# Financial Analysis Summary

10 May 2017

Issuer

## Mariner Finance p.l.c.

(C31514)

The Directors
Mariner Finance p.l.c.
Nineteen Twenty Three
Valletta Road
Marsa MRS 3000

10 May 2017

Dear Sirs

**Mariner Finance p.l.c. Financial Analysis Summary**

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the 2017 Financial Analysis Summary ("Analysis") set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to Mariner Finance p.l.c. (the "**Group**" or the "**Company**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the three years ended 31 December 2014 to 31 December 2016 has been extracted from the audited financial statements of the Issuer for the three years in question.

(b) The forecast data for the year ending 31 December 2017 has been provided by management.

(c) Our commentary on the results of the Group and on its financial position is based on the explanations provided by management.

(d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.

(e) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

CHARTS
WEALTH MANAGEMENT ▪ CORPORATE BROKING

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

**Wilfred Mallia**
Director

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# PART 1 – INFORMATION ABOUT THE COMPANY

## 1. KEY ACTIVITIES

The principal activity of the Mariner Finance p.l.c. (the "**Company**" or the "**Group**") is to act as an investment company within the Group and to engage in the investment, development and operation of sea terminals, namely in Riga, Latvia. The Group is also involved in property development.

## 2. DIRECTORS AND KEY EMPLOYEES

The Company is managed by a Board consisting of seven directors entrusted with its overall direction and management.

**Board of Directors**

| | |
|---|---|
| Marin Hili | Chairman and Chief Executive Officer |
| Edward Hili | Director |
| Michela Borg | Director |
| Kevin Saliba | Director and Company Secretary |
| Lawrence Zammit | Independent Non-Executive Director |
| Nicholas Bianco | Independent Non-Executive Director |
| Anthony Busuttil | Independent Non-Executive Director |

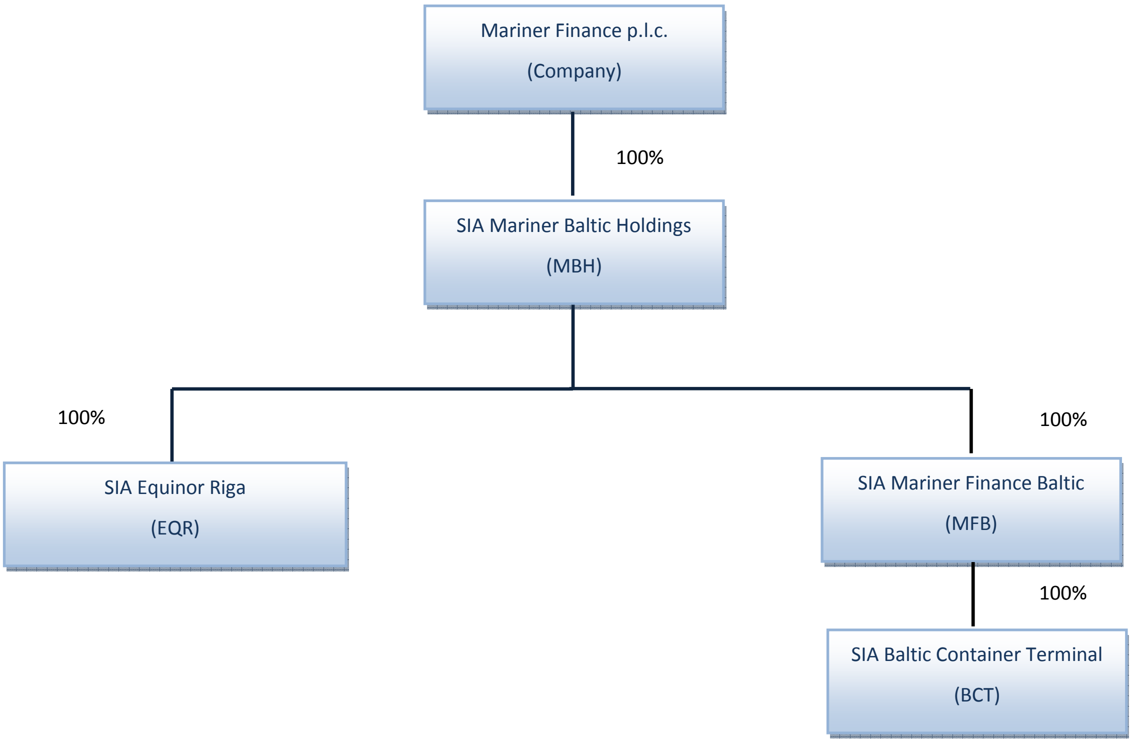
The Chief Executive Officer is responsible for the day-to-day management of the Group. In the execution of the strategic direction, investment and management oversight of the Group, he is assisted by members of senior management of the operating Group companies having the appropriate experience and knowledge required in particular cases arising from time to time. The aforesaid senior management as well as their principle roles are included hereunder:

| | |
|---|---|
| Gerard Sammut | Finance (BCT and EQR) |
| Aldis Zieds | Managing Director (BCT) |
| Dzintars Vigulis | Operations (BCT) |
| Dimitri Kiseljev | Information Technology (BCT) |

# 3. MARINER GROUP

## 3.1 Organisational Structure

As the holding company of the Group, the Company is ultimately dependent upon the operations and performance of the Group's operating company. The organisational structure of the Group is illustrated in the diagram hereunder:




**SIA Mariner Baltic Holdings** ("**MBH**") is a private limited liability company incorporated and registered in Latvia. It has an authorised and issued share capital of €2,800 divided into 2,800 ordinary shares of €1.00, fully paid up. The company was incorporated on 16 April 2014 principally to act as a holding company.

**SIA Mariner Finance Baltic** ("**MFB**") is a private limited liability company incorporated and registered in Latvia. It has an authorised and issued share capital of the euro equivalent of €25,000,000 divided into 25,000,000 ordinary shares of €1 per share, fully paid up. The company was set up on 28 February 2013 principally to act as the immediate parent company of BCT and to provide financing to its subsidiary company.

A brief overview and primary business activities of each of the two operating companies of the Group, **SIA Equinor Riga** ("**EQR**") and **SIA Baltic Container Terminal** ("**BCT**"), is provided in section 4 below.

# 4. GROUP OPERATING COMPANIES

## 4.1 SIA Equinor Riga

### 4.1.1 Introduction

EQR is a private limited liability company incorporated and registered in Latvia on 6 June 1995. It has an issued share capital of €3,963,666 consisting of 283,119 ordinary shares of €14 each. The company owns and operates a commercial and office building located in Merkela Street, Riga, Latvia, consisting of a five storey building having *circa* 3,880m$^2$ of rentable space.

EQR has a lease agreement with McDonald's Latvia for an area measuring 626m$^2$. The lease expires in 2031 and rent receivable is based on a percentage of net annual sales. The remaining area is leased to nine other tenants for use as office space or commercial activity. Each of the aforesaid lease agreements specifies a fixed rental charge per square metre and the contractual period ranges from three to ten years.


**Commercial & office building – Merkela Street, Riga, Latvia**

The property is situated at a major intersection in the central part of Riga, within the main retail and commercial area of the city. In terms of a local grading system, the building is classified as Class B commercial/office space. An appraisal of the property was undertaken in January 2017 by a third party independent consultant, who valued the said property at €5.1 million.

### 4.1.2 Office market overview in Riga[1]

By the end of 2016, total space of Class A and Class B office premises in Riga amounted to approx. 609,200m$^2$ (2015: 596,900m$^2$). Speculative space dominates with 406,900m$^2$ or 67% (2015: 68%), while built-to-suit office buildings account for 202,300m$^2$ or 33% (2015: 32%). The construction pipeline consists of seven speculative office buildings under development in Riga with 65,600m$^2$ of professional office space, most of which is planned to be commissioned during 2017.

During 2016, leasing activity remained reasonably active, and absorption of total office space in 2016 amounted to 18,800m$^2$, compared to 4,000m$^2$ in 2015. At the same time, due to shortage of available premises, tenants started to express their readiness to engage in prelease agreements closer to the end of the construction stage.

The prime headline rent in professional office buildings remained stable in 2016. As of January 2017, the total vacancy rate for both speculative and build-to-suit projects stood at 4.5% compared to 5.7% observed in the previous year.

### 4.1.3 Operational performance

Set out below are highlights of EQR's operating performance for the years indicated therein:

| **SIA Equinor Riga Income Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Revenue (rents and other services) | 403 | 400 | 376 | 371 |
| Net operating expenses | (103) | (204) | (198) | (215) |
| **EBITDA** | **300** | **196** | **178** | **156** |
| Depreciation & amortisation | (72) | (72) | (72) | (72) |
| Net interest income | 32 | - | - | 84 |
| **Profit before tax** | **260** | **124** | **106** | **168** |
| Taxation | (56) | (30) | (28) | (25) |
| **Profit after tax** | **204** | **94** | **78** | **143** |

**Note 1:** In 2016, new regulations were introduced in Latvia entitled "On the Annual Reports and Consolidated Annual Reports", with effect from 1 January 2016. As a result, a reclassification was effected in the FY2015 income statement for comparative reasons. The said reclassification comprised an increase of €20,040 in 'net operating expenses' from €184,000 to €204,000 and a reduction in 'taxation' of the same amount from €50,000 to €30,000.

[1] Real Estate Market Overview 2017 (Colliers International, Sorainen, EY)

| Key Accounting Ratios | FY2014 | FY2015 | FY2016 | FY2017 |
|---|---|---|---|---|
| Operating profit margin *(EBITDA/revenue)* | 74% | 49% | 47% | 42% |
| Net profit margin *(Profit after tax/revenue)* | 51% | 24% | 21% | 39% |

*Source: Charts Investment Management Service Limited*

In **FY2015**, EQR generated revenue of €400,448, a decrease of €2,540 when compared to the previous year's income of €402,988. Total revenue comprises rental income of €298,260 (FY2014: 304,672) and service charges of €102,188 (FY2014: €98,316). Overall, the company registered a profit for the year of €93,690 (FY2014: €203,786).

In **FY2016**, revenue amounted to €375,610, a reduction of €24,838 when compared to the prior year. A further analysis of revenue shows that rental income decreased from €298,260 in FY2015 to €282,956 (-5%), which service charges were lower by €9,534 from €102,188 in FY2015 to €92,654 in FY2016. During the year under review, the company generated a profit of €78,000 (FY2015: €94,000).

A similar performance is projected for **FY2017**.

## 4.2 SIA Baltic Container Terminal

### 4.2.1 Introduction

BCT is a private limited liability company incorporated and registered in Latvia. The company was incorporated on 26 March 1996 and is principally engaged in the provision of port and related services at the port of Riga. BCT operates at the Riga Free Port No. 2 under a port concession license issued by the Riga Free Port Authority which expires in April 2047. Apart from the license, the company had entered into a real estate purchase agreement on 30 April 2003 whereby the Riga Free Port Authority sold to BCT, which acquired, full ownership of all yards within the boundaries of the BCT terminal (excluding the quay), together with all underlying communications, five warehouses having an aggregate total area of approximately 14,000m$^2$, parking and paved areas surrounding said warehouses, and covered rail ramps.


**SIA Baltic Container Terminal**

### 4.2.2 Market and competition

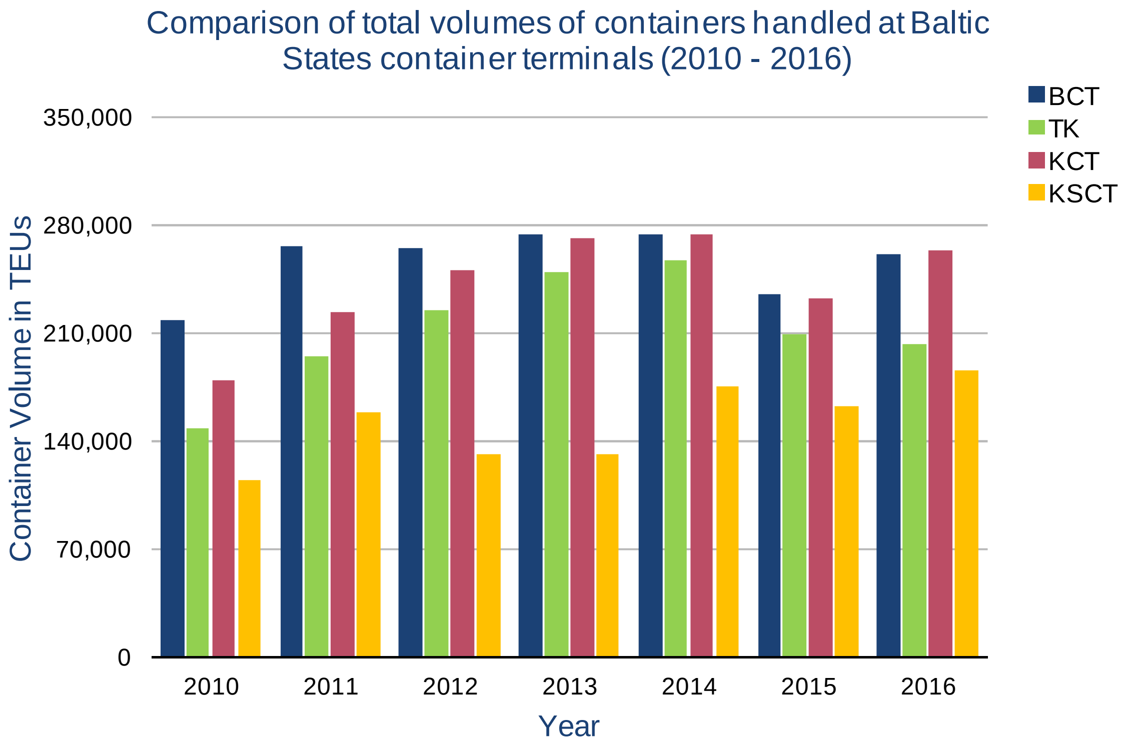
BCT is located at the mouth of the river Daugava which runs through the centre of Latvia's capital Riga. Its favourable geographical location and good, direct access via road and rail to its market hinterland make it strategically located to serve as a gateway to meet container traffic demand to and from the main industrial centres of Russia and other destinations including Moscow, Kaluga, Novgorod, St Petersburg, Minsk, Kiev, Vilnius, Tallinn, Almaty and Tashkent.

Latvia is a fast developing country located on the south-east coast of the Baltic Sea in the centre of the Baltic States (Lithuania, Latvia and Estonia). It represents the financial hub of the three nations and its favourable geopolitical environment provides excellent business opportunities for the four major growth markets bordering Latvia - Belarus, Estonia, Lithuania and Russia.

There are three main ports in Latvia - Venstpils, Riga and Liepaja - and these are mainly involved in transit cargo. The Freeport of Riga is by far the major container-handling port in Latvia. Moreover, BCT is the only specialised container terminal within the port. There are two other terminals - Riga Central Terminal (RCT) and Riga Universal Terminal (RUT) - which handle relatively small volumes of containerised cargo, though their main fields of activity are in the handling of general and bulk cargoes. As a specialised container terminal BCT is better equipped in terms of infrastructure, superstructure and workforce to efficiently and productively handle containers.

Although the RUT and RCT do constitute a form of competition, BCT's main competitors are other specialised container terminals which are located in the neighbouring Baltic States and other eastern Baltic countries. These include: Klaipeda Container Terminal (KCT) and Klaipeda Smelte Container Terminal (KSCT) in Klaipeda, Lithuania; Transiidikeskuse (formerly Muuga Container Terminal) (TK) in Tallinn, Estonia; the container terminals within the Port of St. Petersburg, Russia, and; Palokangas - EU Container Terminal and Mussalo Container Terminal within HaminaKotka Port, Finland.

KCT, KSCT and TK, located in the neighbouring Baltic States represent the most direct form of competition to BCT due to their similar geographical locations, hinterland markets, inland connections, geopolitical environment and general terminal facilities. Below is a comparison of BCT with its direct competitors for the financial years 2010 to 2016.




### 4.2.3 Principal activities

BCT commenced activities on 1 May 1996, subsequent to the restructuring of a state-owned company, Riga Trade Port. It operates over an area of *circa* 557,000m$^2$. The BCT terminal has an annual container handling capacity of *circa* 450,000 twenty-foot equivalent units ("**TEUs**"), and offers the following services:

- **Quay-side operations** – including the berthing of vessels for the loading and/or unloading of containerised cargo using three ship-to-shore quay cranes. The fourth ship-to-shore gantry crane has been operational from June 2015. Ro-ro vessels, which are ships designed to carry wheeled cargo such as automobiles, trucks and trailers (roll-on/roll-off), may also be serviced.
- **Yard operations** – the terminal has a container storage yard comprising a capacity of *circa* 20,000 TEUs. In addition, the yard has 500 reefer points, that is, electrical outlets for the storage of temperature-controlled containers.
- **Gate and rail operations** – including the transfer of containers between the container terminal and inland road and rail networks. BCT has direct access to both road and rail networks, and operates its own rail handling facility which can service up to 64 rail platforms simultaneously.
- **Warehousing** – the terminal has *circa* 20,400m$^2$ of covered warehousing space for the storage of general cargo. The warehouse facilities have direct access to the rail and road networks for

more efficient distribution of cargo. BCT aims to complete a new 10,000m$^2$ warehouse in the near future.

- **Ancilliary activities** – a wide range of value-added services are provided at the container terminal due to an optimised integrated logistics chain. Through a container freight station the terminal offers the service of, amongst others, stuffing and stripping of containers (packing/unpacking). In addition, BCT also provides engineering services for the repair of damaged containers.

Of the activities outlined above, the principal business at BCT is quay-side operations (the loading and unloading of containers), which in 2016 represented 74% (2015: 70%) of total revenue generated by the company.

As an important node within the region's logistics network, BCT's clients include shipping lines, freight forwarders, third party logistics service providers, liner agents, inland carriers (such as road haulage companies), as well as end-customers. The container terminal services some of the world's largest shipping lines which call directly at the terminal as well as other shipping lines that use common feeder services. These include Maersk Line, Compagnie Maritime d'Affretement – Campagnie Generale Maritime (CMA-CGM) and Mediterranean Shipping Company (MSC), Unifeeder and Team Lines, as well as Evergreen, China Shipping Container Lines (CSCL), Nippon Yusen Kaisha (NYK) and Orient Overseas Container Line (OOCL). BCT has strong relationships with all the major shipping lines and their local representatives, and strives to maintain good relations with both existing and potential clients.

### 4.2.4 Operational performance

The following table sets out the highlights of BCT's operating performance for the years indicated therein.

| **SIA Baltic Container Terminal Income Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Revenue | 16,950 | 14,924 | 15,156 | 15,649 |
| Net operating expenses | (8,461) | (7,109) | (6,527) | (6,796) |
| **EBITDA** | **8,489** | **7,815** | **8,629** | **8,853** |
| Depreciation | (1,187) | (1,159) | (1,520) | (1,545) |
| Gain on disposal of subsidiary | 412 | - | - | - |
| Net interest income/(cost) | 362 | 231 | (407) | (305) |
| **Profit before tax** | **8,076** | **6,887** | **6,702** | **7,003** |
| Taxation | (258) | (117) | (201) | (210) |
| **Profit after tax** | **7,818** | **6,770** | **6,501** | **6,793** |
| **Comprehensive income:** | | | | |
| Revaluation, net of deferred tax | - | 21,189 | - | - |
| **Total comprehensive income** | **7,818** | **27,959** | **6,501** | **6,793** |

| Key Accounting Ratios | FY2014 | FY2015 | FY2016 | FY2017 |
|---|---|---|---|---|
| Revenue growth<br>*(Revenue FY1/revenue FY0)* | -4% | -12% | 2% | 3% |
| Operating profit margin<br>*(EBITDA/revenue)* | 50% | 52% | 57% | 57% |
| Net profit margin<br>*(Profit after tax/revenue)* | 46% | 45% | 43% | 43% |

*Source: Charts Investment Management Service Limited*

In **FY2014**, profit for the year increased by 4.3%, to €7.8 million, despite a 4.0% revenue decline reported in the year when compared to FY2013. The aforesaid decrease in revenue (*circa* €698,000) was largely due to a decrease in rates which were negotiated with clients in the prior year. FY2014 was the first full year whereby the full effect of reduced rates transpired in the annual turnover figure. Notwithstanding the reduction in turnover in FY2014, BCT was effective in lowering operating costs, which decreased on a y-o-y basis by 8.6% (or €798,000). As a result EBITDA for the reviewed year increased by 1.2% to €8.5 million while EBITDA margin reached 50% (FY2013: 48%).

BCT divested itself of all ancillary non-port related investments by selling its shares in Equinor Riga and a property in FY2014, netting a profit on sale of *circa* €412,000. This contributed towards the marked increase in profit for the year, at 4.3% (*circa* €323,000) when compared to FY2013.

BCT handled 235,301 TEUs in **FY2015**, a decline of 14.3% when compared to FY2014. As a result, revenue decreased y-o-y by €2.0 million (or 12.0%) from €17.0 million in FY2014 to €14.9 million. The lower activity at the port was mainly due to the unstable geopolitical climate in Russia and depressed oil prices. Furthermore, the weakened Russian Rouble adversely affected volumes passing through the terminal, as import volumes were lower than export volumes. This caused an imbalance between imports and exports, resulting in a lack of empty containers available for exports.

Due to lower volumes handled in FY2015, net operating costs decreased by €1.4 million (or 16.0%) to €7.1 million. EBITDA for FY2015 was lower by €0.7 million from €8.5 million in FY2014 to €7.8 million. Further to an independent expert's valuation, the directors revalued the company's properties, comprising warehouses, administrative buildings, open areas for cargo storage and access roads leading to the railway, by €23.4 million. After accounting for the uplift of €21.1 million (revaluation of €23.4 million less deferred taxation), the comprehensive income for FY2015 amounted to €28.0 million (FY2014: €7.8 million).

In **FY2016**, BCT handled 261,709 TEUs as compared to 235,301 TEUs in 2015 (+11%), which however only resulted in a 2% increase in total revenue from €14.9 million in FY2015 to €15.2 million in FY2016. Notwithstanding, the company registered a y-o-y increase of €0.8 million (+10%) in EBITDA, mainly due to a decrease in administrative expenses (particularly, a y-o-y reduction in professional &

legal fees). The geopolitical situation in the region and low oil prices persisted during FY2016 and therefore, transit import volumes remained low. On the other hand, export volumes from Latvia have increased in comparison to FY2015, and this mismatch between import and export volumes is driving a growing demand for imports of empty containers to address the increase in containerised export. The company reported a profit after tax in FY2016 of €6.5 million, being marginally lower when compared to the prior year (FY2015: €6.8 million).

As for **FY2017**, BCT is projected to generate €15.6 million in revenue, an increase of €0.5 million (+3%) when compared to FY2016. The container market has improved in the initial quarter of 2017, but it is premature to project a return to pre-crisis volumes. Furthermore, most neighbouring container terminals are experiencing a low utilisation rate, which is an indication that competition will remain high. As such, management has projected tariffs to remain broadly stable in FY2017. In line with the increase in revenue, net operating expenses are expected to amount to €6.8 million, an increase of €0.3 million over FY2016's figure. EBITDA in FY2017 should increase by €0.2 million y-o-y to €8.8 million and profit after tax is projected at €6.8 million (FY2016: €6.5 million).

***Variance analysis***

| **SIA Baltic Container Terminal Income Statement for the year ended 31 December** | **2016 Actual €'000** | **2016 Forecast €'000** | **Variance €'000** |
|---|---|---|---|
| Revenue | 15,156 | 15,168 | (12) |
| Net operating expenses | (6,527) | (7,077) | 550 |
| **EBITDA** | **8,629** | **8,091** | **538** |
| Depreciation | (1,520) | (1,644) | 124 |
| Gain on disposal of subsidiary | - | - | - |
| Net interest income/(cost) | (407) | (460) | 53 |
| **Profit before tax** | **6,702** | **5,987** | **715** |
| Taxation | (201) | (218) | 17 |
| **Profit after tax** | **6,501** | **5,769** | **732** |

As presented in the above table, actual revenue generated by BCT was in line with forecast at €15.2 million. On the cost side, actual net operating expenses were lower than projected by €550,000, which positively impacted EBITDA by the same amount. After also taking into consideration movements in depreciation, net interest costs and taxation, which were all lower than expected by an aggregate amount of €194,000, actual profit after tax was higher than projected by €732,000.

### 4.2.5 Operational performance (2007 – 2016)

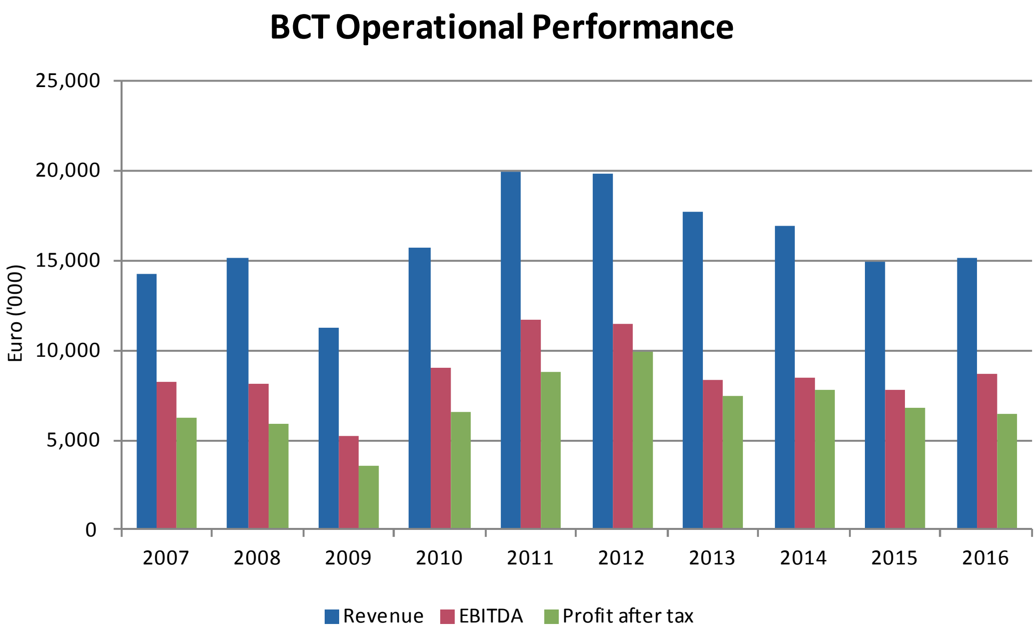
As indicated in the table below, over the past 10 years, BCT's performance has been broadly stable (revenue grew at a CAGR of 0.7%, while profits increased at a CAGR of 0.4%). Volumes handled by BCT in the reviewed period increased from *circa* 212,000 TEUs in FY2007 to *circa* 262,000 TEUs in FY2016 (the peak years in terms of volume were FY2013 and FY2014 when 274,000 TEUs in each of the said financial years passed through the terminal). In FY2015, volume decreased by 14% when compared to the prior year from 274,000 TEUs in FY2014 to 235,000 TEUs, principally due to the unstable geopolitical situation in Russia and the low oil prices. Volumes recovered by 11% in the subsequent year to 262,000 TEUs.

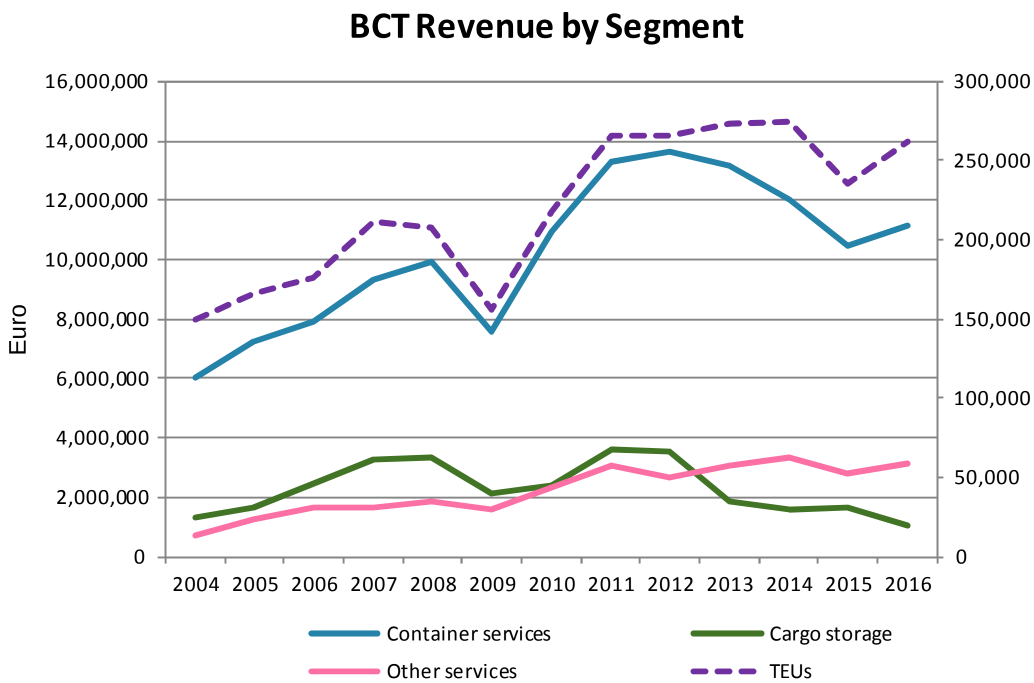
Competition has increased considerably in a decade, which resulted in lower revenue and EBITDA per TEU being generated by BCT. In FY2016, the terminal generated revenue and EBITDA per TEU of €58 and €33 respectively, as compared to €67 and €39 respectively in FY2007. In the best performing year (FY2011), the terminal generated revenue and EBITDA per TEU of €75 and €44 respectively. However, although impacted by increased competition, management has ensured that the company's EBITDA and profit margins are maintained through ongoing capital investment at the terminal (infrastructure, equipment, software, etc) and implementation of operational efficiencies. As outlined hereunder, the lowest EBITDA and net profit margins were registered in FY2009 (46% and 31% respectively) due to the global economic crisis that negatively affected both the Latvian economy and BCT's business activities.

| **SIA Baltic Container Terminal for the year ended 31 December** | **2007 Actual €'000** | **2008 Actual €'000** | **2009 Actual €'000** | **2010 Actual €'000** | **2011 Actual €'000** | **2012 Actual €'000** | **2013 Actual €'000** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 14,201 | 15,142 | 11,238 | 15,738 | 19,888 | 19,761 | 17,647 | 16,950 | 14,924 | 15,156 |
| EBITDA | 8,197 | 8,114 | 5,173 | 8,986 | 11,711 | 11,449 | 8,389 | 8,488 | 7,815 | 8,629 |
| Profit for the year | 6,265 | 5,911 | 3,504 | 6,612 | 8,783 | 9,884 | 7,495 | 7,818 | 6,770 | 6,501 |

| | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| TEUs ('000) | 212 | 207 | 156 | 218 | 266 | 265 | 274 | 274 | 235 | 262 |
| Revenue per TEU (€) | 67 | 73 | 72 | 72 | 75 | 75 | 64 | 62 | 64 | 58 |
| EBITDA per TEU (€) | 39 | 39 | 33 | 41 | 44 | 43 | 31 | 31 | 33 | 33 |
| TEUs growth<br>*(TEUs FY1/TEUs FY0)* | 20% | -2% | -25% | 40% | 22% | 0% | 3% | 0% | -14% | 11% |
| Revenue growth<br>*(Revenue FY1/revenue FY0)* | 18% | 7% | -26% | 40% | 26% | -1% | -11% | -4% | -12% | 2% |
| Operating profit margin<br>*(EBITDA/revenue)* | 58% | 54% | 46% | 57% | 59% | 58% | 48% | 50% | 52% | 57% |
| Net profit margin<br>*(Profit after tax/revenue)* | 44% | 39% | 31% | 42% | 44% | 50% | 42% | 46% | 45% | 43% |

*Source: Charts Investment Management Service Limited*






As depicted in the above chart, BCT is principally involved in the handling of containers (loading and unloading). Furthermore, revenue generated from this activity (blue line) is largely correlated to the volume of containers that pass through the terminal (purple dashed line). Growth in container services at BCT has been constant over the ten year period, except for the impact of the economic crisis in FY2009. Furthermore, in FY2015, the provision of container services declined by 14% principally due to the adverse affect of the geopolitical situation in Russia and the depressed price of oil, which recovered to some extent in the last financial year (FY2016).

### 4.2.6 Optimisation of terminal operations

In order to maintain its competitive edge in the market, BCT's management reviews operation methodologies and performance on an on-going basis, monitors developments in the industry and ensures that it maintains excellent relations with its clients. Through this gathering of information, BCT is able to plan timely and strategic investments at the terminal to maintain its competitiveness.

It is expected that BCT will continue to optimise its operations by increasing productivity, further investing in equipment, technological processes and infrastructure, and enhancing its customer service to consolidate customer relationships.

## 5. BALTIC SEA REGION CONTAINER MARKET

The global major and minor shipping routes form a complex transportation network which links the worlds' ports and terminals. The latter are often classified into groups of ports/terminals - port systems - which serve as maritime/land interfaces to specific hinterland markets. The Baltic Sea Region is one such port system and is considered as one of the major European transport gateways.

The Baltic Sea Region (BSR) comprises eleven nations with 100 million inhabitants, eight of which are EU members. These include the Baltic states (Estonia, Latvia and Lithuania), the Nordic countries (Denmark, Iceland, Finland, Norway and Sweden), Northern Germany, Northern Poland and Russia's Northwestern region, including Kaliningrad. Individually, the constituent nations are diverse in terms of politics, geography, demography and economics. The region, however, is characterised by stable democracies, institutional structures favourable to business, proximity of markets, good infrastructure, high levels of education, strong industrial traditions and a shared history of co-operation and trade.

The BSR port system is versatile and multifunctional which features well-established large ports and a whole range of medium-sized and smaller ports, each with its individual characteristics in terms of hinterland markets served, cargo handled and unique location features. This exceptional blend of different port types and sizes combined with a vast economic hinterland shapes port significance and competition in the region.

# PART 2 – GROUP PERFORMANCE REVIEW

**The projected financial statements detailed below relate to events in the future and are based on assumptions which the Group believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between projected and actual results may be material.**

The following financial information is extracted from the consolidated financial statements of Mariner Finance p.l.c. (the "**Group**") for the years ended 31 December 2014 to 31 December 2016. The financial information for the year ending 31 December 2017 has been provided by management.

| **Mariner Finance p.l.c. Income Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Revenue | 17,353 | 15,324 | 15,532 | 16,020 |
| BCT | 16,950 | 14,924 | 15,156 | 15,649 |
| EQR | 403 | 400 | 376 | 371 |
| Net operating expenses | (8,221) | (7,463) | (6,934) | (7,205) |
| **EBITDA** | **9,132** | **7,861** | **8,598** | **8,815** |
| Depreciation & amortisation | (1,474) | (1,446) | (1,503) | (1,545) |
| Net finance costs | (2,160) | (2,252) | (2,022) | (2,057) |
| **Profit before tax** | **5,498** | **4,163** | **5,073** | **5,213** |
| Taxation | (330) | (193) | (287) | (277) |
| **Profit after tax** | **5,168** | **3,970** | **4,786** | **4,936** |
| **Comprehensive income:** | | | | |
| Net gain/(loss) on available-for-sale financial assets | 57 | 47 | (228) | - |
| Revaluation, net of deferred tax | - | 1,124 | - | - |
| **Total comprehensive income** | **5,225** | **5,141** | **4,558** | **4,936** |

| Mariner Finance p.l.c. Balance Sheet<br>as at 31 December | 2014<br>Actual<br>€'000 | 2015<br>Actual<br>€'000 | 2016<br>Actual<br>€'000 | 2017<br>Forecast<br>€'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 13,469 | 13,853 | 13,923 | 15,744 |
| Property, plant and equipment | 31,462 | 35,396 | 35,570 | 35,873 |
| Investment property | 5,184 | 5,184 | 5,108 | 5,108 |
| Available-for-sale investments | 334 | 375 | - | - |
| Loans and receivables | 2,930 | 5,203 | 11,040 | 14,135 |
| | 53,379 | 60,011 | 65,641 | 70,860 |
| **Current assets** | | | | |
| Inventories | 400 | 397 | 340 | 340 |
| Trade and other receivables | 4,048 | 5,678 | 2,694 | 2,182 |
| Taxation | 45 | 149 | 81 | 59 |
| Cash and cash equivalents | 2,162 | 1,434 | 3,361 | 4,915 |
| | 6,655 | 7,658 | 6,476 | 7,496 |
| **Total assets** | **60,034** | **67,669** | **72,117** | **78,356** |
| **EQUITY** | | | | |
| **Equity and reserves** | | | | |
| Called up share capital | 500 | 500 | 500 | 500 |
| Other equity and reserves | 8,281 | 9,453 | 9,225 | 9,225 |
| Retained earnings | 12,124 | 15,870 | 20,655 | 25,591 |
| | **20,905** | **25,823** | **30,380** | **35,316** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Bank loans | 1,270 | 1,884 | 1,577 | 2,720 |
| Bonds | 34,355 | 34,408 | 34,464 | 34,519 |
| Other non-current liabilities | 1,337 | 3,224 | 3,052 | 3,052 |
| | 36,962 | 39,516 | 39,093 | 40,291 |
| **Current liabilities** | | | | |
| Bank loans | 188 | 307 | 307 | 307 |
| Other current liabilities | 1,979 | 2,023 | 2,337 | 2,442 |
| | 2,167 | 2,330 | 2,644 | 2,749 |
| | **39,129** | **41,846** | **41,737** | **43,040** |
| **Total equity and liabilities** | **60,034** | **67,669** | **72,117** | **78,356** |

| **Mariner Finance p.l.c. Cash Flow Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Net cash from operating activities | 7,753 | 6,440 | 6,211 | 6,594 |
| Net cash from investing activities | (7,385) | (8,118) | (3,982) | (3,644) |
| Net cash from financing activities | 637 | 950 | (302) | (1,396) |
| **Net movement in cash and cash equivalents** | **1,005** | **(728)** | **1,927** | **1,554** |
| Cash and cash equivalents at beginning of year | 1,157 | 2,162 | 1,434 | 3,361 |
| **Cash and cash equivalents at end of year** | **2,162** | **1,434** | **3,361** | **4,915** |

| **Key Accounting Ratios** | **FY2014** | **FY2015** | **FY2016** | **FY2017** |
|---|---|---|---|---|
| Operating profit margin<br>*(EBITDA/revenue)* | 53% | 51% | 55% | 55% |
| Interest cover (times)<br>*(EBITDA/net finance cost)* | 4.23 | 3.49 | 4.25 | 4.29 |
| Net profit margin<br>*(Profit after tax/revenue)* | 30% | 26% | 31% | 31% |
| Earnings per share (€)<br>*(Profit after tax/number of shares)* | 103.36 | 79.40 | 95.72 | 98.72 |
| Return on equity<br>*(Profit after tax/shareholders' equity)* | 25% | 15% | 16% | 14% |
| Return on capital employed<br>*(Operating profit/total assets less current liabilities)* | 16% | 12% | 12% | 12% |
| Return on assets<br>*(Profit after tax/total assets)* | 9% | 6% | 7% | 6% |
| Net assets per share (€)[1]<br>*(Net asset value/number of shares)* | 418.10 | 516.46 | 607.60 | 706.32 |
| Liquidity ratio (times)<br>*(Current assets/current liabilities)* | 3.07 | 3.29 | 2.45 | 2.73 |
| Gearing ratio<br>*(Net debt/net debt and shareholders' equity)* | 62% | 58% | 52% | 48% |

*Source: Charts Investment Management Service Limited*

The historical results (FY2014 – FY2016) and forecasted figures (FY2017) principally relate to the operations of EQR and BCT, which are analysed in further detail in sections 4.1.3 and 4.2.4 respectively.

On a consolidated basis, the Group generated revenue of €15.5 million in FY2016, an increase of €0.2 million when compared to FY2015. EBITDA was higher on a y-o-y basis by €0.7 million to €8.6 million (FY2015: €7.9 million), mainly on account of a decrease in administrative expenses (particularly professional and legal fees). After accounting for depreciation (€1.5 million) and net finance costs (€2.0 million), profit before tax amounted to €5.1 million in FY2016 (FY2015: €4.2 million).

With respect to FY2017, management is projecting a broadly similar performance when compared to FY2016. As such, revenue is expected to amount to €16.0 million (FY2016: €15.5 million) and profit after tax is forecasted at €4.9 million (FY2016: €4.8 million).

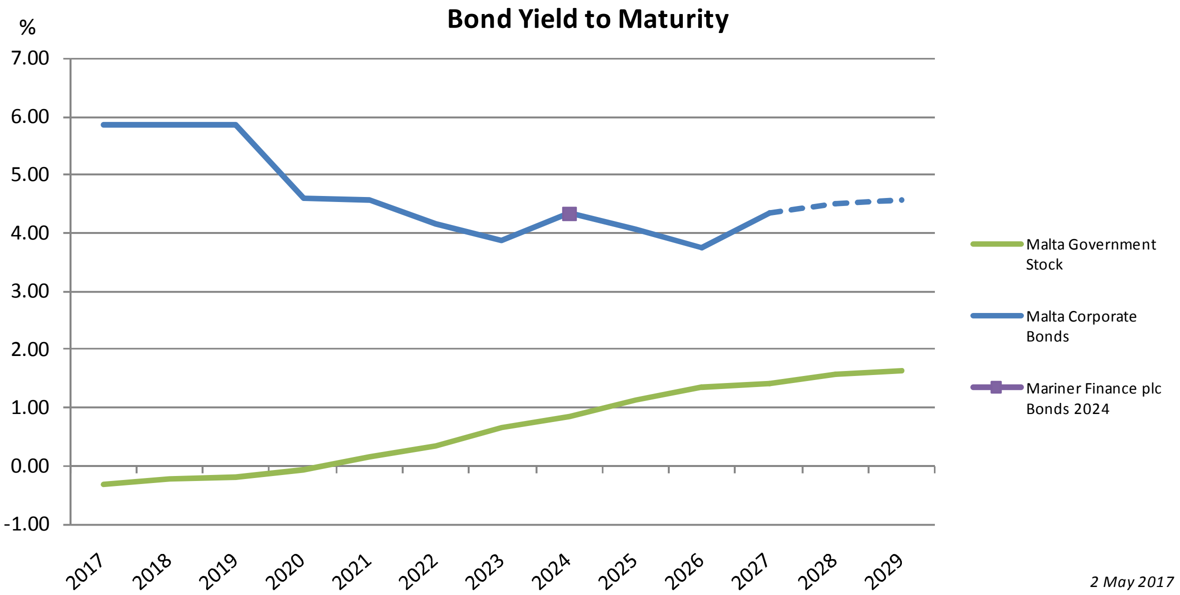
# PART 3 – COMPARABLES

The table below compares the Group and its bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. Although there are significant variances between the activities of the Group and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Group.

| **Comparative Analysis** | **Nominal Value (€)** | **Yield to Maturity (%)** | **Interest Cover (times)** | **Total Assets (€'000)** | **Net Asset Value (€'000)** | **Gearing Ratio (%)** |
|---|---|---|---|---|---|---|
| 6% Pendergardens Dev. plc Secured € 2022 Series II | 27,000,000 | 4.16 | 1.49 | 63,273 | 11,488 | 63.23 |
| 4.25% Gap Group plc Secured € 2023 | 40,000,000 | 3.89 | 2.48 | 57,086 | 6,004 | 86.39 |
| 5.3% United Finance Plc Unsecured € Bonds 2023 | 8,500,000 | 3.88 | 2.05 | 18,153 | 3,796 | 73.85 |
| 6% AX Investments Plc € 2024 | 40,000,000 | 4.33 | 3.62 | 270,425 | 163,719 | 27.97 |
| 6% Island Hotels Group Holdings plc € 2024 | 35,000,000 | 4.64 | 0.98 | 144,003 | 52,994 | 53.41 |
| 5.3% Mariner Finance plc Unsecured € 2024 | 35,000,000 | 4.34 | 4.25 | 72,117 | 30,380 | 52.06 |
| 5% Hal Mann Vella Group plc Secured Bonds € 2024 | 30,000,000 | 4.52 | - 0.02 | 82,096 | 32,298 | 54.54 |
| 5.1% PTL Holdings plc Unsecured € 2024 | 36,000,000 | 4.62 | 1.59 | 71,711 | 4,751 | 89.91 |
| 4.5% Hili Properties plc Unsecured € 2025 | 37,000,000 | 4.07 | 1.40 | 97,042 | 28,223 | 66.81 |
| 4.0% International Hotel Invest. plc Secured € 2026 | 55,000,000 | 3.68 | 2.46 | 1,220,254 | 646,822 | 36.39 |
| 4.0% MIDI plc Secured € 2026 | 50,000,000 | 3.55 | 0.59 | 203,780 | 67,359 | 40.62 |
| 3.75% Premier Capital plc € Unsecured Bonds 2026 | 65,000,000 | 3.56 | 6.87 | 193,351 | 41,630 | 58.76 |
| 4.35% SD Finance plc € Unsecured Bonds 2027 | 65,000,000 | 4.35 | 4.82 | 156,433 | 56,697 | 53.20 |
| 4.0% Eden Finance plc 2027 | 40,000,000 | 4.00 | 3.98 | 165,496 | 92,620 | 34.60 |

*02 May'17*

*Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited*




To date, there are no corporate bonds which have a redemption date beyond 2027 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

# PART 4 – EXPLANATORY DEFINITIONS

| **Income Statement** | |
|---|---|
| Revenue | Total revenue generated by the Group from its business activities during the financial year, that is, the operations of BCT and EQR |
| Operating expenses | Operating expenses include the cost of terminal operations and management expenses in maintaining the investment property of EQR. |
| EBITDA | EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. |
| Profit after tax | Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities. |
| **Profitability Ratios** | |
| Operating profit margin | Operating profit margin is operating income or EBITDA as a percentage of total revenue. |
| Net profit margin | Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue. |
| **Efficiency Ratios** | |
| Return on equity | Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity. |
| Return on capital employed | Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed. |
| Return on Assets | Return on assets (ROA) is computed by dividing profit after tax by total assets. |
| **Equity Ratios** | |
| Earnings per share | Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date. |
| **Cash Flow Statement** | |
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities of the Company. |

| | |
|---|---|
| Cash flow from investing activities | Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company. |
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Company. |
| **Balance Sheet** | |
| Non-current assets | Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets (goodwill on acquisition), investment properties, and property, plant & equipment. |
| Current assets | Current assets are all assets of the Company, which are realisable within one year from the balance sheet date. Such amounts include inventory, accounts receivable, cash and bank balances. |
| Current liabilities | All liabilities payable by the Company within a period of one year from the balance sheet date, and include accounts payable and short-term debt. |
| Net debt | Borrowings before unamortised issue costs less cash and cash equivalents. |
| Non-current liabilities | The Company's long-term financial obligations that are not due within the present accounting year. The Company's non-current liabilities include bank borrowings and bonds. |
| Total equity | Total equity includes share capital, reserves & other equity components, and retained earnings. |
| **Financial Strength Ratios** | |
| Liquidity ratio | The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities. |
| Interest cover | The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period. |
| Gearing ratio | The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity. |