H1 2020

Hapag-Lloyd AG

Half-year financial report

1 January to
30 June 2020

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES HALF-YEAR FINANCIAL REPORT H1 2020

		1.4.– 30.6. 2020	1.4.– 30.6. 2019	1.1.– 30.6. 2020	1.1.– 30.6. 2019	Change absolute
Key operating figures [1]						
Total vessels		239	237	239	237	2
Aggregate capacity of vessels	TTEU	1,736	1,707	1,736	1,707	29
Aggregate container capacity	TTEU	2,621	2,580	2,621	2,580	40
Freight rate (average for the period)	USD/TEU	1,114	1,063	1,104	1,071	33
Transport volume	TTEU	2,701	3,038	5,755	5,966	–212
Revenue	million EUR	3,017	3,175	6,360	6,238	122
EBITDA	million EUR	699	467	1,169	956	212
EBIT	million EUR	352	176	511	389	122
Group profit/loss	million EUR	261	50	285	146	139
Earnings per share	EUR	1.46	0.26	1.59	0.78	0.81
Cash flow from operating activities	million EUR	826	349	1,207	885	322
Key return figures [1]						
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
ROIC (Return on Invested Capital) [2]	%	10.9	5.3	7.7	5.9	1.8 ppt
Key balance sheet figures as at 30 June [1]						
Balance sheet total	million EUR	17,091	16,200	17,091	16,200	891
Equity	million EUR	6,693	6,621	6,693	6,621	72
Equity ratio (equity/balance sheet total)	%	39.2	40.9	39.2	40.9	–1.7 ppt
Borrowed capital	million EUR	10,398	9,580	10,398	9,580	819
Key financial figures as at 30 June [1]						
Financial debt and lease liabilities	million EUR	7,191	6,397	7,191	6,397	794
Cash and cash equivalents	million EUR	1,509	512	1,509	512	998

1 The key operating figures and key return figures refer to the respective reporting period. The comparison of key balance sheet figures and key financial figures refers to the reporting date 31 December 2019.

2 The return on invested capital (ROIC) is calculated as the ratio of net operating profit after taxes (NOPAT) to invested capital (assets excluding cash and cash equivalents less liabilities excluding financial debt). This key operating figure is calculated on an annualised basis and in US dollars.

For computational reasons, rounding differences may occur in some of the tables and charts of this half-year financial report.

This half-year financial report was published on 14 August 2020.

MAIN DEVELOPMENTS IN H1 2020

- The first half of 2020 was dominated by very volatile bunker prices, 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 rose by 2.0% to EUR 6.4 billion (prior year period: EUR 6.2 billion) due to a stronger US dollar. Adjusted for currency effects, revenue was down 0.6% on the previous year.
- By contrast, the 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 1,104 USD/TEU compared with the previous year (prior year period: 1,071 USD/TEU) mainly by passing on bunker costs for low sulphur fuel.
- Transport expenses fell by 2.0% in the first half of 2020 to EUR 4,730.2 million (prior year period: EUR 4,825.3 million). A 4.4% rise 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 EUR –58.4 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 22.2% to EUR 1,168.7 million in the first half of 2020 (prior year period: EUR 956.2 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 EUR 511.3 million (prior year period: EUR 389.4 million).
- Earnings per share increased by EUR 0.81 to EUR 1.59.
- In addition, free cash flow of EUR 1,068.7 million was clearly positive (H1 2019: EUR 767.6 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 in 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 EUR 1.7 billion as at 30 June 2020 (30 June 2019: EUR 931.5 million).
- 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.

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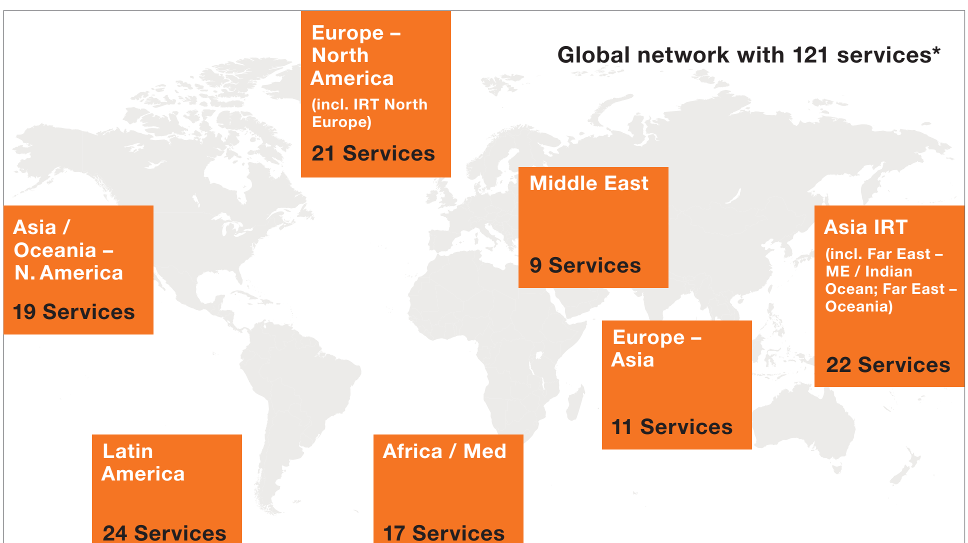
INTERIM GROUP MANAGEMENT REPORT

BUSINESS ACTIVITIES

The Hapag-Lloyd Group is Germany's largest container liner shipping company and is one of the world's leading container liner shipping companies in terms of global market coverage. The Group's core business is the shipping of containers by sea, but also encompasses transport services from door to door.

The Hapag-Lloyd fleet comprised 239 container ships as at 30 June 2020 (30 June 2019: 237). The Group currently has 388 sales offices in 129 countries (30 June 2019: 399 sales offices in 128 countries) and offers its customers worldwide access to a network of 121 liner services (previous year: 118 services). However, 6 of these services are temporarily suspended at present due to the decrease in demand as a result of the COVID-19 pandemic. In the first 6 months of 2020, Hapag-Lloyd served approximately 23,700 customers around the world (previous year: approximately 24,000).

Network of Hapag-Lloyd services



Source: Company data; Note: *FP1 and FP2 Service listed twice (Asia – North America / Europe – Asia)

Since 1 April 2017, Hapag-Lloyd has been operating THE Alliance in partnership with Ocean Network Express Pte. Ltd. (Singapore) (ONE) (formerly Kisen Kaisha Ltd. (Japan), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), Nippon Yusen Kabushiki Kaisha Ltd. (Japan) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). On 1 April 2020, the South Korean liner shipping company Hyundai Merchant Marine (HMM) joined the alliance as a full new member.

The partnership is scheduled to last for 10 years, after which point it will automatically be extended by 1 more year in each case. Members must remain in the alliance for 36 months and then give 12 months' notice if they wish to leave. In the event of a change of control or insolvency, a member may be excluded from the alliance. The decision to exclude an alliance member must be taken unanimously by the other members.

As at 30 June 2020, THE Alliance covered all East–West trades with 251 container ships and 28 services (30 June 2019: 247 container ships and 29 services). 4 services are temporarily suspended at present due to the decrease in demand as a result of the COVID-19 pandemic.

Hapag-Lloyd conducts its container liner shipping business in an international business environment. 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 and the corresponding financing of investments. The functional currency of Hapag-Lloyd AG and its main subsidiaries is the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro. For reporting purposes, the assets and liabilities of the Hapag-Lloyd Group are translated into euros using the mean exchange rate on the reporting date (closing rate). The cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The resulting differences are recognised in other comprehensive income.

Changes to the composition of the Hapag-Lloyd AG Executive Board

Mr Mark Frese was appointed as a new Executive Board member with effect from 25 November 2019 as per a resolution passed by the Supervisory Board on 13 November 2019. Mr Mark Frese succeeded Mr Nicolás Burr as CFO, who stepped down on 29 February 2020.

As per a resolution passed by the Supervisory Board on 5 June 2020, the contract of Chief Personnel and Global Procurement Officer Joachim Schlotfeldt was extended by 2 years until 31 March 2023.

Shareholder structure of Hapag-Lloyd AG

The shareholder structure of Hapag-Lloyd AG is dominated by its 5 major shareholders, which together hold around 96.4% of the Company's share capital. These include Kühne Maritime GmbH together with Kühne Holding AG (Kühne), CSAV Germany Container Holding GmbH (CSAV), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV), and Qatar Holding Germany GmbH on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund Saudi Arabia (PIF). In addition, CSAV, Kühne Maritime GmbH and HGV have agreed under a shareholders' agreement to exercise their voting rights from the shares in Hapag-Lloyd AG by issuing a common voting proxy, thereby making important decisions together.

In January 2020, CSAV acquired a share package from QIA of 3,890,899 shares (corresponding to approximately 2.2%), followed by a further 1,000 shares in March. Since then, CSAV has held an interest of around 30%. In March, Kühne Maritime GmbH acquired 656,526 shares, which also increased Kühne's interest to around 30%.

The shareholder structure of Hapag-Lloyd AG as at 30 June 2020 is as follows:

in %	
Kühne Holding AG and Kühne Maritime GmbH	30.0
CSAV Germany Container Holding GmbH	30.0
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	13.9
Qatar Holding Germany GmbH	12.3
The Public Investment Fund of the Kingdom of Saudi Arabia	10.2
Free float	3.6
Total	**100.0**

CORPORATE OBJECTIVES AND STRATEGY

The prime strategic objective of the Hapag-Lloyd Group is to achieve long-term profitable growth measured on the basis of the development of the transport volume and the key performance indicators of EBITDA, EBIT and return on invested capital (ROIC).

The growing global demand for container transportation is the foundation of the organic growth that Hapag-Lloyd hopes to achieve. In general, Hapag-Lloyd intends to increase the transport volume organically in line with market growth.

The key internal performance indicators for the Company's operating activities are earnings before interest, taxes, depreciation and amortisation (EBITDA) and earnings before interest and taxes (EBIT). The performance of these key financial indicators is outlined in the section "Group earnings, financial and net asset position". EBITDA is an important indicator of the achievement of sustainable company results and gross cash flows. It has a special significance for capital-intensive companies. Hapag-Lloyd uses EBITDA as an important parameter for investment decisions.

The main factors influencing the development of the operating result indicators are transport volume, freight rate, the US dollar exchange rate against the euro and operating costs including bunker price.

Hapag-Lloyd is aiming to be profitable throughout the entire economic cycle, i.e. to achieve a return on invested capital (ROIC) that is at least equal to the Company's weighted average cost of capital (WACC). In the first 6 months of 2020, Hapag-Lloyd generated a return on invested capital (ROIC) of 7.7% (prior year period: 5.9%). The weighted average cost of capital (WACC) determined as of 31 December, 2019, amounted to 6.8%. Details on how the ROIC is calculated can be found in the chapter "Important financial performance indicators".

The generation of sustainable cash flows, solid corporate financing, and therefore in particular a sufficient liquidity and equity base, remain key cornerstones of the Hapag-Lloyd Group's corporate strategy in the 2020 financial year. As at 30 June 2020, the Hapag-Lloyd Group had a liquidity reserve (consisting of cash, cash equivalents and unused credit lines) totalling EUR 1,674.3 million (31 December 2019: EUR 1,032.8 million). The equity ratio was 39.2% as at the reporting date (31 December 2019: 40.9%).

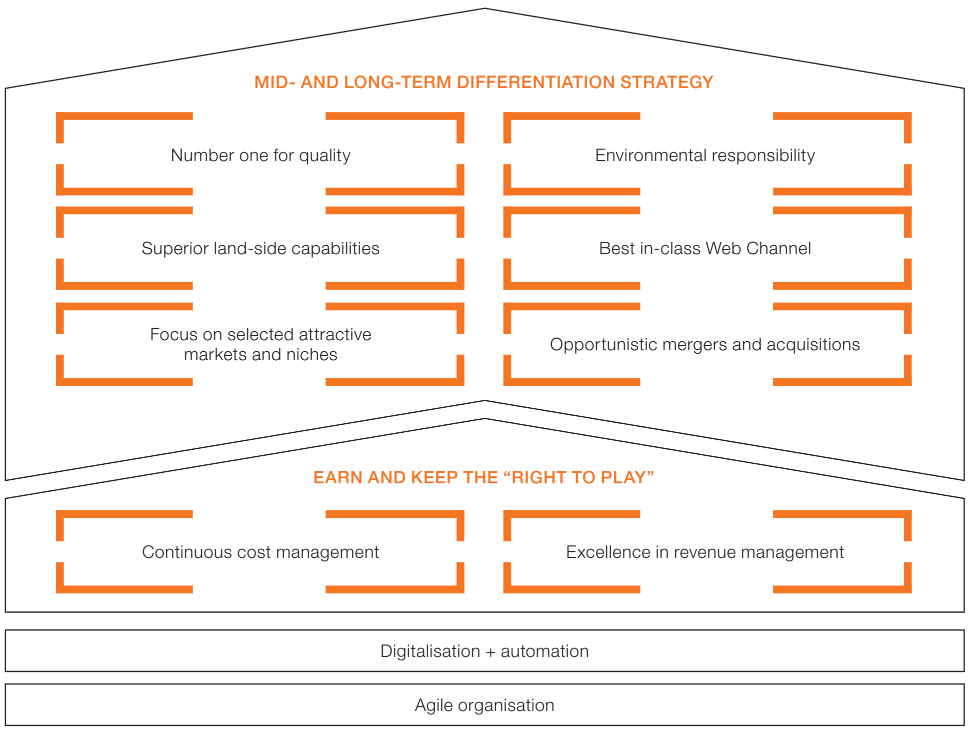
Strategy 2023

The Executive Board of Hapag-Lloyd AG first presented the Group's new strategy ("Strategy 2023") at a capital market day in November 2018. Strategy 2023 is also described in detail on pages 58 ff. of the Group management report in the 2019 annual report, including information on the current status of target achievement.

The 3 core objectives of Strategy 2023 are:

- Become number one for quality
- Remain a global player
- Profitability throughout the entire economic cycle

The focus of Strategy 2023 is on becoming number one for quality and achieving profitable growth. The basis is continuous and consistent cost and revenue management as well as improving internal processes through greater agility and taking advantage of technological opportunities, such as digitalisation and automation. The most important elements of Strategy 2023 are presented in the following illustration. The focus here is on clearly differentiating the Company from its competitors.



Strategy 2023, including the aforementioned targets and goals, will become even more concrete as the strategy is implemented and it will be flexibly adapted to the changing operating environment.

IMPORTANT FINANCIAL PERFORMANCE INDICATORS

Important financial performance indicators for the Hapag-Lloyd Group include EBITDA, EBIT, the transport volume and freight rates. Transport volume and freight rates are important factors influencing revenue development. The development of the financial performance indicators in the first half of the year 2020 is presented in the section “Group earnings position”.

In addition to EBITDA and EBIT as operating performance indicators, the return on invested capital (ROIC) is calculated at Group level as an indicator of the performance within a period. ROIC compares net operating profit after tax (NOPAT), defined as EBIT less taxes, with invested capital as at the reporting date. Invested capital is defined as assets excluding cash and cash equivalents less liabilities excluding financial debt. To facilitate comparison with other international shipping companies, the return on invested capital is calculated and presented exclusively on the basis of the functional currency, the US dollar.

Calculation of the return on invested capital is as follows:

	million EUR		million USD	
	H1 2020	H1 2019	**H1 2020**	H1 2019
Non-current assets	13,869.6	13,691.5	15,540.9	15,585.3
Inventory	177.7	250.5	199.1	285.2
Accounts receivables	1,158.7	1,272.8	1,298.4	1,448.8
Other assets	376.1	391.6	422.1	445.8
Assets	**15,582.1**	**15,606.4**	**17,460.5**	**17,765.0**
Provisions	742.4	720.5	831.9	820.1
Accounts payable	1,844.8	1,768.8	2,067.2	2,013.4
Other liabilities	620.0	556.3	694.8	633.5
Liabilities	**3,207.1**	**3,045.6**	**3,593.8**	**3,467.0**
Invested Capital	**12,375.0**	**12,560.8**	**13,866.8**	**14,298.0**
EBIT	511.3	389.4	563.2	439.8
Taxes	24.6	17.3	27.0	19.5
Net Operating Profit after Tax (NOPAT)	**486.8**	**372.1**	**536.2**	**420.3**
Return on Invested Capital (ROIC)			**7.7%**	**5.9%**

Figures in USD, rounded, aggregated and calculated on an annualised basis
The table outlines selected items from the consolidated statement of financial position and the consolidated income statement in abbreviated form only. Currencies are translated as per the reporting date rates and average rates given in the Notes to the consolidated financial statements in the section “Fundamental accounting principles”.

IMPORTANT NON-FINANCIAL PRINCIPLES

In addition to the financial performance indicators, the optimum utilisation of the available ship and container capacities has a substantial influence on whether Hapag-Lloyd achieves long-term profitable growth. Sustainable and quality-conscious corporate governance and highly qualified and motivated employees are also important principles for Hapag-Lloyd's targeted profitable growth.

The following non-financial parameters are important for understanding Hapag-Lloyd as a container liner shipping company. However, they are not used by the Company as performance indicators.

Flexible fleet and capacity development
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 these 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

Bunker consumption totalled approximately 2.0 million tonnes in the first half of the year 2020 and was therefore around 7% lower than in the previous year (H1 2019: approximately 2.2 million tonnes). This decline is essentially attributable to the COVID-19 related temporary suspension of sailings. 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).

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 growth and to realise economies of scale in ship operations. However, in order to remain competitive in the medium term, the Executive Board of Hapag-Lloyd AG believes that the Group will invest in new ship systems again in the foreseeable future.

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.

Customers

Top clients are supported globally and locally by the Global Account Management team in Hamburg and in the regional head offices. This enables the Company to establish and maintain long-standing, sustainable customer relationships. The Key Account Programme also ensures that top regional clients receive particular care and attention. Hapag-Lloyd's aim is to maintain a diversified customer portfolio consisting of direct customers and freight forwarders, with the latter ensuring a permanent regular supply of cargo volumes.

In the first 6 months of the 2020 financial year, Hapag-Lloyd completed transport contracts for approximately 23,700 customers (H1 2019: approximately 24,000).

Employees

The Hapag-Lloyd Group employed 13,021 people as at 30 June 2020 (30 June 2019: 12,861). Of this total, 10,817 were shore-based employees (30 June 2019: 10,634), while 2,010 people were sea-based (30 June 2019: 2,033). Hapag-Lloyd also employed 194 apprentices as at 30 June 2020 (30 June 2019: 194).

Number of employees

	30.6.2020	31.12.2019	30.6.2019
Marine personnel	2,010	2,072	2,033
Shore-based personnel	10,817	10,691	10,634
Apprentices	194	233	194
Total	**13,021**	**12,996**	**12,861**

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 minimise 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 realised 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.

ECONOMIC REPORT

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 subsidies, (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.

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

	2021e	2020e	2019	2018	2017	2016	2015
Growth rate in %	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 new-builds 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.

Consolidation of the industry and alliances

In recent years, the container shipping industry has gone through a phase of significant consolidation. According to data from MDS Transmodal (July 2020), the 10 largest container liner shipping companies provide approximately 83% of the total capacity of the global fleet of container ships. This figure was just 61% in 2013.

Alliances are an essential part of the container shipping industry as they enable better utilisation of ships and provide the opportunity for shipping companies to offer a more extensive service. There are currently 3 global alliances. Measured in terms of transport capacity, the largest alliance is the "2M Alliance", consisting of the two market leaders – Maersk (Denmark) and Mediterranean Shipping Company S. A. (Switzerland) (MSC). The "Ocean Alliance" consists of CMA CGM S. A. (France), including its subsidiary APL (Singapore), COSCO (China), including its subsidiary OOIL (Hong Kong), and Evergreen Marine Corp. Ltd. (Taiwan) (Evergreen) and is the second-biggest alliance. Hapag-Lloyd (Germany) operates “THE Alliance” in partnership with ONE (Singapore), Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming) and, since 1 April 2020, Hyundai Merchant Marine (South Korea) (HMM). As at 30 June 2020, THE Alliance covered all East–West trades with 251 container ships and 28 services. 4 services are temporarily suspended at present due to the decrease in demand as a result of the COVID-19 pandemic.

Capacity share of alliances based on selected trades

in %	Far East trade	Transpacific trade	Atlantic trade
2M	39	21	46
Ocean Alliance	37	44	14
THE ALLIANCE	**23**	**29**	**35**
Other	1	6	5

Source: Alphaliner, July 2020

GROUP EARNINGS, FINANCIAL AND NET ASSET POSITION

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 after adjusting for currency effects. By contrast, a favourable freight rate and bunker price ratio, above all in the second quarter in conjunction with active cost management (PSP) and an increase in the value of the US dollar 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 EUR 1,168.7 million (prior-year period: EUR 956.2 million) and earnings before interest and taxes (EBIT) of EUR 511.3 million in the first half of 2020 (prior year period: EUR 389.4 million). The Group profit came to EUR 285.5 million (prior year period: EUR 146.3 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. In addition, the stronger US dollar against the euro had a positive effect on the Group’s earnings position in the first half of the financial year. At USD 1.10/EUR, the average US dollar/EUR exchange rate was stronger than in the prior year period (USD 1.13/EUR).

Transport expenses in the first half of the year fell by 2.0% 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 EUR –14.5 million (prior year period: income of EUR 2.7 million) had a negative impact on the interest result, as did the valuation of interest rate swaps of EUR –9.1 million (prior year period: EUR –3.5 million).

Consolidated income statement

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Revenue	3,017.0	3,175.2	6,360.3	6,238.1
Transport expenses	2,085.3	2,482.4	4,730.2	4,825.3
Personnel expenses	167.4	165.1	340.3	331.8
Depreciation, amortisation and impairment	347.8	291.2	657.3	566.8
Other operating result	–71.3	–70.0	–136.5	–142.6
Operating result	**345.1**	**166.6**	**495.9**	**371.7**
Share of profit of equity-accounted investees	6.5	9.0	15.7	17.5
Result from investments and securities	–0.1	0.1	–0.3	0.2
Earnings before interest and tax (EBIT)	**351.5**	**175.7**	**511.3**	**389.4**
Interest result	–79.8	–118.7	–204.0	–224.9
Other financial items	–1.7	–1.1	2.7	–0.9
Income taxes	9.4	5.9	24.6	17.3
Group profit/loss	**260.6**	**50.0**	**285.5**	**146.3**
thereof profit/loss attributable to shareholders of Hapag-Lloyd AG	256.9	46.2	278.7	137.9
thereof profit/loss attributable to non-controlling interests	3.8	3.8	6.8	8.4
Basic/diluted earnings per share (in EUR)	1.46	0.26	1.59	0.78
EBITDA	**699.3**	**466.9**	**1,168.7**	**956.2**
EBITDA margin (%)	**23.2**	**14.7**	**18.4**	**15.3**
EBIT	**351.5**	**175.7**	**511.3**	**389.4**
EBIT margin (%)	**11.7**	**5.5**	**8.0**	**6.2**

Transport volume per trade[1]

TTEU	Q2 2020	Q2 2019	H1 2020	H1 2019
Atlantic	442	513	923	982
Transpacific	418	494	890	944
Far East	495	584	1,062	1,178
Middle East	307	344	699	695
Intra-Asia	211	215	423	436
Latin America	667	713	1,411	1,389
EMA (Europe – Mediterranean – Africa)	161	175	347	342
Total	**2,701**	**3,038**	**5,755**	**5,966**

[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.

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.

Freight rates per trade[1]

USD / TEU	Q2 2020	Q2 2019	H1 2020	H1 2019
Atlantic	1,405	1,361	1,405	1,356
Transpacific	1,378	1,289	1,351	1,312
Far East	982	891	971	927
Middle East	856	753	818	755
Intra-Asia	563	548	587	538
Latin America	1,164	1,144	1,163	1,162
EMA (Europe – Mediterranean – Africa)	1,046	1,047	1,038	1,036
Total (weighted average)	**1,114**	**1,063**	**1,104**	**1,071**

[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.

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.

Revenue per trade[1]

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Atlantic	563.8	620.3	1,177.1	1,179.4
Transpacific	523.7	566.3	1,092.1	1,096.7
Far East	441.3	463.3	936.8	966.3
Middle East	239.1	230.6	518.9	464.4
Intra-Asia	107.9	105.0	225.4	207.5
Latin America	705.3	725.2	1,489.5	1,428.7
EMA (Europe – Mediterranean – Africa)	152.8	163.3	326.6	313.6
Revenue not assigned to trades	283.1	301.2	593.9	581.5
Total	**3,017.0**	**3,175.2**	**6,360.3**	**6,238.1**

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.

The Hapag-Lloyd Group's revenue rose by EUR 122.2 million to EUR 6,360.3 million in the first half of the 2020 financial year (prior year period: EUR 6,238.1 million), representing an increase of 2.0%. This was primarily due to a stronger US dollar compared with the previous year.

Adjusted for exchange rate effects, total revenue was 0.6% below the prior-year figure. A rise in average freight rates contrasted with a fall in transport volumes.

Operating expenses

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Transport expenses	2,085.3	2,482.4	4,730.2	4,825.3
thereof				
Transport expenses for finished voyages	2,132.6	2,469.9	4,744.2	4,835.0
Bunker	268.6	427.6	862.9	822.2
Handling and haulage	1,139.0	1,247.3	2,396.3	2,439.6
Equipment and repositioning[1]	281.9	296.2	562.0	581.0
Vessel and voyage (excluding bunker)[1]	443.1	498.8	923.0	992.2
Transport expenses for pending voyages[2]	–47.3	12.4	–14.0	–9.7
Personnel expenses	167.4	165.1	340.3	331.8
Depreciation, amortisation and impairments	347.8	291.2	657.3	566.8
Other operating result	–71.3	–70.0	–136.5	–142.6
Total operating expenses	**2,529.2**	**2,868.6**	**5,864.4**	**5,866.5**

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.

Transport expenses fell by EUR 95.1 million in the first half of the 2020 financial year to EUR 4,730.2 million (prior year period: EUR 4,825.3 million). This represents a drop of 2.0%. 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.

At USD 1.10/EUR, the average US dollar/EUR exchange rate was stronger than in the prior year period (USD 1.13/EUR). The conversion of transport expenses from the functional currency, the US dollar, into the reporting currency, the euro, resulted in a lower decrease in transport expenses due to the strengthening of the US dollar in the first half of 2020. Adjusted for exchange rate movements, transport expenses in the first half of the year would have fallen by around EUR 218.7 million (4.4%) and therefore more than the decrease in transport volumes of 3.5%.

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 (EUR –58.4 million) had a positive impact on fuel expenses in the second quarter.

The decrease in container handling expenses of EUR 43.3 million to EUR 2,396.3 million resulted primarily from a volume-related decline and lower hinterland transport expenses.

The decrease in expenses for ships 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.

Personnel expenses rose by EUR 8.6 million (2.6%) to EUR 340.3 million in the first half of the 2020 financial year (prior year period: EUR 331.8 million). The increase in expenses was entirely due to the strengthening of the US dollar against the euro.

Depreciation and amortisation came to EUR 657.3 million in the first half of the 2020 financial year (prior year period: EUR 566.8 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 EUR 261.9 million (prior year period: EUR 204.2 million).

The other operating result of EUR –136.5 million (prior year period: EUR –142.6 million) comprised the net balance of other operating income and expenses. Other operating expenses totalled EUR 166.9 million for the first half of the 2020 financial year (prior year period: expenses of EUR 162.4 million). This included mainly IT expenses (EUR 83.9 million; prior year period: EUR 70.3 million), administrative expenses (EUR 19.2 million; prior year period: EUR 19.7 million) and consultancy fees (EUR 15.5 million; prior year period: EUR 16.7 million). The other operating income included in the figure resulted primarily from the release of provisions (EUR 7.6 million; prior year period: EUR 0.5 million) and the disposal of assets (EUR 7.4 million; prior year period: EUR 10.7 million).

Key earnings figures

million EUR	**Q2 2020**	Q2 2019	**H1 2020**	H1 2019
Revenue	3,017.0	3,175.2	6,360.3	6,238.1
EBIT	351.5	175.7	511.3	389.4
EBITDA	699.3	466.9	1,168.7	956.2
EBIT margin (%)	11.7	5.5	8.0	6.2
EBITDA margin (%)	23.2	14.7	18.4	15.3
Basic earnings per share (in EUR)	1.46	0.26	1.59	0.78
Return on invested capital (ROIC) annualised (%) [1]	10.9	5.3	7.7	5.9

[1] The calculation of the return on invested capital is based on the functional currency USD.

Interest result

The interest result for the first half of the 2020 financial year was EUR –204.0 million (prior year period: EUR –224.9 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 EUR 25.7 million. In addition, the repayment of debt in relation to bank financing and the resulting reduction in interest in the amount of EUR 18.1 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 EUR –14.5 million (prior year period: income of EUR 2.7 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 EUR –9.1 million (prior year period: EUR –3.5 million) had a negative impact on the interest result.

Income taxes

Income tax expense increased by EUR 7.3 million compared with the previous year to EUR 24.6 million. The increase in expenses is primarily due to the devaluation of deferred tax assets on losses carried forward and exchange rate effects.

Group profit

A Group profit of EUR 285.5 million was achieved in the first half of 2020 (prior year period: EUR 146.3 million).

Group financial position

Condensed statement of cash flows

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Cash flow from operating activities	826.3	348.6	1,206.9	884.8
Cash flow from investment activities	–31.4	18.4	–138.2	–117.2
Free cash flow	**795.0**	**367.0**	**1,068.7**	**767.6**
Cash flow from financing activities	–189.1	–481.5	–49.0	–977.3
Changes in cash and cash equivalents	**605.8**	**–114.6**	**1,019.7**	**–209.8**

Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of EUR 1,206.9 million in the first half of the 2020 financial year (prior year period: EUR 884.8 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 EUR 138.2 million (prior year period: EUR 117.2 million) and related to payments for investments of EUR 148.8 million (prior year period: EUR 165.7 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 EUR 50.6 million, the payments for new containers decreased by EUR 56.8 million to EUR 72.5 million in the first half of the year. This contrasted with cash inflows of EUR 18.3 million (prior year period: EUR 19.6 million), which were primarily due to the sale of containers.

Cash flow from financing activities

Financing activities resulted in a net cash outflow of EUR 49.0 million in the current reporting period (prior year period: EUR 977.3 million). The net cash outflow essentially resulted from the repayment of financial liabilities in the amount of EUR 541.9 million (prior year period: EUR 1,114.3 million primarily due to the repayment of a bond in the amount of EUR 450.0 million and the repayment of the ABS programme in the amount of EUR 177.1 million) and from interest payments in the amount of EUR 127.7 million (prior year period: EUR 181.8 million). There were also interest and redemption payments from lease liabilities as per IFRS 16 in the amount of EUR 295.9 million in the first half of the year (prior year period: EUR 245.9 million). The payment of a dividend to shareholders for the 2019 financial year led to a cash outflow of EUR 193.3 million (prior year period: EUR 26.4 million).

The cash outflows contrasted with cash inflows from the financing of ships and containers using sale and leaseback transactions in the amount of EUR 604.0 million (prior year period: EUR 195.4 million). Further cash inflows were caused by the drawdown of revolving credit lines in the amount of EUR 363.2 million (prior year period: EUR 140.1 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 EUR 145.3 million (prior year period: EUR 219.4 million).

Developments in cash and cash equivalents

million EUR	H1 2020	H1 2019
Cash and cash equivalents at beginning of period	**511.6**	**657.1**
Changes due to exchange rate fluctuations	–22.0	5.5
Net changes	1,019.7	–209.8
Cash and cash equivalents at end of period	**1,509.2**	**452.7**

Overall, cash inflow totalled EUR 1,019.7 million in the first half of the 2020 financial year. After accounting for exchange rate-related effects in the amount of EUR –22.0 million, cash and cash equivalents of EUR 1,509.2 million were reported at the end of the reporting period on 30 June 2020 (30 June 2019: EUR 452.7 million). The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item “cash and cash equivalents”. In addition, after taking measures to increase the liquidity framework, there are unused credit lines of EUR 165.1 million (30 June 2019: EUR 478.8 million). The liquidity reserve (consisting of cash, cash equivalents and unused credit lines) therefore totalled EUR 1,674.3 million (30 June 2019: EUR 931.5 million).

Financial solidity

million EUR	30.6.2020	31.12.2019
Financial debt and lease liabilities	7,191.2	6,397.2
Cash and cash equivalents	1,509.2	511.6
Net debt	**5,682.0**	**5,885.6**
Gearing (%) [1]	**84.9**	**88.9**
Unused credit lines	**165.1**	**521.3**
Equity ratio (%)	**39.2**	**40.9**

[1] Ratio net debt to equity

The Group’s net debt amounted to EUR 5,682.0 million as at 30 June 2020. This was a fall of EUR 203.6 million (–3.5%) compared to net debt of EUR 5,885.6 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 leaseback transactions only increased gross debt. Net debt remained unaffected. The increase in lease liabilities in the amount of EUR 190.2 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 EUR 363.2 million, a rise in financial debt in the amount of EUR 603.9 million and an increase in lease liabilities in the amount of EUR 190.2 million. Equity was up by EUR 72.4 million compared with 31 December 2019 and came to EUR 6,693.0 million as at 30 June 2020. A detailed overview of the change in equity can be found in the interim consolidated financial statements.

Group net asset position

Changes in the asset structure

million EUR	30.6.2020	31.12.2019
Assets		
Non-current assets	13,869.6	13,811.8
of which fixed assets	13,796.0	13,716.1
Current assets	3,221.7	2,388.6
of which cash and cash equivalents	1,509.2	511.6
Total assets	**17,091.3**	**16,200.4**
Equity and liabilities		
Equity	6,693.0	6,620.6
Borrowed capital	10,398.3	9,579.8
of which non-current liabilities	6,063.1	5,586.2
of which current liabilities	4,335.2	3,993.6
of which financial debt and lease liabilities	7,191.2	6,397.2
of which non-current financial debt and lease liabilities	5,601.1	5,156.0
of which current financial debt and lease liabilities	1,590.2	1,241.2
Total equity and liabilities	**17,091.3**	**16,200.4**
Net debt	5,682.0	5,885.6
Equity ratio (%)	39.2	40.9

As at 30 June 2020, the Group's balance sheet total was EUR 17,091.3 million, which is EUR 890.9 million higher than the figure at year-end 2019.

Within non-current assets, the carrying amounts of fixed assets increased by a total of EUR 79.9 million to EUR 13,796.0 million (31 December 2019: EUR 13,716.1 million). The increase essentially resulted from newly received rights of use for lease assets in the amount of EUR 511.9 million, in particular extended charter contracts for vessels under the PSP programme, as well as from investments totalling EUR 227.3 million relating primarily to containers and ship equipment in connection with IMO 2020. Depreciation and amortisation had an opposite effect, reducing fixed assets by EUR 657.3 million. This figure includes an amount of EUR 261.9 million for the amortisation of capitalised rights of use relating to lease assets.

Cash and cash equivalents of EUR 1,509.2 million increased by EUR 997.7 million compared to the end of 2019 (EUR 511.6 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 EUR 363.2 million and surplus proceeds from sale and leaseback transactions in the amount of EUR 296.3 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 EUR 72.4 million to a total of EUR 6,693.0 million. This increase was mainly due to the Group profit recognised in retained earnings in the amount of EUR 285.5 million. The dividends paid to shareholders from retained earnings in the amount of EUR 193.3 million and the change in the reserves from hedging relationships in the amount of EUR –18.3 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 EUR 818.6 million to EUR 10,398.3 million since the 2019 financial statements were prepared, which was mainly due to an increase in financial debt and lease liabilities of EUR 794.0 million to EUR 7,191.2 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 EUR 363.2 million and refinancing in connection with sale and leaseback transactions in the amount of EUR 604.0 million. In addition, the use of the ABS programme in the amount of EUR 145.3 led to an increase. Redemption payments for financial debt totalling EUR 541.9 million resulted in a decrease. Additional lease liabilities of EUR 459.3 million contrasted with debt repayments of EUR 260.4 million.

Taking cash and cash equivalents, financial debt and lease liabilities into account, net debt as at 30 June 2020 was EUR 5,682.0 million (31 December 2019: EUR 5,885.6 million).

For further information on significant changes to specific balance sheet items, please refer to the Notes to the consolidated statement of financial position, which can be found in the condensed Notes to the consolidated financial statements.

Executive Board's statement on overall expected developments

Due to the global spread of the COVID-19 pandemic, the accompanying measures taken by various countries to control the pandemic and the resulting impact on international trade, the global economy recorded negative growth in the first half of 2020. With the number of cases continuing to increase in many parts of the world, the outlook for 2020 is significantly uncertain and the possibility of further regional and local lockdowns with clear effects on the economy remains at any time.

However, the Executive Board believes that the economic impact of the COVID-19 pandemic reached its peak in the second quarter and that the global economy will gradually recover as the year continues. This expectation also forms the basis of the Outlook presented in the following section. In particular, the development of volumes and freight rates and the potential further increase of bunker prices as a result of a global economic recovery will have a significant impact on Hapag-Lloyd's earnings in the second half of the 2020 financial year.

Due to the effects of the political measures taken to combat the COVID-19 pandemic, the transport volume in the first half of 2020 was lower than in the previous year. Following a good start to the first quarter, it decreased significantly in the second quarter of 2020. Higher costs for the use of bunkers with low-sulphur also had a negative effect on earnings compared with the previous year. However, the lower bunker price compared with the beginning of the year with slightly increasing freight rates overall resulted in a temporarily advantageous ratio between freight rates and bunker prices in the second quarter. In addition to active cost management within the PSP programme and a stronger US dollar compared to the euro, this had a positive impact on the result, so that the result for the first half of the year was higher than in the same period of the previous year.

In the view of the Executive Board, the general economic conditions will continue to be associated with high uncertainties for the rest of the year. Current risks are highlighted in the risk and opportunity report.

OUTLOOK, RISK AND OPPORTUNITY REPORT

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 below in the risk and opportunity report of this quarterly financial report. 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.

Risk and opportunity report

Please refer to the 2019 annual report for details of significant opportunities and risks and an assessment of these.

The assessment of the risks and opportunities detailed in the 2019 annual report for the financial year 2020 has changed in principal against the background of the developments to date and forthcoming developments of the COVID-19 pandemic as follows.

The COVID-19 pandemic continues to have a negative impact globally on public and economic life as well as on global economic growth, world trade and therefore indirectly on Hapag-Lloyd's main risks and opportunities in the current year. Despite scientific advances and technological innovations, new waves of infection continue to be a threat, albeit with strong regional and local differences. A persistent economic downturn combined with a stronger than currently forecast decline in economic output could have a negative impact on Hapag-Lloyd's earnings.

To safeguard the performance Hapag-Lloyd has taken several measures which have been bundled in the Performance Safeguarding Program (PSP). These measures were further specified and budgeted during the first half of the year. If these measures only partially deliver the expected contribution to efficiency, this could negatively impact Hapag-Lloyd's earnings. Due to the complexity of the measures, which have not yet been fully implemented, the probability of occurrence is classified as medium.

A stable political environment and global trade are important prerequisites for the development of container shipping. The relapsing escalation of the trade disputes between the USA, China and other nations and the accompanying threat of government intervention, for instance in the form of increased or additional customs and import duties or import restrictions on certain products, represent additional trade barriers that could have a negative impact on trade flows and thus negatively affect Hapag-Lloyd's earnings position.

With regard to the sector- and company-specific risks and opportunities the fluctuation of the average freight rate is significantly influenced by available container shipping capacities, intense competition and bunker consumption prices. Commodity prices have been extremely volatile during the course of the year. While the continued low price of oil is having a positive effect on the cost structure, the price trend for the rest of the financial year remains subject to uncertainty. A negative development of transport volumes or the average freight rate with bunker consumption prices increasing at the same time could negatively affect Hapag-Lloyd's revenue and earnings.

Under the impression of number and impact of cyberattacks in general and especially in the shipping industry during the first half of the year as well as due to the elevated risk exposure given the significant increase of mobile working from home the probability of occurrence and the negative impact on the financial and earnings position are now classified as medium for the risk regarding the availability of information and communication technology.

With regard to legal and regulatory opportunities and risks, the institutions of the European Union have taken two far-reaching decisions. The European Court of Justice invalided the EU-US data protection agreement due to its limitations on the protection of personal data arising from national US law. However, the validity of standard contractual clauses was upheld by the court ruling, which means that these clauses can provide an alternative for ensuring compliance with EU data protection standards. In addition, the European Parliament Committee on the Environment, Public Health and Food Safety voted to integrate the maritime sector into the EU emissions trading scheme. As is yet the concrete framework for implementation is unclear. Additional costs for obtaining emission certificates for cargo transport to and from the EU are to be expected in the medium term and a globally uniform regulation for the decarbonisation of shipping could thus be made more challenging.

The main risks regarding the Group's expected performance for the rest of the financial year are currently classified as follows with regard to the business development planned and presented in the Outlook:

Risk	Probability of occurrence	Potential impact
Fluctuations in transport volumes	Medium	Medium
Fluctuations in freight rates	Medium	Medium
US dollar exchange rate fluctuations	Medium	Low
Bunker consumption price fluctuations	Medium	Medium
Liquidity [1]	Low	High
Earnings contribution of efficiency and cost saving projects [2]	Medium	Medium

[1] The assessment relates to the impact on the covenants to be complied with and on the liquidity situation.
[2] In comparison with the presentation in the 2019 annual report, the analysis now also includes the risk position that the savings ambition of the Performance Safeguarding Program (PSP) cannot be fully realised for measures pending implementation.

At the time of reporting on the first half of 2020, there were no risks which threatened the continued existence of the Hapag-Lloyd Group.

NOTE ON SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

The notes on relationships and transactions with related parties can be found in the section Other Notes to the condensed interim consolidated financial statements.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of Hapag-Lloyd AG for the period 1 January to 30 June 2020

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Revenue	3,017.0	3,175.2	6,360.3	6,238.1
Transport expenses	2,085.3	2,482.4	4,730.2	4,825.3
Personnel expenses	167.4	165.1	340.3	331.8
Depreciation, amortisation and impairment	347.8	291.2	657.3	566.8
Other operating result	–71.3	–70.0	–136.5	–142.6
Operating result	**345.1**	**166.6**	**495.9**	**371.7**
Share of profit of equity-accounted investees	6.5	9.0	15.7	17.5
Result from investments and securities	–0.1	0.1	–0.3	0.2
Earnings before interest and taxes (EBIT)	**351.5**	**175.7**	**511.3**	**389.4**
Interest income and similar income	1.7	4.6	3.0	7.4
Interest expenses and similar expenses	81.4	123.3	207.0	232.4
Other financial items	–1.7	–1.1	2.7	–0.9
Earnings before taxes	**270.1**	**55.9**	**310.0**	**163.6**
Income taxes	9.4	5.9	24.6	17.3
Group profit/loss	**260.6**	**50.0**	**285.5**	**146.3**
thereof attributable to shareholders of Hapag-Lloyd AG	256.9	46.2	278.7	137.9
thereof attributable to non-controlling interests	3.8	3.8	6.8	8.4
Basic/diluted earnings per share (in EUR)	**1.46**	**0.26**	**1.59**	**0.78**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of Hapag-Lloyd AG for the period 1 January to 30 June 2020

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Group profit/loss	**260.6**	**50.0**	**285.5**	**146.3**
Items which will not be reclassified to profit and loss:				
Remeasurements from defined benefit plans after tax	–46.5	–18.5	2.3	–45.0
Remeasurements from defined benefit plans before tax	–46.4	–18.5	2.6	–45.1
Tax effect	–0.1	–	–0.3	0.1
Cash flow hedges (no tax effect)	4.5	–	4.5	–
Effective share of the changes in fair value	4.5	–	4.5	–
Currency translation differences	–0.1	–	–0.1	–
Cost of hedging (no tax effect)	–0.8	–5.0	–23.5	–4.0
Changes in fair value	–1.2	–5.1	–23.6	–4.0
Currency translation differences	0.4	–	0.1	–0.1
Currency translation differences (no tax effect)	–149.9	–84.1	2.4	34.7
Items which may be reclassified to profit and loss:				
Cash flow hedges (no tax effect)	–1.2	–9.0	–16.5	–14.8
Effective share of the changes in fair value	11.2	2.5	–22.5	–22.9
Reclassification to profit or loss	–13.1	–11.7	5.7	8.0
Currency translation differences	0.7	0.2	0.3	0.1
Cost of hedging (no tax effect)	1.9	–	0.8	–0.3
Changes in fair value	–2.5	–7.3	–8.1	–15.6
Reclassification to profit or loss	4.4	7.4	8.9	15.3
Other comprehensive income after tax	**–191.9**	**–116.6**	**–30.0**	**–29.4**
Total comprehensive income	**68.7**	**–66.6**	**255.4**	**116.8**
thereof attributable to shareholders of Hapag-Lloyd AG	65.2	–70.2	248.7	108.3
thereof attributable to non-controlling interests	3.5	3.7	6.7	8.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of Hapag-Lloyd AG as at 30 June 2020

Assets

million EUR	30.6.2020	31.12.2019
Goodwill	1,603.2	1,600.7
Other intangible assets	1,661.0	1,716.9
Property, plant and equipment	10,183.3	10,064.9
Investments in equity-accounted investees	348.5	333.6
Other assets	26.0	23.7
Derivative financial instruments	13.1	27.6
Income tax receivables	5.2	4.7
Deferred tax assets	29.3	39.7
Non-current assets	**13,869.6**	**13,811.8**
Inventories	177.7	248.5
Trade accounts receivable	1,158.7	1,239.8
Other assets	342.6	346.9
Derivative financial instruments	12.1	14.5
Income tax receivables	21.4	27.4
Cash and cash equivalents	1,509.2	511.6
Current assets	**3,221.7**	**2,388.6**
Total assets	**17,091.3**	**16,200.4**

Equity and liabilities

million EUR	30.6.2020	31.12.2019
Subscribed capital	175.8	175.8
Capital reserves	2,637.4	2,637.4
Retained earnings	3,514.1	3,430.8
Cumulative other equity	349.0	362.6
Equity attributable to shareholders of Hapag-Lloyd AG	**6,676.2**	**6,606.6**
Non-controlling interests	16.8	14.0
Equity	**6,693.0**	**6,620.6**
Provisions for pensions and similar obligations	332.5	327.6
Other provisions	67.4	65.7
Financial debt	4,705.1	4,445.1
Lease liabilities	895.9	710.9
Other liabilities	5.2	5.3
Derivative financial instruments	47.7	22.8
Deferred tax liabilities	9.3	8.7
Non-current liabilities	**6,063.1**	**5,586.2**
Provisions for pensions and similar obligations	9.9	12.6
Other provisions	332.6	399.3
Income tax liabilities	35.0	50.0
Financial debt	1,102.6	758.7
Lease liabilities	487.6	482.4
Trade accounts payable	1,844.8	1,779.4
Contract liabilities	375.4	372.9
Other liabilities	129.9	126.6
Derivative financial instruments	17.4	11.6
Current liabilities	**4,335.2**	**3,993.6**
Total equity and liabilities	**17,091.3**	**16,200.4**

CONSOLIDATED STATEMENT OF CASH FLOWS

of Hapag-Lloyd AG for the period 1 January to 30 June 2020

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Group profit / loss	260.6	50.0	285.5	146.3
Income tax expenses (+) / income (–)	9.4	5.9	24.6	17.3
Other financial Items	1.7	1.1	–2.7	0.9
Interest result	79.8	118.7	204.0	224.9
Depreciation, amortisation and impairment (+) / write-backs (–)	347.8	291.2	657.3	566.8
Impairment (+) / write-backs (–) of financial assets	0.1	–	0.1	–
Profit (–) / loss (+) from disposals of non-current assets	–4.9	–4.6	–7.4	–8.8
Income (–) / expenses (+) from equity accounted investees and dividends from other investments	–6.5	–9.0	–15.7	–17.6
Other non-cash expenses (+) / income (–)	4.8	3.9	13.2	2.9
Increase (–) / decrease (+) in inventories	28.3	3.3	72.4	–11.1
Increase (–) / decrease (+) in receivables and other assets	255.7	–65.0	82.5	–96.1
Increase (+) / decrease (–) in provisions	–67.1	–9.4	–80.1	3.9
Increase (+) / decrease (–) in liabilities (excl. financial debt)	–84.0	–28.6	–22.5	68.7
Payments received from (+) / made for (–) income taxes	–0.4	–10.8	–6.0	–16.5
Payments received for interest	1.0	1.9	1.7	3.1
Cash inflow (+) / outflow (–) from operating activities	**826.3**	**348.6**	**1,206.9**	**884.8**
Payments received from disposals of property, plant and equipment and intangible assets	9.1	9.7	18.3	19.6
Payments received from dividends	0.2	28.7	0.2	28.9
Payments made for investments in property, plant and equipment and intangible assets	–32.9	–20.0	–148.8	–165.7
Payments made for the issuing of loans	–7.9	–	–7.9	–
Cash inflow (+) / outflow (–) from investing activities	**–31.4**	**18.4**	**–138.2**	**–117.2**

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Payments made for dividends	–198.5	–28.8	–199.5	–32.1
Payments received from raising financial debt	645.4	401.5	1,146.8	643.0
Payments made for the redemption of financial debt	–406.2	–641.9	–541.9	–1,114.3
Payments made for the redemption of lease liabilities	–133.8	–113.8	–260.4	–210.2
Payments made for leasehold improvements	–9.8	–	–24.1	–
Payments made for interest and fees	–81.1	–104.4	–163.3	–217.5
Payments received (+) and made (–) from hedges for financial debt	–5.1	–0.5	–6.6	–52.7
Change in restricted cash	–	6.4	–	6.5
Cash inflow (+) / outflow (–) from financing activities	**–189.1**	**–481.5**	**–49.0**	**–977.3**
Net change in cash and cash equivalents	**605.8**	**–114.6**	**1,019.7**	**–209.8**
Cash and cash equivalents at beginning of period	**939.5**	**573.6**	**511.6**	**657.1**
Change in cash and cash equivalents due to exchange rate fluctuations	–36.1	–6.3	–22.0	5.5
Net change in cash and cash equivalents	605.8	–114.6	1,019.7	–209.8
Cash and cash equivalents at end of period	**1,509.2**	**452.7**	**1,509.2**	**452.7**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of Hapag-Lloyd AG for the period 1 January to 30 June 2020

	Equity attributable to shareholders			
million EUR	Subscribed capital	Capital reserves	Retained earnings	Remeasure-ments from defined benefit plans
As at 1.1.2019	**175.8**	**2,637.4**	**3,117.4**	**–112.6**
Effect from the initial application of IFRS 16	–	–	–17.4	–
Adjusted as at 1.1.2019	**175.8**	**2,637.4**	**3,100.0**	**–112.6**
Total comprehensive income	**–**	**–**	**137.9**	**–45.0**
thereof				
Group profit / loss	–	–	137.9	–
Other comprehensive income	–	–	–	–45.0
Hedging gains and losses transferred to the cost of inventory	**–**	**–**	**–**	**–**
Transactions with shareholders	**–**	**–**	**–28.5**	**–**
thereof				
Distribution to shareholders	–	–	–26.4	–
Distribution to non-controlling interests	–	–	–2.2	–
As at 30.6.2019	**175.8**	**2,637.4**	**3,209.3**	**–157.6**
As at 1.1.2020	**175.8**	**2,637.4**	**3,430.8**	**–173.3**
Total comprehensive income	**–**	**–**	**278.7**	**2.3**
thereof				
Group profit / loss	–	–	278.7	–
Other comprehensive income	–	–	–	2.3
Hedging gains and losses transferred to the cost of inventory	**–**	**–**	**–**	**–**
Transactions with shareholders	**–**	**–**	**–195.4**	**–**
thereof				
Distribution to shareholders	–	–	–193.3	–
Distribution to non-controlling interests	–	–	–2.1	–
As at 30.6.2020	**175.8**	**2,637.4**	**3,514.1**	**–171.0**

	of Hapag-Lloyd AG							
	Reserve for cash flow hedges	Reserve for cost of hedging	Translation reserve	Reserve for put-options on non-controlling interests	Cumulative other equity	Total	Non-controlling interests	Total equity
	–0.8	**–7.7**	**439.7**	**–0.5**	**318.1**	**6,248.7**	**10.6**	**6,259.3**
	–	–	–	–	–	–17.4	–	–17.4
	–0.8	**–7.7**	**439.7**	**–0.5**	**318.1**	**6,231.3**	**10.6**	**6,241.9**
	–14.8	**–4.3**	**34.6**	**–**	**–29.5**	**108.3**	**8.5**	**116.8**
	–	–	–	–	–	137.9	8.4	146.3
	–14.8	–4.3	34.6	–	–29.5	–29.5	0.1	–29.4
	–	**5.9**	**–**	**–**	**5.9**	**5.9**	**–**	**5.9**
	–	**–**	**–**	**–**	**–**	**–28.5**	**–3.6**	**–32.1**
	–	–	–	–	–	–26.4	–	–26.4
	–	–	–	–	–	–2.2	–3.6	–5.7
	–15.6	**–6.1**	**474.3**	**–0.5**	**294.6**	**6,317.0**	**15.5**	**6,332.5**
	–14.0	**–10.2**	**560.5**	**–0.5**	**362.6**	**6,606.6**	**14.0**	**6,620.6**
	–12.0	**–22.7**	**2.4**	**–**	**–30.0**	**248.7**	**6.7**	**255.4**
	–	–	–	–	–	278.7	6.8	285.5
	–12.0	–22.7	2.4	–	–30.0	–30.0	–	–30.0
	–	**16.4**	**–**	**–**	**16.4**	**16.4**	**–**	**16.4**
	–	**–**	**–**	**–**	**–**	**–195.4**	**–4.0**	**–199.5**
	–	–	–	–	–	–193.3	–	–193.3
	–	–	–	–	–	–2.1	–4.0	–6.1
	–26.0	**–16.5**	**562.9**	**–0.5**	**349.0**	**6,676.2**	**16.8**	**6,693.0**

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FUNDAMENTAL ACCOUNTING PRINCIPLES

General information

Hapag-Lloyd is an international group whose primary purpose is to provide ocean container liner shipping activities, logistical services and all other associated business operations and services.

Hapag-Lloyd Aktiengesellschaft (Hapag-Lloyd AG), domiciled in Hamburg, Ballindamm 25, Germany, is the parent company of the Hapag-Lloyd Group and a listed company in accordance with German law. The Company is registered in commercial register B of the district court in Hamburg under the number HRB 97937. The Company's shares are traded on the Frankfurt and Hamburg Stock Exchanges.

The interim consolidated financial statements cover the period 1 January to 30 June 2020 and are reported and published in euros (EUR). All amounts recognised for the financial year are reported in million euros (EUR million) unless otherwise stated. In individual cases, rounding differences may occur in the tables and charts of these interim consolidated financial statements for computational reasons.

On 11 August 2020, the Executive Board approved the condensed interim consolidated financial statements for publication.

Measures in connection with the COVID-19 pandemic

Business development in the first half of 2020 was significantly influenced by the outbreak of the COVID-19 pandemic. To maintain profitability and liquidity, a comprehensive set of measures was developed in the first half of the year under the project name Performance Safeguarding Program (PSP). This includes, among other things, measures relating to cost savings and to increase the liquidity framework.

Detailed information on the PSP and the status of its implementation and on the current impact of the COVID-19 pandemic on business activities is provided in the interim Group management report.

Accounting principles

The consolidated financial statements of Hapag-Lloyd AG and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), including the interpretations of the IFRS Interpretations Committee (IFRIC), as they are to be applied in the European Union (EU). This interim report as at 30 June 2020 was prepared in compliance with the provisions of IAS 34. It is presented in condensed form. These condensed interim consolidated financial statements and interim Group management report of Hapag-Lloyd AG have not been subject to an audit review nor have they been reviewed in accordance with Section 317 of the German Commercial Code (HGB).

The standards and interpretations valid in the EU since 1 January 2020 were applied during the preparation of the interim consolidated financial statements. As regards the possible effects of standards and interpretations that have already been issued, but that are not yet mandatory, we refer to the explanations in the Notes to the consolidated financial statements as at 31 December 2019. The possible effects of standards and interpretations that were issued in the first half of 2020, but that are not yet mandatory, are currently being examined. The interim consolidated financial statements as at 30 June 2020 are to be read in conjunction with the audited and published IFRS consolidated financial statements as at 31 December 2019. The interim consolidated financial statements were prepared in compliance with the same accounting and measurement principles that formed the basis for the consolidated financial statements as at 31 December 2019. Estimates and discretionary decisions were basically made in the same manner as in the previous year if not stated differently in section Significant assumptions and estimates. The actual values may differ from the estimated values.

The functional currency of Hapag-Lloyd AG and all of its main subsidiaries is the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro. For reporting purposes, the assets and liabilities of the Hapag-Lloyd Group are translated into euros using the mean exchange rate on the reporting date (closing rate). The cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The resulting differences are recognised in other comprehensive income.

As at 30 June 2020, the closing US dollar / euro exchange rate was quoted as USD 1.12055 / EUR (31 December 2019: USD 1.12230 / EUR). For the first half of 2020, the average US dollar / euro exchange rate was USD 1.10140 / EUR (prior year period: USD 1.12960 / EUR).

New accounting standards

The standards which are to be applied for the first time in the 2020 financial year have no significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group.

Significant assumptions and estimates

Estimates and discretionary decisions may affect the amount of assets and liabilities recognised, the disclosure of contingent liabilities on the reporting date, and the reported amounts of income and expenses for the reporting period.

The Executive Board of Hapag-Lloyd has reassessed its assumptions and estimates used in the measurement of assets and liabilities as at 31 December 2019. Expected useful lives of assets were also reviewed in relation to this and, as a result, the expected useful life of the UASC brand was shortened by 2 years. As a result of this change, the brand was amortised in full in the second quarter of 2020. Depreciation and amortisation increased by EUR 16.7 million in the first half of 2020. Furthermore, the expected level of claims for demurrage and detention was estimated to be lower in some regions as a result of the COVID-19 pandemic, in particular due to government measures. This adjustment led to a reduction in revenues in the first half of 2020 in the amount of EUR 23.8 million.

Otherwise, the assessment as at the reporting date did not indicate any other changes to the assumptions and estimates with significant effects on the Group’s net asset, financial and earnings position. In particular, there were no other indications of any significant impairment or valuation risks for existing receivables and other tangible and intangible assets as at the reporting date. Due to the currently unforeseeable worldwide consequences of the COVID-19 pandemic, estimates and discretionary decisions are subject to increased uncertainty.

Group of consolidated companies

The consolidated financial statements include all significant subsidiaries and equity-accounted investments. In addition to Hapag-Lloyd AG, the group of consolidated companies comprised 136 fully consolidated companies (31 December 2019: 135) and 5 equity-accounted investees as at 30 June 2020 (31 December 2019: 6). Three newly established companies were added to the group of consolidated companies in the first half of 2020. Two companies which had been included in the consolidated financial statements as part of the integration of the UASC Group in 2017 were merged. One company which had been consolidated using the equity method was deconsolidated due to its immateriality to the Group’s net asset, financial and earnings position.

SEGMENT REPORTING

The Hapag-Lloyd Group is managed by the Executive Board as a single, global business unit with one sphere of activity. The primary performance indicators are freight rates and transport volume by geographic region as well as EBIT and EBITDA at the Group level.

The allocation of resources (use of ships and containers) and the management of the sales market and of key customers are done on the basis of the entire liner service network and deployment of all of the maritime assets. The Group generates its revenue solely through its activities as a container liner shipping company. The revenue comprises income from transporting and handling containers and from related services and commissions, all of which are generated globally. As the Hapag-Lloyd Group operates with the same product around the world throughout its entire liner service network, the Executive Board has decided that there is no appropriate measure with which assets, liabilities, EBIT and EBITDA as the key performance indicators can be allocated to different trades. All of the Group’s assets, liabilities, income and expenses are thus only allocable to the one segment, container liner shipping. The figures given per trade are the transport volume and freight rate, as well as the revenue allocable to said trade.

Transport volume per trade[1]

TTEU	Q2 2020	Q2 2019	H1 2020	H1 2019
Atlantic	442	513	923	982
Transpacific	418	494	890	944
Far East	495	584	1,062	1,178
Middle East	307	344	699	695
Intra-Asia	211	215	423	436
Latin America	667	713	1,411	1,389
EMA (Europe – Mediterranean – Africa)	161	175	347	342
Total	**2,701**	**3,038**	**5,755**	**5,966**

[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.

Freight rates per trade[1]

USD/TEU	Q2 2020	Q2 2019	H1 2020	H1 2019
Atlantic	1,405	1,361	1,405	1,356
Transpacific	1,378	1,289	1,351	1,312
Far East	982	891	971	927
Middle East	856	753	818	755
Intra-Asia	563	548	587	538
Latin America	1,164	1,144	1,163	1,162
EMA (Europe – Mediterranean – Africa)	1,046	1,047	1,038	1,036
Total (weighted average)	**1,114**	**1,063**	**1,104**	**1,071**

[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.

Revenue per trade[1]

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Atlantic	563.8	620.3	1,177.1	1,179.4
Transpacific	523.7	566.3	1,092.1	1,096.7
Far East	441.3	463.3	936.8	966.3
Middle East	239.1	230.6	518.9	464.4
Intra-Asia	107.9	105.0	225.4	207.5
Latin America	705.3	725.2	1,489.5	1,428.7
EMA (Europe – Mediterranean – Africa)	152.8	163.3	326.6	313.6
Revenue not assigned to trades	283.1	301.2	593.9	581.5
Total	**3,017.0**	**3,175.2**	**6,360.3**	**6,238.1**

[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.

Revenue not assigned to trades essentially comprises income from demurrage and detention and income from charter rent and the provision of container slots. At the same time, revenue for pending voyages already generated is recognised under revenue not assigned to trades.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) are calculated on the basis of the Group's earnings before interest and taxes (EBIT) as presented in the following table. Earnings before taxes (EBT) and the share of profits of the segment's equity-accounted investees correspond to those of the Group.

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**699.3**	**466.9**	**1,168.7**	**956.2**
Depreciation, amortisation and impairment	347.8	291.2	657.3	566.8
Earnings before interest and taxes (EBIT)	**351.5**	**175.7**	**511.3**	**389.4**
Earnings before taxes (EBT)	**270.1**	**55.9**	**310.0**	**163.6**
Share of profit of equity-accounted investees	**6.5**	**9.0**	**15.7**	**17.5**

SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENTS

Detailed Notes on the current effects of the COVID-19 pandemic on business activities are contained in the interim Group management report in the chapter "Group earnings, financial and net asset position".

Revenue

Revenue is broken down by trade in the Hapag-Lloyd Group. This breakdown can be found in the "Segment reporting" section.

The Hapag-Lloyd Group's revenue rose by EUR 122.2 million to EUR 6,360.3 million in the first half of the 2020 financial year (prior year period: EUR 6,238.1 million), representing an increase of 2.0%. This was primarily due to a stronger US dollar compared with the prior year period.

Adjusted for exchange rate movements, revenue was 0.6% below prior-year figure (–0.6%). A rise in average freight rates contrasted with a fall in transport volumes that was primarily attributable to the global effects of the political measures to combat the COVID-19 pandemic in the second quarter of 2020.

Transport expenses

million EUR	Q2 2020	Q2 2019	H1 2020	H1 2019
Transport expenses for finished voyages	2,132.6	2,469.9	4,744.2	4,835.0
Bunker	268.6	427.6	862.9	822.2
Handling and haulage	1,139.0	1,247.3	2,396.3	2,439.6
Equipment and repositioning [1]	281.9	296.2	562.0	581.0
Vessel and voyages (excluding bunker) [1]	443.1	498.8	923.0	992.2
Transport expenses for pending voyages [2]	–47.3	12.4	–14.0	–9.7
Total	**2,085.3**	**2,482.4**	**4,730.2**	**4,825.3**

1 Lease expenses for short-term leases are included in expenses for vessel and voyages (excluding fuel) along with containers and repositioning.
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 period are presented in the current financial year as transport expenses for finished voyages within the expense items fuel, handling and haulage, containers and repositioning, and ships and voyages (excluding fuel).

Transport expenses fell by EUR 95.1 million in the first half of the 2020 financial year to EUR 4,730.2 million (prior year period: EUR 4,825.3 million). This represents a drop of 2.0%. A rise in the average bunker price compared with the previous year contrasted with positive effects resulting from a volume-related decrease in expenses and from active cost management within the PSP programme. Adjusted for exchange rate movements, transport expenses in the first half of the year would have fallen by around EUR 218.7 million (4.4%) and therefore more than the decrease in transport volumes of 3.5% due the COVID-19 pandemic.

The increase in fuel expenses was essentially due to the required use of the more expensive low-sulphur fuel from 1 January 2020 following the implementation of IMO 2020. This was offset by positive effects from a year-on-year reduction in bunker consumption by adapting departures which have been partially merged or cancelled.

Expenses for handling and haulage essentially comprise expenses for inland container transport and terminal handling charges. The decrease in expenses of EUR 43.3 million to EUR 2,396.3 million resulted primarily from a volume-related decline and lower hinterland transport expenses.

Expenses for vessel and voyages (excluding fuel) primarily relate to port and canal costs, expenses for ship and slot chartering and expenses for repairs to and maintenance of ocean-going vessels. The decrease in expenses was mainly due to the lower transport volume and associated suspended services and reduced number of voyages, to network optimisations and to a higher percentage of ships chartered in on a medium-term basis compared with the previous year. If ships are chartered in on a medium-term basis, they must be recognised in accordance with the provisions of IFRS 16 Leases as at 1 January 2019, and the associated expenses must be reported as the amortisation of the rights of use recognised in property, plant and equipment and as interest expenses for the corresponding lease liabilities. However, charter expenses for ships with a term up to 12 months are recognised in transport expenses.

Depreciation, amortisation and impairment

Depreciation and amortisation came to EUR 657.3 million in the first half of the 2020 financial year (prior year period: EUR 566.8 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 EUR 261.9 million (prior year period: EUR 204.2 million).

Other operating result

The other operating result of EUR –136.5 million (prior year period: EUR –142.6 million) comprised the net balance of other operating income and expenses. Other operating expenses totalled EUR 166.9 million for the first half of the 2020 financial year (prior year period: expenses of EUR 162.4 million). This included mainly IT expenses (EUR 83.9 million; prior year period: EUR 70.3 million), administrative expenses (EUR 19.2 million; prior year period: EUR 19.7 million) and consultancy fees (EUR 15.5 million; prior year period: EUR 16.7 million). The other operating income included in the figure resulted primarily from the release of provisions (EUR 7.6 million; prior year period: EUR 0.5 million) and the disposal of assets (EUR 7.4 million; prior year period: EUR 10.7 million).

Interest result

The interest result for the first half of the 2020 financial year was EUR –204.0 million (prior year period: EUR –224.9 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 EUR 25.7 million. In addition, the repayment of debt in relation to bank financing and the resulting reduction in interest in the amount of EUR 18.1 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 EUR –14.5 million (prior year period: income of EUR 2.7 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 EUR –9.1 million (prior year period: EUR –3.5 million) had a negative impact on the interest result.

Income taxes

Income tax expense increased by EUR 7.3 million compared with the previous year to EUR 24.6 million. The increase in expenses is primarily due to the devaluation of deferred tax assets on losses carried forward and exchange rate effects.

Earnings per share

	Q2 2020	Q2 2019	H1 2020	H1 2019
Profit / loss attributable to shareholders of Hapag-Lloyd AG in million EUR	256.9	46.2	278.7	137.9
Weighted average number of shares in millions	175.8	175.8	175.8	175.8
Basic earnings per share in EUR	**1.46**	**0.26**	**1.59**	**0.78**

Basic earnings per share is the quotient of the Group net result attributable to the shareholders of Hapag-Lloyd AG and the weighted average of the number of shares in circulation during the financial year.

There were no dilutive effects in the first half of 2020 or in the corresponding prior year period.

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Goodwill and other intangible assets

Goodwill and intangible assets decreased compared with 31 December 2019 primarily due to amortisation on other intangible assets in the amount of EUR 66.8 million (prior year period: EUR 49.4 million). Of this amount, EUR 16.7 million is attributable to the complete write-down of the “UASC” brand due to the shortening of its useful life.

Property, plant and equipment

million EUR	30.6.2020	31.12.2019
Vessels	7,594.7	7,484.9
Container	2,319.8	2,291.7
Other equipment	222.8	223.3
Prepayments on account and assets under construction	46.0	65.0
Total	**10,183.3**	**10,064.9**

Property, plant and equipment increased primarily as a result of investments in ship equipment and containers and the renewal and adjustment of conditions of charter contracts under the PSP programme and a resulting increase in rights of use received in relation to ocean-going vessels and containers totalling EUR 689.5 million. By contrast, the carrying amounts were reduced by depreciation to property, plant and equipment and amortisation to rights of use in the amount of EUR 590.5 million.

Inventories

In the first half of the 2020 financial year, the average bunker consumption price for Hapag-Lloyd was USD 448 per tonne, up USD 19 per tonne (4.4%) on the figure of USD 429 per tonne for the prior year period. An impairment of fuel inventories in the amount of EUR 7.5 million was recognised as at 30 June 2020 (prior year period: EUR 2.0 million). No write-backs were recognised.

Cash and cash equivalents

million EUR	30.6.2020	31.12.2019
Cash at bank	1,497.7	490.6
Cash on hand and cheques	11.6	21.0
Total	**1,509.2**	**511.6**

As at 30 June 2020, a sum totalling EUR 9.3 million with a term of up to 3 months was deposited in pledged accounts (31 December 2019: EUR 10.0 million) and was therefore subject to a restriction of use.

Due to local restrictions, the Hapag-Lloyd Group has limited access to cash and cash equivalents of EUR 6.3 million (31 December 2019: EUR 2.3 million) at individual subsidiaries.

The increase in cash and cash equivalents resulted mainly from operating activities and various refinancing measures to increase the liquidity within the PSP programme. Please refer to the note financial liabilities for details of refinancing.

Cumulative other equity

Cumulative other equity comprises the reserve for remeasurements from defined benefit pension plans, the reserve for cash flow hedges, the translation reserve and the reserve for put options on non-controlling interests.

The reserve for remeasurements from defined benefit pension plans (30 June 2020: EUR –171.0 million; 31 December 2019: EUR –173.3 million) contains gains and losses from the remeasurement of pension obligations and plan assets recognised cumulatively in other comprehensive income, among other things due to the change in actuarial and financial parameters in connection with the measurement of pension obligations and the associated fund assets. The effect of remeasuring pension obligations and the associated plan assets recognised in other comprehensive income in the first half of 2020 resulted in a decrease of EUR 2.3 million in the negative reserve (prior year period: EUR 45.0 million).

The reserve for cash flow hedges contains changes in the intrinsic value and in the cash component from hedging transactions that are recognised in other comprehensive income and amounted to EUR –26.0 million as at 30 June 2020 (31 December 2019: EUR –14.0 million). In the first half of 2020, the resulting gains and losses totalling EUR –17.9 million were recognised in other comprehensive income as an effective part of the hedging relationship (prior year period: EUR –22.9 million), while gains and losses of EUR 5.7 million (prior year period: EUR 8.0 million) were reclassified and recognised through profit or loss.

The reserve for costs of hedging contains changes in the time value and in the forward component from hedging transactions that are recognised in other comprehensive income and amounted to EUR –16.5 million as at 30 June 2020 (31 December 2019: EUR –10.2 million). In the first half of 2020, the resulting gains and losses totalling EUR –31.7 million were recognised in other comprehensive income (prior year period: EUR –19.6 million), while gains and losses of EUR 8.9 million (prior year period: EUR 15.3 million) were reclassified and recognised through profit or loss.

The translation reserve of EUR 562.9 million (31 December 2019: EUR 560.5 million) includes differences from currency translation. The differences from currency translation of EUR 2.4 million recognised in other comprehensive income in the first half of 2020 (prior year period: EUR 34.7 million) were due to the translation of the financial statements of Hapag-Lloyd AG and its subsidiaries into the reporting currency. Currency translation differences are recognised in the statement of comprehensive income under the items that are not reclassified and recognised through profit or loss, because the currency translation effects of subsidiaries with the same functional currency as the parent company cannot be recycled.

Provisions

As part of the implementation of Strategy 2023, plans to optimise the organisation were approved in the 2019 financial year in order to further strengthen and increase the Company’s competitiveness. A provision of EUR 9.5 million was created for severance payments in connection with this, EUR 1.7 million of which had been used as at 30 June 2020.

Financial instruments

Carrying amounts and fair values

The carrying amounts and fair values of the financial instruments as at 31 December 2019 are presented in the table below.

	Carrying amount		Fair value
million EUR	Total	thereof financial instruments	Financial instruments
Assets			
Trade accounts receivable	1,239.8	1,239.8	1,239.8
Other assets	370.6	257.2	257.2
Derivative financial instruments (FVTPL)	27.3	27.3	27.3
Embedded derivatives	27.3	27.3	27.3
Derivative financial instruments (Hedge accounting) [1]	14.8	14.8	14.8
Currency forward contracts	1.0	1.0	1.0
Commodity options	13.5	13.5	13.5
Interest rate swaps	0.3	0.3	0.3
Cash and cash equivalents	511.6	511.6	511.6
Liabilities			
Financial debt	5,203.8	5,203.8	5,277.8
Liabilities from lease contracts	1,193.4	1,193.4	–
Trade accounts payable	1,779.4	1,779.4	1,779.4
Derivative financial instruments (FVTPL)	8.0	8.0	8.0
Interest rate swaps	8.0	8.0	8.0
Derivative financial liabilities (Hedge accounting) [1]	26.4	26.4	26.4
Currency forward contracts	11.6	11.6	11.6
Interest rate swaps	14.9	14.9	14.9
Other liabilities	130.3	104.0	104.0
Liabilities from put options [2]	1.6	1.6	1.8
Contract liabilities	372.9	–	–

[1] The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for cost of hedging, are also recognised here.
[2] Part of other liabilities

The carrying amounts and fair values of the financial instruments as at 30 June 2020 are presented in the table below.

	Carrying amount		Fair value
million EUR	Total	thereof financial instruments	Financial instruments
Assets			
Trade accounts receivable	1,158.7	1,158.7	1,158.7
Other assets	368.6	251.8	251.8
Derivative financial instruments (FVTPL)	13.1	13.1	13.1
Embedded derivatives	13.1	13.1	13.1
Derivative financial instruments (Hedge accounting) [1]	12.1	12.1	12.1
Currency forward contracts	0.5	0.5	0.5
Commodity options	11.6	11.6	11.6
Cash and cash equivalents	1,509.2	1,509.2	1,509.2
Liabilities			
Financial debt	5,807.7	5,807.7	5,935.2
Liabilities from lease contracts	1,383.5	1,383.5	–
Trade accounts payable	1,844.8	1,844.8	1,844.8
Derivative financial instruments (FVTPL)	16.4	16.4	16.4
Interest rate swaps	16.4	16.4	16.4
Derivative financial liabilities (Hedge accounting) [1]	48.7	48.7	48.7
Currency forward contracts	17.4	17.4	17.4
Interest rate swaps	31.3	31.3	31.3
Other liabilities	133.0	104.5	104.5
Liabilities from put options [2]	2.1	2.1	2.5
Contract liabilities	375.4	–	–

1 The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for cost of hedging, are also recognised.
2 Part of other liabilities

The derivative financial instruments were measured at fair value.

Other assets include securities with a fair value of EUR 1.9 million (31 December 2019: EUR 1.9 million) that are allocated to level 1 of the fair value hierarchy, as their prices are quoted on an active market.

The liabilities from the bond included within financial debt that, due to the quotation on an active market, are also allocated to level 1 of the fair value hierarchy have a fair value of EUR 453.4 million (31 December 2019: EUR 472.8 million).

Financial debt also includes a liability to reflect a contingent consideration payable for a business combination for which a fair value at level 3 of EUR 0.5 million (31 December 2019: EUR 0.6 million) was calculated.

The put options recognised under other liabilities, whose fair value was calculated at EUR 2.5 million (31 December 2019: EUR 1.8 million), also belong to level 3 of the fair value hierarchy.

The fair values indicated for the remaining financial debt and the derivative financial instruments are assigned to level 2 of the fair value hierarchy. This means that the instruments are measured using methods which are based on factors derived directly or indirectly from observable market data.

As a rule, the carrying amounts of all other level 2 financial instruments are a suitable approximation of the fair values.

There were no transfers between levels 1, 2 and 3 in the first half of 2020.

Fuel price risk

The global decline in the demand for oil as a result of the COVID-19 pandemic and the simultaneous dispute about production volumes among leading oil-producing countries had a clear impact on bunker prices in the first half of 2020. In order to portray the fuel price risks according to IFRS 7, an updated sensitivity analysis was therefore performed as at 30 June 2020, with an implied hypothetical market price change of +/–10%. The consequent effects on other comprehensive income resulting from the market price changes of the derivative financial instrument used are shown in the following table.

	30.6.2020		31.12.2019	
million EUR	10%	–10%	10%	–10%
Reserve for cash flow hedges	6.4	–6.4	–	–
Reserve for cost of hedging	12.5	–5.1	36.6	–12.0

IBOR reform

As part of the IBOR reform, the existing reference interest rates (interbank offered rates – IBOR) are to be replaced by alternative risk-free interest rates by the end of 2021. To ensure that hedging relationships can still be recognised in financial statements, Hapag-Lloyd has adopted the resulting changes to IFRS 9, IAS 39 and IFRS 7 as and from 1 January 2020. In the Hapag-Lloyd Group, only the hedging relationships for interest rate risks are directly affected by these amendments. The reference interest rate that the hedged variable cash flows are based on is the USD LIBOR. As at 30 June 2020, the nominal volume of the financial instruments in a hedging relationship for hedging interest rate risks was USD 1,016.2 million.

The Hapag-Lloyd Group is currently examining the effects of the alternative reference interest rates on existing IBOR-based agreements and preparing relevant IT systems, where possible, so that they can reproduce the financing agreements and the hedging instruments based on the new reference interest rates. There is a high level of uncertainty in the market about how the alternative reference interest rates are calculated, when they will be ready and therefore also about how they will affect existing and new financing agreements and hedging instruments in particular. However, Hapag-Lloyd assumes that the replacement of the reference interest rates in the hedged item and hedging instrument and the associated contractual changes will occur at the same time. As a result, there will be no incongruence between the hedged item and the hedging instrument, thereby ensuring that the existing hedging relationships remain effective. With regard to further developments relating to alternative reference interest rates, Hapag-Lloyd is in regular contact with its international bank partners.

Financial debt and lease liabilities

The following tables contain the carrying amounts for the individual categories of financial debt and lease liabilities.

Financial debt and lease liabilities

million EUR	30.6.2020	31.12.2019
Financial debt	5,807.7	5,203.8
Liabilities to banks[1]	4,443.4	4,292.9
Bonds	458.5	458.3
Other financial debt	905.8	452.6
Lease liabilities	1,383.5	1,193.4
Total	**7,191.2**	**6,397.2**

[1] This includes liabilities which result from sale and leaseback transactions that are accounted for as loan financing in accordance with IFRS 16 in conjunction with IFRS 15 insofar as the liabilities are to banks or special purpose entities, which are established and financed by banks.

Financial debt and lease liabilities by currency

million EUR	30.6.2020	31.12.2019
Denoted in USD (excl. transaction costs)	6,276.9	5,472.9
Denoted in EUR (excl. transaction costs)	732.1	736.1
Denoted in SAR (excl. transaction costs)	142.8	152.0
Denoted in other currencies (excl. transaction costs)	59.1	56.6
Interest liabilities	31.2	32.5
Transaction costs	–50.9	–52.9
Total	**7,191.2**	**6,397.2**

As part of the PSP programme, the following transactions were carried out to increase the liquidity and which are related to investments.

In the first half of the 2020 financial year, Hapag-Lloyd conducted 2 container sale and leaseback transactions to refinance investments in new standard and reefer containers (Japanese operating leases [JOLs]). Each of the lease agreements includes substantial purchase options that entitle Hapag-Lloyd to repurchase the containers after 7 years. As a result, the transactions are recognised as loan financing in accordance with the provisions of IFRS 16 in conjunction with IFRS 15. The financing volume has a total amount of EUR 103.6 million.

Hapag-Lloyd also conducted 6 container sale and leaseback transactions to refinance used standard containers (Japanese operating leases [JOLs]). The lease agreements include substantial purchase options that entitle Hapag-Lloyd to repurchase the containers after 3 years. As a result, the transactions are likewise recognised as loan financing in accordance with the provisions of IFRS 16 in conjunction with IFRS 15. The financing volume has a total amount of EUR 84.8 million. The liabilities are assigned to the category “other financial debt”, as the liabilities are to special purpose entities which are financed exclusively through equity without the involvement of banks.

In the first half of the 2020 financial year, Hapag-Lloyd also conducted sale and leaseback transactions to refinance 7 container ships (Chinese leases). The previous financing was early prepaid (outstanding loan amount as of the prepayment date EUR 208.1 million). The lease agreements include substantial purchase options that entitle Hapag-Lloyd to repurchase the ships. As a result, the transactions are likewise recognised as loan financing in accordance with the provisions of IFRS 16 in conjunction with IFRS 15. The financing volume has a total amount of EUR 405.6 million. The liabilities are also assigned to the category “other financial debt”, as the liabilities are to special purpose entities which are set up and financed without the involvement of banks, but by a leasing company.

In addition, drawdowns of revolving credit lines in the amount of EUR 363.2 million and the use of the ABS programme in the amount of EUR 145.3 million led to an increase in financial debt. The Hapag-Lloyd Group had total unused credit lines of EUR 165.1 million as at 30 June 2020 (31 December 2019: EUR 521.3 million).

OTHER NOTES

Legal disputes

There have been no significant changes regarding legal disputes in comparison with the 2019 consolidated financial statements.

As at the reporting date, contingent liabilities from legal disputes not classified as probable were unchanged compared with 31 December 2019, at USD 10.2 million, or EUR 9.1 million, and there was also EUR 46.2 million (31 December 2019: EUR 48.5 million) in contingent liabilities from tax risks not classified as probable.

Other financial obligations

The Hapag-Lloyd Group's other financial obligations as at 30 June 2020 essentially comprised purchase obligations

- for investments in exhaust gas cleaning systems (EGCS) on container ships amounting to EUR 5.7 million (31 December 2019: EUR 33.3 million),
- for investments in containers amounting to EUR 23.9 million (31 December 2019: EUR 34.0 million),
- for investments in conversion to the use of liquid gas on container ships amounting to EUR 13.3 million (31 December 2019: EUR 13.2 million),
- for investments in equipment for ballast water treatment on container ships amounting to EUR 0.3 million (31 December 2019: EUR 5.2 million),
- for investments in the use of low-sulphur fuel on container ships amounting to EUR 1.0 million (31 December 2019: EUR 2.6 million),
- for further investments on container ships totalling EUR 5.1 million (31 December 2020: EUR 3.6 million).

Related party disclosures

In carrying out its ordinary business activities, the Hapag-Lloyd Group maintained indirect or direct relationships with related companies and individuals and with its own subsidiaries included in the consolidated financial statements. These supply and service relationships are transacted at market prices. No significant changes in these supply and service relationships have arisen since 31 December 2019. With the exception of the modification to the long-term variable remuneration of the Executive Board members detailed below, the contractual relationships with related parties described in the remuneration report from page 127 onwards of the 2019 annual report remain essentially unchanged, but are not of material importance to the Group.

With effect from 1 January 2020, the long-term variable remuneration of the Executive Board members was modified such that it will no longer be linked to the Hapag-Lloyd share. Under the new model, the annual allocation amount granted is divided equally into a retention component and a performance component at an unchanged amount. As a rule, the vesting period will be 3 years (instead of the previous 4 years). The payment amount for the retention component after 3 years is calculated by multiplying half of the allocation amount by the respective target achievement. As a rule, the target achievement for the retention component is calculated using the 3-year average of the Group's EBITDA in the vesting period (for the 2020 tranche: 2020 to 2022) compared to the Group's EBITDA in the reference period (for the 2020 tranche: 2017 to 2019). The target achievement for the performance component is calculated in the same way as outlined above and adjusted upwards or downwards based on the 3-year average of the ROIC in the vesting period using a defined matrix. The payment amounts for both components are limited to 150% of the individual allocation amount.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 1 July 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 x 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.

Hamburg, 11 August 2020

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Mark Frese

Dr Maximilian Rothkopf

Joachim Schlotfeldt

RESPONSIBILITY STATEMENT PURSUANT TO SECTION 297 (2) AND SECTION 315 (1) OF THE GERMAN COMMERCIAL CODE (HGB) (RESPONSIBILITY STATEMENT)

We confirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the interim consolidated financial statements give a true and fair view of the net assets, financial and earnings position of the Group and that the interim Group management report includes a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks that it faces in the remainder of the financial year.

Hamburg, 11 August 2020

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Mark Frese

Dr Maximilian Rothkopf

Joachim Schlotfeldt

FINANCIAL CALENDAR 2020

13 NOVEMBER 2020
Publication of quarterly financial report 9 months 2020

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