective vessels owned by the subsidiaries (see Note 13 of the consolidated financial statements). Such indicators are assessed at each reporting date. The impairment assessments demand a considerable degree of estimation.

### Note 5 - Administrative expenses

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Advisory fees | -73 | -413 |
| Audit fees | -115 | -183 |
| Other admin expenses | -268 | -73 |
| **Total** | **-457** | **-669** |

Advisory fees mainly relates to fees paid to the Company's legal advisors. Audit fees are the fees paid to the Company's auditor Ernst & Young Accountants LLP (Dutch statutory auditor) were EUR 80 thousand for the 2019 audit.

### Note 6 - Finance income and expenses

| in USD thousands | 2019 | 2018 |
|---|---|---|
| Interest income | 290 | 251 |
| **Total financial income** | **290** | **251** |
| | | |
| Interest expenses | -14,646 | -13,528 |
| Other financial expenses | -1,441 | -1,423 |
| **Total financial expenses** | **-16,087** | **-14,951** |

Interest income is due to interest earned on bank deposits. Financial costs mainly relate to interest expenses incurred on the senior secured bond and are recognized using the effective interest method.

### Note 7 - Income tax

The Company is subject to ordinary corporation tax in the Netherlands for activities not related to the shipping operations.

### Note 8 - Investments in subsidiaries

The most significant subsidiaries of the Company are listed below. The Company has assessed its ability of controlling its subsidiaries as a result of the majority of the interest owned and the voting rights.

| in USD thousands | Carrying value 31 December 2019 | Carrying value 31 December 2018 |
|---|---|---|
| "AS Angelina" ShipCo C.V. | 8,005 | 7,905 |
| "AS California" ShipCo C.V. | 12,239 | 13,826 |
| "AS Carelia" ShipCo C.V. | 10,365 | 11,725 |
| "AS Clara" ShipCo C.V. | 7,159 | 8,479 |
| "AS Clarita" ShipCo C.V. | 10,917 | 10,497 |
| "AS Clementina CV" ShipCo C.V. | 9,311 | 9,731 |
| "AS Columbia" ShipCo C.V. | 6,659 | 8,279 |
| "AS Constantina" ShipCo C.V. | 7,177 | 7,607 |
| "AS Cypria" ShipCo C.V. | 10,050 | 11,065 |
| "AS Fabiana" ShipCo C.V. | 7,829 | 8,819 |
| "AS Fabrizia" ShipCo C.V. | 10,300 | 10,700 |
| "AS Fatima" ShipCo C.V. | 9,119 | 10,079 |
| "AS Faustina" ShipCo C.V. | 9,670 | 9,980 |
| "AS Federica" ShipCo C.V. | 8,572 | 9,182 |
| "AS Felicia" ShipCo C.V. | 8,136 | 8,826 |
| "AS Filippa" ShipCo C.V. | 7,295 | 9,085 |
| "AS Fiona" ShipCo C.V. | 7,708 | 5,458 |
| "AS Fiorella" ShipCo C.V. | 7,743 | 7,763 |
| "AS Flora" ShipCo C.V. | 10,347 | 11,147 |
| "AS Floretta" ShipCo C.V. | 8,509 | 9,759 |
| "AS Floriana" ShipCo C.V. | 8,726 | 10,051 |
| "AS Fortuna" ShipCo C.V. | 1,031 | 8,530 |

| | | |
|---|---|---|
| "AS Frida" ShipCo C.V. | 9,946 | 9,326 |
| "AS Laetitia" ShipCo C.V. | 6,593 | 6,061 |
| "AS Laguna" ShipCo C.V. | 8,241 | 9,211 |
| "AS Lauretta" ShipCo C.V. | 6,612 | 8,271 |
| "AS Palatia" ShipCo C.V. | 16,628 | 10,956 |
| "AS Patria" ShipCo C.V. | 15,293 | 10,659 |
| "AS Paulina" ShipCo C.V. | 14,935 | 10,377 |
| "AS Petronia" ShipCo C.V. | 13,932 | 9,184 |
| "AS Ragna" ShipCo C.V. | 12,094 | 10,914 |
| "AS Riccarda" ShipCo C.V. | 11,494 | 10,824 |
| "AS Romina" ShipCo C.V. | 11,041 | 11,011 |
| "AS Rosalia" ShipCo C.V. | 11,679 | 10,649 |
| "AS Sara" ShipCo C.V. | 9,066 | 12,106 |
| "AS Savanna" ShipCo C.V. | 14,381 | 10,945 |
| "AS Serena" ShipCo C.V. | 8,783 | 9,213 |
| "AS Sevillia" ShipCo C.V. | 9,182 | 10,062 |
| "AS Sicilia" ShipCo C.V. | 12,105 | 12,205 |
| "AS Sophia" ShipCo C.V. | 9,345 | 9,708 |
| **Total** | **388,217** | **390,177** |

On 5 February 2020, one subsidiary of the Group entered into agreements for the sale of AS Lauretta, a TEU 1,000 vessel. The total sales price is agreed at USD 6.5 million and the vessel will be delivered to its new owner during H1 2020. After the sale agreed sale of AS Lauretta the assumed fair value of the Company's investment in the subsidiary are considered equal as the carrying amount of equity in the subsidiary as at 31 December 2019. The impairment of USD 2.6 million related to the investment in the subsidiary has been reflected in the Income statement for 2019 for the Company.

The vessel AS Fortuna was declared as a total loss after her grounding in September 2018 and the subsequent sale of the vessel in June 2019. After receiving the insurance proceeds and sale proceeds, the subsidiary in 2019, net of capital contribution from the Company, paid an amount of USD 7.9 million to the Company, which has been recognized as an repayment of paid in equity, and accordingly the investment into this subsidiary has decreased during 2019.

### Note 9 - Cash and cash equivalents

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank deposits denominated in USD | 2,440 | 1,209 |
| Bank deposits denominated in EUR | 44 | 100 |
| **Total cash and cash equivalents** | **2,484** | **1,309** |

Bank deposits earn interest at floating rates based on applicable bank deposit rates. Short-term deposits are made for varying periods, depending on the cash requirements of the Company.

### Note 10 - Trade and other receivables

| in USD thousands | Total | Current | Past due | | | |
|---|---|---|---|---|---|---|
| | | | <30 days | 30-60 days | 61-90 days | >90 days |
| **31 December 2019** | 737 | 737 | 737 | 0 | 0 | 0 |

| in USD thousands | Total | Current | Past due | | | |
|---|---|---|---|---|---|---|
| | | | <30 days | 30-60 days | 61-90 days | >90 days |
| **31 December 2018** | 47 | 47 | 47 | 0 | 0 | 0 |

The Company applies the simplified approach to provide for lifetime expected credit losses in accordance with IFRS 9. The nominal amount is considered to approximate the amortised cost method due to the short maturity of the receivables. No impairment losses have been recognised in 2019 and 2018, hence no expected credit losses have been assessed.

### Note 11 - Interest-bearing debt

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Nominal value of issued bonds | 200,000 | 200,000 |
| Issuance costs | -4,906 | -6,038 |
| **Total Interest-bearing loans** | **195,094** | **193,963** |

On 8 September 2017, the Company issued a USD 100 million senior secured bond with a total borrowing limit of USD 200 million. The bond has a floating interest rate of LIBOR + 4.75% and a 5-year maturity. Settlement of the bond was 22 September 2017 and the bond shall be repaid in full on the maturity date (22 September 2022).

On 2 February 2018, a USD 100 million tap issue on the above-mentioned bond was completed. As such, the total nominal amount of bonds outstanding is USD 200 million, which shall be repaid in full at the maturity date on 22 September 2022.

In addition to the amounts reported in the table above, a total of USD 307 thousand (2018: USD 158 thousand) in accrued interest on the senior secured bond is included under trade and other payables. See Note 16 in the consolidated financial statements of the Group for disclosures regarding the movement in debt.

The Group is in compliance with all covenants as at 31 December 2019. See Note 16 in the consolidated financial statements of the Group for further details.

The bond is guaranteed by the Parent and by all the subsidiaries of the Company.

The bond terms contain voluntary call options to early redeem the bonds, which is currently not expected. In addition, there is also a mandatory put option upon change in controlling shareholder.

### Note 12 - Financial instruments

Set out below is a comparison by category for carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements. The estimated fair value amounts of the financial instruments have been determined using appropriate market information and valuation techniques.

| in USD thousands | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Derivatives designed as hedging instruments** | | |
| Interest rate swap | 0 | 733 |
| Interest rate caps | 0 | 289 |
| | | |
| **Debt instruments at amortised cost** | | |
| Trade and other receivables | 737 | 47 |
| | | |
| **Total financial assets** | **737** | **1,069** |
| | | |
| **Derivatives designed as hedging instruments** | | |
| Interest rate swap | 699 | 0 |
| Interest rate caps | 2,046 | 0 |
| | | |
| **Financial liabilities at amortised cost** | | |
| Interest bearing debt | 195,094 | 193,963 |
| Trade and other payables | 254 | 651 |
| | | |
| **Total financial liabilities** | **198,092** | **194,615** |

Fair value of trade and other receivables and trade and other current payables approximate their carrying amounts due to the short-term maturities of these instruments.

Fair value of interest-bearing debt approximates its carrying amount as there have been no significant changes in the market rates for the listed bond between the date of securing the debt financing and the reporting date.

See Note 17 in the consolidated financial statements for the Group for further description regarding the cash flow hedges.

### Note 13 - Related party disclosure

See Note 18 Related party disclosures in the consolidated financial statements of the Group for details around transactions incurred at the Group level.

All transactions with related parties are carried out at market terms.

39 of the vessels owned by subsidiaries of the Company at 31 December 2019 were contributed from the Parent.

### Note 14 - Share capital and legal reserve

| | Number of shares | Share capital (USD) | Share premium (USD) |
|---|---|---|---|
| 31 December 2018 | 1 | 0 | 213,090 |
| Equity injections in 2019 | 0 | 0 | 19,514 |
| **31 December 2019** | **1** | **0** | **232,604** |

The share capital of the Company consists of 1 share at 31 December 2019, with nominal value per share of EUR 1, paid on 13 October 2017. Share premium represents the additional contributions made by the Parent (substantially through vessel contributions and cash).

The hedge reserve amounting to USD -2.7 million is a legal reserve and cannot be distributed.

For remuneration of Directors and key executives, see Note 18 in the consolidated financial statements of the Group.

**Note 15 Financial risk and capital management**

This section provides additional information about the Company's policies that are considered most relevant in understanding the operations and management of the Company, in particular objectives and policies on how the Company manages its financial risks, liquidity positions and capital structure.

Reference is made to Note 21 and Note 22 in the consolidated financial statements of the Group for further description of the applicable risks in addition to this section.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity and/or undrawn committed credit facilities at all times to meet its obligations. The Company is part of the Group's and Parent's risk management system and liquidity planning tool (reference is also made to Note 21 in the consolidated financial statements of the Group and to the Management board's report). The Company's bonds are guaranteed by the Parent, including all the subsidiaries of the Company.

The following table summarizes the contractual maturities of financial liabilities of the Company on an undiscounted basis as at 31 December 2019:

| in USD thousands | < 1 year | 1-3 years | > 3 years | Total |
|---|---|---|---|---|
| Interest bearing loans and borrowings | 0 | -200,000 | 0 | **-200,000** |
| Interest payments | -13,856 | -23,850 | 0 | **-37,705** |
| Trade payables | 254 | 0 | 0 | **254** |
| **Total** | **-13,602** | **-223,850** | **0** | **-237,452** |

For information on how the Company manages its capital, refer to the Note 22 in the consolidated financial statements of the Group.

**Note 16 - Subsequent events**

Thus far in 2020, COVID-19 and its implications on trade, transportation and production haves 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 have been facing difficulties finding new employment. However, recently the number of COVID-19 cases in China is significantly down and the number of port calls in Chinese ports is normalising and there are indications that manufacturing and inland logistics are getting back towards a level of normality. The virus however, meanwhile also spread to Europe and the US and the implications in these regions are uncertain and the risk for a recession remains.

On 5 February 2020, a subsidiary of the Group entered into agreements for the sale of AS Lauretta, a 1,000 TEU vessel. The total sales price is agreed to USD 6.5 million and the vessel will be delivered to her new owner during H1 2020.

On 14 February 2020, the Parent announced the successful completion of an equity private placement supported by three large shareholders, the private placement was later approve by the extraordinary general meeting at 9 March 2020. In the transaction the Parent has 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.

# OTHER INFORMATION

As per the Company's articles of association, profits, as determined through the adoption of the annual accounts, shall be at the disposal of the general meeting. The general meeting may decide to make a distribution, to the extent that the shareholders' equity exceeds the reserves that must be maintained by law. A resolution to make a distribution shall not take effect as long as the Management Board has not given its approval. The Management Board may only withhold such approval if it knows or should reasonably foresee that, following the distribution, the Company will be unable to continue paying its due and payable debts. In addition, dividend distributions from the Company to the Parent are subject to restrictions set out in the bond terms.

23 March 2020

The Management Board of MPC Container Ships Invest B.V.

| | | |
|---|---|---|
| ______________________ | ______________________ | ______________________ |
| Lammert de Graaf | Constantin Baack | Hans Bouma |

# AUDITOR'S REPORT

Ernst & Young Accountants LLP
Boompjes 258
3011 XZ Rotterdam, Netherlands
Postbus 2295
3000 CG Rotterdam, Netherlands

Tel: +31 88 407 10 00
Fax: +31 88 407 89 70
ey.com

## Independent auditor's report

**To: the shareholders and audit committee of MPC Container Ships Invest B.V.**

## Report on the audit of the financial statements 2019 included in the annual report

### Our opinion

We have audited the financial statements 2019 of MPC Container Ships Invest B.V. (the company), incorporated in Amsterdam, the Netherlands.

In our opinion the accompanying financial statements give a true and fair view of the financial position of MPC Container Ships Invest B.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and company statement of financial position as at 31 December 2019
- The following statements for 2019: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of MPC Container Ships Invest B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

### Materiality

| | |
|---|---|
| Materiality | US$3.0 million (2018: US$3.1 million) |
| Benchmark applied | Approximately 1.5% of consolidated equity |
| Explanation | We consider a capital-based measure, particularly equity, as the appropriate basis for determining our materiality due to the start-up phase of the operations of the group and the significant amount of vessels and debt reported in the financial statements |

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with audit committee that misstatements in excess of US$150 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

## Scope of the group audit

MPC Container Ships Invest B.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of MPC Container Ships Invest B.V.

Our group audit mainly focused on significant group entities. Group entities are considered significant because of their individual financial significance or because they are more likely to include significant risks of material misstatement due to their specific nature or circumstances. All significant group entities were included in the scope of our group audit. The entities included in the group audit scope represent the totality of the group's total assets, net revenues and profit before taxes, and were assigned a full scope.

In establishing the overall approach to the audit, we determined the work to be performed by us, as group auditors, or by component auditors from Ernst & Young Global member firms and operating under our coordination and supervision. We have performed the following procedures:

- We audited the consolidation entries and reviewed the adequacy and completeness of the EU-IFRS disclosures included in the financial statements, with the support of EY Norway.
- We visited EY Germany and reviewed the audit work of EY Germany performed on: (i) the revenues reported by the shipping-owning entities, and (ii) the accounting for the sale of the AS Fortuna for US$1,7 million and insurance proceeds for US$8,8 million, amongst other areas.
- We reviewed EY Norway's assessment of the impairment test of vessels performed by management (key audit matter).

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

## Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the audit committee. The key audit matter is not a comprehensive reflection of all matters discussed.

The key audit matter acquisition and initial recognition of vessels which was included in our last year's auditor's report, is not considered a key audit matter in this year as no new vessels were acquired in 2019.

The key audit matter mentioned below is addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Impairment assessment of vessels | |
|---|---|
| Risk | Management identified indications of potential impairment for the Group's vessels as a result of a challenging market situation with growing idle fleet and declining charter rates. Therefore, management performed an impairment test to determine the recoverable amount for each of the vessels and to measure it against the related book value. When estimating the recoverable amount, management used assumptions of future market and economic conditions as well as Group's specific factors. As part of management's subsequent event procedures, COVID-19 and its implications on trade, transportation and production was further considered as it heavily impacted the container charter market.<br>Key assumptions included the future time charter rates, expected utilization, the trend of operating expenses, expected capital expenditures, newbuilding prices and discount rate. Considering the degree of management's judgment in establishing the key assumptions and the potential impacts on the |

| Impairment assessment of vessels | |
|---|---|
| | estimated recoverable amounts of changes in such key assumptions, we considered the impairment assessment as a key audit matter.<br>Management concluded there was an impairment on the vessel AS Lauretta. The vessel was sold for USD 6.5 million in 2020, whereas the book value recorded for the investment amounted to USD 9.1 million. As a result, management recognized an impairment of USD 2.6 million for the sale of AS Lauretta in Q4 2019. No impairment for the remaining vessels as the estimated recoverable amounts of the other vessels exceeded the related book values. The Group has disclosed its accounting policy related to impairment under note 3: significant accounting policies, and the key assumptions used in the impairment assessment and the sensitivities performed under note 13: vessels. The subsequent events impact of COVID-19 is disclosed under note 24: subsequent events. |
| Our audit approach | Our audit procedures included an assessment of the key assumptions and methods used by management in the impairment assessment. We performed an evaluation of the discounted cash flows projected by management through review of the underlying key assumptions, including comparison to external data sources and third-party valuation reports for the container ship market sector. In addition, we compared the key estimates to current applicable agreements and Board approved budgets and historical data.<br>Furthermore, we involved our internal valuation experts and assessed the reasonability of the weighted average cost of capital (the discount rate) used in the discounted cash flow model by comparing the estimated equity beta, risk-free interest rates on government bonds, market risk premium and cost of debt to peer group data, relevant external sources and the Group's specific factors. We also tested the mathematical accuracy of the valuation model, and performed sensitivity analysis on the most critical assumptions. As part of our subsequent events procedures, we reviewed management's subsequent events analysis and their additional stress testing as well as their updated liquidity forecast due to COVID-19 and its impact on 2020.<br>Finally, we reviewed the disclosures included in the financial statements. |
| Key observations | As a result of the audit procedures performed we did not identify any material misstatement in the impairment assessment of vessels performed by management and disclosed in the group's financial statements. |

## Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were engaged by the audit committee as auditor of MPC Container Ships Invest B.V. on January 9, 2018 as of the audit for the year 2017 and have operated as statutory auditor ever since that date.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

### Other non-prohibited services provided

Our services are only related to the audit of the financial statements.

## Description of responsibilities for the financial statements

### Responsibilities of management and the audit committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The audit committee is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Rotterdam, 23 March 2020

Ernst & Young Accountants LLP

/s/ Pieter Laan

# 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 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.

## 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 VESSEL OPERATING EXPENDITURES ("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 divided by total assets.

## EQUITY RATIO

Total book equity divided by total assets.