ZIM INTEGRATED SHIPPING SERVICES LTD.

Operating and Financial Review for the three months ended 31 March, 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.

Commencing the fourth quarter of 2017 and through the second quarter of 2018, average freight rates have decreased while bunker prices increased. During the second half of 2018 freight rates have increased, with a slight decrease during the first quarter of 2019, while bunker prices remained highly volatile.

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. During the first quarter of 2019 such cooperation was further extended also to certain lines in the Asia - Mediterranean and the Asia - Pacific Northwest 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 certain 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 three months ended 31 March, 2019).

2. Financial Position

2.1. Balance Sheet

The Company's total assets as of 31 March, 2019 amounted to $1,959.9M compared to $1,826.1M as of 31 December, 2018.

Assets

The Company's fixed assets (including right of use assets) as of 31 March, 2019 amounted to $1,233.4M compared to $990.1M as of 31 December, 2018, an increase of $243.3M. The increase was primarily driven by: (i) additions of $294.3M (including $266.7M related to the implementation of IFRS 16), offset by (ii) depreciation expenses of $47.3M (including $23.1M related to the implementation of IFRS 16) and (iii) disposals of $3.2M.

The Company's current assets as of 31 March, 2019 amounted to $646.1M compared to $746.6M as of 31 December, 2018, a decrease of $100.5M. The decrease was primarily driven by: (i) a decrease of $42.1M in short term deposits, (ii) a decrease of $41.5M in trade and other receivables, (iii) a decrease of $9.3M in the cash and cash equivalents and (iv) a decrease of 4.2M related to disposal of held for sale assets.

The current ratio as of 31 March, 2019 was 0.68 (0.75, 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 31 March, 2019 amounted to $1,483.1M compared to $1,258.0M as of 31 December, 2018, an increase of $225.1M. The increase was primarily driven by: (i) an increase of $273.7 related to additional lease liabilities (including $266.7M related to the implementation of IFRS 16), offset by (ii) repayments of borrowings of $50.0M (including $15.9M related to the implementation of IFRS 16).

The Company's current liabilities (excluding current maturities) as of 31 March, 2019 amounted to $667.8M compared to $731.7M as of 31 December, 2018, a decrease of $63.9M. The decrease was primarily driven by (i) a decrease in short term borrowings of $39.1M, (ii) a decrease in contract liabilities of $17.1M and (iii) a decrease in trade and other payables of $8.0M.

Equity

The Company's deficit in equity attributable to the owners of the Company as of 31 March, 2019 amounted to $256.8M compared to $230.3M as of 31 December, 2018, an increase of $26.5M. The increase was primarily driven by a loss attributable to the owners of the Company for the period ended 31 March, 2019 in the amount of $25.3M.

2.2. Income statements (*)

	Three months ended 31 March		Year ended 31 December
	2019	**2018**	**2018**
		Million US$	
Income from voyages and related services	**796.2**	751.4	3,247.9
Operating expenses and cost of services	**(703.0)**	(698.1)	(2,999.6)
Depreciation	**(45.1)**	(24.7)	(100.2)
Gross profit	**48.1**	28.6	148.1
Other operating income, net	**5.5**	0.4	(32.8)
General and administrative expenses	**(36.7)**	(36.1)	(143.9)
Share of profit of associates	**1.7**	1.9	5.4
Results from operating activities	**18.6**	(5.2)	(23.2)
Finance expenses, net	**(39.2)**	(25.3)	(82.6)
Loss before income tax	**(20.6)**	(30.5)	(105.8)
Income taxes	**(3.7)**	(3.6)	(14.1)
Loss for the period	**(24.3)**	(34.1)	(119.9)
Attributable to:			
Owners of the Company	**(25.3)**	(35.5)	(125.7)
Non-controlling interests	**1.0**	1.4	5.8

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

Income

The Company’s income from voyages and related services for the three months ended 31 March, 2019 was $796.2M compared to $751.4M for the three months ended 31 March, 2018, an increase of $44.8M (6.0%). The increase was primarily driven by: (i) an increase in income from containerized cargo of $25.7M, (ii) an increase in income from non-containerized cargo of $8.0M and (iii) an increase in income from demurrage of $7.1M.

The carried quantities for the three months ended 31 March, 2019 amounted to 668 thousand TEUs compared to 698 thousand TEUs for the three months ended 31 March, 2018, a decrease of 30 thousand TEUs (4.3%). The average revenue per TEU increased by $81 (8.6%) from about $938 for the three months ended 31 March, 2018 to about $1,019 for the three months ended 31 March, 2019.

Depreciation

The Company's operating depreciation expenses for the three months ended 31 March, 2019 were $45.1M compared to $24.7M for the three months ended 31 March, 2018, an increase of $20.4M, primarily driven by the implementation of IFRS 16.

Operating Expenses

The Company's operating expenses for the three months ended 31 March, 2019 were $703.0M compared to $698.1M for the three months ended 31 March, 2018, an increase of $4.9M (0.7%). The increase was primarily driven by: (i) an increase in expenses related to cargo handling of $22.1M (6.8%) , (ii) an increase in lease expenses of vessels and containers of $20.1M (including a decrease of $27.1M related to the implementation of IFRS 16), offset by (iii) a decrease in bunker expenses of $19.9M (16.2%) and (iv) a decrease in port expenses of $16.3M (23.8%).

Other Operating Income (Expenses), net

The Company’s other operating income, net for the three months ended 31 March, 2019 were $5.5M compared to $0.4M for the three months ended 31 March, 2018, an increase of $5.1M, primarily driven by an increase in capital gains.

General and Administrative Expenses

The Company’s general and administrative expenses for the three months ended 31 March, 2019 were $36.7M compared to $36.1M for the three months ended 31 March, 2018, an increase of $0.6M.

Finance Income (Expenses), net

The Company’s finance expenses, net for the three months ended 31 March, 2019 were $39.2M compared to $25.3M for the three months ended 31 March, 2018, an increase of $13.9M. The increase was primarily driven by: (i) an increase of $9.7M related to additional interest expenses recorded with respect to the implementation of the IFRS 16 and (ii) an increase of $4.8M related to foreign currency exchange difference.

Income Taxes

The Company's income taxes for the three months ended 31 March, 2019 were $3.7M compared to $3.6M for the three months ended 31 March, 2018, an increase of $0.1M.

3. Liquidity and Capital Resources

Main Cash flows data:

	Three months ended 31 March		Year ended 31 December
	2019	**2018**	**2018**
		Million US$	
Cash flows generated from operating activities	**59.7**	57.9	225.0
Cash flows generated from (used in) investing activities	**49.7**	(8.3)	51.1
Cash flows used in financing activities	**(119.2)**	(58.1)	(242.7)
Net change in cash during the period	**(9.8)**	(8.5)	33.4
Cash – opening balance	**186.3**	157.9	157.9
Effect of exchange rate fluctuation on cash held	**0.5**	0.9	(5.0)
Cash – closing balance	**177.0**	150.3	186.3

3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the three months ended 31 March, 2019 were $59.7M (including an increase of $23.5M related to the implementation of IFRS 16) compared to $57.9M for the three months ended 31 March, 2018, an increase of $1.8M.

3.2. Cash flows from Investing Activities

Cash flows generated from investing activities for the three months ended 31 March, 2019 were $49.7M compared to Cash flows used in investing activities of $8.3M for the three months ended 31 March, 2018, an overall change of $58.0M. The increase was primarily driven by: (i) a change in other investments (mainly short term deposits) of $42.4M, (ii) an increase in proceeds from sale of assets (mainly related to vessels classified as held for sale and real estate assets) of $10.7M and (iii) a decrease in acquisition of tangible asset, intangible assets and investments of $4.9M.

3.3. Cash flows from Financing Activities

Cash flows used in financing activities for the three months ended 31 March, 2019 were $119.2M compared to $58.1M for the three months ended 31 March, 2018, an increase of $61.1M. The increase was primarily driven by: (i) a change in short term loans of $45.2M, (ii) an increase in repayments of borrowings and lease liabilities of $10.1M (including $15.9M related to the implementation of IFRS 16) and (iii) an increase in interest payments of $6.0M (including $7.6M 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:

	Three months ended 31 March 2019 Million US$			**Three months ended 31 March 2018 Million US$**			**Year ended 31 December 2018 Million US$**		
	IFRS	**Adjustments**	**Adjusted (**)**	**IFRS**	**Adjustments**	**Adjusted**	**IFRS**	**Adjustments**	**Adjusted**
Gross profit	**48.1**	**3.4**	**51.5**	28.6	4.9	33.5	148.1	24.6	172.7
EBITDA (*)	**68.0**	**1.3**	**69.3**	22.6	4.9	27.5	126.3	24.4	150.7
Results from operating activities	**18.6**	**3.4**	**22.0**	(5.2)	4.9	(0.3)	(23.2)	62.3	39.1
Profit (loss) for the period	**(24.3)**	**6.8**	**(17.5)**	(34.1)	8.0	(26.1)	(119.9)	75.3	(44.6)

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

(**) Adjusted EBITDA and Adjusted results from operating activities for the period include a positive impact of US$ 26.7 million and US$ 5.7 million, respectively, due to the implementation of IFRS16. Adjusted loss for the period, includes a negative impact of US 4.0 million with respect to the implementation of IFRS 16.

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

	Three months ended 31 March		Year ended 31 December
	2019	2018	2018
		Million US$	
Accounting charter hire expenses (1)	**1.3**	4.9	20.0
Provision for legal claim			4.6
Amortization of Deferred Charter hire expenses (1)	**2.1**		
Gross profit	**3.4**	4.9	24.6
Capital gain (2)			(0.3)
Impairment of assets			38.0
Results from operating activities	**3.4**	4.9	62.3
Finance expenses, net (3)	**3.4**	3.1	13.0
	6.8	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 three months ended March 31, 2019, with respect to the implementation of IFRS 16 (leases) and the changes of presentation in the consolidated income statement.