

ZIM INTEGRATED SHIPPING SERVICES LIMITED

CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

30 SEPTEMBER 2014

ZIM INTEGRATED SHIPPING SERVICES LTD.

INDEX TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS:	
Condensed consolidated interim Statements of Financial Position	3
Condensed consolidated interim Income Statements	4
Condensed consolidated interim Statements of Comprehensive Income	5
Condensed consolidated interim Statements of Changes in Equity	6-7
Condensed consolidated interim Statements of Cash Flows	8-9
Notes to the condensed consolidated interim Financial Statements	10-17



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Review Report to the Shareholders of Zim Integrated Shipping Services Ltd.

Introduction

We have reviewed the accompanying financial information of Zim Integrated Shipping Services Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of September 30, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine and three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute approximately 9% of the total consolidated assets as at September 30, 2014 and whose revenues constitute approximately 5% of the total consolidated revenues for each of the nine and three month period then ended. Furthermore, we did not review the condensed interim financial information of equity accounted investees the investment in which amounted to \$ 10 million as at September 30, 2014, and the Group’s share in their profits amounted to \$ 5 million and \$ 3 million for the nine and three month period then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of review

We conducted our review in accordance with Standard on Review Engagements 1, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

We refer to Note 1b of the financial statements regarding the financial position of the Company, the completion of the Restructuring and to Management and the Board of Directors’ assessment that the completion of the Restructuring as described in that note, enables the Company to meet its liabilities and operational needs and to comply with the new set of financial covenants for a period of at least 12 months after the balance sheet date.


Somekh Chaikin

Certified Public Accountants (Isr.)


Haifa, November 20, 2014

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	30 September		31 December
	2014	2013(*)	2013
	(Unaudited)		(Audited)
	US \$'000		
Assets			
Vessels	823,466	1,706,746	1,602,325
Containers and handling equipment	306,149	354,875	342,300
Other tangible assets	20,967	24,174	23,669
Intangible assets	58,031	63,437	62,182
Investments in associates	17,139	9,397	10,806
Other investments, including derivatives	73,952	84,205	
Deferred expenses	90,185		
Trade and other receivables	24,823	38,707	39,629
Deferred tax assets	1,195	4,719	1,349
Total non-current assets	1,415,907	2,286,260	2,082,260
Inventories	96,636	106,400	100,881
Assets classified as held for sale	72,558		3,441
Trade and other receivables	307,163	323,292	273,678
Other investments	78,080	2,389	18,255
Cash and cash equivalents	238,418	118,042	123,298
Total current assets	792,855	550,123	519,553
Total assets	2,208,762	2,836,383	2,601,813
Equity			
Issued capital	88	42,301	42,301
Reserves	1,799,261	894,126	895,093
Accumulated deficit	(1,720,587)	(1,233,848)	(1,519,963)
Equity attributable to owners of the Company	78,762	(297,421)	(582,569)
Non-controlling interests	6,289	4,449	4,413
Total equity	85,051	(292,972)	(578,156)
Liabilities			
Loans and other liabilities	802,902	631,303	647,170
Debentures	423,902		
Employee benefits	105,077	83,087	86,318
Deferred tax liabilities	348	399	350
Total non-current liabilities	1,332,229	714,789	733,838
Trade and other payables	452,642	508,944	523,675
Provisions	33,657	29,761	28,815
Deferred income	18,222	18,323	20,225
Debentures	5,932	222,672	231,162
Bank overdrafts, loans and other liabilities	281,029	1,634,866	1,642,254
Total current liabilities	791,482	2,414,566	2,446,131
Total liabilities	2,123,711	3,129,355	3,179,969
Total equity and liabilities	2,208,762	2,836,383	2,601,813

(*) See Note 2(c)


Aaron Fogel
 Chairman of the Board
 of Directors


Refael Danieli
 President, CEO & Director


Guy Eldar
 Chief Financial Officer

Date of approval of the Financial Statements: 20 November, 2014

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS

	Note	Nine months ended 30		Three months ended 30		Year ended
		September		September		31
		2014	2013	2014	2013	December
		(Unaudited)		(Unaudited)		(Audited)
		US \$'000				
Income from voyages and related services		2,595,785	2,794,219	854,133	899,566	3,682,241
Cost of voyaged and related services						
Operating expenses and cost of services		(2,402,392)	(2,687,286)	(789,006)	(857,282)	(3,554,714)
Depreciation		(91,458)	(108,998)	(23,511)	(35,520)	(143,994)
Derecognition of payments on account of vessels						(71,646)
Gross profit (loss)		101,935	(2,065)	41,616	6,764	(88,113)
Other operating income		4,935	74,628		44,776	77,944
Other operating expenses	5(e), 1(b)	(236,528)	(722)	(236,137)		(7,832)
General and administrative expenses		(116,143)	(106,899)	(33,586)	(35,089)	(148,603)
Termination benefit expenses		(23,176)	(24,006)	(23,176)		(24,006)
Results from operating activities		(268,977)	(59,064)	(251,283)	16,451	(190,610)
Finance income	1(b)	189,333	2,523	187,109	466	3,370
Finance expenses		(145,367)	(183,010)	(36,404)	(56,680)	(330,119)
Net finance income (expenses)		43,966	(180,487)	150,705	(56,214)	(326,749)
Share of profit of associates (net of income tax)		8,702	6,704	3,437	3,128	9,975
Loss before income tax		(216,309)	(232,847)	(97,141)	(36,635)	(507,384)
Income taxes	1(b)	24,674	(15,804)	34,410	(5,644)	(22,861)
Loss for the period		(191,635)	(248,651)	(62,731)	(42,279)	(530,245)
Attribute to:						
Owners of the Company		(196,996)	(252,263)	(64,597)	(43,589)	(534,969)
Non-controlling interest		5,361	3,612	1,866	1,310	4,724
Loss for the period		(191,635)	(248,651)	(62,731)	(42,279)	(530,245)

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	US \$'000				
Loss for the period	(191,635)	(248,651)	(62,731)	(42,279)	(530,245)
Other components of Comprehensive Income (Loss)					
Items of other comprehensive income (loss) that were or will be reclassified to profit and loss:					
Foreign currency translation differences for foreign operations	(513)	(2,938)	763	(2,486)	(3,230)
Items of other comprehensive loss that would never be reclassified to profit and loss:					
Defined benefit pension plans actuarial gains (losses)	(3,628)		408		(966)
Income tax on other comprehensive income					(2,443)
Other comprehensive income (loss) for the period, net of tax	(4,141)	(2,938)	1,171	(2,486)	(6,639)
Total comprehensive loss for the period	(195,776)	(251,589)	(61,560)	(44,765)	(536,884)
Attributable to:					
Owners of the Company	(201,259)	(255,163)	(63,073)	(45,932)	(540,807)
Non- controlling interests	5,483	3,574	1,513	1,167	3,923
Total comprehensive loss for the period	(195,776)	(251,589)	(61,560)	(44,765)	(536,884)

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Attribute to the owners of the Company								
	Share capital	Share premium	Share with an interested party	Share options	Translation reserve	Accumulated deficit	Total	Non-controlling interests	Total equity
For the nine months period ended 30 September 2014 (unaudited)									
Balance at 1 January 2014 (audited)	42,301	535,615	281,402	75,310	2,766	(1,519,963)	(582,569)	4,413	(578,156)
Profit (loss) for the period						(196,996)	(196,996)	5,361	(191,635)
Other comprehensive income for the period					(636)	(3,628)	(4,264)	123	(4,141)
Nullification of the share capital and share options	(42,301)	(460,305)	577,916	(75,310)			625,000	(3,608)	625,000
Issuance of share capital	88	624,912	237,591				237,591		237,591
Transaction with an interested party									
Dividend paid to non-controlling interests in subsidiaries									
Balance at 30 September 2014	88	700,222	1,096,909		2,130	(1,720,587)	78,762	6,289	85,051
For the three months period ended 30 September 2014 (unaudited)									
Balance at 1 July 2014	42,301	535,615	281,402	75,310	1,015	(1,656,398)	(720,755)	4,775	(715,980)
Profit (loss) for the period						(64,597)	(64,597)	1,866	(62,731)
Other comprehensive income for the period					1,115	408	1,523	(352)	1,171
Nullification of the share capital and share options	(42,301)	(460,305)	577,916	(75,310)			625,000		625,000
Issuance of share capital	88	624,912	237,591				237,591		237,591
Transaction with an interested party									
Balance at 30 September 2014	88	700,222	1,096,909		2,130	(1,720,587)	78,762	6,289	85,051

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Attribute to the owners of the Company								
	Share capital	Share premium	Share interested party	Share options	Translation reserve	Accumulated deficit	Total	Non-controlling interests	Total equity
	US \$'000								
For the nine months period ended 30 September 2013 (unaudited)									
Balance at 1 January 2013 (audited)	42,301	535,615	279,971	75,310	5,195	(981,585)	(43,193)	18,049	(25,144)
Profit (loss) for the period						(252,263)	(252,263)	3,612	(248,651)
Other comprehensive income for the period			935		(2,900)		(2,900)	(38)	(2,938)
Transaction with an interested party							935		935
Dividend paid to non-controlling interests in subsidiaries								(4,599)	(4,599)
Non-controlling interest as of the realization date of subsidiaries								(12,575)	(12,575)
Balance at 30 September 2013	42,301	535,615	280,906	75,310	2,295	(1,233,848)	(297,421)	4,449	(292,972)
For the three months period ended 30 September 2013 (unaudited)									
Balance at 1 July 2013	42,301	535,615	279,971	75,310	4,638	(1,190,259)	(252,424)	17,224	(235,200)
Profit (loss) for the period						(43,589)	(43,589)	1,310	(42,279)
Other comprehensive income for the period			935		(2,343)		(2,343)	(143)	(2,486)
Transaction with an interested party							935		935
Dividend paid to non-controlling interests in subsidiaries								(1,367)	(1,367)
Non-controlling interest as of the realization date of subsidiaries								(12,575)	(12,575)
Balance at 30 September 2013	42,301	535,615	280,906	75,310	2,295	(1,233,848)	(297,421)	4,449	(292,972)
For the year ended 31 December 2013 (audited)									
Balance at 1 January 2013	42,301	535,615	279,971	75,310	5,195	(981,585)	(43,193)	18,049	(25,144)
Profit (loss) for the year						(534,969)	(534,969)	4,724	(530,245)
Other comprehensive income (loss) for the year			1,431		(2,429)	(3,409)	(5,838)	(801)	(6,639)
Transaction with an interested party							1,431		1,431
Dividend paid to non-controlling interests in subsidiaries								(4,984)	(4,984)
Non-controlling interest as of the realization date of subsidiaries								(12,575)	(12,575)
Balance at 31 December 2013	42,301	535,615	281,402	75,310	2,766	(1,519,963)	(582,569)	4,413	(578,156)

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2014	2013(*)	2014	2013(*)	2013
	(Unaudited)		(Unaudited)		(Audited)
	US \$'000				
Cash flows from operating activities					
Loss for the period	(191,635)	(248,651)	(62,731)	(42,279)	(530,245)
Adjustments for:					
Depreciation and amortisation	102,936	120,805	27,390	39,331	159,723
Impairment of tangible assets and other investments	126,737		126,737		7,000
Derecognition of payments on account of vessels					71,646
Net finance expenses	(43,966)	180,487	(150,705)	56,214	326,749
Share of profits of associates	(8,702)	(6,704)	(3,437)	(3,128)	(9,975)
Capital loss (gain)	107,677	(71,600)	109,254	(43,720)	(72,459)
Income taxes	(24,674)	15,804	(34,410)	5,644	22,861
	<u>68,373</u>	<u>(9,859)</u>	<u>12,098</u>	<u>12,062</u>	<u>(24,700)</u>
Change in inventories	4,245	7,460	9,630	13,888	13,048
Change in trade and other receivables including derivatives	(9,101)	(73,756)	23,188	(34,896)	(59,480)
Change in trade and other payables including derivatives and deferred income	3,862	40,267	(17,975)	26,722	58,640
Change in provisions and employee benefits	20,816	23,860	13,330	658	25,007
	<u>19,822</u>	<u>(2,169)</u>	<u>28,173</u>	<u>6,372</u>	<u>37,215</u>
Dividends received from associates	5,051	19,983	2,504	2,694	21,687
Interest received	1,477	536	1,148	151	877
Income tax paid	(16,190)	(16,237)	(6,750)	(5,993)	(22,449)
Net cash generated from (used in) operating activities	<u>78,533</u>	<u>(7,746)</u>	<u>37,173</u>	<u>15,286</u>	<u>12,630</u>
Cash flows from investing activities					
Proceeds from refund of payments on account of vessels		30,000			30,000
Proceeds from sale of tangible assets, intangible assets and investments	36,722	114,698	20,577	56,117	141,669
Disposal of subsidiary, net of cash disposed and exit from consolidation	1,051	2,405			2,405
Acquisition of vessels, containers, handling equipment, other tangible assets, intangible assets and investments	(13,678)	(16,471)	(4,723)	(6,080)	(22,084)
Settlement of derivatives	(605)	(7,030)		(1,628)	(8,261)
Change in other investments and other receivables	(129,432)	4,831	(97,363)	4,057	(10,599)
Net cash generated from (used in) investing activities	<u>(105,942)</u>	<u>128,433</u>	<u>(81,509)</u>	<u>52,466</u>	<u>133,130</u>

(*) See Note 2(c).

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Nine months ended 30 September		Three months ended 30 September		Year ended 31 December
	2014	2013(*)	2014	2013(*)	2013
	Unaudited		Unaudited		(Unaudited)
	US \$'000				
Cash flows from financing activities					
Receipt of long term loans, capital lease and other long term liabilities	161,569	18,693	79,864		43,654
Repayment of borrowings	(119,330)	(122,143)	(56,891)	(37,101)	(145,560)
Change in short term loans	48,780	24,704	17,349	80	33,000
Issuance of share capital	200,000		200,000		
Dividend paid to non-controlling interests	(3,608)	(4,599)		(1,367)	(4,984)
Interest paid	(97,775)	(96,318)	(41,591)	(37,137)	(118,731)
Other financial expenses paid	(45,900)	(9,500)	(25,615)	(5,200)	(16,346)
Net cash generated from (used in) financing activities	144,636	(189,163)	173,116	(80,725)	(208,967)
Net change in cash and cash equivalents	117,227	(68,476)	128,780	(12,973)	(63,207)
Cash and cash equivalents at beginning of the period	123,232	187,500	110,878	131,246	187,500
Effect of exchange rate fluctuation on cash held	(2,044)	(1,025)	(1,243)	(274)	(1,061)
Cash and cash equivalents at the end of the period	238,415	117,999	238,415	117,999	123,232

(*) See Note 2(c).

The accompanying Notes are an integral part of the condensed consolidated interim Financial Statements.

ZIM INTEGRATED SHIPPING SERVICES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Reporting entity

- (a) ZIM Integrated Shipping Services Ltd. (hereinafter - the "Company" or "Zim") and its subsidiaries (hereinafter - "the Group" or "the Companies") and the Group's interests in associates and joint arrangements, operate in the field of container shipping and related services.

Zim is a company incorporated in Israel, with limited liability. The address of the Company's registered office is 9 Andrei Sakharov Street, Haifa, Israel.

(b) Financial position

As of September 30, 2014, the Company had positive equity attributable to its owners in the amount of US\$ 79 million, compared with deficit in the amount of US\$ 583 million and US\$ 297, as of December 31, 2013 and September 30, 2013, respectively. As of September 30, 2014 the Company had a positive working capital in the amounts of US\$ 1 million, compared with deficit in its working capital in the amount of US\$ 1,927 million and US\$ 1,864 million, as of December 31, 2013 and September 30, 2013, respectively, mainly due to reclassification to short term of long term loans, debentures and liabilities in an amount of US\$ 1,505 million and US\$ 1,508 million, respectively, as a result of non-compliance with covenants.

The Company's results from operating activities for the nine and three months period ended September 30, 2014, amounted to an operating loss of US\$ 269 million and US\$ 251 million, respectively. The Company's results from operating activities, excluding the "day one" restructuring impact for the nine and three months period ended September 30, 2014, amounted to an operating loss of US\$ 30 million and US\$ 12 million, respectively. Both compared with operating loss of US\$ 59 million and operating profit of US\$ 16 million for the nine and three months period ended September 30, 2013, respectively.

The Company's net loss for the nine and three months period ended September 30, 2014, amounted to a net loss of US\$ 192 million and US\$ 63 million, respectively. The Company's net results excluding the "day one" restructuring impact for the nine and three months period ended September 30, 2014, amounted a net loss of US\$ 180 million and US\$ 51 million, respectively. Both compared with net loss of US\$ 249 million and US\$ 42 million for the nine and three months period ended September 30, 2013, respectively.

In order to cope with its challenging financial position, during 2013 the Company had 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 is structured to gain long term stability to the Company. The restructuring was completed and all the conditions precedents were fulfilled on the 16th of July 2014 (hereinafter: "the effective date of the restructuring").

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 approximately US\$ 3.4 billion to approximately US\$ 2 billion.

1 Reporting entity (cont'd)**(b) Financial position (cont'd)**

The main principles of the Company's restructuring agreements are:

- (a) Partly secured creditors (other than those who elected to enter into the VesselCo arrangement detailed in (c) below) received a new fully secured loans in an amount equal to an agreed value of the assets securing the current existing debt (hereinafter: "Tranche A"). Tranche A debt bears interest at an annual rate of LIBOR + 2.8% and is to be repaid on the earlier of: (i) seven years from the effective date of the restructuring; or (ii) the contractual date of repayment of the original loan with respect to each secured creditor plus approximately sixteen months and a half. The original security shall continue to serve as a first ranking security to the new loan. In general, if the Company disposes of a secured vessel at any time prior to the applicable maturity date, all Tranche A debt for that vessel is to be repaid (see also (b) below).
- (b) The Company undertook to scrap eight vessels during the period of 16 months from the effective date of the restructuring. Upon the effective date of the restructuring, those vessels were classified as held for sale and as a result, an impairment loss in an amount of US\$ 110 million was recorded under other operating expenses (as included in the Day 1 Effect table below). After the balance sheet date, two of those vessels was sold for the purpose of demolition.
- (c) Certain vessel loan creditors purchased (directly or indirectly) the vessels secured in their favour and leased them back to the Company at such terms and conditions as agreed in the restructuring agreements (hereinafter: "VesselCo"). Upon the lease back of those vessels, five of the vessels were classified as capital leases and three of the vessels, as operating leases.
- (d) The unsecured portion of the pre-restructuring debt (hereinafter: "the deficiency claim") entitled the creditors to a new unsecured debt: Series C and, for certain creditors, also Series D Notes (hereinafter: "Series C and D Notes") and the Company's equity (other than with respect to the shipyard's loan, see (e) below). Both Series C and D Notes bear interest at an annual rate of 3%, while the Series D Notes entitled to an additional interest at a rate of 2% per year, which shall be payable in kind (PIK interest). The repayment of the Series C Notes due on June 20, 2023 and the repayment of the Series D Notes due on June 21, 2023 ("bullet"). In case of excess cash, as defined in the restructuring agreement, a mechanism for mandatory prepayments using excess cash flows will be provided for each of the Series C and Series D Notes. Each of the Series C Notes and the Series D Notes has priority in early repayments resulting from excess cash flow over Tranche A. The Series C Notes has priority in such early repayments over the Series D Notes.
- (e) With respect to the shipyard's loan - the outstanding amount, which was supposed to entitle the creditor to a portion in the allocation of the Company's shares, instead entitled the creditor to an unsecured loan (hereinafter: "Tranche E"). Tranche E bears interest at an annual rate of 2%. In the first nine years of the loan period, 1.75% of the interest rate shall accrue as a PIK interest and, after the first nine years until the end of the twelfth year, subject to the full settlement of Tranche A, Series C Notes and Series D Notes, interest shall be payable in cash.
- (f) New reduced charter hire floor rates and rate adjustment mechanisms were agreed with the ship owners, including related parties ship owners. In addition, the ship owners (excluding certain related parties as described in (j) below) also received their position of the Company's Tranche C and D Notes and the Company's equity. Regarding operational leases, which classification upon the restructuring remained unchanged, deferred expenses in the amount equal to the fair value of Series C and D Notes and equity issued to third party ship owners will be recorded as additional charter hire expenses throughout the remaining charter periods.
- (g) Five leased vessels previously classified as capital leases were reclassified, in light of the change in the lease terms, as operational leases.
- (h) The financial creditors and ship owners received shares aggregating to 68% of the Company's issued share capital (on a fully diluted basis, post-restructuring, after Israel Corporation's (hereinafter - "IC") investment in the Company, as set forth in (i) below).

1 Reporting entity (cont'd)**(b) Financial position (cont'd)**

- (i) IC invested an amount of US\$ 200 million in the Company's share capital (US\$ 90 million out of this amount were agreed to serve as a reserve for investments in the business of the Company, under the provisions agreed in the restructuring agreements; US\$ 70 million of such amount were classified as long-term assets) and waived and discharged all the Company's liabilities toward it. All of the Company's existing shares and options, including those held by IC, became null and void and IC received shares aggregating to 32% of the Company's issued share capital on a fully-diluted basis.

With regard to approximately US\$ 13 million (NIS 45 million) deferred debt of the Company to IC in connection with a derivative claim, such waiver will be terminated and the debt will be reinstated if the court determines that the waiver was not valid. In such event the debt will be repaid following the full repayment of the debts under the restructuring (Tranche A, Series C and D Notes and Tranche E).

IC has further agreed to provide or arrange to put in place a credit line of US\$ 50 million to the Company.

In addition, certain related parties waived the Company's debt to it.

See also (k) below.

- (j) Certain related parties, which have leased vessels to the Company, agreed to receive a charter rate which, in general, will be lower by \$1,000 per day than that paid to the ship owners who are not related parties for similar vessels (see also (k) below).

Also, certain related parties waived their rights to receive their part of the Series C and D Notes and the Company's equity which are primarily attributable to the reduction of the charter hire (see (f) above), in favour of certain third party creditors.

- (k) According to the Company's accounting policy, transactions with related parties acting in their capacity as shareholders are recorded directly in equity. Accordingly, all debt waivers and benefits from related parties (in an amount of approximately US\$ 237 million, net of the relevant income tax influence) were recorded against capital reserve from transactions with related parties.
- (l) According to the provisions of IAS 39, it was concluded that the terms of all debt participating in the restructuring were substantially modified. Accordingly, the old debt was derecognized and the new debt (Tranche A, Series C Notes, Series D Notes, Tranche E and finance lease liabilities under VesselCo) as well as the new equity were recorded at fair value at the effective date of the restructuring.

The valuation technique which was used in order to measure the fair value of the new debt was the discounted cash flows technique. The interest rates used to discount cash flows (between approximately 3% and 10%) were estimated by external evaluator based on a synthetic rating calculated using accepted methodology and considering rating-appropriate interest rate curves.

- (m) All the previous covenants were annulled and a new set of financial covenants was agreed as follows:

- 1) Minimum Liquidity - The Company is required to have monthly minimum liquidity (including amounts held in the reserve account that are available for general corporate purposes) in an amount of at least US\$ 125 million (tested on the last business day of each calendar month). As at the balance sheet date the Company is in compliance with the minimum liquidity covenant.
- 2) Fixed Charge Cover - The Company is required to have a certain Fixed Charge Cover ratio, which is defined as Consolidated EBITDAL to Fixed Charges. EBITDAL means Consolidated EBITDA (Group's Consolidated EBITDA, after certain adjustments as specifically defined in the facility agreements), after adding back charter hire lease costs. Fixed Charges mean mainly cash interest, scheduled repayments of indebtedness and charter hire lease costs.

This ratio will gradually increase from 1.02:1 on 31 December 2015 to 1.07:1 on 31 December 2018 (based on last 12 months periods). Ratio levels will be tested quarterly from 31 December 2015.

1 Reporting entity (cont'd)

(b) Financial position (cont'd)

3) Total Leverage - The Company is required to have a certain Total Leverage ratio, which is defined as Total Debt to Consolidated EBITDA.

This ratio will gradually decrease from 8.8:1 on 30 June 2015 to 4.9:1 on 31 December 2018 (based on last 12 months periods). Ratio levels will be tested quarterly from 30 June 2015.

(n) Amendments to the Special State Share were made as set forth in the compromise agreement achieved with the holder of the Special State Share. See also Note 5 (a).

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)
	Million US\$
Total assets	(316)
Total liabilities	(1,166)
Total equity	850

(2) Income statements:

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

In the opinion of the Company's management and its Board of Directors, the completion of the restructuring, as detailed above and the Company's expected performance in accordance with its business plan dated January 2014, including assumptions therein, as was updated from time to time, enables the Company to meet its liabilities and operational needs and to comply with the new set of financial covenants for a period of at least 12 months after the balance sheet date.

See also Note 5 (d) regarding a derivative action in respect of the restructuring approval by IC.

2 Basis of compliance

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended 31 December, 2013 (hereafter – the “annual financial statements”).

These condensed consolidated interim financial statements were approved by the Board of Directors on 20 November, 2014.

(b) Estimates

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The significant judgments made by management in applying the Group’s accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual financial statements.

Main judgements made by the Company’s management with respect of the restructuring are described in Note 1(b).

(c) Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

3 Significant accounting policies

(a) The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its annual financial statements.

(b) New standards and interpretation not yet adopted

(1) IFRS 9 (2014), Financial Instruments

A final version of the standard, which includes revised guidance on the classification and measurement of financial instruments and a new model for measuring impairment of financial assets. IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted. The Company is examining the effects of IFRS 9 (2014) on the financial statements.

(2) IFRS 15, Revenue from Contracts with Customers

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 is applicable for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company is examining the effects of IFRS 15 on the financial statements.

4 Financial instruments

(1) Financial instruments measured at fair value for disclosure purposes only

The carrying amounts of the Group's financial assets and liabilities, are the same or proximate to their fair value, except as follows:

	Carrying amount			Fair value Level 2		
	30 September 2014	30 September 2013	31 December 2013	30 September 2014	30 September 2013	31 December 2013
	US \$'000			US \$'000		
Debentures	(429,834)	(222,672)	(231,162)	(420,723)	(339,361)	(290,095)
Long-term loans and other liabilities	(932,602)	(2,173,830)	(2,198,089)	(934,191)	(1,315,837)	(1,176,658)

(2) Fair value hierarchy of financial instruments measured at fair value

The table below analyses financial instruments carried at fair value on a recurring basis, by valuation method. As at 30 September 2014 and 31 December 2013, the carrying amounts of such financial instruments are immaterial.

	30 September 2013			
	Level 1	Level 2	Level 3	Total
	US \$'000			
Assets				
Marketable securities held for trade	1,457			1,457
Derivatives not used for hedging			84,205	84,205
Liabilities				
Derivatives not used for hedging		(1,506)	(464)	(1,970)
	1,457	(1,506)	83,741	83,692

ZIM INTEGRATED SHIPPING SERVICES LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4 Financial instruments (cont'd)

(3) Financial instruments carried at fair value

	Financial assets	Financial liabilities
	US \$'000	
Balance as at 1 January, 2013	106,916	(2,764)
Total gains (losses) recognized in finance expenses	(22,711)	2,300
Balance as at 30 September, 2013	84,205	(464)

	Financial assets	Financial liabilities
	US \$'000	
Balance as at 1 January, 2013	106,916	(2,764)
Total gains (losses) recognized in finance expenses	(106,916)	2,588
Balance as at 31 December, 2013		(176)

(4) Fair value sensitivity analysis of level 3 financial instruments carried at fair value

Even though the Company believes that the fair values determined for measurement and/or disclosure purposes are appropriate, the application of different assumptions or different measurement methods may change such fair values. As regards to fair value measurements, a reasonably possible change in one or more unobservable inputs would have increased (decreased) profit or loss and equity as follows:

	30 September 2013	
	Change in profit or loss and equity	
	10% Increase	10% Decrease
	US \$'000	
Change in discount rate	2,974	(5,070)
Change in the standard deviation of the bonds' yield	13,053	(13,290)

5 Events during the period

(a) Special State Share

On July 14, 2014 the State and the Company have reached a settlement agreement (the "Settlement Agreement") that has been validated as a judgment by the Supreme Court. The Settlement Agreement provides, inter alia, the following arrangement shall apply: State's consent is required to any transfer of the shares in the Company which confers on the holder a holding of 35% and more of the Company's share capital. In addition, any transfer of shares which confers on the holders a holding exceed 24% but not exceed 35%, shall require a prior notice to the State. To the extent the State determines that the transfer involves a potential damage to the State's security or any of its vital interests or if the State did not receive the relevant information in order to formulate a decision regarding the transfer, the State shall be entitled to inform, within 30 days, that it objects to the transfer, and it will be required to reason its objection. In such an event, the transferor shall be entitled to approach a competent court on this matter.

(b) Urgent Motion Under Section 350 (a)

Pursuant to proceedings initiated by the Company before the District Court in Haifa (the "Court") under Section 350(a) of the Israeli Companies Law, 1999 (the "Companies Law"), the Court confirmed on 15 July, 2014 the Restructuring arrangement by and among the Company, its shareholders and holders of rights to receive and/or acquire shares of the Company (collectively, "Options"). According to said arrangement, on the closing of the Company's debt restructuring (the "Closing"), all the Company's shares (other than the Special State Share) and options shall become null and void. In addition, pursuant to the Court's ruling, at the closing the Company's memorandum has been cancelled, and the Company's articles of association were replaced by new articles of association.

5 Events during the period (cont'd)**(c) A Petition Filed by the National Organization for Marine Officers**

On June 29, 2014 the National Association of Sea Officers of the new General Labor Federation filed an urgent request for the intervention of the Supreme Court in the proceedings taking place in the District Court regarding the Company's submission of the application according to Section 350(a) of the Companies Law. The Company opposed the filing of the urgent request. The Supreme Court decided not to intervene in the ongoing proceedings of the District Court.

On July 13, 2014 as per the request of the National Association of Sea Officers of the new General Labor Federation, with the consent of the Company, the Supreme Court struck out the petition, without an award for costs.

(d) Derivatives Action

On 5 August, 2014 a petition for approval of a derivative action was submitted to the District Court in Tel Aviv by a shareholder of IC against, among others, IC and the Company. The petitioner argues that the transaction executed by IC in connection with its participation in the Company's restructuring deviates from the approval of IC's shareholders meeting and that the condition precedent to the execution of IC's participation in the restructuring, as approved by such meeting, regarding the transferability of the shares in the Company was not fulfilled. The petitioner moves to have the defendants (other than IC and the Company) to convene IC's shareholders meeting to approve the IC's participation in the Company's restructuring or have the defendants (other than IC) compensate IC in the amount of US\$ 27.4 million which, as argued, reflects the damage caused to IC due to its participation in the Company's restructuring, being the decreased value of the Company's shares held by IC in consideration therefore, due to the incompleteness of the said condition precedent. Management is unable to estimate the probability of an adverse outcome or the effect of an adverse outcome on the Company's business, if any.

(e) Assets held for sale

In addition to the described in Note 1 (b)(b), as at the balance sheet date, two of the Company's vessels were classified as held for sale due to the Company's decision to sell them for the purpose of demolition. As a result, the Company recorded an impairment in an amount of US\$ 17 million under other operating expenses.

