Q4 | FY 2016

Hapag-Lloyd AG

Investor Report

1 January to 31 December 2016

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES

KEY OPERATING FIGURES		Q4 2016	Q4 2015	FY 2016	FY 2015	% Change
Total vessels, of which		**166**	177	**166**	177	−6%
own vessels		**72**	68	**72**	68	6%
leased vessels		**3**	3	**3**	3	0%
chartered vessels		**91**	106	**91**	106	−14%
Aggregate capacity of vessels	TTEU	**963**	966	**963**	966	0%
Aggregate container capacity	TTEU	**1,576**	1,564	**1,576**	1,564	1%
Bunker price (MFO, average for the period) [1]	USD/t	**257**	245	**210**	312	−33%
Bunker price (MDO, average for the period) [2]	USD/t	**425**	465	**389**	540	−28%
Freight rate (average for the period)	USD/TEU	**1,033**	1,116	**1,036**	1,225	−15%
Transport volume	TTEU	**1,949**	1,822	**7,599**	7,401	3%
Revenue	million USD	**2,182**	2,225	**8,546**	9,814	−13%
Transport expenses	million USD	**1,717**	1,857	**7,032**	8,057	−13%
EBITDA	million USD	**246**	152	**671**	922	−27%
EBIT	million USD	**111**	18	**140**	407	−66%
Group profit / loss	million USD	**46**	−52	**−103**	126	−181%
Cash flow from operating activities	million USD	**207**	95	**461**	635	−27%
Investment in property, plant and equipment	million USD	**167**	46	**430**	836	−49%
KEY RETURN FIGURES						
EBITDA margin (EBITDA / revenue)		**11.3%**	6.8%	**7.9%**	9.4%	−1.5 ppt
EBIT margin (EBIT / revenue)		**5.1%**	0.8%	**1.6%**	4.1%	−2.5 ppt
KEY BALANCE SHEET FIGURES AS AT 31 DECEMBER						
Balance sheet total	million USD	**11,965**	12,069	**11,965**	12,069	−1%
Equity	million USD	**5,342**	5,497	**5,342**	5,497	−3%
Equity ratio (equity / balance sheet total)		**44.6%**	45.5%	**44.6%**	45.5%	−0.9 ppt
Borrowed capital	million USD	**6,624**	6,572	**6,624**	6,572	1%
KEY FINANCIAL FIGURES AS AT 31 DECEMBER						
Financial debt	million USD	**4,415**	4,256	**4,415**	4,256	4%
Cash and cash equivalents	million USD	**602**	625	**602**	625	−4%
Net debt (financial debt – cash and cash equivalents) [3]	million USD	**3,793**	3,631	**3,793**	3,631	4%
Gearing (net debt / equity)		**71.0%**	66.1%	**71.0%**	66.1%	4.9 ppt
Liquidity reserve		**802**	1,048	**802**	1,048	−23%
NUMBER OF EMPLOYEES AS AT 31 DECEMBER						
Employees at sea		**1,389**	1,519	**1,389**	1,519	−9%
Employees on land		**8,024**	7,898	**8,024**	7,898	2%
HAPAG-LLOYD TOTAL		**9,413**	9,417	**9,413**	9,417	0%

[1] MFO = Marine Fuel Oil
[2] MDO = Marine Diesel Oil
[3] incl. Restricted Cash (USD 19.7 million booked as other assets)

Disclaimer: This report contains statements concerning future developments at Hapag-Lloyd. Due to market fluctuations, the development of the competitive situation, world market prices for commodities, and changes in exchange rates and the economic environment, the actual results may differ considerably from these forecasts. Hapag-Lloyd neither intends nor undertakes to update forward-looking statements to adjust them for events or developments which occur after the date of this report. Data for United Arab Shipping Company (UASC) is included under the assumption of a successful closing of the merger with Hapag-Lloyd in 2017.

This report was published on 24 March 2017.

CONTENTS

IMPORTANT NOTICE

The information provided in this Investor Report is based on a calculation of USD figures, derived from the figures published in EUR within the respective Interim or Annual Report of Hapag-Lloyd AG (available via https://www.hapag-lloyd.com/en/ir/publications/financial-report.html).

The USD figures presented herein have not been reviewed by auditors and are supplemental information to the respective Interim or Annual Report of Hapag-Lloyd AG for capital market participants. The respective Interim and Annual Reports of Hapag-Lloyd AG remain the prevailing and legally binding documents.

Hapag-Lloyd AG conducts its container shipping business in an international business environment in which transactions are invoiced mainly in US dollars and payment procedures are handled in US dollars. This relates not only to operating business transactions, but also to investment activities, an example being the purchase, chartering and rental of vessels and containers, as well as the corresponding financing of investments. The functional currency of Hapag-Lloyd AG is, therefore, the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the EUR.

For reconciliation to the Annual Report FY 2016, please find below the respective exchange rates:

- Values for Q4 2016 have been calculated by subtracting the 9M 2016 figures from the FY 2016 figures
- Values for 9M 2016 have been converted at the respective 9M 2016 exchange rates
- Values for FY 2016 have been converted at the respective FY 2016 exchange rates
- Values for Q3 2016 have been calculated by subtracting the H1 2016 figures from the 9M 2016 figures
- Values for Q4 2015 have been calculated by subtracting the 9M 2015 figures from the FY 2015 figures
- Values for 9M 2015 have been converted at the respective 9M 2015 exchange rates
- Values for FY 2015 have been converted at the respective FY 2015 exchange rates

EXCHANGE RATES

	Closing rate			Average rate			
per EUR	**31.12.2016**	30.09.2016	31.12.2015	**FY 2016**	9M 2016	FY 2015	9M 2015
US dollars	**1.056**	1.1165	1.0893	**1.1049**	1.1138	1.1100	1.1151

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1. HIGHLIGHTS

- Closing of the transaction between Hapag-Lloyd and UASC is expected to take place in the first months of 2017
  - The Combined Entity will benefit from a balanced trade portfolio, young and fuel-efficient fleet, USD 435 million cost synergies from 2019 onwards
  - A cash capital increase, backstopped by certain core shareholders, in an amount of USD 400 million equivalent is to be effected within six months after closing
- Transport volume increased by 2.7% year-on-year to 7,599 TTEU, especially driven by growth on Intra-Asia and EMAO trades
- At the end of the first half of 2016, freight rates were at their lowest point. Since then, they have gradually improved but still remain on low levels. Overall, freight rate was at USD 1,036/TEU for the 2016 financial year, a decline by 15% as compared to the prior year period
- Due to the decrease in average freight rate, revenue decreased by USD 1.3 billion (–13%) in the 2016 financial year to USD 8,546 million
- The realization of cost saving and synergy programs as well as lower bunker consumption and lower bunker prices led to a decrease in transport expenses per unit by 15% year-on-year to USD 925/TEU
- Hapag-Lloyd recorded a clearly positive EBITDA of USD 671 million (FY 2015: USD 922 million), the corresponding EBITDA margin stood at 7.9%. The operating result (EBIT) was at USD 140 million (FY 2015: USD 407 million)
- In Q1 2017, Hapag-Lloyd proactively refinanced existing indebtedness by placing a EUR-bond in an amount of EUR 450 million. Proceeds of the issuance have been used for the refinancing of the existing USD-bond 2017, partial refinancing of the existing EUR-bond 2018 and general corporate purposes. With a coupon of 6.75% and an even lower average yield to maturity of 6.5%, Hapag-Lloyd was able to reduce its interest burden going forward

2. SECTOR-SPECIFIC CONDITIONS

The pace at which the global economy grows and, by extension, at which global trade expands is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' cargo volumes. In its latest economic outlook (January 2017), the IMF expects global economic growth to reach 3.4% overall in 2017 (2016: 3.1%) and for this to increase marginally to 3.6% in 2018.

According to the IMF, the volume of global trade, which is key to the demand for container shipping services, is forecast to increase by 3.8% in the current year and by 4.1% in 2018. This means that in 2017 and 2018 the growth in global trade will outpace that of the global economy.

DEVELOPMENTS IN GLOBAL ECONOMIC GROWTH (GDP), WORLD TRADING VOLUME AND GLOBAL CONTAINER TRANSPORT VOLUME

in %	2015	**2016e**	2017e	2018e
Global economic growth	3.2	**3.1**	3.4	3.6
World trading volume (goods and services)	2.7	**1.9**	3.8	4.1
Global container transport volume	1.1	**2.5**	3.7	4.8

Source: IMF, IHS Global Insight

IHS Global Insight (February 2017) forecasts a 3.7% increase in the global container shipping volume in 2017 and growth of 4.9% to approximately 144 million in 2018. Current forecasts put the expected compound annual growth rate (CAGR) for the period from 2017 to 2022 at 4.9%, compared with an average growth rate of 2.5% between 2012 and 2016. The volume of global container shipping could reach around 174 million TEU in 2022. As a result, container shipping will continue to be a growth industry in the medium to long term. According to estimations by IHS Global Insight the expected medium-term growth is spread relatively evenly across individual trades.

The total capacity of the world container ship fleet is estimated at 20.1 million TEU at the beginning of 2017 (Drewry). The nominal supply capacity should – based on the current orders – see increases of around 1.6 million TEU and 1.7 million TEU in 2017 and 2018 respectively.

GLOBAL CAPACITY DEVELOPMENT [1)]

in %	2015	**2016e**	2017e	2018e
Forecasted capacity growth	11	**6**	8	8
Capacity measures				
Delayed deliveries	2	**0**	1	1
Scrappings	1	**3**	3	2
Actual increase in capacity	8	**2**	4	5

[1)] Based on current orderbook and predictions for scrappings and postponed deliveries
Source: Drewry

According to the sector information service Drewry (Container Forecaster 4Q 2016), container ships with an aggregate transport capacity of around 650,000 TEU were scrapped in 2016 (previous year: 193,000 TEU). Scrapping therefore reached a new record level in 2016 (previous record level in 2013: 444,000 TEU). A new record scrapping level of 600,000 TEU (Drewry) to 750,000 TEU (AXS-Alphaliner, January 2017) is currently predicted for 2017.

Due to the continuous pressure on freight rates, the transport capacity of the idle fleet remained at a high level throughout 2016 and amounted to around 1.5 million TEU at the beginning of January 2017 (Alphaliner, January 2017), compared with approximately 1.36 million TEU at the end of 2015. Consequently, the idle capacities corresponded to around 7.5 % of the global container fleet's total tonnage. Of the 378 ships idle at the beginning of 2017, approximately 30% are Panamax ships in the 3,000 to 5,100 TEU size class (previous year: 24%). Following the opening of the expanded Panama Canal, which can now be used by ships with a capacity of up to 14,000 TEU, the special Panamax ships previously used for routes through the Panama Canal are no longer competitive.

Continuing consolidation trend

In February 2016, the two Chinese shipping companies China Ocean Shipping Company and China Shipping Group merged to form the China COSCO Shipping Group (China COSCO). On 15 July 2016, Hapag-Lloyd AG and the United Arab Shipping Company S.A.G (UASC) agreed on the conditions of a business combination agreement with the aim of assessing the merger of the two companies' business activities. The legal merger of UASC's business activities with Hapag-Lloyd is expected to take place in the first months of 2017. In July 2016, the French shipping company CMA CGM completed the takeover of the shipping company Neptune Orient Lines (NOL), Singapore. On 1 December 2016 Maersk announced the acquisition of Hamburg Sued.

On 31 October 2016, the Japanese shipping companies "Kawasaki Kisen Kaisha Ltd. (Japan) ("K" Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), Nippon Yusen Kabushiki Kaisha Ltd. (Japan) (NYK) announced the creation of a new joint venture. The three companies' container shipping activities as well as their global terminal activities (outside Japan) will be combined in this new company. It is expected to commence operations on 1 April 2018.

3. STRUCTURE OF HAPAG-LLOYD'S VESSEL AND CONTAINER FLEET

STRUCTURE OF HAPAG-LLOYD'S VESSEL AND CONTAINER FLEET [1)]

	31.12.2016	30.09.2016	31.12.2015
Number of vessels	**166**	166	177
Aggregate capacity of vessels (TTEU)	**963**	953	966
thereof			
Number of own vessels	**72**	70	68
Aggregate capacity of own vessels (TTEU)	**540**	519	512
Number of leased vessels	**3**	3	3
Aggregate capacity of leased vessels (TTEU)	**12**	12	12
Number of chartered vessels	**91**	93	106
Aggregate capacity of chartered vessels (TTEU)	**411**	422	442
Aggregate container capacity (TTEU)	**1,576**	**1,531**	**1,564**
Number of services	**128**	**125**	**121**

1) As at 31 December 2016, Hapag-Lloyd used two chartered ships primarily for the repositioning of empty containers. The ships had a transport capacity of 6,581 TEU in total. As the ships are not employed in a liner service, they are not included in the above fleet data

As at 31 December 2016, Hapag-Lloyd's fleet comprised a total of 166 container ships. The TEU capacity of the entire Hapag-Lloyd fleet amounted to 962,774 TEU. Based on the TEU capacities, around 57% of the fleet was owned by the Group as at 31 December 2016 (31 December 2015: approximately 54%). The average age of the ships (capacity-weighted) was 7.9 years (31 December 2015: 7.1 years). The average ship size within the Hapag-Lloyd Group fleet was 5,800 TEU, which is 4.7% above the comparable average figure for the ten largest container liner shipping companies and around 50.4% above the average ship size in the global fleet. Hapag-Lloyd also owned or rented 959,249 containers with a capacity of 1,576,163 TEU for shipping cargo. Around 43% of containers (capacity-weighted) were owned by the Group as at 31 December 2016 (31 December 2015: around 42%). With a fleet of around 75,000 reefer containers capable of transporting approximately 142,500 TEU, Hapag-Lloyd has a solid competitive position in the attractive market segment for refrigerated shipping.

In the fourth quarter of 2016, Hapag-Lloyd launched two newbuilds with a transport capacity of 10,500 TEU each. Hapag-Lloyd's order book as at 31 December 2016 comprised a further three 10,500 TEU ships. These will be delivered by April 2017. All of the ships have slots for up to 2,100 reefer containers. After the merger with UASC, Hapag-Lloyd would have a very young and efficient fleet. As a result, it would not be necessary to invest in new ship systems in the coming years. The joint fleet would make it possible to utilise the medium-term expansion opportunities resulting from market growth and to realise economies of scale in ship operations.

4. GROUP EARNINGS POSITION

4.1 Freight rate per trade

The average freight rate in the 2016 financial year was USD 1,036/TEU, which was USD 189/TEU (15.4%) down on the prior year period (USD 1,225/TEU). The main reasons for the decline were the persistently difficult market environment, with pressure on freight rates continuing, and the year-on-year fall in the bunker price. Freight rates could not be increased as announced as a result of the continued intense competition caused by overcapacities and subdued growth in demand being felt in all trades.

FREIGHT RATE PER TRADE

USD/TEU	**Q4 2016**	Q3 2016	Q4 2015	QoQ % change	YoY % change	**FY 2016**	FY 2015	% change
Atlantic	**1,319**	1,333	1,476	–1%	–11%	**1,338**	1,504	–11%
Transpacific	**1,180**	1,147	1,452	3%	–19%	**1,222**	1,599	–24%
Far East	**798**	757	829	5%	–4%	**765**	942	–19%
Latin America	**1,025**	1,047	968	–2%	6%	**1,001**	1,111	–10%
Intra Asia	**537**	515	576	4%	–7%	**538**	655	–18%
EMAO (Europe–Mediterranean–Africa–Oceania)	**1,011**	1,058	1,131	–4%	–11%	**1,052**	1,210	–13%
Total (weighted average)	**1,033**	**1,027**	**1,116**	**1%**	**–7%**	**1,036**	**1,225**	**–15%**

4.2 Transport volume per trade

The transport volume rose year-on-year by 2.7% from 7,401 TTEU to 7,599 TTEU in the 2016 financial year, in particular in the Transpacific and Intra-Asia trades.

TRANSPORT VOLUME PER TRADE

TTEU	**Q4 2016**	Q3 2016	Q4 2015	QoQ % change	YoY % change	**FY 2016**	FY 2015	% change
Atlantic	**375**	385	368	−3%	2%	**1,534**	1,541	0%
Transpacific	**402**	379	347	6%	16%	**1,493**	1,390	7%
Far East	**318**	319	307	0%	4%	**1,245**	1,283	−3%
Latin America	**575**	586	549	−2%	5%	**2,248**	2,247	0%
Intra Asia	**170**	178	153	−4%	11%	**662**	573	16%
EMAO (Europe–Mediterranean–Africa–Oceania)	**109**	100	98	9%	11%	**417**	367	14%
Total	**1,949**	**1,947**	**1,822**	**0%**	**7%**	**7,599**	**7,401**	**3%**

4.3 Revenue per trade

Revenue decreased overall by USD 1,268.9 million to USD 8,545.5 in the 2016 financial year (prior year period: USD 9,814.4 million) as a result of the significant fall in rates in all trades.

REVENUE PER TRADE

million USD	**Q4 2016**	Q3 2016	Q4 2015	QoQ % change	YoY % change	**FY 2016**	FY 2015	% change
Atlantic	**493.8**	514.2	544.0	−4%	−9%	**2,052.0**	2,317.7	−11%
Transpacific	**475.6**	434.0	503.8	10%	−6%	**1,825.0**	2,222.4	−18%
Far East	**253.5**	241.8	253.9	5%	0%	**952.3**	1,207.7	−21%
Latin America	**589.3**	613.0	532.6	−4%	11%	**2,249.5**	2,497.2	−10%
Intra Asia	**91.5**	91.4	88.3	0%	4%	**356.2**	375.6	−5%
EMAO (Europe–Mediterranean–Africa–Oceania)	**110.3**	105.4	111.0	5%	−1%	**438.9**	444.0	−1%
Other	**167.5**	152.0	191.4	10%	−12%	**671.6**	749.8	−10%
Total	**2,181.5**	**2,151.8**	**2,225.0**	**1%**	**-2%**	**8,545.5**	**9,814.4**	**−13%**

4.4 Consolidated income statement

The 2016 financial year at the Hapag-Lloyd Group was characterised by a challenging industry environment and subdued global economic growth. The global economy grew by just 3.1% in 2016, falling short of the IMF's original forecast of 3.4% (January 2016). Sustained intense competitive pressure in the container shipping industry as well as significantly reduced bunker prices compared to the prior year led to a further significant decline in freight rates in 2016. By contrast, synergy effects and cost savings as well as a lower bunker price year-on-year had a positive effect on the earnings position. However, these factors were unable to compensate for the sharp drop in the average freight rate.

CONSOLIDATED INCOME STATEMENT

million USD	**Q4 2016**	Q3 2016	Q4 2015	QoQ % change	YoY % change	**FY 2016**	FY 2015	% change
Revenue	**2,181.5**	**2,151.8**	**2,225.0**	**1%**	**–2%**	**8,545.5**	**9,814.4**	**–13%**
Other operating income	**6.6**	35.5	52.3	–81%	–87%	**107.3**	215.0	–50%
Transport expenses	**–1,716.6**	–1,753.8	–1,857.3	–2%	–8%	**–7,031.6**	–8,056.9	–13%
Personnel expenses	**–127.5**	–137.6	–136.2	–7%	–6%	**–548.1**	–537.8	2%
Depreciation, amortisation and impairment	**–135.6**	–132.8	–134.3	2%	1%	**–531.4**	–515.7	3%
Other operating expenses	**–102.1**	–96.8	–173.6	5%	–41%	**–426.7**	–574.6	–26%
Operating result	**106.3**	**66.3**	**–24.1**	**60%**	**n.m**	**114.9**	**344.4**	**–67%**
Share of profit of equity-accounted investees	**8.2**	8.4	6.5	–2%	26%	**30.0**	31.6	–5%
Other financial result	**–3.6**	–1.7	35.6	–312%	–110%	**–5.2**	30.7	–117%
Earnings before interest and tax (EBIT)	**110.9**	**73.0**	**18.0**	**52%**	**516%**	**139.7**	**406.7**	**–66%**
Interest result	**–59.3**	–61.5	–63.8	–4%	–7%	**–220.8**	–252.3	–12%
Income taxes	**–5.4**	–2.5	–6.7	116%	–19%	**–21.8**	–28.0	–22%
Group profit/loss	**46.2**	**9.0**	**–52.5**	**413%**	**n.m.**	**–102.9**	**126.4**	**–181%**

At USD 1.10/EUR, the average US dollar/euro exchange rate was almost the same as in the prior year period (USD 1.11/EUR). The Group generated a net result of USD –102.9 million in the 2016 financial year (previous year: USD 126.4 million).

Depreciation and amortization came to USD 531.4 million in 2016 (prior year period: USD 515.7 million). The year-on-year increase in depreciation and amortisation was due to scheduled depreciation for the newbuilds and containers mainly acquired in the previous year.

4.5 Transport expenses

Transport expenses in the 2016 financial year dropped by 12.7% year-on-year to USD 7,031.6 million (prior year period: USD 8,056.9 million). Within transport expenses, expenses for raw materials and supplies, in particular bunker, decreased by 35.9 % to USD 760.0 million. The reason for this, alongside the reduced bunker prices, was in particular a decrease in bunker consumption in 2016 of 6.3% due to the use of larger and more efficient vessels as well as the optimisation of the fleet and global service network.

The cost of purchased services was also down by USD 600.0 million (–8.7%) year-on-year, despite a slight increase in the transport volume. This was due to the realisation of synergy effects which resulted from the merger with CSAV's container shipping activities and from the cost-cutting measures initiated in the previous years. In addition, a falling market level led to a sharp decline in charter rates.

TRANSPORT EXPENSES

million USD	Q4 2016	Q3 2016	Q4 2015	QoQ % change	YoY % change	FY 2016	FY 2015	% change
Expenses for raw materials and supplies	**228.7**	212.4	237.3	8%	–4%	**760.0**	1,185.3	–36%
Cost of purchased services	**1,487.9**	1,541.4	1,620.0	–3%	–8%	**6,271.6**	6,871.6	–9%
thereof								
Port, canal and terminal costs [1)]	**720.0**	749.6	698.9	–4%	3%	**2,929.8**	3,016.0	–3%
Chartering, leases and container rentals [1)]	**209.2**	197.7	347.6	6%	–40%	**1,033.0**	1,297.1	–20%
Container transport costs	**529.9**	532.1	532.2	0%	0%	**2,098.3**	2,384.8	–12%
Maintenance/repair/other	**28.8**	62.0	41.2	–54%	–30%	**210.5**	173.7	21%
Transport expenses	**1,716.6**	**1,753.8**	**1,857.3**	**–2%**	**–8%**	**7,031.6**	**8,056.9**	**–13%**

[1)] Within the Cost of purchased services there has been a reclassification between port, canal and terminal costs and chartering, leases and container rentals for the year 2016. The prior year periods were adjusted accordingly.

Transport expenses per unit decreased by USD 163.3/TEU to USD 925.3/TEU in 2016 as compared to the prior year period. The decline results both from a saving in cost of purchased services (USD 103.2/TEU) as compared to prior year period) and from a decrease in expenses for raw materials and supplies (USD 60.1/TEU) as compared to the prior year period). The decrease in cost of purchased services is mainly explained by the realization of CUATRO synergies, the OCTAVE efficiency programs as well as market driven factors such as decreasing charter rates in the second half of 2016, higher than expected volume discounts due to overachieved volume targets in Q4 and valuation/closing effects.

TRANSPORT EXPENSES PER TEU

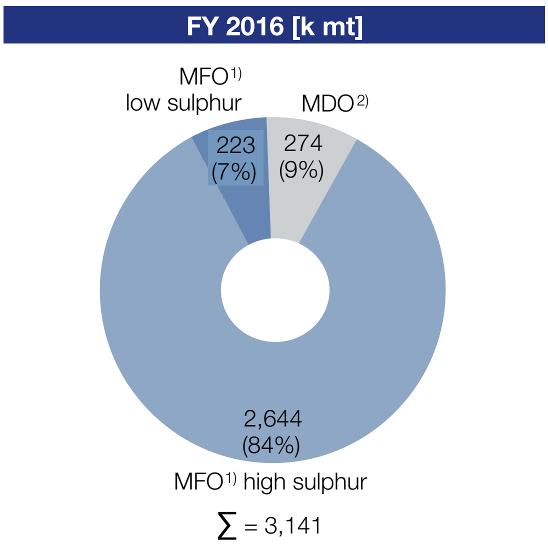
USD/TEU	Q4 2016	Q3 2016	Q4 2015	QoQ % change	YoY % change	FY 2016	FY 2015	% change
Expenses for raw materials and supplies	**117.3**	109.1	130.2	8%	–10%	**100.0**	160.2	–38%
Cost of purchased services	**763.3**	792.1	889.1	–4%	–14%	**825.3**	928.5	–11%
thereof								
Port, canal and terminal costs [1)]	**369.3**	385.2	383.6	–4%	–4%	**385.5**	407.5	–5%
Chartering, leases and container rentals [1)]	**107.3**	101.6	190.8	6%	–44%	**135.9**	175.3	–22%
Container transport costs	**271.9**	273.4	292.1	–1%	–7%	**276.1**	322.2	–14%
Maintenance/repair/other	**14.8**	31.9	22.6	–54%	–35%	**27.7**	23.5	18%
Transport expenses	**880.5**	**901.0**	**1,019.4**	**–2%**	**–14%**	**925.3**	**1,088.6**	**–15%**

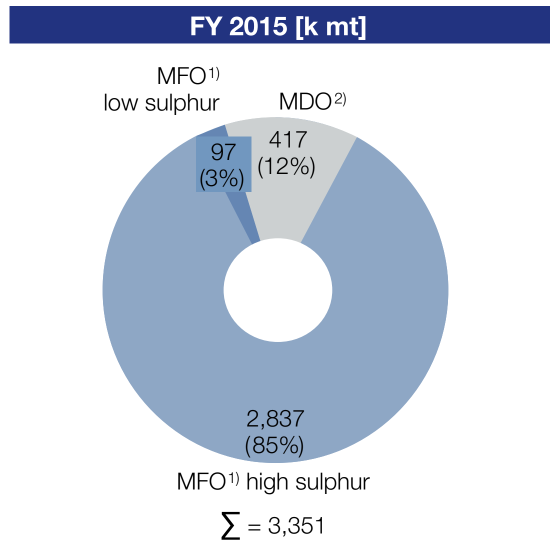
[1)] Within the Cost of purchased services there has been a reclassification between port, canal and terminal costs and chartering, leases and container rentals for the year 2016. The prior year periods were adjusted accordingly.

Bunker consumption development

Bunker consumption in 2016 totalled 3.14 million tonnes (metric tons) (2015: 3.35 million tonnes). The use of larger and more efficient ships as well as the optimization of the deployed fleet and global service network resulted in a 6.3% decrease of the bunker consumption. The share of bunker with low sulphur content (MFO low sulphur, and MDO) amounted to around 16% (previous year: 15%) of total bunker consumption.

Bunker consumption per slot (as measured by the average annual container storage space) was 3.26 metric tons. The decrease of c. 4% in comparison to the average number in 2015 (3.39 mt) is mainly due to the increase of efficiency of our fleet. The bunker consumption per TEU transported stood at 0.41 mt, 8.7% lower than the prior year period figure.





1) MFO = Marine Fuel Oil; 2) MDO = Marine Diesel Oil

4.6 Earnings position

The Group's earnings before interest and taxes (EBIT) amounted to USD 139.7 million in the reporting period. They were therefore well below the corresponding figure in the prior year period of USD 406.7 million. The Group's earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 671.1 million in the financial year 2016 (prior year period: USD 922.4 million). The Group recorded a loss of USD 102.9 million in 2016 (prior year period: profit of USD 126.4 million).

EBIT AND EBITDA MARGIN

million USD	**Q4 2016**	Q3 2016	Q4 2015	QoQ % change	YoY % change	**FY 2016**	FY 2015	% change
Revenue	**2,181.5**	2,151.8	2,225.0	1%	–2%	**8,545.5**	9,814.4	–13%
EBIT	**110.9**	73.0	18.0	52%	516%	**139.7**	406.7	–66%
EBITDA	**246.5**	205.8	152.3	20%	62%	**671.1**	922.4	–27%
EBIT margin	**5.1%**	3.4%	0.8%	1.7 ppt	4.3 ppt	**1.6%**	4.1%	–2.5 ppt
EBITDA margin	**11.3%**	9.6%	6.8%	1.7 ppt	4.5 ppt	**7.9%**	9.4%	–1.5 ppt

Earnings per share were at USD –0.9/share in the financial year 2016 as compared to a positive amount of USD 1.2/share in the prior year

EARNINGS PER SHARE

		FY 2016	FY 2015	% change
"Non diluted" Earnings Per Share	USD	**–0.9**	1.2	–178%
Profit/Loss attributable to shareholders of Hapag-Lloyd AG	million USD	**–106.7**	123.9	–186%
Weighted average number of shares	million shares	**118.1**	106.9	10%

5. GROUP NET ASSET POSITION

5.1 Changes in the net asset structure

GROUP NET ASSET POSITION		
million USD	**31.12.2016**	31.12.2015
Assets		
Non-current assets	**10,267.4**	10,363.7
of which fixed assets	**10,183.3**	10,301.7
Current assets	**1,698.0**	1,704.8
of which cash and cash equivalents	**602.1**	625.0
Total assets	**11,965.4**	12,068.5
Equity and liabilities		
Equity	**5,341.7**	5,496.8
Borrowed capital	**6,623.7**	6,571.7
of which non-current liabilities	**3,836.7**	3,958.4
of which current liabilities	**2,787.0**	2,613.3
of which financial debt	**4,414.9**	4,256.3
thereof		
Non-current financial debt	**3,448.4**	3,591.7
Current financial debt	**966.5**	664.6
Total equity and liabilites	**11,965.4**	**12,068.5**

As at 31 December 2016, the Group's balance sheet total was USD 11,965.4 and was thereby rather stable on last year's level (USD 12,068.5 million).

As at 31 December 2016, the consolidated total assets decreased by USD 103.1 million to USD 11,965.4 million, whereby non-current assets sank by USD 96.3 million and current assets sank by USD 6.8 million.

Within non-current assets the fixed assets decreased due to scheduled amortization and were only partly offset by investments in ships and containers.

Current assets remained mainly unchanged to prior year period. The price-related rise in bunker stock of USD 29.0 million to USD 131.5 million as well as the rise of restricted cash under other assets in the amount of USD 19.7 million (previous year: USD 0 million) were offset by the decline of trade accounts receivables and cash.

Equity (including non-controlling interests) declined by USD 155.1 million to USD 5,341.7 million. The decline is related to the group loss of USD –102.9 million and the change in the reserve for the remeasurement of defined benefit pension plans (USD –43.7 million). The equity ratio remained at the same level as the prior year, around 45%.

The Group's liabilities and provisions rose year-on-year by USD 52 million to USD 6,623.7 million. This increase includes a USD 158.6 million net rise in financial debt relating in particular to cash inflows from financing off-setting capital repayments.

5.2 Return on Invested Capital

CALCULATION OF RETURN ON INVESTED CAPITAL[1)]

million USD	FY 2016	FY 2015
Non-current assets	**10,267**	10,364
Inventory	**132**	103
Trade accounts receivable	**716**	780
Other assets	**249**	197
Total assets	**11,363**	**11,444**
Provisions	**602**	678
Trade accounts payable	**1,353**	1,409
Other liabilities	**254**	229
Total debt	**2,209**	**2,315**
Invested Capital	**9,155**	**9,128**
EBIT	**139.7**	406.7
Tax	**21.8**	28.0
Net Operating Profit after Tax (NOPAT)	**117.9**	**378.7**
Return on Invested Capital (ROIC)	**1.3%**	**4.1%**

[1)] The chart outlines selected items from the statement of financial position and the statement of financial position in abbreviated form only.

The return on invested capital (ROIC) in the 2016 financial year was 1.3%, following 4.1% for the full year 2015. Despite the improvement in earnings, the return on capital employed in 2016 was therefore below the weighted average cost of capital (WACC) of 8.2%.

6. GROUP FINANCIAL POSITION

6.1 Developments in cash and cash equivalents

DEVELOPMENT OF LIQUIDITY RESERVE

million USD	Q4 2016	Q4 2015	FY 2016	FY 2015
Cash and cash equivalents beginning of the period	**549.3**	542.8	**625.0**	864.7
Unused credit lines beginning of the period	**75.0**	486.4	**423.4**	255.8
Liquidity reserve beginning of the period	**624.3**	**1,029.2**	**1,048.4**	**1,120.5**
EBITDA	**246.5**	152.3	**671.1**	922.4
Working capital	**–40.1**	–45.2	**–179.7**	–200.0
Others	**0.4**	–12.3	**–30.5**	–87.4
Operating cash flow	**206.7**	**94.8**	**461.0**	**635.0**
Investments	**–125.4**	–141.2	**–390.8**	–804.3
thereof vessel	**–115.3**	–6.9	**–350.8**	–541.8
thereof container	**–6.5**	–129.0	**–26.2**	–243.4
thereof other	**–3.6**	–5.3	**–13.8**	–19.1
Disinvestments	**1.9**	2.2	**7.2**	87.9
Dividends received	**0.1**	5.4	**31.8**	43.2
Investing cash flow	**–123.4**	**–133.7**	**–351.8**	**–673.2**
Capital increase	**0.0**	289.1	**0.0**	289.1
Payments for capital increase	**0.0**	5.6	**0.0**	5.6
Payments made from changes in ownership interests	**0.0**	0.0	**-0.3**	0.0
Debt intake	**478.9**	253.3	**1,067.3**	638.6
Debt repayment	**–419.3**	–321.9	**–949.9**	–830.9
Dividends paid	**–0.7**	0.0	**–6.9**	–2.3
Interest	**–57.2**	–58.3	**–209.9**	–236.9
Payments made from hedges for financial debts	**12.1**	–35.3	**–12.5**	–53.3
Change in restricted cash	**–19.7**	0.0	**–19.7**	0.0
Financing cash flow	**–30.2**	**121.1**	**–131.9**	**–201.3**
Changes due to exchange rate fluctuations	**–0.3**	–0.1	**–0.1**	–0.4
Liquidity reserve end of the period	**802.1**	**1,048.4**	**802.2**	**1,048.4**
Cash and cash equivalents end of the period	**602.1**	625.0	**602.2**	625.0
Unused credit lines end of the period	**200.0**	423.4	**200.0**	423.4

Cash flow from operating activities

The Hapag-Lloyd Group's cash flow from operating activities for the year completed came to USD 461 million, which was USD 174 million, or 27%, lower than in the previous year. Starting with EBITDA of USD 671.1 million, the adjustment of earnings for non-cash income and expenses recognised through profit or loss as well as changes in working capital led to a reduction in the cash flow from operating activities.

Cash flow from investing activities

The cash outflow from investing activities totalled USD 351.8 million (previous year: USD 673.2 million). This mainly consisted of payments for investments in ships and containers totalling USD 390.8 million. Dividend payments received of USD 31.8 million had an offsetting effect. Additionally, non-cash investments in new and leased containers in the amount of USD 57.9 million were made. After deducting the net cash outflows from investing activities, there was a positive free cash flow of USD 109.2 million in the 2016 financial year (previous year: negative free cash flow of USD –38.2 million).

Cash flow from financing activities

The net impact of the Company's financing activities in the 2016 financial year was an outflow of net cash of USD 131.9 million (prior year period: cash outflow of USD 201.3 million). New borrowing of USD 1,067.3 million (previous year: USD 638.6 million) related primarily to payments for ship financing in the amount of USD 602.4 million and further financing of USD 464.9 million. Cash inflows from new borrowing were offset by interest and capital repayments of USD 1,159.8 million (previous year: USD 1067.8 million). Payments of USD 12.5 million were also made for foreign currency hedging for financial debt.

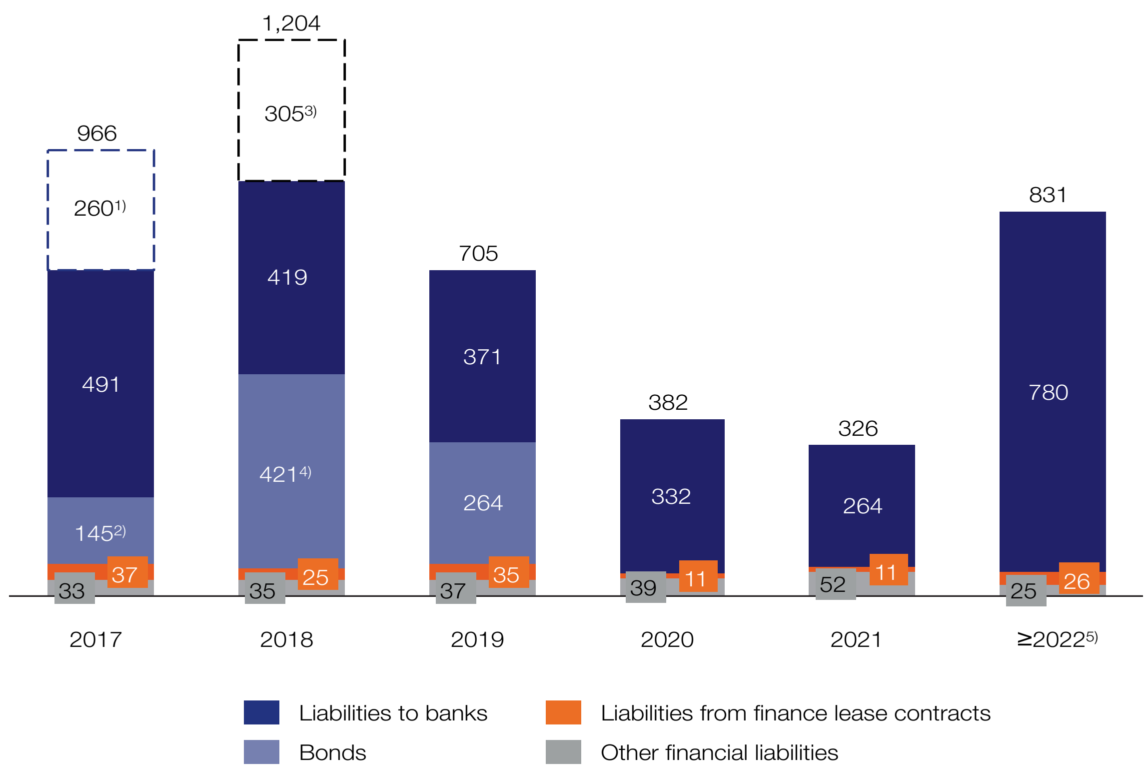
6.2 Financial position

At USD 3,793.1 million, the Group's net debt had increased as at 31 December 2016 from the end of 2015, when it stood at USD 3,631.3 million. This rise was caused in particular by an increase of financial debt.

FINANCIAL SOLIDITY

million USD	**31.12.2016**	30.09.2016	31.12.2015
Cash and cash equivalents	**602.1**	549.3	625.0
Restricted Cash	**19.7**	0.0	0.0
Financial debt	**4,414.9**	4,360.9	4,256.3
Net debt	**3,793.1**	**3,811.6**	**3,631.3**
Unused credit lines	**200.0**	75.0	423.4
Liquidity reserve	**802.1**	**624.3**	**1,048.4**
Equity	**5,341.7**	5,280.1	5,496.8
Gearing (net debt/equity) (%)	**71.0%**	**72.2%**	**66.1%**
Equity ratio (%)	**44.6%**	**44.6%**	**45.5%**

Financial debt profile (USD millon)



[1)] Revolving credit lines with initial duration until 2018
[2)] USD 125 million 9.75% Senior Notes fully redeemed on 16 Feb 2017
[3)] ABS programme prolongated on 3-year basis
[4)] EUR 400 million 7.75% Senior Notes partially redeemed (EUR 200 m) on 8 March 2017
[5)] EUR 450 million 6.75% Senior Notes issued in Feb 2017

The financial debt of USD 4,414.9 million is categorized between (1) liabilities to banks, (2) bonds, (3) liabilities from finance lease contracts and (4) other financial liabilities.

Liabilities to banks comprise loans to finance the existing fleet of vessels and containers. Furthermore, liabilities to banks include revolving credit lines (USD 260 million) and the ABS programme (USD 305 million).

Hapag-Lloyd had three bonds outstanding as per 31 December 2016: USD 125 million 9.75% Senior Notes due October 2017, EUR 400 million 7.75% Senior Notes due October 2018 and EUR 250 million 7.50% Senior Notes due October 2019. On 16 February 2017, Hapag-Lloyd fully redeemed the USD 125 million 9.75% Senior Notes and on 8 March partially redeemed the EUR 400 million 7.75% Senior Notes (EUR 200 million redeemed). In February 2017, Hapag-Lloyd issued a new corporate bond with a coupon of 6.75% and maturity in 2022.

7. EVENTS AFTER THE BALANCE SHEET DATE

Following delivery of the “Cartagena Express” on 19 January 2017 and the “Guayaquil Express” on 2 February 2017, Hapag-Lloyd has put another two ships in the Valparaíso class into operation, each with a transport capacity of 10,500 TEU. USD 51.9 million per ship were paid on the date of delivery to the shipyard of the last instalments for the construction work. At the same time, a credit facility amounting to USD 74.48 million per ship was utilised. The last ship under construction in the Valparaíso class is scheduled to enter operation on 27 April.

In January 2017, a sale and leaseback transaction was entered into involving used containers and containers held by the Company. The lease contract has a term of four years, beginning on 20 January 2017, and comprises a volume of USD 44.1 million.

On 1 February 2017, Hapag-Lloyd issued a new corporate bond with a coupon of 6.75% and a maturity of five years at an issue price of 100.00%. Due to the high level of demand, the originally planned issue volume of EUR 150.0 million was increased to EUR 250.0 million. Some of the proceeds from the issue will be used for the early repayment of the outstanding amount of USD 125.0 million. The original repayment date of the USD bond was 1 October 2017.

On 15 February 2017, a further EUR 200.0 million was added to the corporate bond issued on 1 February 2017, taking the total amount to EUR 450.0 million. The additional proceeds from the issue were used for the early repayment of the EUR bond due on 1 October 2018.

In the fourth quarter 2016 shortfalls in the loan-to-value ratios in the amount of USD 62.2 million (EUR 58.9 million) were created, due to the current development of the market prices for used container ships. In the first quarter 2017 Hapag-Lloyd was requested by the financing bank to pay a respective unplanned redemption payment. Current negotiations have led to a reduction of the unplanned redemption payments down to USD 41.0 million (EUR 38.8 million). Additional requests to pay unplanned redemption payments in the amount of USD 10.3 million (EUR 9.8 million) were received in the first quarter 2017.

The legal merger of the business activities of United Arab Shipping Company (UASC) with Hapag-Lloyd Aktiengesellschaft is expected to close in the first month of 2017.

8. OUTLOOK

The outlook for the 2017 financial year is based on the Hapag-Lloyd Group’s existing business activities as at 31 December 2016 and therefore does not include UASC’s business activities or the acquisition of UASC in 2016.

In its latest economic outlook (January 2017), the International Monetary Fund (IMF) expects global economic growth to reach 3.4% in the current year. This forecast means that the global economy is set to grow at a slightly faster rate in 2017 than in the previous year (+3.1%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 3.8% in the current year (2016: +1.9%). This means that the growth in global trade will outpace that of the global economy in 2017. IHS Global Insight (February 2017) is forecasting that the global container shipping volume will increase by 3.7% to approximately 137 million TEU in 2017 (2016: 2.5%). As such, the expected rise in worldwide transport volumes in container shipping for 2017 would be in line with the rate of growth for global trade.

Following a rise in transport capacities of approximately 0.4 million TEU to 20.1 million TEU in 2016, Drewry forecasts a nominal increase in transport capacities of up to approximately 1.6 million TEU for the current year. The further growth in supply capacity could make it difficult once again to push through freight rate increases in 2017.

Based on unchanged optimism about the general economic and sector-specific conditions, Hapag-Lloyd (excluding the integration of UASC’s business activities) expects its transport volume to increase moderately. A significant rise in the average bunker consumption price and a moderate improvement in the average freight rate are anticipated in 2017. If final synergy effects from the integration of CSAV are achieved, along with additional cost savings, the expected improvement in the quality of earnings, the anticipated growth in volumes and a better peak season occurs in 2017, Hapag-Lloyd is forecasting a substantial increase in its earnings before interest, taxes, depreciation and amortisation (EBITDA) and its earnings before interest and taxes (EBIT) in 2017.

The merger of Hapag-Lloyd and UASC is expected to take place in the first months of 2017. Although the current earnings forecasts do not include revenue and earnings effects or changes in value following the consolidation of UASC, the material factors arising from the merger with UASC will be discussed below. The following information is subject to a successful merger in the first months of 2017.

Hapag-Lloyd released indicative pro-forma figures for UASC when the corporate bonds were issued at the start of 2017. They showed that UASC recorded a transport volume of around 2.3 million TEU in the first nine months of 2016. The average freight rate was USD 610/TEU. The transport volume and freight rate figures were taken from UASC’s unaudited management report, and the following figures from the income statement were adjusted to Hapag-Lloyd’s financial reporting methods[1)]. Revenue came to EUR 1,615.6 million (USD 1,799.5 million). In the first nine months of 2016, UASC generated EBITDA of EUR 94.6 million (USD 105.4 million), EBIT of EUR –102.8 (USD –114.5 million) million and earnings after tax of EUR –209.1 million (USD –232.9 million). The planned merger with UASC would enable the Hapag-Lloyd Group to considerably expand its business activities

[1)] The USD values for the financial figures of UASC for the first nine months 2016 have been calculated with an exchange rate of 1 EUR = USD 1.1138 in 2017. The integration of UASC's business activities into the Hapag-Lloyd Group would also significantly alter the balance sheet. This affects property, plant and equipment and the level of debt in particular. Assuming that the merger with UASC is completed within the first few months of 2017, Hapag-Lloyd will refine its outlook for 2017 when it publishes its next interim report. The planned merger should generate annual synergies of USD 435 million from 2019 onwards, thanks in particular to the optimisation of a joint network and administrative functions. By 2017 approximately one third of this amount should have already been generated. One-off expenses of approximately USD 150 million are likely to arise from the transaction and implementation of the merger.

Key benchmark figures for the 2017 outlook

Global economic growth (IMF)	+3.4%
Increase in global trade (IMF)	+3.8%
Increase in global container transport volume (IHS)	+3.7%
Transport volume, Hapag-Lloyd Group	Increasing moderately
Average bunker consumption price, Hapag-Lloyd Group	Increasing clearly
Average freight rate, Hapag-Lloyd Group	Increasing moderately
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	Increasing clearly
EBIT (Earnings before interest and taxes)	Increasing clearly

The revenue and earnings forecast is based on the assumption of constant exchange rates.

The majority of revenue is anticipated in the second half of the year, particularly in the third quarter, when the peak season occurs. This is because the volume of global trade fluctuates throughout the year and is usually much higher in the second half of the year than in the first. In addition, the achievement of further synergies and earnings effects from cost-cutting measures already initiated will have a positive impact on earnings as expected.

Hapag-Lloyd has entered into long-term loan agreements to secure financing for all of the ship newbuilds ordered as at the balance sheet date of 31 December 2016. The launching of another three 10,500-TEU ships, which are set to be put into service by April 2017, as well as the integration of UASC's business activities into Hapag-Lloyd's accounting will lead to a significant rise in net debt in 2017.

Risks that may have an impact on the forecast for business development are described in detail in the risk report of the Annual Report 2016. Significant risks for the Group's revenue and earnings development include a further slowdown in global economic and trade volume growth, a significant and lasting rise in bunker prices extending beyond the average level seen in 2016, a sharp increase in the euro against the US dollar, and a sustained and considerable reduction in freight rates. The occurrence of one or more of these risks could have a significant negative impact on the industry in 2017 and, by extension, on the business development of Hapag-Lloyd in the current financial year. Additional risks could result from the consolidation of the industry and possible changes in the composition of global alliances.

9. FINANCIAL CALENDAR 2017

12 May 2017	Publication of quarterly financial report Q1 2017
10 August 2017	Publication of half-year financial report H1 2017
14 November 2017	Publication of quarterly financial statement 9M 2017

10. DISCLAIMER

This report provides general information about Hapag-Lloyd AG. It consists of summary information based on a calculation of USD figures. It does not purport to be complete and it is not intended to be relied upon as advice to investors.

No representations or warranties, expressed or implied, are made as to, and no reliance should be placed on, the accuracy, fairness or completeness of the information presented or contained in this report.

This report contains forward looking statements within the meaning of the 'safe harbor' provision of the US securities laws. These statements are based on management's current expectations or beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Actual results may differ from those set forth in the forward-looking statements as a result of various factors (including, but not limited to, future global economic conditions, market conditions affecting the container shipping industry, intense competition in the markets in which we operate, potential environmental liability and capital costs of compliance with applicable laws, regulations and standards in the markets in which we operate, diverse political, legal, economic and other conditions affecting the markets in which we operate, our ability to successfully integrate business acquisitions and our ability to service our debt requirements). Many of these factors are beyond our control.

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