Performing Through Challenging Times

It has been a challenging year for the container industry, with volume growth of approximately 1.3% in 2016.

Emerging markets were negatively impacted by currency volatility and lower commodity prices, while lack of demand growth remains the key issue for the developed market.

Volumes remained subdued on the key trade route of Asia-Europe due to lack-lustre demand in Europe. This prompted port operators to continue to scale back on capital expenditure which should ease capacity growth and maintain relatively high utilisation for the industry.

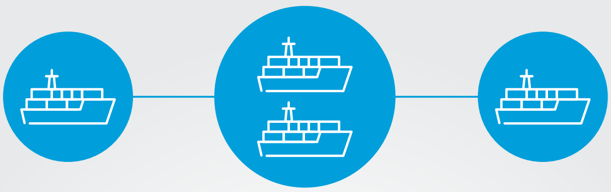
The liner shipping industry continued to be plagued by over-capacity, leading to sub-economic freight rates. Liner alliances and further consolidation are being implemented to tackle the capacity problem, which should result in a more stable freight rate environment.

Despite these significant challenges, the market continues to grow and the second half of 2016 saw an improved performance and a more stable commodity price environment.

+1.3%

Container industry growth
Retracting from an initial forecast of 3.7% at the start of 2016

2016 Developments



Liner Consolidation Continues

Following the announcement of CMA CGM's acquisition of NOL/APL towards the end of 2015, the past 12 months has seen significant movement among the major players in the liner shipping industry. Consolidation has dominated the sector over 2016. After dramatic losses over a number of years, the Chinese Government directed a merger of the two largest Chinese container carriers, COSCO and China Shipping. This triggered a broader restructuring of the major East-West Alliances, giving rise to the OCEAN Alliance, a combination of CMA CGM and COSCO Shipping, together with Evergreen and OOCL. The remaining carriers announced the formation of THE Alliance, consisting of Hapag Lloyd, Mitsui OSK Lines, NYK Line, K Line, Hanjin and Yang Ming Line.

UASC became a target for consolidation, eventually agreeing a business combination with Hapag Lloyd, giving the German-based carrier access to UASC's fleet of ULCV's and enlarging the scale of both Hapag Lloyd and THE Alliance. A further round of consolidation was announced in the fourth quarter of 2016, with the three Japanese carriers, NYK, MOL and K Line, agreeing a merger of their container shipping arms, and with Hamburg Sud agreeing to be acquired by Maersk.

Shockwaves were felt throughout the transport industry in 2016 with the largest corporate failure in modern shipping history. Difficult trading conditions, liquidity issues and debt restructuring finally led the world's seventh-largest shipping line, Hanjin Shipping, to file for bankruptcy protection.
Now there remain just seven mega carriers and three mid-sized carriers dominating shipping capacity and making up the three remaining East-West Alliances. In the Far East, with the exception of Taiwan, each major trading nation is now represented by a single container carrier. In Europe, the four surviving carriers are all in the Top 5 carriers globally.

Growth of Global Trade Volumes

Volumes continued to grow, albeit in low single digits, throughout 2016 and this trend will continue in 2017.

The diversified nature of DP World's portfolio ensures we are not overly exposed to any particular sector, we also recognise the need to invest in the latest innovations to gain efficiencies and realise cost savings across our portfolio.

Our flagship Jebel Ali facility sets the standard for productivity and the implementation of technological innovations. At DP World Brisbane, one of the most advanced semi-automated terminals in Australia, we operate 14 automated stacking cranes, improving safety, productivity and energy consumption. We are also partners in the world's most innovative container terminal in Rotterdam, which is heavily automated – an indication of the future direction of world trade.

Vessel Size Increases

The near exponential increase in vessel size has been a perpetual issue for the industry. Coupled with the expansion of the Panama Canal, this is likely to lead to further demand for ports and marine terminals that can handle new-Panamax and post-Panamax vessels.

We are investing in our operations to ensure that DP World can receive larger-and-larger vessels and handle the increased cargo they bring to our terminals. In 2016, we added approximately 5 million TEU of new gross capacity, and our early investment in deep-water facilities allows us to benefit from these trends.

Our continued focus on delivering operational excellence, as well as investing in increasing relevant capacity, ensures we remain the port of choice across geographies.