ZIM INTEGRATED SHIPPING SERVICES LTD.

Operating and Financial Review the year ended 31 December, 2018

1. General

The container shipping industry is dynamic and volatile and has been marked in recent years by instability, as a result of continued deterioration of market environment, which is characterized by a decrease in freight rates and an increase in bunker prices. Furthermore, during 2016-2017, the container shipping industry went through a structural change, as a result of the extensive activity of mergers and acquisitions that also led to reorganization of the global alliances.

During the first half of 2018, freight rates have decreased while bunker cost continued to increase. In the second half of 2018, freight rates started increasing, while bunker prices overall decreased.

In September, 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. In January 2019, The Company and the members of the 2M Alliance, announced a second strategic cooperation agreement in two additional trades: Asia - East Mediterranean and Asia - American Pacific Northwest. 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 certain assets. In addition, in the third quarter of 2018, the Company obtained amendments to its financial covenants (for further details, see Note 12(c) to the Company's 2018 annual financial statements).

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.

2. Financial Position

2.1. Balance Sheet

The Company's total assets as of 31 December, 2018 amounted to $1,826.1M compared to $1,802.3M as of 31 December, 2017.

Assets

The Company's fixed assets as of 31 December, 2018 amounted to $990.1M compared to $1,108.6M as of 31 December, 2017, a decrease of $118.5M. The decrease was primarily driven by: (i) depreciation expenses of $102.0M, (ii) reclassification of assets as held for sale in a net carrying amount of $80.9M and (iii) sale of assets in a net carrying amount of $6.2M, offset by (iv) additions of fixed assets (mainly financial leases of containers) of $70.7M.

The Company's current assets as of 31 December, 2018 amounted to $746.6M compared to $579.6M as of 31 December, 2017, an increase of $167.0M. The increase was primarily driven by: (i) an increase in trade and other receivables of $115.1M (mainly $114.4M related to new presentation requirements under IFRS 15 – see also Note 2(e) to the Company's 2018 annual financial statements), (ii) reclassification of assets as held for sale in a net carrying amount of $80.9M and (iii) an increase in cash and cash equivalents of $28.4M, offset by (iv) an impairment of $38.0M related to assets classified as held for sale and (v) a decrease in other investments of $26.0M.

The current ratio as of 31 December, 2018 was 0.80 compared to 0.84 as of 31 December, 2017.

Liabilities

The Company's long-term loans and other liabilities (including current maturities) as of 31 December, 2018 amounted to $1,258.0M compared to $1,324.6M as of 31 December, 2017, a decrease of $66.6M. The decrease was primarily driven by: (i) repayments of borrowings of $200.0M, offset by (ii) an increase in financial leases of $62.7M, (iii) receipt of loans of $55.4M and (iv) an increase related to fair value adjustment amortization of $13.0M,

The Company's current liabilities (excluding current maturities) as of 31 December, 2018 amounted to $731.7M compared to $497.1M as of 31 December, 2017, an increase of $234.6M. The increase was primarily driven by: (i) an increase in trade and other payables of $128.2M, mainly as a result of improved payment terms and (ii) an increase in contract liabilities and deferred income of $117.8M (mainly $114.4M related to new presentation requirements under IFRS 15 – see also Note 2(e) to the Company’s 2018 annual financial statements), offset by (iii) a decrease in short term loans of $10.4M.

Equity

The Company's deficit in equity attributable to the owners of the Company as of 31 December, 2018 amounted to $230.3M compared to $100.0M as of 31 December, 2017, an increase of $130.3M. The increase was primarily driven by: (i) a loss attributable to the owners of the company for the year ended December 31, 2018 of $125.7 and (ii) translation losses of $5.5M.

2.2. Income statements

	Year ended 31 December		**Three months ended 31 December**	
	2018	**2017**	**2018**	**2017**
	Million US$			
Income from voyages and related services	**3,247.9**	2,978.3	**852.6**	760.9
Operating expenses and cost of services	**(2,999.6)**	(2,600.1)	**(776.3)**	(680.1)
Depreciation	**(100.2)**	(97.2)	**(25.1)**	(25.0)
Gross profit	**148.1**	281.0	**51.2**	55.8
Other operating income (expenses), net	**(32.8)**	1.6	**(37.9)**	1.0
General and administrative expenses	**(143.9)**	(147.5)	**(37.1)**	(36.5)
Results from operating activities	**(28.6)**	135.1	**(23.8)**	20.3
Finance expenses, net	**(82.6)**	(117.1)	**(20.2)**	(28.4)
Share of profit of associates (net of tax)	**5.4**	7.6	**1.2**	1.9
Profit (loss) before income tax	**(105.8)**	25.6	**(42.8)**	(6.2)
Income taxes	**(14.1)**	(14.2)	**(3.2)**	(3.5)
Profit (loss) for the period	**(119.9)**	11.4	**(46.0)**	(9.7)
<u>Attributable to:</u>				
Owners of the Company	**(125.7)**	6.3	**(46.9)**	(9.2)
Non-controlling interests	**5.8**	5.1	**0.9**	(0.5)

Income

The Company's income from voyages and related services for the year ended 31 December, 2018 was $3,247.9M compared to $2,978.3M for the year ended 31 December, 2017, an increase of $269.6M (9.1%). The increase was primarily driven by: (i) an increase in income from containerized cargo of $218.7M, (ii) an increase in income from non-containerized cargo of $18.0M and (iii) an increase in income from demurrage of $27.3M

The carried quantities for the year ended 31 December, 2018 amounted to 2,914 thousand TEUs, compared to 2,629 thousand TEUs for the year ended 31 December, 2017, an increase of 285 thousand TEUs (10.8%). The average freight per TEU decreased by $22 (2.2%) from about $995 for the year ended 31 December, 2017 to about $973 for the year ended 31 December, 2018.

The Company's income from voyages and related services for the three months ended 31 December, 2018 was $852.6M compared to $760.9M for the three months ended 31 December, 2017, an increase of $91.7M (12.1%). The increase was primarily driven by an increase in income from containerized cargo of $89.4M.

The carried quantities for the three months ended 31 December, 2018 amounted to 714 thousand TEUs, compared to 685 thousand TEUs for the three months ended 31 December, 2017, an increase of 29 thousand TEUs (4.2%). The average freight per TEU increased by $86 (9.0%) from about $959 for the three months ended 31 December, 2017 to about $1,045 for the three months ended 31 December, 2018.

Operating Expenses

The Company's operating expenses for the year ended 31 December, 2018 were $2,999.6M, compared to $2,600.1M for the year ended 31 December, 2017, an increase of $399.5M (15.4%). The increase was primarily driven by: (i) an increase in bunker expenses of $149.8M (38.7%), (ii) an increase in charter/lease expenses of vessels and containers of $128.9M (32.3%), (iii) an increase in expenses related to cargo handling of $94.0M (7.3%) and (iv) an increase in port expenses of $22.3M (8.9%).

The Company's operating expenses for the three months ended 31 December, 2018 were $776.3M, compared to $680.1M for the three months ended 31 December, 2017, an increase of $96.2M (14.1%). The increase was primarily driven by: (i) an increase in charter/lease expenses of vessels and containers of $55.8M (54.2%), (ii) an increase in expenses related to cargo handling of $25.3M (7.6%), (iii) an increase in bunker expenses of $22.4M (20.6%), offset by (iv) a decrease in port expenses of $6.6M (10.0%).

Other Operating Income (Expenses), net

The Company's other operating expense, net for the year ended 31 December, 2018 were $32.8M compared to other operating income, net of $1.6M for the year ended 31 December, 2017, an overall change of $34.4M. The decrease was primarily driven by an impairment of $38.0M recorded in 2018, compared to an impairment of $2.4M recorded in 2017.

The Company's other operating expense, net for the three months ended 31 December, 2018 were $37.9M compared to other operating income, net of $1.0M for the three months ended 31 December, 2017, an overall change of $38.9M. The decrease was primarily driven by an impairment of $38.0M recorded in the three months ended 31 December, 2018.

General and Administrative Expenses

The Company’s general and administrative expenses for the year ended 31 December, 2018 were $143.9M, compared to $147.5M for the year ended 31 December, 2017, a decrease of $3.6M (2.4%). The change was primarily driven by: (i) a decrease in salaries and related expenses (mainly related to actuarial liabilities) of $4.4M (4.3%), offset by (ii) an increase in office equipment and maintenance of $1.5M (10.2%).

The Company’s general and administrative expenses for the three months ended 31 December, 2018 were $37.1M compared to $36.5M for the three months ended 31 December, 2017, an increase of $0.6M.

Finance Expenses, net

The Company’s finance expenses, net for the year ended 31 December, 2018 were $82.6M compared to finance expenses, net of $117.1M for the year ended 31 December, 2017, a decrease of $34.5M (29.5%). The decrease was primarily driven by a change of $32.7M related to the foreign currency exchange differences.

The Company’s finance expenses, net for the three months ended 31 December, 2018 were $20.2M compared to $28.4M for the three months ended 31 December, 2017, a decrease of $8.2M (28.9%). The decrease was primarily driven by a change of $7.6M related to foreign currency exchange differences.

Income Taxes

The Company's income taxes for the year ended 31 December, 2018 were $14.1M compared to $14.2M for the year ended 31 December, 2017, a decrease of $0.1M.

The Company's income taxes for the three months ended 31 December, 2018 were $3.2M compared to $3.5M during the three months ended 31 December, 2017, a decrease of $0.3M.

3. Liquidity and Capital Resources

Main Cash flows data:

	Year ended 31 December		Three months ended 31 December	
	2018	2017	**2018**	2017
	Million US$			
Cash flows generated from operating activities	**225.0**	230.9	**60.4**	61.7
Cash flows generated from (used in) investing activities	**51.1**	(93.5)	**23.0**	(11.9)
Cash flows used in financing activities	**(242.7)**	(139.8)	**(53.9)**	(75.3)
Net change in cash during the period	**33.4**	(2.4)	**29.5**	(25.5)
Cash – opening balance	**157.9**	157.6	**156.7**	183.0
Effect of exchange rate fluctuations on cash held	**(5.0)**	2.7	**0.1**	0.4
Cash – closing balance	**186.3**	157.9	**186.3**	157.9

3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the year ended 31 December, 2018 were $225.0M compared to $230.9M for the year ended 31 December, 2017, a decrease of $5.9M.

Cash flows generated from operating activities for the three months ended 31 December, 2018 were $60.4M compared to $61.7M for the three months ended 31 December, 2017, a decrease of $1.3M.

3.2. Cash flows from Investing Activities

Cash flows generated from investing activities for the year ended 31 December, 2018 were $51.1M compared to cash flow used in investing activities of $93.5M for the year ended 31 December, 2017, an overall change of $144.6M. The change was primarily driven by: (i) a change in other investments (mainly short-term deposits) of $97.0M, (ii) an increase in proceeds from sale of tangible assets, intangible assets and investments of $40.7M and (iii) a decrease in acquisition of tangible assets, intangible assets and investments of $6.9M.

Cash flows generated from investing activities for the three months ended 31 December, 2018 were $23.0M compared to cash flow used in investing activities of $11.9M for the three months ended 31 December, 2017, an overall change of $34.9M. The change was primarily driven by: (i) an increase in proceeds from sale of tangible assets, intangible assets and investments of $26.5M and (ii) a decrease in acquisition of tangible assets, intangible assets and investments of $7.2M.

3.3. Cash flows from Financing Activities

Cash flows used in financing activities for the year ended 31 December, 2018 were $242.7M compared to $139.8M for the year ended 31 December, 2017, an increase of $102.9M. The increase was primarily driven by: (i) a change in short term loans of $89.3M, (ii) an increase in repayment of borrowings of $65.6M, offset by (iii) receipt of long term loans of $55.4M

Cash flows used in financing activities for the three months ended 31 December, 2018 were $53.9M compared to $75.3M for the three months ended 31 December, 2017, a decrease of $21.4M. The decrease was primarily driven by: (i) receipt of long term loans of $15.9M and (ii) a decrease in repayment of borrowing of $5.8M.

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 2018			**Year ended 31 December 2017**		
	Million US$					
	IFRS	**Adjustments**	**Adjusted**	**IFRS**	**Adjustments**	**Adjusted**
Gross profit	**148.1**	**24.6**	**172.7**	281.0	24.1	305.1
EBITDA (*)	**121.0**	**24.3**	**145.3**	245.8	24.3	270.1
Results from operating activities	**(28.6)**	**62.3**	**33.7**	135.1	26.6	161.7
Profit (loss) for the period	**(119.9)**	**75.3**	**(44.6)**	11.4	38.6	50.0

	Three months ended 31 December 2018			**Three months ended 31 December 2017**		
	Million US$					
	IFRS	**Adjustments**	**Adjusted**	**IFRS**	**Adjustments**	**Adjusted**
Gross profit	**51.2**	**5.0**	**56.2**	55.8	5.2	61.0
EBITDA (*)	**42.4**	**5.4**	**47.8**	48.1	5.3	53.4
Results from operating activities	**(23.8)**	**43.4**	**19.6**	20.3	5.2	25.5
Profit (loss) for the period	**(46.0)**	**46.8**	**0.8**	(9.7)	8.4	(1.3)

(*) Net income (loss) excluding financial expenses, net, income taxes, share of profit of associates, 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	
	2018	**2017**	**2018**	**2017**
	Million US$			
Accounting charter hire expenses (1)	**20.0**	21.8	**5.0**	4.4
Provision for legal claim	**4.6**	2.3		0.8
Gross profit	**24.6**	24.1	**5.0**	5.2
Capital (gain)/loss (2)	**(0.3)**	0.1	**0.4**	
Impairment of assets	**38.0**	2.4	**38.0**	
Results from operating activities	**62.3**	26.6	**43.4**	5.2
Finance expenses, net (3)	**13.0**	12.0	**3.4**	3.2
Profit for the period	**75.3**	38.6	**46.8**	8.4

(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 and restructuring related expenses.

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. 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\or by modifying the vessels operated by the Company and install Exhaust Gas Cleaning System.

6. Material Commitments and Contingencies

See Notes 25 and 26 to the Company's 2018 annual financial statements.

7. Significant Accounting Policies

See Note 3 to the Company's 2018 annual financial statements (including Note 3(r) with respect to IFRS 16, leases, effective as of January 1, 2019).