

Operating and Financial Review the year ended 31 December, 2016

1. General

The container shipping industry is dynamic and volatile and has been marked in recent years by instability as a result of a prolonged global economic crisis, continued deterioration of market environment which is characterized by slower growth of demand and worsening overcapacity combined with increased uncertainty due to the realigning of global alliances and mergers. This situation combined with carriers' ambitions to increase and protect their market share led freight rates to fall sharply in most of the trades, mainly since the second half of 2015. The year 2016 continued to be very challenging. Container freight rates hit historical lows across major trades, as new vessel capacity was added, while market demand remained weak. During the second half of 2016, freight rates increased in certain trades, following idling of capacity and also the filing for court receivership by one of the top ten companies in the industry.

To improve the Company's results of operations and liquidity position, Management continue 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, continuation of this trend could negatively affect the entire industry and also affect the Company's business, financial position, results of operations, cash flows and compliance with certain financial covenants. 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 the year 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, 2016.

2. Financial Position

2.1. Balance Sheet

The Company's total assets as of 31 December, 2016 amounted to \$1,703.6M compared to \$1,912.3M as of 31 December, 2015.

Assets

The Company's fixed assets as of 31 December, 2016 amounted to \$1,119.0M compared to \$1,100.9M as of 31 December, 2015, an increase of \$18.1M. The increase was primarily driven by: (i) additions of fixed assets (mainly financial leases) in an amount of \$119.6M, offset by (ii) depreciation expenses in an amount of \$89.8M and (iii) sale of assets in a net carrying amount of \$11.6M.

The Company's current assets as of 31 December, 2016 amounted to \$465.9M compared to \$616.3M as of 31 December, 2015, a decrease of \$150.4M. The decrease was primarily driven by: (i) a decrease in cash and cash equivalents in an amount of \$61.1M, (ii) a decrease in short term deposits in an amount of \$61.1M and (iii) a decrease in trade and other receivables in an amount of \$29.3M.

The current ratio as of 31 December, 2016 was 0.88 compared to 1.01 as of 31 December, 2015.

Further to the recent trends in the shipping industry as described above, the Company conducted an impairment test of its operating assets (considered as one CGU) as of June 30, 2016, which was concluded with a recoverable amount exceeding the carrying amount with a significant headroom. Such headroom is assumed to sustain as of December 31, 2016, mainly due to the Company's improved performance in the fourth quarter of 2016 and its current forecasts.

Liabilities

The Company's long-term loans and other liabilities (including current maturities) as of 31 December, 2016 amounted to \$1,321.9M compared to \$1,262.3M as of 31 December, 2015, an increase of \$59.6M. The increase was primarily driven by: (i) an increase in financial leases in an amount of \$113.1M, (ii) an increase related to deferral of payments of operational leases in an amount of \$12.6M, (iii) an increase related to fair value adjustment amortization in an amount of \$11.3M and (iv) a receipt of long term loans in an amount of \$5.6M, offset by (v) repayments of borrowings in an amount of \$86.9M.

The Company's current liabilities (excluding current maturities) as of 31 December, 2016 amounted to \$414.7M compared to \$496.0M as of 31 December, 2015, a decrease of \$81.3M. The decrease was primarily driven by (i) a decrease in short term loans in an amount of \$69.5M and (ii) a decrease in trade and other payables in an amount of \$9.2M.

Equity

The Company's deficit in equity attributable to the owners of the Company as of 31 December, 2016 amounted to \$103.8M compared to equity attributable to the owners of the company in an amount of \$74.8M as of 31 December, 2015, a decrease of \$178.6M. The decrease was primarily driven by (i) a loss attributable to the owners of the Company for the period ended 31 December, 2016 in an amount of \$168.3M and (ii) a change in translation reserve in an amount of \$12.2M.

2.2. Income statements

	Year ended 31 December		Three months ended 31 December	
	2016	2015	2016	2015
	Million US\$			
Income from voyages and related services	2,539.3	2,991.1	653.5	687.2
Operating expenses and cost of services	(2,394.1)	(2,692.6)	(584.3)	(646.1)
Depreciation	(86.3)	(82.4)	(23.0)	(20.8)
Gross profit	58.9	216.1	46.2	20.3
Other operating income, net	31.5	29.3	15.8	0.8
General and administrative expenses	(142.5)	(147.4)	(36.0)	(38.9)
Results from operating activities	(52.1)	98.0	26.0	(17.8)
Finance expenses, net	(98.0)	(102.8)	(18.6)	(28.7)
Share of profit of associates (net of tax)	5.0	9.4	1.2	2.2
Profit (loss) before income tax	(145.1)	4.6	8.5	(44.3)
Income taxes	(18.4)	1.9	(4.0)	16.0
Profit (loss) for the period	(163.5)	6.5	4.6	(28.3)
<u>Attributable to:</u>				
Owners of the Company	(168.3)	2.3	2.9	(29.6)
Non-controlling interests	4.8	4.2	1.7	1.3

The Company's loss in 2016 was \$163.5M. However, the performance of the fourth quarter reflects an improvement compared with prior quarters of 2016, and resulted with a profit of \$4.6M.

Income

The Company's income from voyages and related services for the year ended 31 December, 2016 was \$2,539.3M compared to \$2,991.1M for the year ended 31 December, 2015, a decrease of \$451.8M (15.1%). The decrease was primarily driven by: (i) a decrease in income from containerized cargo in an amount of \$407.9M, (ii) a decrease in slot charter income in an amount of \$26.1M and (iii) a decrease in income from demurrage of \$23.8M.

The carried quantities for the year ended 31 December, 2016 amounted to 2,429 thousand TEUs, compared to 2,308 thousand TEUs for the year ended 31 December, 2015, an increase of 121 thousand TEUs (5.2%). The average revenue per TEU decreased by \$224 (19.9%) from about \$1,126 for the year ended 31 December, 2015 to about \$902 for the year ended 31 December, 2016.

The Company's income from voyages and related services for the three months ended 31 December, 2016 was \$653.5M compared to \$687.2M for the three months ended 31 December, 2015, a decrease of \$33.8M (4.9%). The decrease was primarily driven by: (i) a decrease in income from containerized cargo of \$22.0M, (ii) a decrease in income from demurrage of \$7.5M and (iii) a decrease in slot charter income of \$5.4M.

The carried quantities for the three months ended 31 December, 2016 amounted to 613 thousand TEUs, compared to 590 thousand TEUs for the three months ended 31 December, 2015, an increase of 23 thousand TEUs (3.9%). The average revenue per TEU decreased by \$73 (7.4%) from about \$988 for the three months ended 31 December, 2015 to about \$915 for the three months ended 31 December, 2016.

Operating Expenses

The Company's operating expenses for the year ended 31 December, 2016 were \$2,394.1M, compared to \$2,692.6M for the year ended 31 December, 2015, a decrease of \$298.5M (11.1%). The decrease was primarily driven by: (i) a decrease in bunker expenses of \$134.3M (32.5%), (ii) a decrease in lease expenses of vessels and containers of \$76.4M (14.8%), (iii) a decrease in expenses related to cargo handling in an amount of \$51.2M (4.2%) and (iv) a decrease in port expenses of \$28.6M (11.2%).

The Company's operating expenses for the three months ended 31 December, 2016 were \$584.3M, compared to \$646.1M for the three months ended 31 December, 2015, a decrease of \$61.8M (9.6%). The decrease was primarily driven by: (i) a decrease in lease expenses of vessels and containers of \$25.8M (20.7%), (ii) a decrease in expenses related to cargo handling of \$15.8M (5.3%) and (iii) a decrease in port expenses of \$15.6M (23.6%).

Other Operating Income (Expenses), net

The Company's other operating income, net for the year ended 31 December, 2016 were \$31.5M compared to other operating income, net in an amount of \$29.3M for the year ended 31 December, 2015, an increase of \$2.2M. The increase was primarily driven by (i) a decrease in impairment expenses in an amount of \$6.2M offset by (ii) a decrease in capital gains of \$4.6M.

The Company's other operating income, net for the three months ended 31 December, 2016 were \$15.8M compared to \$0.8M for the three months ended 31 December, 2015, an increase of \$15.0M. The increase was primarily driven by capital gain from the sale of a portion of the Company's holdings in an associated company.

General and Administrative Expenses

The Company's general and administrative expenses for the year ended 31 December, 2016 were \$142.5M, compared to \$147.4M for the year ended 31 December, 2015, a decrease of \$4.9M (3.3%). The change was primarily driven by a decrease in consulting expenses of \$4.1M (43.9%).

The Company's general and administrative expenses for the three months ended 31 December, 2016 were \$36.0M compared to \$38.9M for the three months ended 31 December, 2015, a decrease of \$2.9M (7.5%). The change was primarily driven by a decrease in salaries and related expenses of \$2.5M (9.8%).

Finance Income (Expenses), net

The Company's finance expenses, net for the year ended 31 December, 2016 were \$98.0M compared to finance expenses, net of \$102.8M for the year ended 31 December, 2015, a decrease of \$4.8M. The decrease was primarily driven by: (i) a decrease of \$7.4M related to foreign currency exchange differences, (ii) a decrease in interest expenses of \$3.2M offset by (iii) an increase in expenses of \$3.8M related to the rescheduling plan and (iv) a decrease in interest income of \$1.5M.

The Company's finance expenses, net for the three months ended 31 December, 2016 were \$18.6M compared to \$28.7M for the three months ended 31 December, 2015, a decrease of \$10.1M. The decrease was primarily driven by: (i) a decrease of \$8.1M related to foreign currency exchange differences, (ii) a decrease in interest expenses, net of \$3.7M offset by (iii) an increase in expenses of \$2.2M related to the rescheduling plan.

Income Taxes

The Company's tax expense for the period ended 31 December, 2016 was \$18.4M compared to a tax income of \$1.9M for the period ended 31 December, 2015, an overall change of \$20.3M. The change was primarily driven by a one off reversal of subsidiary's provision related to previous years in an amount of \$22.7M recorded during the year ended 31 December, 2015.

The Company's tax expense during the three months ended 31 December, 2016 was \$4.0M compared to a tax income of \$16.0M during the three months ended 31 December, 2015, an overall change of \$20.0M. The change was primarily driven by a one off reversal of subsidiary's provision related to previous years of \$22.7M recorded during the year ended 31 December, 2015.

3. Liquidity and Capital Resources

Main Cash flows data:

	Year ended 31 December		Three months ended 31 December	
	2016	2015	2016	2015
	Million US\$			
Cash flows generated from operating activities	33.2	173.1	17.5	16.8
Cash flows generated from investing activities	141.5	103.5	32.1	16.0
Cash flows used in financing activities	(228.6)	(282.6)	(46.9)	(94.7)
Net change in cash during the period	(53.9)	(6.0)	2.7	(61.9)
Cash – opening balance	218.7	230.4	159.8	281.2
Effect of exchange rate fluctuations on cash held	(7.2)	(5.7)	(4.9)	(0.6)
Cash – closing balance	157.6	218.7	157.6	218.7

3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the year ended 31 December, 2016 were \$33.2M compared to \$173.1M for the year ended 31 December, 2015, a decrease of \$139.9M.

Cash flows generated from operating activities for the three months ended 31 December, 2016 were \$17.5M compared to \$16.8M for the three months ended 31 December, 2015, an increase of \$0.7M.

3.2. Cash flows from Investing Activities

Cash flows generated from investing activities for the year ended 31 December, 2016 were \$141.5M compared to \$103.5M for the year ended 31 December, 2015, an increase of \$38.0M. The increase was primarily driven by: (i) a change in other investments (mainly short term deposits) in an amount of \$125.5M, (ii) a decrease in acquisition of tangible assets, intangible assets and investments in an amount of \$17.9M offset by (iii) a decrease in proceeds from sale of tangible and intangible assets and investments in an amount of \$79.0M and (iv) a repayment during 2015 of long-term loan granted to associates in an amount of \$27.2M.

Cash flows generated from investing activities for the three months ended 31 December, 2016 were \$32.1M compared to \$16.0M for the three months ended 31 December, 2015, an increase of \$16.1M. The increase was primarily driven by (i) a change in other investments (mainly short term deposits) in an amount of \$26.6M, offset by (ii) a decrease in proceeds from sale of tangible and intangible assets and investments in an amount of \$10.4M.

3.3. Cash flows from Financing Activities

Cash flows used in financing activities for the year ended 31 December, 2016 were \$228.6M compared to \$282.6M for the year ended 31 December, 2015, a decrease of \$54.0M. The decrease was primarily driven by: (i) a decrease in repayment of borrowing in an amount of \$92.4M, (ii) a decrease in interest and other financial expenses paid in an amount of \$22.4M and (iii) an increase in receipt of long term loans of \$5.4M offset by (iv) a change in short term loans of \$67.2M.

Cash flows used in financing activities for the three months ended 31 December, 2016 were \$46.9M compared to \$94.7M for the three months ended 31 December, 2015, a decrease of \$47.8M. The decrease was primarily driven by: (i) a decrease in repayment of borrowing in an amount of \$55.5M, (ii) a decrease in interest and other financial expenses paid of \$9.3M and (iii) an increase in receipt of long term loans in an amount of \$5.4M offset by (iv) a change in short term loans of \$23.0M.

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 2016			Year ended 31 December 2015		
	Million US\$					
	IFRS	Adjustments	Adjusted	IFRS	Adjustments	Adjusted
Gross profit	58.9	25.9	84.8	216.1	36.7	252.8
EBITDA (*)	49.9	(3.2)	46.7	204.4	12.3	216.7
Results from operating activities	(52.1)	(2.2)	(54.3)	98.0	19.7	117.7
Profit (loss) for the period attributable to the owners of the Company	(168.3)	13.6	(154.7)	2.3	11.1	13.4

	Three months ended 31 December 2016			Three months ended 31 December 2015		
	Million US\$					
	IFRS	Adjustments	Adjusted	IFRS	Adjustments	Adjusted
Gross profit	46.2	6.7	52.9	20.3	10.8	31.1
EBITDA (*)	52.8	(8.9)	43.9	7.1	12.7	19.8
Results from operating activities	26.0	(8.9)	17.1	(17.8)	12.7	(5.1)
Profit (loss) for the period attributable to the owners of the Company	2.9	(3.2)	(0.3)	(29.6)	(4.5)	(34.1)

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

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	
	2016	2015	2016	2015
	Million US\$			
Accounting charter hire expenses (1)	25.4	32.2	6.2	6.3
Provision for legal claim	0.5	4.5	0.5	4.5
Gross profit	25.9	36.7	6.7	10.8
Capital gain (2)	(29.1)	(28.6)	(15.6)	1.9
Other one off expenses		4.2		
EBITDA	(3.2)	12.3	(8.9)	12.7
Impairment of assets (3)	1.0	7.4		
Results from operating activities	(2.2)	19.7	(8.9)	12.7
Finance expenses, net (4)	15.8	14.1	5.7	5.5
Income taxes (5)		(22.7)		(22.7)
Profit (loss) for the period attributable to the owners of the Company	13.6	11.1	(3.2)	(4.5)

- (1) Mainly non cash charter hire accounting adjustments relating to the restructuring. For the year ended 31 December, 2015, includes an amount of \$3.4M relating to an early termination of charter agreements of 2 vessels.
- (2) Excluding those generated in the ordinary course of business.
- (3) Related to vessels and equipment designated for scrap/sale.
- (4) Mainly includes loans' fair value adjustment amortization and restructuring related expenses.
- (5) In connection with a subsidiary's provision reversal related to previous years.

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 2016 annual financial statements.

6. Significant Accounting Policies

See Note 3 to the Company's 2016 annual financial statements.

7. During 2016, the company sold real-estate assets and portion of its holdings in an associated company, resulted with a capital gain in total amount of US\$ 29 million.