

## **Operating and Financial Review the year ended 31 December, 2017**

### **1. General**

The container shipping industry is dynamic and volatile and has been marked in recent years by instability, resulting from the overcapacity which still exists in the market. During 2016-2017, the container shipping industry was going through a structural change, as a result of the extensive activity of mergers and acquisitions that also led to reorganization of the global alliances.

After a long period of reduction in freight rates, as from the second half of 2016 and through the third quarter of 2017, freight rates have increased, while partially decreased towards the end of 2017.

The Company's performance in 2017 reflects a significant improvement compared with 2016 and resulted with an operating profit of \$135.1M, compared to an operating loss of \$52.1M, an increase of \$187.2M. In addition, The Company concluded 2017 with an annual adjusted EBITDA of \$270.1M, the highest in the last seven years.

To further improve the Company's results of operations and liquidity position, Management continues to optimize the Company's service network including establishment of new partnerships and invest in upgrading customer services to create and maintain efficiencies and cost reductions.

However, changes in key parameters, such as decrease of freight rates and increase in bunker expenses, could negatively affect the entire industry and also affect the Company's business and financial position. The current instability and volatility in the market make forecasting very challenging, as a result, there is a possibility that the Company's actual performance may differ from expectations.

During 2016, the Company reached agreements with some of its creditors to rescheduling of payments - for further details, see Note 1(b)(i) to the Company's financial statements for the year ended December 31, 2017.

### **2. Financial Position**

#### **2.1. Balance Sheet**

The Company's total assets as of 31 December, 2017 amounted to \$1,802.3M compared to \$1,703.6M as of 31 December, 2016.

##### **Assets**

The Company's fixed assets as of 31 December, 2017 amounted to \$1,108.6M compared to \$1,119.0M as of 31 December, 2016, a decrease of \$10.4M. The decrease was primarily driven by: (i) depreciation expenses in an amount of \$100.2M and (ii) sale of assets in a net carrying amount of \$4.1M, offset by (iii) additions of fixed assets (mainly financial leases of containers) in an amount of \$93.9M.

The Company's current assets as of 31 December, 2017 amounted to \$579.6M compared to \$465.9M as of 31 December, 2016, an increase of \$113.7M. The increase was primarily driven by: (i) an increase in short term deposits in an amount of \$69.1M, (ii) an increase in trade and other receivables in an amount of \$25.7M, and (iii) an increase in inventories in an amount of \$22.4M.

The current ratio as of 31 December, 2017 was 0.84 compared to 0.88 as of 31 December, 2016. The decrease was mainly related to an increase in current maturities of long-term loans.

##### **Liabilities**

The Company's long-term loans and other liabilities (including current maturities) as of 31 December, 2017 amounted to \$1,324.6M compared to \$1,321.9M as of 31 December, 2016, an increase of \$2.7M. The increase was primarily driven by: (i) an increase in financial leases in an amount of \$81.6M, (ii) an

increase related to deferral of lease payments of \$41.2M and (iii) an increase related to fair value adjustment amortization of \$12.0M, offset by (iv) a repayments of borrowings in an amount of \$134.4M.

The Company's current liabilities (excluding current maturities) as of 31 December, 2017 amounted to \$497.1M compared to \$414.7M as of 31 December, 2016, an increase of \$82.4M. The increase was primarily driven by an increase in short term loans in an amount of \$78.9M.

### Equity

The Company's deficit in equity attributable to the owners of the Company as of 31 December, 2017 amounted to \$100.0M compared to \$103.8M as of 31 December, 2016, a decrease of \$3.8M. The decrease was primarily driven by comprehensive income attributable to the owners of the Company for the period ended 31 December, 2017 in an amount of \$2.3M.

## 2.2. Income statements

	Year ended 31 December		Three months ended 31 December	
	2017	2016	2017	2016
	Million US\$			
Income from voyages and related services	<b>2,978.3</b>	2,539.3	<b>760.9</b>	653.5
Operating expenses and cost of services	<b>(2,600.1)</b>	(2,394.1)	<b>(680.1)</b>	(584.3)
Depreciation	<b>(97.2)</b>	(86.3)	<b>(25.0)</b>	(23.0)
<b>Gross profit</b>	<b>281.0</b>	58.9	<b>55.8</b>	46.2
Other operating income, net	<b>1.6</b>	31.5	<b>1.0</b>	15.8
General and administrative expenses	<b>(147.5)</b>	(142.5)	<b>(36.5)</b>	(36.0)
<b>Results from operating activities</b>	<b>135.1</b>	(52.1)	<b>20.3</b>	26.0
Finance expenses, net	<b>(117.1)</b>	(98.0)	<b>(28.4)</b>	(18.6)
Share of profit of associates (net of tax)	<b>7.6</b>	5.0	<b>1.9</b>	1.2
<b>Profit (loss) before income tax</b>	<b>25.6</b>	(145.1)	<b>(6.2)</b>	8.6
Income taxes	<b>(14.2)</b>	(18.4)	<b>(3.5)</b>	(4.0)
<b>Profit (loss) for the period</b>	<b>11.4</b>	(163.5)	<b>(9.7)</b>	4.6
<b>Attributable to:</b>				
Owners of the Company	<b>6.3</b>	(168.3)	<b>(9.2)</b>	2.9
Non-controlling interests	<b>5.1</b>	4.8	<b>(0.5)</b>	1.7

### Income

The Company's income from voyages and related services for the year ended 31 December, 2017 was \$2,978.3M compared to \$2,539.3M for the year ended 31 December, 2016, an increase of \$439.0M (17.3%). The increase was primarily driven by an increase in income from containerized cargo in an amount of \$426.1M.

The carried quantities for the year ended 31 December, 2017 amounted to 2,629 thousand TEUs, compared to 2,429 thousand TEUs for the year ended 31 December, 2016, an increase of 200 thousand TEUs (8.2%). The average freight per TEU increased by \$93.0 (10.3%) from about \$902 for the year ended 31 December, 2016 to about \$995 for the year ended 31 December, 2017.

The Company's income from voyages and related services for the three months ended 31 December, 2017 was \$760.9M compared to \$653.5M for the three months ended 31 December, 2016, an increase of \$107.4M (16.4%). The increase was primarily driven by: (i) an increase in income from containerized cargo in an amount of \$95.6M and (ii) an increase in income from non-containerized cargo in an amount of \$16.2M.

The carried quantities for the three months ended 31 December, 2017 amounted to 685 thousand TEUs, compared to 613 thousand TEUs for the three months ended 31 December, 2016, an increase of 72 thousand TEUs (11.7%). The average freight per TEU increased by \$44 (4.8%) from about \$915 for the three months ended 31 December, 2016 to about \$959 for the three months ended 31 December, 2017.

### **Operating Expenses**

The Company's operating expenses for the year ended 31 December, 2017 were \$2,600.1M, compared to \$2,394.1M for the year ended 31 December, 2016, an increase of \$206.0M (8.6%). The increase was primarily driven by: (i) an increase in expenses related to cargo handling of \$108.6M (9.2%), (ii) an increase in bunker expenses in an amount of \$108.3M (38.9%) and (iii) an increase in port expenses in an amount of \$24.9M (11.0%), offset by (iv) a decrease in lease expenses of vessels and containers in an amount of \$39.9M (9.1%).

The Company's operating expenses for the three months ended 31 December, 2017 were \$680.1M, compared to \$584.3M for the three months ended 31 December, 2016, an increase of \$95.8M (16.4%). The increase was primarily driven by: (i) an increase in expenses related to cargo handling in an amount of \$51.4M (18.2%), (ii) an increase in an increase in bunker expenses in an amount of \$27.8M (34.3%) and (iii) an increase in port expenses in an amount of \$15.2M (30.1%).

### **Other Operating Income (Expenses), net**

The Company's other operating income, net for the year ended 31 December, 2017 were \$1.6M compared to \$31.5M for the year ended 31 December, 2016, a decrease of \$29.9M. The decrease was primarily driven by a decrease in capital gain in an amount of \$28.8M.

The Company's other operating income, net for the three months ended 31 December, 2017 were \$1.0M compared to \$15.8M for the three months ended 31 December, 2016, a decrease of \$14.8M. The decrease was primarily driven by a decrease in capital gain in an amount of \$15.4M.

### **General and Administrative Expenses**

The Company's general and administrative expenses for the year ended 31 December, 2017 were \$147.5M, compared to \$142.5M for the year ended 31 December, 2016, an increase of \$5.0M (3.5%). The change was primarily driven by: (i) an increase in salaries and related expenses (driven by foreign currency exchange differences and actuarial liabilities) in an amount of \$9.3M (9.9%), offset by (ii) a decrease in depreciation and amortization of \$3.5M (24.42%).

The Company's general and administrative expenses for the three months ended 31 December, 2017 were \$36.5M compared to \$36.0M for the three months ended 31 December, 2016, an increase of \$0.5M.

### **Finance Expenses, net**

The Company's finance expenses, net for the year ended 31 December, 2017 were \$117.1M compared to finance expenses, net of \$98.0M for the year ended 31 December, 2016, an increase of \$19.1M (19.5%). The increase was primarily driven by an increase of \$20.5M related to the foreign currency exchange differences.

The Company's finance expenses, net for the three months ended 31 December, 2017 were \$28.4M compared to \$18.6M for the three months ended 31 December, 2016, an increase of \$9.8M. The increase was primarily driven by an increase in foreign currency exchange differences expenses in an amount of \$10.8M.

### Income Taxes

The Company's income taxes for the year ended 31 December, 2017 were \$14.2M compared to \$18.4M for the year ended 31 December, 2016, a decrease of \$4.2M.

The Company's income taxes for the three months ended 31 December, 2017 were \$3.5M compared to \$4.0M during the three months ended 31 December, 2016, a decrease of \$0.5M.

## 3. Liquidity and Capital Resources

### Main Cash flows data:

	Year ended 31 December		Three months ended 31 December	
	2017	2016	2017	2016
	Million US\$			
Cash flows generated from operating activities	<b>230.9</b>	33.2	<b>61.7</b>	17.5
Cash flows generated from (used in) investing activities	<b>(93.5)</b>	141.5	<b>(11.9)</b>	32.1
Cash flows used in financing activities	<b>(139.8)</b>	(228.6)	<b>(75.3)</b>	(46.9)
Net change in cash during the period	<b>(2.4)</b>	(53.9)	<b>(25.5)</b>	2.7
Cash – opening balance	<b>157.6</b>	218.7	<b>183.0</b>	159.8
Effect of exchange rate fluctuations on cash held	<b>2.7</b>	(7.2)	<b>0.4</b>	(4.9)
Cash – closing balance	<b>157.9</b>	157.6	<b>157.9</b>	157.6

### 3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the year ended 31 December, 2017 were \$230.9M compared to \$33.2M for the year ended 31 December, 2016, an increase of \$197.7M.

Cash flows generated from operating activities for the three months ended 31 December, 2017 were \$61.7M compared to \$17.5M for the three months ended 31 December, 2016, an increase of \$44.2M.

### 3.2. Cash flows from Investing Activities

Cash flows used in investing activities for the year ended 31 December, 2017 were \$93.5M compared to cash flow generated from investing activities of \$141.5M for the year ended 31 December, 2016, an overall change of \$235.0M. The change was primarily driven by: (i) a change in other investments (mainly short term deposits) in an amount of \$193.1M, (ii) a decrease in proceeds from sale of tangible and intangible assets and investments in an amount of \$26.0M and (iii) an increase in acquisition of tangible assets, intangible assets and investments in an amount of \$16.0M.

Cash flows used in investing activities for the three months ended 31 December, 2017 were \$11.9M compared to cash flow generated from investing activities of \$32.1M for the three months ended 31 December, 2016, an overall change of \$44.0M. The change was primarily driven by: (i) a change in other investments (mainly short term deposits) in an amount of \$28.3M, (ii) a decrease in proceeds from sale of tangible and intangible assets and investments in an amount of \$7.8M and (iii) an increase in acquisition of tangible assets, intangible assets and investments in an amount of \$7.8M.

### **3.3. Cash flows from Financing Activities**

Cash flows used in financing activities for the year ended 31 December, 2017 were \$139.8M compared to \$228.6M for the year ended 31 December, 2016, a decrease of \$88.8M. The decrease was primarily driven by: (i) a change in short term loans in an amount of \$148.5M, offset by (ii) an increase in repayment of borrowings in an amount of \$47.5M and (iii) an increase in interest and other financial expenses paid in an amount of \$7.0M.

Cash flows used in financing activities for the three months ended 31 December, 2017 were \$75.3M compared to \$46.9M for the three months ended 31 December, 2016, an increase of \$28.4M. The increase was primarily driven by: (i) an increase in repayment of borrowing in an amount of \$41.6M,

(ii) a decrease in receipt of long term loans in an amount of \$5.6M, offset by (iii) a net decrease in short term loans in an amount of \$20.7M.

## **4. Supplemental Non-IFRS Measurements**

The tables below present supplemental data, which we believe facilitates a better understanding of the factors affecting our business. The Non-IFRS measurements (“Adjusted”) presented below are used by Management and our Board of Directors to evaluate the Company’s operational performance.

In arriving at the Adjusted results, we have factored out items, that either have a non-recurring impact on the income statement or which, in the judgment of our Management, are items that, as a result of their nature or size, could, when not singled out, potentially lead to extrapolate future performance from an improper base.

The following table presents the IFRS measures, the adjustments and the corresponding Adjusted results:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Million US\$					
	IFRS	Adjustments	Adjusted	IFRS	Adjustments	Adjusted
Gross profit	<b>281.0</b>	<b>24.1</b>	<b>305.1</b>	58.9	25.9	84.8
EBITDA (*)	<b>245.8</b>	<b>24.3</b>	<b>270.1</b>	49.9	(3.2)	46.7
Results from operating activities	<b>135.1</b>	<b>26.6</b>	<b>161.7</b>	(52.1)	(2.2)	(54.3)
Profit (loss) for the period	<b>11.4</b>	<b>38.6</b>	<b>50.0</b>	(163.5)	13.6	(149.9)

	Three months ended 31 December 2017			Three months ended 31 December 2016		
	Million US\$					
	IFRS	Adjustments	Adjusted	IFRS	Adjustments	Adjusted
Gross profit	<b>55.8</b>	<b>5.2</b>	<b>61.0</b>	46.2	6.7	52.9
EBITDA (*)	<b>48.1</b>	<b>5.3</b>	<b>53.4</b>	52.8	(8.9)	43.9
Results from operating activities	<b>20.3</b>	<b>5.2</b>	<b>25.5</b>	26.0	(8.9)	17.1
Profit (loss) for the period	<b>(9.7)</b>	<b>8.4</b>	<b>(1.3)</b>	4.6	(3.2)	1.4

(\*) Net income (loss) excluding financial expenses (income), net, income taxes, share of profit of associates, depreciation, amortization and impairment.

The below table presents the related adjustments for the applicable periods, which have the following positive (negative) impact on the Company's Adjusted results:

	Year ended 31 December		Three months ended 31 December	
	2017	2016	2017	2016
	Million US\$			
Accounting charter hire expenses (1)	<b>21.8</b>	25.4	<b>4.4</b>	6.2
Provision for legal claim	<b>2.3</b>	0.5	<b>0.8</b>	0.5
Gross profit	<b>24.1</b>	25.9	<b>5.2</b>	6.7
Capital gain (2)	<b>0.1</b>	(29.2)		(15.6)
Impairment of assets	<b>2.4</b>	1.1		
Results from operating activities	<b>26.6</b>	(2.2)	<b>5.2</b>	(8.9)
Finance expenses, net (3)	<b>12.0</b>	15.8	<b>3.2</b>	5.7
Profit for the period attributable to the owners of the Company	<b>38.6</b>	13.6	<b>8.4</b>	(3.2)

(1) Mainly non cash charter hire accounting adjustments relating to the 2014 restructuring.

(2) Excluding those generated in the ordinary course of business.

(3) Mainly includes loans' fair value adjustment amortization and restructuring related expenses.

**Use of Non-IFRS Measures:**

These data are adjusted financial measures and should not be considered replacements for IFRS results. We provide such adjusted data because management believes that such data provide useful information to readers. However, readers are cautioned that, unlike financial measures prepared in accordance with IFRS, adjusted measures may not be comparable with the calculation of similar measures for other companies. These adjusted financial measures are presented solely to permit readers to more fully understand how management assesses the Company's performance.

**5. Material Commitments and Contingencies**

See Notes 25 and 26 to the Company's 2017 annual financial statements.

**6. Significant Accounting Policies**

See Note 3 to the Company's 2017 annual financial statements.