

Operating and Financial Review the year ended 31 December, 2019

1. General

The container shipping industry is dynamic and volatile and has been marked in recent years by instability of market environment, which is characterized by volatility in freight rates and bunker prices, including significant uncertainties in the global trade, mainly due to USA related trade restrictions. Moreover, the recent escalation of the coronavirus outbreak adds to short-term downside risks, as factories in China have remained closed for longer than usual due to the extension of the Chinese New Year holidays.

In view of the aforementioned business environment and in order to mitigate the coronavirus short-term downside risks and to improve the company's results of operations and liquidity position, Management continues to expand its potential liquidity sources by means of improved payment terms with vendors, enhanced efforts of collection from customers and disposal and / or refinancing of certain assets. The Company also continues to optimize its network by entering into new partnerships and cooperation agreements and by constantly upgrading its customer's offerings whilst maintaining efficiencies and focusing on cost reductions.

During the third quarter of 2018, the Company entered into a strategic operational cooperation with the "2M" alliance. According to this cooperation, commencing from September 2018, the Company and the parties of the 2M alliance (Maersk and MSC) operate together certain lines between Asia and the US East-Coast, enabling ZIM to provide its customers improved port coverage and transit time, while generating cost efficiencies. During 2019, this cooperation was extended also to certain lines in the Asia Mediterranean, Asia - Pacific Northwest and Asia – US Gulf trades.

Despite the steps mentioned above, an adverse trend, mainly in freight rates and / or bunker prices (including the potential impact of the coronavirus as well as the issued IMO regulations related to sulfur emissions that came into effect on January 1, 2020) 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.

2. Financial Position

2.1. Balance Sheet

The Company's total assets as of 31 December, 2019 amounted to \$1,926.1M compared to \$1,826.1M as of 31 December, 2018.

Assets

The Company's fixed assets (including right of use assets) as of 31 December, 2019 amounted to \$1,212.8M compared to \$990.1M as of 31 December, 2018, an increase of \$222.7M. The increase was primarily driven by: (i) additions of \$471.0M (mainly \$429.9M related to the implementation of IFRS 16), offset by (i) depreciation expenses of \$237.0M (including \$147.6M related to the implementation of IFRS 16) and (ii) sale of assets in a net carrying amount of \$18.9M.

The Company's current assets as of 31 December, 2019 amounted to \$630.8M compared to \$746.6M as of 31 December, 2018, a decrease of \$115.8M. The decrease was primarily driven by: (i) a decrease in trade and other receivables of \$61.3M (including \$58.1 related to a factoring arrangement), (ii) a decrease of \$31.3M related to disposal of held for sale assets, (iii) a decrease of \$10.2M in inventories and (iv) a decrease of \$9.7M in short term deposits.

The current ratio as of 31 December, 2019 was 0.68 (0.80, excluding the impact of IFRS 16) compared to 0.80 as of 31 December, 2018.

Liabilities

The Company's long-term loans and other liabilities (including current maturities) as of 31 December, 2019 amounted to \$1,422.9M compared to \$1,258.0M as of 31 December, 2018, an increase of \$164.9M. The increase was primarily driven by: (i) an increase of \$458.6 related to additional lease liabilities (mainly \$429.9 related to the implementation of IFRS 16), offset by (ii) repayments of borrowings and lease liabilities of \$300.7M (including \$119.9 related to the implementation of IFRS 16).

The Company's current liabilities (excluding current maturities) as of 31 December, 2019 amounted to \$687.1M compared to \$731.7M as of 31 December, 2018, a decrease of \$44.6M. The decrease was primarily driven by a decrease of \$45.3M in trade and other payables.

Equity

The Company's deficit in equity attributable to the owners of the Company as of 31 December, 2019 amounted to \$257.7M compared to \$230.3M as of 31 December, 2018, an increase of \$27.4M. The increase was primarily driven by a net loss of \$18.1M attributable to the owners of the company and other comprehensive loss of \$10.0M related to actuarial and currency translation losses.

2.2. Income statements

	Year ended 31 December		Three months ended 31 December	
	2019	2018	2019	2018
	Million US\$			
Income from voyages and related services	3,299.8	3,247.9	827.3	852.6
Operating expenses and cost of services	(2,810.8)	(2,999.6)	(685.6)	(776.3)
Depreciation	(226.0)	(100.2)	(64.7)	(25.1)
Gross profit	263.0	148.1	77.0	51.2
Other operating income (expenses), net	36.9	(32.8)	6.6	(37.9)
General and administrative expenses	(151.6)	(143.9)	(40.1)	(37.1)
Share of profit of associates	4.7	5.4	1.1	1.2
Results from operating activities	153.0	(28.6)	44.6	(23.8)
Finance expenses, net	(154.3)	(82.6)	(41.8)	(20.2)
Profit (loss) before income tax	(1.3)	(105.8)	2.8	(42.8)
Income taxes	(11.7)	(14.1)	(1.6)	(3.2)
Profit (loss) for the period	(13.0)	(119.9)	1.2	(46.0)
Attributable to:				
Owners of the Company	(18.1)	(125.7)	(0.4)	(46.9)
Non-controlling interests	5.1	5.8	1.6	0.9

Income

The Company's income from voyages and related services for the year ended 31 December, 2019 was \$3,299.8M compared to \$3,247.9M for the year ended 31 December, 2018, an increase of \$51.9M (1.6%). The increase was primarily driven by: (i) an increase of \$35.2M in income from non-containerized cargo and (ii) an increase of \$11.4M in income from containerized cargo.

The carried quantities for the year ended 31 December, 2019 amounted to 2,821 thousand TEUs, compared to 2,914 thousand TEUs for the year ended 31 December, 2018, a decrease of 93 thousand TEUs (3.2%). The average freight per TEU increased by \$36 (3.7%) from about \$973 for the year ended 31 December, 2018 to about \$1,009 for the year ended 31 December, 2019.

The Company's income from voyages and related services for the three months ended 31 December, 2019 was \$827.3M compared to \$852.6M for the three months ended 31 December, 2018, a decrease of \$25.3M (3.0%). The decrease was primarily driven by a decrease in income from containerized cargo of \$36.6M, offset by an increase in income from non-containerized cargo of \$9.0M.

The carried quantities for the three months ended 31 December, 2019 amounted to 698 thousand TEUs, compared to 714 thousand TEUs for the three months ended 31 December, 2018, a decrease of 16 thousand TEUs (2.2%). The average freight per TEU decreased by \$28 (2.7%) from about \$1,045 for the three months ended 31 December, 2018 to about \$1,017 for the three months ended 31 December, 2019.

Operating Expenses

The Company's operating expenses for the year ended 31 December, 2019 were \$2,810.8M, compared to \$2,999.6M for the year ended 31 December, 2018, a decrease of \$188.8M (6.3%). The decrease was primarily driven by: (i) a decrease in bunker expenses of \$149.7M (27.9%), (ii) a decrease in port expenses of \$73.4M (26.8%), (iii) a decrease in agents commissions of \$10.6 (6.6%), offset by (iv) an increase in cargo handling of \$42.0M (3%) and (v) an increase in slots purchase and lease expenses of vessels and containers of \$14.7M (2.8%).

The Company's operating expenses for the three months ended 31 December, 2019 were \$685.6M, compared to \$776.3M for the three months ended 31 December, 2018, a decrease of \$90.7M (11.7%). The decrease was primarily driven by: (i) a decrease in bunker expenses of \$37.6M (28.6%), (ii) a decrease in slots purchase and lease expenses of vessels and containers of \$24.9M (15.7%), (iii) a decrease in port expenses of \$12.5M (21.1%) and (iv) a decrease in expenses related to cargo handling of \$11.1M (3.1%).

Depreciation

The Company's operating depreciation expenses for the period ended 31 December, 2019 were \$226.0M compared to \$100.2M for the period ended 31 December, 2018, an increase of \$125.8M, primarily driven by the implementation of IFRS 16.

The Company's operating depreciation expenses for the three months ended 31 December, 2019 were \$64.7M compared to \$25.1M for the three months ended 31 December, 2018, an increase of \$39.6M, primarily driven by the implementation of IFRS 16.

Other Operating Income (Expenses), net

The Company's other operating income, net for the year ended 31 December, 2019 were \$36.9M compared to other operating expense, net of \$32.8M for the year ended 31 December, 2018, an overall change of \$69.7M. The change was primarily driven by: (i) an impairment of \$1.1M recorded in 2019, compared to an impairment of \$38.0M recorded in 2018 and (ii) an increase of \$32.5M in capital gains (mainly related to containers and real estate assets).

The Company's other operating income, net for the three months ended 31 December, 2019 were \$6.6M compared to other operating expense, net of \$37.9M for the three months ended 31 December, 2018, an overall change of \$44.5M. The change was primarily driven by: (i) an impairment of \$38.0M recorded in the three months ended 31 December, 2018 and (ii) capital gain of \$5.5M recorded in the three months ended 31 December, 2019.

General and Administrative Expenses

The Company's general and administrative expenses for the year ended 31 December, 2019 were \$151.6M, compared to \$143.9M for the year ended 31 December, 2018, an increase of \$7.7M (5.4%). The change was primarily driven by an increase in depreciation expenses and in salaries and related expenses (mainly actuarial expenses and related-services subsidiaries).

The Company's general and administrative expenses for the three months ended 31 December, 2019 were \$40.1M compared to \$37.1M for the three months ended 31 December, 2018, an increase of \$3.0M (mainly related to actuarial expenses and foreign currency exchange differences).

Finance Expenses, net

The Company's finance expenses, net for the year ended 31 December, 2019 were \$154.3M compared to finance expenses, net of \$82.6M for the year ended 31 December, 2018, an increase of \$71.7M (87.0%). The increase was primarily driven by: (i) an increase of \$48.1M related to additional interest expenses recorded with respect to the implementation of the IFRS 16 and (ii) an increase of \$25.1M related to foreign currency exchange differences.

The Company's finance expenses, net for the three months ended 31 December, 2019 were \$41.8M compared to \$20.2M for the three months ended 31 December, 2018, an increase of \$21.6M (106.9%). The increase was primarily driven by: (i) an increase of \$12.8M related to additional interest expense recorded with respect to the implementation of IFRS 16 and (ii) an increase of \$8.7M related to foreign currency exchange differences.

Income Taxes

The Company's income taxes for the year ended 31 December, 2019 were \$11.7M compared to \$14.1M for the year ended 31 December, 2018, a decrease of \$2.4M.

The Company's income taxes for the three months ended 31 December, 2019 were \$1.6M compared to \$3.2M during the three months ended 31 December, 2018, a decrease of \$1.6M.

3. Liquidity and Capital Resources

Main Cash flows data:

	Year ended 31 December		Three months ended 31 December	
	2019	2018	2019	2018
	Million US\$			
Cash flows generated from operating activities	370.6	225.0	89.3	60.4
Cash flows generated from (used in) investing activities	38.0	51.1	(6.7)	23.0
Cash flows used in financing activities	(411.4)	(242.7)	(85.2)	(53.9)
Net change in cash during the period	(2.8)	33.4	(2.6)	29.5
Cash – opening balance	186.3	157.9	184.6	156.7
Effect of exchange rate fluctuations on cash held	(0.7)	(5.0)	0.8	0.1
Cash – closing balance	182.8	186.3	182.8	186.3

3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the year ended 31 December, 2019 were \$370.6M (including an increase of \$164.6M related to the implementation of IFRS 16) compared to \$225.0M for the year ended 31 December, 2018, an increase of \$145.6M.

Cash flows generated from operating activities for the three months ended 31 December, 2019 were \$89.3M (including an increase of \$54.0M related to the implementation of IFRS 16) compared to \$60.4M for the three months ended 31 December, 2018, an increase of \$28.9M.

3.2. Cash flows from Investing Activities

Cash flows generated from investing activities for the year ended 31 December, 2019 were \$38.0M compared to \$51.1M for the year ended 31 December, 2018, a decrease \$13.1M. The decrease was primarily driven by: (i) a decrease of \$18.9 related to change in other investments (mainly short-term deposits), offset by (ii) a decrease of \$6.4M in acquisition of tangible assets, intangible assets and investments.

Cash flows used in investing activities for the three months ended 31 December, 2019 were \$6.7M compared to cash flow generated from investing activities of \$23.0M for the three months ended 31 December, 2018, an overall change of \$29.7M. The change was primarily driven by a decrease of \$25.9M in proceeds from sale of tangible assets, intangible assets and investments.

3.3. Cash flows from Financing Activities

Cash flows used in financing activities for the year ended 31 December, 2019 were \$411.4M compared to \$242.7M for the year ended 31 December, 2018, an increase of \$168.7M. The increase was primarily driven by: (i) an increase of \$100.8M in repayment of borrowings and lease liabilities (including \$119.9M related to the implementation of IFRS16), (ii) an increase of \$40.4M in interest paid (including \$44.6M related to the implementation of IFRS 16), (iii) a decrease of \$41.5 in receipt of long term loans and proceeds from sale and lease-back transactions, offset by (iv) an increase of \$13.7M related to change in short term loans.

Cash flows used in financing activities for the three months ended 31 December, 2019 were \$85.2M compared to \$53.9M for the three months ended 31 December, 2018, an increase of \$31.3M. The increase was primarily driven by: (i) a decrease of \$15.9M in receipt of long term loans , (ii) an increase of \$11.4M

in repayment of borrowings and lease liabilities (including \$41.3M related to the implementation of IFRS16), (iii) an increase of \$8.9M in interest paid (including \$12.7M related to the implementation of IFRS 16), offset by (iv) a decrease of \$4.5M related to change in short term loans.

4. Supplemental Non-IFRS Measurements

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

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

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Million US\$					
	IFRS	Adjustments	Adjusted	IFRS	Adjustments	Adjusted
Gross profit	263.0	8.9	271.9	148.1	24.6	172.7
EBITDA (*)	399.7	(13.8)	385.9	126.3	24.4	150.7
Results from operating activities	153.0	(4.1)	148.9	(23.2)	62.3	39.1
Profit (loss) for the period	(13.0)	9.8	(3.2)	(119.9)	75.3	(44.6)

Due to the implementation of IFRS 16, the Adjusted EBITDA and Adjusted results from operating activities for the period ended 31 December, 2019, include a positive impact of \$172.0M and \$32.9M, respectively, while the Adjusted loss for such period includes a negative impact of \$15.2M.

	Three months ended 31 December 2019			Three months ended 31 December 2018		
	Million US\$					
	IFRS	Adjustments	Adjusted	IFRS	Adjustments	Adjusted
Gross profit	77.0	2.4	79.4	51.2	5.0	56.2
EBITDA (*)	114.7	0.7	115.4	43.6	5.4	49.0
Results from operating activities	44.6	2.8	47.4	(22.6)	43.4	20.8
Profit (loss) for the period	1.2	6.4	7.6	(46.0)	46.8	0.8

Due to the implementation of IFRS 16, the Adjusted EBITDA and Adjusted results from operating activities for the three months ended 31 December, 2019, include a positive impact of \$54.2M and \$10.2M, respectively, while the Adjusted profit for such period includes a negative impact of \$2.6M.

(*) Profit (loss) excluding financial expenses (income), net, income taxes, depreciation, amortization and impairment.

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

	Year ended 31 December		Three months ended 31 December	
	2019	2018	2019	2018
	Million US\$			
Accounting charter hire expenses (1)	1.9	20.0	0.2	5.0
Provision for legal claim	(1.6)	4.6		
Amortization of deferred charter hire expenses (1)	8.6		2.2	
Gross profit	8.9	24.6	2.4	5.0
Capital (gain)/loss (2)	(14.2)	(0.3)	0.5	0.4
Impairment of assets	1.2	38.0		38.0
Results from operating activities	(4.1)	62.3	2.8	43.4
Finance expenses, net (3)	13.9	13.0	3.6	3.4
Profit for the period	9.8	75.3	6.4	46.8

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

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

(3) Mainly includes loans' fair value adjustment amortization.

Use of Non-IFRS Measures:

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

5. Material Commitments and Contingencies

See Notes 25 and 26 to the Company's 2019 annual financial statements.

6. Significant Accounting Policies

See Note 2(e) to the Company's consolidated financial statement for the period ended December 31, 2019, with respect to the implementation of IFRS 16 (leases) and the changes of presentation in the consolidated income statement.