

ZIM INTEGRATED SHIPPING SERVICES LTD.

Operating and Financial Review for the period ended 30 September, 2014

1. General

In recent years carriers' earnings have been volatile, with negative operating margins in 2013 and mixed trends in the first 9 month of 2014, being the result of the prolonged crisis in the global economy and the shipping industry in particular.

There are some global developments– the U.S is showing positive growth and China moves towards a more balanced economy, however, the situation is still unstable and factors having a negative effect on the industry still exist; excess supply worldwide is expected to continue together with a slowdown in some major economies.

2. Restructuring Plan

In order to cope with its challenging financial position, during 2013 the Company entered into negotiations with its financial creditors and other parties in an attempt to reach a consensual restructuring agreement, based on an agreed 5 year business plan, that was structured to provide long term stability to the Company. The restructuring was completed successfully and all conditions precedents were fulfilled on the 16th of July 2014.

The negotiations on the Company's debt restructuring involved representatives of the majority of the Company's financial creditors, related parties and additional stakeholders. As a result of the restructuring, among other things, the Company's outstanding indebtedness and liabilities (face value, including future commitments in respect of operating leases, and with regard to those parties participating in the restructuring) were reduced from \$ 3.4 billion to \$ 2 billion.

As a result of the above mentioned, presented hereunder is information regarding the effect of the debt restructuring on the Company's third quarter of 2014 financial statements:

(1) Statements of financial position:

| | Total Effect on Day 1 increase (decrease) |
|-------------------|--|
| | <u>Million US\$</u> |
| Total assets | (316) |
| Total liabilities | (1,166) |
| Total equity | 850 |

(2) Income statements:

| | Total Effect on Day 1 income (expenses) |
|-----------------------------------|--|
| | <u>Million US\$</u> |
| Results from operating activities | (239) |
| Net finance income | 186 |
| Income taxes | 41 |
| | <u>(12)</u> |

3. Financial Position

3.1. Balance Sheet

The Company's total assets as of 30 September, 2014 amounted \$2,208.8M, compared to \$2,601.8M as of 31 December, 2013.

Assets

The Company's fixed assets as of 30 September, 2014 amounted \$1,150.6 (52.1%), compared to \$1,968.3M (75.7%) as of 31 December, 2013, a decrease of \$817.7M. The decrease in the fixed assets during the reported period is mainly a result of: (i) de-recognition of assets, mainly of vessels resulting from the restructuring, in an amount of \$533.5M, (ii) classification of vessels designated for scrap as "held for sale", mainly following commitments taken as part of the restructuring, in an amount of \$200.5M and (iii) depreciation expenses in an amount of \$94.3M.

The Company's current assets as of 30 September, 2014 amounted \$792.9M, compared to \$519.6M as of 31 December, 2013, an increase of \$273.3M. The increase in the current assets is mainly due to: (i) an increase in cash and cash equivalents of \$115.1M (mainly part of the proceeds from the equity investment made by Israel Corporation), (ii) an increase in assets classified as "held for sale" of \$69.1M and (iii) an increase in other investments in an amount of \$59.8M.

The Company's financial assets (excluding trade receivables, other receivables and derivative instruments) as of 30 September, 2014 amounted to \$390.4M, compared to \$141.6M as of 31 December, 2013, an increase of \$248.8M. The increase in the financial assets is mainly due to: (i) an increase in cash and cash equivalents in an amount of \$115.1M (mainly part of the proceeds from the equity investment made by Israel Corporation), (ii) an increase in long term deposits in an amount of \$73.9M and (iii) an increase in other investments in an amount of \$59.8M.

Liabilities

The Company's long-term liabilities as of 30 September, 2014 amounted \$1,332.2M compared to \$733.8M as of 31 December, 2013, an increase of \$598.4M. The increase in the Company's long-term liabilities is mainly a result of: (i) as of 31 December, 2013, loans, bonds and other liabilities, in an overall amount of \$1,505.0M were reclassified, from long term to short term in accordance with the accounting standard IAS 1, (ii) formation of new financial liabilities as part of the restructuring in an amount of \$1,087.0M (iii) receipt of long term loans, capital lease and other long term liabilities in an amount of \$161.6M, (iv) a decrease in current maturities in an amount of \$130.1M, (v) an increase in the liabilities from the charter hire reductions in an amount of \$57.9M, offset by (vi) de-recognition of pre restructuring financial liabilities in an amount of \$2,262.9M and (vii) repayment of borrowings in an amount of \$119.3M.

The Company's current liabilities as of 30 September, 2014 amounted \$791.5M compared to \$2,446.1M as of 31 December, 2013, a decrease of \$1,654.6M. The decrease in the current liabilities is mainly due to: (i) as of 31 December, 2013 loans, bonds and other liabilities, in an overall amount of \$1,505.0M were reclassified, from long term to short term in accordance with the accounting standard IAS 1, (ii) a decrease in current maturities in an amount of \$130.1M, (iii) a decrease in trade and other payables in an amount of \$71.0M, offset by (iv) an increase in short term loans in an amount of \$48.7M.

The current ratio as of 30 September, 2014 was 1.0 compared to 0.21 as of 31 December, 2013.

The Company's financial liabilities (excluding trade payables, other payables and derivatives instruments) as of 30 September, 2014 amounted \$1,513.8M compared to \$2,519.8M as of 31 December, 2013, a decrease of \$1,006.0M. The decrease in the financial liabilities is a combination of: (i) de-recognition of

pre restructuring financial liabilities in an amount of \$2,262.6M, (ii) repayment of borrowings in an amount of \$119.3M, offset by (iii) formation of new financial liabilities as part of the restructuring in an amount of \$1,087.0M (iv) receipt of long term loans, capital lease and other long term liabilities in an amount of \$161.6M, (v) an increase in the liabilities from the charter hire reductions in an amount of \$57.9M and (vi) an increase in short term loans in an amount of \$48.7M.

Equity

The Company's equity attributable to the owners of the Company as of 30 September, 2014 amounted \$78.8M compared to a deficit in the equity attributable to the owners in an amount of \$582.6M as of 31 December, 2013, an increase of \$661.4M. The increase is mainly due to: (i) an issuance of share capital in an amount of \$625.0M, (ii) an increase in general reserve from transactions with interested parties as a result of forgiveness of loans in an amount of \$237.6M (net of tax), offset by (iii) net loss attributable to the owners of the Company during the reported period in an amount of \$197.0M.

3.2. Operating Results

| | Nine months ended 30 September | | Three months ended 30 September | | Year ended 31 December 2013 |
|---|-----------------------------------|-----------|------------------------------------|---------|--------------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | Million US\$ | | | | |
| Revenues from shipping and related services | 2,595.8 | 2,794.2 | 854.1 | 899.6 | 3,682.2 |
| Operating expenses and cost of services | (2,402.4) | (2,687.3) | (789.0) | (857.3) | (3,554.7) |
| Operating depreciation | (91.5) | (109.0) | (23.5) | (35.5) | (144.0) |
| De-recognition of payments on account of vessels | | | | | (71.6) |
| Gross profit (loss) | 101.9 | (2.1) | 41.6 | 6.8 | (88.1) |
| Other operating income (expenses), net | (231.6) | 73.9 | (236.1) | 44.8 | 70.1 |
| General and administrative expenses | (116.1) | (106.9) | (33.6) | (35.1) | (148.6) |
| Early retirement expenses | (23.2) | (24.0) | (23.2) | | (24.0) |
| Results from operating activities | (269.0) | (59.1) | (251.3) | 16.5 | (190.6) |
| Financing income (expenses), net | 44.0 | (180.5) | 150.7 | (56.2) | (326.8) |
| Share of profit of associated companies | 8.7 | 6.7 | 3.5 | 3.1 | 10.0 |
| Loss before income tax | (216.3) | (232.9) | (97.1) | (36.6) | (507.4) |
| Income taxes | 24.7 | (15.8) | 34.4 | (5.7) | (22.9) |
| Loss for the period | (191.6) | (248.7) | (62.7) | (42.3) | (530.3) |
| <u>Attributable to:</u> | | | | | |
| The owners of the Corporation | (197.0) | (252.3) | (64.6) | (43.6) | (535.0) |
| Non-controlling interests | 5.4 | 3.6 | 1.9 | 1.3 | 4.7 |

Revenues

The Company's revenues from shipping and related services during the nine months ended 30 September, 2014 (hereinafter: "the reported period") were \$2,595.8M compared to \$2,794.2M in the corresponding period last year, a decrease of \$198.4M (7.1%). The decrease in the revenues was mainly due to: (i) a \$118.9M decrease in income from containerized cargo, (ii) a decrease in income of subsidiaries in an amount of \$94.9M. The carried quantities during the reported period was about 1,793 thousand TEUs (Twenty Foot equivalent Units), compared to about 1,873 thousand TEUs in the corresponding period last year, a decrease of 80 thousand TEUs (about 4.3%). During the reported period, the average revenue per TEU decreased by about \$11 (0.9%) from about \$1,243 per TEU to about \$1,232 per TEU in the corresponding period last year.

The Company's revenues from shipping and related services during the three months ended on 30 September, 2014 were \$854.1M, compared to \$899.6M during the corresponding quarter, a decrease of \$45.5M (5.1%). The decrease in the revenues was mainly due to a decrease in income from containerized cargo of \$56.0M. The carried quantities during the three months ended 30 September, 2014 amounted to about 557 thousand TEUs, compared to about 640 thousand TEUs in the corresponding quarter, a decrease of 83 thousand TEUs (13.0%). During the reported period, the average revenue per TEU increased by \$79 (6.6%) from about \$ 1,202 per TEU to about \$1,281 per TEU. The decrease in the carried TEUs was mainly a result of closing the line from Asia to Northern Europe during the second quarter of 2014.

Operating Expenses

The Company's operating expenses during the reported period were \$2,402.4M, compared to \$2,687.3M during the corresponding period last year, a decrease of \$284.9M (10.6%). The decrease in the operating expenses was mainly due to: (i) a decrease in bunker expenses in an amount of \$122.0M (18.7%), (ii) a decrease in expenses of subsidiaries in an amount of \$89.7M, (iii) a decrease in charter hire of vessels expenses in an amount of \$36.1M (9.4%) and (iv) a decrease in expenses incidental to cargo handling in an amount of \$26.6M (2.6%).

The Company's operating expenses during the three months ended on 30 September, 2014 were \$789.0M compared to \$857.3M during the corresponding quarter, a decrease of \$68.3M (8.0%). The decrease in the operating expenses was mainly due to: (i) a decrease in bunker expenses in an amount of \$36.6M (17.0%) and (ii) a decrease in charter hire of vessels expenses in an amount of \$12.5M (9.8%).

Other Operating Expenses, Net

The Company's other operating expenses, net during the reported period were \$231.6M compared to other operating income, net in amount of \$73.9M during the corresponding period last year, a change of \$305.5M. The change was mainly due to: (i) impairment of vessels designated for scrap in an amount of \$126.7M during the reported period, (ii) a capital loss, mainly on vessels as a result of the restructuring, in an amount of \$107.7M and (iii) compared to a capital gain in an amount of \$71.6M during the corresponding period last year.

The Company's other operating expenses, net during the three months ended on 30 September, 2014 were \$236.1M compared to other operating income, net in an amount of \$44.8M during the corresponding quarter, a change of \$280.9M. The change was mainly due to: (i) impairment of vessels designated for scrap in an amount of \$126.7M during the reported period, (ii) a capital loss, mainly on vessels as a result of the restructuring, in an amount of \$109.3M and (iii) compared to a capital gain in an amount of \$43.7M during the corresponding quarter.

General and Administrative Expenses

The Company's general and administrative expenses during the reported period were \$116.1M, compared to \$106.9M during the corresponding period last year, an increase of \$9.2M (8.6%). The increase was mainly due to: (i) an increase in employee benefits liabilities in an amount of \$2.3M and (ii) an increase in consulting expenses in an amount of \$3.8M.

The Company's general and administrative expenses during the three months ended on 30 September, 2014 were \$33.6M compared to \$35.1M during the corresponding quarter last year, a decrease of \$1.5M (4.3%).

Finance income (expenses), net

The Company's finance income, net during the reported period was \$44.0M compared to finance expenses, net in an amount of \$180.5M during the corresponding period last year, a change of 224.5M \$. The change in finance expenses/ income, net was mainly due to: (i) a gain as a result of the restructuring in an amount of \$186.0M, (ii) a change in the revaluation of derivatives in connection with the 2009 debt restructuring in an amount of \$20.2M, (iii) a decrease in indexation and foreign currency exchange differences expenses in an amount of \$19.9M, (iv) a decrease in the net interest expenses, in an amount of \$14.7M, offset by (v) an increase in the restructuring expenses in an amount of \$13.5M.

The Company's finance income, net for the three months ended on 30 September, 2014 was \$150.7M compared to finance expenses, net in an amount of \$56.2M during the corresponding quarter last year, a change of \$206.9M. The change in the finance expenses/ income, net was mainly due to: (i) a gain as a result of the restructuring in an amount of \$186.0M, (ii) a decrease in the interest expenses, net in an amount of \$15.3M and (iii) a decrease in indexation and foreign currency exchange differences in an amount of \$7.9M.

Income Taxes

The Company's income tax during the reported period was to \$24.7M income compared to \$15.8M tax expenses during the corresponding period last year, an overall change of \$40.5M. The change was mainly due to a one off deferred tax income in an amount of \$41.1M during the reported period, due to forgiveness of loans from related parties under the restructuring.

The Company's income tax during the three months ended on 30 September, 2014 was \$34.4M income compared to \$5.7M tax expenses during the corresponding quarter last year, an overall change of \$40.1M. The change was mainly due to a one off deferred tax income in an amount of \$41.1M during the three months ended on 30 September, 2014, due to forgiveness of loans from related parties under the restructuring.

4. Liquidity and Capital Resources

Main Cash flows data:

| | Nine months ended 30 September | | Three months ended 30 September | | Year ended 31 December |
|---|-----------------------------------|---------|------------------------------------|--------|------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| Million US\$ | | | | | |
| Cash flows generated from (used in) operating activities | 78.5 | (7.7) | 37.2 | 15.3 | 12.6 |
| Cash flows generated from (used in) investing activities | (105.9) | 128.4 | (81.5) | 52.4 | 133.2 |
| Cash flows generated from (used in) financing activities | 144.6 | (189.2) | 173.1 | (80.7) | (209.0) |
| Net change in cash during the period | 117.2 | (68.5) | 128.8 | (13.0) | (63.2) |
| Cash – opening balance | 123.2 | 187.5 | 110.9 | 131.3 | 187.5 |
| Effect of exchange rate fluctuation on cash held | (2.0) | (1.0) | (1.3) | (0.3) | (1.1) |
| Cash – closing balance | 238.4 | 118.0 | 238.4 | 118.0 | 123.2 |

4.1. Cash flows from Operating Activities

Cash flows generated from operating activities during the reported period amounted to \$78.5M compared to cash flows used in operating activities in an amount of \$7.7M during the corresponding period last year, an increase of \$86.2M.

Cash flows generated from operating activities during the three months ended on 30 September, 2014 amounted to \$37.2M compared to \$15.3M during the corresponding quarter, an increase of \$21.9M.

4.2. Cash flows from Investing Activities

Cash flows used in investing activities during the reported period amounted \$105.9M compared to cash flows generated from investing activities in an amount of \$128.4M during the corresponding period last year, a decrease of \$234.3M. The decrease was mainly due to: (i) \$90M (out of the \$200M invested by Israel Corporation in the Company's share capital) which were agreed to serve as a reserve for investments in the business of the Company, under the provisions agreed in the restructuring agreements were invested in a deposit, (ii) an additional increase in other investments and other receivables in an amount of \$44.3M, (iii) a decrease in the proceeds from the sale of assets in an amount of \$78.0M and (iv) due to refunds from payments on account of vessels in an amount of \$30.0M in the corresponding period last year.

Cash flows used in investing activities during the three months ended on 30 September, 2014 amounted \$81.5M, compared to cash flows generated from investing activities in an amount of \$52.4M during the corresponding quarter, a decrease of \$133.9M. The decrease in cash flows was mainly due to: (i) the \$90M described above were invested in a deposit, (ii) an additional increase in other investments and

other receivables in an amount of \$11.4M and (iii) a decrease in proceeds from the sale of assets in an amount of \$35.5M.

4.3. Cash flows from Financing Activities

Cash flows generated from financing activities during the reported period amounted \$144.6M compared cash flows used in financing activities in an amount of \$189.2M during the corresponding period last year, an increase of \$333.8M. The increase was mainly due to: (i) an issuance of share capital in an amount of \$200.0M and (ii) an increase in receipt of long term loans and capital lease in an amount of \$142.9M.

Cash flows generated from financing activities during the three months ended on 30 September, 2014 amounted \$173.1M compared to cash flows used in financing activities in an amount of \$80.7M during the corresponding quarter, an increase in cash flows generated from financing activities in an amount of \$253.8M. The increase was mainly due to: (i) an issuance of share capital in an amount of \$200.0M and (ii) an increase in receipt of long term loans and capital lease in an amount of \$79.9M.

5. Supplemental Non-GAAP Income Data

The tables below present supplemental data, which we believe facilitates a better understanding of the factors affecting our business. The Non-GAAP results presented after the Non-GAAP adjustments as detailed below are used by management and our board of directors to evaluate the Company's operational performance.

In arriving at the Non-GAAP 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 they not singled out, potentially lead to extrapolate future performance from an improper base.

The following table presents the GAAP measures, the Non-GAAP adjustments and the corresponding Non-GAAP results:

| | Nine months ended 30 September | | | | | |
|--|--------------------------------|---------------------|----------|---------|---------------------|----------|
| | 2014 | | | 2013 | | |
| | US\$ million | | | | | |
| | GAAP | Non-GAAP Adjustment | Non-GAAP | GAAP | Non-GAAP Adjustment | Non-GAAP |
| Gross profit (loss) | 101.9 | (9.5) | 92.4 | (2.1) | (22.3) | (24.4) |
| Results from operating activities | (269.0) | 252.0 | (17.0) | (59.1) | (38.4) | (97.5) |
| Profit (loss) for the period attributable to the owners of the Company | (197.0) | 67.7 | (129.3) | (252.3) | 18.5 | (233.8) |

| | Three months ended September 30 | | | | | |
|--|---------------------------------|---------------------|----------|--------|---------------------|----------|
| | 2014 | | | 2013 | | |
| | US\$ million | | | | | |
| | GAAP | Non-GAAP Adjustment | Non-GAAP | GAAP | Non-GAAP Adjustment | Non-GAAP |
| Gross profit (loss) | 41.6 | 3.7 | 45.3 | 6.8 | (11.9) | (5.1) |
| Results from operating activities | (251.3) | 265.2 | 13.9 | 16.5 | (44.9) | (28.4) |
| Profit (loss) for the period attributable to the owners of the Company | (64.6) | 42.4 | (22.2) | (43.6) | (34.2) | (77.8) |

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

| | Nine months ended September 30 | | Three months ended September 30 | |
|--|-----------------------------------|--------|------------------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| | US\$ million | | | |
| Accounting charter hire expenses (1) | (9.5) | (22.3) | 3.7 | (11.9) |
| Gross profit (loss) | (9.5) | (22.3) | 3.7 | (11.9) |
| Capital gain (loss) (2) | 110.2 | (44.0) | 110.2 | (33.0) |
| Impairment of assets (3) | 126.7 | | 126.7 | |
| Restructuring expenses | 1.4 | 3.9 | 1.4 | |
| Termination benefit plan | 23.2 | 24.0 | 23.2 | |
| Results from operating activities | 252.0 | (38.4) | 265.2 | (44.9) |
| Finance expenses (4) | 42.9 | 56.9 | 4.4 | 10.7 |
| Restructuring gain, net (5) | (186.0) | | (186.0) | |
| Deferred Tax income (5) | (41.2) | | (41.2) | |
| Profit (loss) for the period attributable to the owners of the Company | 67.7 | 18.5 | 42.4 | (34.2) |

- (1) Mainly non cash charter hire accounting adjustments in relate to 2009 and 2014 restructuring.
- (2) Excluding those generated in the ordinary course of business.
- (3) In relate to 10 vessels designated for scrap- see note 1(b) and 5 (e) to the third quarter 2014 company's financial statements.
- (4) Mainly include revaluation of 2009 restructuring derivatives, loans fair value adjustments, amortization and restructuring related expenses.
- (5) In relate to 2014 restructuring - see note 1(b) to the third quarter 2014 company's financial statements.

Use of Non-GAAP Measures:

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