

Shipping Growth in transport volumes. Earnings more than doubled.

The shipping division encompasses container shipping and the cruise business of the Hapag-Lloyd Group. Business development in the 2007 financial year was characterised by a continued recovery in worldwide transport markets as well as a substantial increase in freight rates in container shipping following their low level as at the beginning of the year. Overall, Hapag-Lloyd regained its strong growth potential and achieved volume growth year-on-year.

Turnover and earnings in shipping

Shipping – Key figures

€ million	2007	2006	Var. %
Turnover	6,201.6	6,254.0	- 0.8
Segment turnover	6,204.4	6,259.1	- 0.9
Cost of sales	5,948.2	6,010.8	- 1.0
Gross profit	256.2	248.3	+ 3.2
Administrative expenses	188.8	337.2	- 44.0
Other income/expenses	248.8	- 25.0	n. m.
Result from companies measured at equity	25.7	7.5	+ 242.7
EBITA by division	341.9	- 106.4	n. m.
<i>Gains on disposals</i>	- 200.5	-	
<i>Restructuring</i>	- 1.1	+ 66.4	
<i>Purchase price allocations</i>	+ 82.4	+ 81.8	
<i>Other one-off items</i>	- 26.0	+ 47.4	
Underlying EBITA by division	196.7	89.2	+ 120.5
Investments	572.2	192.4	+ 197.4
Headcount (31 Dec)	8,243	8,571	- 3.8

In the 2007 financial year, i.e. the first full financial year following the integration of CP Ships into Hapag-Lloyd, turnover development varied. Despite renewed volume growth, turnover dropped by 0.8% to € 6.2 billion due to the lower US dollar exchange rate against the euro. At € 6.0 billion, container shipping accounted for the largest portion of turnover of the division. Hapag-Lloyd Kreuzfahrten generated turnover of € 0.2 billion, up 14.3% year-on-year.

While turnover was adversely impacted by changes in exchange rates, a correspondingly decline in cost of sales of 1.0% to € 5.9 billion was recorded year-on-year. Overall, gross profit increased by 3.2% to € 256 million.

Administrative expenses decreased significantly by 44.0% to € 189 million. This was due to the synergy effects from the integration of CP Ships which became fully effective in the completed 2007 financial year and the dispense of included restructuring costs in 2006.

The balance of other income and expenses rose by € 274 million to € 249 million. The positive profit contribution included in that balance mainly resulted from the gains on the disposal of the assets in Montreal Gateway Terminals in Canada, sold in March 2007.

The result from companies measured at equity also rose by € 18 million year-on-year to € 26 million. This significant earnings growth was driven by the positive development of earnings of the Altenwerder container terminal.

Earnings by the shipping division totalled € 342 million (previous year: € - 106 million), a significant improvement of € 448 million year-on-year. Container shipping contributed € 328 million to these earnings, while Hapag-Lloyd Kreuzfahrten accounted for € 14 million. Adjusted for lagging expenses for the integration of CP Ships and the one-off income included, especially the divestment of Montreal Gateway Terminals, operating earnings by the shipping division totalled € 197 million, up 120.5% year-on-year.

Container shipping

Container shipping – Key figures

€ million	2007	2006	Var. %
Turnover	6,018.4	6,093.7	- 1.2
EBITA by division	327.7	- 114.3	n. m.
<i>Gains on disposals</i>	- 200.5	-	
<i>Restructuring</i>	- 1.1	+ 66.4	
<i>Purchase price allocation</i>	+ 82.4	+ 81.8	
<i>Other one-off items</i>	- 26.0	+ 47.4	
Underlying EBITA by division	182.5	81.3	+ 124.5

Integration of CP Ships and standardisation of reporting structure

The integration of CP Ships, the container shipping company acquired in October 2005, was successfully completed as early as 2006. In 2007, the main focus of activities was on process optimisation and improving productivity.

Since the third quarter of 2006, freight rates and transport volumes have been jointly presented for Hapag-Lloyd and CP Ships and broken down according to the geographical structure of the trade lanes. To that end, the key figures for CP Ships for 2006 were calculated accordingly and determined statistically for the reference periods.

Turnover and earnings

In the 2007 financial year, container shipping turnover declined by 1.2% to € 6.0 billion despite a considerable increase in transport volumes. This decrease was primarily caused by the weak US dollar exchange rate against the euro. Transport volumes grew by 9.0% to 5,454 thousand standard containers (TEU). Average freight rates have been significantly increased in all trade lanes since mid-2007. However, average freight rate levels in 2007 still fell 1.3% short of 2006 levels.

In 2007, earnings developed positively and, at € 328 million, rose substantially against the previous year's negative figure of € - 114 million.

Earnings included one-off effects from:

- the divestment of Montreal Gateway Terminals and the minority interest of Hapag-Lloyd AG in 'Germanischer Lloyd AG' of € 201 million;
- one-off income from the reversal of a restructuring provision in connection with the integration of CP Ships of € 1 million;
- amortisation of assets of € 82 million for the purchase price allocation for CP Ships and
- one-off income from the revaluation of a risk position formed in the wake of the acquisition of CP Ships of € 32 million and one-off expenses of € 6 million for the integration of CP Ships.

Adjusted for these one-off effects, underlying earnings totalled € 183 million for container shipping, an increase of € 101 million year-on-year on a like-for-like basis. The improvement in the operative performance was attributable to the significant volume growth and the efficiency improvements resulting from the successful integration of CP Ships into the Hapag-Lloyd Group. These effects more than offset the adverse impact of the weakness of the US dollar exchange rate against the euro. The impact of the steady rise in bunker costs throughout the year was countered by several measures. An optimisation of schedules and speed reductions helped to generate savings in bunker consumption. In addition, the cost increase was partly passed on to customers via bunker surcharges. Further, a successful fuel cost hedging strategy was launched to complete the set of initiatives.

Development in the trade lanes

In the 2007 financial year, Hapag-Lloyd again defended its position as one of the world's five largest container lines based on existing capacity. As at 31 December 2007, Hapag-Lloyd's container fleet consisted of 141 container ships with a joint slot capacity of 493,000 TEU. As a founding member of the Grand Alliance, Hapag-Lloyd was incorporated into the route network of one of the world's major international liner shipping consortia. Hapag-Lloyd contributed to the consortium around 35% and thus a significant portion of the jointly used capacity. Hapag-Lloyd's transport volume grew by 9.0% to nearly 5.5 million TEU in the 2007 financial year, whereby in particular the East-West route contributed to this increase. Hapag-Lloyd thus outperformed the overall container transport market, which grew by 7.8% in 2007 (Source: Global Insight, September 2007). The expansion of transport capacity by means of the commissioning of three Group-owned new builds with a slot capacity of 8,750 TEU each and a positive effect on volume growth.

Transport volumes Hapag-Lloyd

'000 TEU	2007	2006	Var. %
Far East	1,374	1,183	+ 16.1
Trans-Pacific	1,044	948	+ 10.2
Atlantic	1,456	1,392	+ 4.6
Latin America	890	791	+ 12.5
Australasia	690	690	+ 0.0
Total	5,454	5,004	+ 9.0

Freight rates Hapag-Lloyd

US dollars/TEU	2007	2006	Var. %
Far East	1,379	1,223	+ 12.8
Trans-Pacific	1,453	1,485	- 2.1
Atlantic	1,523	1,659	- 8.2
Latin America	1,399	1,449	- 3.5
Australasia	1,189	1,223	- 2.8
Ø for all trade lanes	1,411	1,430	- 1.3

Far East

At 25% of transport volumes, the Far East trade lane with its routes connecting Europe and Asia shows the strongest growth and is Hapag-Lloyd's second largest trade lane in 2007. Its market volume grew by 15.3% in 2007. Freight traffic from Asia to Europe again grew more than twice as strongly as in the opposite direction. This growth was driven by the ongoing rise in export activities in China, which benefited transportation from Asia to Europe, and the ongoing relocation of production from European to Asian countries. Hapag-Lloyd limited the repercussions of the differences in volume growth in individual routes by optimising the rotation of the container fleet.

Hapag-Lloyd achieved transport volume growth of 16.1%, outperforming the market and growing to 1,374,000 TEU in this trade lane. Average freight rates developed very positively in the course of the year and rose by 12.8% year-on-year. This increase mainly resulted from freight rate increases achieved on the routes from Asia to Europe.

Trans-Pacific

In 2007, the transport market in the Trans-Pacific trade lane grew by 5.1%. Transport growth on the routes from North America to Asia almost grew more than twice as strongly as in the other direction. The growth was attributable to the continuing strong economic growth in China and the associated trade in raw materials and goods between the continents.

In the Trans-Pacific trade lane, Hapag-Lloyd grew by 10.2% and clearly outperformed the market in terms of shipped containers. The transport volume rose to 1,044,000 TEU. The imbalance of transports was improved by means of the selective acquisition of cargo from Asia to North America. Despite freight rates developing positively in the course of the year, the average rate still fell 2.1% short of 2006 levels.

Atlantic

At nearly 27%, transport between North America and Europe accounted for the largest portion of Hapag-Lloyd's business. In the reporting year 2007, the market volume in this trade lane grew by 3.2%. The development of volumes was driven in particular by the increase in transport volumes from North America to Europe since demand for American products was encouraged by the weakness of the US dollar exchange rate.

For 2007, Hapag-Lloyd reported a 4.6% increase in transport volumes and thus outperformed the market. Total transport volumes accounted for 1,456,000 TEU. Continuing strong competition in this trade lane caused a decline in freight rates at the beginning of the year, in particular on the routes from Europe to North America. However, the decline was curbed in

the further course of the year. Cumulative average freight rates for the completed year fell 8.2% short of 2006 levels.

Latin America

The Latin America trade lane primarily links South America with North America and Europe. Market growth totalled 5.6%. Outbound transport from Europe only grew half as strongly as transport from Latin America to Europe. The transport volumes on the routes from North to South America grew due to the weak exchange rate of the US dollar.

The transport volume shipped by Hapag-Lloyd in the Latin America trade lane totalled 890,000 TEU, up 12.5% year-on-year. The increase was caused by the growth in import activities in Latin America. Freight rates were still 3.5% down year-on-year, but since mid-2007 freight rates have risen again in this trade lane.

Australasia

The Australasia trade lane covers the inner-Asian services and the services linking the Far East and the Indian subcontinent with Australia and New Zealand. In 2007, the total market recorded a 7.4% increase in transport volumes. This was primarily due to the strong growth of inner-Asian container transports.

Hapag-Lloyd did not grow in line with the market in this trade lane. The transport volume in Australasia totalled 690,000 TEU, and thus remained at last year's level. This was attributable to deliberate cargo selection. Average freight rates declined by 2.8% year-on-year due to a change in the cargo mix.

Hapag-Lloyd Kreuzfahrten

Hapag-Lloyd Kreuzfahrten – Key figures

€ million	2007	2006	Var. %
Turnover	183.2	160.3	+ 14.3
EBITA by division	14.2	7.9	+ 79.7
<i>Gains on disposals</i>	–	–	
<i>Restructuring</i>	–	–	
<i>Purchase price allocation</i>	–	–	
<i>Other one-off items</i>	–	–	
Underlying EBITA by division	14.2	7.9	+ 79.7
Utilisation (in %)	78.6	73.5	+ 5.1

Turnover and earnings

In the 2007 financial year, the Hapag-Lloyd Kreuzfahrten business again developed positively, benefiting from the acquisition of new customer groups for cruises and the fact that the destinations were largely free of insecure political situations and natural disasters. Due to the high-quality product portfolio, average turnover per day also continued to rise year-on-year. Total turnover accounted for € 183 million, up 14.3% year-on-year.

Hapag-Lloyd Kreuzfahrten reported earnings of € 14 million, an increase of 79.7%. This growth was mainly attributable to the rise in the improvement in rates and occupancy rates. Earnings were adversely affected by the rise in fuel prices which, however, were countered by means of corresponding price hedging measures.

Business development

The cruise market in the German-speaking region again developed well in 2007, with high single-digit growth in total passenger volumes year-on-year. In the period under review, two new ships started operations in the German cruise market.

Hapag-Lloyd Kreuzfahrten continued to expand its position in the German-speaking premium and luxury market for traditional and expedition cruises. In the 2007 financial year, the fleet was made up unvaried of four cruise ships: the 'Europa', the 'Columbus', the 'Hanseatic' and the 'Bremen'. Two of the ships were owned while the other two were chartered. The average age of the fleet was twelve years. Two of the ships had a scheduled dock period in the financial year under review in order to be technically overhauled and have their inboard accommodation facilities improved.

In 2007, all four ships increased their utilisation year-on-year. Average utilisation of all ships was 78.6%, up 5.1 percentage points year-on-year.