Q2 | H1 2020

Hapag-Lloyd AG

# Investor Report

1 January to
30 June 2020

Hapag-Lloyd

# SUMMARY OF HAPAG-LLOYD KEY FIGURES

| | | Q2 2020 | Q2 2019 | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|
| **Key operating figures** | | | | | | |
| Total vessels, of which | | 239 | 237 | 239 | 237 | 1% |
| Own vessels [1] | | 112 | 112 | 112 | 112 | – |
| Chartered vessels | | 127 | 125 | 127 | 125 | 2% |
| Aggregate capacity of vessels | TTEU | 1,736 | 1,707 | 1,736 | 1,707 | 2% |
| Aggregate container capacity | TTEU | 2,621 | 2,580 | 2,621 | 2,580 | 2% |
| Bunker price (MFO, average for the period) [2] | USD/t | 355 | 418 | 442 | 414 | 7% |
| Bunker price (MDO, average for the period) [3] | USD/t | 420 | 613 | 515 | 606 | –15% |
| Bunker price (combined MFO/MDO, average for the period) | USD/t | 360 | 434 | 448 | 429 | 4% |
| Freight rate (average for the period) | USD/TEU | 1,114 | 1,063 | 1,104 | 1,071 | 3% |
| Transport volume | TTEU | 2,701 | 3,038 | 5,755 | 5,966 | –4% |
| Revenue | million USD | 3,321 | 3,569 | 7,005 | 7,047 | –1% |
| Transport expenses | million USD | –2,295 | –2,790 | –5,210 | –5,451 | –4% |
| EBITDA | million USD | 770 | 524 | 1,287 | 1,080 | 19% |
| EBIT | million USD | 387 | 197 | 563 | 440 | 28% |
| Group profit/loss | million USD | 287 | 56 | 314 | 165 | 90% |
| Cash flow from operating activities | million USD | 910 | 391 | 1,329 | 1,000 | 33% |
| Investment in property, plant and equipment [4] | million USD | 542 | 278 | 806 | 577 | 40% |
| **Key return figures** | | | | | | |
| EBITDA margin (EBITDA/revenue) | % | 23.2 | 14.7 | 18.4 | 15.3 | 3.1 ppt |
| EBIT margin (EBIT/revenue) | % | 11.7 | 5.5 | 8.0 | 6.2 | 1.8 ppt |
| **Key balance sheet figures [5]** | | | | | | |
| Balance sheet total | million USD | 19,152 | 18,182 | 19,152 | 18,182 | 5% |
| Equity | million USD | 7,500 | 7,430 | 7,500 | 7,430 | 1% |
| Equity ratio (equity/balance sheet total) | % | 39.2 | 40.9 | 39.2 | 40.9 | –1.7 ppt |
| Borrowed capital | million USD | 11,652 | 10,751 | 11,652 | 10,751 | 8% |
| **Key financial figures [5]** | | | | | | |
| Financial debt and lease liabilities | million USD | 8,058 | 7,180 | 8,058 | 7,180 | 12% |
| Cash and cash equivalents | million USD | 1,691 | 574 | 1,691 | 574 | 195% |
| Net debt (financial debt – cash and cash equivalents) | million USD | 6,367 | 6,605 | 6,367 | 6,605 | –4% |
| Gearing (net debt/equity) | % | 84.9 | 88.9 | 84.9 | 88.9 | –4.0 ppt |
| Liquidity reserve | million USD | 1,876 | 1,159 | 1,876 | 1,159 | 62% |
| **Number of employees** | | | | | | |
| Marine personnel | | 2,109 | 2,132 | 2,109 | 2,132 | –1% |
| Shore-based personnel | | 10,912 | 10,729 | 10,912 | 10,729 | 2% |
| Hapag-Lloyd total | | 13,021 | 12,861 | 13,021 | 12,861 | 1% |

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

1 Including lease agreements with purchase option/obligation at maturity.
2 MFO = Marine Fuel Oil
3 MDO = Marine Diesel Oil
4 As of 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 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 half-year financial report, please visit our website: https://www.hapag-lloyd.com/en/ir/publications/financial-report.html**

# MAIN DEVELOPMENTS IN H1 2020

- The first half of 2020 was dominated by very volatile bunker prices and the economic effects of the outbreak and global spread of the COVID-19 pandemic as well as the development and implementation of the Performance Safeguarding Program (PSP) to mitigate the COVID-19 impacts.
- Revenue was down by 0.6% to USD 7,005.2 million (prior year period: USD 7,046.6 million).
- Transport volume fell by 3.5% to 5,755 TTEU in the first 6 months of 2020 (prior year period: 5,966 TTEU). While the transport volume increased slightly in the first quarter, it was significantly down on the previous year's figure in the second quarter due to the global measures to control the pandemic. We have responded with respective capacity adjustments in order to reduce excess cost.
- The average freight rate rose slightly by 3.1% to USD 1,104 compared with the previous year (prior year period: USD 1,071) mainly by passing on bunker costs for low sulphur fuel.
- Transport expenses fell by 4.4% in the first half of 2020 to USD 5,209.9 million (prior year period: USD 5,450.7 million). A rise of 4.4% in the average bunker price compared with the previous year as a result of IMO 2020 contrasted with positive effects resulting from a volume-related decrease in other transport expenses and from active cost management.
- The devaluation of bunker stocks at the end of the first quarter in the amount of USD –64.4 million due to the decline in oil prices had a positive effect on bunker expenses in the second quarter. As a result, the valuation of bunker stocks had no significant effect on earnings in the first half of the year.
- Despite a declining transport volume, EBITDA increased by 19.2% to USD 1,287.2 million in the first half of 2020 (prior year period: USD 1,080.0 million). Due to the general time lag in passing on bunker costs, the ratio between freight rates and bunker prices was temporarily favourable in the second quarter, in contrast to the previous quarter. In addition, active cost management resulting from the PSP measures had a positive impact. The EBITDA margin rose accordingly by 3.1 percentage points to 18.4% (prior year period: 15.3%).
- EBIT was also up on the previous year, at USD 563.2 million (prior year period: USD 439.8 million).
- In addition, free cash flow of USD 1,177.1 million was clearly positive (H1 2019: USD 866.9 million). Consequently, the key debt ratios improved further, with the result that the ratio of net debt to EBITDA stood at 2.6, its lowest level since the financial crisis 2009.
- As a result of the implemented measures to safeguard the liquidity position as part of the PSP programme, the liquidity reserve was substantially increased in the course of the first half year to around USD 1.9 billion as at 30 June 2020 (30 June 2019: USD 1.1 billion).
- Hapag-Lloyd continues to expect EBITDA of EUR 1.7 – 2.2 billion and EBIT of EUR 0.5 – 1.0 billion for 2020 overall. The forecast remains subject to significant uncertainties. In addition to transport volume, the development of freight rates and a potential further increase of bunker prices should have a decisive influence on the result of Hapag-Lloyd in the second half of the financial year 2020.



**This investor report was published on 14 August 2020.**

# CONTENTS

## 1. IMPACT OF THE COVID-19 PANDEMIC ON BUSINESS DEVELOPMENT

Business development in the first half of 2020 was significantly influenced by the outbreak of the COVID-19 pandemic. As a result of the containment measures, it was difficult to maintain business operations due to restrictions on movement and contact. At the same time, there was an abrupt drop in demand in the second quarter, with direct effects on the earnings, financial and net asset position, which are described in detail in the economic report.

Hapag-Lloyd reacted to the crisis at an early stage and established a central crisis committee headed by the Executive Board at the beginning of March 2020. The crisis committee assesses the current situation on a regular basis, approving and implementing immediate measures as necessary. To ensure the safety of personnel and stable business operations both ashore and on board the ships, emergency plans (business continuity plans) have been drawn up for each department and office. Hapag-Lloyd employees are kept fully informed about the current situation and the protective measures via the intranet.

This enabled the Company to largely ensure business operations in the first half of the year despite comprehensive protective measures and extensive office closures. At the peak of restrictions, more than 90% of shore-based employees were working from home. This was achieved by the creation of additional IT capacities worldwide. Despite the gradual lifting of the protective measures in some regions, the majority of shore-based employees continued to work from home at the end of the first half of the year. The safety of crews on board ships is also a top priority for the executive management. Hapag-Lloyd has therefore also put in place additional safety measures on board its ships to ensure the safety of its crews as best it can. Shipping operations so far have largely continued without any significant disruptions. However, worldwide travel restrictions as well as local restrictions currently make crew changes in various ports difficult or impossible. Hapag-Lloyd is working closely with local authorities and other market participants to improve the situation.

In addition to securing the current operational business, the second focus is to minimize the negative effects of the decline in demand in connection with the COVID-19 pandemic and to ensure the financial solidity of the company at all times. To safeguard profitability and liquidity, a comprehensive package of measures under the project name Performance Safeguarding Program (PSP) was developed and implemented in the first half of the year. This includes measures for cost savings, the review of all investments and measures to increase the liquidity framework. More than 1,700 individual measures were identified within the PSP programme, which are spread across the entire organisation.

In cooperation with the other THE Alliance partners, the service network for the major East-West routes has been revised and some services have been merged or cancelled. These measures enable the alliance partners to ensure adequate utilization of their ships and thus save costs. Hapag-Lloyd has also identified additional cost-cutting measures to reduce the costs of container handling and transport, equipment (mainly containers), ship systems and overheads during the crisis caused by the COVID-19 pandemic. In addition to the non-renewal of short term charter contracts, medium and long-term charter contracts were renegotiated with regard to duration and charter rates. The aim of the capacity and cost-cutting measures is to reduce costs in the current year by a medium three-digit million US dollar amount. While initial savings were already realized in the second quarter of 2020, the bulk of the savings are likely to be spread over the second half of the year.

In order to secure and expand the liquidity position, a further optimisation of the global cash pooling and working capital management was initiated. Liquidity was significantly increased through the expanded use of the receivables securitisation programme, the drawing of credit lines and the refinancing of ships and containers. In addition, the investment budget is reviewed on an ongoing basis and a prioritisation of planned investments is made. Hapag-Lloyd has currently neither ordered any new vessels nor signed a binding agreement for their construction. Any new orders of large container vessels or additional containers will only be made if financing is contractually assured. The budgeted investments are spread over numerous, partly smaller measures, so that Hapag-Lloyd has a certain scope for postponing or suspending planned investments. For necessary investments, liquidity-saving financing such as chartering / leasing are used where economically viable. A further component of the liquidity measures is the identification and analysis of suitable government support programmes, in order to be prepared should the crisis worsen further. The use of such programmes has not been necessary so far.

## 2. MAIN VALUE DRIVERS OF THE CONTAINER SHIPPING SECTOR FOR 2020

### 2.1. GENERAL ECONOMIC CONDITIONS

The pace at which the global economy grows and, by extension, at which global trade develops is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' cargo volumes.

Global economic conditions deteriorated dramatically during the first half of the year due to the increasing spread of COVID-19. According to the International Monetary Fund, global economic growth in the previous year was already at its lowest level since the 2008 / 2009 financial and economic crisis, at 2.9% (2018: 3.6%), (IMF, World Economic Outlook, April 2020). At the start of the year, the IMF predicted growth of 3.3% for 2020 (IMF, World Economic Outlook, January 2020). Due to the spread of COVID-19 and the associated measures to control the pandemic such as social distancing, the closure of factories, businesses and event venues, and the almost complete suspension of international air passenger travel, the IMF reduced its forecast dramatically for 2020, first in April and again in June. It therefore expects global economic output to fall by 4.9% this year (IMF, World Economic Outlook, June 2020).

Initially, the effects of the pandemic were largely restricted to China in January and February. As a result, Chinese economic output fell by 6.8% in the first quarter. The increasing spread of COVID-19 meant that the economic effects of the pandemic also became visible worldwide, with a corresponding impact on international trade. For example, the import and export of goods in the EU plummeted by 13% each in the period January–May. In the USA, the import of goods and services decreased also by 13% in the same period. The IMF therefore believes that global economic output fell sharply in the first and particularly the second quarter of 2020. However, the global Purchasing Managers' Indices (PMI), which reflect the current and expected short-term performance of companies, pointed to a noticeable improvement in the economic situation at the end of the first half (IHS Markit PMI, June and July 2020).

**Developments in global economic growth (GDP) and world trade volume**

| in % | 2021e | 2020e | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|
| Global economic growth | 5.4 | –4.9 | 2.9 | 3.6 | 3.9 | 3.4 | 3.5 |
| Industrialised countries | 4.8 | –8.0 | 1.7 | 2.2 | 2.5 | 1.7 | 2.3 |
| Developing and newly industrialised countries | 5.9 | –3.0 | 3.7 | 4.5 | 4.8 | 4.6 | 4.3 |
| World trade volume (goods and services) | 8.0 | –11.9 | 0.9 | 3.8 | 5.7 | 2.3 | 2.8 |

Source: IMF, June 2020

To reduce the economic impact of the pandemic, more than 190 countries as well as national and supranational central banks have now adopted fiscal and monetary measures. The US Federal Reserve and the European Central Bank have cut their key interest rates and increased their bond purchasing. Nevertheless, the uncertainty on the financial markets has led to a significant increase in risk premiums in the meantime, which has provided companies with little relief in terms of interest rates. However, the situation had eased somewhat by the end of the first half of the year, even though interest rates are likely to remain above the pre-crisis level for many companies. Fiscal measures include direct subventions, (interest-free) loans and tax relief for companies and private individuals. According to the IMF, these measures are likely to be effective in protecting the global economy from an even sharper downturn.

There was a sharp drop in the price of oil during the first half of the year due to weak demand caused by the fall in economic output and a price war among key oil producers. While the price of Brent Crude was more than USD 60 per barrel at the start of the year, this had plummeted by over 60% to around USD 20 by the end of April. In response to the sharp price decrease, key oil producers cut their daily oil production. Since the end of April, oil prices have recovered significantly. The price of Brent Crude was around USD 40 per barrel at the end of the first half of the year.

## 2.2. SECTOR-SPECIFIC CONDITIONS

As with global economic growth and the volume of global trade, the global cargo volume grew by a relatively small amount in 2019, increasing by 1.7% (Clarksons, June 2020). In December 2019, Clarksons predicted a recovery of 3.1% for 2020 (Clarksons, December 2019). Due to the effects of the COVID-19 pandemic, however, and the resulting economic and trade restrictions, industry experts now expect the global container transport volume to decrease. For example, the industry experts at Clarksons currently predict that the container transport volume will fall by around 7.2% overall in 2020 (Clarksons, July 2020). A recovery of around 6.8% is forecast for 2021.

### Development of global container transport volume

| in % | 2021e | 2020e | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|
| Growth rate | 6.8 | –7.2 | 1.7 | 4.1 | 4.7 | 2.0 | –0.8 |

Source: Seabury (June 2020) for the actual data 2015–2019, Clarksons (July 2020) for 2020 and 2021 estimates

In the first 6 months of 2020, the volume of TEU transported globally fell by 6.8% (CTS, August 2020). The strongest volume declines were recorded on the Atlantic as well as on the routes from Asia to Europe, North and South America. In contrast, volume losses in the opposite direction were more moderate. This has led to a slight improvement of the typical imbalances on the Far East trades.

The bunker price was very volatile in the first half of 2020. Low-sulphur bunker, the fuel predominantly used since the start of 2020, cost around USD 560/t on the year's first day of trading (MFO 0.5%, FOB Rotterdam). However, the bunker price decreased significantly during the first half of the year, due to the global decline in demand and a simultaneous sharp fall in the price of oil caused by a dispute about production volumes among leading oil-producing countries. As a result, it briefly stood at around USD 135/t at the end of April (MFO 0.5%, FOB Rotterdam). However, the bunker price subsequently rose again significantly by more than 100% and finished the first half of the year at around USD 280/t (MFO 0.5%, FOB Rotterdam).

Due to the introduction of the new fuel type and differing supply situations at the various ports, there were clear price differences at the start of the year for MFO 0.5% bunker. In Singapore, for example, the price at the start of the year was around USD 700/t, which was more than USD 140/t higher than the price in Rotterdam. At the end of the first half of the year, the price difference normalised again and was only around USD 30/t.

At the beginning of 2020, the aggregate capacity of the global container ship fleet was approximately 23.0 million TEU (Drewry Container Forecaster Q2 2020). Based on the container ships on order and planned deliveries, the globally available transport capacity should see increases of around 0.6 million TEU in 2020 and around 0.7 million TEU in 2021 (Drewry Container Forecaster Q2 2020). This includes the expected delays of deliveries in the current financial year and expected scrapping. The tonnage of the commissioned container ships of approximately 2.2 million TEU (MDS Transmodal, July 2020) is equivalent to around 9.5% of the present global container fleet's capacity (approximately 23.4 million TEU as at June 2020). It therefore remains well below the highest level seen to date, which was around 61% in 2007, and the average over the last 5 years (around 16%).

In the period from January to May 2020, orders were placed for the construction of 17 container ships with a transport capacity totalling approximately 0.16 million TEU, a drop of around 41% compared with the prior year period (Clarksons Research, June 2020).

### Expected development of global container fleet capacity

| million TEU | 2021e | **2020e** | 2019 | 2018 |
|---|---|---|---|---|
| Existing fleet (beginning of the year) | 23.6 | 23.0 | 22.1 | 20.9 |
| Planned deliveries | 1.4 | 1.1 | 1.1 | 1.5 |
| Expected scrappings | 0.5 | 0.2 | 0.2 | 0.1 |
| Postponed deliveries and other changes | 0.3 | 0.4 | 0.1 | 0.2 |
| **Net capacity growth** | **0.7** | **0.6** | **0.9** | **1.2** |

Source: Drewry Container Forecaster Q2 2020, June 2020. Expected nominal capacity based on planned deliveries. Based on existing orders and current predictions for scrapping and postponed deliveries. Figures rounded. Rounding differences may be the result of changes in the databases.

The actual growth in the global container ship fleet's transport capacity is regularly lower than the projected nominal increase, as old and inefficient ships are scrapped and deliveries of newbuilds are postponed. Based on figures from MDS Transmodal, a total of 53 container ships with a transport capacity of approximately 352,000 TEU were placed into service in the first 6 months of 2020 (prior year period: 67 ships with a transport capacity of approximately 528,000 TEU). According to the sector information service Drewry (Container Forecaster Q2), the scrapping of inefficient ships in 2020 is expected to be around the same as in the previous two years, at approximately 0.2 million TEU. Following an initial sharp decline in scrapping compared with the previous year as a result of COVID-19 restrictions, it increased again significantly in June in particular. According to Alphaliner (Alphaliner Weekly, July 2020), scrapping totalled around 143,000 TEU in the first half of 2020, which was approximately 13% higher than in the previous year (prior year period: around 127,000 TEU).

Idle capacity was around 2.3 million TEU at the end of June 2020 (Alphaliner Weekly, June 2020), accounting for approximately 9.9% of the global fleet (end of June 2019: approximately 0.4 million TEU, or around 1.6% of the global fleet). The increase in the number of idle ships was due to the low transport volume as a result of COVID-19. At the peak of the restrictions in the first half of the year, ships with a capacity of more than 2.6 million TEU were idle.

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

As at 30 June 2020, Hapag-Lloyd's fleet comprised a total of 239 container ships (30 June 2019: 237 ships). All of the ships 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 30 June 2020 was 1,736,429 TEU, which was an increase of 1.7% compared to 30 June 2019 (1,707,463 TEU). The share of ships chartered by Hapag-Lloyd was approximately 40% as at 30 June 2020 based on TEU capacity (30 June 2019: approximately 39%).

As at 30 June 2020, the average age of Hapag-Lloyd's total fleet (capacity-weighted) was 9.2 years. The average ship size within the Hapag-Lloyd Group fleet is 7,265 TEU, which is approximately 16% above the comparable average figure for the 10 largest container liner shipping companies (30 June 2020: 6,269 TEU; MDS Transmodal) and around 69% above the average ship size in the global fleet (30 June 2020: 4,288 TEU; MDS Transmodal).

As at 30 June 2020, Hapag-Lloyd owned or rented 1,592,758 containers (30 June 2019: 1,573,216) with a capacity of 2,620,584 TEU for shipping cargo (30 June 2019: 2,580,401). The capacity-weighted share of leased containers was around 44% as at 30 June 2020 (30 June 2019: 47%).

Hapag-Lloyd's service network comprised 121 services as at 30 June 2020 (30 June 2019: 118 services). 6 of the services are temporarily suspended at present due to the decrease in demand as a result of COVID-19.

### Structure of Hapag-Lloyd's container ship fleet

| | 30.6.2020 | 31.12.2019 | 30.6.2019 |
|---|---|---|---|
| **Number of vessels** | **239** | **239** | **237** |
| thereof | | | |
| Own vessels[1] | 112 | 112 | 112 |
| Chartered vessels | 127 | 127 | 125 |
| **Aggregate capacity of vessels (TTEU)** | **1,736** | **1,707** | **1,707** |
| **Aggregate container capacity (TTEU)** | **2,621** | **2,540** | **2,580** |
| **Number of services** | **121** | **121** | **118** |

[1] Including lease agreements with purchase option / obligation at maturity.

There were no orders for newbuilds as at the reporting date. Particularly since the merger with UASC, Hapag-Lloyd has had a modern and efficient fleet. The Executive Board of Hapag-Lloyd AG believes that the existing fleet and cooperation with the partners in THE Alliance (including HMM from 1 April 2020) will make it possible to utilise expansion opportunities resulting from market gowth 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.

With regard to the new regulations of the International Maritime Organization (IMO), which came into effect in 2020 to reduce sulphur emissions, Hapag-Lloyd will predominantly use low-sulphur fuel. On 17 of its own larger ships and 9 container ships chartered on a long-term basis, the Company is installing exhaust gas cleaning systems (EGCS) to filter the sulphur from the exhaust gases. One large ship is also being retrofitted to test how it runs on liquefied natural gas (LNG). From the perspective of Hapag-Lloyd AG's Executive Board, the conversion to the new exhaust gas thresholds and the associated switch to low-sulphur fuel went according to plan.

## 4. HAPAG-LLOYD: GROUP EARNINGS POSITION

### 4.1. GROUP EARNINGS POSITION

The first half of the 2020 financial year was dominated by very volatile bunker prices and the economic effects of the outbreak and global spread of the COVID-19 pandemic. The political measures implemented globally to control the pandemic had a clear impact in the second quarter in particular and led to a decline in the transport volume and to lower revenue. By contrast, a favourable freight rate and bunker price ratio, above all in the second quarter in conjunction with active cost management (PSP) had a positive effect on earnings in the first half of the year.

Hapag-Lloyd generated earnings before interest, taxes, depreciation and amortisation (EBITDA) of USD 1,287.2 million (prior-year period: USD 1,080.0 million) and earnings before interest and taxes (EBIT) of USD 563.2 million in the first half of 2020 (prior year period: USD 439.8 million). The Group profit came to USD 314.4 million (prior year period: USD 165.2 million).

Following the positive development of transport volumes in the first quarter of 2020, with the exception of transport volumes in the Intra Asia and Far East trade, the political measures to control the COVID-19 pandemic had a clear impact in the second quarter. As expected, transport volumes during this period were lower than in the previous year on all trades, registering a significant decline of –11.1%. Transport volumes for the first half of the year were down 3.5% overall.

The Group was able to increase the freight rate slightly in the second quarter, resulting in a rise of 3.1% in the average freight rate for the first half of 2020 compared with the previous year.

Transport expenses in the first half of the year fell by 4.4% compared with the previous year. This was primarily due to active cost management. This resulted in a year-on-year reduction in bunker consumption as well as expenses for ship voyages due to suspended voyages and network optimisation measures. In addition, there was a volume-related decline in container handling expenses in connection with lower domestic transport expenses. Caused by the uncertainties on the financial markets the profit or loss effect of the embedded derivative from the early repurchase option of the bond in the amount of USD –16.0 million (prior year period: income of USD 3.0 million) had a negative impact on the interest result, as did the valuation of interest rate swaps of USD 10.0 million (prior year period: USD –3.9 million).

### 4.2. CONSOLIDATED INCOME STATEMENT

| million USD | Q2 2020 | Q1 2020 | Q2 2019 | QoQ Change | YoY change | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **3,321.2** | **3,684.0** | **3,569.0** | **–10%** | **–7%** | **7,005.2** | **7,046.6** | **–1%** |
| Transport expenses | –2,295.4 | –2,914.4 | –2,790.5 | –21% | –18% | –5,209.9 | –5,450.7 | –4% |
| Personnel expenses | –184.3 | –190.5 | –185.5 | –3% | –1% | –374.8 | –374.8 | 0% |
| Depreciation, amortisation and impairment | –382.9 | –341.1 | –327.3 | 12% | 17% | –724.0 | –640.2 | 13% |
| Other operating result | –78.5 | –71.8 | –78.7 | –9% | 0% | –150.3 | –161.0 | 7% |
| **Operating result** | **380.1** | **166.1** | **187.0** | **129%** | **103%** | **546.2** | **419.8** | **30%** |
| Share of profit of equity-accounted investees | 7.1 | 10.2 | 10.1 | –30% | –29% | 17.3 | 19.8 | –12% |
| Result from investments | –0.1 | –0.2 | 0.0 | –63% | n.m. | –0.3 | 0.2 | n.m. |
| **Earnings before interest and tax (EBIT)** | **387.1** | **176.1** | **197.1** | **120%** | **96%** | **563.2** | **439.8** | **28%** |
| Interest result | –87.8 | –136.9 | –133.5 | –36% | –34% | –224.7 | –254.1 | –12% |
| Other financial items | –1.9 | 4.8 | –1.2 | n.m. | 52% | 2.9 | –1.0 | n.m. |
| Income taxes | –10.4 | –16.7 | –6.6 | –38% | 58% | –27.0 | –19.5 | 38% |
| **Group profit/loss** | **287.1** | **27.3** | **55.9** | **950%** | **414%** | **314.4** | **165.2** | **90%** |

### 4.3. FREIGHT RATE PER TRADE

The average freight rate in the first half of the 2020 financial year was USD 1,104/TEU, which was USD 33/TEU, or 3.1%, up on the prior year period (USD 1,071/TEU).

Compared with the previous year, the freight rate increased primarily due to the transfer of increased bunker costs for low-sulphur fuel and active revenue management.

**Freight rate per trade[1]**

| USD/TEU | Q2 2020 | Q1 2020 | Q2 2019 | QoQ change | YoY change | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| Atlantic | 1,405 | 1,405 | 1,361 | – | 3.2% | 1,405 | 1,356 | 3.6% |
| Transpacific | 1,378 | 1,326 | 1,289 | 3.9% | 6.9% | 1,351 | 1,312 | 3.0% |
| Far East | 982 | 962 | 891 | 2.1% | 10.2% | 971 | 927 | 4.7% |
| Middle East | 856 | 788 | 753 | 8.6% | 13.7% | 818 | 755 | 8.3% |
| Intra-Asia | 563 | 611 | 548 | –7.9% | 2.7% | 587 | 538 | 9.1% |
| Latin America | 1,164 | 1,162 | 1,144 | 0.2% | 1.7% | 1,163 | 1,162 | 0.1% |
| EMA (Europe – Mediterranean – Africa) | 1,046 | 1,031 | 1,047 | 1.5% | –0.1% | 1,038 | 1,036 | 0.2% |
| **Total** | **1,114** | **1,094** | **1,063** | **1.8%** | **4.8%** | **1,104** | **1,071** | **3.1%** |

[1] Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

### 4.4. TRANSPORT VOLUME PER TRADE

The transport volume decreased by 212 TTEU to 5,755 TTEU in the first half of the 2020 financial year (prior year period: 5,966 TTEU). This equates to a fall of 3.5%. Here, the global effects of the political measures to combat the COVID-19 pandemic were reflected in transport volumes on all trades, particularly in the second quarter.

While volumes on the Intra-Asia trade in the second quarter were almost back to the previous year's level, the Atlantic, Transpacific and Far East trades were particularly affected in this quarter by the political measures to combat the COVID-19 pandemic.

In spite of the pandemic, the transport volume on the Latin America trade rose in the first half of the 2020 financial year due to an increase in the share of the Intra-America market.

**Transport volume per trade**[1]

| TTEU | Q2 2020 | Q1 2020 | Q2 2019 | QoQ change | YoY change | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| Atlantic | 442 | 481 | 513 | –8.2% | –13.8% | 923 | 982 | –6.1% |
| Transpacific | 418 | 472 | 494 | –11.4% | –15.3% | 890 | 944 | –5.7% |
| Far East | 495 | 567 | 584 | –12.8% | –15.3% | 1,062 | 1,178 | –9.8% |
| Middle East | 307 | 391 | 344 | –21.5% | –10.6% | 699 | 695 | 0.6% |
| Intra-Asia | 211 | 212 | 215 | –0.5% | –1.9% | 423 | 436 | –2.9% |
| Latin America | 667 | 744 | 713 | –10.3% | –6.4% | 1,411 | 1,389 | 1.6% |
| EMA (Europe – Mediterranean – Africa) | 161 | 186 | 175 | –13.3% | –8.3% | 347 | 342 | 1.3% |
| **Total** | **2,701** | **3,053** | **3,038** | **–11.5%** | **–11.1%** | **5,755** | **5,966** | **–3.5%** |

1 Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

### 4.5. REVENUE PER TRADE

The Hapag-Lloyd Group's revenue decreased by USD 41.4 million to USD 7,005.2 million in the first half of the 2020 financial year (prior year period: USD 7,046.6 million), representing a decrease of 0.6%. A rise in average freight rates contrasted with a fall in transport volumes.

**Revenue per trade**[1]

| million USD | Q2 2020 | Q1 2020 | Q2 2019 | QoQ Change | YoY change | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| Atlantic | 620.7 | 675.7 | 697.4 | –8% | –11% | 1,296.4 | 1,332.3 | –3% |
| Transpacific | 576.6 | 626.3 | 636.6 | –8% | –9% | 1,202.9 | 1,238.9 | –3% |
| Far East | 485.8 | 546.1 | 520.4 | –11% | –7% | 1,031.8 | 1,091.5 | –5% |
| Middle East | 263.2 | 308.4 | 259.1 | –15% | 2% | 571.6 | 524.6 | 9% |
| Intra-Asia | 118.7 | 129.5 | 118.0 | –8% | 1% | 248.2 | 234.4 | 6% |
| Latin America | 776.4 | 864.2 | 815.0 | –10% | –5% | 1,640.6 | 1,613.8 | 2% |
| EMA (Europe – Mediterranean – Africa) | 168.2 | 191.5 | 183.6 | –12% | –8% | 359.7 | 354.2 | 2% |
| Revenue not assigned to trades | 311.6 | 342.4 | 338.6 | –9% | –8% | 654.1 | 656.8 | –0% |
| **Total** | **3,321.2** | **3,684.0** | **3,569.0** | **–10%** | **–7%** | **7,005.2** | **7,046.6** | **–1%** |

1 Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

### 4.6. OPERATING EXPENSES

Transport expenses fell by USD 240.8 million in the first half of the 2020 financial year to USD 5,209.9 million (prior year period: USD 5,450.7 million). This represents a drop of 4.4%. A rise in the average bunker price compared with the previous year contrasted with positive effects resulting from an active cost management as well as a volume-related decrease in expenses.

Hapag-Lloyd's average bunker consumption price of USD 448 per tonne in the first half of the year was up USD 19 per tonne (4.4%) on the figure for the corresponding prior year period of USD 429 per tonne. The increase was essentially due to the required use of the more expensive low-sulphur fuel from 1 January 2020 following the implementation of IMO 2020. The bunker price was very volatile in the first half of 2020. While the price for low-sulphur fuel remained very high at the start of the year (MFO 0.5%, FOB Rotterdam, around USD 560 / t), it decreased significantly during this period due to the global decline in the demand for oil and a simultaneous dispute about production volumes among leading oil-producing countries. As a result, it briefly stood at around USD 135 / t at the end of April (MFO 0.5%, FOB Rotterdam). However, the bunker price subsequently rose again significantly and finished the first half of the year at around USD 280 / t (MFO 0.5%, FOB Rotterdam). The negative valuation effect from the decline in prices at the end of the first quarter (–64.4 million) had a positive impact on fuel expenses in the second quarter (USD 56.0 million).

The decrease in container handling expenses of USD 116.5 million to USD 2,639.3 million resulted primarily from a volume-related decline and lower hinterland transport expenses.

The decrease in expenses for vessels and voyages (excluding bunker) was mainly due to the active cost management within the PSP programme. Suspended services, a reduced number of voyages, network optimisations and a higher percentage of ships chartered in on a medium-term basis compared with the previous year led mainly to the decrease in expenses.

At USD 374.8 million, personnel expenses were on par with previous year's level.

Depreciation and amortisation came to USD 724.0 million in the first half of the 2020 financial year (prior year period: USD 640.2 million). The year-on-year increase in depreciation and amortisation resulted essentially from depreciation associated with the recognition of ship retrofittings due to IMO 2020 as well as from a rise in the percentage of ships chartered in on a medium-term basis and the resulting increase in rights of use primarily due to measures under the PSP programme. The amortisation of rights of use relating to leased assets (essentially ships, containers, buildings) led to amortisation of USD 288.4 million (prior year period: USD 230.7 million).

The other operating result of USD –150.3 million (prior year period: USD –161.0 million) comprised the net balance of other operating income and expenses. Other operating expenses totalled USD 183.8 million for the first half of the 2020 financial year (prior year period: expenses of USD 183.4 million). This included mainly IT expenses (USD 92.5 million), administrative expenses (USD 21.1 million) and consultancy fees (USD 17.0 million). The other operating income included in the figure resulted primarily from the release of provisions (USD 8.4 million) and the disposal of assets (USD 8.1 million).

### Operating expenses

| million USD | Q2 2020 | Q1 2020 | Q2 2019 | QoQ Change | YoY change | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| **Transport expenses** | **–2,295.4** | **–2,914.4** | **–2,790.5** | **–21.2%** | **–17.7%** | **–5,209.9** | **–5,450.7** | **–4.4%** |
| thereof | | | | | | | | |
| Bunker | –295.6 | –654.8 | –480.7 | –54.9% | –38.5% | –950.4 | –928.7 | 2.3% |
| Handling and haulage | –1,253.8 | –1,385.5 | –1,402.0 | –9.5% | –10.6% | –2,639.3 | –2,755.8 | –4.2% |
| Equipment and repositioning [1] | –310.4 | –308.7 | –332.9 | 0.5% | –6.8% | –619.0 | –656.3 | –5.7% |
| Vessel and voyage (excluding bunker) [1] | –487.8 | –528.8 | –560.6 | –7.7% | –13.0% | –1,016.6 | –1,120.8 | –9.3% |
| Pending transport expenses [2] | 52.1 | –36.7 | –14.2 | n.m. | n.m. | 15.4 | 10.9 | 41.3% |
| Personnel expenses | –184.3 | –190.5 | –185.5 | –3.3% | –0.6% | –374.8 | –374.8 | 0.0% |
| Depreciation, amortisation and impairments | –382.9 | –341.1 | –327.3 | 12.2% | 17.0% | –724.0 | –640.2 | 13.1% |
| Other operating result | –78.5 | –71.8 | –78.7 | –9.3% | –0.2% | –150.3 | –161.0 | 6.7% |
| **Total operating expenses** | **–2,941.1** | **–3,517.9** | **–3,382.0** | **–16.4%** | **–13.0%** | **–6,459.0** | **–6,626.8** | **–2.5%** |

1 Including lease expenses for short-term leases

2 The amounts presented as transport expenses for pending voyages represent the difference between the transport expenses for pending voyages for the current period and the transport expenses for pending voyages for the previous period. The transport expenses for pending voyages recognised in the previous periods are presented in the current period as completed transport expenses.

## 4.7. UNIT COSTS

| USD / TEU | Q2 2020 | Q1 2020 | Q2 2019 | QoQ Change | YoY change | H1 2020 | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| **Transport expenses** | **–849.8** | **–954.5** | **–918.6** | **–11.0%** | **–7.5%** | **–905.3** | **–913.6** | **–0.9%** |
| thereof | | | | | | | | |
| Bunker | –109.4 | –214.4 | –158.2 | –49.0% | –30.9% | –165.1 | –155.7 | 6.1% |
| Handling and haulage | –464.2 | –453.8 | –461.5 | 2.3% | 0.6% | –458.6 | –461.9 | –0.7% |
| Equipment and repositioning | –114.9 | –101.1 | –109.6 | 13.7% | 4.8% | –107.6 | –110.0 | –2.2% |
| Vessel and voyage (excl. bunker) | –180.6 | –173.2 | –184.6 | 4.3% | –2.2% | –176.6 | –187.9 | –6.0% |
| Pending transport expenses | 19.3 | –12.0 | –4.7 | n.m. | n.m. | 2.7 | 1.8 | 46.5% |
| **Depreciation, amortisation and impairment (D&A)** | **–141.7** | **–111.7** | **–107.8** | 26.9% | 31.5% | **–125.8** | **–107.3** | 17.2% |
| **Transport expenses incl. D&A** | **–991.5** | **–1,066.2** | **–1,026.4** | –7.0% | –3.4% | **–1,031.1** | **–1,020.9** | 1.0% |

Transport expenses per unit (incl. D & A) were almost similar to the same period last year (+1% or USD 10 / TEU). “Bunker” costs have increased by 6% or USD 9 / TEU as compared to prior year period due to the switch to more expensive low-sulphur fuel in relation to the implementation of the IMO 2020 regulation on 1 January 2020. Costs for “Handling and Haulage” decreased by 1% (USD 3 / TEU) mainly due to reduced inland business and active cost management (PSP). The decrease of costs for “Equipment and Repositioning” (–2% or USD 2 / TEU) was partly due to positive exchange rate effects as well as an improved imbalance situation due to proportionately less headhaul volume on the East-West trades (e. g. Asia to Europe) as well as improved unit costs for the handling of empty container. Higher repositioning costs in Q2 partly offset this effect. Year on year, “Vessel and voyage” costs have decreased by 6% (USD 11 / TEU) due to network optimisation (blank sailings and other structural improvements) and higher share of charter vessels considered as Right of Use (RoU) with a respective impact on depreciation. The increase of 17% (USD 18 / TEU) in depreciation and amortisation resulted essentially from depreciation associated with the recognition of ship retrofittings due to IMO 2020 as well as from a rise in the percentage of ships chartered in on a medium-term basis and the resulting increase in rights of use primarily due to attractive mid- / long-term charter deals encouraged by the PSP programme.

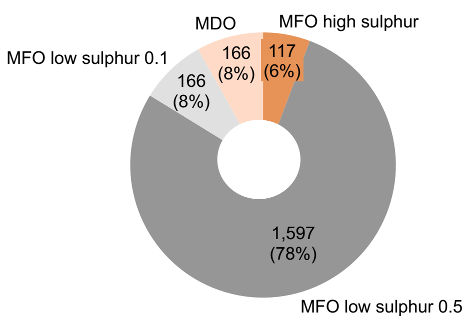
Quarter on quarter, transport expenses per unit (incl. D & A) decreased by 7% or USD 75 / TEU. The decrease was mainly caused by a significant drop in bunker expenses by 49% or USD 105 / TEU in Q2 2020 due to the global decline in the demand for oil and a simultaneous dispute about production volumes among leading oil-producing countries. This effect was partly offset by the increase in other cost positions: “Handling and Haulage” costs increased by 2% (USD 10 / TEU) mainly due to higher transshipment costs as a result of network changes, increased storage costs and overall general tariff increases. Costs for “Equipment and Repositioning” increased significantly in Q2 2020 (14% or USD 14 / TEU) mainly due to higher empty evacuation cost driven by increased empty stocks in several regions as a result of changed commodity flows and COVID-19. An increase of the costs for “Vessel and Voyage” (4% or USD 7 / TEU) was mainly attributable to a reduced vessel utilization in Q2 2020 due to COVID-19.

**Bunker consumption development**

Bunker consumption totalled approximately 2.0 million tonnes in the first 6 months of 2020 and was therefore around 7% lower than in the previous year (H1 2019: approximately 2.2 million tonnes). Due to the new requirement to reduce sulphur emissions from 1 January 2020, the percentage of low-sulphur bunker (MFO low sulphur 0.1% and 0.5%, MDO) increased to 94% (H1 2019: around 15%).

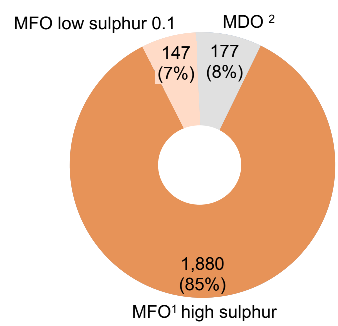
The efficiency of the container ship fleet is also reflected in the bunker consumption data per slot (as measured by the average annual container storage space) of 2.4 tonnes (H1 2019: 2.6 tonnes). In terms of transported TEU, bunker consumption decreased to 0.36 tonnes per TEU compared with the previous year (H1 2019: 0.37 tonnes per TEU).

H1 2020 [k mt]




∑ = 2,046

H1 2019 [k mt]




∑ = 2,204

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

## 4.8. EARNINGS POSITION

In the first 6 months of the financial year 2020, earnings before interest and taxes (EBIT) amounted to USD 563.2 million and thus 28% above earnings in prior year period (USD 439.8 million).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at USD 1,287.2 million in the first 6 months of 2020 (prior year period: USD 1,080.0 million).

### EBIT and EBITDA margin

| million USD | **Q2 2020** | Q1 2020 | Q2 2019 | QoQ change | YoY change | **H1 2020** | H1 2019 | Change |
|---|---|---|---|---|---|---|---|---|
| Revenue | 3,321.2 | 3,684.0 | 3,569.0 | –10% | –7% | 7,005.2 | 7,046.6 | –1% |
| EBIT | 387.1 | 176.1 | 197.1 | 120% | 96% | 563.2 | 439.8 | 28% |
| EBITDA | 770.0 | 517.2 | 524.5 | 49% | 47% | 1,287.2 | 1,080.0 | 19% |
| EBIT margin | 11.7% | 4.8% | 5.5% | 6.9 ppt | 6.1 ppt | 8.0% | 6.2% | 1.8 ppt |
| **EBITDA margin** | **23.2%** | **14.0%** | **14.7%** | **9.1 ppt** | **8.5 ppt** | **18.4%** | **15.3%** | **3.1 ppt** |

**Interest result**

The interest result for the first half of the 2020 financial year was USD –224.7 million (prior year period: USD –254.1 million). The decrease in interest expenses compared with the first half of 2019 was primarily due to the savings in interest expenses for the bond repaid in February and June 2019 in the amount of USD 29.4 million. In addition, the repayment of debt in relation to bank financing and the resulting reduction in interest in the amount of USD 23.1 million helped to improve the interest result. By contrast, the profit or loss effect of the embedded derivative from the early repurchase option of the bond in the amount of USD –16.0 million (prior year period: income of USD 3.0 million), which mainly resulted from the uncertainties on the financial markets due to COVID-19, and the valuation of interest rate swaps in the amount of USD – 10.0 million (prior year period: USD –3.9 million) had a negative impact on the interest result.

Income tax expense increased by USD 7.5 million compared with the previous year to USD 27.0 million. The increase in expenses is primarily due to the devaluation of deferred tax assets on losses carried forward and exchange rate effects.

A Group profit of USD 314.4 million was achieved in the first half of 2020 (prior year period: USD 165.2 million).

## 5. GROUP NET ASSET POSITION

### Group net asset position

| million USD | 30.6.2020 | 31.12.2019 |
|---|---|---|
| **Assets** | | |
| Non-current assets | 15,540.9 | 15,501.0 |
| of which fixed assets | 15,458.5 | 15,393.6 |
| Current assets | 3,610.8 | 2,680.7 |
| of which cash and cash equivalents | 1,691.2 | 574.1 |
| **Total assets** | **19,151.7** | **18,181.7** |
| | | |
| **Equity and liabilities** | | |
| Equity | 7,499.8 | 7,430.3 |
| Borrowed capital | 11,651.9 | 10,751.4 |
| of which non-current liabilities | 6,794.0 | 6,269.4 |
| of which current liabilities | 4,857.9 | 4,482.0 |
| of which financial debt and lease liabilities | 8,058.1 | 7,179.6 |
| of which non-current financial debt and lease liabilities | 6,276.3 | 5,786.6 |
| of which current financial debt and lease liabilities | 1,781.9 | 1,393.0 |
| **Total equity and liabilities** | **19,151.7** | **18,181.7** |

As at 30 June 2020, the Group's balance sheet total was USD 19,151.7 million, which is USD 970.0 million higher than the figure at year-end 2019.

Within non-current assets, the carrying amounts of fixed assets increased by a total of USD 64.9 million to USD 15,458.5 million (31 December 2019: USD 15,393.6 million). The increase essentially resulted from newly received rights of use for lease assets in the amount of USD 563.8 million, in particular extended charter contracts for vessels under the PSP programme, as well as from investments totalling USD 250.3 million relating primarily to containers and ship equipment in connection with IMO 2020. Depreciation and amortisation had an opposite effect, reducing fixed assets by USD 724.0 million. This figure includes an amount of USD 288.4 million for the amortisation of capitalised rights of use relating to lease assets.

Cash and cash equivalents of USD 1,691.2 million increased by USD 1,117.1 million compared to the end of 2019 (USD 574.1 million). In addition to the positive operating cash flow, the main reasons for this were the drawdown of revolving credit lines in the amount of USD 400.0 million and surplus proceeds from sale and leaseback transactions in the amount of USD 326.3 million. The cash and cash equivalents from financing activities were increased as in the framework of the PSP programme.

On the liabilities side, equity (including non-controlling interests) grew by USD 69.5 million to a total of USD 7,499.8 million. This increase was mainly due to the Group profit recognised in retained earnings in the amount of USD 314.4 million. The dividends paid to shareholders from retained earnings in the amount of USD 219.0 million and the change in the reserves from hedging relationships in the amount of USD 20.5 million had the opposite effect. The equity ratio was 39.2% as at 30 June of the current year (31 December 2019: 40.9%).

The Group's borrowed capital has risen by USD 900.5 million to USD 11,651.9 million since the 2019 financial statements were prepared, which was mainly due to an increase in financial debt and lease liabilities of USD 878.5 million to USD 8,058.1 million as at 30 June 2020. Significant reasons for the increase in financial debt were the drawdown of revolving credit lines in the amount of USD 400.0 million and refinancing in connection with sale and leaseback transactions in the amount of USD 655.3 million. In addition, the use of the ABS programme in the amount of USD 160.0 led to an increase. Redemption payments for financial debt totalling USD 596.9 million resulted in a decrease. Additional lease liabilities of USD 505.9 million contrasted with debt repayments of USD 286.8 million.

Taking cash and cash equivalents, financial debt and lease liabilities into account, net debt as at 30 June 2020 was USD 6,366.9 million (31 December 2019: USD 6,605.4 million).

## 6. GROUP FINANCIAL POSITION

### 6.1. DEVELOPMENTS IN CASH AND CASH EQUIVALENTS

**Development of liquidity reserve**

| million USD | Q2 2020 | Q2 2019 | H1 2020 | H1 2019 |
|---|---|---|---|---|
| Cash and cash equivalents beginning of the period | 1,030.1 | 644.3 | 574.1 | 752.4 |
| Unused credit lines beginning of the period | 185.0 | 545.0 | 585.0 | 545.0 |
| **Liquidity reserve beginning of the period** | **1,215.1** | **1,189.3** | **1,159.1** | **1,297.4** |
| EBITDA | 770.0 | 524.4 | 1,287.2 | 1,080.0 |
| Working capital | 146.3 | –112.9 | 57.6 | –39.0 |
| Others | –6.4 | –20.7 | –15.5 | –41.4 |
| **Operating cash flow** | **909.9** | **390.8** | **1,329.3** | **999.6** |
| Investments | –36.1 | –21.8 | –163.9 | –187.2 |
| thereof vessel | –28.4 | –8.4 | –64.9 | –26.7 |
| thereof container | 0.9 | –3.5 | –79.8 | –146.1 |
| thereof other | –8.6 | –9.9 | –19.2 | –14.4 |
| Disinvestments | 10.1 | 10.9 | 20.2 | 22.1 |
| Dividends received | 0.2 | 32.2 | 0.2 | 32.4 |
| Payments made for the issuing of loans | –8.7 | – | –8.7 | – |
| **Investing cash flow** | **–34.5** | **21.3** | **–152.2** | **–132.7** |
| Debt intake | 710.6 | 452.1 | 1,263.0 | 726.3 |
| Debt repayment | –447.3 | –722.4 | –596.9 | –1,258.8 |
| Repayment of lease liabilities | –147.2 | –127.9 | –286.8 | –237.4 |
| Dividends paid | –224.7 | –32.6 | –225.7 | –36.3 |
| Payments made for leasehold improvements | –10.9 | – | –26.6 | – |
| Interest | –89.2 | –117.2 | –179.8 | –245.7 |
| Payments made from hedges for financial debts | –5.6 | –0.3 | –7.2 | –59.5 |
| Change in restricted cash | – | 7.2 | – | 7.4 |
| **Financing cash flow** | **–214.3** | **–541.1** | **–60.0** | **–1,104.0** |
| **Liquidity reserve end of the period** | **1,876.2** | **1,060.4** | **1,876.2** | **1,060.4** |
| Cash and cash equivalents end of the period | 1,691.2 | 515.4 | 1,691.2 | 515.4 |
| Unused credit lines end of the period | 185.0 | 545.0 | 185.0 | 545.0 |

## 6.2. GROUP FINANCIAL POSITION

### Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of USD 1,329.3 million in the first half of the 2020 financial year (prior year period: USD 999.6 million). The increase in the cash flow from operating activities was primarily due to higher earnings in the first half of 2020 and the positive development of working capital compared with the previous year.

### Cash flow from investing activities

In the first half of the 2020 financial year, the cash outflow from investing activities totalled USD 152.2 million (prior year period: USD 132.7 million) and related to payments for investments of USD 163.9 million (prior year period: USD 187.2 million), primarily in containers and ship equipment associated with adherence to the new IMO 2020 regulations. Although the investment amount includes payments for containers acquired in the previous year in the amount of USD 55.8 million, the payments for new containers decreased by USD 66.3 million to USD 79.8 million in the first half of the year. This contrasted with cash inflows of USD 20.2 million (prior year period: USD 22.1 million), which were primarily due to the sale of containers.

### Cash flow from financing activities

Financing activities resulted in a net cash outflow of USD 60.0 million in the current reporting period (prior year period: USD 1,104.0 million). The net cash outflow essentially resulted from the repayment of financial liabilities in the amount of USD 596.9 million (prior year period: USD 1,258.8 million primarily due to the repayment of a bond in the amount of USD 511.3 million and the repayment of the ABS programme in the amount of USD 200.0 million) and from interest payments in the amount of USD 140.7 million (prior year period: USD 205.4 million). There were also interest and redemption payments from lease liabilities as per IFRS 16 in the amount of USD 325.9 million in the first half of the year (prior year period: USD 277.7 million). The payment of a dividend to shareholders for the 2019 financial year led to a cash outflow of USD 219.0 million (prior year period: USD 29.8 million).

The cash outflows contrasted with cash inflows from the financing of ships and containers using sale and leaseback transactions in the amount to USD 665.3 million (prior year period: USD 220.7 million). Further cash inflows were caused by the drawdown of revolving credit lines in the amount of USD 400.0 million (prior year period: USD 158.3 million). The credit lines were drawn down as a precautionary measure in order to minimise the risks from increased financial market volatility due to COVID-19. The borrowed funds were invested with banks with high ratings. Other significant cash inflows resulted from the expansion of the existing ABS programme in the amount of USD 160.0 million (prior year period: USD 247.8 million).

### 6.3. FINANCIAL SOLIDITY

The Group's net debt amounted to USD 6,366.9 million as at 30 June 2020. This was a fall of USD 238.5 million (–3.6%) compared to net debt of USD 6,605.4 million as at 31 December 2019. The improvement in net debt was primarily due to a positive operating cash flow as well as net inflows from several financing activities within the PSP programme. The related drawdown of the revolving credit lines and the refinancing of existing containers and vessels using sale and lease-back transactions only increased gross debt. Net debt remained unaffected. The increase in lease liabilities in the amount of USD 211.0 million had a negative impact on debt.

The equity ratio decreased by 1.7 percentage points, from 40.9% as at 31 December 2019 to 39.2%. The reduction was primarily due to an increase in current financial liabilities from the drawdown of revolving credit lines in the amount of USD 400.0 million, a rise in financial debt in the amount of USD 667.6 million and an increase in lease liabilities in the amount of USD 211.0 million. Equity was up by USD 69.5 million compared with 31 December 2019 and came to USD 7,499.8 million as at 30 June 2020.

#### Financial solidity

| million USD | 30.6.2020 | 31.12.2019 | 30.6.2019 |
|---|---|---|---|
| Financial debt and lease liabilities | 8,058.1 | 7,179.6 | 7,605.0 |
| Cash and cash equivalents | 1,691.2 | 574.1 | 515.4 |
| Restricted Cash | – | – | – |
| **Net debt** | **6,366.9** | **6,605.4** | **7,089.7** |
| Unused credit lines | 185.0 | 585.0 | 545.0 |
| **Liquidity reserve** | **1,876.2** | **1,159.1** | **1,060.4** |
| Equity | 7,499.8 | 7,430.3 | 7,208.3 |
| **Gearing (net debt/equity) (%)** | **84.9** | **88.9** | **98.4** |
| **Net debt to EBITDA** [1] | **2.6x** | **3.0x** | **n/a** |
| **Equity ratio (%)** | **39.2** | **40.9** | **39.4** |

[1] The value as per 30 June 2020 was calculated on an LTM basis. The value as per 30 June 2019 is not available on LTM basis due to the impact of the IFRS 16 implementation on 1 January 2019.

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


1 The financial debt profile shows repayment amounts. Deviation from the total financial debt as shown in the balance sheet as per 30 June 2020 consists of transaction costs and accrued interest
2 ABS programme prolongated until 2022
3 Liabilities from lease and charter contracts consist of USD 59 million liabilities from former finance lease contracts and USD 1,491 million from lease contracts presented as on-balance financial liability due to first-time application of IFRS 16

The total repayment amount of USD 8,079.0 million is categorised 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 282 million), a revolving line collateralised by receivables.

Hapag-Lloyd had one bond outstanding as per 30 June 2020: EUR 450 million 5.125% Senior Notes due July 2024.

## 7. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

On July 1 2020, Hapag-Lloyd placed an order of EUR 75.6 million (USD 84.7 million) for the delivery of 7,425 reefer containers (reefers), thereof 6,425 40-ft. as well as 1,000 x 20-ft. reefers.

On 4 August 2020, two explosions took place in the port of Beirut (Lebanon), which completely destroyed large parts of the port there. According to our information, there were approximately 500 Hapag-Lloyd containers at the nearby terminal at the time of the explosion. Information on inspection and securing is not yet available. Potential losses from damage to containers and cargo and salvage costs are generally covered by insurance. The port cannot be called at the moment. The costs for business losses are not insured.

## 8. OUTLOOK

**General economic outlook and outlook for industry environment**

The general economic and sector-specific conditions which are of importance to container shipping have deteriorated significantly since the beginning of the year. Due to the rapid spread of COVID-19, almost every country in the world has implemented extensive measures to control the pandemic. Restrictions on travel and movement have led to a sharp decline in economic activity, initially in China and subsequently worldwide. At the latest since the start of the second quarter, all of the world's major economies have been subject to severe restrictions on freedom of movement and travel, with direct implications for the international movement of goods. Based on its forecast updated in June, the International Monetary Fund (IMF) predicts as a base scenario that global economic output will fall by around 4.9% in 2020. In January, it had still forecast growth of 3.3%. At the same time, global trade is expected to fall by around 11.9% (January 2020: growth of 2.9%). This would represent an unprecedented decrease in global economic output, the extent of which would be significantly greater than during the 2008/2009 financial and economic crisis. The IMF has also indicated that its forecast is subject to a high degree of uncertainty and is based on the assumption that the economic low point of the crisis was reached in the second quarter.

While industry experts previously expected the global container transport volume to increase in 2020 (Clarksons, December 2019: 3.1%), it is now forecast to decrease substantially as a result of the extreme restrictions on global economic activity and the associated fall in the demand for container transport services. For example, the industry experts at Clarksons (July 2020) expect the global container transport volume to fall by 7.2% in 2020.

Industry experts believe that the lower demand for container transport services is likely to affect the supply side by causing ship orders to be postponed, while scrapping will continue to remain at a low level for the time being. Drewry expects nominal transport capacities to increase by just 0.6 million TEU this year (Drewry, June 2020), having risen by 0.9 million TEU in the previous year. In relation to the total capacity of the global trading fleet, this represents an increase of around 2.6%. At the beginning of the year, Drewry still expected an increase of 0.8 million TEU (approximately 3.7%). In addition, all three alliances, which are responsible for around 80% of the world's container ship transport, have made significant capacity adjustments. These measures, combined with ships spending extended periods in shipyards due to the installation of scrubbers in connection with IMO 2020, will lead to a further reduction in the capacity actually available during the year. This is likely to be reflected in a corresponding reduction in capacity growth.

### Expected business development of Hapag-Lloyd

Taking into account the business development to date and building on the measures of the PSP programme as well as based on the premise of a gradual recovery of the global economy in the second half of the year, the Executive Board has reaffirmed its earnings forecast from the start of the year. This means that Hapag-Lloyd continues to expect EBITDA of EUR 1.7 – 2.2 billion and EBIT of EUR 0.5 – 1.0 billion for the current financial year. This forecast is based on the assumption that transport volume and the average bunker consumption price will be below the prior year level. The average USD / EUR exchange rate is assumed to be at 1.13 for the financial year 2020. Against the background of the still prevailing high risks with regard to the spread of the COVID-19 pandemic and the related economic consequences the forecast is subject to significant uncertainties. In addition to transport volume, the development of freight rates and a potential further increase of bunker prices as a result of the gradual recovery of the world economy should have a decisive influence on the result of Hapag-Lloyd in the second half of the financial year 2020.

In an industry environment dominated by volatile freight rates and stiff competition, business developments at Hapag-Lloyd are subject to far-reaching risks and opportunities that could cause them to differ from the forecast. The general risks are described in detail in the risk and opportunity report in the combined management report of the 2019 annual report (page 100 ff.). Risks and opportunities that may have an impact on the forecast for business development are also described in detail in the risk and opportunity report in the combined management report. Discrepancies and in particular supplementary information relating to the economic consequences of the spread of COVID-19 are presented in the risk and opportunity report of the half-year financial report H1 2020. 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, 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 H1 2020 please find below the respective exchange rates:

- Values for Q1 2019 have been converted at the respective Q1 2019 exchange rates
- Values for Q2 2019 have been calculated by subtracting the Q1 2019 figures from the H1 2019 figures
- Values for H1 2019 have been converted at the respective H1 2019 exchange rates
- Values for Q1 2020 have been converted at the respective Q1 2020 exchange rates
- Values for Q2 2020 have been calculated by subtracting the Q1 2020 figures from the H1 2020 figures
- Values for H1 2020 have been converted at the respective H1 2020 exchange rates

**Exchange rates**

| | Closing Rate | | | Average rate | | |
|---|---|---|---|---|---|---|
| per EUR | **30.6.2020** | 31.3.2020 | 30.6.2019 | **H1 2020** | Q1 2020 | H1 2019 |
| US dollars | 1.1206 | 1.0965 | 1.1383 | 1.1014 | 1.1019 | 1.1296 |

# 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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