Q1 | 2019

Hapag-Lloyd AG

Investor Report

1 January to
31 March 2019

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES

		Q1 2019	Q1 2018	Change
Key operating figures				
Total vessels, of which		235	221	6%
Own vessels [1]		112	112	0%
Chartered vessels		123	109	13%
Aggregate capacity of vessels	TTEU	1,680	1,589	6%
Aggregate container capacity	TTEU	2,542	2,384	7%
Bunker price (MFO, average for the period) [2]	USD/t	409	359	14%
Bunker price (MDO, average for the period) [3]	USD/t	599	553	8%
Bunker price (combined MFO / MDO, average for the period)	USD/t	425	372	14%
Freight rate (average for the period)	USD/TEU	1,079	1,029	5%
Transport volume	TTEU	2,929	2,861	2%
Revenue	million USD	3,478	3,221	8%
Transport expenses	million USD	2,660	2,668	0%
EBITDA	million USD	556	266	109%
EBIT	million USD	243	62	n. m.
Group profit / loss	million USD	109	–42	n. m.
Cash flow from operating activities	million USD	609	312	95%
Investment in property, plant and equipment [4]	million USD	299	47	n. m.
Key return figures				
EBITDA margin (EBITDA / revenue)		16.0%	8.3%	7.7 ppt
EBIT margin (EBIT / revenue)		7.0%	1.9%	5.1 ppt
Key balance sheet figures as at 31 March [5]				
Balance sheet total	million USD	18,438	17,522	5%
Equity	million USD	7,216	7,168	1%
Equity ratio (equity / balance sheet total)		39.1%	40.9%	–1.8 ppt
Borrowed capital	million USD	11,222	10,354	8%
Key financial figures as at 31 March [5]				
Financial debt	million USD	7,804	6,891	13%
Cash and cash equivalents	million USD	644	752	–14%
Net debt (financial debt – cash and cash equivalents) [6]	million USD	7,153	6,131	17%
Gearing (net debt / equity)		99.1%	85.5%	13.6 ppt
Net debt / EBITDA	million USD	1,189	1,297	–8%
Liquidity reserve				
Number of employees as at 31 March				
Employees at sea		2,091	2,059	2%
Employees on land		10,762	10,229	5%
Hapag-Lloyd total		12,853	12,288	5%

In individual cases, rounding differences may occur in the tables and charts of this quarterly financial 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 quarter 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 In Q1 2019, investments in property, plant and equipment include addtions 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 7.2 million as of 31 March 2019, USD 7.4 million as of 31 December 2018

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

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This report was published on 9 May 2019.

1. HIGHLIGHTS

- Transport volumes increases by 2.4% in the first 3 month of the year

- Positive freight rate development: The freight rate of USD 1,079/TEU is 4.9% higher compared to the prior year period (Q1 2018: USD 1,029/TEU)

- A significant increase in the average bunker consumption price [1] of USD 53 to USD 425 per tonne (Q1 2018: USD 372 per tonne) led to an increase in bunker costs of 11.7%

- Transport expenses remained almost unchanged at USD 2,660.2 million (Q1 2018: USD 2,667.7 million). The first-time application of IFRS 16 led to a reduction within the transport expenses while other cost increased, mainly driven by a significantly higher bunker consumption price

- Clearly positive EBITDA of USD 555.6 million in the first 3 months of 2019 (Q1 2018: USD 266.0 million). This includes a positive effect from the first-time application of IFRS 16 in the amount of approximately USD 113 million. EBITDA margin for the first quarter 2019 at 16.0% (Q1 2018: 8.3%)

- Due to the first-time application of IFRS 16, depreciation in the first 3 months of the year increased by 53.6% to USD 312.9 million (Q1 2018: USD 203.7 million)

- At USD 242.7 million (including approximately USD 5 million positive IFRS 16 effect), the operating result (EBIT) also significantly increased compared to the prior year period (Q1 2018: USD 62.3 million)

- Group profit of 109.3 million (including an IFRS 16 effect of approximately USD –13 million) clearly positive and substantially above previous year's level (Q1 2018: USD –42.2 million)

- Strong operating cash flow of USD 608.8 million (Q1 2018: USD 312.0 million), positively impacted by the first-time application of IFRS 16 in the amount of approximately USD 119 million

- Liquidity reserve of USD 1,189.3 million as at 31 March 2019

- Increase in balance sheet total of USD 916.5 million compared with the level at 31 December 2018 mainly driven by the first-time application of IFRS 16 leads to a slight decrease of equity ratio to 39.1% (31 December 2018: 40.9%)

[1] Weighted average MFO and MDO

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

The experts at the International Monetary Fund (IMF) anticipate global economic growth of 3.3% and 3.6% in 2019 and 2020 respectively (IMF, World Economic Outlook, April 2019). This means that the IMF has slightly lowered its growth prediction for 2019 by 0.2 percentage points compared to its forecast published in January 2019 while keeping its growth prediction unchanged for 2020. The current forecast assumes that global growth will weaken in the first half of 2019 before gradually stabilising. The expected recovery in the second half of 2019 is based on the assumption of continuing political momentum in China, the recent improvement in sentiment on global financial markets, the decrease in some temporary growth weakness in the euro area and a gradual stabilisation of conditions in troubled emerging markets, including Argentina and Turkey.

Based on its current forecast, the IMF predicts that the volume of global trade, which is key to the demand for container shipping services, will grow by 3.4% in 2019 compared with the previous year. The institute has therefore cut its forecast from January 2019 substantially by 0.6 percentage points. Growth of 3.9% is expected in 2020 (January forecast: 4.0%).

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

in %	2016	2017	2018	**2019e**	2020e	2021e	2022e
Global economic growth	3.4	3.8	3.6	3.3	3.6	3.6	3.6
World trading volume (goods and services)	2.2	5.4	3.8	3.4	3.9	3.9	3.9

Source: IMF, April 2019

Based on current forecasts, the global cargo volume could rise to approximately 153 million TEU in 2019 (IHS Global Insight, January 2019). IHS Global Insight expects the global container shipping volume to increase by 4.7% in 2019, once again outpacing the forecast rate of growth for global trade. For the period 2020 to 2024, IHS Global Insight is currently predicting annual growth of between 4.7% and 4.9% in the global container shipping volume. As a result, container shipping will continue to be a growth industry.

According to IHS Global Insight, the anticipated growth will be spread relatively evenly across the individual trades. The strongest growth is currently expected in the Middle East and the Indian subcontinent trade.

Development of global container transport volume

	2016	2017	2018	2019e	2020e	2021e	2022e
million TEU	133	141	146	153	161	168	176
Growth rate in %	3.1	5.6	4.0	4.7	4.9	4.8	4.7

Source: IHS Global Insight, January 2019

At the beginning of 2019, the aggregate capacity of the global container ship fleet was approximately 22 million TEU (Drewry Container Forecaster Q1 2019, April 2019). Based on the container ships on order and planned deliveries, the globally available transport capacity should see increases of around 0.7 million TEU in 2019 and around 0.8 million TEU in 2020 (Drewry Container Forecaster Q1 2019, April 2019). This includes the expected delays of deliveries in the current financial year and the expected scrapping.

During the first 3 months of 2019 a total of 32 vessels with a capacity of 254 TTEU were delivered (Q1 2018: 48 vessels with a capacity of 375 TTEU, MDS Transmodal, April 2019).

The tonnage of the commissioned container ships of approximately 2.5 million TEU (MDS Transmodal, April 2019) is equivalent to around 11% of the present global container fleet's capacity (approximately 22 million TEU). 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%).

Global capacity development

in %	2016	2017	2018	2019e	2020e	2021e	2022e
Scheduled capacity growth	6.7	7.7	7.0	5.1	6.0	5.7	5.2
Capacity measures							
Delayed deliveries	2.1	1.9	0.9	0.5	0.6	0.6	0.3
Scrappings	3.3	2.0	0.5	1.4	1.8	1.9	2.0
Misc. (reclassifications, conversions etc)	0.0	0.0	–0.1	0.0	0.0	0.0	0.0
Net capacity growth	1.2	3.8	5.7	3.2	3.6	3.3	3.0

Source: Drewry Container Forecaster Q1 2019

In the period from January to March 2019, orders were placed for the construction of 46 container ships with a transport capacity totalling approximately 0.2 million TEU (FY 2018: capacity of approximately 1.3 million TEU (Clarksons Research, April 2019)) and 32 vessels with a transport capacity of approximately 0.3 million TEU have been delivered (MDS Transmodal, April 2019).

More detailed information on the sector-specific conditions is available in the audited Annual Financial Report 2018 of Hapag-Lloyd AG and in the latest Investor Presentation on the Hapag-Lloyd company website.

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

Structure of Hapag-Lloyd's vessel and container fleet

	31.3.2019	31.12.2018	31.3.2018
Number of vessels	**235**	**227**	**221**
Aggregate capacity of vessels (TTEU)	**1,680**	**1,643**	**1,589**
thereof			
Number of own vessels [1]	112	112	112
Aggregate capacity of own vessels [1] (TTEU)	1,050	1,050	1,048
Number of chartered vessels	123	115	109
Aggregate capacity of chartered vessels (TTEU)	630	593	542
Aggregate container capacity (TTEU)	**2,542**	**2,559**	**2,384**
Number of services	**121**	**119**	**124**

[1] Including 17 lease agreements with purchase option/obligation at maturity. Previous year's figures have been adjusted accordingly.

As at 31 March 2019, Hapag-Lloyd's fleet comprised a total of 235 container ships (31 December 2018: 227 vessels). 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 vessels 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 March 2019 was 1,679,966 TEU, which was a slight increase compared to 31 December 2018 (1,643,371 TEU). The share of vessels owned outright by Hapag-Lloyd was approximately 63% as at 31 March 2019 based on TEU capacity (31 December 2018: approximately 64%).

As at 31 March 2019, the average age of Hapag-Lloyd's total fleet (capacity-weighted) was 8.2 years. The average ship size within the Hapag-Lloyd Group fleet is 7,149 TEU, which is approximately 19% above the comparable average figure for the 10 largest container liner shipping companies (31 March 2019: 5,995 TEU) and around 70% above the average ship size in the global fleet (31 March 2019: 4,203 TEU).

As at 31 March 2019, Hapag-Lloyd owned or rented 1,545,740 containers (31 December 2018: 1,554,423) with a capacity of 2,542,226 TEU for shipping cargo (31 December 2018: 2,559,316 TEU). The capacity-weighted share of containers owned by the Group was around 53% as at 31 March 2019 (31 December 2018: 52%).

Hapag-Lloyd's service network comprised 121 services as at 31 March 2019 (31 December 2018: 119 services).

4. HAPAG-LLOYD: GROUP EARNINGS POSITION

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 quarter of 2018 refer to the regulations for leases pursuant to IAS 17.

To increase transparency and standardise the externally communicated structure of the income statement in line with the management perspective, Hapag-Lloyd changed the presentation of the consolidated income statement since 1 January 2019. As a result, the previous period’s values have been adjusted in line with the new presentation. The change in presentation has led to modifications within the income statement compared to the values reported in the quarterly financial report as at 31 March 2018.

4.1 CONSOLIDATED INCOME STATEMENT

Hapag-Lloyd’s performance in the first 3 months of the 2019 financial year was once again dominated by the challenges in the container shipping industry.

Against the backdrop of unwavering intense competition, developments in the first quarter were slightly above expectations. Compared to the first quarter of 2018, the development of the average freight rate and the increase in the transport volume had a positive effect on the earnings position. By contrast, increased bunker costs had a negative impact on quarterly earnings in 2019. Hapag-Lloyd generated an operating result before interest and taxes (EBIT) of USD 242.7 million in the first quarter of 2019 (prior year period: USD 62.3 million) and a profit after taxes of USD 109.3 million (prior year period: USD –42.2 million).

As a result of the change in presentation of the consolidated income statement, EBIT for the first quarter of 2018 fell by USD 3.8 million, from USD 66.1 million to USD 62.3 million. This is due to the recognition of valuation effects from currency fluctuations in financial liabilities and corresponding hedging instruments in the newly introduced item “Other financial items”, which were reported within other operating income and other operating expenses in the prior reporting period.

Consolidated income statement[1]

million USD	Q1 2019	Q1 2018	YoY change
Revenue	3,477.6	3,220.6	8%
Transport expenses	–2,660.2	–2,667.7	0%
Personnel expenses	–189.3	–195.8	–3%
Depreciation, amortisation and impairment	–312.9	–203.7	54%
Other operating result	–82.4	–101.0	–18%
Operating result	**232.8**	**52.4**	**n.m.**
Share of profit of equity-accounted investees	9.7	9.9	–2%
Result from investments	0.2	0.0	n.m.
Earnings before interest and tax (EBIT)	**242.7**	**62.3**	**n.m.**
Interest result	–120.6	–101.2	19%
Income taxes	–13.0	–7.0	86%
Other financial items	0.2	3.8	–95%
Group profit/loss	**109.3**	**–42.2**	**n.m.**

[1] As a result of the change in presentation of the consolidated income statement, the previous year’s values have been adjusted.

4.2 FREIGHT RATE PER TRADE

The average freight rate in the first quarter of 2019 was USD 1,079/TEU, which was USD 50/TEU up on the prior year period (USD 1,029/TEU). Despite the ongoing difficult market environment, the slight improvement in freight rates in the second half of 2018 continued in the first quarter of 2019.

Freight rate increases, particularly on the Atlantic, Transpacific, Far East and Latin America trades, had a positive effect on the average freight rate in the reporting period and therefore on earnings. However, the freight rate decrease on the Middle East trade had the opposite effect.

Freight rate per trade [1]

USD/TEU	Q1 2019	Q1 2018	YoY change
Atlantic	1,351	1,293	4%
Transpacific	1,338	1,250	7%
Far East	930	897	4%
Middle East	757	787	–4%
Intra-Asia	528	522	1%
Latin America	1,181	1,130	5%
EMAO (Europe, Mediterranean, Africa, Oceania)	1,099	1,041	6%
Total	**1,079**	**1,029**	**5%**

[1] Due to an organisational change, the transport volumes to/from Djibouti, Sudan and Eritrea have been assigned to the EMAO trade since 1 January 2019. The previous year's values have been adjusted accordingly.

4.3 TRANSPORT VOLUME PER TRADE

With its balanced positioning on the relevant trades, Hapag-Lloyd was able to increase its transport volume by 68 TTEU to 2,929 TTEU (prior year period: 2,861 TTEU), representing a rise of 2.4% in the first 3 months of 2019 compared to the first quarter of 2018.

Transport volume increases, particularly on the Atlantic, Far East, Latin America and EMAO trades, had a positive impact on the transport volume in the reporting period. However, transport volume decreases, particularly on the Middle East and Intra-Asia trades, had a negative effect on the transport volume.

Transport volume per trade [1]

TTEU	Q1 2019	Q1 2018	YoY change
Atlantic	470	439	7%
Transpacific	450	455	–1%
Far East	556	519	7%
Middle East	351	362	–3%
Intra-Asia	221	254	–13%
Latin America	677	663	2%
EMAO (Europe, Mediterranean, Africa, Oceania)	204	169	21%
Total	**2,929**	**2,861**	**2%**

[1] Due to an organisational change, the transport volumes to/from Djibouti, Sudan and Eritrea have been assigned to the EMAO trade since 1 January 2019. The previous year's values have been adjusted accordingly.

4.4 REVENUE PER TRADE

The Hapag-Lloyd Group's revenue rose by USD 257.0 million to USD 3,477.6 million in the first quarter of 2019 (prior year period: USD 3,220.6 million), representing an increase of 8.0%. The main reasons for this were the increased transport volumes and average freight rates.

The USD 42 million increase in revenues not assigned to trades was mainly due to higher revenues from the rent of container slots (slot charter).

Revenue per trade [1, 2]

million USD	Q1 2019	Q1 2018	YoY change
Atlantic	635	567	12%
Transpacific	602	569	6%
Far East	517	466	11%
Middle East	265	285	–7%
Intra-Asia	116	133	–12%
Latin America	799	749	7%
EMAO (Europe, Mediterranean, Africa, Oceania)	225	176	28%
Revenue not assigned to trades	318	276	15%
Total	**3,478**	**3,221**	**8%**

[1] Due to an organisational change, the transport volumes to / from Djibouti, Sudan and Eritrea have been assigned to the EMAO trade since 1 January 2019. The previous year's values have been adjusted accordingly.

[2] As a result of the change in presentation of the consolidated income statement, revenue for Q1 2018 increased by USD 3.4 million, from USD 3,217.2 million to USD 3,220.6 million.

4.5 OPERATING EXPENSES

Transport expenses decreased marginally by USD 7.5 million in the first 3 months of the 2019 financial year to USD 2,660.2 million (prior year period: USD 2,667.7 million) despite increasing transport volume and higher bunker prices. The decrease was due to first time application of IFRS 16 described in more detail below.

The increase in bunker expenses of USD 53.0 million (+13.4%) to USD 448.0 million primarily results from the significantly higher bunker price in the current reporting period. In the first 3 months of the 2019 financial year, the average bunker consumption price for Hapag-Lloyd was USD 425 per tonne, up USD 53 per tonne (14.2%) on the figure of USD 372 per tonne for the prior year period.

The first-time application of IFRS 16 "Leases" had a positive effect on the development of transport expenses in the first quarter of 2019. As a result of the application of the standard, expenses for leases which were previously classified as operating leases (essentially medium and long-term chartering for vessels and container rental) are no longer recognised within position transport expenses but rather as amortisation on right of use of leased assets in fixed assets and interest expenses for lease liabilities. As a result, the transport expenses recognised in the first quarter of 2019 decreased compared to first quarter of 2018 by the amount of the lease expenses previously reported under IAS 17. This was compensated by an increase in charter expenses due to more charter capacity and higher charter prices as well as higher port and canal costs in the first quarter of 2019 compared to the prior year period.

Personnel expenses decreased slightly by USD 6.5 million (–3.3%) to USD 189.3 million in the first 3 months of 2019 (prior year period: USD 195.8 million).

Depreciation and amortisation came to USD 312.9 million in the first 3 months of the 2019 financial year (prior year period: USD 203.7 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 vessels, containers, buildings) led to additional amortisation of USD 108.4 million (prior year period: USD 0.0 million).

The other operating result of USD –82.4 million contained the other operating expenses and income including mainly IT expenses, consultancy fees and administration expense (prior year period: USD –101.0 million).

OPEX – operating expenses

million USD	Q1 2019	Q1 2018	YoY change
Transport expenses	**2,660**	**2,668**	**0%**
thereof			
Bunker	448	401	11.7%
Handling and haulage	1,354	1,366	–1%
Equipment and repositioning	323	358	–10%
Vessel and voyage (excluding bunker)	560	551	2%
Pending transport expenses	–25	–8	n. m.
Personnel expenses	189	196	–4%
Depreciation, amortisation and impairments	313	204	53%
Other operating result	–82	–101	–19%
Total operating expenses	**3,244**	**3,168**	**2%**

The interest result for the first 3 months of the 2019 financial year was USD –120.6 million (prior year period: USD –101.2 million). The increase in interest expenses compared to Q1 2018 was primarily due to the first-time application of IFRS 16. Here, the inclusion of interest expenses for the new lease liabilities which must now be included in accordance with IFRS 16 resulted in expenses of USD 17.8 million in Q1 2019 (prior year period: USD 0.0 million). As a result of the partial repayment of the bond, repayment costs of USD 6.5 million were also recognised in expenses.

The generally higher interest level also had a negative effect on interest expenses. By contrast, the valuation of the embedded derivatives of the bonds resulted in income of USD 9.8 million (prior year period: expenses of USD –2.3 million), which had a positive impact on the interest result.

4.6 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 their former 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.

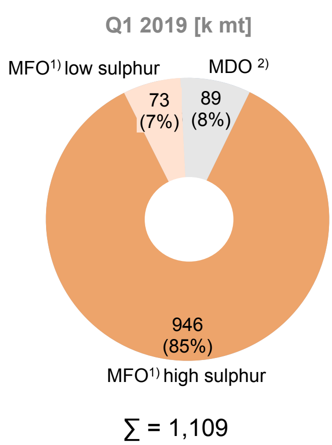
Unit costs

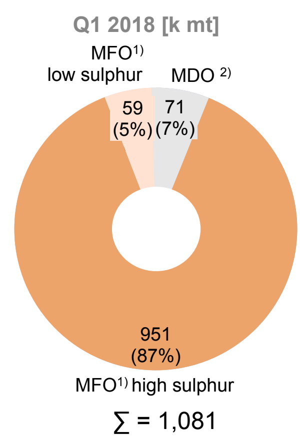
USD / TEU	Q1 2019	Q1 2018	YoY change
Transport expenses	**908**	**932**	**–3%**
thereof			
Bunker	153	140	9%
Handling and haulage	462	478	–3%
Equipment and repositioning	110	125	–12%
Vessel and voyage (excl. bunker)	191	192	–1%
Pending transport expenses	–9	–3	n. m.
Depreciation, amortisation and impairment (D&A)	**107**	**71**	**51%**
Transport expenses incl. D&A	**1,015**	**1,003**	**1%**

Transport costs per unit (incl. D&A) have almost been stable and only increased slightly by 1% (USD 12 / TEU) in the first quarter of 2019 compared to the prior year period. This increase was mainly driven by higher “Bunker” costs (increase of 9% or USD 13 / TEU as compared to the prior year period). Costs for “Handling and haulage” decreased by 3% (USD –15 / TEU) as less profitable inland business was actively reduced resulting from the inland project of Strategy 2023. Costs for “Equipment and repositioning” decreased substantially by 12% (USD –15 / TEU) due to the application of IFRS 16. Nevertheless, the corresponding increase in depreciation for rented container (USD 17 / TEU) offset this decrease entirely. Including an IFRS 16 related increase of USD 17 / TEU for depreciation of vessel, “Vessel and voyage” cost increased by USD 16 / TEU. This was mainly driven by a capacity expansion and an increase in charter prices compared to the prior year period. Nevertheless, the increase was almost entirely offset by higher slotcharter revenues of USD 13 / TEU as excess capacity have been sold to a large extend to third parties (see also explanation in section 4.4).

Bunker consumption development

Bunker consumption totalled approximately 1.1 million tonnes in the first 3 months of 2019 and was therefore on a par with the previous year (previous year: approximately 1.1 million tonnes). Around 15% (Q1 2018: approximately 12%) of this comprised bunker with a low proportion of sulphur (MFO low sulphur [0.1%], 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 2.7 tonnes (previous year: 2.8 tonnes). In terms of transported TEU, bunker consumption of 0.38 tonnes per TEU was the same as in the previous year (Q1 2018: 0.38 tonnes per TEU).





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

4.7 EARNINGS POSITION

In the reporting period earnings before interest and taxes (EBIT) amounted to USD 242.7 million (including a positive effect from the first-time application of IFRS 16 in the amount of approximately USD 5 million). They were therefore well above the corresponding figure in the prior year period (USD 62.3 million).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at USD 555.6 million in the first 3 months of the 2019 financial year (prior year period: EUR 266.0 million). This includes a positive effect from the first-time application of IFRS 16 in the amount of approximately USD 113 million.

EBIT and EBITDA margin[1]

million USD	Q1 2019	Q1 2018	YoY change
Revenue	3,477.6	3,220.6	8%
EBIT	242.7	62.3	290%
EBITDA	555.6	266.0	109%
EBIT margin	7.0%	1.9%	5.1 ppt
EBITDA margin	16.0%	8.3%	7.7 ppt

[1] As a result of the change in presentation of the consolidated income statement, the previous year's values have been adjusted.

5. GROUP NET ASSET POSITION

Group net asset position

million USD	31.3.2019	31.12.2018
Assets		
Non-current assets	15,672.6	14,709.1
of which fixed assets	15,609.7	14,645.7
Current assets	2,765.6	2,812.6
of which cash and cash equivalents	644.3	752.4
Total assets	**18,438.2**	**17,521.7**
Equity and liabilities		
Equity	7,215.9	7,167.5
Borrowed capital	11,222.3	10,354.2
of which non-current liabilities	6,892.9	6,487.4
of which current liabilities	4,329.3	3,866.8
of which financial debt	7,804.4	6,891.1
thereof		
Non-current financial debt	6,476.5	6,070.8
Current financial debt	1,327.9	820.3
Total equity and liabilites	**18,438.2**	**17,521.7**

As at 31 March 2019, the Group's balance sheet total was USD 18,438.2 million, which is USD 916.5 million higher than the figure at year-end 2018. The main reason for the increase in the balance sheet total is the first-time application of IFRS 16 from 1 January 2019.

Within non-current assets, the carrying amounts of fixed assets increased by a total of USD 964.0 million to USD 15,609.7 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 in the amount of USD 982.7 million as at 1 January 2019 (31 December 2018: USD 0.0 million). The increase also resulted from recognition of the right of use of leased assets for lease contracts closed within the first quarter 2019 of USD 235.5 million as well as further investments totalling USD 65.1 million related primarily to containers and ship equipment.

Depreciation and amortisation of USD 312.9 million in Q1 2019 had an opposite effect, including an amount of USD 108.4 million for additional amortisations of the rights of use according to the newly implemented standard IFRS 16.

Cash and cash equivalents of USD 644.3 million decreased by USD 108.1 million compared to the end of 2018.

On the liabilities side, equity (including non-controlling interests) grew by USD 48.4 million to a total of USD 7,215.9 million. This increase is mainly driven by the Group profit of USD 109.3 million. Unrealised losses from foreign currency translation recognised in other comprehensive income in the amount of USD 7.7 million as well as the measurement of pension provisions through other comprehensive income in the amount of USD –27.3 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 opposing effect. The equity ratio was 39.1% as at 31 March of the current year (31 December 2018: 40.9%).

The Group's borrowed capital has risen by USD 868.1 million to USD 11,222.3 million since the 2018 financial statements were prepared, which was mainly due to an increase in financial debt by USD 913.3 million to USD 7,804.4 million. The main reason for the increase in financial debt 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. Cash inflows for new financings and recognition of financial debts for new lease obligations of USD 509.7 million caused borrowed capital to increase. Debt repayments totalling USD 645.9 million including an early redemption of a bond in the amount of USD 192.3 million reduced financial debt.

For further information on significant changes to specific balance sheet items and on the extent of the investment obligations, please refer to the Notes of the audited Quarterly Financial Report Q1 2019 on the Hapag-Lloyd company website.

6. GROUP FINANCIAL POSITION

6.1 DEVELOPMENTS IN CASH AND CASH EQUIVALENT

Development of liquidity reserve

million USD	Q1 2019	Q1 2018
Cash and cash equivalents beginning of the period	752.4	725.2
Unused credit lines beginning of the period	545.0	545.0
Liquidity reserve beginning of the period	**1,297.4**	**1,270.2**
EBITDA	555.6	266.0
Working capital	73.9	59.7
Others	–20.7	–13.7
Operating cash flow	**608.8**	**312.0**
Investments	–165.4	–96.4
thereof vessel	–18.3	–31.5
thereof container	–142.6	–60.4
thereof other	–4.5	–4.5
Cash received from acquisitions	0.0	0.0
Disinvestments	11.2	23.8
Dividends received	0.2	0.3
Investing cash flow	**–154.0**	**–72.3**
Capital increase	0.0	0.0
Payments for capital increase	0.0	–2.4
Payments made from changes in ownership interests	0.0	0.0
Debt intake	274.2	189.0
Debt repayment	–645.9	–350.3
Dividends paid	–3.7	–10.3
Interest	–128.5	–101.7
Payments made for / received from hedges for financial debts	–59.2	47.4
Change in restricted cash	0.2	–0.1
Financing cash flow	**–562.9**	**–228.4**
Changes due to exchange rate fluctuations	0.0	0.0
Liquidity reserve end of the period	**1,189.3**	**1,231.5**
Cash and cash equivalents end of the period	644.3	736.5
Unused credit lines end of the period	545.0	495.0

Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of USD 608.8 million in the first 3 months of the 2019 financial year (prior year period: USD 312.0 million). The increase in cash flow from operating activities was positively affected by the application of IFRS 16 in Q1 2019 in the amount of approximately USD 119 million as redemption payments and interests of the lease payments are 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 first quarter 2019 the cash outflow from investing activities totalled USD 154.0 million (prior year period: USD 72.3 million) and related to payments for investments of USD 165.4 million (prior year period: USD 96.4 million), primarily in containers and ship equipment. These included payments in the amounts of USD 106.9 million for containers acquired in the prior year. This contrasted with cash inflows of USD 11.2 million, which were primarily due to the sale of containers in the first quarter of 2019.

Cash flow from financing activities

Overall, there was a cash outflow from financing activities in the current reporting period in the amount of USD 562.9 million (prior year period: USD 228.4 million) which mainly comprised interest and redemption payments of USD 774.4 million (prior year period: USD 452.0 million).

Interest and redemption payments in the first quarter 2019 include the partial repayment of the ABS programme in the amount of USD 200.0 million and for the first time repayments for lease liabilities in accordance with IFRS 16 in the amount of USD 100.8 million. Hapag-Lloyd prepaid a bond before due date in the amount of USD 192.3 million in the first quarter 2019.

The cash outflows are contrasted by cash inflows totalling USD 274.4 million (prior year period: USD 189.0 million), which mainly arose from the financing of containers using Japanese Operating Leases (JOLs) in the amount of USD 128,4 million, the increase in the ABS programme in the amount of USD 100.0 million and the cash inflow from an unsecured term loan in the amount of USD 45.3 million. There were also cash outflows from the realisation of derivative financial instruments used to hedge financial debt in the amount of USD 59.3 million

6.2 FINANCIAL POSITION

The Group's net debt amounted to USD 7,152.9 million as at 31 March 2019. This was a rise of USD 1,021.6 million compared to net debt of USD 6,131.3 million as at 31 December 2018.

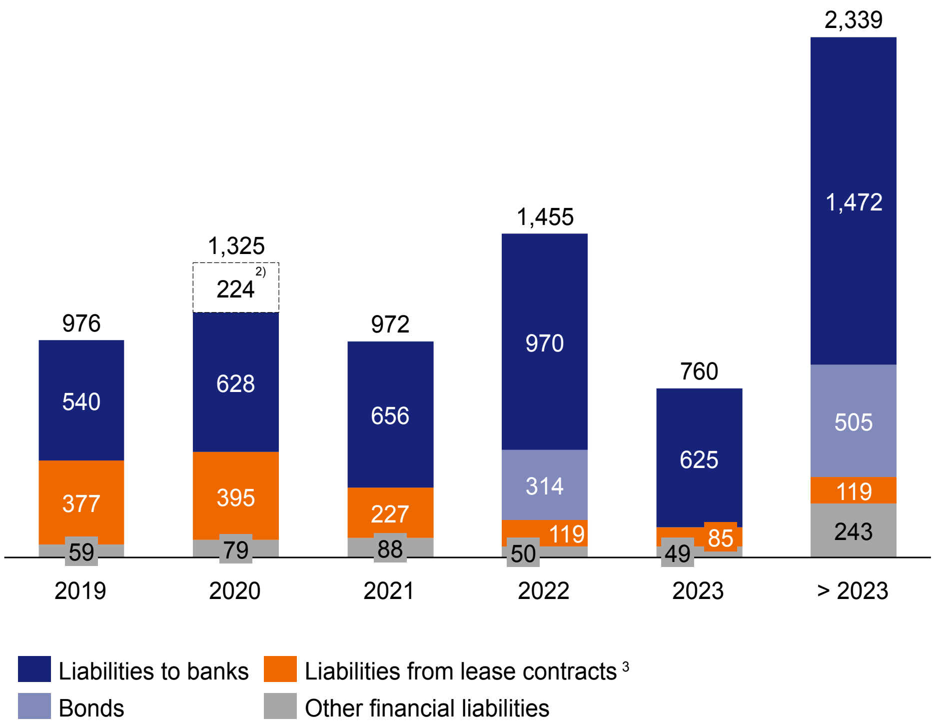
The increase was essentially due to the application of the reporting standard IFRS 16 from 1 January 2019. The recognition of the lease liability associated with the recognition of the rights of use relating to leases (primarily for medium and long-term chartering and containers) led to an increase of USD 1,085.1 million in financial debt as at 1 January 2019. By contrast, redemption of existing short and long-term financial debt especially the early repayment of a bond in the amount of USD 192.3 million had an offsetting effect.

The equity ratio decreased by 1.8 percentage points, from 40.9% as at 31 December 2018 to 39.1% which was mainly due to the first time adoption of IFRS 16 and the corresponding increase in financial debt. Gearing – the ratio of net debt to balance sheet equity – increased from 85.5% to 99.1% as a result.

Financial solidity

million USD	31.3.2019	31.12.2018
Financial debt	7,804.4	6,891.1
Cash and cash equivalents	644.3	752.4
Restricted cash	7.2	7.4
Net debt	**7,152.9**	**6,131.3**
Unused credit lines	545.0	545.0
Liquidity reserve	**1,189.3**	**1,297.4**
Equity	7,215.9	7,167.5
Gearing (net debt / equity)	**99.1%**	**85.5%**
Equity ratio	**39.1%**	**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 March 2019 consists of transaction costs and accrued interest

[2] ABS program prolongated until 2020

[3] Liabilities from lease contracts consist of USD 104 million liabilities from former finance lease contracts and USD 1,219 million from charter contracts presented as on-balance financial liability due to first-time application of IFRS 16

The total repayment amount of USD 7,827 million is categorized between (1) liabilities to banks, (2) bonds, (3) liabilities from lease contracts and (4) other financial liabilities.

Liabilities to banks comprise loans to finance the existing fleet of vessels and containers. Furthermore, liabilities to banks include the ABS programme (USD 224 million), a revolving line collateralized by receivables.

Hapag-Lloyd had two bonds outstanding as per 31 March 2019: EUR 280 million 6.75% Senior Notes due February 2022 and EUR 450 million 5.125% Senior Notes due July 2024.

7. EVENTS AFTER THE BALANCE SHEET DATE

As of 25 April 2019, a so-called Japanese Operating Leases transaction was carried out for one vessel. The economic substance of the transaction is a credit financing secured by a ship-mortgage and assignments of rights. The refinancing volume associated with this transaction totalled USD 95.8 million. The loan liability of USD 64.0 million previously associated with the ship has been repaid in full.

8. OUTLOOK

The general economic and sector-specific conditions which are of importance to container shipping are presented and analysed in the 2018 Annual Report (Economic report). A summary of the most important external factors is given below.

In its latest economic outlook (April 2019), the International Monetary Fund (IMF) expects global economic growth to reach 3.3% in the current year. As such, expected economic growth is down by 0.2 percentage points on the previous forecast (January 2019). The current forecast means that the global economy is expected to grow at a slightly slower rate in 2019 than in the previous year (+3.6%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 3.4% in 2019 (2018: +3.8%). The institute has therefore cut its forecast from January 2019 substantially by 0.6 percentage points. The growth in global trade is therefore expected to increase in line with the global economy in 2019. IHS Global Insight (January 2019) is forecasting that the global container shipping volume will increase by 4.7% to approximately 153 million TEU in 2019 (2018: 4.0%). As such, the expected rise in worldwide transport volumes in container shipping for 2019 would be in line with the rate of growth for global trade.

Following a rise in transport capacities (following scrapping and delays in deliveries) of approximately 1.2 million TEU to 22.0 million TEU in 2018, Drewry forecasts a nominal increase in transport capacities of up to approximately 0.7 million TEU for the current year. In relation to the total capacity of the global trading fleet, this represents an increase of around 3.2%. At the beginning of the year, Drewry expected an increase of approximately 0.5 Mio. TEU. Although the rise is expected to be lower than in the previous year (5.8%), the delivery of large vessels for use on the Far East trade could also make it difficult to increase freight rates on this trade in 2019.

Hapag-Lloyd is anticipating a rise in the transport volume in 2019 as part of the general growth of the market. Based on this assumption, and combined with a smaller increase in the global transport capacity than in the previous year, Hapag-Lloyd's average freight rate in 2019 is likely to increase slightly compared with the previous year. Based on the development of the average bunker consumption price in the first quarter of 2019 and the current expectations for its development in the further course of the year, Hapag-Lloyd now expects the average bunker consumption price in 2019 to be slightly higher than in 2018 (previously: moderately higher average bunker consumption price).

Provided that Hapag-Lloyd achieves the expected freight rate, the anticipated improvement in revenue quality combined with the cost savings as part of Strategy 2023, and the expected growth in volumes, it is forecasting EBITDA of EUR 1.6 – 2.0 billion and EBIT of EUR 0.5 – 0.9 billion in 2019. This includes a currently anticipated earnings effect from the first-time application of IFRS 16 on EBITDA in the amount of EUR 370 – 470 million and on EBIT in the amount of EUR 10 – 50 million. The expected effects of the first-time application of IFRS 16 on the balance sheet as well as the income statement are described in detail in the condensed Notes of the audited Quarterly Financial Report Q1 2019 which can be found on the Hapag-Lloyd company website. Not accounted for here are impairments on goodwill, other intangible assets and property, plant and equipment, which, although not expected at present, cannot be ruled out given current geopolitical developments and other factors. The earnings forecast is based on the assumption of unchanged exchange rates.

Key benchmark figures for the 2019 outlook

Global economic growth (IMF)	3.3%
Increase in global trade (IMF)	3.4%
Increase in global container transport volume (IHS)	4.7%
Transport volume, Hapag-Lloyd	Slightly increasing
Average bunker consumption price, Hapag-Lloyd	Slightly increasing
Average freight rate, Hapag-Lloyd	Slightly increasing
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	EUR 1.6 – 2.0 billion
Earnings before interest and taxes (EBIT)	EUR 0.5 – 0.9 billion

The forecast increase in the global container transport volume refers to data from the industry service IHS Global Insight from January 2019. Updated data have not yet been published. The benchmark figures for the 2019 outlook, which relate to transport volume, the average freight rate and the key performance indicators of EBITDA and EBIT, therefore remain unchanged on the forecast published in the 2018 annual report. The expectation for the development of average bunker consumption prices has been slightly adjusted as described above.

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.

Business developments at Hapag-Lloyd are subject to far-reaching risks in an industry environment dominated by volatile freight rates and stiff competition. The general risks are described in detail in the risk report in the Group management report of the 2018 Annual Report (page 100 ff.). Risks that may have an impact on the forecast for business development are also described in detail in the risk report. Significant risks for the Group's revenue and earnings development include in particular a slowdown in global economic and trade volume growth, a significant and lasting rise in bunker prices extending beyond the average bunker consumption price level in 2018, a sharp and persistent increase in the euro against the US dollar and a lasting reduction in the aver-age freight rate. Additional risks could result from the consolidation of the industry and changes in the composition of global alliances.

The occurrence of one or more of these risks could have a substantial negative impact on the industry and, by extension, on the business development of Hapag-Lloyd in the remaining months of 2019, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

IMPORTANT NOTICE

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

As such, the net asset, financial and earnings position figures for the Full Year 2018 can only be compared with those of previous year's period to a limited extent.

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 Q1 2019, please note that all values have calculated at the respective exchange rates for the period as indicated below.

Exchange rates

	Closing rate			Average rate		
per EUR	**31.3.2019**	31.12.2018	31.3.2018	**Q1 2019**	FY 2018	Q1 2018
US dollars	1.1231	1.1451	1.2323	1.1354	1.1815	1.2295

DISCLAIMER

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

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

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

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

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

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

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

FINANCIAL CALENDAR 2019

12 JUNE 2019
Annual General Meeting 2019

7 AUGUST 2019
Publication of half-year financial report H1 2019

14 NOVEMBER 2019
Publication of quarterly financial report 9M 2019

IMPRINT

Hapag-Lloyd AG
Ballindamm 25
20095 Hamburg
Germany

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

Layout
Silvester Group

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