

## OPERATIONAL REVIEW



### MARKET REVIEW

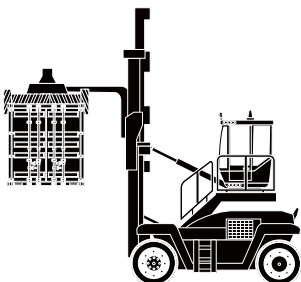
2018 has been a year filled with many challenges and opportunities, despite global economy growth continued after the recovery in 2017, different countries experienced slow down at varying degrees in the second half of the year. Sino-US trade frictions, Brexit looms, geopolitical uncertainties, the rise of protectionism and the upward trend of interest rates placed serious pressure on global trade and economy. The International Monetary Fund (IMF), the first time since July 2016, revised down its projections of global economy growth from 3.9% to 3.7% for 2018 and 2019.

China, however, experienced strong growth in 2018. According to China Customs statistics, in terms of US dollars, the total value of China's foreign trade reached US\$4.62 trillion in the year, an increase of 12.6% from 2017. Notwithstanding the Sino-US trade frictions, China's exports to US increased by 11.3% in 2018, import and export increased by 15.8% and 9.9% respectively for the year.

### OVERALL PERFORMANCE

Despite uncertainty casting shadow over the global trade, COSCO SHIPPING Ports achieved robust results in 2018. Backed by the increased calls by the OCEAN Alliance and parent company at the subsidiaries, as well as the contributions from newly acquired terminals, total throughput of the Group increased by 17.1% to 117,365,360 TEU (2017: 100,202,185 TEU) and outperformed the market. Throughput of QPI has been included since May 2017; excluding QPI, total throughput increased by 11.5% to 98,045,360 TEU on a comparable basis. Throughput of the Group's subsidiaries increased by 29.7% to 22,507,686 TEU (2017: 17,353,422 TEU), made up 19.2% of the Group's total. Throughput of the non-controlling terminals rose by 14.5% to 94,857,674 TEU (2017: 82,848,763 TEU).

Total equity throughput rose by 15.8% to 37,062,172 TEU (2017: 31,999,491 TEU) in 2018. Excluding QPI, equity throughput increased by 12.7% to 33,505,360 TEU. Equity throughput of the Group's subsidiaries increased by 28.7% to 14,230,256 TEU (2017: 11,053,112 TEU), accounting for 38.4% of the Group's total equity throughput. Equity throughput of the Group's non-controlling terminals increased by 9.0% to 22,831,916 TEU (2017: 20,946,379 TEU).



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**90** target  
bulk  
berths

with a total designed annual  
handling capacity of

**273,740,000**  
tons

With strong volume growth achieved in subsidiaries, excluding newly acquired terminals, organic growth of COSCO SHIPPING Ports increased by 7.8% to 94,158,905 TEU compared with 2017, outperformed the average market growth of 4.2%.

Volume contributed by the OCEAN Alliance accounted for about 49.9% of total throughput of six major subsidiaries for the year, representing an increase of 33.7% compared with 2017.

	2018 (TEU)	2017 (TEU)	Change (%)
<b>Total Throughput</b>	<b>117,365,360</b>	<b>100,202,185</b>	<b>17.1</b>
<b>Total Throughput (Organic Growth*)</b>	<b>94,158,905</b>	<b>87,378,157</b>	<b>7.8</b>
Throughput from the Group's subsidiaries	22,507,686	17,353,422	29.7
Throughput from the Group's non-controlling terminals	94,857,674	82,848,763	14.5
<b>Equity Throughput</b>	<b>37,062,172</b>	<b>31,999,491</b>	<b>15.8</b>
<b>Equity Throughput (Organic Growth**)</b>	<b>31,274,896</b>	<b>29,381,203</b>	<b>6.4</b>
Equity throughput from the Group's subsidiaries	14,230,256	11,053,112	28.7
Equity throughput from the Group's non-controlling terminals	22,831,916	20,946,379	9.0

\* Excluding QPI, the CSP Spain Group and Nantong Tonghai Terminal.

\*\* Excluding QPI, the CSP Spain Group, Zeebrugge Terminal and Nantong Tonghai Terminal.



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**207** target  
container  
berths

with a total designed annual handling  
capacity of

**118,820,000**  
TEU

## EQUITY THROUGHPUT BY REGION

	Throughput (TEU)	Year-on-year change (%)	Percentage of total (%)
Bohai Rim	8,718,334	+17.0	23.5
Yangtze River Delta	5,718,573	+2.4	15.4
Southeast Coast and others	3,352,167	+14.5	9.0
Pearl River Delta	8,032,453	-0.2	21.7
Southwest Coast	548,420	+1.0	1.5
Overseas	10,692,225	+43.6	28.9
Total	37,062,172	+15.8	100.0

## TOTAL THROUGHPUT BY REGION

	Throughput (TEU)	Year-on-year change (%)	Percentage of total (%)
Bohai Rim	38,328,815	+35.7	32.6
Yangtze River Delta	19,808,646	+0.9	16.9
Southeast Coast and others	5,699,718	+12.2	4.9
Pearl River Delta	27,388,896	+1.3	23.3
Southwest Coast	1,371,051	+1.0	1.2
Overseas	24,768,234	+31.5	21.1
Total	117,365,360	+17.1	100.0



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**Greater China  
Total Throughput**  
92,597,126 TEU<sup>1</sup>  
**▲13.8%**

**Overseas  
Total Throughput**  
24,768,234 TEU  
**▲31.5%**



QPI <sup>1</sup>	19,320,000	+57.5%
Dalian Container Terminal <sup>2</sup>	9,512,744	+40.8%
Dalian Dagang Terminal	22,047	-10.3%
Tianjin Euroasia Terminal	2,717,331	+10.0%
Tianjin Five Continents Terminal	2,708,817	+5.0%
Yingkou Terminals <sup>3</sup>	2,752,429	-8.6%
Jinzhou New Age Terminal	710,746	+24.4%
Qinhuangdao New Harbour Terminal	584,701	+4.5%

## Notes:

- Throughput of QPI was included since 1 May 2017.
- The merger of Dalian Container Terminal, DPCT and DICT was completed in October 2017. The figure of Dalian Container Terminal for the year 2017 included throughput of DPCT and DICT; while the figure for the year 2018 was throughput of Dalian Container Terminal after the merger.
- Yingkou Container Terminal and Yingkou New Century Terminal began their operations under same management since May 2017. Therefore, throughput of the two terminals was combined within throughput of Yingkou Terminal.
- The integration of operation of Nansha Stevedoring Corporation Limited of Port of Guangzhou and Guangzhou South China Oceangate Container Terminal was commenced in August 2017. Therefore, throughput of the two terminals was combined within throughput of Guangzhou Terminal.
- The co-management and operation of COSCO-HIT Terminal, Asia Container Terminal and Hongkong International Terminals was commenced on 1 January 2017. Therefore, throughput of COSCO-HIT Terminal and Asia Container Terminal was combined within throughput of Hong Kong Terminal.
- Throughput of Nantong Tonghai Terminal was included since 1 August 2018.
- Throughput of CSP Spain Group was included since 1 November 2017.
- Throughput of Reefer Terminal S.p.A. was included since 1 April 2017.



Yantian Terminals	13,159,705	+3.6%
Guangzhou Terminals <sup>4</sup>	10,969,992	+1.0%
Hong Kong Terminals <sup>5</sup>	3,259,199	-6.6%



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Shanghai Pudong Terminal	2,602,151	-1.8%
Shanghai Mingdong Terminal	6,252,083	-3.8%
Ningbo Yuan Dong Terminal	3,060,010	+2.7%
Lianyungang New Oriental Terminal	2,876,355	+0.1%
Zhangjiagang Terminal	761,849	+3.5%
Yangzhou Yuanyang Terminal	500,340	+2.3%
Nanjing Longtan Terminal	2,930,391	+1.7%
Taicang Terminal	561,212	+7.8%
Nantong Tonghai Terminal <sup>6</sup>	264,255	N/A



Piraeus Terminal	4,409,205	+19.4%
Zeebrugge Terminal	392,484	+24.0%
CSP Spain Group <sup>7</sup>	3,622,200	+553.8%
COSCO-PSA Terminal	3,198,874	+56.5%
Vado Reefer Terminal <sup>8</sup>	66,565	+68.7%
Euromax Terminal	3,054,115	+13.4%
Kumport Terminal	1,258,294	+18.3%
Suez Canal Terminal	2,609,978	+3.2%
Antwerp Terminal	2,230,418	+3.0%
Seattle Terminal	167,824	-10.9%
Busan Terminal	3,758,277	+5.7%



Xiamen Ocean Gate Terminal	1,968,613	+31.2%
Quan Zhou Pacific Terminal	1,559,899	+12.7%
Jinjiang Pacific Terminal	425,533	-14.2%
Kao Ming Terminal	1,745,673	+2.8%



Qinzhou International Terminal	1,371,051	+1.0%
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## TERMINAL PORTFOLIO\* (as of 31 December 2018)

Terminal company	Share holdings	Target Number of Berths	Designed annual handling capacity (TEU)	Depth (m)
		57	26,600,000	
<b>Bohai Rim</b>		3	780,000 vehicles	
		63	236,020,000 tons	
QPI	18.41%	23	10,000,000	N/A
		61	207,020,000 tons	N/A
Dalian Container Terminal	19%	18	9,500,000	17.8
Dalian Dagang Terminal	35%	1	100,000	9.1
Dalian Automobile Terminal	24%	3	780,000 vehicles	11
Tianjin Euroasia Terminal	30%	3	1,700,000	16.5
Tianjin Five Continents Terminal	28%	4	1,500,000	16.5
Yingkou Container Terminal	50%	2	1,200,000	14
Yingkou New Century Terminal	40%	2	1,200,000	15.5
Jinzhou New Age Terminal	51%	2	600,000	15.4
Qinghuangdao New Harbour Terminal	30%	2	800,000	15.8
Dongjiakou Ore Terminal	25%	2	29,000,000 tons	19.2-24.5
<b>Yangtze River Delta</b>		39	20,320,000	
		22	28,520,000 tons	
Shanghai Pudong Terminal	30%	3	2,300,000	12
Shanghai Mingdong Terminal	20%	7	5,600,000	12.8
Ningbo Yuan Dong Terminal	20%	3	1,800,000	17-22
Ningbo Meishan Terminal	20%	2	1,200,000	17
Lianyungang New Oriental Terminal	55%	4	1,200,000	15
Zhangjiagang Terminal	51%	3	1,000,000	10-11
Yangzhou Yuanyang Terminal	55.59%	2	700,000	12
		8	10,950,000 tons	8-12
Nanjing Longtan Terminal	16.14%	10	4,500,000	12.5-14.5
Taicang Terminal	39.04%	2	550,000	12
		2	4,000,000 tons	12
Nantong Tonghai Terminal	51%	3	1,470,000	12.5
		1	5,370,000 tons	N/A
Wuhan Terminal	70%	4	4,200,000 tons	9
Jiangsu Petrochemical	30.4%	7	4,000,000 tons	4.5-13
<b>Southeast Coast and others</b>		13	7,400,000	
		5	9,200,000 tons	
Xiamen Ocean Gate Terminal	70%	4	2,600,000	16
		1	4,000,000 tons	6.6-13.6
Quan Zhou Pacific Terminal	82.35%	3	1,200,000	7.0-15.1
		2	1,000,000 tons	5.1-9.6



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**TERMINAL PORTFOLIO\*** (as of 31 December 2018)

Terminal company	Share holdings	Target Number of Berths	Designed annual handling capacity (TEU)	Depth (m)
Jinjiang Pacific Terminal	80%	2	800,000	9.5-15.3
		2	4,200,000 tons	7.5-9.5
Kao Ming Terminal	20%	4	2,800,000	16.5
<b>Pearl River Delta</b>		<b>34</b>	<b>25,600,000</b>	
Yantian Terminal Phases I & II	14.59%	20	13,000,000	14-17.6
Yantian Terminal Phase III	13.36%			
Guangzhou Nansha Stevedoring Terminal	40%	4	5,000,000	14.5-15.5
Guangzhou South China Oceangate Terminal	39%	6	4,200,000	15.5
COSCO-HIT Terminal	50%	2	1,800,000	15.5
Asia Container Terminal	60%	2	1,600,000	15.5
<b>Southwest Coast</b>		<b>2</b>	<b>1,200,000</b>	
Qinzhou International Terminal	40%	2	1,200,000	15.1
<b>Overseas</b>		<b>62</b>	<b>37,700,000</b>	
		<b>2</b>	<b>600,000 pallets</b>	
Piraeus Terminal	100%	8	6,200,000	14.5-18.5
Suez Canal Terminal	20%	8	5,100,000	16
Kumport Terminal	26%	6	3,000,000	15-16.5
Zeebrugge Terminal	85%	3	1,000,000	17.5
Antwerp Terminal	20%	6	3,500,000	14.5-16.5
COSCO-PSA Terminal	49%	3	3,000,000	18
Busan Terminal	5.50%	8	4,000,000	15-16
Seattle Terminal	13.33%	2	900,000	15
Euromax Terminal	35%	5	3,200,000	16.65
Abu Dhabi Terminal	90%	3	2,400,000	18
Vado Reefer Terminal	40%	1	300,000	14.1
		2	600,000 pallets	14.1
Valencia Terminal	51%	6	4,100,000	16
Bilbao Terminal	39.78%	3	1,000,000	21
<b>Total</b>		<b>302</b>		
<b>Total number of container berths/ designed annual handling capacity</b>		<b>207</b>	<b>118,820,000</b>	
<b>Total number of bulk berths/ designed annual handling capacity</b>		<b>90</b>	<b>273,740,000 tons</b>	
<b>Total number of automobile berths/ designed annual handling capacity</b>		<b>3</b>	<b>780,000 vehicles</b>	
<b>Total number of reefer berths/ designed annual handling capacity</b>		<b>2</b>	<b>600,000 pallets</b>	

Note: The terminal portfolio includes operating and non-operating terminal companies, berths and designed annual handling capacity.



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### GREATER CHINA

In 2018, throughput of the Greater China region increased by 13.8% to 92,597,126 TEU (2017: 81,361,521 TEU) for the year and made up 78.9% of the Group's total.

#### Bohai Rim

The Bohai Rim region delivered strong growth, throughput soared by 35.7% to 38,328,815 TEU compared with 28,244,975 TEU in 2017; mainly because QPI has a year-full contribution in 2018 while last year only had 8-month. Throughput excluding QPI increased by 19.0% to 19,008,815 TEU (2017: 15,974,975 TEU) and made up 19.4% of the Group's total. QPI achieved throughput of 19,320,000 TEU. Total throughput of Dalian Container Terminal increased by 40.8% to 9,512,744 TEU (2017: 6,758,147 TEU) after the merger held in 2018. Total throughput of Yingkou Container Terminal and Yingkou New Century Terminal dropped by 8.6% to 2,752,429 TEU (2017: 3,011,107 TEU) mainly due to bankruptcy of a local client.

#### Yangtze River Delta

Throughput of the Yangtze River Delta region made up 16.9% of the Group's total and increased by 0.9% to 19,808,646 TEU (2017: 19,630,693 TEU) for the year. Throughput of Shanghai Pudong Terminal and Shanghai

Mingdong Terminal decreased by 1.8% and 3.8% compared with 2017 respectively in 2018, mainly due to adjustment of shipping routes within the port area and the prolonged foggy weather in the third quarter of 2018. Benefit from shipping line adjustment and optimisation, throughput of Ningbo Yuan Dong Terminal increased by 2.7% to 3,060,010 TEU for the year (2017: 2,980,839 TEU).

Nantong Tonghai Terminal was inaugurated on 30 June 2018 and operation at Langshan Port was gradually migrated to the new terminal and completed at the end of August 2018. With three container berths and one bulk berth, Nantong Tonghai Terminal delivered 264,255 TEU container throughput in its trial operation during 2018.

#### Southeast Coast region

Throughput of the Southeast Coast region increased by 12.2% to 5,699,718 TEU (2017: 5,079,660 TEU) and made up 4.9% of the Group's total. Xiamen Ocean Gate Terminal increased throughput by 31.2% to 1,968,613 TEU (2017: 1,501,001 TEU) for the year, mainly due to increased calls by the OCEAN Alliance. With increased shipping capacity, throughput of Quan Zhou Pacific Terminal increased by 12.7% to 1,559,899 TEU (2017: 1,384,479 TEU).

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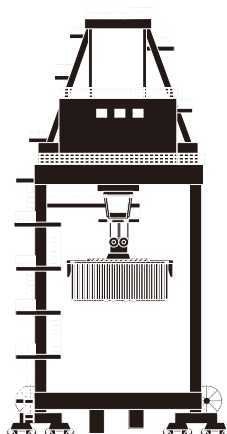


### Pearl River Delta

Performance of the Pearl River Delta region was rather weak compared with other regions in China, throughput of the region increased marginally by 1.3% to 27,388,896 TEU (2017: 27,049,188 TEU) and made up 23.3% of the Group's total. Throughput of Yantian Terminal Phases I & II increased by 3.6% to 13,159,705 TEU compared with 12,703,733 TEU in 2017. Throughput from Guangzhou Nansha Stevedoring Terminal and Guangzhou South China Oceangate Terminal increased by 1.0% to 10,969,992 TEU (2017: 10,856,560 TEU). The throughput of Hong Kong region decreased by 6.6% compared with 2017, mainly due to competition from neighbouring area.

### Southwest Coast

Operation scale of the Group in Southwest Coast remained small in the year, throughput of the region increased slightly by 1.0% to 1,371,051 TEU (2017: 1,357,005 TEU) and made up 1.2% of the Group's total. Planned to enhance presence in the region, COSCO SHIPPING Ports took 4.34% stake in Beibu Gulf Port Co., Ltd. by subscribing 70,943,455 shares of the company in December 2018. Beibu Gulf being the gateway of the New International Land-Sea Trade Corridor is strategically significance in development. It connects the Silk Road Economic Belt in the north, and 21st-Century Maritime Silk Road in the south via



Guangxi and the Association of Southeast Asian Nations ("ASEAN") countries such as Singapore, it forms a complete route of the Belt and Road Initiative through western China, plays a key role in the construction of the Belt and Road Initiative, it not only promotes the development of western China, but also strengthens the cooperation among China and ASEAN countries.

### OVERSEAS

Performance of overseas terminals posed a strong growth in the year. With contributions from newly acquired terminals including the CSP Spain Group and Zeebrugge Terminal and the supports from shipping alliances, throughput of the overseas portfolio increased by 31.5% to 24,768,234 TEU (2017: 18,840,664 TEU) for the year and made up 21.1% of the Group's total.

The CSP Spain Group delivered throughput of 3,622,200 TEU, mainly benefit from increased calls from parent company and shipping alliances after the Group completed the acquisition of it at the end of October 2017. Backed by the continuous support from the OCEAN Alliance and other shipping alliances, Piraeus Terminal achieved 19.4% growth in volume to 4,409,205 TEU (2017: 3,691,815 TEU) for the year.

Added a new berth of one million TEU in January 2018, throughput of COSCO-PSA Terminal surged 56.5% to 3,198,874 TEU (2017: 2,044,536 TEU). In view of the strong demand in South East Asia and align with the Company's strategy of strengthening presence in South East Asia, COSCO-PSA Terminal announced the launch of two new berths with about 2 million TEU in total in January 2019; with the launch of the two new berths, COSCO-PSA Terminal is equipped with five container berths, increasing its annual handling capacity from 3 million TEU of the current three berths to about 5 million TEU. The new berths will further strengthen COSCO SHIPPING Ports' presence in Singapore and support the needs of parent company with the advent of mega-vessels and mega-alliances in the shipping industry.



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Throughput of Zeebrugge Terminal increased by 24.0% to 392,484 TEU compared with 316,448 TEU in 2017. The terminal became a wholly owned subsidiary of the Group in November 2017, and with an aim to foster the development of the terminal, COSCO SHIPPING Ports strategically partnered with Port of Zeebrugge and CMA CGM by inviting the two companies to take up 5% and 10% stake in the terminal respectively.

Kumport Terminal, despite instability of local currency, achieved 18.3% growth in volume for the year to 1,258,294 TEU. Euromax Terminal increased volume by 13.4% to 3,054,115 TEU in 2018.

Abu Dhabi Terminal, the first overseas green-field subsidiary of the Company, was inaugurated on 10 December 2018 after just about two years in construction. With an

annual design capacity of 2.5 million TEU, the terminal will begin trial operations in April 2019 with 1.5 million TEU handling capacity and will gradually ramp up the volume until the official operations scheduled to commence in the third quarter of 2019. Abu Dhabi Terminal, building with the largest Container Freight Station in the Middle East covering 275,000 square meters, is planned to be a container gateway port and an important hub port in the Middle East.

### PROSPECTS

With the strong support from parent company and the OCEAN Alliance as well as debut of Abu Dhabi Terminal and added capacity at COSCO-PSA Terminal in 2019, COSCO SHIPPING Ports is well positioned to continue to outperform the market, especially throughput growth. Though the adoption of





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HKFRS 16 (non-cash impact) and the start-up costs of a new terminal will negatively impact the performance of the Group in the year, increased contributions from its subsidiaries will continue to drive the growth, and offset part of the negative impacts.

It is expected that macroeconomic and geopolitical uncertainties will continue in 2019 and likely to create headwinds in some regions in the year; COSCO SHIPPING Ports while stays committed to building well-balanced terminal network globally, will remain financially

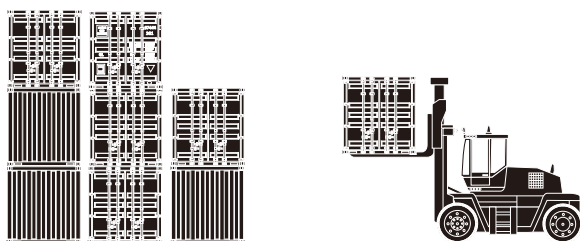
disciplined, and initiatives have been taken to optimise cost structure of the Group to maximise returns.

Enhancing port operation efficiency is one of the Group's key initiatives as a leading global port operator. After the subscription agreement signed with Navis, a supplier of terminal operation system, at the beginning of 2018, it is the Group's plan to gradually deploy the Navis N4 system to its subsidiaries. During the year, trainings were held to better prepare terminals for integrating the Navis N4 system to terminal operation. At present, three terminals namely Zeebrugge Terminal, Valencia Terminal under the CSP Spain Group and Lianyungang New Oriental Terminal have successfully integrated the Navis N4 system in their operations and it is expected that the terminal operating system will gradually roll out to one or two subsidiaries in 2019 to further strengthen the efficiency of the terminal operation.

It is also the Group's strategy to step up the development of terminal extended logistic business and divestment of non-performing assets in 2019 to further enhance its profitability. The terminal extended logistic business will be launched in Pearl River Delta to leverage on the resources the Group secured in the region; and gradually expand to other regions of China.

Meanwhile, the Group will actively seize the opportunities to take part in reorganisation of major port groups in China to enlarge the Group's operation scale and influence.

COSCO SHIPPING Ports will continue to strengthen its global terminal network by actively exploring investment opportunities in South East Asia, South America and Africa by adopting a prudent investment strategy and discipline, hurdle rate guiding the investment ranges from 8% to 12% IRR.







# control

**Strengthening control and management of the ports and terminals business – further integrating our existing terminals portfolio and increasing the value of these investments through building controlling stakes; increasing our influence in entire ports through equity investments in port groups; and adopting a unified management and information system to integrate terminal operations**

