ZIM INTEGRATED
SHIPPING SERVICES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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Auditor's Report to the Shareholders of ZIM Integrated Shipping Services Ltd.

We have audited the accompanying consolidated Statements of financial position of ZIM Integrated Shipping Services Limited (hereinafter: "the Company") as at December 31, 2017 and 2016 and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years ended on December 31, 2017. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries, whose assets constitute approximately 8% and 7% of total consolidated assets as at December 31, 2017 and 2016, respectively, and whose revenues constitute approximately 1%, 4% and 6% of the total consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors, whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors' Regulations (Manner of Auditor's Performance) 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and its management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2017 and 2016 and their results of operations, changes in its equity and cash flows for each of the three years ended December 31, 2017, in accordance with International Financial Reporting Standards (IFRS).

Without qualifying our opinion, we refer to Note 1 (b) (i) of the financial statements regarding the Company's deficit in equity and working capital as of December 31, 2017; the risk of deviation from financial covenants; Management plans to improve financial position and liquidity; the agreements reached with the creditors, for the purpose of rescheduling payments; the amendments to the financial covenants and to Management and the Board of Directors' assessment in respect of the Company's ability to meet its liabilities and to comply with the financial covenants.

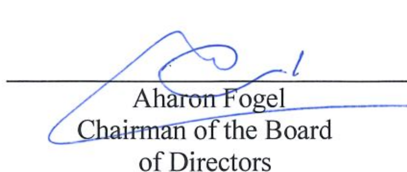
Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)

Haifa, March 22, 2018

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2017 US $'000	December 31 2016 US $'000
Assets			
Vessels	5	**716,665**	748,228
Containers and handling equipment	5	**372,591**	353,045
Other tangible assets	5	**19,358**	17,730
Intangible assets	6	**61,194**	51,491
Investments in associates	7	**9,530**	8,283
Other investments	9	**18,117**	15,360
Deferred expenses	1(b)(ii)	**21,467**	38,195
Trade and other receivables	8	**2,898**	4,376
Deferred tax assets	24(c)	**923**	1,032
Total non-current assets		**1,222,743**	1,237,740
Inventories		**63,842**	41,484
Trade and other receivables	8	**263,192**	237,525
Other investments	9	**94,673**	29,283
Cash and cash equivalents	10	**157,888**	157,600
Total current assets		**579,595**	465,892
Total assets		**1,802,338**	1,703,632
Equity			
Issued capital	11	**88**	88
Capital reserves		**1,791,790**	1,789,432
Accumulated deficit		**(1,891,879)**	(1,893,302)
Equity attributable to owners of the Company		**(100,001)**	(103,782)
Non-controlling interests		**6,509**	3,125
Total equity		**(93,492)**	(100,657)
Liabilities			
Loans and other liabilities	12	**1,135,030**	1,205,717
Employee benefits	13	**73,758**	67,376
Deferred tax liabilities	24(c)	**349**	354
Total non-current liabilities		**1,209,137**	1,273,447
Trade and other payables	14	**339,591**	336,029
Provisions	15	**25,322**	27,573
Deferred income		**8,687**	6,533
Bank overdrafts, loans and other liabilities	12	**313,093**	160,707
Total current liabilities		**686,693**	530,842
Total liabilities		**1,895,830**	1,804,289
Total equity and liabilities		**1,802,338**	1,703,632



Aharon Fogel Chairman of the Board of Directors	Eli Glickman President & CEO	Yohai Benita Acting Chief Financial Officer

Date of approval of the financial statements: March 22, 2018

The accompanying Notes are an integral part of these consolidated Financial Statements.

CONSOLIDATED INCOME STATEMENTS

	Note	Year ended December 31 2017 US $'000	2016 US $'000	2015 US $'000
Income from voyages and related services	16	**2,978,291**	2,539,296	2,991,135
Cost of voyages and related services				
Operating expenses and cost of services	17	**(2,600,147)**	(2,394,126)	(2,692,645)
Depreciation	22	**(97,168)**	(86,289)	(82,413)
Gross profit		**280,976**	58,881	216,077
Other operating income	18	**4,235**	32,851	41,273
Other operating expenses	19	**(2,600)**	(1,332)	(11,885)
General and administrative expenses	20	**(147,560)**	(142,542)	(147,439)
Results from operating activities		**135,051**	(52,142)	98,026
Finance income	23(a)	**2,061**	6,359	3,401
Finance expenses	23(b)	**(119,110)**	(104,353)	(106,181)
Net finance expenses		**(117,049)**	(97,994)	(102,780)
Share of profits of associates (net of income tax)		**7,594**	5,001	9,397
Profit (loss) before income tax		**25,596**	(145,135)	4,643
Income taxes	24	**(14,233)**	(18,366)	1,893
Profit (loss) for the year		**11,363**	(163,501)	6,536
Attributable to:				
Owners of the Company		**6,235**	(168,290)	2,253
Non-controlling interests		**5,128**	4,789	4,283
Profit (loss) for the year		**11,363**	(163,501)	6,536

The accompanying Notes are an integral part of these consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31		
	2017	2016	2015
	US $'000	US $'000	US $'000
Profit (loss) for the year	**11,363**	(163,501)	6,536
Other components of comprehensive income			
Items of other comprehensive income that were or will be reclassified to profit and loss			
Foreign currency translation differences for foreign operations	**3,099**	(13,431)	(5,324)
Net change in fair value of available-for sale financial assets	**(781)**	401	
Items of other comprehensive income that would never be reclassified to profit and loss			
Defined benefit pension plans actuarial gains (losses)	**(4,037)**	(522)	2,004
Income tax on other comprehensive income	**6**		(26)
Other comprehensive income for the year, net of tax	**(1,713)**	(13,552)	(3,346)
Total comprehensive income for the year	**9,650**	(177,053)	3,190
Attributable to:			
Owners of the Company	**2,364**	(180,641)	305
Non-controlling interests	**7,286**	3,588	2,885
Total comprehensive income for the year	**9,650**	(177,053)	3,190

The accompanying Notes are an integral part of these consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attribute to the owners of the Company							
	Share capital	Share premium	General reserve from transactions with an interested party	Translation reserve	Accumulated deficit	Total	Non-controlling interests	Total equity
	US $'000							
Balance at January 1, 2017	88	700,222	1,101,743	(12,533)	(1,893,302)	(103,782)	3,125	(100,657)
Profit for the year					**6,235**	**6,235**	**5,128**	**11,363**
Other comprehensive income for the year				**941**	**(4,812)**	**(3,871)**	**2,158**	**(1,713)**
Transaction with an interested party, net of tax			**1,417**			**1,417**		**1,417**
Dividend paid to non-controlling interests in subsidiaries							**(4,059)**	**(4,059)**
Issuance of capital to non-controlling interests in subsidiaries							**157**	**157**
Balance at December 31, 2017	**88**	**700,222**	**1,103,160**	**(11,592)**	**(1,891,879)**	**(100,001)**	**6,509**	**(93,492)**
Balance at January 1, 2016	88	700,222	1,099,650	(303)	(1,724,891)	74,766	3,976	78,742
Profit (loss) for the year					(168,290)	(168,290)	4,789	(163,501)
Other comprehensive income for the year				(12,230)	(121)	(12,351)	(1,201)	(13,552)
Transaction with an interested party, net of tax			2,093			2,093		2,093
Dividend paid to non-controlling interests in subsidiaries							(4,439)	(4,439)
Balance at December 31, 2016	88	700,222	1,101,743	(12,533)	(1,893,302)	(103,782)	3,125	(100,657)
Balance at January 1, 2015	88	700,222	1,097,461	3,623	(1,729,122)	72,272	7,118	79,390
Profit for the year					2,253	2,253	4,283	6,536
Other comprehensive income for the year				(3,926)	1,978	(1,948)	(1,398)	(3,346)
Transaction with an interested party, net of tax			2,189			2,189		2,189
Dividend paid to non-controlling interests in subsidiaries							(5,508)	(5,508)
Derecognition of non-controlling interest as a result of the realization of subsidiaries							(519)	(519)
Balance at December 31, 2015	88	700,222	1,099,650	(303)	(1,724,891)	74,766	3,976	78,742

The accompanying Notes are an integral part of these consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31		
		2017	2016	2015
	Note	US $'000	US $'000	US $'000
Cash flows from operating activities				
Profit (loss) for the year		**11,363**	(163,501)	6,536
Adjustments for:				
Depreciation and amortisation	22	**108,386**	100,972	99,034
Impairment of tangible assets, intangible assets and other investments	19	**2,400**	1,115	7,357
Net finance expenses	23	**117,049**	97,994	102,780
Share of profits of associates		**(7,594)**	(5,001)	(9,397)
Capital gain	18,19	**(1,178)**	(29,978)	(34,614)
Income taxes	24	**14,233**	18,366	(1,893)
		244,659	19,967	169,803
Change in inventories		**(22,358)**	3,087	33,851
Change in trade and other receivables		**(15,346)**	43,394	71,718
Change in trade and other payables including deferred income		**35,578**	(8,394)	(71,874)
Change in provisions and employee benefits		**(4,578)**	(12,784)	(20,294)
		(6,704)	25,303	13,401
Dividends received from associates		**6,585**	5,074	5,438
Interest received		**677**	1,576	3,065
Income tax paid		**(14,291)**	(18,704)	(18,561)
Net cash generated from operating activities		**230,926**	33,216	173,146
Cash flows from investing activities				
Proceeds from sale of tangible assets, intangible assets, investments and affiliates		**4,710**	30,672	109,682
Disposal of subsidiary, net of cash disposed of and exit from consolidation				(887)
Repayment of long-term granted to associates				27,231
Acquisition of tangible assets, intangible assets and investments		**(29,494)**	(13,460)	(31,356)
Change in other investments and other receivables		**(68,764)**	124,339	(1,127)
Net cash generated from (used in) investing activities		**(93,548)**	141,551	103,543

The accompanying Notes are an integral part of these consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended December 31		
		2017	**2016**	**2015**
	Note	**US $'000**	**US $'000**	**US $'000**
Cash flows from financing activities				
Receipt of long term loans, capital leases and other long term liabilities			5,599	204
Repayment of borrowings		**(134,386)**	(86,871)	(179,254)
Change in short-term loans		**78,947**	(69,521)	(2,279)
Issuance of capital to non-controlling interests in consolidated company		**157**		
Dividend paid to non-controlling interests		**(4,059)**	(4,439)	(5,508)
Interest paid		**(76,677)**	(73,401)	(85,936)
Other financial expenses paid		**(3,750)**		(9,817)
Net cash used in financing activities		**(139,768)**	(228,633)	(282,590)
Net change in cash and cash equivalents		**(2,390)**	(53,866)	(5,901)
Cash and cash equivalents at beginning of the year		**157,600**	218,740	230,376
Effect of exchange rate fluctuation on cash held		**2,678**	(7,274)	(5,735)
Cash and cash equivalents at the end of the year	10	**157,888**	157,600	218,740

The accompanying Notes are an integral part of these consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Reporting entity

(a) ZIM Integrated Shipping Services Ltd. (hereinafter - the "Company" or "Zim") and its subsidiaries (hereinafter - the "Group" or "the Companies") and the Group's interests in associates, operate in the field of container shipping and related services.

Zim is a company incorporated in Israel, with limited liability. The address of the Company's registered office is 9 Andrei Sakharov Street, Haifa, Israel.

(b) (i) Financial position

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. 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 first half of 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. Since the second half of 2016 and through the third quarter of 2017, freight rates have increased, while partially decreased towards the end of 2017.

In view of the aforementioned business environment, the volatile bunker prices and in order to improve the company's results of operations and liquidity position, Management continues to optimize the Company's network rationalizations including establishment of new partnerships, invest in upgrading customer services and constantly strive to create and maintain efficiencies and cost reductions. However, an adverse trend could negatively affect the entire industry and also affect the Company's business, financial position, assets value, results of operations, cash flows and compliance with certain financial covenants.

As of December 31, 2017 the Company's total equity amounted to a negative balance of US$ 93 million (compared to negative balance of US$ 101 million as of December 31, 2016) and its working capital amounted to a negative balance of US$ 107 million (compared to negative balance of US$ 65 million as of December 31, 2016).

During the year ended December 31, 2017, the Company recorded operating profit of US$ 135 million (compared to operating loss of US$ 52 million during the year ended December 31, 2016 and operating profit of US$ 98 million during the year ended December 31, 2015) and net profit of US$ 11 million (compared to net loss of US$ 164 million during the year ended December 31, 2016 and net profit of US$ 7 million during the year ended December 31, 2015).

As at December 31, 2017, the Company complies with its amended financial covenants, the Company's liquidity amounts to US$ 182 million (Minimum Liquidity required is US$ 125 million) - see also Note 12(c).

In order to improve its financial position and liquidity, during the second half of 2016, The Company took the following steps:

(a) The Company approached some of its creditors for the purpose of rescheduling payments.

Below are the main components of the agreements reached:

1) Deferral of payments in a total amount of US$ 116 million (the "Deferred Amounts"), during a period of up to 12 months starting on September 30, 2016, each creditor with relation to its specific contracts. The repayment of the Deferred Amounts will be made on a straight line basis, during a period of up to 36 months, ending on December 31, 2020 (the "Repayment Period"). In case any respective agreement expires before the end of the Repayment Period, the unpaid balance of Deferred Amounts will be paid in full upon expiration.

1 Reporting entity (cont'd)

(b) (i) Financial position (cont'd)

2) The Deferred Amounts bear interest, at an annual rate of Libor + 2.8% paid quarterly in cash.
3) The Company granted security related to its rights and interests deriving from certain of its receivables, for securing the repayment of the Deferred Amounts (using a similar receivable-backed facility as described in Note 12 (d)). The balance of the secured Deferred Amounts as of December 31, 2017 amounted to US$ 108 million.
4) In case of excess cash, as defined in the rescheduling agreements, a mechanism of mandatory prepayments of the abovementioned rescheduled amounts and their related accrued interest, will apply.

Further to such rescheduling, certain agreements of containers leases previously classified as operational leases were reclassified as financial leases, resulting in recognition of additional assets and liabilities in a total amount of US$ 73 million.

(b) The Company obtained amendments to its financial covenants (other than the Minimum liquidity covenants, which remains US$ 125 million) – see also Note 12(c).

The Company's financial position, liquidity and the risk of deviation from financial covenants depend on the recovery of the shipping industry and especially the freight rates. Current economic conditions make forecasting difficult, and there is possibility that actual performance may be materially different from Management plans and expectations.

In the opinion of the company's management and its Board of Directors, the updated forecast and the abovementioned actions with regards to rescheduling of payments and covenants amendment, enables the Company to meet its liabilities and operational needs and to comply with the new set of financial covenants for a period of at least 12 months following the balance sheet date.

(ii) Financial restructuring (2014)

The Company's debt restructuring, which was completed on July 16, 2014 involved representatives of the majority of the Company's financial creditors, related parties and additional stakeholders. As a result of the restructuring, among other things, the Company's outstanding indebtedness and liabilities (face value, including future commitments in respect of operating leases, and with regard to those parties participating in the restructuring) were substantially reduced.

The main components of the Company's restructuring agreements are:

(a) Partly secured creditors (other than those who elected to enter into the VesselCo arrangement detailed in (b) below) received new fully secured loans in an amount equal to an agreed value of the assets securing the current existing debt (hereinafter: "Tranche A"). The original security shall continue to serve as a first ranking security to the new loan. In general, if the Company disposes of a secured vessel at any time prior to the applicable maturity date, all Tranche A debt for that vessel is to be repaid.

(b) Certain vessel loan creditors purchased (directly or indirectly) the vessels secured in their favour and leased them back to the Company at such terms and conditions as agreed in the restructuring agreements (hereinafter: "VesselCo"). Upon the lease back of those vessels, five of the vessels were classified as capital leases and three of the vessels, as operating leases.

(c) The unsecured portion of the pre-restructuring debt entitled the creditors to a new unsecured debt: Series C Notes and, for certain creditors, also Series D Notes and to the Company's equity. Both series C and D notes bear interest at an annual rate of 3%, while the Series D Notes entitled to an additional interest at a rate of 2% per year, which shall be payable in kind (PIK interest). In addition, both series are due on June 2023, and are subject to early repayment mechanisms related to excess cash and proceeds from the sale of assets, as defined in the restructuring agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Reporting entity (cont'd)

(b) (ii) Financial restructuring (2014) (cont'd)

(d) With respect to the shipyard's loan - the outstanding amount entitled the creditor to an unsecured loan (hereinafter: "Tranche E"). Tranche E bears interest at an annual rate of 2%. In the first nine years of the loan period, 1.75% of the interest rate shall accrue as a PIK interest and after the first nine years until the end of the twelfth year, subject to the full settlement of Tranche A, Series C Notes and Series D Notes, interest shall be payable in cash.

(e) New reduced charter hire floor rates and rate adjustment mechanisms were agreed with the ship owners, including related parties ship owners. Deferred expenses in the amount equal to the fair value of Series C and D Notes and equity issued to third party ship owners are recorded as additional charter hire expenses throughout the remaining charter periods.

(f) The financial creditors and ship owners received shares aggregating to 68% of the Company's issued share capital (on a fully diluted basis, post-restructuring, after Israel Corporation's (hereinafter - "IC") investment in the Company, as set forth in (g) below).

(g) IC invested an amount of US$ 200 million in the Company's share capital (US$ 90 million out of this amount were agreed to serve as a reserve for investments in the business of the Company, under the provisions agreed in the restructuring agreements) and waived and discharged all the Company's liabilities toward it. All of the Company's existing shares and options, including those held by IC, became null and void and IC received shares aggregating to 32% of the Company's issued share capital on a fully-diluted basis. As of December 31, 2017, the remaining balance out of the amount invested by IC was US$ 40 million.

(h) Certain related parties, which have chartered vessels to the Company, agreed to receive reduced charter rates. In addition, certain related parties waived their rights to receive their part of the Series C and D Notes and the Company's equity which are primarily attributable to the reduction of the charter hire.

(i) The Company committed to certain limitations and restrictions, relating to, among others, dividend distributions and incurrence of debt.

(j) Amendments to the Special State Share were made as set forth in the compromise agreement achieved with the holder of the Special State Share. See also Note 11 (b).

2 Basis of Preparation

(a) Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by IASB.
The Financial Statements were approved for issue by the Board of Directors on March 22, 2018.

(b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain items that are measured as described below in Note 3.

(c) Use of estimates and judgements

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimations made by management in the application of IFRSs that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 29.

(d) Functional and presentation currency

These Consolidated Financial Statements are presented in United States dollars, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(e) Changes in accounting policies

Amendment to IAS 7, *Statement of Cash Flows,* According to the Amendment, an entity is required to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Amendment is applicable prospectively. The new disclosure requirements were included in Note 12(e).

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Operating cycle

The normal operating cycle of the Company is not longer than one year.

(b) Basis of consolidation

(i) Business combinations

The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Substantive rights held by the Group and by others are taken into account in assessing control.

The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of non-controlling interests in the acquiree less the net amount of the identifiable assets acquired and the liabilities assumed.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree.

In a step acquisition, the difference between the acquisition date fair value of the Group's pre-existing equity rights in the acquiree and the carrying amount at that date is recognized in profit or loss under other income or expenses.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees are expensed in the period the services are received.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

<u>Measurement of non-controlling interests on the date of the business combination</u>
Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value or their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

<u>Allocation of profit or loss and other comprehensive income to the shareholders</u>
Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.

3 Significant accounting policies (cont'd)

(b) Basis of consolidation (cont'd)

(iii) Non-controlling interests (cont'd)

Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances is recognized in profit or loss under other income or other expenses. Subsequently the retained interest is accounted for as an equity-accounted investee or as a financial asset in accordance with the provisions of IAS 39, depending on the level of influence retained by the Group in the relevant company.

The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities.

(iv) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of another entity. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Company's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form part thereof, is reduced to zero. When the Company's share of long-term interests that form a part of the investment in the investee is different from its share in the investee's equity, the Group continues to recognize its share of the investee's losses, after the equity investment was reduced to zero, according to its economic interest in the long-term interests, after the aforesaid interests were reduced to zero. The recognition of further losses is discontinued except to the extent that the Group has an obligation to support the investee or has made payments on behalf of the investee.

(v) Change in interest held in associated companies while retaining significant influence

When the Group increases its interest in an associated Group accounted for by the equity method while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains the same.

When there is a decrease in the interest in an associated Group accounted for by the equity method while retaining significant influence, the Group derecognizes a proportionate part of its investment and recognizes in profit or loss a gain or loss from the sale.

(vi) Loss of significant influence

The application of the equity method is discontinued from the date the group loses significant influence in an associate and it accounts for the retained investment as a financial asset or a subsidiary, as relevant. On the date of losing significant influence, any retained interest it has in the former associate is measured at fair value. Any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the associate or joint venture, and the carrying amount of the investment on that date, are recognized in profit or loss. Amounts recognized in equity through other comprehensive income with respect to such associates are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associate had itself disposed the related assets or liabilities.

3 Significant accounting policies (cont'd)

(b) Basis of consolidation (cont'd)

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into United States dollars at exchange rates at the balance sheet date. The income and expenses of foreign operations are translated to United States dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests.

(d) Financial instruments

(i) Non-derivative financial assets

Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets acquired in a regular way purchase, are recognized initially on the trade date which is the date that the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables and cash and cash equivalents.

Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights of the Group to the cash flows from the asset expire or the Group transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group classifies its financial assets according to the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.
See paragraph (ii) below regarding the offset of financial assets and financial liabilities.

3 Significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

(i) Non-derivative financial assets (cont'd)

Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

The Group's investments in certain equity instruments are classified as available-for-sale financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, foreign currency differences and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for financial assets classified as available-for-sale. A dividend received in respect of available-for-sale financial assets is recognized in profit or loss on the date the entity's right to receive the dividend is established. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

(ii) Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: loans and borrowings from banks and others, financial lease, debentures and trade and other payables.

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(a) Debt modifications

An exchange of debt instruments having substantially different terms, or a substantial modification of terms of a debt instrument, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value.

The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as part of the financial income or expenses.

Any costs incurred in relation to such modifications are recognized in profit or loss as part of the financial income or expenses.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments.

3 Significant accounting policies (cont'd)

(d) Financial instruments (cont'd)

(ii) Non-derivative financial liabilities

(b) Debt for equity swap transaction

Equity instruments issued to extinguish all or part of a financial liability are "consideration paid", for the purpose of calculating the gain or loss from the extinguishment of the financial liability. Equity instruments shall be initially measured at fair value, unless fair value cannot be reliably measured, in which case the issued instruments will be measured at the fair value of the financial liability extinguished. Any difference between the amortized cost of the financial liability and the initial measurement amount of the equity instruments issued shall be recognized in profit or loss as part of the financial income or expenses.

Offset of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments (economic hedges)

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss as part of operating expenses (regarding fuel derivatives). Fair value of fuel options is measured based on Black Sholes model. Fair value of fuel swap contracts is measured by discounting the future cash flows over the period of the contract using risk free interest rates based on zero coupon US treasury bond.

(iv) Financial guarantees

A financial guarantee is initially recognized at fair value. In subsequent periods a financial guarantee is measured at the higher of the amount recognized in accordance with the guidelines of IAS 37 and the liability initially recognized after being amortized in accordance with IAS 18. Any resulting adjustment of the liability is recognized in profit or loss.

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(e) Vessels, containers, handling equipment and other tangible assets

(i) Owned assets

Vessels, containers, handling equipment and other tangible assets are stated at cost less accumulated depreciation (see paragraph (iv) below) and accumulated impairment losses (see Note 3 (g)). The cost of inspecting the vessel (dry docking), that needs to be performed after a number of years of operation (usually once every five years), is separated from the cost of the vessel and depreciated according to the period until the following inspection. The Company's management believes that there is no other material separate component whose contractual period of use is different from the contractual period of use of the whole vessel .

Gains and losses on disposal of vessels, containers, handling equipment and other tangible assets are determined by the difference between the net consideration from disposal and the carrying amount of these items, and are recognised net within "other operating income / expenses" in profit or loss.

3 Significant accounting policies (cont'd)

(e) Vessels, containers, handling equipment and other tangible assets (cont'd)

(ii) Leased assets

If the terms of a lease in which the Group is a lessee are modified, the Company assesses whether the revised terms would have resulted in different classification of the lease had they been in effect at inception. Inter alia, the Company assesses whether the net present value of the minimum lease payments of the lease, amounts to substantially all of the fair value of the leased asset by comparing the fair value of the leased asset at inception to the present value of the lease payments for that date, considering the previous terms until the modification and the revised terms from the modification date onwards, discounted using the rate implicit in the original lease.

If a lease previously accounted for as a finance lease is reclassified as an operating lease, the Group derecognizes the leased asset and the finance lease liability and recognizes the profit (loss) from derecognizing the leased asset (calculated as the difference between the fair value of the leased asset and its carrying amount) in other operating income (expenses) and the profit (loss) from derecognizing the liability (calculated as the difference between (1) the fair value of the leased asset and the fair value of any liabilities incurred and instruments issued as part of the modification and (2) the carrying amount of the liability) in finance income (expense).

If a lease previously accounted for as an operational lease, is reclassified as a financial lease, the group recognize a leased asset and a finance lease liability at an amount equal to the lower of its fair value and the present value of the minimum lease payments.
If a lease previously accounted for as a finance lease is not reclassified as a result of the modification, the modification is accounted for as a debt modification.

If a lease previously accounted for as an operating lease is not reclassified as a result of the modification, the revised lease payments, including any liabilities incurred and instruments issued as part of the modification, are expensed on a straight line basis throughout the remaining lease term.

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of vessels, containers, handling equipment and other tangible assets, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The cost of the replaced part is derecognized. All other costs are recognised in the income statement as an expense as incurred. Material improvements that increase the useful life of the assets are capitalised as part of their cost.

(iv) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.
An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.
Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of vessels, containers, handling equipment and other tangible assets. Freehold land is not depreciated.

Leased assets, including leasehold improvements, are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

3 Significant accounting policies (cont'd)

(e) Vessels, containers, handling equipment and other tangible assets (cont'd)

(iv) Depreciation

The estimated useful lives of vessels, containers, handling equipment and other tangible assets for the current and comparative periods are as follows (taking into account a residual value of mainly 10% of the cost of the assets, where applicable):

		years
1.	Vessels	25-30
2.	Containers	13
3.	Chassis	30
4.	Other equipment	13
5.	Dry docking for owned vessels	Up to 5

The estimated useful lives of other tangible assets for the current and comparative periods are as follows:

		years	
1.	Buildings	25	
2.	Computer systems and communication equipment	4- 7	(mostly 5 years)
3.	Other	5-15	

Depreciation methods, useful life and residual values are reviewed at each balance sheet date.

(f) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets.

Subsequently to its' initial recognition, goodwill is measured at cost less accumulated impairment losses.

(ii) Research and development of software

Development activities involve a plan or design for the production of new or substantially improved processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use the asset.

The expenditure capitalised includes the cost of direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

In subsequent periods capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Software

The Group's assets include computer systems consisting of hardware and software. The licenses for the software, which are considered to be a separate item and add functionality to the hardware, are classified as intangible assets.

(iv) Dry docking for chartered vessels

The cost of inspecting the fleet of vessels held under bareboat charter (an operating lease) is amortised according to the period until the following inspection or the period until the end of the charter, if shorter.

(v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognised in profit or loss as incurred.

3 Significant accounting policies (cont'd)

(f) Intangible assets (cont'd)

(vi) Amortisation

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset, or other amount substituted for cost, less its residual value.
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	5 years
Dry docking for chartered vessels	Up to 5 years
Capitalised software development costs	5-8 years

Depreciation methods, useful life and residual values are reviewed at each balance sheet date.

(g) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(ii) Non-financial assets

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (hereinafter: "CGU"),. For this purpose, the Company, which is one cash generating unit estimates its recoverable amount on the basis of its fair value less costs to sell, using the discounted cash flow (DCF) method.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognised if the carrying amount of the Company's assets or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss is allocated between the owners of the Company and the non-controlling interests on the same basis that the profit or loss is allocated.
An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies (cont'd)

(h) Employee benefits

(i) Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

(i) Defined contribution plans

A defined contribution pension plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (assets). The discount rate is the yield at the balance sheet date on high grade corporate bonds denominated in the same currency, that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

Gains or losses resulting from settlements of a defined benefit plan are recognized in profit or loss.

The Group recognizes immediately, directly in other comprehensive income, all actuarial gains and losses arising from defined benefit plans.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value. The discount rate is the yield at the balance sheet date on high grade corporate bonds denominated in the same currency, that have maturity dates approximating the terms of the Group's obligations.

(iii) Other long-term benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on long-term high grade corporate bonds denominated in the same currency, that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Significant accounting policies (cont'd)

(h) Employee benefits (cont'd)

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

(i) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation.
The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

Legal claims

The Financial Statements includes appropriate provisions in respect of claims against the Group which, in the opinion of the Group's management based, among others, on the opinion of its legal advisers retained in respect of those claims, is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.
Note 26 contains details of the additional exposure due to contingent claims where the amounts are significant, and where the likelihood of realisation is not more likely than not.

(j) Revenue Recognition from shipping services and related expenses

Revenue from cargo traffic is recognized in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed for each cargo by the reference to the time-based proportion.
The operating expenses related to cargo traffic are recognized immediately as incurred.
If the incremental expenses related to the cargo exceed the related revenue, the loss is recognized immediately in income statement.

(k) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(l) Finance income and expenses

Finance income comprises mainly interest income, recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise mainly interest expense on borrowings, impairment losses recognised on financial assets and restructuring expenses. Borrowing costs are expensed in profit or loss in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis.

In the statements of cash flows, interest received and dividends received are presented as part of cash flows from operating activities. Interest paid and dividends paid are presented as part of cash flows from financing activities.

3 Significant accounting policies (cont'd)

(m) Income taxes

Income taxes comprise current and deferred taxes. Current taxes and deferred taxes are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

Current taxes are the contractual taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future , either by way of selling the investment or by way of distributing dividends in respect of the investment. Deferred tax are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised by the distributing company. Such additional taxes were not included in the financial statements, since the policy of the Group is to not distribute a dividend which creates an additional tax liability for the recipient company in the foreseeable future. Additional income taxes that arise from the distribution of dividends by the Company are recognized in profit or loss at the same time that the liability to pay the related dividend is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- In the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - The same taxable entity; or
  - Different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are contractual to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Transactions with controlling shareholder

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company recorded the difference between the fair value and the consideration from the transaction in its equity.

3 Significant accounting policies (cont'd)

(o) Government grants

Grants received from the Government of Israel with respect to the cost of employing Israeli resident sailors on Israeli vessels are deducted from the salary costs.

(p) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the moving average principle, and mainly includes fuel on board.

(q) Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction and not through continuing use.
Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment losses recognized on initial classification as held for sale, and subsequent gains or losses on remeasurement, are recognized in profit or loss.

In subsequent periods, depreciable assets classified as held for sale are not periodically depreciated.

(r) New standards and interpretations not yet adopted

(i) IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) replaces the current guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments and a new model for measuring impairment of financial assets. IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted. The Company has examined the effects of applying IFRS 9 and in its opinion the effect on the financial statements will be immaterial.

(ii) IFRS 15, Revenue from Contracts with Customers

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a Comprehensive framework with respect to the recognition, timing and measurement of revenues. IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 with early adoption being permitted. The Company has examined the effects of applying IFRS 15 and in its opinion the effect on the financial statements will be immaterial.

(iii) IFRS 16, Leases

IFRS 16 replaces IAS 17 Leases and its related interpretations regarding leasing arrangements and will be adopted by the Company on January 1, 2019. For lessees, the standard presents a unified model for the accounting treatment of most leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. The Company is currently assessing the potential effect of applying IFRS 16 to its consolidated financial statements, including the application of optional exemptions and transition methods. Although such potential affect is not yet concluded, The Company expects, under certain assumptions, a significant increase of its assets and liabilities on the adoption date, as well as an increase in its operating profit and financing expenses following the adoption, mainly with respect to the recognition of operating leases of vessels and equipment, as those will be applicable on such date. See also Note 25 for the Company's commitments, mainly with respect to operational leases.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Non-derivative financial liabilities
See Note 28(d)(1).

(b) Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows. Trade and other receivables are measured at the original invoice amount if the effect of discounting is immaterial.

(c) Cash Generating Unit for impairment testing
See Note 5.

(d) Assets classified as held for sale
The fair value of assets classified as held for sale is estimated as the expected sale price less costs to sell. The sale price of vessels is calculated based on the estimated iron prices and the vessels weight.

(e) Derivatives
See Note 28.

(f) Financial assets classified as available for sale
The fair value of financial assets classified as available for sale is measured based on their quoted prices on an active market.

5 Vessels, containers, handling equipment and other tangible assets

Cost:

	Balance at January 1, 2017	Acquisitions	Disposals	Effect of movements in exchange rates	Balance at December 31 2017
			US $'000		
Vessels	1,084,848	**2,840**			**1,087,688**
Containers	759,263	**85,021**	**(15,529)**		**828,755**
Handling equipment	2,753	**144**	**(116)**		**2,781**
Computer systems and Communication equipment	36,780	**4,744**	**(220)**	**261**	**41,565**
Other property and equipment	50,302	**1,145**	**(408)**	**507**	**51,546**
Total	1,933,946	**93,894**	**(16,273)**	**768**	**2,012,335**

Depreciation and impairment charges:

	Balance at January 1, 2017	Depreciation	Disposals	Effect of movements in exchange rates	Balance at December 31 2017
			US $'000		
Vessels	336,620	**34,403**			**(*) 371,023**
Containers	407,313	**61,363**	**(11,460)**		**457,216**
Handling equipment	1,658	**147**	**(76)**		**1,729**
Computer systems and Communication equipment	31,329	**2,471**	**(220)**	**240**	**33,820**
Other property and equipment	38,280	**1,825**	**(384)**	**492**	**40,213**
Total	815,200	**100,209**	**(12,140)**	**732**	**904,001**
Payments on account, net	257				**280**

Net carrying amounts:

	Balance at January 1, 2017	Balance at December 31, 2017
	US $'000	US $'000
Vessels	748,228	**716,665**
	748,228	**716,665**
Containers	351,950	**371,539**
Handling equipment	1,095	**1,052**
	353,045	**372,591**
Computer systems and Communication equipment	5,451	**7,745**
Other property and equipment	12,022	**11,333**
Payments on account of other assets	257	**280**
	17,730	**19,358**
Total	1,119,003	**1,108,614**

(*) Including impairment recognized in prior years in respect of certain vessels in net amount of US$ 31.4 million.

5 Vessels, containers, handling equipment and other tangible assets (cont'd)

Cost:

	Balance at January 1, 2016	Acquisitions	Disposals	Transfer(**)	Effect of movements in exchange rates	Balance at December 31 2016
			US $'000			
Vessels	1,084,819	29				1,084,848
Containers	677,195	116,528	(15,171)	(19,289)		759,263
Handling equipment	3,314		(561)			2,753
Computer systems and Communication equipment	35,004	2,142	(169)		(197)	36,780
Other property and equipment	54,409	909	(538)	(3,876)	(602)	50,302
Total	1,854,741	119,608	(16,439)	(23,165)	(799)	1,933,946

Depreciation and impairment charges:

	Balance at January 1, 2016	Depreciation	Disposals	Transfer(**)	Effect of movements in exchange rates	Balance at December 31 2016
			US $'000			
Vessels	302,338	34,282				(*)336,620
Containers	381,795	50,535	(10,192)	(14,825)		407,313
Handling equipment	1,956	140	(438)			1,658
Computer systems and Communication equipment	28,941	2,738	(168)		(182)	31,329
Other property and equipment	39,043	2,152	(558)	(1,846)	(511)	38,280
Total	754,073	89,847	(11,356)	(16,671)	(693)	815,200
Payments on account, net	276					257

Net carrying amounts:

	Balance at January 1, 2016	Balance at December 31, 2016
	US $'000	US $'000
Vessels	782,481	748,228
	782,481	748,228
Containers	295,400	351,950
Handling equipment	1,358	1,095
	296,758	353,045
Computer systems and Communication equipment	6,063	5,451
Other property and equipment	15,366	12,022
Payments on account of other assets	276	257
	21,705	17,730
Total	1,100,944	1,119,003

(*) Including impairment recognized in prior years in respect of certain vessels in net amount of US$ 32.8 million.
(**) Transferred to assets held for sale and sold during 2016.

5 Vessels, containers, handling equipment and other tangible assets (cont'd)

Vessels held for sale

Upon the 2014 restructuring, the Company undertook to scrap eight vessels. During the year ended December 31, 2015 the Company recorded an impairment in an amount of US$ 7 million under other operating expenses, related to such vessels classified as held for sale.

(a) Vessels and equipment leased under finance leases (Note 3(e)(ii)):

	2017	**2016**
	US$'000	
Cost	**1,408,081**	1,335,896
Accumulated depreciation	**(550,972)**	(483,248)
Net carrying amount	**857,109**	852,648

(b) For details of securing tangible assets, see Note 12 (a).

6 Intangible assets

Cost:

	Balance at January 1, 2017	Acquisitions	Disposals	Effect of movements in exchange rates	Balance at December 31 2017
			US $'000		
Goodwill (*)	10,235			**(145)**	**10,090**
Software (mostly development costs)	140,606	**18,066**	**(16)**	**51**	**158,707**
Dry docking	4,514				**4,514**
Other intangible assets	1,054	**2,361**			**3,415**
Total	156,409	**20,427**	**(16)**	**(94)**	**176,726**

Amortization and impairment losses:

	Balance at January 1, 2017	Amortization	Disposals	Effect of movements in exchange rates	Balance at December 31 2017
			US $'000		
Goodwill (*)					
Software (mostly development costs)	100,727	**(**)10,087**	**(16)**	**53**	**110,851**
Dry docking	3,137	**490**			**3,627**
Other intangible assets	1,054				**1,054**
Total	104,918	**10,577**	**(16)**	**53**	**115,532**

Net carrying amounts:

	Balance at January 1, 2017	Balance at December 31, 2017
	US $'000	US $'000
Goodwill	10,235	**10,090**
Software (mostly development costs)	39,879	**47,856**
Dry docking	1,377	**887**
Other intangible assets		**2,361**
Total	51,491	**61,194**

(*) Goodwill is allocated to the Company's CGU as described in Note 5. For additional information regarding the annual impairment test - see Note 5.

(**) Including impairment in the amount of US$ 2.4 Million.

6 Intangible assets (cont'd)

Cost:

	Balance at January 1, 2016	Acquisitions	Effect of movements in exchange rates	Balance at December 31 2016
	US $'000			
Goodwill (*)	11,634		(1,399)	10,235
Software (mostly) development costs)	126,999	13,586	21	140,606
Dry docking	4,482	32		4,514
Other intangible assets	1,054			1,054
Total	144,169	13,618	(1,378)	156,409

Amortization and impairment losses:

	Balance at January 1, 2016	Amortization	Effect of movements in exchange rates	Balance at December 31 2016
	US $'000			
Goodwill				
Software	90,101	10,636	(10)	100,727
Dry docking	2,648	489		3,137
Other intangible assets	1,054			1,054
Total	93,803	11,125	(10)	104,918

Net carrying amounts:

	Balance at January 1, 2016	Balance at December 31, 2016
	US $'000	US $'000
Goodwill	11,634	10,235
Software (mostly development costs)	36,898	39,879
Dry docking	1,834	1,377
Total	50,366	51,491

(*) Goodwill is allocated to the Company's CGU as described in Note 5. For additional information regarding the annual impairment test - see Note 5.

6 Intangible assets (cont'd)

Impairment test

Further to the recent trends in the shipping industry as discussed in note 1(b)(i), the Company tested its assets for impairment (mainly its fixed and intangible assets), as of December 31, 2017. For the purpose of IAS 36, the Company, which operates an integrated liner network, has one cash-generating unit (hereinafter: CGU), which consists of all of the Company's operating assets. The Company estimated its recoverable amount on the basis of its fair value less costs to sell, using the discounted cash flow (DCF) method. This measurement is a level 3 fair value measurement under IFRS 13.

The Company's assumptions were made for the period ended on December 31, 2021 and a representative year intended to reflect a long-term, steady state. The key assumptions are set forth below:

- A detailed cash flow for the abovementioned period, based upon the Company's business plan.
- Bunker price: according to the future price curve of fuel.
- Freight rates: a compound annual growth rate of 0.7% over the projection period.
- Increase in aggregate TEU shipped: a compound annual growth rate of 7.7% over the projection period, which is in line with the expected trends in the trades the company is planning to focus on.
- Charter hire rates: contractual rates in effect as of December 31, 2017, and assuming anticipated market rates for renewals of charters expiring in the projection period.
- Discount rate of 9%.
- Long-term nominal growth rate of 1.5%, which is consistent with the expected industry average.
- Capital expenditures that are less than or equal to the Company's expected vessel depreciation;
- Payment of tax at the Company's corporate tax rate of 23%; also assumes expected use of tax losses.

The impairment test resulted with a recoverable amount exceeding the carrying value by a significant amount. Therefore, no impairment was recognized in the financial statements in respect of the CGU.

Although the Company believes the assumptions used to evaluate the potential impairment of its assets are reasonable and appropriate, such assumptions are highly subjective.
There can be no assurance as to how long bunker prices and freight rates will remain at their current levels or whether they will increase or decrease by any significant degree.

Change by 100 bps in the following assumptions will result in an increase (decrease) in the fair value of the recoverable amount as follows:

	Increase	Decrease
	By 100 bps	
	US$ million	
Discount rate	(170)	218
Terminal growth rate	169	(130)

7 Investments in associates

During 2015, the Company sold all of its holdings in an associated company. The capital gain in an amount of US$ 32.0 million was recorded in other operating income. Following such sale, and in accordance with the restructuring agreements, as described in note 1(b)(ii)(d) above, the company declared a partial prepayment of tranche C in the amount of US$ 11.8 million, paid in December 2015. In addition, a long-term loan previously granted to the above mentioned associated company was repaid in an amount of US$ 27.2 million.

During 2016, the Company sold a portion of its holdings in an associated company and ceased to have significant influence over such investee. In accordance with IAS 28, the company recognized a capital gain in an amount of US$ 15.7 million recorded in other operating income, reflecting the difference between (i) the fair value of the retained investment and the proceeds from the portion sold and (ii) the carrying amount of the investment. Following such sale, the Company accounts for its retained investment as an available for sale financial asset, in accordance with IAS 39. In 2018, following the implementation of IFRS 9, the Company will measure such investment at fair value through other comprehensive income.

8 Trade and other receivables

	2017	2016
	US $'000	
Non-current other receivables		
Long-term loans	**249**	802
Others	**2,649**	3,574
	2,898	4,376
Current trade and other receivables		
Trade receivables	**187,715**	152,706
Other receivables		
Insurance recovery (see Note 15)	**14,713**	14,176
Government institutions	**13,458**	11,922
Prepayments for current assets	**15,596**	17,593
Current portion of deferred expenses	**16,938**	21,204
Amounts due from associates	**381**	2,000
Other receivables	**14,391**	17,924
	75,477	84,819
	263,192	237,525

The Group's exposure to credit and currency risks is disclosed in Note 28.

9 Other investments including derivatives

	2017	2016
	US$'000	
Non-current investments		
Long term deposits	**2,912**	2,772
Available for sale financial assets (see also Note 7)	**15,205**	12,588
	18,117	15,360

Mainly long term deposits which are not bearing any interest.

	2017	2016
Current investments		
Short term bank deposits (*)	**93,632**	24,483
Financial assets at fair value through profit or loss	**1,041**	1,174
Available for sale financial assets (see also Note 7)		3,626
	94,673	29,283

(*) Includes deposits under lien - see also Note 12(a).

The interest rates on the deposits in 2017 were approximately 1.3%.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 28.

10 Cash and cash equivalents

	2017	2016
	US$'000	
Bank balances and cash in hand	**151,503**	152,674
Demand deposits	**6,385**	4,926
Cash and cash equivalents in the consolidated statement of financial position	**157,888**	157,600

The effective interest rate on the demand deposits (including deposits denominated in currencies other than USD) in 2017 was approximately 3.2%.

The Group's exposure to interest rate risk and a sensitivity analysis for financial liabilities is disclosed in Note 28.

11 Capital and reserves

(a) Share capital

		2017	2016
Number of ordinary shares (issued and paid up):			
Balance at the beginning of the year		**10,000,000**	10,000,000
Balance at the end of the year		**10,000,000**	10,000,000
Ordinary shares	- in US$'000's	**88**	88
	- in NIS'000's	**300**	300

As of December 31, 2017 and 2016 the authorised share capital is comprised of 350,000,001 ordinary shares. The shares have a par value of NIS 0.03.

The holders of ordinary shares are entitled to receive dividends when declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company’s residual assets, except as disclosed in (b) below.

(b) Special State Share

The issued and paid-up share capital includes one share which is a Special State Share.
In the framework of the process of privatising the Company, all the State of Israel's holdings in the Company (about 48.6%) were acquired by The Israel Corporation pursuant to an agreement from February 5, 2004. As part of the process, the Company allotted to the State of Israel a Special State Share so that it could protect the vital interests of the State.

On July 14, 2014 the State and the Company have reached a settlement agreement (the “Settlement Agreement”) that has been validated as a judgment by the Supreme Court. The Settlement Agreement provides, inter alia, the following arrangement shall apply: State’s consent is required to any transfer of the shares in the Company which confers on the holder a holding of 35% and more of the Company’s share capital. In addition, any transfer of shares which confers on the holders a holding exceed 24% but not exceed 35%, shall require a prior notice to the State. To the extent the State determines that the transfer involves a potential damage to the State’s security or any of its vital interests or if the State did not receive the relevant information in order to formulate a decision regarding the transfer, the State shall be entitled to inform, within 30 days, that it objects to the transfer, and it will be required to reason its objection. In such an event, the transferor shall be entitled to approach a competent court on this matter.

The Special State Share is non-transferable; its rights are described in the new Company’s Articles of Association.

Except for the rights attached to the said share, it does not confer upon its holder voting rights or any share capital related rights.

12 Loans and other liabilities

This Note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 28.

(a) The loans and other liabilities are as follows:

	2017	2016
	US$'000	
Non-current liabilities		
Loans from financial institutions	**32,402**	79,408
Loan from shipyard	**41,139**	38,012
Other loans and liabilities	**65,958**	59,083
Finance lease liabilities	**557,864**	595,159
Debentures	**437,667**	434,055
	1,135,030	1,205,717
Current liabilities		
Current portion of loans from financial institution	**47,006**	27,560
Current portion of other loans and liabilities	**25,040**	2,164
Current portion of finance lease liabilities	**110,153**	83,486
Current portions of debentures	**7,415**	2,966
Total current portion	**189,614**	116,176
Short-term borrowings	**123,479**	44,531
	313,093	160,707

Liens placed in respect of liabilities

As security for part of the short and long term bank credit and the other long-term loans and liabilities, which were originally established, inter alia, in order to finance the purchase of vessels and as security for bank guarantees, liens have been registered on most of the vessels fleet and its equipment, including the revenues generated by the vessels and the insurance rights relating to the vessels, containers, handling equipment, deposits and other assets. The aggregate carrying values of the securing assets are as follows:

	2017	2016
	US $'000	
Vessels	**716,665**	748,228
Containers and handling equipment	**332,211**	339,884
Deposits	**62,223**	1,102
Land and buildings	**5,778**	5,956
	1,116,877	1,095,170

12 Loans and other liabilities (cont'd)

(b) Terms and debt repayment schedule

Regarding the main principles and conditions of the Company's restructured debt see Note 1(b)(ii).

Terms and conditions of outstanding loans are as follows:

	December 31, 2017				
	Currency	Effective interest (5)	Year of Maturity	Face value	Carrying Amount (6)
				US $'000	
Debentures :					
Tranche A (1)	US$	Libor + 2.8%	2021	**32,688**	**32,688**
Tranche C (2)	US$	7%	2023	**359,808**	**304,731**
Tranche D (2)	US$	7.9%	2023	**122,774**	**107,663**
Long-term loans:					
Tranche A (1)	US$	Libor + 2.8%	2018-2021	**79,408**	**79,408**
Tranche E (3)	US$	8.7%	2026	**69,600**	**41,139**
Other	US$	Libor +2.8%	2018-2020	**45,793**	**45,793**
Long-term liabilities	mainly US$	(4)	2018-2021	**45,205**	**45,205**
Finance lease liabilities	US$	1.7%-18.6%	2018-2030	**668,017**	**668,017**
Short-term credit from banks (7)	US$	3.72%	2018	**123,479**	**123,479**
				1,546,772	**1,448,123**

	December 31, 2016				
	Currency	Effective interest (5)	Year of Maturity	Face value	Carrying Amount (6)
				US $'000	
Debentures :					
Tranche A (1)	US$	Libor + 2.8%	2021	37,136	37,136
Tranche C (2)	US$	7%	2023	359,808	296,590
Tranche D (2)	US$	7.9%	2023	120,350	103,295
Long-term loans:					
Tranche A (1)	US$	Libor + 2.8%	2017-2021	106,968	106,968
Tranche E (3)	US$	8.7%	2026	68,378	38,012
Other	US$	Libor +2.8%	2018-2020	12,559	12,559
Long-term liabilities	mainly US$	(4)	2017-2021	48,689	48,688
Finance lease liabilities	US$	1.7%-18.6%	2017-2028	678,643	678,645
Short-term credit from banks	US$	3%	2017	44,531	44,531
				1,477,062	1,366,424

(1) See Note 1(b)(ii)(a).

(2) See Note 1(b)(ii)(c).

(3) See Note 1(b)(ii)(d).

(4) Mainly liabilities which are not bearing any interest.

(5) The effective interest rate is the rate that discounts estimated future cash payments or receipts through the contractual life of the financial instrument to the net carrying amount of the financial liability, and it does not necessarily reflect the contractual interest rate.

(6) Regarding the carrying amount of the assets securing the Company's loans and liabilities see Note 12(a).

(7) Includes US$ 60 million subject to Libor + 2.5%.

12 Loans and other liabilities (cont'd)

(b) Terms and debt repayment schedule (cont'd)

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
	December 31, 2017			December 31, 2016		
	US $'000					
Less than one year	**159,920**	**49,767**	**110,153**	127,212	43,727	83,485
Between one and five years	**417,082**	**129,401**	**287,681**	457,503	130,462	327,041
More than five years	**324,342**	**54,161**	**270,183**	319,989	51,873	268,119
	901,344	**233,329**	**668,017**	904,704	226,062	678,645

(c) Financial covenants

During 2015 and 2016, due to deteriorating market conditions, the Company obtained amendments to it's financial covenants, the most recent of which concluded lately in 2016. Accordingly, below are the current financial covenants that the Company is required to stand:

1) Fixed Charge Cover ratio defined as Consolidated EBITDAL to Fixed Charges. EBITDAL means Consolidated EBITDA (Group's Consolidated EBITDA, after certain adjustments as specifically defined in the facility agreements), after adding back vessels and equipment lease costs. Fixed Charges mean mainly cash interest, scheduled repayments of indebtedness and vessels and equipment lease payments. The required ratio will be examined on March 31, 2018 onwards, and will gradually increase from 0.78:1 as required on March 31, 2018 to 0.99:1 as required on March 31, 2019 and remain in that level thereafter.

2) Total Leverage ratio defined as Total Debt to Consolidated EBITDA - The required ratio will be examined on March 31, 2018 onwards, and will gradually decrease from 23.69:1 as required on March 31, 2018 to 6.64:1 as required on December 31, 2018 and remain in that level thereafter.

3) Minimum Liquidity – This covenant was amended as from March 31, 2016 to include all cash and cash equivalents available to the Company without any restrictions. In addition, during 2016 and through (and including) September 30, 2016 the Company was required to stand a minimum liquidity of US$ 150 million. Starting December 31, 2016 the minimum Liquidity required is reinstated at US$ 125 million.

Under these amendments, it was also determined that if the Company's performance improves and certain conditions are met, the Fixed Cover ratio levels and the Total Leverage ratio levels, as agreed at the restructuring, will be reinstated.

As at December 31, 2017, the Company is in compliance with its financial covenants. According to these consolidated Financial Statements, the Company's liquidity, as defined in the related agreements, amounts to US$ 182 million (Minimum Liquidity required is US$ 125 million).

(d) Credit facility

In August 2015, the Company entered into a receivables securitization transaction (the "Transaction") with a financial institution (the "Financial Institution") for the sale of certain receivables, (the "Receivables"), generated from shipping services that meets certain criteria, to a foreign entity ("the SPV") which was established specifically for this.

12 Loans and other liabilities (cont'd)

(d) Credit facility (cont'd)

The Senior Facility commitment was of up to US$ 100 million, originally available for 2.5 years from the closing date of the Transaction, while the actual amount that can be drawn from the Senior Facility is dependent on certain criteria of the Receivables.

Once the Receivables are sold to the SPV, they are no longer owned by the Group. The securitization of the Receivables does not meet the conditions for derecognition of financial assets prescribed in International Accounting Standard (IAS) 39, as the Company retains continuing involvement with collection of the Receivables. In addition, The SPV is included in the consolidated financial statements since the Group has control, for accounting purposes, over the entity in accordance with the criteria determined in IFRS 10, Consolidated Financial Statement.

During the second half of 2016, the Company and the financial institution which provided the "Senior Facility", reached a mutual agreement, according to which all amounts previously drawn were repaid and the "Senior Facility" was terminated.

As of December 31, 2017 and 2016, the receivables purchased by the SPV are securing the repayment of the "Deferred Amounts" as described in Note 1(b)(i)(a).

(e) Movement in liabilities deriving from financing activities

	Loans and other Liablities	Debendetures	Finance Lease Liabilities	Total
Balance as at January 1, 2017	250,758	437,021	678,645	1,366,424
Changes from financing cash flows				
Repayment of borrowings	(29,891)	(4,449)	(100,046)	(134,386)
Change in short-term loans	78,947			78,947
Additional Financial Leases			81,636	81,636
Other Changes (*)	35,210	12,510	7,782	55,502
Balance as at December 31, 2017	**335,024**	**445,082**	**668,017**	**1,448,123**

(*) Mainly includes deferral of payments (see also Note 1(b)(i)), discount amortization and accrual of PIK interest.

13 Employee benefits

(a) Composition

	2017	2016
	US$'000	
Present value of obligations (see section f below)	**54,768**	48,604
Fair value of the plan assets (see section f below)	**(17,516)**	(17,412)
Recognized liability for defined benefit obligations	**37,252**	31,192
Termination benefit-liability for early retirement	**23,886**	25,119
Other long-term benefits	**12,620**	11,065
Short-term benefits:		
Liability for annual leave	**7,819**	6,322
Current portion of liability for early retirement	**7,936**	8,349
Total employee benefits	**89,513**	82,047
Presented in the statement of financial position as follows**:**		
Short-term (Note 14)	**15,755**	14,671
Long-term	**73,758**	67,376
	89,513	82,047

(b) Defined contribution pension plans

According to the Israeli Severance Pay Law - 1963, an employee who is dismissed, or who reaches the retirement age, is entitled to severance payments, in a sum equal, in essence, to 8⅓% of his last monthly salary multiplied by the actual months of employment (hereinafter – "Severance Obligation").

The Severance Pay Law allows employers to be relieved from part or all of the Severance Obligation by making regular deposits to pension funds and insurance companies, if it is approved (beforehand) by a relevant regulation or Collective Agreement.

The Group makes regular deposits to pension funds and insurance companies. With respect to some of its employees, the Group makes such payments replacing its full Severance Obligation regarding those employees and, therefore, treats those payments as if they were payments to a defined contribution pension plan. With respect to most of the other employees, the Group makes such payments replacing only (6%)/(8⅓%) of the respective Severance Obligation. Therefore, the Company treats those payments as payments to a defined contribution pension plan and treats the remainder (2⅓%)/(8⅓%) as payments to a defined benefit pension plan.

(c) Defined benefit pension plan

(i) The post-employment liability included in the statement of financial position represents the balance of liabilities not covered by deposits and/or insurance policies in accordance with the existing labour agreements, the Severance Pay Law and the salary components which Management believes entitle the employees to receipt of compensation.

To cover their pension and severance liabilities, the Company and certain of its subsidiaries make regular deposits with recognised pension and severance pay funds in the employees' names and purchase insurance policies.

The reserves in compensation funds include accrued linkage differentials (for Israeli CPI), interest accrued and deposited in compensation funds in banks and insurance companies. Withdrawal of the reserve monies is contingent upon fulfilment of detailed provisions in the Severance Pay Law.

(ii) Group retirees receive, in addition to the pension payments, benefits which consist mainly of a holiday gift and vouchers. The Group's liability in respect of these costs accumulates during the service period. The contractual costs are in respect of the post-employment period, based on an actuarial calculation for existing retirees and for the serving employees entitled to this benefit according to their contractual retirement age.

13 Employee benefits (cont'd)

(d) Other long-term employee benefits

(i) Provision for annual absence

Under the labour agreement, employees retiring on pension are entitled to certain compensation in respect of unutilised annual absence. The provision was calculated on the basis of actuarial calculations. The actuarial assumptions include those noted in section (g) below, as well as assumptions in connection with this section based on the Group's experience according to the likelihood of payment of annual absence pay at retirement age and utilisation of days by the LIFO method.

(ii) Company participation in education fees for children of employees studying in higher educational institutions

Under the labour agreement, employees are entitled to the participation of the Company in education fees for their children. The provision was calculated on the basis of actuarial calculations. The actuarial assumptions include those noted in section (g) below, as well as assumptions in connection with this section based on the Company's experience according to the likelihood of payment of educational fees.

(e) Benefits in respect of severance and voluntary early retirement

According to agreements reached with certain employees who retired early, these employees are entitled to a pension from the Group until they reach regular retirement age. A provision, computed on the basis of the present value of the early retirement payments is included in the Consolidated Statement of Financial Position.

(f) Movement in the present value of the defined benefit pension plan obligation

	2017	2016
	US $'000	
Defined benefit obligation at January 1	**48,604**	50,962
Benefits paid by the plan	**(5,519)**	(7,363)
Current service cost and interest	**3,375**	4,138
Foreign currency exchange changes in plan measured in a currency different from the entity's functional currency	**4,581**	404
Actuarial losses recognised in other comprehensive income	**3,727**	463
Defined benefit obligation at December 31	**54,768**	48,604

Movement in the present value of plan assets

	2017	2016
	US $'000	
Fair value of plan assets at January 1	**17,412**	19,063
Contribution paid into the plan	**818**	938
Benefits paid by the plan	**(2,591)**	(3,434)
Return on plan assets	**647**	661
Foreign currency exchange changes in plan measured in a currency different from the entity's functional currency	**1,540**	243
Actuarial losses recognised in other comprehensive income	**(310)**	(59)
Fair value of the plan assets at December 31	**17,516**	17,412

Plan assets comprise

	2017	2016
	US $'000	
Equity instruments	**5,449**	4,863
Debt instruments	**8,969**	9,621
Cash and deposits	**1,492**	1,835
Other	**1,606**	1,093
	17,516	17,412

13 Employee benefits (cont'd)

(g) Actuarial assumptions

The principal actuarial assumptions at the balance sheet date:

(i) Annual resignation and dismissal rates were determined on the basis of the past experience of the Group; for employees of the Company the resignation rate is estimated between 5%-8% and the dismissal rate is estimated between 1% and 2.5%. For the subsidiaries, the resignation rate is estimated at between 2.6% and 4% and the dismissal rate is estimated at between 2% and 2.6%.

(ii) The relevant discount rates are as follows:

	2017	2016	2015
Early retirement	1.4%-1.6%	1.9%-2.2%	2.1%-3.9%
Annual absence	3.2%-3.3%	3.9%-4.2%	3.1%-4.1%
Long service gift	2.9%-3.0%	3.2%-3.9%	3.7%-3.8%
Tuition fees	1.8%-2.5%	2.3%-3.2%	2.6%-3.8%
Defined benefit plan	1.8%-3.5%	1.8%-4.4%	3.6%-4.4%

(iii) Assumptions regarding future salary growth were made on the basis of the Group's experience and management's assessments. The Group - For employees the average future salary growth increment is between 2% and 4.5% per year 2017, and between 2% and 4% per year in 2016 and 2015.
Assumptions regarding future mortality are based on published statistics and mortality tables.

(iv) The overall contractual long-term rate of return on assets is between 2.7% and 3.1% per year in 2017, and between 3.4% and 3.9% per year in 2016 and 2015. The contractual long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(v) Sensitivity analysis
Reasonably possible changes at the balance sheet date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation At December 31, 2017	
	Increase	Decrease
	US $'000	
Discount rate (0.5% movement)	**(1,992)**	**1,992**
Future benefit growth (0.5% movement)	**2,239**	**(2,239)**

As at December 31, 2017, the weighted average duration of the defined benefit obligation was 9 years (as at December 31, 2016 - 8 years).

In 2018, the Group expects to pay about US$ 746 thousands in contributions to the funded defined benefit pension plan.

(h) The Company's Board of Directors approved compensation plans for the Company's employees and management (the "Plans") for the years 2017 and 2018, payable as cash bonuses. The payment of cash bonuses under the Plans is subject to the satisfaction of certain pre-conditions, such as profitability and minimum EBITDA, while the actual bonus that may be paid to each participant under the Plans is based on each participant's meeting of certain key performance indicators (determined based on the overall performance of the Company and the individual performance of each participant). The cash payment is subject to an additional approval of the Company's Board of Directors. The Company's financial statements include a provision for 2017 plan.

13 Employee benefits (cont'd)

During 2015, The Company also approved a compensation plan for the Company's employees and all of its management, for the year 2015. As certain pre-conditions were not met, no expenses were incurred with respect to the 2015 plan.
In addition to the above, the Company is committed to pay, to certain executives, a bonus in case of an IPO or M&A transaction, as defined in the agreements.

14 Trade and other payables

	2017	2016
	US$'000	
Trade payables	**275,742**	261,558
Other payables		
Liabilities to employees and other liabilities for salaries	**9,085**	5,818
Provision for annual leave and early retirement (see Note 13(a))	**15,755**	14,671
Government institutions	**11,433**	9,805
Accrued interest	**4,113**	3,600
Accrued expenses	**7,615**	18,319
Payables and other credit balances	**15,848**	22,258
	63,849	74,471
	339,591	336,029

All of the trade and other payables are contractual to be settled within one year or are repayable on demand. The Group's exposure to currency, liquidity and market risks related to trade and other payables is disclosed in Note 28.

15 Provisions

	2017
	US $'000
Balance at the beginning of the year	27,573
Provisions made during the year	**10,253**
Provisions used during the year	**(8,003)**
Provisions reversed during the year	**(4,501)**
Balance at the end of the year	**25,322**

Legal and employee claims
For legal claims filed against the Group see Note 26.

Claims covered by insurance
Claims covered by insurance represent mainly provision for damage to cargo of customers that was shipped in containers at the responsibility of the Company. The Company has agreements with insurance companies that indemnify it in respect of such damages (other than the self-participation provided in the insurance agreements). Regarding assets that were recognised in respect thereto, see Note 8, under insurance recoveries.

16 Income from voyages and related services

	2017	2016	2015
		US $'000	
Shipping	**2,942,072**	2,508,080	2,956,099
Other	**36,219**	31,216	35,036
	2,978,291	2,539,296	2,991,135

17 Operating expenses and cost of services

	2017	2016	2015
		US $'000	
Wages and expenses relating to seagoing personnel	**10,581**	9,370	15,347
Maintenance and repair of vessels	**4,113**	4,073	6,675
Expenses relating to fleet equipment (mainly containers and chassis)	**25,602**	23,198	23,372
Fuel and lubricants (*)	**386,883**	278,540	412,793
Insurance	**9,270**	9,816	13,040
Expenses related to cargo handling	**1,285,365**	1,176,834	1,228,024
Port expenses	**251,703**	226,807	255,430
Agents' commissions	**160,398**	156,854	145,829
Cost of related services and sundry	**67,370**	69,860	76,947
Operating lease charges:			
hire of vessels	**358,908**	382,270	442,269
hire of containers	**39,954**	56,504	72,919
	2,600,147	2,394,126	2,692,645

(*) Including gain from change in fair value of fuel derivatives in an amount of US$ 1.1 million and loss from change in fair value of fuel derivatives in an amount of US$ 18.5 million in 2016 and 2015, respectively.

18 Other operating income

	2017	2016	2015
		US $'000	
Capital gain, net	**1,178**	(*) 29,978	(**) 34,614
Sundry	**3,057**	2,873	6,659
	4,235	32,851	41,273

(*) Mainly from partial sale of an associate company (see Note 7) and from sale of real-estate assets.
(**) Mainly from sale of an associate company (see Note 7).

19 Other operating expenses

	2017	2016	2015
		US $'000	
Impairment, net	**2,400**	1,115	(*) 7,357
Sundry	**200**	217	4,528
	2,600	1,332	11,885

(*) See Note 5.

20 General and administrative expenses

	2017	2016	2015
		US $'000	
Salaries and related expenses	**102,655**	93,376	94,596
Office equipment and maintenance	**15,096**	16,720	16,270
Depreciation and amortisation	**10,728**	14,194	15,899
Consulting and legal fees	**6,225**	5,181	9,232
Travel and vehicle expenses	**5,620**	5,212	5,401
Communication expenses	**1,106**	1,066	1,103
Advertisement expenses	**1,472**	1,278	1,472
Other	**4,658**	5,515	3,466
	147,560	142,542	147,439

21 Personnel expenses

	2017	2016	2015
		US $'000	
Salaries and related expenses:			
Operating expenses	**133,542**	132,526	146,880
General and administrative	**102,655**	93,376	94,596
	236,197	225,902	241,476

22 Depreciation and amortisation expenses

	2017	2016	2015
		US $'000	
Operating expenses:			
Depreciation	**97,168**	86,289	82,413
Amortization	**490**	489	722
General and administrative - depreciation and amortisation	**10,728**	14,194	15,899
	108,386	100,972	99,034

23 Finance income and expenses

(a) Finance income

	2017	2016	2015
		US $'000	
Interest income	2,061	1,897	3,401
Net foreign currency exchange rate differences		4,462	
	2,061	6,359	3,401

(b) Finance expenses

	2017	2016	2015
		US $'000	
Interest expenses	102,175	97,824	101,051
Net foreign currency exchange rate differences	16,011		2,879
Impairment losses on trade and other receivables	924	2,036	1,580
Others, including restructuring expenses		4,493	671
	119,110	104,353	106,181

24 Income tax

(a) Measurement of results for tax purposes

The Company measures its results for tax purposes on the basis of changes in the exchange rate of the United States dollar and maintains its books for tax purposes in United States dollar, as stipulated by the relevant regulations.
Israeli subsidiaries are taxed under the Israeli Income Tax ordinance - 1961. Non-Israeli subsidiaries are taxed under the laws in their countries of residence.

	2017	2016	2015
		US $'000	
Current tax expenses			
Current period	**12,611**	18,301	19,593
Taxes in respect of previous years (*)	**1,237**	135	(21,704)
	13,848	18,436	(2,111)
Deferred tax expenses			
Origination and reversal of temporary differences	**385**	(70)	218
Total income taxes in income statements	**14,233**	18,366	(1,893)

(b) Reconciliation of effective tax rate

The reconciliation is based on the Company's domestic tax rate.

	2017	2016	2015
		US $'000	
Profit (loss) for the year	**11,363**	(163,501)	6,536
Less, share of profits of associates	**(7,594)**	(5,001)	(9,397)
Income taxes	**14,233**	18,365	(1,893)
Profit (loss) excluding income taxes	**18,002**	(150,137)	(4,754)
Income tax using the domestic corporation tax rate	**4,320**	(37,534)	(1,260)
Current year losses for which no deferred tax asset was recognized	**3,666**	50,022	11,888
Effect of tax rates in foreign jurisdictions	**3,509**	8,617	8,802
Non-deductible expenses	**243**	307	537
Effect of different tax rates on specific gains	**2,421**	(3,874)	(1,873)
Taxes in respect of previous years (*)			(21,704)
Other	**74**	828	1,717
	14,233	18,366	(1,893)

(*) In 2015, mainly related to a reversal of subsidiary's tax provision due to statute of limitation, see also (a) above.

24 Income tax (cont'd)

(c) Deferred tax assets and liabilities

(1) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	US $'000					
Vessels, containers, handling equipment and other tangible assets (*)			**(180,411)**	(178,607)	**(180,411)**	(178,607)
Financial liabilities	**16,943**	18,774			**16,943**	18,774
Employee benefits	**18,910**	17,218			**18,910**	17,218
Tax losses carry-forwards	**149,093**	147,483			**149,093**	147,483
Other items			**(3,961)**	(4,190)	**(3,961)**	(4,190)
Net deferred tax assets (liabilities)	**184,946**	183,475	**(184,372)**	(182,797)	**574**	678
Net deferred tax assets recognised in the statement of the financial position					**923**	1,032
Net deferred tax liabilities recognised in the statement of the financial position					**(349)**	(354)
					574	678

(*) In accordance with Israeli Income Tax Regulations the Group is entitled to deduct depreciation on vessels and related equipment at a higher rate than that recorded in the financial statements.

(2) Unrecognised deferred tax assets

On December 31, 2017 there are carry forward tax losses in the amount of US$ 2,342 million (2016: US$ 2,384 million, 2015: US$ 2,187 million).

Deferred tax assets have not been recognised in respect of the tax losses, in the amount of US$ 392 million at December 31, 2017 (2016: US$ 406 million, 2015: US$ 418 million) since it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

Under existing Israeli tax laws, there is no time limit on utilising tax losses.

24 Income tax (cont'd)

(d) Movement in deferred tax assets and liabilities during the year

	Vessels containers handling equipment and other tangible assets	Financial liabilities	Employee benefits	Accumulated tax losses	Other items	Total
	US $'000					
Balance January 1, 2017	178,607	(18,773)	(17,218)	(147,483)	4,189	(678)
Recognised in profit or loss	**1,902**	**1,830**	**(1,782)**	**(1,610)**	**45**	**385**
Recognised in other comprehensive income	**(98)**		**90**		**(273)**	**(281)**
Balance December 31, 2017	**180,411**	**(16,943)**	**(18,910)**	**(149,093)**	**3,961**	**(574)**

	Vessels containers handling equipment and other tangible assets	Financial liabilities	Employee benefits	Accumulated tax losses	Other items	Total
	US $'000					
Balance January 1, 2016	206,213	(24,134)	(22,280)	(164,059)	3,565	(695)
Recognised in profit or loss	(389)	2,339	2,295	(5,498)	1,182	(71)
Effect of movement in tax rate	(27,218)	3,022	2,736	22,073	(613)	
Recognised in other comprehensive income	1		31	1	55	88
Balance December 31, 2016	178,607	(18,773)	(17,218)	(147,483)	4,189	(678)

(e) Amendments to the Israeli Income Tax Ordinance

Presented hereunder are the tax rates relevant to the Company in the years 2015-2017:

2015– 26.5%
2016 – 25%
2017 – 24%

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016. Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018. As a result of the reduction in the tax rate from 26.5% to 23% over the above mentioned period, the deferred tax balances as at December 31, 2017 were calculated according to the tax rate expected to apply on the date of reversal.

(f) Tax assessments

The tax assessments of the Company through (and including) the year 2013 are considered to be final.

25 Commitments

Commitments are mainly in respect of operating leases of vessels, equipment and other assets. As at December 31, 2017, the projected future charter and operating lease payments are as follows:

	Related party	Other	Total
		US $'000	
2018	**17,921**	**195,188**	**213,109**
2019	**10,407**	**99,149**	**109,556**
2020	**9,297**	**61,777**	**71,074**
2021	**9,271**	**28,205**	**37,476**
2022	**4,330**	**22,351**	**26,681**
2023 and thereafter		**47,111**	**47,111**
	51,226	**453,781**	**505,007**

Lease payments are mainly denominated in United States dollar.
See also Note 1(b)(i)(a), with regards to containers operational leases, reclassified as financial leases.

26 Contingencies

(a) The Group is involved in a number of legal matters, including industry wide investigations regarding competition law issues and applications to approve the filing of class actions, some of which may involve significant amounts. The developments and/or resolutions in such matters, including through either negotiations or litigation, are subject to a high level of uncertainty that cannot be reliably quantified at the reporting date.
As at December 31, 2017, the total amount claimed with respect to legal matters, excluding those discloses below, as well as excluding claims in the ordinary course of business, which are covered by insurance (and in respect of which the Company has included a provision in the amount it is likely to bear, based on past experience) is approximately US$ 8 million. Regarding the provision recognized in respect of legal matters, including insurance claims- see Note 15.

(b) The Company was involved as a respondent in an application for the approval of a derivative action filed to the District Court by several shareholders (hereinafter- "the plaintiffs") of the Israeli Corporation Ltd. ("IC"). During 2012 the parties reached a compromise, which was approved by the court, according to which the Company undertook to pay to IC an amount of US$ 12 million (NIS 45 million) subject to certain terms and conditions, as agreed. In light of the fact that the payment is contingent upon the occurrence of future conditions that have not yet taken place (such as among others, the existence of retained earnings and compliance with the distribution terms), the Company did not record any provision for such settlement.

(c) During 2014 a petition for approval of a derivative action was submitted to the District Court in Tel Aviv by a shareholder of IC against, among others, IC and the Company. The petitioner argues that the transaction executed by IC in connection with its participation in the Company's restructuring deviates from the approval of IC's shareholders meeting and that the condition precedent to the execution of IC's participation in the restructuring, as approved by such meeting, regarding the transferability of the shares in the Company was not fulfilled. The petitioner moves to have the defendants (other than IC and the Company) to convene IC's shareholders meeting to approve IC's participation in the Company's restructuring or have the defendants (other than IC) compensate IC in the amount of US$ 27.4 million which, as argued, reflects the damage caused to IC due to its participation in the Company's restructuring, being the decreased value of the Company's shares held by IC in consideration therefore, due to the incompletion of the said condition precedent. During 2016, the derivative action was rejected by the court, followed by an appeal filed by the petitioner. Management believes, based on its legal advisors, that it is more likely than not that the appeal will be rejected. Therefore no provision was recorded in relate to the said derivative action.

26 Contingencies (Cont'd)

(d) During 2016, the Company's wholly-owned agency in Israel, along with other third party shipping agencies, has been served with a filing of a class action. The Applicant alleges, among other things, that the agency has, in breach of the Port Regulations, charged their customers for services rendered by higher rates than allowed, as well as charged for services which are not included in the list of services detailed in the aforesaid regulations. At this early stage, management, based on its legal advisors is unable to estimate the probability or the effect of an adverse outcome of this class action on the Company's business, if any. Therefore no provision was recorded in relate to the said class action.

(e) During 2017, the Company has been served, together with another defendant, with an application to approve the filing of a class action in Israel, related to alleged breaches of competition rules in respect of carriage of vehicles form South Korea. The applicants estimate the total damage caused to the Class at a total of NIS 403 million (approximately US$ 115 million) based on an expert opinion attached to the application. However, from a preliminary review of the said opinion, it should be mentioned that the said estimation is based on data which is not necessarily correct and/or relevant to the Company. Management, based on its legal advisors, believes that it has good defence arguments for dismissing the application of the claim to be approved as a class action and it is more likely than not that such application will be dismissed.

(f) During 2017, the Company representatives received subpoenas in connection with a United States Department of Justice Antitrust Division investigation into the container liner shipping industry in the United States. The Company is currently reviewing this case with its legal advisors, who are in contact with the Department of Justice regarding the Company's compliance with the subpoenas. As the investigation is still in its initial stages, it is too early to determine the outcome of this investigation and the possible exposure therefrom, if any.

(g) In one jurisdiction, courts ruled against shipping agencies operating in this jurisdiction, including a subsidiary of the Company. The shipping agencies have appealed to the supreme court against this ruling. Management, based on its legal advisors, believes that it has good defence arguments and that it is more likely than not that the appeal will be accepted.

(h) The legal matters mentioned in sections (f) and (g) above, do not include a specific amount and are subject to significant level of uncertainty that cannot be reliably quantified. However, the maximal potential exposure of the Company's subsidiaries, if any, is estimated up to tens of millions of US dollars.

27 Related parties

(a) Associates:

(1) Transactions:

	Note	2017	2016	2015
			US $'000	
Other operating income	18	**67**	372	555
Finance income	23(a)	**33**	38	746
Operating expenses and cost of services	17	**3,568**	4,232	5,846

(2) Balances:

	Note	2017	2016
		US $'000	
Trade and other receivables	8	**22,985**	18,900
Trade and other payables	14	**3,881**	8,654

27 Related and Interested Parties (cont'd)

(b) Key management personnel (**):

	2017	2016	2015
		US $'000	
Short-term employee benefits (*)	**3,593**	4,646	4,704
Long-term employee benefits (*)	**508**	568	553
(*) Numbers of persons	**5**	5	6

(**) See also Note 13(h)

(c) Other related parties (excluding those detailed in (a)-(b) above)

(1) Transactions:

	Note	2017	2016	2015
			US $'000	
Income from voyages and related services	16	**9,124**	8,840	12,307
Operating expenses and cost of services (*)	17	**30,640**	33,099	31,203
Other operating income	18	**29**	44	68
General and administrative expenses	20			187
Finance expenses	23(b)	**190**		103

(*) See also Note 25.

(2) Transactions with directors:

	2017	2016	2015
		US $'000	
Directors fees	**1,831**	1,923	1,740

(3) Balances:

	Note	2017	2016
		US $'000	
Trade and other receivables	8	**2,470**	2,064
Trade and other payables	14	**675**	856
Loans and other liabilities	12	**5,317**	2,074

(d) Regarding transactions with related parties see also Note 1(b)(ii) and Note 25.

28 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout the Financial Statements.

In order to manage these risks and as described hereunder, the group executes from time to time transactions of derivative financial instruments.

The CFO has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Board of Directors has appointed a Finance Committee to deal with, among other issues, certain financial reporting aspects of the Group's activities and monitoring the Group's hedging policies. The committee reports to the Company Board of Directors on its activities.

As at December 31, 2017 and 2016, no hedging transactions were outstanding. With respect to gains and losses related to the fair value of derivative transactions for fuel prices hedges (level 2 measurement) - see Note 17.

(a) Credit risk

Trade and other receivables

The Group's exposure to credit risk is influenced by the individual characteristics of each significant customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has also an influence on credit risk.
The income of the Group is derived from income from voyages and services in different countries worldwide. The exposure to a concentration of credit risk with respect to trade receivables is limited due to the relatively large number of customers, wide geographic spread and the ability in some cases to auction the contents of the container, the value of which is most likely to be greater than the outstanding debt. The maximum exposure to credit risk is represented by the carrying value of each financial asset, in the statement of financial position.

The Group has established a credit policy under which each new credit customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes financial analysis from external sources. Credit limits are established for each customer, which represents its maximum outstanding balance approved by the relevant level of authorisation. These limits are reviewed periodically, at least once a year. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a cash basis.

Most of the Group's customers have been transacting with the Group for a few years and losses have occurred infrequently. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on a cash basis, unless otherwise approved by the credit committee.

In some cases, based on their robustness, customers are requested to provide guarantees.

Specific provisions for doubtful debts are made to reflect the expected losses related to debts whose collection is doubtful per management's estimation.

28 Financial risk management (cont'd)

(a) Credit risk (cont'd)

Investments

The Company's policy is to invest its cash surplus mainly in time deposits in US dollar.

The funds are deposited in Israeli banks with local rating of AA-/Aa3 (or better) and in international banks with rating of A-/A3 (or better).

The investment policy is reviewed from time to time by the Company's finance committee and the board of directors, and is subject to change.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

As at December 31, 2017 credit to retail customers in the amount of approximately US$ 89 million is guaranteed by credit insurance.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

		December 31, 2017					
		Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-5 years	More than 5 years
	Note	US $'000	US $'000	US $'000	US $'000	US $'000	US $'000
Non-derivative financial liabilities							
Debentures	12(a)	**445,082**	**613,714**	**23,315**	**23,133**	**63,085**	**504,181**
Long-term loans and other liabilities	12(a)	**845,416**	**1,128,922**	**237,197**	**177,483**	**301,265**	**412,977**
Bank overdraft and short-term loans	12(a)	**123,479**	**128,071**	**128,071**			
Trade and other payables	14	**310,462**	**310,462**	**310,462**			
		1,724,439	**2,181,169**	**699,045**	**200,616**	**364,350**	**917,158**

		December 31, 2016					
		Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-5 years	More than 5 years
	Note	US $'000	US $'000	US $'000	US $'000	US $'000	US $'000
Non-derivative financial liabilities							
Debentures	12(a)	437,021	633,987	18,480	25,120	71,394	518,993
Long-term loans and other liabilities	12(a)	849,320	1,132,307	161,994	207,509	360,590	402,214
Bank overdraft and short-term loans	12(a)	44,531	45,869	45,869			
Trade and other payables	14	309,091	309,091	309,091			
		1,639,963	2,121,254	535,434	232,629	431,984	921,207

28 Financial risk management (cont'd)

(c) Market risk

The Group executes from time to time transactions of derivatives, in order to manage market risks.

(1) Currency risk

The Group is exposed to currency risk on purchases, receivables and payables where they are denominated in a currency other than the United States dollar.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	December 31, 2017		
	US$	NIS	Others
	US$'000	US$'000	US$'000
Non-current assets			
Trade and other receivables	**1,346**		**1,256**
Other non-current investments	**620**	**1,079**	**1,213**
Current assets			
Other current investments	**89,662**	**45**	**4,967**
Trade and other receivables	**145,458**	**8,858**	**65,257**
Cash and cash equivalents	**119,623**	**5,177**	**33,089**
Non-current liabilities			
Loans and other liabilities	**(1,100,183)**	**(33)**	**(668)**
Current liabilities			
Bank overdraft and loans	**(313,028)**	**(65)**	
Trade and other payables	**(190,902)**	**(37,099)**	**(82,461)**
	(1,247,404)	**(22,038)**	**22,653**

	December 31, 2016		
	US$	NIS	Others
	US$'000	US$'000	US$'000
Non-current assets			
Trade and other receivables	1,460		2,100
Other non-current investments	595	973	1,204
Current assets			
Other current investments	1,783	22,792	1,085
Trade and other receivables	112,914		75,322
Cash and cash equivalents	126,546	6,296	24,758
Non-current liabilities			
Loans and other liabilities	(1,169,451)	(88)	(625)
Current liabilities			
Bank overdraft and loans	(160,650)	(56)	
Trade and other payables	(139,356)	(91,344)	(78,391)
	(1,226,159)	(61,427)	25,453

28 Financial risk management (cont'd)

(c) Market risk (cont'd)

(1) Currency risk (cont'd)

Sensitivity analysis

A 10 percent appreciation of the United States dollar against NIS at December 31 would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis has been performed on the same basis for 2017 and 2016.

	Equity/ Profit or loss
	US $'000
December 31, 2017	**2,003**
December 31, 2016	5,584

A 10 percent devaluation of the United States dollar against the NIS on December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(2) Interest rate risk

The Group prepares a summary of its exposure to interest rate risk on a periodic basis.

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2017	2016
	US $'000	US $'000
Fixed rate instruments		
Financial assets	**247,811**	186,770
Financial liabilities	**(1,147,641)**	(1,168,984)
	(899,830)	(982,214)
Variable rate instruments		
Financial liabilities	**(262,577)**	(156,809)
	(262,577)	(156,809)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate instruments at fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A 10% change in variable interest rates at the balance sheet date would not have significant influence over the Company's equity and profit or loss (assuming that all other variables, in particular foreign currency rates, remain constant).

(3) Other market price risk

The Group does not enter into commodity contracts other than to meet the Group operational needs. These transactions do not meet the criteria for hedging for accounting purposes and therefore the change in the fair value is recognised directly in profit or loss.

28 Financial risk management (cont'd)

(d) Fair value

(1) Financial instruments not measured at fair value

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, deposits, derivatives, bank overdraft, short-term loans and borrowings, trade payables and other payables are the same or proximate to their fair value.
The fair values of the remaining financial assets and liabilities, together with their fair value measurement hierarchy and their corresponding carrying amounts included in the statements of financial position, are as follows:

		December 31, 2017		December 31, 2016	
		Carrying amount	Fair value Level 2	Carrying amount	Fair value Level 2
	Note	US $'000	US $'000	US $'000	US $'000
Debentures	12(a)	**(445,082)**	**(410,460)**	(437,021)	(401,285)
Long-term loans and other liabilities	12(a)	**(845,416)**	**(804,695)**	(849,320)	(835,966)

The valuation technique which is used in order to measure the fair value was the discounted cash flows technique. The interest rates used to discount estimated cash flows, were estimated by external evaluator based on a synthetic rating calculated using accepted methodology and considering rating-appropriate interest rate curves, and were as follows:

	2017	2016
	US $'000	
Debentures - US dollar linked	**7.40%-9.31%**	7.27%-9.03%
Loans and other liabilities (mainly United States dollars)	**4.00%-17.65%**	2.83%-11%

(2) Financial instruments measured at fair value

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

As at December 31, 2017 and 2016 such analysis is immaterial.

(3) Level 1 financial instruments carried at fair value

As at December 31, 2017, the fair value of available for sale financial assets in an amount of US$ 15.2 million, are presented under non-current other investments.

(4) Level 3 financial instruments carried at fair value

As at December 31, 2017 and 2016 such analysis is immaterial.

29 Significant accounting estimates and judgements

The significant accounting estimates and judgements are as follows:

(i) Assessment of impairment of non-current assets

The Group assesses the recoverable amount of non-current assets based on their fair value less costs of disposal. Fair value is the price that would be received to sell the asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). The fair value is determined using the discounted cash flow method and takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use. Change in the related estimates may affect the recognition of impairment losses, or the reversal of such. Regarding the significant assumptions used in the valuation see also Note 5.

(ii) Recognition of deferred tax assets in respect of tax losses

Management of the Company evaluates whether it is probable that in the foreseeable future there will be taxable profits against which losses can be utilized and accordingly it recognizes (or does not recognize) deferred tax assets. For further information on losses for which a deferred tax asset was not recognized, see Note 24.

(iii) Assessment of probability of contingent liabilities

Legal claims, including class actions, are pending against the Company and/or its investees. Management evaluates based on the opinion of its legal advisors, whether it is more likely than not that an outflow of economic resources will be required in respect of potential liabilities under the legal claims pending against the Company and/or its investees. The developments and/or resolutions in such matters, including through either negotiations or litigation, are subject to a high level of uncertainty which could result in creation, adjustment or reversal of a provision for such claims. For information on the Company's exposure to claims see Note 26 regarding contingent liabilities.