ZIM INTEGRATED SHIPPING SERVICES LTD.

Operating and Financial Review for the period ended 30 September, 2016

1. General

The container shipping industry is dynamic and volatile and has been marked in recent years by instability as a result of a prolonged global economic crisis, continued deterioration of market environment which is characterized by slower growth of demand and worsening overcapacity combined with increased uncertainty due to the realigning of global alliances and mergers. This situation combined with carriers' ambitions to increase and protect their market share led freight rates to fall sharply in most of the trades, mainly since the second half of 2015. The year 2016 continued to be very challenging. Container freight rates hit historical lows across major trades, as new vessel capacity was added, while market demand remained weak. Around the end of August, one of the top ten companies in the industry, filed for court receivership. Although it is too early to forecast the implications of such event, since then, freight rates, mainly in the Pacific trade, increased.

In view of the aforementioned continued deterioration in the business environment, the volatile bunker prices, and in order to improve the company's results of operations and liquidity position, Management continues to optimize the Company's network rationalizations including establishment of new partnerships, invest in upgrading customer services and constantly strive to create and maintain efficiencies and cost reductions. During the third quarter, the Company recorded positive EBITDA in the amount of $17.7M and generated positive cash flows from operating activities in the amount of $12.7M.

However, continuation of this trend could negatively affect the entire industry and also affect the Company's business, financial position, results of operations, cash flows and compliance with certain financial covenants. The current instability and volatility in the market make forecasting very challenging, as a result, there is a possibility that the Company's actual performance may differ from expectations.

Following the balance sheet date, the Company reached agreements with some of its creditors on a plan of rescheduling payments – for further details, see Note 4(a) to the company's interim financial statements for the period ended September 30, 2016.

2. Financial Position

2.1. Balance Sheet

The Company's total assets as of 30 September, 2016 amounted to $1,660.7M, compared to $1,912.3M as of 31 December, 2015.

Assets

The Company's fixed assets as of 30 September, 2016 amounted to $1,063.1M compared to $1,100.9M as of 31 December, 2015, a decrease of $37.8M. The decrease was primarily driven by: (i) depreciation expenses in an amount of $65.9M, and (ii) sale of assets in a net carrying amount of $6.5M, offset by (iii) acquisitions of fixed assets (mainly financial leases) in an amount of $38.3M.

The Company's current assets as of 30 September, 2016 amounted to $481.7M, compared to $616.3M as of 31 December, 2015 a decrease of $134.6M. The decrease was primarily driven by the following: (i) a decrease in cash and cash equivalents in amount of $58.9M. (ii) a decrease in trade and other receivables in an amount of $35.6M. (iii) a decrease in short term deposits in an amount of $34.2M, (iv) a decrease in inventories in an amount of $6.6M.

The current ratio as of 30 September, 2016 was 0.82 compared to 1.01 as of 31 December, 2015.

Liabilities

The Company's long-term loans and other liabilities (including current maturities) as of 30 September, 2016 amounted to $1,233.1M compared to $1,262.3M as of 31 December, 2015, a decrease of $29.2M. The decrease was primarily driven by: (i) repayments of borrowings in an amount of $74.8M, offset by (ii) an increase in financial leases in an amount of $33.9M and (iii) fair value adjustment amortization in an amount of $8.4M.

The Company's current liabilities (excluding current maturities) as of 30 September, 2016 amounted to $456.5M compared to $496.0M as of 31 December, 2015, a decrease of $39.5M. The decrease was primarily driven by a decrease in short term borrowings in an amount of $48.9M offset by an increase in trade payables in an amount of $12.7M.

Equity

The Company's deficit in equity attributable to the owners of the Company as of 30 September, 2016 amounted to $103.5M compared to equity attributable to the owners of the company in an amount of $74.8M as of 31 December, 2015, a decrease of $178.3M. The decrease was primarily driven by (i) a loss attributable to the owners of the Company for the period ended 30 September, 2016 in an amount of $171.2M and (ii) a change in translation reserve in an amount of $8.2M.

2.2. Income statements

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2016	**2015**	**2016**	**2015**	**2015**
			Million US$		
Income from voyages and related services	**1,885.8**	2,304.0	**643.9**	749.0	2,991.1
Operating expenses and cost of services	**(1,809.8)**	(2,046.6)	**(608.9)**	(695.8)	(2,692.6)
Depreciation	**(63.3)**	(61.6)	**(21.3)**	(21.2)	(82.4)
Gross profit	**12.7**	195.8	**13.7**	32.0	216.1
Other operating income, net	**15.7**	28.6	**14.3**	34.9	29.3
General and administrative expenses	**(106.5)**	(108.5)	**(35.2)**	(32.5)	(147.4)
Results from operating activities	**(78.1)**	115.9	**(7.2)**	34.4	98.0
Finance expenses, net	**(79.4)**	(74.1)	**(25.8)**	(19.9)	(102.8)
Share of profit of associates (net of tax)	**3.8**	7.2	**1.4**	1.5	9.4
Profit (loss) before income tax	**(153.7)**	49.0	**(31.6)**	16.0	4.6
Income taxes	**(14.4)**	(14.1)	**(6.0)**	(4.9)	1.9
Profit (loss) for the period	**(168.1)**	34.9	**(37.6)**	11.1	6.5
<u>Attributable to:</u>					
Owners of the Company	**(171.2)**	31.9	**(38.7)**	11.0	2.3
Non-controlling interests	**3.1**	3.0	**1.1**	0.1	4.2

Income

The Company’s income from voyages and related services for the period ended 30 September, 2016 was $1,885.8M compared to $2,304.0M for the period ended 30 September, 2015, a decrease of $418.2M (18.2%). The decrease was primarily driven by a decrease in income from containerized cargo in an amount of $385.9M, as a result of a reduction in freight rates.

The carried quantities for the period ended 30 September, 2016 amounted to 1,816 thousand TEUs (Twenty Foot equivalent Units), compared to 1,719 thousand TEUs for the period ended 30 September, 2015, an increase of 97 thousand TEUs (5.6%). The average revenue per TEU decrease by $275 (23.4%) from about $1,173 per TEU for the period ended 30 September, 2015 to about $898 per TEU for the period ended 30 September, 2016.

The Company’s income from voyages and related services for the three months ended 30 September, 2016 was $643.9M compared to $749.0M for the three months ended 30 September, 2015, a decrease of $105.1M (14.0%). The decrease was primarily driven by a decrease in income from containerized cargo in an amount of $99.5M, as a result of a reduction in freight rates.

The carried quantities for the three months ended 30 September, 2016 amounted to 622 thousand TEUs (Twenty Foot equivalent Units) compared to 581 thousand TEUs for the three months ended 30 September, 2015, an increase of 41 thousand TEUs (7.1%). The average revenue per TEU decreased by $233 (20.8%) from about $1,120 per TEU for the three months ended 30 September, 2015 to about $887 for the three months ended 30 September, 2016.

Operating Expenses

The Company's operating expenses for the period ended 30 September, 2016 were $1,809.8M, compared to $2,046.6M for the period ended 30 September, 2015, a decrease of $236.8M (11.6%). The decrease was primarily driven by the following: (i) a decrease in bunker expenses in an amount of $132.5M (40.2%), (ii) a decrease in charter hire expenses in amount of $42.1M (12.5%), (iii) a decrease in expenses related to cargo handling in an amount of $35.4M (3.8%) and (vi) a decrease in port expenses in an amount of $13.0M (6.9%).

The Company's operating expenses for the three months ended 30 September, 2016 were $608.9M, compared to $695.8M for the three months ended 30 September, 2015, a decrease of $86.9M (12.5%).
The decrease was primarily driven by the following: (i) a decrease in bunker expenses in an amount of $42.2M (36.2%), (ii) a decrease in charter expenses in an amount of $28.9M (23.8%) and (iii) a decrease in expenses related to cargo handling in an amount of $14.3M (4.6%).

Other Operating Income (Expenses), net

The Company’s other operating income, net for the period ended 30 September, 2016 were $15.7M compared to $28.6M for the period ended 30 September, 2015, a decrease of $12.9M. The decrease was primarily driven by a decrease in capital gain in an amount of $23.6M offset by a decrease in impairment expenses in an amount of $6.2M.

The Company’s other operating income, net for the three months ended 30 September, 2016 decreased by $20.6M compared the three months ended 30 September, 2015. The decrease was primarily driven by decrease in capital gain in an amount of $21.9M.

General and Administrative Expenses

The Company's general and administrative expenses for the period ended 30 September, 2016 were $106.5M, compared to $108.5M for the period ended 30 September, 2015, a decrease of $2.0M (1.5%). The decrease was primarily driven by a decrease in consulting and legal fees expenses in an amount of $3.7M, offset by an increase in salaries and related expenses in an amount of $1.3M.

The Company's general and administrative expenses for the three months ended 30 September, 2016 were $35.2M, compared to $32.5M for the three months ended 30 September, 2015, an increase of $2.7M (8.3%). The change was primarily driven by a decrease in the three months ended 30 September, 2015 in accrual related to compensation plan, in an amount of $2.4M.

Finance Expenses, net

The Company's finance expenses, net for the period ended 30 September, 2016 were $79.4M compared to $74.1M for the period ended 30 September, 2015, an increase of $5.2M (7.0%). The increase was primarily driven by (i) an increase in interest expenses (mainly related to the credit facility) in an amount of $1.9M, (ii) an increase of $1.6M related to the rescheduling payments plan and (iii) an increase of $1.7M related to the foreign currency exchange differences and impairment losses on trade and other receivables.

The Company's finance expenses, net for the three months ended 30 September, 2016 were $25.7M compared to $19.9M for the three months ended 30 September, 2015, an increase of $5.8M (29.0%). The change was primarily driven by an increase in the foreign currency exchange differences in an amount of $3.4M.

Income Taxes

The Company's income tax for the period ended 30 September, 2016 was $14.4M compared to $14.1M for the period ended 30 September, 2015, an increase of $0.3M.

The Company's income taxes for the three months ended 30 September, 2016 were $6.0M compared to $4.9M for the three months ended 30 September, 2015, an increase of $1.1M.

3. Liquidity and Capital Resources

Main Cash flows data:

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2016	**2015**	**2016**	**2015**	**2015**
			Million US$		
Cash flows generated from operating activities	**15.7**	156.4	**12.7**	16.9	173.1
Cash flows generated from investing activities	**109.5**	87.5	**38.4**	89.2	103.5
Cash flows used in financing activities	**(181.8)**	(187.9)	**(111.0)**	(77.6)	(282.6)
Net change in cash during the period	**(56.6)**	56.0	**(59.9)**	28.5	(6.0)
Cash – opening balance	**218.7**	230.4	**220.9**	255.9	230.4
Effect of exchange rate fluctuations on cash held	**(2.3)**	(5.2)	**(1.2)**	(3.2)	(5.7)
Cash – closing balance	**159.8**	281.2	**159.8**	281.2	218.7

3.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the period ended 30 September, 2016 were $15.7M compared to $156.4M for the period ended 30 September, 2015, a decrease of $140.7M.

Cash flows generated from operating activities for the three months ended 30 September, 2016 were $12.7 compared to cash flows generated from operating activities of $16.9M for the three months ended 30 September 2015, a decrease of $4.2M.

3.2. Cash flows from Investing Activities

Cash flows generated from investing activities for the period ended 30 September, 2016 were $109.5M compared to cash flow generated from investing activities of $87.5M for the period ended 30 September, 2015, an increase of $22.0M. The increase was primarily driven by the following: (i) a change in other investments and other receivables (mainly change in short term deposits) in an amount of $98.9M, and (ii) a decrease in acquisition of tangible assets, intangible assets and investments in an amount of $18.1M, offset by (iii) a decrease in proceeds from sale of tangible and intangible assets, investments and subsidiaries in an amount of $68.6M and (iv) a repayment during the nine months ended 30 September, 2015 of long-term loan granted to associates in an amount of $27.2M.

Cash flows generated from investing activities for the three months ended 30 September, 2016 were $38.4M compared to $89.2M, for the three months ended 30 September, 2015, a decrease of $50.8M. The decrease was primarily driven by the following: (i) a decrease in proceeds from sale of tangible and intangible assets, investments and subsidiaries in an amount of $53.2M (ii) a repayment during the three months ended 30 September, 2015 of long-term loan granted to associates in an amount of $27.2M, offset by (iii) a change in other investments (mainly short term deposits) in an amount of $28.6M.

3.3 Cash flows from Financing Activities

Cash flows used in financing activities for the period ended 30 September, 2016 were $181.7M compared to $187.9M for the period ended 30 September, 2015, a decrease of $6.2M. The decrease was primarily driven by a decrease in interest paid in an amount of $8.3M.

Cash flows used in financing activities for the three months ended 30 September, 2016 were $111.0M compared to $77.6M for the three months ended 30 September, 2015, an increase of $33.4M. The increase was primarily driven by the following: (i) a change in short term loans in an amount of $65.7M, offset by (ii) a decrease in repayment of borrowing in an amount of $25.5M and (iii) a decrease in interest and other financial expenses paid in an amount of $6.7M.

4. Supplemental Non-IFRS Income Data

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:

	Nine months ended 30 September 2016			Nine months ended 30 September 2015			Year ended 31 December 2015		
	Million US$								
	GAAP	Non-GAAP Adjustment	Non-GAAP	GAAP	Non-GAAP Adjustment	Non-GAAP	GAAP	Non-GAAP Adjustment	Non-GAAP
Gross profit	**12.7**	**19.2**	**31.9**	195.8	25.9	221.7	216.1	36.7	252.8
EBITDA (*)	**(2.9)**	**5.7**	**2.8**	197.2	(0.4)	196.8	204.4	12.3	216.7
Results from operating activities	**(78.1)**	**6.8**	**(71.3)**	115.9	7.0	122.9	98.0	19.7	117.7
Profit (loss) for the period attributable to the owners of the Company	**(171.2)**	**16.8**	**(154.4)**	31.9	15.6	47.5	2.3	11.1	13.4

	Three months ended 30 September 2016			Three months ended 30 September 2015		
	Million US$					
	GAAP	Non-GAAP Adjustment	Non-GAAP	GAAP	Non-GAAP Adjustment	Non-GAAP
Gross profit	**13.7**	**6.3**	**20.0**	32.0	7.5	39.5
EBITDA (*)	**17.7**	**(7.2)**	**10.5**	60.7	(22.9)	37.8
Results from operating activities	**(7.2)**	**(7.2)**	**(14.4)**	34.4	(22.1)	12.3
Profit (loss) for the period attributable to the owners of the Company	**(38.7)**	**(2.8)**	**(41.5)**	11.0	(19.1)	(8.1)

(*) Net income (loss) excluding financial expenses, net, income taxes, share of profit of associates and depreciation and amortization.

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

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2016	**2015**	**2016**	**2015**	**2015**
	Million US$				
Accounting charter hire expenses (1)	**19.2**	25.9	**6.3**	7.5	32.2
Provision for legal claim					4.5
Gross profit	**19.2**	25.9	**6.3**	7.5	36.7
Capital gain (2)	**(13.5)**	(30.5)	**(13.5)**	(30.4)	(28.6)
Impairment of assets (3)	**1.1**	7.4		0.8	7.4
Other one off expenses (4)		4.2			4.2
Results from operating activities	**6.8**	7.0	**(7.2)**	(22.1)	19.7
Finance expenses, net (5)	**10.0**	8.6	**4.4**	3.0	14.1
Income taxes (6)					(22.7)
Profit (loss) for the period attributable to the owners of the Company	**16.8**	15.6	**(2.8)**	(19.1)	11.1

(1) Mainly non cash charter hire accounting adjustments relating to the restructuring. For the three months ended 31 December, 2015, includes an amount of $3.4M relating to an early termination of charter agreements of two vessels.
(2) Excluding those generated in the ordinary course of business.
(3) Related to vessels and equipment designated for scrap/sale.
(4) As a result of an early termination of charter agreements of 2 vessels.
(5) Mainly includes loans' fair value adjustment amortization and restructuring related expenses.
(6) In the year ended 31 December, 2015, in connection with a subsidiary's provision reversal related to previous years.

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. Following the recent trends in the shipping industry, The Company conducted an impairment test of its operating assets, as of June 30, 2016 – for further details, see Note 4(b) to the company's interim financial statements for the period ended September 30, 2016.

6. During the third quarter, the group sold real-estate assets, resulted with a capital gain in the amount of US$ 14 million, see also Note 4(e) to the company's interim financial statements for the period ended September 30, 2016.