Q4 | FY 2017

Hapag-Lloyd AG

Investor Report

1 January to
31 December 2017

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES

		Q4 2017	Q4 2016	FY 2017	FY 2016	Change
Key operating figures						
Total vessels, of which		219	166	219	166	32%
Own vessels		102	72	102	72	42%
Leased vessels		14	3	14	3	367%
Chartered vessels		103	91	103	91	13%
Aggregate capacity of vessels	TTEU	1,573	963	1,573	963	63%
Aggregate container capacity	TTEU	2,349	1,576	2,349	1,576	49%
Bunker price (MFO, average for the period) [1]	USD/t	325	257	307	210	46%
Bunker price (MDO, average for the period) [2]	USD/t	501	425	478	389	23%
Bunker price (combined MFO/MDO, average for the period)	USD/t	338	269	318	226	41%
Freight rate (average for the period)	USD/TEU	1,030	1,033	1,051	1,036	1%
Transport volume	TTEU	2,774	1,949	9,803	7,599	29%
Revenue	million USD	3,119	2,182	11,286	8,546	32%
Transport expenses	million USD	2,442	1,717	9,039	7,032	29%
EBITDA	million USD	390	246	1,198	671	79%
EBIT	million USD	167	111	466	140	234%
Group profit/loss	million USD	28	46	35	–103	n. m.
Cash flow from operating activities	million USD	269	207	1,020	461	121%
Investment in property, plant and equipment	million USD	191	167	519	430	21%
Key return figures						
EBITDA margin (EBITDA/revenue)	%	12.5	11.3	10.6	7.9	2.8 ppt
EBIT margin (EBIT/revenue)	%	5.4	5.1	4.1	1.6	2.5 ppt
Key balance sheet figures as at 31 December						
Balance sheet total	million USD	17,777	11,965	17,777	11,965	49%
Equity	million USD	7,263	5,342	7,263	5,342	36%
Equity ratio (equity/balance sheet total)	%	40.9	44.6	40.9	44.6	–3.8 ppt
Borrowed capital	million USD	10,514	6,624	10,514	6,624	59%
Key financial figures as at 31 December						
Financial debt	million USD	7,596	4,415	7,596	4,415	72%
Cash and cash equivalents	million USD	725	602	725	602	20%
Net debt (financial debt – cash and cash equivalents) [3]	million USD	6,812	3,793	6,812	3,793	80%
Gearing (net debt/equity)	%	93.8	71.0	93.8	71.0	22.8 ppt
Liquidity reserve	million USD	1,270	802	1,270	802	58%
Number of employees as at 31 December						
Employees at sea		2,136	1,389	2,136	1,389	54%
Employees on land		10,431	8,024	10,431	8,024	30%
Hapag-Lloyd total		12,567	9,413	12,567	9,413	33%

[1] MFO = Marine Fuel Oil
[2] MDO = Marine Diesel Oil
[3] Incl. restricted cash booked as other assets: USD 58.6 million as of 31.12.2017, USD 19.7 million as of 31.12.2016

The UASC Group has been included in Hapag-Lloyd AG's consolidated financial statements from the date control was transferred on 24 May 2017. The presented figures include the effects of the transaction from this date and can therefore only be compared to the prior-year's figures to a limited extent.

This report intends to focus on the presentation of the main financial highlights and calculated USD figures of the reporting period. It makes no claim to completeness and does not deal with all aspects and details regarding Hapag-Lloyd. For the full report please visit our website: https://www.hapag-lloyd.com en/ir/publications/financial-report.html

CONTENTS

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. UASC's Ltd. and its subsidiaries (in the following mentioned as UASC Group as well) have been included in the figures from the date control was transferred on 24 May 2017. The key figures used are therefore only comparable with the previous year to a limited extent.

This report was published on 28 March 2018.

1. HIGHLIGHTS

- Successful launch of THE Alliance on 1 April 2017
- The merger with UASC was completed on 24 May 2017 and strengthens Hapag-Lloyd's competitive position significantly
- The operational integration of the UASC Group was completed at the end of November 2017
- Strong growth in volume: the transport volume rose by 29.0% in 2017, primarily as a result of the integration of UASC. On a pro forma basis, the transport volume would have increased by 4.8% compared to the previous year
- The average freight rate in 2017 of USD 1,051 / TEU exceeds the previous year's level by 1.4% (2016: USD 1,036 / TEU), despite the integration of UASC. On a pro forma basis, the average freight rate would have increased by 9.4% compared to the previous year
- At 22.8%, transport expenses (excl. bunker costs) increase at a much lower rate than the increase in transport volume (29.0%)
- Clear increase in EBITDA to USD 1,198.1 million in 2017 (2016: USD 671.1 million)
- Operating result (EBIT) of USD 466.1 million clearly above the previous year's level (2016: USD 139.7 million)
- Successful refinancing through two corporate bonds of EUR 450.0 million each and coupons of 6.75% and 5.125% respectively. The issue proceeds were used for the early repayment of existing bonds
- Strengthening of equity as a result of capital increase of around USD 413.4 million by means of a rights issue and the issuance of 11,717,353 new no-par shares on 17 October 2017 as well as repayment of UASC financial debt
- Solid liquidity reserve of USD 1,270 million as at 31 December 2017
- Strong cash flow from operating activities of USD 1,019.7 million
- Equity ratio decreased to 40.9% as at 31 December 2017 due to the substantial increase in the balance sheet total following the consolidation of the UASC Group

2. MAIN VALUE DRIVERS OF THE CONTAINERSHIPPING SECTOR FOR 2018

According to the industry experts, the container shipping sector is a growth sector with an average annual growth of global container shipping volume of 4.9% expected for the period 2018 to 2022 (source: IHS Global Insight, Nov 2017).

Development of global container transport volume

	2016	2017	2018e	2019e	2020e	2021e	2022e
million TEU	133	140	146	154	162	170	178
Growth rate in %	3.1	4.7	4.9	5.1	5.1	5.0	4.6

Source: IHS Global Insight

The volume of global trade, which is key to the demand for container shipping services, grew by 4.7% in 2017 (previous year: 2.5%) and is forecast to increase by 4.6% in 2018 and 4.4% in 2019. This means that global trade will outpace the global economy in 2018, as it did in 2017 and, according to the expected development, will do so in the following years until 2022 (source: IMF, Jan 2018).

Developments in global economic growth (GDP), world trading volume and global container transport volume

in %	2016	2017	2018e	2019e	2020e	2021e	2022e
Global economic growth	3.2	3.7	3.9	3.9	3.7	3.8	3.8
World trading volume (goods and services)	2.5	4.7	4.6	4.4	3.8	3.9	4.0

Source: IMF

On the supply capacity side, the expected growth for 2018 net of delayed delivieries and scrappings is at 5.6% of the total world fleet while the idle fleet is at a very low level of approximately 2% (source: Alphaliner 01/2018) of the total world fleet in the end of 2017. Based on the data from Drewry Container Forecaster (Issue Q4/2017) the net capacity growth is expected to go down to 1.9% of the total world fleet by 2022.

Global capacity development[1]

in %	2016	2017	2018e	2019e	2020e	2021e	2022e
Scheduled capacity growth	4.5	7.7	9.4	6.6	5.6	4.1	4.2
Capacity measures							
Delayed deliveries	0.0	1.5	2.4	1.3	0.6	0.0	0.0
Scrappings	3.3	2.0	1.5	1.5	1.9	2.0	2.2
Net capacity growth	1.2	4.2	5.6	3.7	3.2	2.1	1.9

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

More detailed information on the sector-specific conditions is available in the audited Financial Report of Hapag-Lloyd AG and in the latest Investor Presentation on the company website.

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

Structure of Hapag-Lloyd's vessel and container fleet[1]

	31.12.2017	30.9.2017	31.12.2016
Number of vessels	**219**	**215**	**166**
Aggregate capacity of vessels (TTEU)	**1,573**	**1,559**	**963**
thereof			
Number of own vessels	102	105	72
Aggregate capacity of own vessels (TTEU)	959	972	540
Number of leased vessels	14	14	3
Aggregate capacity of leased vessels (TTEU)	105	105	12
Number of chartered vessels	103	96	91
Aggregate capacity of chartered vessels (TTEU)	509	482	411
Aggregate container capacity (TTEU)	**2,349**	**2,336**	**1,576**
Number of services	**120**	**125**	**128**

1 The figures for 31.12.2017 and 30.9.2017 relate to Hapag-Lloyd's fleet including the business activities acquired from UASC. The figures for 31.12.2016 relate to Hapag-Lloyd only and do not include UASC's container shipping activities.

As at 31 December 2017, Hapag-Lloyd's fleet comprised a total of 219 container ships. The TEU capacity of the entire Hapag-Lloyd fleet as at 31 December 2017 was 1,573,377 TEU, which was an increase of 610,603 TEU on the previous year. This change was mainly due to the merger with UASC (previous year: 962,774 TEU). Based on the TEU capacities, around 68% of the fleet was owned by the Group as at 31 December 2017 (previous year: approximately 57%). The average age of the ships (capacity-weighted) was 7.1 years (previous year: 7.9 years). The average ship size within the Hapag-Lloyd Group fleet was 7,184 TEU, which is 35% above the comparable average figure for the fifteen largest container liner shipping companies and about double the average ship size of the global fleet.

Hapag-Lloyd also owned or rented 1,435,345 containers with a capacity of 2,348,602 TEU for shipping cargo. Around 54% of containers (capacity-weighted) were owned by the Group as at 31 December 2017 (previous year: around 43%).

4. HAPAG-LLOYD: GROUP EARNINGS POSITION FY 2017

4.1 FREIGHT RATE PER TRADE

Including the UASC Group, the average freight rate in the 2017 financial year was USD 1,051/TEU and was therefore slightly USD 15/TEU (1.4%) up on the prior year period (USD 1,036/TEU without the UASC Group). Freight rate increases, particularly in the Far East, Middle East and Latin America trades, had a positive impact on earnings in the reporting period. On a comparable basis (if the UASC Group had been included since 1 January 2016), the average freight rate for the 2017 financial year would have been USD 1,015/TEU. Compared with the corresponding figure in the previous year of USD 928/TEU, there would have been a rise in the average freight rate of USD 87/TEU (9.4%).

Freight rate per trade[1]

USD/TEU	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Atlantic	1,312	1,315	1,319	0%	–1%	1,302	1,338	–3%
Transpacific	1,226	1,267	1,180	–3%	4%	1,241	1,222	2%
Far East	894	993	803	–10%	11%	947	774	22%
Middle East	826	878	744	–6%	11%	864	700	23%
Intra-Asia	541	615	550	–12%	–2%	578	554	4%
Latin America	1,088	1,077	1,024	1%	6%	1,049	1,001	5%
EMAO (Europe, Mediterranean, Africa, Oceania)	1,076	1,125	1,011	–4%	6%	1,067	1,052	1%
Total	**1,030**	**1,065**	**1,033**	**–3%**	**0%**	**1,051**	**1,036**	**1%**

[1] In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly. Due to the inclusion of UASC in the Hapag-Lloyd Group from the first-time consolidation date of 24 May 2017, figures provided can only be compared with those of the previous year to a limited extent.

4.2 TRANSPORT VOLUME PER TRADE

The transport volume developed well in the 2017 financial year. With the inclusion of the UASC Group and its balanced positioning in all trades, Hapag-Lloyd was able to increase its transport volume by 2,203 TTEU (29.0%) to 9,803 TTEU (prior year period: 7,599 TTEU). All of the trades contributed to this positive performance. On a comparable basis (if the UASC Group had been included since 1 January 2016), the transport volume in the 2017 financial year would have come to 11,212 TTEU in total (prior year period: 10,698 TTEU), which would have meant an increase of 514 TTEU (4.8%).

Transport volume per trade[1]

TTEU	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Atlantic	442	436	375	1%	18%	1,696	1,534	11%
Transpacific	455	465	403	–2%	13%	1,709	1,494	14%
Far East	464	503	212	–8%	119%	1,504	836	80%
Middle East	358	349	118	3%	204%	1,033	462	123%
Intra-Asia	253	259	158	–2%	60%	850	608	40%
Latin America	654	649	575	1%	14%	2,466	2,248	10%
EMAO (Europe, Mediterranean, Africa, Oceania)	147	147	109	0%	35%	544	417	30%
Total	**2,774**	**2,808**	**1,949**	**–1%**	**42%**	**9,803**	**7,599**	**29%**

Rounding differences may occur

[1] In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly. Due to the inclusion of UASC in the Hapag-Lloyd Group from the first-time consolidation date of 24 May 2017, figures provided can only be compared with those of the previous year to a limited extent.

4.3 REVENUE PER TRADE

The Hapag-Lloyd Group generated revenue of USD 11,286.2 million in the 2017 financial year (previous year: USD 8,545,5 million). The growth of 32.1% was due to both the increase in transport volume and in the average freight rate as well as due to the first-time inclusion of the UASC Group.

Revenue per trade[1]

million USD	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Atlantic	580.6	572.5	493.8	1%	18%	2,208.3	2,052.0	8%
Transpacific	557.9	588.9	475.7	–5%	17%	2,120.4	1,825.0	16%
Far East	414.2	499.6	170.0	–17%	144%	1,424.0	647.7	120%
Middle East	295.4	306.6	87.6	–4%	237%	892.1	323.5	176%
Intra-Asia	137.4	159.3	87.1	–14%	58%	491.4	337.2	46%
Latin America	712.4	698.9	589.3	2%	21%	2,587.8	2,249.5	15%
EMAO (Europe, Mediterranean, Africa, Oceania)	158.6	165.1	110.2	–4%	44%	581.0	438.8	32%
Revenue not assigned to trades	262.0	277.1	167.8	–5%	56%	981.2	671.8	46%
Total	**3,118.5**	**3,268.0**	**2,181.5**	**–5%**	**43%**	**11,286.2**	**8,545.5**	**32%**

Rounding differences may occur

[1] In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly. Due to the inclusion of UASC in the Hapag-Lloyd Group from the first-time consolidation date of 24 May 2017, figures provided can only be compared with those of the previous year to a limited extent.

4.4 CONSOLIDATED INCOME STATEMENT

The UASC Group is included in the expenses and income presented below from its first-time consolidation as at 24 May 2017. A comparison with the corresponding prior year period is therefore only possible to a limited extent.

Consolidated income statement

million USD	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Revenue	**3,118.5**	**3,268.0**	**2,181.5**	**–5%**	**43%**	**11,286.2**	**8,545.5**	**32%**
Other operating income	6.5	29.1	6.6	–78%	–2%	149.9	107.3	40%
Transport expenses	–2,441.6	–2,562.0	–1,716.6	–5%	42%	–9,039.1	–7,031.6	29%
Personnel expenses	–193.3	–204.2	–127.5	–5%	52%	–770.8	–548.1	41%
Depreciation, amortisation and impairment	–222.9	–212.5	–135.6	5%	64%	–732.0	–531.4	38%
Other operating expenses	–130.2	–130.8	–102.1	0%	28%	–493.2	–426.7	16%
Operating result	**137.0**	**187.6**	**106.3**	**–27%**	**29%**	**401.0**	**114.9**	**249%**
Share of profit of equity-accounted investees	8.7	14.5	8.2	–40%	6%	43.1	30.0	44%
Other financial result	21.5	0.3	–3.6	n. m.	n. m.	22.0	–5.2	n. m.
Earnings before interest and tax (EBIT)	**167.2**	**202.4**	**110.9**	**–17%**	**51%**	**466.1**	**139.7**	**n. m.**
Interest result	–132.3	–139.2	–59.3	–5%	123%	–403.5	–220.8	83%
Income taxes	–7.3	–7.0	–5.4	4%	35%	–27.3	–21.8	25%
Group profit/loss	**27.6**	**56.2**	**46.2**	**–51%**	**–40%**	**35.3**	**–102.9**	**n. m.**

Changes in the US dollar/euro exchange rate caused period-specific exchange rate gains and losses to increase in the period under review. This was reflected in other operating income and other operating expenses. Netted, this resulted in an exchange rate gain of USD 27.0 million in the 2017 financial year (prior year period: exchange rate loss of USD –23.2 million).

Other operating income increased by USD 42.6 million to USD 149.9 million in the current financial year compared to the respective prior year period. The Hapag-Lloyd Group conducted a purchase price allocation pursuant to IFRS 3 at the time of acquisition of the UASC Group in the 2017 financial year in order to include the acquired assets and liabilities in the consolidated financial statements. As part of the purchase price allocation, all assets and liabilities which the Company was aware of at this time were identified and measured at fair value. This resulted in a gain from a bargain purchase of USD 31.6 million which was recognised through profit or loss in the 2017 financial year. This also includes adjustments to the provisional purchase price allocation in the amount of USD 20.7 million within the measurement period pursuant to IFRS 3.45 for the UASC Group which was acquired during the year. The adjustments were due to the measurement of assets and of liabilities. The provisional nature of the purchase price allocation concluded at the end of the 2017 financial year.

Other operating expenses came to USD 493.2 million in 2017 (prior year period: USD 426.7 million). In particular, these included expenses related to the first-time inclusion of the UASC Group. They also included one-off expenses of USD 36.9 million associated with the acquisition of the UASC Group. These include in particular legal and consultancy expenses totalling USD 21.9 million.

Personnel expenses increased by 41.0% to USD 770.8 million in the 2017 financial year (previous year: USD 548.1 million), primarily due to the acquisition of the UASC Group in the 2017 financial year and the associated growth in the number of employees. The costs incurred for the restructuring of the UASC Group as part of the operational integration of UASC's business activities and associated one-off effects amounting to USD 46.2 million in total also led to an increase in personnel expenses. In addition, the exchange rate losses at the balance sheet date resulting from the valuation of pension provisions in the amount of USD 17.2 million increased personnel expenses compared with the prior year period (exchange rate gain: USD 3.6 million).

Depreciation and amortisation of USD 732.0 million (prior year period: USD 531.4 million) primarily relates to depreciation of ships and containers and amortisation of intangible assets. The increase was partly due to the inclusion of the UASC Group's ships and containers as a result of the acquisition.

The other financial result includes a profit from the business combination in stages of a company in the amount of USD 21.5 million which resulted from the remeasurement of a joint venture previously recognised as an equity-accounted share.

An interest result of USD –403.5 million was reported for the 2017 financial year (previous year: USD –220.8 million). The increase was mainly driven by the first time consolidation of the UASC Group (USD 89.2 million). In addition, existing US dollar and euro bonds have been early redeemed in 2017. These transactions were associated with one-off effects totalling USD 33.8 million as a result of redemption charges, the disposal of associated embedded derivatives and other associated transaction costs. In addition to interest expenses resulting from newly utilised ship and container financing and other financing agreements prompted overall interest expenses to rise. Changes in the fair value of the embedded derivatives of the bonds issued resulted in expenses of USD –4.8 million in contrast to income in the prior year period of USD 16.1 million.

Overall, earnings after taxes (EAT) came to USD 35.3 million (previous year: USD –102.9 million).

4.5 TRANSPORT EXPENSES

In the 2017 financial year, transport expenses rose by USD 2,007.5 million to USD 9,039.1 million (prior year period: USD 7,031.6 million). This represents an increase of 29% that is primarily due to the acquisition of the UASC Group and the relating growth in transport volume as well as increased bunker prices.

The increase in the expenses for raw materials and supplies of USD 579.6 million (76%) to USD 1,339.6 million primarily results from the higher bunker price in the current reporting period as well as the increased transport volume resulting from the acquisition of the UASC Group. In the 2017 financial year, the average bunker consumption price for Hapag-Lloyd was USD 318 per tonne, up USD 92 per tonne on the prior year period's figure of USD 226 per tonne. From the 2017 financial year onwards, the average bunker consumption price used by Hapag-Lloyd is a combined figure for marine fuel oil (MFO) and marine diesel oil (MDO). The previous year's figure has been restated accordingly.

The cost of purchased services rose year-on-year by USD 1,427.9 (23%) to USD 7,669.5 million, which was a disproportionally lower increase compared to revenue growth. This increase is a reflection of the rise in transport volumes and, in particular, the initial inclusion of the UASC Group. Within the cost of purchased services, chartering, lease and container rentals decreased, due mainly to a change in the charter fleet structure as a result of the operational integration of the UASC Group.

Transport expenses

million USD	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Expenses for raw materials and supplies	390.8	361.6	228.7	8%	71%	1,339.6	760.0	76%
Cost of purchased services	2,050.8	2,200.4	1,487.9	–7%	38%	7,699.5	6,271.6	23%
thereof								
Port, canal and terminal costs	1,167.6	1,099.7	720.0	6%	62%	3,929.5	2,929.8	34%
Chartering, leases and container rentals	139.0	308.8	209.2	–55%	–34%	944.2	1,033.0	–9%
Container transport costs	672.3	702.6	529.9	–4%	27%	2,530.0	2,098.3	21%
Maintenance / repair / other	71.9	89.3	28.8	–19%	150%	295.8	210.5	41%
Transport expenses	**2,441.6**	**2,562.0**	**1,716.6**	**–5%**	**42%**	**9,039.1**	**7,031.6**	**29%**

Transport expenses per unit remained constant in 2017 compared to the prior year period. Higher expenses for raw materials and supplies (increase of USD 36.7 / TEU, +37% as compared to the prior year period) were more than offset by savings in cost of purchased services (decrease of USD 39.9 / TEU, –5% as compared to the prior year period) as a result of the cost-cutting programmes and initial synergies.

Quarter on quarter, costs for chartering, leases and container rentals have decreased by 54%, which is due to pool settlements with the alliance partners which may include net income as an overprovider or net expenses as an underprovider.

Transport expenses per TEU

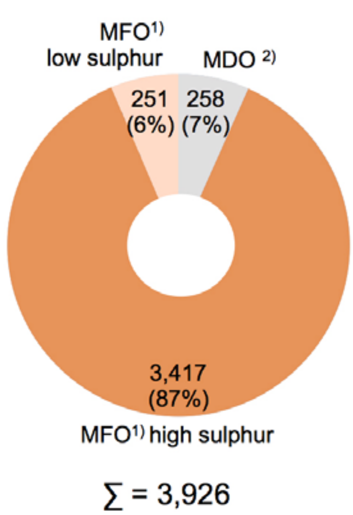
USD / TEU	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Expenses for raw materials and supplies	140.9	128.8	117.3	9%	20%	136.7	100.0	37%
Cost of purchased services	739.4	783.5	763.3	–6%	–3%	785.4	825.3	–5%
thereof								
Port, canal and terminal costs	421.0	391.6	369.3	7%	14%	400.9	385.6	4%
Chartering, leases and container rentals	50.1	109.9	107.3	–54%	–53%	96.3	135.9	–29%
Container transport costs	242.4	250.2	271.9	–3%	–11%	258.1	276.1	–7%
Maintenance / repair / other	25.9	31.8	14.8	–18%	75%	30.2	27.7	9%
Transport expenses	**880.3**	**912.3**	**880.5**	**–4%**	**0%**	**922.1**	**925.3**	**0%**

Rounding differences may occur

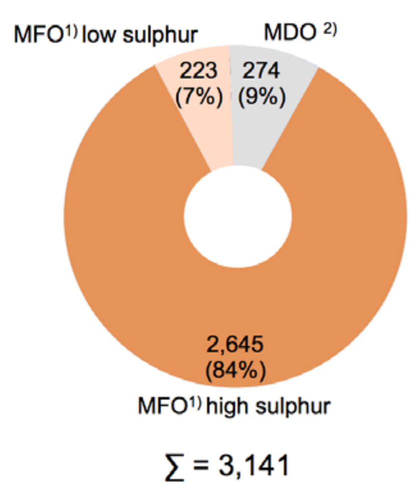
Bunker consumption development

Bunker consumption totalled approximately 3.93 million tons (metric tons) in the FY 2017 (FY 2016 without the UASC Group: 3.14 million metric tons). Around 13% (FY 2016, without the UASC Group: approximately 16%) of this comprised bunker with a lower percentage of sulphur (MFO low sulphur, MDO). Based on the total transport volume, the bunker consumption per TEU amounted to 0.40 metric tons (FY 2016, without the UASC Group: 0.41 metric tons per TEU).

FY 2017 [k mt]



FY 2016 [k mt]



[1] MFO = Marine Fuel Oil; [2] MDO = Marine Diesel Oil

4.6 EARNINGS POSITION

Earnings before interest and taxes (EBIT) increased significantly from USD 139.7 million in the previous year to USD 466.1 million. This resulted in an EBIT margin of 4.1% (prior year period: 1.6%). The Group also recorded clearly increased earnings before interest, taxes, depreciation and amortisation (EBITDA) of USD 1,198.1 million in the 2017 financial year (prior year period: USD 671.1 million). The EBITDA margin was 10.6% (prior year period: 7.9%).

EBIT and EBITDA margin

million USD	Q4 2017	Q3 2017	Q4 2016	QoQ change	YoY change	FY 2017	FY 2016	Change
Revenue	3,118.5	3,268.0	2,181.5	–5%	43%	11,286.2	8,545.5	32%
EBIT	167.2	202.4	110.9	–17%	51%	466.1	139.7	n. m.
EBITDA	390.1	414.9	246.5	–6%	58%	1,198.1	671.1	79%
EBIT margin	5.4%	6.2%	5.1%	–0.8 ppt	0.3 ppt	4.1%	1.6%	2.5 ppt
EBITDA margin	12.5%	12.7%	11.3%	–0.2 ppt	1.2 ppt	10.6%	7.9%	2.8 ppt

5. GROUP NET ASSET POSITION

5.1 CHANGES IN THE NET ASSET STRUCTURE

Group net asset position

million USD	31.12.2017	31.12.2016
Assets		
Non-current assets	15,146.1	10,267.4
of which fixed assets	15,071.1	10,183.3
Current assets	2,630.8	1,698.0
of which cash and cash equivalents	725.2	602.1
Total assets	**17,776.9**	**11,965.4**
Equity and liabilities		
Equity	7,263.3	5,341.7
Borrowed capital	10,513.6	6,623.7
of which non-current liabilities	7,197.8	3,836.7
of which current liabilities	3,315.8	2,787.0
of which financial debt	7,595.5	4,414.9
thereof		
Non-current financial debt	6,750.6	3,448.4
Current financial debt	844.9	966.5
Total equity and liabilites	**17,776.9**	**11,965.4**

The initial inclusion of the UASC Group as at 24 May 2017 resulted in a significant change in the consolidated statement of financial position and means that comparisons with the previous year are only possible to a limited extent. The Group's balance sheet total increased by 48.6% compared to 31 December 2016, from USD 11,965.4 million to USD 17,776.9 million.

Fixed assets increased by USD 4,887.8 million to USD 15,071.51 million. USD 5,078.3 million of this related to additions following the acquisition of the UASC Group, in particular the addition of ships and containers but also intangible assets such as customer relationships, brand and software. Besides the additions from the company acquisition, further investments were made in ships and containers in particular. Five new ships with capacities ranging from 10,500 TEU (three ships) to 15,000 TEU (two ships) were delivered to Hapag-Lloyd in the 2017 financial year. In addition, six ships were sold in the 2017 financial year, and a further four ships were reclassified as “held for sale” within current assets due to specific intentions to sell. Exchange rate effects of USD 57.5 million as at the reporting date and depreciation amounting to USD 732.0 million also prompted a fall in the carrying amounts of the fixed assets and therefore in non-current assets.

Current assets increased, particularly due to the acquisition of the UASC Group, and totalled USD 2,630.8 million as at 31 December 2017 (31 December 2016: USD 1,698.0 million). This figure includes a rise in trade accounts receivable of USD 348.9 million to USD 1,064.4 million. Cash and cash equivalents increased by USD 123.1 million (20.4%) year-on-year to USD 725.2 million.

Equity (including non-controlling interests) amounted to USD 7,263.3 million as at 31 December 2017 (previous year: USD 5,341.7 million). The increase of USD 1,921.6 was primarily due to the capital increases carried out in the 2017 financial year and to the Group profit of USD 35.3 million. Equity rose by USD 1,439.3 million as a result of the capital increase in return for a contribution in kind following the acquisition of the UASC Group. The cash capital increase carried out in October 2017 increased equity by additional USD 413.4 million. The two capital increases resulted in transaction costs of USD 5.2 million, which reduced equity. The balance of the unrealised gains and losses from foreign currency translation recognised in other comprehensive income also counteracted the effects of the capital increases and reduced equity by USD 50.7 million. The equity ratio fell to 40.9% as at 31 December 2017 (31 December 2016: 44.6%) as a result of the significant rise in borrowed capital following the first-time consolidation of the UASC Group.

The Group’s borrowed capital rose by USD 3,889.9 million to USD 10,513.6 million in comparison to the previous year, primarily as a result of the acquisition of the UASC Group.

There was a considerable change in the Company’s financial debt, which increased by USD 3,180.6 million compared with 31 December 2016 to USD 7,595.5 million. The inclusion of the UASC Group as at 24 May 2017 contributed USD 3,974.3 million to this increase. Financial debt also rose as a result of cash inflows of USD 1,854.3 million which mainly resulted from cash inflows from the placement of new bonds and to loans for the financing of vessels and containers.

For further information on significant changes to specific balance sheet items and on the extent of the investment obligations, please refer to the Notes of the audited Annual Report FY 2017 on the Hapag-Lloyd company website.

5.2 RETURN ON INVESTED CAPITAL

The return on invested capital (ROIC) for the 2017 financial year amounted to 3.1% (prior year period: 1.3%).

Calculation of return on invested capital

million USD	FY 2017	FY 2016
Non-current assets	15,146.1	10,267.4
Inventory	223.5	131.5
Trade accounts receivable	1,064.4	715.5
Other assets	617.7	248.9
Total assets	**17,051.7**	**11,363.3**
Provisions	737.5	601.5
Trade accounts payable	1,870.1	1,353.3
Other liabilities	310.5	254.0
Total debt	**2,918.1**	**2,208.8**
Invested Capital	**14,133.6**	**9,154.5**
EBIT	466.1	139.7
Tax	27.3	21.8
Net Operating Profit after Tax (NOPAT)	**438.8**	**117.9**
Return on Invested Capital (ROIC)	**3.1%**	**1.3%**

Basic earnings per share for the 2017 financial year came to USD 0.20 per share (prior year period: USD –0.90 per share).

Earnings per share

		FY 2017	FY 2016	Change
“Non diluted” earnings per share	USD	**0.20**	**–0.90**	**n. m.**
Profit / loss attributable to shareholders of Hapag-Lloyd AG	million USD	30.0	–106.7	n. m.
Weighted average number of shares	million shares	148.2	118.1	25%

6. GROUP FINANCIAL POSITION

6.1 DEVELOPMENTS IN CASH AND CASH EQUIVALENTS

Development of liquidity reserve

million USD	Q4 2017	Q4 2016	FY 2017	FY 2016
Cash and cash equivalents beginning of the period	1,442.6	549.3	602.1	625.0
Unused credit lines beginning of the period	460.0	75.0	200.0	423.4
Liquidity reserve beginning of the period	**1,902.6**	**624.3**	**802.1**	**1,048.4**
EBITDA	390.2	246.5	1,198.1	671.1
Working capital	92.1	–40.1	–118.4	–179.1
Others	–29.3	0.4	–60.0	–30.5
Operating cash flow	**268.8**	**206.7**	**1,019.7**	**461.0**
Investments	–150.9	–125.4	–467.8	–390.8
thereof vessel	–40.4	–115.3	–300.9	–350.8
thereof container	–107.7	–6.5	–155.2	–26.2
thereof other	–2.8	–3.6	–11.7	–13.8
Cash received from acquisitions	26.7	0.0	426.8	0.0
Disinvestments	16.8	1.9	37.7	7.2
Dividends received	0.2	0.1	31.5	31.8
Investing cash flow	**–107.2**	**–123.4**	**28.2**	**–351.8**
Capital increase	413.5	0.0	413.5	0.0
Payments for capital increase	–3.7	0.0	–4.5	0.0
Payments made from changes in ownership interests	–17.2	0.0	–17.5	–0.3
Debt intake	63.5	478.9	1,854.3	1,067.3
Debt repayment	–1,253.5	–419.3	–2,822.8	–949.9
Dividends paid	0.1	–0.7	–3.5	–6.9
Interest	–114.2	–57.2	–350.8	–209.9
Payments made for / received from hedges for financial debts	23.4	12.1	22.2	–12.5
Change in restricted cash	9.0	–19.7	–16.0	–19.7
Financing cash flow	**–879.1**	**–30.2**	**–925.1**	**–131.9**
Changes due to exchange rate fluctuations	0.1	–0.3	0.3	–0.1
Liquidity reserve end of the period	**1,270.2**	**802.1**	**1,270.2**	**802.2**
Cash and cash equivalents end of the period	725.2	602.1	725.2	602.2
Unused credit lines end of the period	545.0	200.0	545.0	200.0

Cash flow from operating activities

USD 1,019.7 million were generated from ordinary operating activities in the 2017 financial year (prior year period: USD 461.0 million). The year-on-year increase was primarily due to the positive development of the operating result, improved working capital and the acquisition of the UASC Group in 2017.

Cash flow from investing activities

The cash inflow from investing activities totalled USD 28.2 million (prior year period: cash outflow of USD 351.8 million). As a result of acquiring the UASC Group and obtaining control of the subsidiary Hapag-Lloyd Denizasiri Nakliyat A.S., Turkey, which was an equity-accounted investee until 1 October 2017, net cash inflow was

USD 426.8 million. This includes the addition of cash and cash equivalents of USD 436.6 million. The Group received additional cash inflows, in particular from dividend payments received and asset disposals. This was offset by cash outflows of USD 467.3 million (prior year period: USD 390.8 million). This mainly consisted of payments for investments in ships and containers totalling USD 456.1 million (prior year period: USD 377.0 million). Additionally, non-cash investments in containers in the amount of USD 62.8 million were made (prior year period: USD 57.9 million). After deducting the cash outflows from investing activities, there was a positive free cash flow of USD 1,047.9 million in the 2017 financial year (prior year period: USD 109.2 million).

Cash flow from financing activities

New financial debt amounting to USD 1,854.3 million (prior year period: USD 1,067.3 million) related primarily to cash inflows from the placement of two euro bonds totalling EUR 900.0 million and debt intake for the financing of vessels and containers. Additional cash inflows were caused by the cash capital increase of USD 413.4 million in connection with the acquisition of the UASC Group. The proceeds from the cash capital increase were used to repay loans with a relatively high interest burden at the level of UASC Ltd. Furthermore, a finance lease contract (known as a Chinese lease), which was entered into to replace ship financing, resulted in early repayments. Proceeds from transactions for foreign currency hedging occurred in the amount of USD 22.2 million (prior year period: payments of USD 12.5 million).

The borrowings were offset by cash outflows of USD 3,173.6 million (prior year period: USD 1,159.8 million) for the repayment of US dollar and euro bonds and by interest and redemption payments.

The net cash outflow from financing activities increased year-on-year by USD 793.2 million to USD 925.1 in the 2017 financial year (prior year period: USD 131.9 million).

6.2 FINANCIAL POSITION

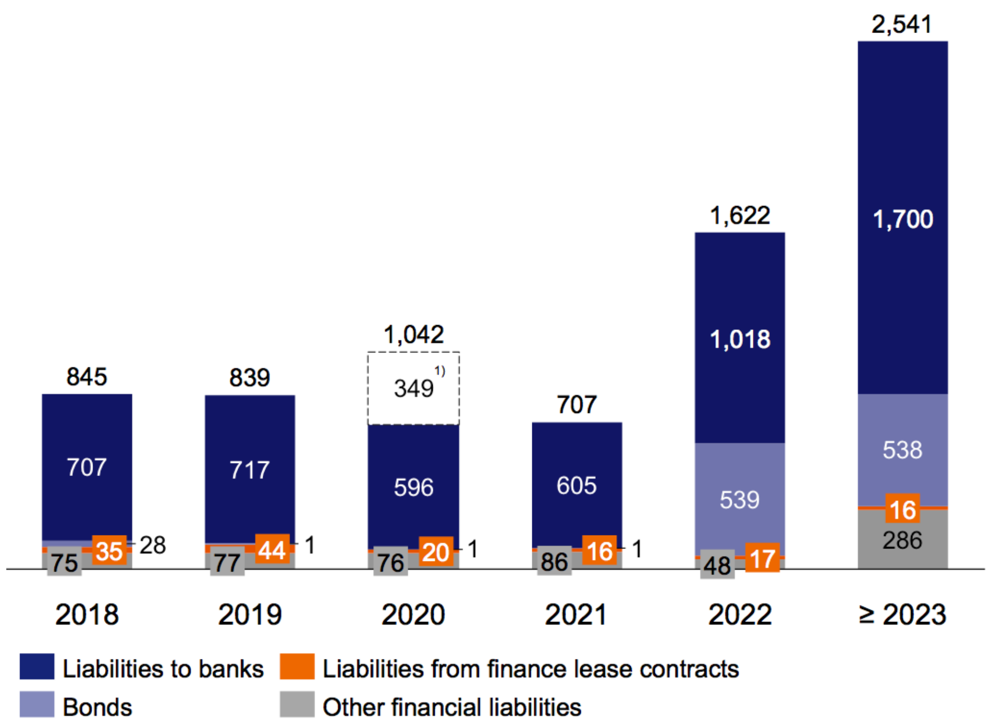
The first-time consolidation of the UASC Group increased the Group's net debt to USD 6,811.7 million as at 31 December 2017, compared to USD 3,793.1 million in the previous year. The calculation of net debt includes restricted cash in the amount of USD 58.6 million (previous year: USD 19.7 million), which is held in trust as security for existing financial debt and due to its maturity is reported under other assets. Gearing (net debt/equity) increased to 93.8% (31 December 2016: 71.0%).

The first-time consolidation of the UASC Group also reduced the equity ratio to 40.9% as at 31 December 2017 (31 December 2016: 44.6%).

Financial solidity

million USD	31.12.2017	31.12.2016
Financial debt	7,595.5	4,414.9
Cash and cash equivalents	725.2	602.1
Restricted cash	58.6	19.7
Net debt	**6,811.7**	**3,793.1**
Unused credit lines	545.0	200.0
Liquidity reserve	**1,270.2**	**802.1**
Equity	7,263.3	5,341.7
Gearing (net debt/equity) (%)	**93.8%**	**71.0%**
Equity ratio (%)	**40.9%**	**44.6%**

Financial debt profile (million USD)



[1] ABS programme prolongated until 2020

The financial debt of USD 7,595.5 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 the ABS programme (USD 349.0 million).

Hapag-Lloyd had two bonds outstanding as per 31 December 2017: EUR 450.0 million 6.75% Senior Notes due February 2022 and EUR 450.0 million 5.125% Senior Notes due July 2024.

Together with existing liquidity, the proceeds from the bond issuances were used for the early repayment of the US dollar bond due in 2017 as well as for the repayment of the euro bond due in 2018 and full redemption of the euro bond due 2019.

7. EVENTS AFTER THE BALANCE SHEET DATE

On 21 February 2018, the program to securitise receivables was expanded by USD 100.0 million.

On 22 February 2018, Hapag-Lloyd repaid an existing loan held by UASC Ltd. early in the amount of USD 100.0 million using only cash from the available liquidity.

On 22 February, 2018, 911,388 registered ordinary shares were admitted to trading in the form of no-par value shares. Admission was subsequently received to the already completed capital increase against contribution in kind and the admission of 42,749,568 new shares of Hapag-Lloyd AG to the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the regulated market segment (Prime Standard) of the Frankfurt Stock Exchange.

The four ocean-going vessels classified as held for sale in the 2017 financial year, were sold in the first quarter 2018.

On 20 March 2018 Hapag-Lloyd placed an order for 55,000 standard container with an investment volume of USD 109.7 million. For this purpose, Hapag-Lloyd signed a commitment for financing on 22 March 2018 in the amount of up to USD 171.4 million, which also secures additional container investments. The delivery of the respective containers is planned to be completed by August 2018.

8. OUTLOOK

Hapag-Lloyd is expecting a significant increase in its transport volume in 2018 – due in part to the inclusion of UASC's business activities for the whole year. The UASC Group will be included in the consolidated financial statements of Hapag-Lloyd AG for a full twelve months for the first time in 2018 (previous year: inclusion of the UASC Group from 24 May 2017). This will involve – in addition to the sharp rise in volume – a heavier weighting for the Middle East and Far East trades when calculating the average freight rate. These trades currently have a lower freight rate than some of Hapag-Lloyd's other trades. Provided a further improvement in the overall freight rates Hapag-Lloyd's average freight rate in 2018 is likely to be approximately on previous year's level. Hapag-Lloyd is also expecting a substantial rise in the average bunker consumption price in 2018.

Provided that rate expectations and a large amount of the synergies from the merger with UASC are achieved, along with the expected improvement in the quality of earnings and the anticipated growth in volumes, Hapag-Lloyd is forecasting a substantial year-on-year increase in its EBITDA and EBIT in 2018. This assumption also takes account of the additional one-off expenses of around USD 10 million which are expected as a result of the merger and integration which are not provided for in full. Not accounted for are impairments on goodwill, other intangible assets and property, plant and equipment. Although not expected at present, these cannot be ruled out, given current geopolitical developments and other factors.

The key benchmark figures for the 2018 outlook are contained in the following table:

Key benchmark figures for the 2018 outlook

Global economic growth (IMF)	3.9%
Increase in global trade (IMF)	4.6%
Increase in global container transport volume (IHS)	4.9%
Transport volume, Hapag-Lloyd Group	Increasing clearly
Average bunker consumption price, Hapag-Lloyd Group	Increasing clearly
Average freight rate, Hapag-Lloyd Group	On previous year's level
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 unchanged exchange rates.

The revenue and earnings forecast is based on the assumption of unchanged exchange rates compared with the average rates in the fourth quarter of the previous year.

The majority of the earnings are expected to be generated 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.

Risks that may have an impact on the forecast for business development are described in detail in the risk report of the audited Annual Report FY 2017 on the Hapag-Lloyd company website. Significant risks for the Group's revenue and earnings development include in particular a slowdown in global economic and trade volume growth, a significant and lasting rise in bunker prices extending beyond the level seen at the end of 2017, a sharp and persistent increase in the euro against the US dollar and a renewed reduction in freight rates. Additional risks could result from the consolidation of the industry and changes in the composition of global alliances.

The occurrence of one or more of these risks could have a significant negative impact on the industry in 2018 and, by extension, on the business development of Hapag-Lloyd in the current financial year.

IMPORTANT NOTICE

With the incorporation of the UASC Group into the Hapag-Lloyd Group as at 24 May 2017, 96 fully consolidated companies and five equity-accounted investees were included in the group of consolidated companies.

As such, the net asset, financial and earnings position figures for 2017 can only be compared with those of previous years to a limited extent.

Unless stated otherwise, the figures for 2016 relate to Hapag-Lloyd not including the UASC Group.

The information provided in this Investor Report is based on a calculation of US dollar 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 US dollar 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. Therefore, the functional currency of Hapag-Lloyd AG is the US dollar. However, the reporting currency of Hapag-Lloyd AG is the euro.

For reconciliation to the Interim Report FY 2017, please find below the respective exchange rates:

- Values for Q4 2017 have been calculated by subtracting the 9M 2017 figures from the FY 2017 figures
- Values for 9M 2017 have been converted for Hapag-Lloyd (excl. UASC) at the average exchange rate for January to September 2017 and for UASC since consolidation 24 May 2017 at the average exchange rate for June to September 2017
- Values for FY 2017 have been converted for Hapag-Lloyd (excl. UASC) at the average exchange rate for January to December 2017 and for UASC since consolidation 24 May 2017 at the average exchange rate for June to December 2017
- Values for Q3 2017 have been calculated by subtracting the H1 2017 figures from the 9M 2017 figures
- 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

Exchange rates

	Closing rate			Average rate					
				HLAG AG	**UASC Group**	HLAG AG	UASC Group		
per EUR	**31.12.2017**	30.9.2017	31.12.2016	**FY 2017**	**Jun–Dec 2017**	9M 2017	Jun–Sep 2017	FY 2016	9M 2016
US dollars	1.1989	1.1814	1.056	1.1294	1.1687	1.1133	1.1620	1.1049	1.1138

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.

This report is intended to provide a general overview of Hapag-Lloyd’s business and does not purport to deal with all aspects and details regarding Hapag-Lloyd. Accordingly, neither Hapag-Lloyd nor any of its directors, officers, employees or advisers nor any other person makes any representation or warranty, expressed or implied, as to, and accordingly no reliance should be placed on, the fairness, accuracy or completeness of the information contained in the presentation or of the views given or implied. Neither Hapag-Lloyd nor any of its directors, officers, employees or advisors nor any other person shall have any liability whatsoever for any errors or omissions or any loss howsoever arising, directly or indirectly, from any use of this information or its contents or otherwise arising in connection therewith.

Neither the Company nor any of its affiliates, advisers or representatives make any undertaking to update any such information subsequent to the date hereof.

Each investor must conduct and rely on its own evaluation in taking an investment decision.

Recipients of this report are not to construe the contents of this summary as legal, tax or investment advice and recipients should consult their own advisors in this regard.

FINANCIAL CALENDAR 2018

14 May 2018
Publication of quarterly financial report Q1 2018

10 July 2018
Annual General Meeting 2018

10 August 2018
Publication of half-year financial report H1 2018

8 November 2018
Publication of quarterly financial report 9M 2018

IMPRINT

Hapag-Lloyd AG
Ballindamm 25
20095 Hamburg
Germany

Investor Relations
Phone: +49 40 3001–2896
Fax: +49 40 3001–72896
Email: IR@hlag.com
https://www.hapag-lloyd.com/en/ir.html

Layout
Silvester Group

Hapag-Lloyd AG · Ballindamm 25 · 20095 Hamburg · www.hapag-lloyd.com