ZIM INTEGRATED SHIPPING SERVICES LTD.

Operating and Financial Review for the year ended 31 December, 2014

1. General

In recent years carriers' earnings have been volatile, with negative operating margins in 2013 and mixed trends in 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 moderate improvement in US and the Eurozone.

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, 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 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)

3. Financial Position

3.1. Balance Sheet

The Company's total assets as of 31 December, 2014 amounted to $2,156.3M, compared to $2,601.8M as of 31 December, 2013.

Assets

The Company's fixed assets as of 31 December, 2014 amounted to $1,130.4M compared to $1,968.3M as of 31 December, 2013, a decrease of $837.9M. The decrease in fixed assets was primarily driven by the following: (i) disposals of assets, mainly of vessels resulting from the restructuring, in an amount of $536.2M, (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 $115.8M.

The Company's current assets as of 31 December, 2014 amounted to $762.5M, compared to $519.6M as of 31 December, 2013, an increase of $242.9M. The increase was primarily driven by the following: (i) an increase in cash and cash equivalents in an amount of $107.2M (mainly part of the proceeds from the equity investment made by Israel Corporation), (ii) an increase in short term deposits in an amount of $58.9M, (iii) an increase in assets classified as "held for sale" (vessels designated for scrap, net of an impairment recognized in their respect), in an amount of $53.2M, (iv) an increase in current portion of deferred expenses in an amount of $29.3M, offset by (v) a decrease in inventories in an amount of $22.5M.

The current ratio as of 31 December, 2014 was 0.97 compared to 0.21 as of 31 December, 2013.

Liabilities

The Company's long-term loans and other liabilities (including current maturities) as of 31 December, 2014 amounted to $1,364.7M compared to $2,453.5M as of 31 December, 2013, a decrease of $1,088.8M. The decrease was primarily driven by the following: (i) de recognition of the restructured loans and liabilities and a recognition of a new debt, as a result of the restructuring, in an amount of $1,175.9M, (ii) repayment of borrowings in an amount of $157.1M, offset by (iii) receipt of long term loans, capital leases and other long term liabilities in an amount of $161.6M and (iv) an accrual of PIK interest in an amount of $26.0M.

The Company's current liabilities as of 31 December, 2014[1] amounted to $623.6M compared to $639.8M as of 31 December, 2013[2], a decrease of $16.2M. The decrease was primarily driven by the following: (i) a decrease in trade and other payables in an amount of $61.9M, offset by (ii) an increase in short term loans in an amount of $49.4M.

Equity

The Company's equity attributable to the owners of the Company as of 31 December, 2014 amounted to $72.3M compared to a deficit in the equity attributable to the owners of the Company in an amount of $582.6M as of 31 December, 2013, an increase of $654.9M. The increase was primarily driven by the following: (i) an issuance of share capital (including premium) 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 for the year ended 31 December, 2014 in an amount of $204.9M.

[1] *Excluding current maturities.*
[2] *Excluding current maturities and long term loans and other liabilities classified to short term.*

3.2. Income statements

	Year ended 31 December		Three months ended 31 December	
	2014	2013	2014	2013
	Million US$			
Income from voyages and related services	3,408.8	3,682.2	813.0	888.0
Operating expenses and cost of services	(3,165.5)	(3,554.7)	(763.1)	(867.4)
Depreciation	(112.0)	(144.0)	(20.6)	(35.0)
Derecognition of payments on account of vessels		(71.6)		(71.6)
Gross profit (loss)	131.3	(88.1)	29.3	(86.0)
Other operating income (expenses), net	(218.5)	70.1	13.2	(3.8)
General and administrative expenses	(153.0)	(148.6)	(36.9)	(41.7)
Termination benefit expenses	(23.2)	(24.0)		
Results from operating activities	(263.4)	(190.6)	5.6	(131.5)
Financing income (expenses), net	33.8	(326.8)	(10.2)	(146.3)
Share of profit of associates (net of tax)	12.5	10.0	3.8	3.3
Loss before income tax	(217.1)	(507.4)	(0.8)	(274.5)
Income taxes	19.0	(22.9)	(5.7)	(7.1)
Loss for the period	(198.1)	(530.3)	(6.5)	(281.6)
Attributable to:				
Owners of the Company	(204.9)	(535.0)	(7.9)	(282.7)
Non-controlling interests	6.8	4.7	1.4	1.1

Income

The Company's income from voyages and related services for the year ended 31 December, 2014 was $3,408.8M compared to $3,682.2M for the year ended 31 December, 2013, a decrease of $273.4M (7.4%). The decrease was primarily driven by the following: (i) a decrease in income of subsidiaries in an amount of $129.1M, (including exit from consolidation of subsidiary in an amount of $57.9M), (ii) a decrease in income from containerized cargo in an amount of $119.1M and (iii) a decrease in income from charter hire in an amount of $24.8M. The carried quantities for the year ended 31 December, 2014 amounted to 2,360 thousand TEUs (Twenty Foot equivalent Units), compared to 2,504 thousand TEUs for the year ended 31 December, 2013, a decrease of 144 thousand TEUs (5.8%). The average revenue per TEU increased by about $24 (2.0%) from about $1,219 per TEU for the year ended 31 December, 2013 to about $1,243 per TEU for the year ended 31 December, 2014.

The Company’s income from voyages and related services during the three months ended 31 December, 2014 was $813.0M, compared to $888.0M during the three months ended 31 December, 2013, a decrease of $75.0M (8.4%). The decrease was primarily driven by the following: (i) a decrease in income from containerized cargo in an amount of $30.1M, (ii) a decrease in income of subsidiaries in an amount of $15.2M, (iii) a decrease in income from charter hire in an amount of $7.0M and (iv) a decrease in income from demurrage in an amount of $6.6M. The carried quantities during the three months ended 31 December, 2014 amounted to 577 thousand TEUs, compared to 646 thousand TEUs during the three months ended 31 December, 2013, a decrease of 69 thousand TEUs (10.7%). The average revenue per TEU increased by $90 (7.6%) from about $1,181 per TEU during the three months ended 31 December 2013 to about $1,271 per TEU during the three months ended 31 December, 2014.

Operating Expenses

The Company's operating expenses for the year ended 31 December, 2014 were $3,165.5M, compared to $3,554.7M for the year ended 31 December, 2013, a decrease of $389.2M (10.9%). The decrease was primarily driven by the following: (i) a decrease in bunker expenses in an amount of $178.7M (21.0%), this amount is excluding an accounting loss from revaluation of fuel derivatives during the three months ended 31 December, 2014 in an amount of $20.8M[1], (ii) a decrease in expenses of subsidiaries in an amount of $124.7M, (including exit from consolidation of subsidiary in an amount of $53.3M), (iii) a decrease in charter hire of vessels expenses in an amount of $50.9M (10.2%), (iv) a decrease in expenses incidental to cargo handling in an amount of $28.9M (2.1%) and (v) a decrease in port expenses in an amount of $15.0M (5.2%).

The Company's operating expenses during the three months ended 31 December, 2014 were $763.1M compared to $867.4M during the three months ended 31 December, 2013, a decrease of $104.3M (12.0%). The decrease was primarily driven by the following: (i) a decrease in bunker expenses in an amount of $56.8M (28.9%), this amount is excluding an accounting loss from revaluation of fuel derivatives during the three months ended 31 December, 2014 in an amount of $20.8M[1], (ii) a decrease in expenses of subsidiaries in an amount of $16.0M and (iii) a decrease in charter hire of vessels expenses in an amount of $14.8M (12.9%).

Other Operating Income (Expenses), net

The Company’s other operating expenses, net for the year ended 31 December, 2014 were $218.5M compared to other operating income, net in an amount of $70.1M for the year ended 31 December, 2013, a change of $288.6M. The change was primarily driven by the following: (i) an impairment of vessels designated for scrap, mainly per commitments taken as part of the restructuring, in an amount of $126.7M, (ii) a capital loss, mainly on vessels as a result of the restructuring, in an amount of $107.8M, during the year ended 31 December, 2014 compared to a capital gain in an amount of $72.5M during the year ended 31 December, 2013.

The Company’s other operating income, net during the three months ended 31 December, 2014 was $13.2M compared to other operating expenses, net in an amount of $3.8M during the three months ended 31 December, 2013, a change of $17.0M. The change was primarily driven by a reversal of an impairment of investment in an associated company in an amount of $8.9M during the three months ended 31 December, 2014, compared to an impairment of asset classified as held for sale in an amount of $7.0M during the three months ended 31 December, 2013.

[1]*In relate to those fuel derivatives transactions, the company does not expect an additional loss to be recognized during 2015.*

General and Administrative Expenses

The Company's general and administrative expenses for the year ended 31 December, 2014 were $153.0M, compared to $148.6M for the year ended 31 December, 2013, an increase of $4.4M (3.0%). The increase was primarily driven by the following: (i) an increase in employee benefits liabilities in an amount of $5.0M, (ii) an increase in consulting expenses in an amount of $2.4M, offset by (iii) the impact of the depreciation of the Israeli Shekel on salaries expenses in an amount of $1.7M.

The Company's general and administrative expenses during the three months ended 31 December, 2014 were $36.9M compared to $41.7M during the three months ended 31 December, 2013, a decrease of $4.8M (11.5%). The decrease was primarily driven by the following: (i) a decrease in employee benefits liabilities in an amount of $3.8M and (ii) a decrease in consulting expenses in an amount of $1.5M.

Finance Income (Expenses), net

The Company's finance income, net for the year ended 31 December, 2014 was $33.8M compared to finance expenses, net in an amount of $326.8M for the year ended 31 December, 2013, a change of $360.6M. The change was primarily driven by the following: (i) a restructuring gain, net in an amount of $186.0M, (ii) a revaluation of derivatives in connection with the 2009 debt restructuring during the year ended 31 December, 2013 in an amount of $104.1M, (iii) a decrease in the foreign currency exchange differences expenses in an amount of $43.0M and (iv) a decrease in interest expenses, net in an amount of $31.2M.

The Company's finance expenses, net during the three months ended 31.12.2014 were $10.2M compared to $146.3M during the three months ended 31 December, 2013, a decrease of $136.1M (93.0%). The decrease was primarily driven by the following: (i) a revaluation of derivatives in connection with the 2009 debt restructuring during the year ended 31 December, 2013 in an amount of $83.9M, (ii) a decrease in the foreign currency exchange differences expenses in an amount of $23.2M, (iii) a decrease in interest expenses, net in an amount of $16.5M and (iv) a decrease in restructuring expenses in an amount of $6.9M.

Income Taxes

The Company's income taxes for the year ended 31 December, 2014 was $19.0M (income) compared to $22.9M tax expenses for the year ended 31 December, 2013, an overall change of $41.9M. The change was primarily driven by a one off deferred tax income in an amount of $41.1M during the year ended 31 December, 2014, in connection with the forgiveness of loans from related parties as part of the restructuring.

The Company's income tax during the three months ended 31 December, 2014 was $5.7M compared to $7.1M during the three months ended 31 December, 2013, a decrease of $1.4M.

4. Liquidity and Capital Resources

Main Cash flows data:

	Year ended 31 December		Three months ended 31 December	
	2014	**2013**	**2014**	**2013**
	Million US$			
Cash flows generated from operating activities	121.0	12.6	42.5	20.4
Cash flows generated from (used in) investing activities	(92.2)	133.2	13.7	4.7
Cash flows generated from (used in) financing activities	82.4	(209.0)	(62.3)	(19.8)
Net change in cash during the period	111.2	(63.2)	(6.1)	5.3
Cash – opening balance	123.2	187.5	238.4	118.0
Effect of exchange rate fluctuation on cash held	(4.0)	(1.1)	(1.9)	(0.1)
Cash – closing balance	230.4	123.2	230.4	123.2

4.1. Cash flows from Operating Activities

Cash flows generated from operating activities for the year ended 31 December, 2014 were $121.0M compared to $12.6M for the year ended 31 December, 2013, an increase of $108.4M.

Cash flows generated from operating activities during the three months ended 31 December, 2014 were $42.5 compared to $20.4M during the three months ended 31 December, 2013, an increase of $22.1M.

4.2. Cash flows from Investing Activities

Cash flows used in investing activities for the year ended 31 December, 2014 were $92.2M compared to cash flows generated from investing activities in an amount of $133.2M for the year ended 31 December, 2013, a decrease of $225.4M. The decrease was primarily driven by the following: (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 deposits, (ii) an additional increase in other investments (mainly deposits) in an amount of $29.0M, (iii) a decrease in proceeds from the sale of assets in an amount of $85.1M and (iv) refunds from payments on account of vessels in an amount of $30.0M during the year ended 31 December, 2013.

Cash flows generated from investing activities during the three months ended 31 December, 2014 were $13.7M compared to $4.7M during the three months ended 31 December, 2013, an increase of $9.0M. The increase was primarily driven by the following: (i) an increase in other investments (mainly deposits) in an amount of $15.7M, offset by (ii) a decrease in proceeds from the sale of assets in an amount of $8.2M.

4.3. Cash flows from Financing Activities

Cash flows generated from financing activities for the year ended 31 December, 2014 were $82.4M compared to cash flows used in financing activities in an amount of $209.0M for the year ended 31 December, 2013, an increase of $291.4M. The increase was primarily driven by the following: (i) an issuance of share capital in an amount of $200.0M, (ii) an increase in receipt of long term loans and capital leases in an amount of $117.9M, offset by (iii) an increase in other financial expenses paid in an amount of $28.7M.

Cash flows used in financing activities during the three months ended 31 December, 2014 were $62.3M compared to $19.8M during the three months ended 31 December, 2013, an increase of $42.5M. The increase was primarily driven by the following: (i) a decrease in receipt of long term loans and capital leases in an amount of $25.0M and (ii) an increase in repayment of borrowings in an amount of $14.3M.

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 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 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:

	Year ended 31 December					
	2014			**2013**		
	US$ million					
	GAAP	**Non-GAAP Adjustment**	**Non-GAAP**	**GAAP**	**Non-GAAP Adjustment**	**Non-GAAP**
Gross profit (loss)	131.3	(1.4)	129.9	(88.1)	38.4	(49.7)
Results from operating activities	(263.4)	251.7	(11.7)	(190.6)	29.1	(161.5)
Profit (loss) for the period attributable to the owners of the Company	(204.9)	71.2	(133.7)	(535.0)	187.5	(347.5)

	Three months ended 31 December					
	2014			**2013**		
	US$ million					
	GAAP	**Non-GAAP Adjustment**	**Non-GAAP**	**GAAP**	**Non-GAAP Adjustment**	**Non-GAAP**
Gross profit (loss)	29.3	8.2	37.5	(86.0)	60.7	(25.3)
Results from operating activities	5.6	(0.2)	5.4	(131.5)	67.5	(64.0)
Profit (loss) for the period attributable to the owners of the Company	(7.9)	2.6	(5.3)	(282.7)	167.4	(115.3)

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:

	Year ended 31 December		Three months ended 31 December	
	2014	2013	2014	2013
	US$ million			
Accounting charter hire expenses (1)	(1.4)	(33.2)	8.2	(10.9)
Derecognition of payments on account of vessels		71.6		71.6
Gross profit	(1.4)	38.4	8.2	60.7
Capital gain (loss) (2)	110.7	(44.2)	0.5	(0.2)
Impairment of assets (3), (4)	117.8	7.0	(8.9)	7.0
Restructuring expenses	1.4	3.9		
Termination benefit plan	23.2	24.0		
Results from operating activities	251.7	29.1	(0.2)	67.5
Finance expenses (5)	46.7	158.4	2.8	99.9
Restructuring gain, net (6)	(186.0)			
Deferred Tax income (6)	(41.2)			
Profit for the period attributable to the owners of the Company	71.2	187.5	2.6	167.4

(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) For the year ended 31 December, 2014 – In relate to: (i) 10 vessels designated for scrap (see Notes 1(b) and 5 to the Company's 2014 financial statements), (ii) net of reversal of impairment in an associated company recognized during the fourth quarter of 2014.
(4) For the year ended 31 December, 2013 – In relate to one vessel designated for scrap.
(5) Mainly include revaluation of 2009 restructuring derivatives, loans fair value adjustments, amortization and restructuring related expenses.
(6) In relate to 2014 restructuring. See Note 1(b) to the Company's 2014 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.

6. For information regarding the adoption of a compensation plan to the Company's employees and management for the year 2015, see Note 13(j) to the financial statements.

7. Material Commitments and Contingencies
See Notes 25 and 26 to the financial statements.

8. Significant Accounting Policies
See Note 3 to the financial statements.

9. Tranche A financing agreements were amended in connection with one of the events of default clauses included in such agreements. For additional information please see Note 1(m) to the financial statements.