ZIM INTEGRATED SHIPPING SERVICES LTD.

Operating and Financial Review for the period ended 30 September, 2019

1. General

The container shipping industry is dynamic and volatile and has been marked in recent years by instability which is characterized by volatility in freight rates and bunker prices, mainly as a result of ever-changing market environment and the extensive activity of mergers and acquisitions that also led to reorganization of the global alliances.

In September 2018, the Company commenced its strategic operational cooperation with the “2M” alliance. According to this cooperation, the Company and the parties of the 2M alliance (Maersk and MSC) operate together certain lines between Asia and the US East-Coast. During the reported period, the cooperation was extended also to certain lines in the Asia - Mediterranean, the Asia - Pacific Northwest and the Asia - US Gulf Trades. Such cooperation agreements enable ZIM to provide its customers improved port coverage and transit time, while generating cost efficiencies.

In view of the aforementioned challenging business environment and in order to improve the company’s results of operations and liquidity position, Management continues to optimize the Company’s service network including establishment of new partnerships and cooperations and upgrading its customer services, constantly strive to create and maintain efficiencies and cost reductions, as well as to expand its potential liquidity sources by means of disposal and / or refinancing of assets.
However, adverse changes in key parameters such as freight rates deterioration could negatively affect the entire industry and also affect the Company’s business and financial position. The current instability and volatility in the market, including significant uncertainties in the global trade, mainly due to trade restrictions between the USA and other countries, make forecasting very challenging. Consequently, there is a possibility that the Company’s actual performance may differ from expectations.

As from January 1, 2019 the Company applies IFRS 16 (Leases), resulting in a recognition of additional lease (‘right of use’) assets and lease liabilities. Furthermore, the implementation of IFRS16 results in a reduction in the Company’s lease expenses, along with an increase in its depreciation expenses and interest expenses (see also Note 3 to the Company’s interim financial statement for the nine months ended September 30, 2019).

2. Financial Position

2.1. Balance Sheet

The Company's total assets as of 30 September, 2019 amounted to $1,948.7M compared to $1,826.1M as of 31 December, 2018.

Assets

The Company's fixed assets (including right of use assets) as of 30 September, 2019 amounted to $1,258.0M compared to $990.1M as of 31 December, 2018, an increase of $267.9M. The increase was primarily driven by: (i) additions of $441.9M (mainly $411.5M related to the implementation of IFRS 16), offset by (ii) depreciation expenses of $169.1M (including $101.5M related to the implementation of IFRS 16).

The Company's current assets as of 30 September, 2019 amounted to $609.3M compared to $746.6M as of 31 December, 2018, a decrease of $137.3M. The decrease was primarily driven by: (i) a decrease of $75.4M related to trade and other receivables (including $51.6M related to a factoring arrangement), (ii) a decrease of $28.9M related to disposal of held for sale assets, (iii) a decrease of $20.0M in inventories and (iv) a decrease of $11.3M in short term deposits.

The current ratio as of 30 September, 2019 was 0.66 (0.79, excluding the impact of IFRS 16) compared to 0.80 as of 31 December, 2018.

Liabilities

The Company's long-term loans, lease and other liabilities (including current maturities) as of 30 September, 2019 amounted to $1,462.8M compared to $1,258.0M as of 31 December, 2018, an increase of $204.8M. The increase was primarily driven by: (i) an increase of $437.8M related to additional lease liabilities (mainly $411.5M related to the implementation of IFRS 16), offset by (ii) repayments of borrowings of $241.5M (including $78.7M related to the implementation of IFRS 16).

The Company's current liabilities (excluding current maturities) as of 30 September, 2019 amounted to $670.6M compared to $731.7M as of 31 December, 2018, a decrease of $61.1M. The decrease was primarily driven by (i) a decrease in trade and other payables of $45.1M and (ii) a decrease in contract liabilities of $12.2M.

Equity

The Company's deficit in equity attributable to the owners of the Company as of 30 September, 2019 amounted to $256.0M compared to $230.3M as of 31 December, 2018, an increase of $25.7M. The increase was primarily driven by a loss attributable to the owners of the Company for the period ended 30 September, 2019 in the amount of $17.7M.

2.2. Income statements (*)

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2019	**2018**	**2019**	**2018**	**2018**
			Million US$		
Income from voyages and related services	**2,472.5**	2,395.3	**842.0**	840.7	3,247.9
Operating expenses and cost of services	**(2,125.2)**	(2,223.3)	**(703.7)**	(768.4)	(2,999.6)
Depreciation	**(161.3)**	(75.1)	**(62.9)**	(25.3)	(100.2)
Gross profit	**186.0**	96.9	**75.4**	47.0	148.1
Other operating income, net	**30.3**	5.1	**7.1**	3.2	(32.8)
General and administrative expenses	**(111.5)**	(106.8)	**(37.8)**	(34.1)	(143.9)
Share of profit of associates	**3.6**	4.2	**0.9**	1.0	5.4
Results from operating activities	**108.4**	(0.6)	**45.6**	17.1	(23.2)
Finance expenses, net	**(112.5)**	(62.4)	**(37.7)**	(20.8)	(82.6)
Income (loss) before income tax	**(4.1)**	(63.0)	**7.9**	(3.7)	(105.8)
Income taxes	**(10.1)**	(10.9)	**(2.9)**	(2.9)	(14.1)
Income (loss) for the period	**(14.2)**	(73.9)	**5.0**	(6.6)	(119.9)
Attributable to:					
Owners of the Company	**(17.7)**	(78.8)	**3.8**	(8.3)	(125.7)
Non-controlling interests	**3.5**	4.9	**1.2**	1.7	5.8

(*) See also section 6 with respect to changes in accounting policies.

Income

The Company’s income from voyages and related services for the period ended 30 September, 2019 was $2,472.5M compared to $2,395.3M for the period ended 30 September, 2018, an increase of $77.2M (3.2%). The increase was primarily driven by: (i) an increase in income from containerized cargo of $48.2M and (ii) an increase in income from non-containerized cargo of $26.0M.

The carried quantities for the period ended 30 September, 2019 amounted to 2,124 thousand TEUs compared to 2,200 thousand TEUs for the period ended 30 September, 2018, a decrease of 76 thousand TEUs (3.5%). The average revenue per TEU increased by $57 (6.0%) from about $950 for the period ended 30 September, 2018 to about $1,007 for the period ended 30 September, 2019.

The Company’s income from voyages and related services for the three months ended 30 September, 2019 was $842.0M compared to $840.7M for the three months ended 30 September, 2018, an increase of $1.3M (0.2%).

The Company carried 725 thousand TEUs during the three months ended 30 September, 2019, compared to 730 thousand TEUs during the three months ended 30 September, 2018, a decrease of 5 thousand TEUs (0.7%). The average revenue per TEU increased by $3.0 (0.3%) from about $1,006 for the three months ended 30 September, 2018 to about $1,009 for the three months ended 30 September, 2019.

Operating Expenses

The Company's operating expenses for the period ended 30 September, 2019 were $2,125.2M compared to $2,223.3M for the period ended 30 September, 2018, a decrease of $98.1M (4.4%). The decrease was primarily driven by: (i) a decrease in bunker expenses of $112.2M (27.7%), (ii) a decrease in port expenses of $60.9M (28.4%), (iii) a decrease in agents commissions of $10.9M (8.9%), offset by (iv) an increase in cargo handling expenses of $53.1M (5.2%) and (v) an increase in lease expenses of vessels, slots and containers of $39.6M (10.7%) (including a decrease of $113.9M related to the implementation of IFRS 16).

The Company's operating expenses for the three months ended 30 September, 2019 were $703.7M compared to $768.4M for the three months ended 30 September, 2018, a decrease of $64.7M (8.4%). The decrease was primarily driven by: (i) a decrease in bunker expenses of $55.4M (37.0%), (ii) a decrease in port expenses of $22.7M (31.1%), (iii) a decrease in agents commissions of $5.9M (14.3%), offset by (iv) an increase in cargo handling expenses of $24.8M (7.3%).

Depreciation

The Company's operating depreciation expenses for the period ended 30 September, 2019 were $161.3M compared to $75.1M for the period ended 30 September, 2018, an increase of $86.2M, primarily driven by the implementation of IFRS 16.

The Company's operating depreciation expenses for the three months ended 30 September, 2019 were $62.9M compared to $25.3M for the three months ended 30 September, 2018, an increase of $37.6M, primarily driven by the implementation of IFRS 16.

Other Operating Income (Expenses), net

The Company's other operating income, net for the period ended 30 September, 2019 were $30.3M compared to $5.1M for the period ended 30 September, 2018, an increase of $25.2M, primarily driven by an increase in capital gains related to real estate assets and containers.

The Company's other operating income, net for the three months ended 30 September, 2019 were $7.1M compared to $3.2M for the three months ended 30 September, 2018, an increase of $3.9M, primarily driven by an increase in capital gains related to real estate assets.

General and Administrative Expenses

The Company's general and administrative expenses for the period ended 30 September, 2019 were $111.5M compared to $106.8M for the period ended 30 September, 2018, an increase of $4.7M.

The Company's general and administrative expenses for the three months ended 30 September, 2019 were $37.8M compared to $34.1M for the three months ended 30 September, 2018, an increase of $3.7M.

Finance Income (Expenses), net

The Company's finance expenses, net for the period ended 30 September, 2019 were $112.5M compared to $62.4M for the period ended 30 September, 2018, an increase of $50.1M. The increase was primarily driven by: (i) an increase of $35.3M related to additional interest expenses recorded with respect to the implementation of the IFRS 16 and (ii) an increase of $16.3M related to foreign currency exchange differences.

The Company's finance expenses, net for the three months ended 30 September, 2019 were $37.7M compared to $20.8M for the three months ended 30 September, 2018, an increase of $16.9M. The increase was primarily driven by: (i) an increase of $14.1M related to additional interest expenses recorded with respect to the implementation of the IFRS 16 and (ii) an increase of $3.3M related to foreign currency exchange differences.

Income Taxes

The Company's income taxes for the period ended 30 September, 2019 were $10.1M compared to $10.9M for the period ended 30 September, 2018, a decrease of $0.8M.

The Company's income taxes for the three months ended 30 September, 2019 and for the three months ended 30 September, 2018 were $2.9M.

3. Liquidity and Capital Resources

Main Cash flows data:

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2019	**2018**	**2019**	**2018**	**2018**
			Million US$		
Cash flows generated from operating activities	**281.3**	164.6	**157.5**	54.1	225.0
Cash flows generated from investing activities	**44.7**	28.1	**5.5**	15.7	51.1
Cash flows used in financing activities	**(326.2)**	(188.8)	**(141.8)**	(51.9)	(242.7)
Net change in cash during the period	**(0.2)**	3.9	**21.2**	17.9	33.4
Cash – opening balance	**186.3**	157.9	**164.8**	141.3	157.9
Effect of exchange rate fluctuations on cash held	**(1.5)**	(5.1)	**(1.5)**	(2.5)	(5.0)
Cash – closing balance	**184.6**	156.7	**184.6**	156.7	186.3

3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the period ended 30 September, 2019 were $281.3M (including an increase of $110.6M related to the implementation of IFRS 16) compared to $164.6M for the period ended 30 September, 2018, an increase of $116.7M, which also includes an increase of $51.6M related to a recent factoring arrangement for trade receivables.

Cash flows generated from operating activities for the three months ended 30 September, 2019 were $157.5M (including an increase of $50.6M related to the implementation of IFRS 16) compared to $54.1M for the three months ended 30 September, 2018, an increase of $103.4M, which also includes an increase of $51.6M related to a recent factoring arrangement for trade receivables.

3.2. Cash flows from Investing Activities

Cash flows generated from investing activities for the period ended 30 September, 2019 were $44.7M compared to $28.1M for the period ended 30 September, 2018, an increase of $16.6M. The increase was primarily driven by: (i) an increase of $25.3M in proceeds from sale of assets and investments (mainly related to vessels classified as held for sale and real estate assets) , (ii) a decrease of $8.7M in acquisition of tangible assets, intangible assets and investments, offset by (iii) a decrease of $17.4M related to change in other investments (mainly short term deposits).

Cash flows generated from investing activities for the three months ended 30 September, 2019 were $5.5M compared to $15.7M for the three months ended 30 September, 2018, a decrease of $10.2M. The decrease was primarily driven by: (i) a decrease of $18.2M related to change in other investments (mainly short term deposits), offset by (ii) an increase of $5.2M in proceeds from sale of assets and investments (mainly related to real estate assets) and (iii) a decrease of $2.8M in acquisition of tangible asset, intangible assets and investments.

3.3. Cash flows from Financing Activities

Cash flows used in financing activities for the period ended 30 September, 2019 were $326.2M compared to $188.8M for the period ended 30 September, 2018, an increase of $137.4M. The increase was primarily driven by: (i) an increase of $89.4M in repayments of borrowings and lease liabilities (including $78.7M related to the implementation of IFRS 16), (ii) a decrease of $38.8M in receipt of long term loans and other long term liabilities, (iii) an increase of $31.5M in interest paid (including $31.9M related to the implementation of IFRS 16), offset by (iv) an increase of $13.2M in proceeds from sale and lease back transactions and (v) an increase of $9.2M related to change in short term loans.

Cash flows used in financing activities for the three months ended 30 September, 2019 were $141.8M compared to $51.9M for the three months period ended 30 September, 2018, an increase of $89.9M. The increase was primarily driven by: (i) a decrease of $39.3M in receipt of long term loans and other long term liabilities, (ii) an increase of $34.8M in repayment of borrowings (including $37.5M related to the implementation of IFRS 16) and (iii) an increase of $15.7M in interest paid (including $13.2M related to the implementation of IFRS 16).

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, due to 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:

	Nine months ended 30 September 2019			**Nine months ended 30 September 2018**			**Year ended 31 December 2018**		
	Million US$								
	IFRS	**Adjustment**	**Adjusted**	**IFRS**	**Adjustment**	**Adjusted**	**IFRS**	**Adjustment**	**Adjusted**
Gross profit	**186.0**	**6.5**	**192.5**	96.9	19.6	116.5	148.1	24.6	172.7
EBITDA (*)	**285.0**	**(14.5)**	**270.5**	82.7	19.0	101.7	126.3	24.4	150.7
Results from operating activities	**108.4**	**(6.9)**	**101.5**	(0.6)	19.0	18.4	(23.2)	62.3	39.1
Profit (loss) for the period	**(14.2)**	**3.4**	**(10.8)**	(73.9)	28.6	(45.3)	(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 30 September, 2019, include a positive impact of $117.8M and $22.7M, respectively, while the Adjusted loss for such period includes a negative impact of $12.6M.

	Three months ended 30 September 2019			Three months ended 30 September 2018		
	Million US$					
	IFRS	Adjustment	Adjusted	IFRS	Adjustment	Adjusted
Gross profit	**75.4**	**0.7**	**76.1**	47.0	5.1	52.1
EBITDA (*)	**115.0**	**(8.2)**	**106.8**	45.2	4.6	49.8
Results from operating activities	**45.6**	**(4.8)**	**40.8**	17.1	4.6	21.7
Profit (loss) for the period	**5.0**	**(1.3)**	**3.7**	(6.6)	8.0	1.4

Due to the implementation of IFRS 16, the Adjusted EBITDA and Adjusted results from operating activities for the three months ended 30 September, 2019, include a positive impact of $52.4M and $9.9M, respectively, while the Adjusted loss for such period includes a negative impact of $4.2M.

(*) 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:

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2019	2018	2019	2018	2018
	Million US$				
Accounting charter hire expenses (1)	**1.7**	15.0	**0.2**	5.1	20.0
Provision for legal claims	**(1.6)**	4.6	**(1.6)**		4.6
Amortization of deferred charter hire expenses (1)	**6.4**		**2.1**		
Gross profit	**6.5**	19.6	**0.7**	5.1	24.6
Capital gain (2)	**(14.6)**	(0.6)	**(6.7)**	(0.5)	(0.3)
Impairment of assets	**1.2**		**1.2**		38.0
Results from operating activities	**(6.9)**	19.0	**(4.8)**	4.6	62.3
Finance expenses, net (3)	**10.3**	9.6	**3.5**	3.4	13.0
Profit (loss) for the period	**3.4**	28.6	**(1.3)**	8.0	75.3

(1) Mainly non cash charter hire accounting adjustments relating to the 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 better understand how management assesses the Company's performance.

5. Regulation

Following the issued IMO regulations relating to sulfur emissions, which are expected to come into effect in 2020, The Company will be required to incur significant costs in order to comply with such regulations, inter alia, by using fuel oil which is more costly than the type currently used and by modifying the vessels operated by the Company and install Exhaust Gas Cleaning System.

6. Significant Accounting Policies

See Note 3 to the Company's interim financial statement for the period ended September 30, 2019, with respect to the implementation of IFRS 16 (leases) and the changes of presentation in the consolidated income statement.