Q4 | FY 2019

Hapag-Lloyd AG

Investor Report

1 January to
31 December 2019

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES

		Q4 2019	Q4 2018	FY 2019	FY 2018	Change
Key operating figures						
Total vessels, of which		239	227	239	227	5%
Own vessels[1]		112	112	112	112	–
Chartered vessels		127	115	127	115	10%
Aggregate capacity of vessels	TTEU	1,707	1,643	1,707	1,643	4%
Aggregate container capacity	TTEU	2,540	2,559	2,540	2,559	–1%
Bunker price (MFO, average for the period)[2]	USD/t	372	452	400	407	–2%
Bunker price (MDO, average for the period)[3]	USD/t	593	664	600	616	–3%
Bunker price (combined MFO/MDO, average for the period)	USD/t	390	467	416	421	–1%
Freight rate (average for the period)	USD/TEU	1,062	1,084	1,072	1,044	3%
Transport volume	TTEU	3,026	2,974	12,037	11,874	1%
Revenue	million USD	3,460	3,585	14,115	13,726	3%
Transport expenses	million USD	–2,680	–2,909	–10,867	–11,326	–4%
EBITDA	million USD	526	375	2,223	1,345	65%
EBIT	million USD	186	167	908	524	73%
Group profit/loss	million USD	85	39	418	54	n.m.
Cash flow from operating activities	million USD	544	396	2,270	1,268	79%
Investment in property, plant and equipment[4]	million USD	253	165	1,120	425	164%
Key return figures						
EBITDA margin (EBITDA/revenue)	%	15.2	10.5	15.8	9.8	6.0 ppt
EBIT margin (EBIT/revenue)	%	5.4	4.7	6.4	3.8	2.6 ppt
ROIC (Return on Invested Capital)	%	–	–	6.1	3.7	2.4 ppt
Key balance sheet figures as at 31 December[5]						
Balance sheet total	million USD	18,182	17,522	18,182	17,522	4%
Equity	million USD	7,430	7,168	7,430	7,168	4%
Equity ratio (equity/balance sheet total)	%	40.9	40.9	40.9	40.9	–
Borrowed capital	million USD	10,751	10,354	10,751	10,354	4%
Key financial figures as at 31 December[5]						
Financial debt and lease liabilities	million USD	7,180	6,891	7,180	6,891	4%
Cash and cash equivalents	million USD	574	752	574	752	–24%
Net debt (financial debt – cash and cash equivalents[6]	million USD	6,605	6,131	6,605	6,131	8%
Gearing (net debt/equity)	%	88.9	85.5	88.9	85.5	3.4 ppt
Liquidity reserve	million USD	1,159	1,297	1,159	1,297	–11%
Number of employees as at 31 December[5]						
Employees at sea		2,173	2,077	2,173	2,077	5%
Employees on land		10,823	10,688	10,823	10,688	1%
Hapag-Lloyd total		12,996	12,765	12,996	12,765	2%

In individual cases, rounding differences may occur in the tables and charts of this investor report for computational reasons.

Note: Due to the first-time application of IFRS 16 "Leases" as at 1 January 2019, the presentation of the group earnings, financial and net asset positions is only comparable with that of the corresponding prior year period to a limited degree. Unless stated otherwise, the figures for the first 9 months of 2018 refer to the provisions for leases pursuant to IAS 17.

1 Including 17 lease agreements with purchase option/obligation at maturity. Previous year's figures have been adjusted accordingly.
2 MFO = Marine Fuel Oil
3 MDO = Marine Diesel Oil
4 As of 1 January 2019, investments in property, plant and equipment include additions to the Rights of Use according to IFRS 16
5 The comparison refers to the balance sheet date 31 December 2018
6 Incl. restricted cash booked as other assets: USD 7.4 million as of 31 December 2018, none as per 31 December 2019

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 quarterly financial report, please visit our website: https://www.hapag-lloyd.com/en/ir/publications/financial-report.html

MAIN DEVELOPMENTS IN THE 2019 FINANCIAL YEAR

- First measures of “Strategy 2023” successfully implemented
- Transport volume grew by 1.4% in 2019. The volume development was influenced by deliberate reduction of volume in the Intra-Asia trade and the focus on more profitable services. Adjusted for the Intra-Asia trade, transport volume grew by 2.8% in 2019
- By focussing on profitable trades and implementing revenue management measures, the average freight rate could be increased slightly by 2.7% to USD 1,072 per TEU compared to the previous year
- The average bunker consumption price[1] for Hapag-Lloyd in 2019 was USD 416 per tonne and thus USD 5 per tonne (–1.2%) below the average bunker consumption price of the previous year
- Transport expenses sank by a total of USD 459.3 million to USD 10,867.0 million in 2019 (previous year period: USD 11,326.3). The main reason for the decrease was the first-time application of IFRS 16 and lower costs for handling and haulage as well as slightly lower bunker costs. Increased charter costs for ships and higher costs for the repositioning of containers softened the decrease of transport expenses
- Significant increase in EBITDA to USD 2,223.1 million (2018: USD 1,345.3 million) including a positive effect of around USD 522.8 million from the first-time application of IFRS 16
- EBIT also increased significantly to USD 908.3 million (2018: USD 524.1 million) in the 2019 financial year. The IFRS 16 effect in EBIT amounted to USD 34.2 million
- Group profit of USD 417.9 million (including IFRS 16 effect of around USD –40.3 million) substantially higher than previous year’s level (2018: USD 54.3 million)
- Significant increase in return on invested capital (ROIC) to 6.1% (2018: 3.7%)
- Free cash flow increased by 62.2% from USD 1,144.5 million in 2018 to USD 1,856.9 million in 2019
- Total assets increased by USD 660.0 million to USD 18,181.7 million) primarily due to the first-time application of IFRS 16
- Equity ratio of 40.9% remained at the previous year’s level (31 December 2018: 40.9%) despite an IFRS 16 driven increase in the balance sheet total
- Early redemption of the EUR 450 million bond due in 2022 as part of the debt reduction plan
- Reduction of the leverage ratio (Net Debt / EBITDA) to 3.0x (2018: 4.6x) and thus below the 2019 target of 3.5x

[1] Weighted average MFO & MDO

CONTENTS

1. MAIN VALUE DRIVERS OF THE CONTAINER SHIPPING SECTOR FOR 2019

1.1. GENERAL ECONOMIC 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. According to the International Monetary Fund (IMF, World Economic Outlook, January 2020), the global economy grew by 2.9% in 2019 (previous year: 3.6%), the lowest rate since the financial crisis of 2009. Global economic growth was therefore significantly below the original prediction of 3.5% for 2019 (IMF, World Economic Outlook, January 2019). In its current economic outlook, the IMF expects global economic growth of 3.3% in 2020 and 3.4% in 2021.

According to the IMF, 2019 was marked by a synchronised slowdown of economic growth in large industrial nations like the USA, and especially the Eurozone and the Asian industrial nations. It was even more pronounced in the emerging markets of Brazil, China, India, Mexico and Russia. Industrial production in particular recorded a weak year. In the second half of the year there were even partial declines in industrial production. The weakness in industrial production was caused by problems in the automotive industry (such as stricter environmental regulations and uncertainty regarding new technologies), the poor business climate resulting from US trade conflicts (especially with China), and slow structural growth in the People's Republic of China. In addition, economic conditions deteriorated in some key developing and emerging markets, such as Brazil and Turkey.

The volume of global trade, which is key to the demand for container shipping services, increased by just 1.0% in 2019 (previous year: 3.7%) because of the factors mentioned above. According to the IMF, however, the volume of global trade will recover again in the next two years, rising by 2.9% in 2020 and 3.7% in 2021. At the beginning of 2019, the IMF forecast growth in the volume of global trade of 4.0%. This prediction had to be revised significantly downwards due to the ongoing trade dispute between the USA and China as well as geopolitical risks and local problems in individual developing and emerging markets such as India, Saudi Arabia, Mexico, Chile and South Africa.

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

in %	2021e	2020e	2019	2018	2017	2016	2015
Global economic growth	3.4	3.3	2.9	3.6	3.8	3.4	3.5
Industrialised countries	1.6	1.6	1.7	2.2	2.5	1.7	2.3
Developing and newly industrialised countries	4.6	4.4	3.7	4.5	4.8	4.6	4.3
World trading volume (goods and services)	3.7	2.9	1.0	3.7	5.7	2.3	2.8

Source: IMF, January 2020

1.2. SECTOR-SPECIFIC CONDITIONS

According to Seabury, the global cargo volume in 2019 was around 152 million TEU. This is a rise of 0.8% on the previous year (Seabury, December 2019). As a result, the growth rate was 2.0 percentage points below the increase of 2.8% originally forecast for 2019 (Seabury, December 2018). For 2020, Seabury is forecasting a rise of 3.1% to around 157 million TEU and for 2021 an increase of 3.3% to around 162 million TEU. The weaker growth in 2019 was mainly attributable to the 2.3% decline in volumes in the Trans-Pacific and below-average volume growth in other trade lanes in Asia, in particular China. In contrast, the Atlantic trade lane showed a clearly positive development with growth of 4.5% in 2019.

Development of global container transport volume, 2015 – 2023 in million TEU

	2023e	2022e	2021e	2020e	2019	2018	2017	2016	2015
million TEU	175	168	162	157	152	151	144	138	136
Growth rate in %	3.8	3.8	3.3	3.1	0.8	4.5	4.8	1.4	–0.4

Source: Seabury, December 2019

Current forecasts put the expected compound annual growth rate (CAGR) for the period from 2020 to 2023 at 3.5%, compared with an average growth rate of around 2.9% between 2015 and 2019. Container shipping thus continues to be a growth industry.

According to Seabury, the anticipated growth will be spread relatively evenly across the individual trades, with the strongest growth expected in the Middle East and the Indian subcontinent trade.

While the rate of global trade growth determines the demand for container shipping services, putting new vessels into service and scrapping inefficient, older ones are the most important factors influencing the supply of transport capacities. Supply has grown at a faster pace than demand in recent years as a result of new and particularly large container ships continually being put into service. Despite the continuous increase in the supply of transport capacity, freight rates made a strong recovery from the lows recorded in 2016, due to the growing global demand for container transport services in 2019.

At the end of 2019, the aggregate capacity of the global container ship fleet was approximately 22.9 million TEU (Drewry Container Forecaster Q4 2019, December 2019), a rise of 3.7% on the previous year. Based on the container ships on order and planned deliveries, the globally available transport capacity should see an increase of around 0.8 million TEU in 2020 (+3.7%) (Drewry Container Forecaster Q4 2019, December 2019). This includes the expected delays of deliveries in 2020 and the expected scrapping. While the scrapping of old ships remained at a very low level of approximately 200,000 TEU in 2019, scrapping is expected to increase to around 350,000 TEU in 2020. The idle fleet consisted of 133 ships with a capacity of around 1.4 million TEU at the end of 2019. The majority of the idle fleet comprised smaller ship sizes of up to 5,100 TEU. The relatively high number of idle ships is due in part to the retrofitting of ships with exhaust gas cleaning systems (known as scrubbers) as part of the preparations for IMO 2020.

The tonnage of the commissioned container ships under construction of approximately 2.3 million TEU (MDS Transmodal, January 2020) is equivalent to around 10% of the present global container fleet's capacity (approximately 22.9 million TEU). This is a historically low level and well below the highest level seen to date, which was around 61% in 2007, and the average over the last 5 years (around 14%).

In 2019, orders were placed for the construction of 77 container ships with a transport capacity totalling approximately 0.8 million TEU (Clarksons Research, January 2020). This means that there was a significant decrease in the number and capacity of newbuilds on order compared with the previous year with orders for 197 container ships with a capacity of 1.2 million TEU. Newbuild orders are also below the average of the last 10 years (around 1 million TEU). Measured in terms of the transport capacity of the newbuilds ordered, approximately 81% of the ships have a capacity of over 10,000 TEU (MDS Transmodal, January 2020).

In total, 126 container ships with a capacity of 1.0 million TEU were put into service last year. 21 of the ships delivered were bigger than 20,000 TEU (MDS Transmodal, January 2019).

Expected development of global container fleet capacity

million TEU	2021	2020	2019	2018
Existing fleet (beginning of the year)	23.7	22.9	22.1	20.9
Planned deliveries	1.3	1.3	1.1	1.5
Scrappings	0.4	0.4	0.2	0.1
Postponed deliveries	0.1	0.1	0.1	0.2
Net capacity growth	**0.8**	**0.8**	**0.8**	**1.2**

Source: Drewry Container Forecaster Q4 2019. Figures rounded

Although the prospects for growth remain positive in the medium term, there may be temporary imbalances in supply and demand, which could have a substantial impact on the respective transport volumes and freight rates. For example, according to industry experts (Drewry, December 2019) as additional larger ships with a transport capacity of more than 20,000 TEU go into service, transport capacities increase sharply and could negatively affect the development of freight rates in all the trades.

Transport volumes and freight rates in container liner shipping are subject to seasonal fluctuations. Demand for transport services is traditionally higher in the second and particularly the third quarter of any given year.

The fuel cost level in the shipping industry is largely linked to the development of the crude oil price. This stood at USD 66.00/barrel (Bloomberg) as at 31 December 2019 and was therefore around 23% higher than at the start of the year (31 December 2018: USD 53.80/barrel). At the beginning of the year, the crude oil price continued to rise and reached its high point of the year of USD 74.57/barrel at the end of April (Bloomberg). During the course of the year, the oil price fell again and varied between USD 56/barrel and USD 69/barrel.

Due to the regulations of the International Maritime Organization (IMO) to reduce sulphur dioxide emissions coming into effect in 2020, a large part of the world fleet will run on new low-sulphur fuel with a sulphur content of 0.5% (currently 3.5%). This new fuel had to be bunkered during the fourth quarter of 2019 to ensure that the thresholds are met starting from 1 January 2020. This new low-sulphur bunker is significantly more expensive than the bunker used until now. In December 2019, the average price difference between high and low sulphur bunker was USD 283 per tonne (price difference based on Rotterdam HSFO 3.5% vs. MFO 0.5%). Shipping companies therefore face substantial additional costs from the end of 2019. Hapag-Lloyd aims to pass on these additional costs to customers. Hapag-Lloyd, along with all other large container liner shipping companies, has already published new calculation methods for the fuel surcharges, which were implemented over the course of 2019.

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

2.1. FLEET AND CAPACITY DEVELOPMENT

As at 31 December 2019, Hapag-Lloyd's fleet comprised a total of 239 container ships. All of the vessels are certified in accordance with the ISM (International Safety Management) Code and have a valid ISSC (ISPS) certificate. The majority of the ships are certified as per ISO 9001 (quality management) and ISO 14001 (environmental management). The TEU capacity of the entire Hapag-Lloyd fleet as at 31 December 2019 was 1,706,656 TEU, which was an increase of 63,285 TEU (3.9%) on the previous year. Based on the TEU capacities, around 62% of the fleet was owned by the Group as at 31 December 2019 (previous year: approximately 64%). Hapag-Lloyd has a modern and efficient fleet. The capacity-weighted average age of the fleet at balance sheet date is 8.9 years (previous year: 7.9) and is therefore just under the average of 9.0 years for the 10 largest container liner shipping companies. The average ship size within the Hapag-Lloyd Group fleet is 7,141 TEU, which is 16% above the comparable average figure for the 10 largest container liner shipping companies in the world.

At the end of the reporting date, Hapag-Lloyd also owned or rented 1,545,587 containers with a capacity of 2,540,199 TEU for shipping cargo. Around 54% of containers (capacity-weighted) were owned by the Group as at 31 December 2019 (previous year: around 52%). With a fleet of around 107,000 reefer containers capable of transporting approximately 206,000 TEU, Hapag-Lloyd believes it has a strong competitive position in the attractive market segment for refrigerated shipping. To facilitate further growth in the strategically important reefer segment, Hapag-Lloyd ordered 13,420 new reefer containers in June 2019. In connection with this, Hapag-Lloyd is also launching a programme to fit its entire fleet of reefer containers with IOT (Internet of Things) monitoring technology. The resulting customer products will be marketed under the name Hapag-Lloyd LIVE and include a real-time GPS, information on the temperature inside the container and a notification system.

Structure of Hapag-Lloyd's ship and container fleets

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Number of vessels	**239**	**227**	**219**	**166**	**177**
thereof					
Own vessels[1]	112	112	116	75	71
Chartered vessels	127	115	103	91	106
Aggregate capacity of vessels (TTEU)	**1,707**	**1,643**	**1,573**	**963**	**966**
Aggregate container capacity (TTEU)	**2,540**	**2,559**	**2,349**	**1,576**	**1,564**
Number of services	**121**	**119**	**120**	**128**	**121**

[1] Including 17 lease agreements with a purchase option / obligation at the end of the term. The previous year's figures were adjusted accordingly.

As at 31 December 2019, Hapag-Lloyd had chartered in 5 ships for the repositioning of empty containers. The transport capacity of these 5 ships was approximately 16,500 TEU in total. The ships are not deployed in a liner service and are therefore not included in the display of the fleet structure. There are no orders for newbuilds as at the balance sheet date. Particularly since the merger, Hapag-Lloyd has had a modern and efficient fleet. As a result, it will not be necessary to invest in new ship systems in the short term. The existing fleet and cooperation with the partners in THE Alliance (incl. HMM from 1 April 2020) will make it possible to utilise the short-term expansion opportunities resulting from market growth and to realise economies of scale in ship operations. However, in order to remain competitive in the medium term, the Executive Board of Hapag-Lloyd AG believes that the Group will invest in new ship systems again in the foreseeable future.

The efficiency of Hapag-Lloyd's container ship fleet is reflected in the bunker consumption data. Despite an increase in the volume transported (+1.4% compared with the previous year), absolute bunker consumption fell year-on-year by 0.6% to 4,376,554 tonnes. Bunker consumption per TEU transported therefore decreased again from 0.37 t / TEU in the previous year to 0.36 t / TEU. Compared with 2009, bunker consumption per TEU has been cut by around 40% (2018: by around 38%). Bunker consumption per slot (as measured by the average annual container storage space) was also reduced again to 2.59 tonnes / container slot (previous year: 2.75 tonnes / container slot).

3. HAPAG-LLOYD: GROUP EARNINGS POSITION

Group earnings position

Hapag-Lloyd's earnings position in the 2019 financial year was shaped by the implementation of Strategy 2023, further efficiency gains, preparations to ensure compliance with the IMO 2020 regulations, and by the ongoing geopolitical tensions worldwide and the deteriorating economic conditions.

Within the global economic environment described previously, transport volumes rose by 1.4% roughly matching previous years' level, but remained below the level forecast at the start of the financial year due to the slowdown in global economic growth.

By focusing on profitable trades and implementing active measures on revenue management, the Company was able to record a slight year-on-year increase in the average freight rate in 2019, ensuring that it was in line with expectations at the start of the year.

On the cost side, transport costs developed positively due to the first-time application of IFRS 16 Leases, a year-on-year fall in the average bunker consumption price and lower handling and haulage costs. Increased expenses for the repositioning of empty containers and higher charter rates for ships, had a negative effect on the earnings position overall in the 2019 financial year.

In addition, expenses from the early repayment of a bond in the amount of USD 25.0 million (prior year period: USD 0.0 million) had a negative effect on earnings. On the other hand, the repayment of the bond led to an improvement in the interest result in the second half of 2019. Furthermore, the valuation of the embedded derivatives of the bonds resulted in income of USD 37.7 million (prior year period: expenses of EUR 5.2 million), which made a positive contribution to the interest result in the reporting year.

On the basis of above mentioned measures, Hapag-Lloyd significantly improved its earnings before interest and taxes (EBIT) year-on-year to USD 908.3 million in the 2019 financial year (prior year period: USD 524.1) and recorded a substantially improved profit after taxes of USD 417.9 million (prior year period: USD 54.3).

3.1. CONSOLIDATED INCOME STATEMENT

Consolidated income statement

million USD[1]	Q4 2019	Q3 2019	Q4 2018	QoQ Change	YoY change	FY 2019	FY 2018	Change
Revenue	**3,460.4**	**3,607.5**	**3,584.8**	**–4%**	**–3%**	**14,114.5**	**13,726.1**	**3%**
Transport expenses	–2,679.6	–2,736.7	–2,909.4	–2%	–8%	–10,867.0	–11,326.3	–4%
Personnel expenses	–197.4	–191.8	–202.6	3%	–3%	–764.0	–762.1	–
Depreciation, amortisation and impairment	–339.7	–334.7	–208.3	1%	63%	–1,314.7	–821.2	60%
Other operating result	–65.5	–74.4	–109.8	12%	40%	–300.9	–343.6	12%
Operating result[1]	**178.1**	**269.9**	**154.7**	**–34%**	**15%**	**867.8**	**472.9**	**84%**
Share of profit of equity-accounted investees	8.6	11.3	9.6	–24%	–10%	39.7	36.3	9%
Result from investments	–0.7	1.2	2.4	n.m.	–128%	0.7	14.9	–95%
Earnings before interest and tax (EBIT)[1]	**186.1**	**282.4**	**166.7**	**–34%**	**12%**	**908.3**	**524.1**	**73%**
Interest result	–86.9	–103.1	–120.7	–16%	–28%	–444.1	–431.5	3%
Other financial items	–0.5	3.3	–2.7	n.m.	–81%	1.8	–0.6	n.m.
Income taxes	–14.0	–14.5	–3.9	–3%	n.m.	–48.1	–37.7	28%
Group profit / loss[1]	**84.6**	**168.1**	**39.4**	**–50%**	**115%**	**417.9**	**54.3**	**n.m.**

[1] Due to the change in presentation of the consolidated income statement, the previous year's values have been adjusted. As a result, EBIT in 2018 rose by USD 0.6 million, from USD 523.5 million to USD 524.1 million.

3.2. FREIGHT RATE PER TRADE

Freight rate

The average freight rate in the 2019 financial year was USD 1,072 / TEU, which was USD 28 / TEU, or 2.7%, up on the prior year period (USD 1,044 / TEU). The year-on-year increase was primarily due to the decision to focus on profitable services and active revenue management across all trades.

Freight rate per trade[1]

USD / TEU	Q4 2019	Q3 2019	Q4 2018	QoQ change	YoY change	FY 2019	FY 2018	Change
Atlantic	1,432	1,411	1,391	1%	3%	1,389	1,337	4%
Transpacific	1,290	1,357	1,352	–5%	–5%	1,318	1,271	4%
Far East	873	912	952	–4%	–8%	910	943	–3%
Middle East	735	733	738	–	–	744	762	–2%
Intra-Asia	537	552	503	–3%	7%	541	511	6%
Latin America	1,143	1,146	1,189	–	–4%	1,153	1,132	2%
EMA (Europe, Mediterranean, Africa)	1,043	1,072	997	–3%	5%	1,046	967	8%
Total	**1,062**	**1,084**	**1,084**	**–2%**	**–2%**	**1,072**	**1,044**	**3%**

[1] Due to organisational changes, the transport volumes to / from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to / from Oceania have been assigned to the Far East trade (previously assigned to EMAO). The previous year's values have been adjusted accordingly.

3.3. TRANSPORT VOLUME PER TRADE

The transport volume increased by 163 TTEU to 12,037 TTEU in the 2019 financial year (prior year period: 11,874 TTEU). This equates to a rise of 1.4%.

The continued strength of the domestic economy in the USA enabled a moderate year-on-year increase in the transport volume on the Atlantic trade. On the Far East trade, the year-on-year rise was due to a rising market growth and increased vessel capacity. At the same time, the transport volume on the EMA trade grew significantly as a result of the introduction of new services in the 2019 financial year. The decrease in the transport volume on the Transpacific trade was largely due to the trade dispute between the USA and China. By contrast, the decline in the transport volume on the Intra-Asia trade was the result of a strategic decision to actively reduce the transport capacity on this trade and focus instead on profitable services. Adjusted for the Intra-Asia trade, the transport volume grew by 2.8% year-on-year.

Transport volume per trade[1]

TTEU	Q4 2019	Q3 2019	Q4 2018	QoQ change	YoY change	FY 2019	FY 2018	Change
Atlantic	488.9	489.2	473.7	–	3%	1,960.5	1,855.9	6%
Transpacific	489.0	512.3	501.5	–5%	–2%	1,945.3	1,960.5	–1%
Far East	556.6	592.6	522.5	–6%	7%	2,327.3	2,233.5	4%
Middle East	360.7	335.1	347.7	8%	4%	1,390.7	1,418.6	–2%
Intra-Asia	234.6	229.9	260.3	2%	–10%	900.2	1,036.1	–13%
Latin America	725.2	722.5	702.8	–	3%	2,837.0	2,774.3	2%
EMA (Europe, Mediterranean, Africa)	170.6	163.3	165.2	5%	3%	675.9	594.9	14%
Total	**3,025.8**	**3,044.9**	**2,973.7**	**–1%**	**2%**	**12,036.9**	**11,873.8**	**1%**

[1] Due to organisational changes, the transport volumes to / from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to / from Oceania have been assigned to the Far East trade (previously assigned to EMAO). The previous year's values have been adjusted accordingly.

3.4. REVENUE PER TRADE

The Hapag-Lloyd Group's revenue rose by USD 388.4 million to USD 14,114.5 million in the 2019 financial year (prior year period: USD 13,726.1 million), representing an increase of 2.8%.

The main reasons for this were the increased transport volumes and the rise in average freight rates.

Revenue per trade[1]

million USD	Q4 2019	Q3 2019	Q4 2018	QoQ Change	YoY change	FY 2019	FY 2018	Change
Atlantic	700.3	690.0	659.0	1%	6%	2,722.6	2,480.4	10%
Transpacific	630.6	695.0	678.2	–9%	–7%	2,564.5	2,491.4	3%
Far East	485.9	540.3	497.4	–10%	–2%	2,117.7	2,106.5	1%
Middle East	265.0	245.7	256.7	8%	3%	1,035.4	1,081.5	–4%
Intra-Asia	126.0	127.0	130.9	–1%	–4%	487.4	529.8	–8%
Latin America	828.9	828.0	835.7	–	–1%	3,270.7	3,141.4	4%
EMA (Europe, Mediterranean, Africa)	177.9	175.0	164.8	2%	8%	707.1	575.3	23%
Revenue not assigned to trades	245.8	306.5	362.1	–20%	–32%	1,209.1	1,319.8	–8%
Total	**3,460.4**	**3,607.5**	**3,584.8**	**–4%**	**–3%**	**14,114.5**	**13,726.1**	**3%**

[1] As a result of the change in presentation of the consolidated income statement, revenue for 2018 increased by USD 121.0 million, from USD 13,605.1 million to USD 13,726.1 million, and for Q4 2018 by USD 51.2 million, from USD 3,533.6 million to USD 3,584.8 million.
Due to organisational changes, the transport volumes to / from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to / from Oceania have been assigned to the Far East trade (previously assigned to EMAO). The previous year's values have been adjusted accordingly.

3.5. OPERATING EXPENSES

In the 2019 financial year, transport expenses sank by USD 459.3 million to USD 10,867.0 million (prior year period: USD 11,326.3 million). This represents decrease of 4.1%. The decrease is mainly due to the first-time application of IFRS 16, slightly lower bunker as well as lower handling and haulage costs.

Fuel expenses sank by USD 53.3 million (–2.8%) to USD 1,819.8 million. Besides the slight improvement of bunker consumption the lower average bunker consumption price was decisive for this development. This price was USD 416 per tonne for Hapag-Lloyd, which was USD 5 per tonne (–1.2%) below the average price in the 2018 financial year.

The first-time application of IFRS 16 Leases had a positive effect on the development of transport expenses. As a result of the application of the standard, expenses for leases which were previously classified as operating leases (essentially medium and long-term charter expenses for vessels and container rental) are no longer recognised within the transport expenses position but rather as amortisation on right of use of leased assets and interest expenses for lease liabilities. As a result, the transport expenses recognised decreased year-on-year by the amount of the lease expenses previously reported under IAS 17 totalling around USD 522.8 million.

Increased charter costs for ships and higher costs for the repositioning of empty containers softened the positive development of transport expenses in the financial year 2019.

The gross profit margin (ratio of revenue less transport expenses to revenue) for the 2019 financial year came to 23.0% (prior year period: 17.5%).

Personnel expenses rose slightly by USD 1.9 million to USD 764.0 million in the 2019 financial year (prior year period: USD 762.1 million). Reasons were the rise in the number of shore-based employees and a higher performance based remuneration for employees.

In the 2019 financial year, depreciation and amortisation came to USD 1,314.7 million (prior year period: USD 821.2 million). The year-on-year increase in depreciation and amortisation was primarily due to the effects of the first-time recognition of leased assets in accordance with IFRS 16. The amortisation of rights of use relating to leased and first-time recognised assets (essentially ships, containers, buildings) led to additional amortisation of USD 489.4 million (prior year period: USD 0.0 million).

The other operating result comprised the net balance of other operating expenses and income. The other operating expenses included in this item totalled USD 391.8 million in the 2019 financial year (prior year period: expenses of USD 430.7 million). This included mainly IT and communication expenses (USD 174.3 million; prior year period: USD 167.8 million), office and administrative expenses (USD 46.8 million; prior year period: USD 76.7 million) and expenses for charges, fees, consultancy and other professional services (USD 40.1 million; prior year period: USD 40.5 million).

The share of the profit of equity-accounted investees rose by USD 3.4 million to USD 39.7 million in the 2019 financial year. The reason for the increase was a higher pro rata result from the investment in HHLA Container Terminal Altenwerder GmbH.

Operating expenses

million USD	Q4 2019	Q3 2019	Q4 2018	QoQ Change	YoY change	FY 2019	FY 2018	Change
Transport expenses	**–2,679.6**	**–2,736.7**	**–2,909.4**	**–2%**	**–8%**	**–10,867.0**	**–11,326.3**	**–4%**
thereof								
Bunker	–433.6	–457.5	–540.0	–5%	–20%	–1,819.8	–1,873.1	–3%
Handling and haulage	–1,362.4	–1,392.8	–1,354.9	–2%	1%	–5,511.0	–5,605.1	–2%
Equipment and repositioning	–339.0	–353.7	–370.1	–4%	–8%	–1,349.0	–1,453.0	–7%
Vessel and voyage (excluding bunker)	–552.6	–529.6	–628.8	4%	–12%	–2,202.9	–2,370.8	–7%
Pending transport expenses	8.0	–3.2	–15.5	n.m.	–151%	15.7	–24.3	n.m.
Personnel expenses	–197.4	–191.8	–202.6	3%	–3%	–764.0	–762.1	–
Depreciation, amortisation and impairments	–339.7	–334.7	–208.2	1%	63%	–1,314.7	–821.2	60%
Other operating result	–65.5	–74.4	–109.8	–12%	–40%	–300.9	–343.6	–12%
Total operating expenses	**–3,282.3**	**–3,337.6**	**–3,430.1**	**–2%**	**–4%**	**–13,246.7**	**–13,253.2**	**–**

3.6. UNIT COSTS

Due to the changes made to the income statement structure and the changes resulting from the first-time application of IFRS 16 “Leasing”, it is no longer meaningful to present unit costs in the previous form. Against this background and in order to increase the transparency of unit cost development, Hapag-Lloyd has revised the presentation and composition of unit costs for external reporting purposes. Since a large part of the charter expenses previously reported under transport expenses have been reported as depreciation since the application of IFRS 16, transport expenses are now shown together with depreciation for analysis purposes and for better traceability of unit cost development.

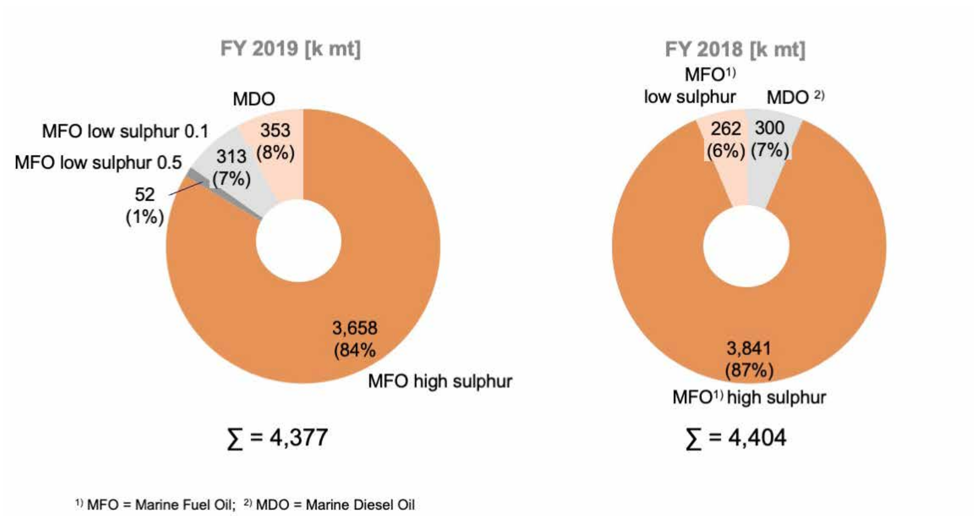
Unit costs

USD/TEU	Q4 2019	Q3 2019	Q4 2018	QoQ Change	YoY change	FY 2019	FY 2018	Change
Transport expenses	**–885.6**	**–898.8**	**–978.4**	**–1%**	**–9%**	**–902.8**	**–953.9**	**–5%**
thereof								
Bunker	–143.3	–150.2	–181.6	–5%	–21%	–151.2	–157.8	–4%
Handling and haulage	–450.3	–457.4	–455.6	–2%	–1%	–457.8	–472.1	–3%
Equipment and repositioning	–112.0	–116.2	–124.5	–4%	–10%	–112.1	–122.4	–8%
Vessel and voyage (excl. bunker)	–182.6	–173.9	–211.5	5%	–14%	–183.0	–199.7	–8%
Pending transport expenses	2.6	–1.0	–5.2	n.m.	–151%	1.3	–2.0	–164%
Depreciation, amortisation and impairment (D&A)	**–112.3**	**–109.9**	**–70.0**	**2%**	**60%**	**–109.2**	**–69.2**	**58%**
Transport expenses incl. D&A	**–997.9**	**–1,008.7**	**–1,048.4**	**–1%**	**–5%**	**–1,012.0**	**–1,023.1**	**–1%**

Transport cost per unit (incl. D&A) decreased by almost USD 11/TEU in the financial year 2019 compared to the prior year period. This decrease was partly driven by lower “Bunker” costs especially in Q4 2019 (decrease of 4% or USD 7/TEU as compared to prior year period). Costs for “Handling and haulage” decreased by 3% (USD –14/TEU) as less profitable inland business was actively reduced resulting from the inland project of Strategy 2023. The stronger USD against the EUR additionally had a supportive effect. Costs for “Equipment and repositioning” decreased substantially by 8% (USD –10/TEU) due to the application of IFRS 16. Nevertheless, the corresponding increase in depreciation for rented container (USD 18/TEU) more than offset this decrease. Higher costs for the repositioning of empty container drove the net increase of this cost item. Similarly, costs for “Vessel and voyage” decreased due to the application of IFRS 16 (USD 17/TEU). The corresponding increase in depreciation for chartered vessels (USD 20/TEU) more than offset this decrease. The net increase of USD 3/TEU was mainly driven by an increase in charter prices compared to the prior year period.

Bunker consumption development

Bunker consumption totalled approximately 4.4 million tonnes in the full year 2019 and was therefore on par with the previous year (FY 2018: approximately 4.4 million tonnes). Around 16% (FY 2018: approximately 13%) of this comprised bunkers with a low proportion of sulphur (MFO low sulphur [0.1% and 0.5%], MDO). The efficiency of the container ship fleet is also reflected in the bunker consumption data per slot (as measured by the average annual container storage space) of 2.6 tonnes (FY 2018: 2.8 tonnes). In terms of transported TEU, bunker consumption was reduced to 0.36 tonnes per TEU compared to the previous year (FY 2018: 0.37 tonnes per TEU).



3.7. EARNINGS POSITION

In the 2019 financial year, earnings before interest and taxes (EBIT) amounted to USD 908.3 million (including a positive effect from the first-time application of IFRS 16 in the amount of approximately USD 34.2 million). Earnings were therefore well above the corresponding figure in the prior year period (USD 524.1 million).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at USD 2,223.1 million in the 2019 financial year (prior year period: USD 1,345.3 million). This includes a positive effect from the first-time application of IFRS 16 in the amount of approximately USD 522.8 million.

EBIT and EBITDA margin[1]

million USD[1]	Q4 2019	Q3 2019	Q4 2018	QoQ change	YoY change	FY 2019	FY 2018	Change
Revenue	3,460.4	3,607.5	3,584.8	–4%	–3%	14,114.5	13,726.1	3%
EBIT	186.1	282.4	166.7	–34%	12%	908.3	524.1	73%
EBITDA	525.9	617.2	375.0	–15%	40%	2,223.1	1,345.3	65%
EBIT margin	5.4%	7.8%	4.7%	–2.5 ppt	0.7 ppt	6.4%	3.8%	2.6 ppt
EBITDA margin	**15.2%**	**17.1%**	**10.5%**	**–1.9 ppt**	**4.7 ppt**	**15.8%**	**9.8%**	**6.0 ppt**

[1] Due to the change in presentation of the consolidated income statement, the previous year's values have been adjusted. As a result, EBIT in 2018 rose by USD 0.6 million, from USD 523.5 million to USD 524.1 million.

The interest result for the 2019 financial year was USD 444.1 million (prior year period: USD –431.5 million). The increase in interest expenses compared to the previous year was primarily due to the first-time application of IFRS 16. Interest expenses for the new lease liabilities which must now be included in accordance with IFRS 16 totalled USD 74.5 million in the 2019 financial year (prior year period: USD 0.0 million). The early repayment of a bond also resulted in one-off effects totalling USD 25.0 million as a result of redemption charges, the disposal of associated embedded derivatives and other associated transaction costs. By contrast, the valuation of the embedded derivatives of the bonds resulted in income of USD 37.7 million (prior year period: expenses of USD 6.1 million), which had a positive impact on the interest result in the reporting year.

The rise in income taxes of USD 10.4 million to USD 48.1 million was among other things due to the higher revenue and the increased profitability of Hapag-Lloyd. The increased transport capacity (own and chartered ocean-going vessels) also led to a rise in the German tonnage tax expense in the financial year. In addition, the previous year's income tax expense had been reduced by one-off effects from the first-time recognition of deferred tax assets on income tax loss carry-forwards (around USD 13.5 million).

Overall, Group profit was significantly up on the previous year at USD 417.9 million (prior year period: USD 54.3 million). This includes a negative effect from the first-time application of IFRS 16 of around USD 40.3 million. Group profit consist of the earnings attributable to shareholders of the parent company of USD 405.2 million (prior year period: USD 43.5 million) and the earnings attributable to non-controlling interests of USD 12.7 million (prior year period: USD 10.8 million).

Earnings per share

		FY 2019	FY 2018	Change
„Non diluted“ Earnings Per Share	USD	2.31	0.25	n.m.
Profit / Loss attributable to shareholders of Hapag-Lloyd AG	million USD	405.2	43.5	n.m.
Weighted average number of shares	million shares	175.8	175.8	–

Basic earnings per share for the 2019 financial year came to USD 2.31 per share (prior year period: USD 0.25 per share).

4. GROUP NET ASSET POSITION

Group net asset position

million USD	31.12.2019	31.12.2018
Assets		
Non-current assets	15,501.0	14,709.1
of which fixed assets	15,393.6	14,645.7
Current assets	2,680.7	2,812.6
of which cash and cash equivalents	574.1	752.4
Total assets	**18,181.7**	**17,521.7**
Equity and liabilities		
Equity	7,430.3	7,167.5
Borrowed capital	10,751.4	10,354.2
of which non-current liabilities	6,269.4	6,487.4
of which current liabilities	4,482.0	3,866.8
of which financial debt and lease liabilities	7,179.6	6,891.1
of which non-current financial debt and lease liabilities	5,786.6	6,070.8
of which current financial debt and lease liabilities	1,393.0	820.3
Total equity and liabilities	**18,181.7**	**17,521.7**

As at 31 December 2019, the Group's balance sheet total was USD 18,181.7 million, which is USD 660.0 million higher than the figure at the end of 2018 (31 December 2018: USD 17,521.7 million). The main reason for the increase in the balance sheet total is the first-time application of IFRS 16 Leases in the 2019 financial year.

Within non-current assets, the carrying amounts of fixed assets increased by a total of USD 747.9 million to USD 15,393.6 million (31 December 2018: USD 14,645.7 million). This rise was primarily due to the first-time application of IFRS 16 and the associated recognition of the right of use relating to lease contracts not previously capitalised in the amount of USD 982.7 million as at 1 January 2019 (31 December 2018: USD 0.0 million). As at 31 December 2019, rights of use for lease contracts previously capitalised and not previously capitalised totalling USD 1,157.2 million were capitalised as part of fixed assets. In addition, non-current assets increased due to investments of USD 446.1 relating primarily to containers as well as ship equipment and retrofitting of ships to ensure compliance with IMO 2020.

This effect was offset by the amortisation and depreciation of intangible and tangible assets respectively totalling USD 1,314.7 million (prior year period: USD 821.2 million). This figure includes an amount of USD 489.4 million for the amortisation of the rights of use relating to lease assets which were newly capitalised in accordance with IFRS 16.

Current assets fell by USD 131.9 million to USD 2,680.7 million compared to the level as at 31 December 2018. The change primarily resulted from a reduction in cash and cash equivalents due to a wide range of different investments to ensure compliance with the IMO 2020 regulations and the repayment of a bond in the 2019 financial year.

On the liabilities side, equity (including non-controlling interests) grew by USD 262.8 million to a total of USD 7,430.3 million. This increase is mainly due to the Group profit of USD 417.9 million and the unrealised gains from currency translation recognised in other comprehensive income and amounting to USD –7.7 million. By contrast, the payment of a dividend by Hapag-Lloyd AG for the 2018 financial year in the amount of USD 29.8 million, the measurement of pension provisions through other comprehensive income in the amount of USD –65.6 million due to the lower interest rate, the changes in the reserves for hedging relationships in the amount of USD –17.3 million and the adjustment of opening balance sheet values due to the first-time application of IFRS 16 as at 1 January 2019 in the amount of USD 20.0 million had an offsetting effect. The equity ratio was 40.9% as at 31 December 2019 (31 December 2018: 40.9%).

The Group's borrowed capital has risen by USD 397.2 million to USD 10,751.4 million since the 2018 group financial statements were prepared, which was mainly due to an increase in financial debt and lease liabilities of USD 288.5 million to USD 7,179.6 million. The main reason for the increase in financial debt and lease liabilities was the first-time application of IFRS 16, which led to the recognition of additional lease liabilities of USD 1,085.1 million as at 1 January 2019. As at 31 December 2019, total lease liabilities were USD 1,339.3. This included lease obligations both recognised in previous years and not recognised in previous years. Further, payments for new financing with the amount of USD 1,034.7 had an increasing effect. Redemption payments totalling USD 2,451.6 million including the early repayment of a bond in the amount of EUR 450.0 million (approx. USD 511.3 million) and repayments for lease liabilities in the amount of USD 511.3 reduced financial debt.

Taking cash and cash equivalents and financial debt into account, net debt was USD 6,605.4 million as at 31 December 2019 (31 December 2018: USD 6,131.3 million).

4.1. RETURN ON INVESTED CAPITAL

Calculation of return on invested capital

million USD	2019	2018
Non-current assets	15,501.0	14,709.1
Inventory	278.9	272.6
Accounts receivables	1,391.4	1,394.3
Other assets	436.4	393.3
Assets	**17,607.6**	**16,769.3**
Provisions	903.6	793.1
Accounts payable	1,997.1	2,031.6
Other liabilities	671.2	638.4
Liabilities	**3,571.8**	**3,463.1**
Invested Capital	**14,035.8**	**13,306.2**
EBIT	908.3	524.1
Taxes	48.1	37.7
Net Operating Profit after Tax (NOPAT)	**860.2**	**486.4**
Return on Invested Capital (ROIC)	**6.1%**	**3.7%**

The return on invested capital (ROIC) in the 2019 financial year was 6.1%, following 3.7% in the 2018 financial year. This clear improvement means that in 2019 the return on invested capital was only slightly lower than the weighted average cost of capital. The weighted average cost of capital after income taxes is 6.8% for the reporting period (2018: 8.2%). The reasons for the decline in the weighted average cost of capital included a lower risk-free interest rate and a managed change in the financing structure.

5. GROUP FINANCIAL POSITION

5.1. DEVELOPMENTS IN CASH AND CASH EQUIVALENTS

Development of liquidity reserve

million USD	Q4 2019	Q4 2018	FY 2019	FY 2018
Cash and cash equivalents beginning of the period	635.0	694.4	752.4	725.2
Unused credit lines beginning of the period	565.0	470.0	545.0	545.0
Liquidity reserve beginning of the period	**1,200.0**	**1,164.4**	**1,297.4**	**1,270.2**
EBITDA	525.9	375.1	2,223.1	1,345.3
Working capital	45.7	50.8	135.5	39.8
Others	–28.0	–29.8	–88.2	–117.4
Operating cash flow	**543.6**	**396.1**	**2,270.4**	**1,267.7**
Investments	–164.0	–85.0	–477.0	–388.6
thereof vessel	–38.6	–8.5	–90.1	–63.4
thereof container	–121.3	–69.9	–364.8	–305.5
thereof other	–4.1	–6.6	–22.1	–19.7
Cash received from acquisitions	–	–0.5	–	–0.5
Disinvestments	11.2	182.3	46.6	225.3
Dividends received	0.3	1.0	33.9	40.6
Payments made for Investments in financial assets	–11.8	–	–11.8	–
Payments made for the issuing of loans	–5.2	–	–5.2	–
Investing cash flow	**–169.5**	**97.8**	**–413.5**	**–123.2**
Capital increase	–	–	–	0.3
Payments for capital increase	–	–	–	–2.4
Debt intake	107.7	190.5	1,034.7	924.2
Debt repayment	–291.0	–559.3	–1,940.3	–1,554.9
Repayment of Finance Lease liabilities	–130.6	–8.8	–511.3	–34.7
Dividends paid	–5.5	–3.3	–44.6	–136.7
Payments made for leasehold improvements	–20.3	–	–20.3	–
Interest	–93.3	–79.9	–444.7	–375.3
Payments made from hedges for financial debts	–2.0	–10.1	–116.1	11.1
Change in restricted cash	–	35.2	7.4	51.2
Financing cash flow	**–435.0**	**–435.7**	**–2,035.2**	**–1,117.2**
Changes due to exchange rate fluctuations	–	–0.1	–	–0.1
Liquidity reserve end of the period	**1,159.1**	**1,297.4**	**1,159.1**	**1,297.4**
Cash and cash equivalents end of the period	574.1	752.4	574.1	752.4
Unused credit lines end of the period	585.0	545.0	585.0	545.0

The statement of cash flows shows the development of cash and cash equivalents, with a separate presentation of cash inflows and outflows from operating, investing and financing activities. Due to the first-time application of IFRS 16 Leases, the comparability of the individual items in the cash flow statement is limited.

Cash flow from operating activities
Hapag-Lloyd generated an operating cash flow of USD 2,270.4 million in the 2019 financial year (prior year period: USD 1,267.7 million). The increase in cash flow from operating activities was positively affected by the application of IFRS 16 as the repayment and interest portion of the lease payments in the amount of USD 541.6 million is disclosed as cash flow from financing activities instead of cash flow from operating activities according to IFRS 16.

Cash flow from investing activities
In the 2019 financial year, the cash outflow from investing activities totalled USD 413.5 million (prior year period: USD 123.2 million) and related to payments for investments of USD 477.0 million (prior year period: USD 388.6 million), primarily in containers and ship equipment. These included payments in the amount of USD 106.9 million for containers acquired in the previous year. This was compensated for by cash inflows of USD 46.6 million (prior year period: USD 39.2 million), which were primarily due to the sale of containers.

Cash flow from financing activities
Overall, there was a cash outflow from financing activities in the current reporting period in the amount of USD 2,035.2 million (prior year period: USD 1,117.2 million) which mainly comprised interest and redemption payments of USD 2,896.3 million (prior year period: USD 1,964.9 million).

Interest and redemption payments in the 2019 financial year mainly include the repayments of container and ship financing amounting to USD 861.5 million, the partial repayment of the ABS programme in the amount of USD 563.3 million and for the first time interest and repayments for lease liabilities in accordance with IFRS 16 in the amount of USD 541.6 million, which were recognised as cash flow from financing rather than operating activities. In February 2019 and June 2019, Hapag-Lloyd completely repaid a bond in the amount of EUR 450.0 million (approx. USD 511.3 million) before its 2022 due date. There were also cash outflows from the realisation of derivative financial instruments used to hedge financial debt in the amount of USD 116.1 million (prior year period: cash inflow of USD 11.1 million).

The cash outflows were offset by cash inflows of USD 1,034.7 million (prior year period: USD 924.2 million). A new revolving credit facility in the amount of USD 112.0 million was utilised in connection with the early repayment of the bond. Other significant cash outflows from the financing of containers using Japanese operating leases (JOLs) in the amount of USD 325.2 million, drawdowns under the existing ABS programme in the amount of USD 363.0 million, loans to refinance vessels in the amount of USD 188.1 million and the payment for an unsecured term loan in the amount of USD 45.3 million.

5.2. FINANCIAL SOLIDITY

The Group's net debt amounted to USD 6,605.4 million as at 31 December 2019. This was a rise of USD 474.1 million compared to net debt of USD 6,131.3 million as at 31 December 2018.

The increase was essentially due to the application of the reporting standard IFRS 16 from 1 January 2019. The recognition of the lease liability associated with the first-time recognition of rights of use relating to leases (primarily for medium and long-term charter expenses for vessels and for container leases) led to an increase of USD 1,085.1 million in financial debt as at 1 January 2019. As at 31 December 2019, the debt arising from lease liabilities was USD 1,339.3 million. The repayment of a bond of EUR 450.0 (approx. USD 511.3 million) million had the opposite effect.

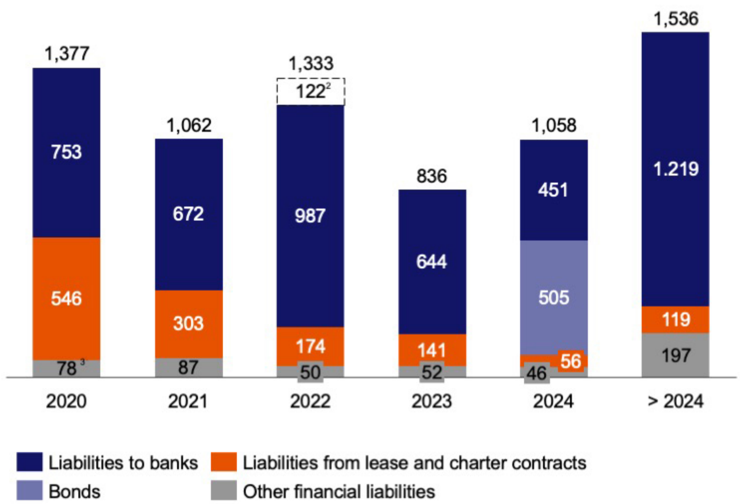
The calculation of net debt includes restricted cash in the amount of USD 0.0 million (31 December 2018: USD 7.4 million), which is held in trust as security for existing financial debt and due to its maturity is reported under other assets. Gearing – the ratio of net debt to balance sheet equity – increased from 85.5% to 88.9% whereas the leverage ratio (net debt / EBITDA) substantially improved to 3.0x (prior year period: 4.6x).

Despite the increase in total assets mainly due to IFRS 16 Leases, the equity ratio as at 31 December 2019 was unchanged at 40.9% (31 December 2018: 40.9%).

Financial solidity

million USD	**31.12.2019**	31.12.2018
Financial debt and lease liabilities	7,179.6	6,891.1
Cash and cash equivalents	574.1	752.4
Restricted Cash	–	7.4
Net debt	**6,605.4**	**6,131.3**
Unused credit lines	585.0	545.0
Liquidity reserve	1,159.1	1,297.4
Equity	7,430.3	7,167.5
Gearing (net debt / equity) (%)	**88.9**	**85.5**
Net debt to EBITDA	**3.0x**	**4.6x**
Equity ratio (%)	**40.9**	**40.9**

Contractual maturity profile of financial debt (USD million)[1]



1 As of January 2018 financial debt profile has been changed to the statement of repayment amounts. Deviation from the total financial debt as shown in the balance sheet as per 31 December 2019 consists of transaction costs and accrued interest

2 ABS program prolongated until 2022

3 Liabilities from lease and charter contracts consist of USD 69 million liabilities from former finance lease contracts and USD 1,270 million from lease contracts presented as on-balance financial liability due to first-time application of IFRS 16

The total repayment amount of USD 7,202 million is categorized between (1) liabilities to banks, (2) bonds, (3) liabilities from lease and on-balance charter 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 122 million), a revolving line collateralized by receivables.

Hapag-Lloyd had one bond outstanding as per 31 December 2019: EUR 450 million 5.125% Senior Notes due July 2024.

6. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

6.1. SIGNIFICANT TRANSACTIONS AFTER THE BALANCE SHEET DATE

There were no significant transaction after the balance sheet date with a material impact in the net asset, financial and earnings position of the Hapag-Lloyd Group.

7. OUTLOOK

The general economic and sector-specific conditions which are of importance to container shipping are represented and analysed in detail in Section 1. A summary of the most important external factors forming the basis of the outlook is given below.

According to its current economic outlook (January 2020), the International Monetary Fund (IMF) expects global economic growth of 3.3% for the current year. According to this forecast, the global economy will again grow slightly faster in 2020 than in the previous year (+2.9%). According to IMF estimates, the global trade volume, which is important for the demand for container shipping transport services, will increase by 2.9% in 2020 and is thus expected to recover noticeably compared to the previous year (2019: +1.0%), but will still remain slightly below the average of the last 5 years (3.1%). The industry research agency Seabury (January 2020) forecasts a growth in global container transport volume of 3.1% (2019: 0.8%) to around 157 million TEU in 2020. This means that the expected increase in the global transport volume of container shipping in 2020 would again be in line with the growth in world trade. Extraordinary events on a global scale such as the outbreak of the coronavirus COVID-19 could have a negative impact on the growth expectations. Due to the spread of the coronavirus COVID-19 in the beginning of 2020 negative implications for the trade and financial markets can be observed. Because of potential market movements that occur with time delays as well as uncertainty regarding the containment of the viral disease a concluding assessment of the effect of COVID-19 on the global economy during the remainder of the year is not possible.

Following an increase in transport capacities (after scrapping and postponement of deliveries) in 2019 by approx. 0.8 million TEU to 22.9 million TEU, Drewry's industry experts also expect a nominal increase in transport capacities for the current year by approx. 0.8 million TEU to 23.7 million TEU. In relation to the total capacity of the world fleet, this corresponds to an increase of around 3.7% and is thus at the same level as in the previous year (+3.7%). Although the overall increase remains moderate, the delivery of large ships in the Far East trade lane could make it more difficult to implement freight rate increases in this trade lane in 2020.

Hapag-Lloyd expects a slight year-on-year increase in transport volumes in 2020 and thus intends to grow again in line with general market growth. Although capacity growth in 2020 is also expected to be higher than demand growth (by 0.6% pts.), the capacity overhang is significantly lower than in 2019 (2.9% pts.). In addition, extended shipyard periods due to the installation of exhaust gas cleaners ("scrubbers") in connection with IMO 2020 may lead to a partial reduction in the capacity actually available during the course of the year, which would reduce capacity growth. The alignment of growth rates should support the 2020 freight rate level. In addition, higher fuel surcharges for the use of sulphur-reduced fuel due to the new stricter limits on sulphur emissions should slightly increase freight rates ceteris paribus compared to the previous year. Hapag-Lloyd therefore expects average freight rates in 2020 to increase slightly year-on-year.

Due to the switch to the more expensive low-sulphur fuel (MFO 0.5%), the average bunker consumption price in 2020 will increase significantly compared to the previous year.

Provided that the expected freight rate level is achieved, the intended improvement in revenue quality combined with the achievement of further cost savings and the expected volume growth, Hapag-Lloyd is forecasting an EBITDA of EUR 1.7 – 2.2 billion and EBIT of EUR 0.5 – 1.0 billion for 2020.

These figures do not include impairments of goodwill, other intangible assets and property, plant and equipment which are currently not expected but cannot be ruled out due to geopolitical developments, among other things. In addition, the forecast for 2020 is subject to considerable uncertainty and is influenced in particular by the outbreak of the coronavirus COVID-19, the effects of which in the further course of the year cannot be conclusively assessed at the time of preparation of the combined management report as part of the Annual Report 2019.

key benchmark figures for the 2020 outlook

Global economic growth (IMF, January 2020)	3.3%
Increase in global trade (IMF, January 2020)	2.9%
Increase in global container transport volume (Seabury, December 2019)	3.1%
Transport volume, Hapag-Lloyd	Increasing slightly
Average bunker consumption prices, Hapag-Lloyd	Increasing clearly
Average freight rate, Hapag-Lloyd	Increasing slightly
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	EUR 1.7 – 2.2 billion
EBIT (earnings before interest and taxes), Hapag-Lloyd	EUR 0.5 – 1.0 billion

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. In addition, we expect a weaker first half of the year in 2020 due to the extended Chinese New Year in connection with the outbreak of the coronavirus COVID-19 and the associated extended closure of factories in China.

The risks and opportunities that could cause business development to deviate from the forecast are described in detail in the risk and opportunity report of the Annual Report 2019. The relevant risks for the development of Group turnover and earnings are in particular a slowdown in the growth of the global economy and global trade volume, also caused by international crises and geopolitical disputes, a significant and sustained increase in bunker prices above the expected increase, a significant and sustained rise in the value of the euro against the US dollar and a sustained decline in average freight rates. In addition, there is a risk that the higher bunker costs resulting from IMO 2020 cannot be fully passed on to customers by increasing average freight rates.

The occurrence of one or more of these risks could have a substantial negative impact on the industry and, by extension, on the business development of Hapag-Lloyd in the 2020 financial year, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

IMPORTANT NOTICE

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 2019, please find below the respective exchange rates:

- Values for Q4 2019 have been calculated by subtracting the 9M 2019 figures from the FY 2019 figures
- Figures for 9M 2019 have been converted at the respective 9M 2019 exchange rates
- Values for FY 2019 have been converted at the respective FY 2019 exchange rates
- Values for Q3 2019 have been calculated by subtracting the H1 2019 figures from the 9M 2019 figures
- Values for Q4 2018 have been calculated by subtracting the 9M 2018 figures from the FY 2018 figures
- Values for 9M 2018 have been converted at the respective 9M 2018 exchange rates
- Values for FY 2018 have been converted at the respective FY 2018 exchange rates

Exchange rates

	Closing Rate			Average rate		
per EUR	**31.12.2019**	30.9.2019	31.12.2018	**FY 2019**	9M 2019	FY 2018
US dollars	1.1223	1.0922	1.1457	1.1195	1.1236	1.1815

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.

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

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IMPRINT

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