Wallenius Wilhelmsen

# Q2 and First Half Year 2019

## Report


Investor Relations:

Astrid Martinsen

astrid.martinsen@walleniuswilhelmsen.com

+47 958 45 255

Media:

Anna Larsson

anna.larsson@walleniuswilhelmsen.com

+47 484 06 919

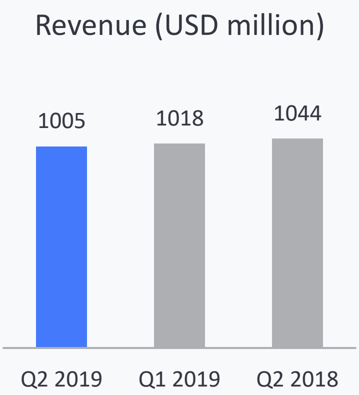

walleniuswilhelmsen.com

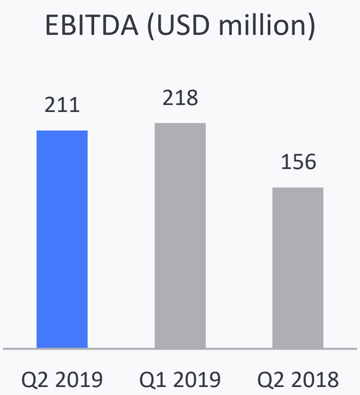
# Highlights second quarter 2019

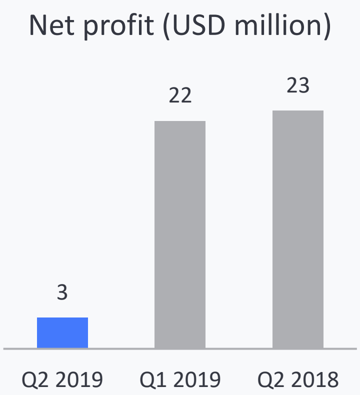
- EBITDA of USD 211 million, showing continued positive improvement y-o-y
- Ocean results driven by higher net freight/CBM, more efficient operations and lower net bunker cost
- Ocean volume declined 8% y-o-y, driven in part by commercial priorities and in part by weaker auto markets
- The landbased segment delivered overall stable performance, with strong results in H&H and APAC/EMEA
- Continued progress on the performance improvement program with about USD 65 million of the USD 100 million target confirmed

## Commenting on the second quarter results, Craig Jasienski, President and CEO of Wallenius Wilhelmsen, says:

*"I am very happy to see that our efforts to improve our operations are continuing to bear fruit. While volumes are lower compared to one year ago, our EBITDA increased as we carry better-paying cargo and operate more efficiently. With the uncertain volume outlook and volatile macro environment we continue to focus on efficiency and flexibility in our operations and agility in our organisation to be able to respond to changes in the market."*



# Consolidated results and key figures – second quarter 2019

*EBITDA for the second quarter of 2019 was USD 211 million, up USD 55 million compared to the same period last year as a result of improved profitability for the Ocean segment and IFRS 16 implementation*

| USD million | Q2 2019 | Q1 2019 | % change q-o-q | Q2 2018 | % change y-o-y |
|---|---|---|---|---|---|
| **Total income** | 1 005 | 1 018 | -1% | 1 044 | -4% |
| **EBITDA** | 211 | 218 | -3% | 156 | 35% |
| **EBIT** | 88 | 95 | -8% | 72 | 22% |
| **Profit for the period** | 3 | 22 | -87% | 23 | -87% |
| **EPS** [1) ] | 0.00 | 0.05 | n/a | 0.04 | n/a |
| **Net interest-bearing debt** | 3 851 | 3 882 | -1% | 3 207 | 20% |
| **ROCE** | 4.8% | 5.2% | n/a | 4.5% | n/a |
| **Equity ratio** | 35.3% | 35.0% | n/a | 37.5% | n/a |
| **EBITDA adjusted** | 211 | 218 | -3% | 159 | 33% |
| **IFRS 16 EBITDA effect** | 42 | 42 | n/a | n/a | n/a |

*1) After tax and non-controlling interests*

## Consolidated results

Total income was USD 1 005 million in the second quarter, down 4% compared to the same period last year due to lower revenues for the ocean segment. The decrease in ocean revenues was a result of lower volumes and reduced other operating income, partly offset by higher fuel cost compensation from customers. Ocean volumes were down 8% y-o-y due to lower auto volumes. A key driver behind the reduced volumes are commercial priorities whereby Wallenius Wilhelmsen is choosing not to carry low paying cargo. In addition, slower auto markets are impacting the volumes. Compared to the first quarter total income was down 1% driven by the ocean segment.

EBITDA came in at USD 211 million in the second quarter, up by USD 55 million compared to the same quarter last year of which USD 42 million was related to the implementation of IFRS 16 for leases as of 1 January 2019, with underlying improvement driven by the Ocean segment. See note 12 to the financial statements for more information about IFRS 16 effects. Compared to the first quarter, EBITDA was down USD 7 million mainly driven by the Ocean segment.

At the end of the second quarter about USD 65 million of the USD 100 million performance improvement program has been confirmed (concrete improvement measures identified and quantified) and the same amount realized (improvement measures actually implemented), up from USD 60 million in the previous quarter. The increase of USD 5 million comes mainly through further voyage optimization and more efficient hull cleaning.

Net financial expenses were USD 83 million for the second quarter, compared with a net expense of USD 70 million in the previous quarter. Interest expense was USD 51 million, down by USD 2 million compared to last quarter, but increase of USD 10 million compared to second quarter 2018 entirely due to the implementation of IFRS 16. Net financial expenses were negatively impacted by USD 31 million in unrealised interest rate derivatives.

The group recorded a tax expense of USD 3 million for the second quarter 2019, compared with an expense of USD 4 million the same quarter last year. The average Return on Capital Employed (ROCE) in the second quarter was 4.8%.

## Capital and financing

The equity ratio was 35.3% at the end of the second quarter, slightly up from 35.0% in the previous quarter. Cash and cash equivalents at the end of the second quarter was USD 487 million, down from USD 555 million in the previous quarter. In addition, Wallenius Wilhelmsen had about USD 285 million in undrawn credit facilities. Net interest-bearing debt was USD 3 851 million at the end of the second quarter.

In June, Wallenius Wilhelmsen Solutions refinanced and increased its revolving credit facility for general corporate and investment purposes.

# Ocean operations

*EBITDA for the second quarter was USD 184 million, with the underlying improvement compared to same quarter last year driven by higher net freight/CBM, improved operational efficiency and positive net bunker effect*

| USD million | Q2 2019 | Q1 2019 | % change q-o-q | Q2 2018 | % change y-o-y |
|---|---|---|---|---|---|
| **Total income** | 800 | 812 | -2% | 842 | -5% |
| **EBITDA** | 184 | 190 | -3% | 134 | 37% |
| **EBIT** | 84 | 90 | -6% | 62 | 35% |
| **Volume ('000 cbm)** | 17 003 | 16 240 | 5% | 18 500 | -8% |
| **High & heavy share** | 29.1% | 30.0% | n/a | 26.9% | n/a |
| **EBITDA adjusted** | 184 | 190 | -3% | 136 | 35% |
| **IFRS 16 EBITDA effect** | 31 | 31 | n/a | n/a | n/a |

## Total income and EBITDA

Total income was USD 800 million in the second quarter, down 5% compared to the same period last year. The ocean revenues decline was due to lower auto volumes and reduced other operating revenue, while fuel cost compensation from customers contributed positively. Ocean volumes were down 8% y-o-y due to lower auto volumes. In part, the reduced auto volumes are explained by commercial priorities whereby Wallenius Wilhelmsen is choosing not to carry low paying volumes, particularly in the Atlantic, and rationalising sailings to improve efficiency. In addition, weaker auto markets affected the total volumes. Furthermore, the y-o-y comparison is also impacted by a high base effect as the EU WLTP implementation led to large volumes being pushed to Europe in the second quarter last year, ahead of the implementation in September.

The Asia-Europe trade was down compared to the same period last year, but largely driven by the unusually high volumes in Q2 2018 due to the WLTP implementation as described above. The Europe – Asia trade was flat y-o-y, returning to normalised levels in the second quarter from lowest level in three years in Q1. The Asia-North America trade was up 5% y-o-y with positive impact from both Auto and H&H. Auto volume in the Atlantic trade saw a large drop y-o-y that is to a large extent explained by unprofitable volumes not renewed with effect from January 2019, but was partly offset by strong H&H volumes. The Oceania trade was also down significantly compared to same period last year as both the auto segment and agriculture equipment demand has weakened. The high & heavy share was at 29% (up from about 27% one year ago) primarily because of lower auto volumes.

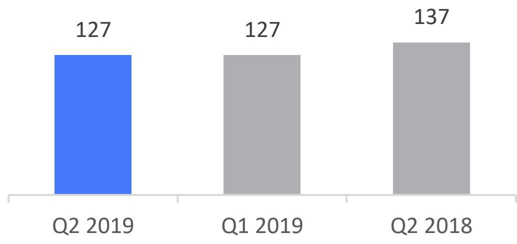
Total income was down 2% from the last quarter, despite a volume increase of 5%, as a result of net freight/CBM coming down from the high level in Q1 combined with lower fuel compensation and other operating income.

EBITDA for the second quarter ended at USD 184 million, an improvement of USD 50 million compared to second quarter last year, of which USD 31 million was related to the IFRS 16 implementation effect. The results benefitted from realisation of synergies and performance improvements, contributing about USD 18 million, better cargo mix and higher net freight/CBM, lower net bunker cost (adjusted for lower bunker consumption) of about USD 10 million and currency effect of about USD 8 million. On the other side, results were negatively impacted by lower volumes. Compared to the first quarter, EBITDA decreased by USD 6 million despite higher volumes and further improved operational efficiency, mainly due to negative net bunker and higher SG&A expenses.

## Wallenius Wilhelmsen fleet

In the second quarter, Wallenius Wilhelmsen controlled a fleet of 127 vessels at the start and maintained 127 vessels at the end of the quarter. A relatively slow charter market has been continued throughout the quarter and fleet capacity was managed tightly by position swaps within the group and leveraging of the short-term charter market. Currently, the group retains flexibility to redeliver up to 12 vessels by end 2020 (excluding vessels on short charter).

WALWIL controlled fleet (# of vessels)




*Source: Wallenius Wilhelmsen*

Delivery of vessel number two (8 000 CEU) in the Post-Panamax newbuilding programme of total four vessels took place on 11 April 2019. The remaining two vessels are under construction, with one vessel expected to enter service in the last quarter of 2019 and the last one scheduled for delivery in Q1 2020. The outstanding instalments for these vessels are about USD 80 million. The newbuildings have been financed through regular bank facilities.

# Landbased operations

*EBITDA for the landbased segment ended at USD 35 million, with strong performance in High & Heavy and efficiency improvements making up for lower auto volumes*

| USD million | Q2 2019 | Q1 2019 | % change q-o-q | Q2 2018 | % change y-o-y |
|---|---|---|---|---|---|
| **Total income** | 235 | 232 | 1% | 222 | 6% |
| **EBITDA** | 35 | 33 | 5% | 25 | 38% |
| **EBIT** | 11 | 10 | 6% | 13 | -17% |
| **EBITDA adjusted** | 35 | 33 | 5% | 25 | 40% |
| **IFRS 16 EBITDA effect** | 11 | 11 | n/a | n/a | n/a |
| | | | | | |
| **EBITDA by segment** | | | | | |
| **Solutions Americas (auto)** | 17 | 15 | 7% | 11 | 56% |
| **Solutions Americas (H&H)** | 6 | 5 | 14% | 4 | 63% |
| **Solutions APAC/EMEA** | 4 | 3 | 61% | 1 | 262% |
| **Terminals** | 10 | 11 | -8% | 9 | 10% |
| **Other** | (3) | (2) | 29% | 0 | n/a |

## Total income and EBITDA

Total income in the second quarter was USD 235 million, up 6% compared to the second quarter last year. While revenue was positively impacted by strong performance in Solution Americas H&H and Solutions APAC/EMEA, volume reductions drove revenue down in Solutions Americas - Auto and Terminals.

EBITDA for the second quarter was USD 35 million, an improvement of USD 10 million compared to the second quarter last year, with EBITDA positively impacted by USD 11 million related to the IFRS 16 implementation. Weak performance for Terminals pulled the underlying results down, while strong performance for Solutions Americas – H&H and Solutions - APAC/EMEA, and acquisition of Syngin, contributed positively. Compared to the first quarter, EBITDA was up 5% as a result of stronger performance in most segments, while weaker results in Terminals contributed negatively.

EBITDA for Solutions Americas – Auto was USD 17 million. VSA experienced some decrease in volumes from key customers y-o-y, but was able to maintain performance due to efficiency improvements. Strong performance in Syngin also contributed positively.

EBITDA for Solutions Americas – H&H was USD 6 million, with results benefitting from strong volumes.

EBITDA for Solutions – APAC/EMEA was USD 4 million, with improvement compared to both same period last year and first quarter 2019 driven by volumes in high-margin and value-added services. Solutions APAC/EMEA are also positively impacted by freight forwarding and supply-chain management business moved from Ocean segment and Terminals to this segment from 2019.

EBITDA for the Terminals was USD 10 million. Compared to the same period last year, volumes were down for most terminals, and results were further impacted by increased costs.

# Consolidated results – first half year 2019

*EBITDA for the first half year 2019 ended at USD 430 million, up from USD 281 million in the same period last year driven by improved profitability for the Ocean segment and IFRS 16 implementation*

| USD million | 1st half 2019 | 1st half 2018 | % change |
|---|---|---|---|
| **Total income** | 2 022 | 2 013 | 1% |
| **EBITDA** | 430 | 281 | 53% |
| **EBIT** | 183 | 72 | 153% |
| **Profit for the period** | 25 | -7 | n/a |
| **EPS** [1)] | 0.04 | (0.03) | n/a |
| **Net interest-bearing debt** | 3 851 | 3 207 | 21% |
| **ROCE** [2)] | 4.9% | 3.4% | n/a |
| **Equity ratio** | 35.3% | 37.5% | n/a |
| **Total income adjusted** | 2 022 | 2 013 | 0% |
| **EBITDA adjusted** | 430 | 286 | 50% |
| **IFRS 16 EBITDA effect** | 84 | n/a | n/a |

1) *After tax and non-controlling interests*
2) *ROCE calculated as annualised EBIT adjusted for non-recurring items minus restructuring costs divided by average CE in the quarter*

Total income was USD 2 022 million in the first half of 2019, marginally up compared to the same period last year. The revenues were negatively impacted by lower auto volumes, other income in Ocean and lower revenues in Landbased, but was compensated by increased fuel surcharges. Ocean volumes were down 5% driven by lower auto volumes for most trades.

EBITDA ended at USD 430 million in the first half of 2019, up by USD 149 million from the same period previous year, of which USD 84 million was related to the implementation of IFRS 16 for leases as of 1 January 2019, with underlying improvement driven by the Ocean segment.

The underlying improvement in EBITDA is mainly a result of the ocean segment synergy realization and impact of the performance improvement program, in addition to improved cargo mix, higher net freight/CBM and lower net bunker cost. Biosecurity challenges in first quarter and lower auto volumes impacted EBITDA negatively.

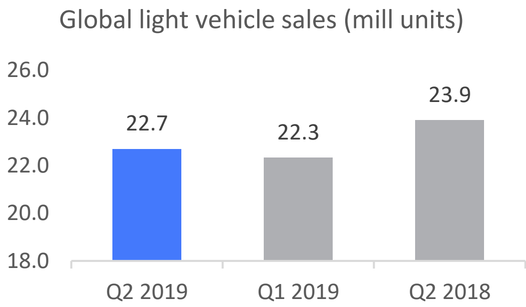
Net profit amounted to USD 25 million for the first half of 2019 compared to a negative USD 7 million in 2018.

# Market update

*Auto exports in the second quarter declined 4.9% as auto sales are weak and uncertainty in the markets continue. High & heavy growth has weakened throughout the first four months of 2019, but volumes remain at high levels*

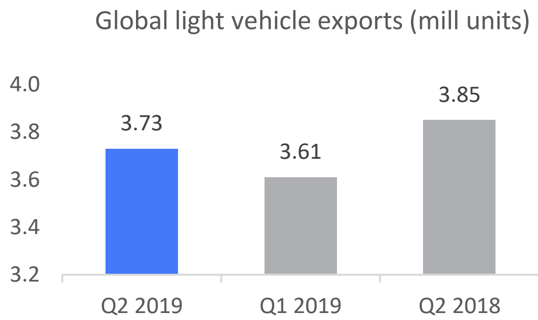
## Auto markets

Total light vehicle (LV) sales in the second quarter decreased 4.9% compared to the corresponding period last year but was up 1.9% from the previous quarter.




*Source: IHS Markit / LMCA*

North American sales declined 3.2% y-o-y (up 11.6% q-o-q) partly explained by higher loan costs, lower OEM incentives and vehicles coming off lease and being pushed out to the market. Sales in Western Europe dropped 6.0% y-o-y, although the y-o-y comparison is impacted by a high basis in Q2 2018 due to the implementation of the EU WLTP emission testing scheme last September. Market negatively impacted by continued UK Brexit uncertainty and confusion around diesel vehicles. Several OEMs have been struggling to get vehicles compliant and some vehicles have also been subject to increased taxes. Sales in Europe were down 0.7% q-o-q. The Chinese market continued to lose momentum and declined 6.2% y-o-y (up 0.2% q-o-q). The Chinese auto market is influenced by the US trade tensions and currency depreciation, and governmental stimulus has not given the consumers the confidence they have been looking for. The Russian market was down 2.7% y-o-y (+11.2% q-o-q), while the Brazilian market continued the rebound with 11.8% and 13.5% y-o-y growth.




*Source: IHS Markit / LMCA*

Total exports in the fourth quarter were down 3.1% compared to the corresponding period last year, but up 3.5% from the previous quarter. Exports out of North America was down 9.2% y-o-y (up 0.1% q-o-q), due to falling exports to China and a drop in exports to Europe. European exports declined 0.6% y-o-y and 1.1% q-o-q, as reduced volume to North America dragged the figures down in the quarter. Japanese exports in the second quarter declined 1.4% y-o-y (up 5.4% q-o-q) where North America-bound export contributed to most of this decline. Exports out of South Korea continued to soften and was down 4.9% y-o-y, but up 6.2% q-o-q. Chinese exports were up 7.0% y-o-y and 2.8% q-o-q driven by continued production ramp-up with broad geographic growth despite U.S. tariff increases.

## High and heavy markets

Global high & heavy trade has weakened throughout the first four months of 2019, with exports of construction, mining and farm machinery declining 3% y-o-y.

Global construction & rolling mining equipment exports decreased 5% y-o-y where all regions except Europe experienced negative growth. Asia and North America accounted for the largest volume drops as exports from both regions declined 7% and 10% y-o-y respectively. The Eurozone construction PMI has consistently remained at levels indicating expansion in the first half of 2019, recording 50.8 at the end of the second quarter (down from 52.2 in Q1). Nevertheless, both European imports and exports of construction equipment experienced flat growth y-o-y. Conversely, the Australian construction PMI has persisted at levels indicating contraction in 10 consecutive months dating back to Q3 2018, recording 43 in June 2019. In line with this sentiment, Australian import declined by 21% y-o-y in the 3-month rolling period ending in May. Global sales growth of construction equipment going forward is expected to slow down after last year's record-setting volumes, still the market is expected to remain close to current levels over the next 18 months with OEM majors estimated to post flat to slightly negative growth y-o-y in the period.

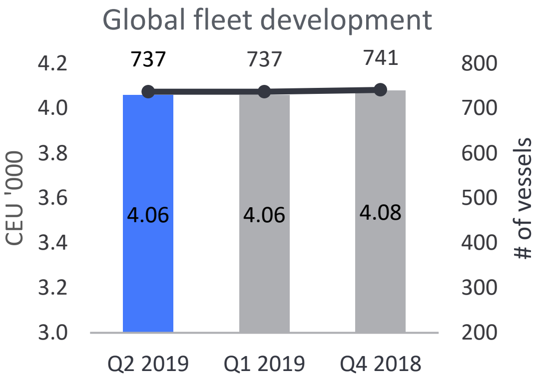
The OEM majors have reported mixed growth levels in mining equipment sales in the second quarter led by Hitachi and Caterpillar which experienced double-digit growth y-o-y in the low to medium twenties. Global mining machinery demand is expected to remain relatively strong throughout 2019 with OEM majors projected to grow overall sales in the low tens, though still well below last year's high levels.

Farm machinery exports experienced flat development y-o-y as demand for large agriculture equipment was unsynchronised across several key markets. US large tractor sales increased 3% y-o-y in the quarter, however with June sales showing negative growth (-11 % y-o-y), as lingering trade issues and poor planting conditions continue to weigh on farmer sentiment. European registrations varied across the biggest markets with Germany recording growth of 7% y-o-y, while UK saw a decline of 2% y-o-y. Australia also experienced a decline in sales of 4% y-o-y as drought in the Eastern States entered its second year. Brazil tractor sales were down double-digit (19% y-o-y) which has been largely attributed to a lack of subsidized credit. Demand for farm machinery is expected to increase slightly over the next 18 months with OEM majors expected to see flat to modest single-digit sales growth.

[1] All import/export data refer to the three-month rolling period ending in April 2019, with the exception of imports to Oceania, referring to the three-month rolling period ending in May 2019. Source: IHS Markit

## Global fleet

The global car carrier fleet (>1 000 CEU) totalled 737 vessels with a capacity of 4.06 million CEU at the end of the second quarter. During the quarter two vessels were delivered, while two vessels were recycled. Two new orders were confirmed in the period (for vessels >4000 CEU). The orderbook for deep-sea vehicle carriers (>4 000 CEU) counts 15 vessels, which amount to about 3% of the global fleet capacity.



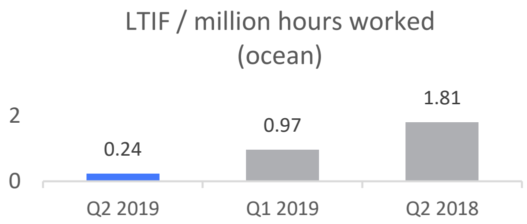

*Source: Clarksons*

# Health, safety and environment

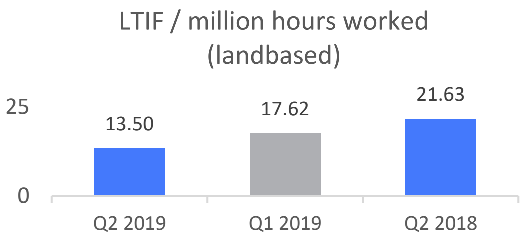
*Ocean LTIF saw a significant improvement compared to previous quarters, with one incident in the second quarter of 2019. Landbased LTIF is showing continuous improvement. Fleet CO2 emissions relative to cargo work has improved significantly relative to the same quarter last year.*

## Health & safety

The Ocean LTIF has fluctuated continuously over the past 12 months, with no clear trend observed. LTIF for this quarter decreased compared to the previous quarter and is back to the level seen in fourth quarter 2018.

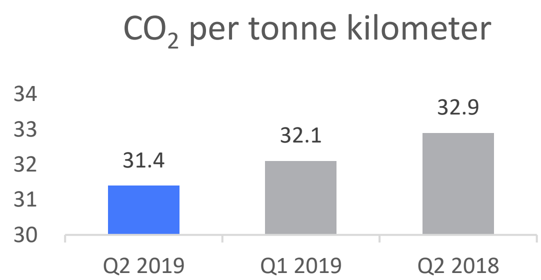



Landbased has through several safety initiatives achieved a significant improvement in LTIF, and the downward trend continued y-o-y. Incident root causes are being investigated and many preventive actions being taken to continue to improve Safety 1st focus.




## Environment

The total $CO_2$ emitted for the quarter was about 6.5% lower than the same quarter in 2018, the corresponding total cargo work done decreased by about 2% as measured in tonne kilometers. The lowered emissions trumped this decline and resulted in 4.6% reduction in the grams of $CO_2$ emitted per tonne kilometer. The reduced emissions compared with last year are influenced by efficiency improvements coming from the de-fouling initiative.




Wallenius Wilhelmsen won the ‘Greener Supply Chain award’ at the Automotive Logistics award ceremony for demonstrating the most significant commitment to reducing emissions, pollution and waste in the supply chain. The award was made for the company’s role in founding and promoting the Ship Recycling Transparency Initiative (SRTI), which is helping to improve the social and environmental impact of vessel recycling while advancing the interests of responsible industry stakeholders.

# Risk update

*The group is through its global operation within ocean transportation and landbased services for the car and ro-ro industry exposed to market, operational and financial risks.*

## Main risk factors

Wallenius Wilhelmsen has established a group wide enterprise risk management model and maps all main risks on a regular basis. On a quarterly basis, management presents a detailed risk assessment, including mitigating actions, covering all business units and functional areas, to the Board of Directors. The group is, through its global operation within ocean transportation and landbased services to the car and rolling equipment industry, exposed to certain market, operational and financial risks as described in the Wallenius Wilhelmsen Annual report 2018. For a thorough explanation of the risk factors, please refer to pages 29 - 31 and note 22, page 160 - 168.

Demand for the ocean and land-based service offerings are cyclical and closely correlated with global economic activity in general and deep-sea transportation of automotive and high & heavy equipment in particular. Changes in the global economy are therefore highly decisive for the development of Wallenius Wilhelmsen's volumes and financial performance. As such, the ongoing trade tension and possibility of new tariffs on automotive imports to the US represents a risk for Wallenius Wilhelmsen. A short-term direct effect of some reduction in automotive volume shipments to the US is not expected to be substantial, as the group can reduce its fleet size, and the profitability for automotive volumes in certain trade lines is very low (e.g. Atlantic trade). On the other hand, the indirect effects of slower global economic growth, combined with reduced deep-sea volumes across all cargo segments (not only US automotive imports), will not only directly impact the results, but could also lead to continued and increased overcapacity, and create further pressure on rates.

Implementation of the IMO 2020 0.5% global sulphur cap represents a challenge and risk for the shipping industry, with fuel costs potentially to increase significantly due to lack of availability and quality of fuels. Wallenius Wilhelmsen is relatively well-covered through Sulphur (BAF) clauses already in place for the majority of the larger customer contracts and aims to introduce relevant clauses for remaining customer contracts. To handle this uncertainty, Wallenius Wilhelmsen has chosen a balanced approach which gives the best chance of managing risks and costs. The group has therefore arrived at a strategy of combining operating with different types of low sulphur fuel and installing scrubbers on some vessels.

## Prospects

The board maintains a balanced view on the prospects for Wallenius Wilhelmsen. However, there is uncertainty around the volume outlook in light of weaker auto sales in all major markets, potential risk of increased trade barriers and a volatile macro picture. Market rates remain at a low level although a few contracts have been renewed at improved rates in the first half of the year.

Wallenius Wilhelmsen has a solid platform for growth and is well positioned to succeed in a challenging market. Furthermore, the two-year performance improvement program and continuous focus on efficiency in operations will continue to support profitability going forward.

## Responsibility statement

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2019 have been prepared in accordance with IAS 34 – Interim Financial Reporting and gives a true and fair view of the group's assets, liabilities, financial position and profit as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties' transactions.

Lysaker, 21 August 2019
The board of directors of Wallenius Wilhelmsen ASA

Håkan Larsson – Chair

Thomas Wilhelmsen Jonas Kleberg Marianne Lie Margareta Alestig

Forward-looking statements presented in this report are based on various assumptions. The assumptions were reasonable when made but are inherently subject to uncertainties and contingencies that are difficult or impossible to predict. Wallenius Wilhelmsen ASA cannot give assurances that expectations regarding the outlook will be achieved or accomplished.

# Income statement

| USD million | Notes | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 2018 |
|---|---|---|---|---|---|---|
| Operating revenue | 4 | 1,005 | 1,044 | 2,022 | 2,013 | 4,063 |
| Gain/(loss) from disposal of assets | 2 | 0 | (0) | 0 | (0) | 1 |
| **Total income** | | **1,005** | **1,044** | **2,022** | **2,012** | **4,065** |
| Operating expenses | 4 | (794) | (888) | (1,593) | (1,731) | (3,463) |
| **Operating profit before depreciation, amortisation and impairment (EBITDA)** | | **211** | **156** | **430** | **281** | **601** |
| Other gain / (loss) | 3 | 1 | 2 | 1 | (39) | (12) |
| Depreciation and amortisation | 5, 6 | (124) | (86) | (247) | (170) | (345) |
| **Operating profit (EBIT)** | | **88** | **72** | **183** | **72** | **244** |
| Share of profit from joint ventures and associates | | 0 | 0 | 0 | 1 | 2 |
| Financial income/(expenses) | 7 | (83) | (45) | (153) | (51) | (169) |
| **Profit before tax** | | **6** | **27** | **30** | **22** | **78** |
| Tax income/(expenses) | | (3) | (4) | (5) | (29) | (20) |
| **Profit for the period** | | **3** | **23** | **25** | **(7)** | **58** |
| **Profit for the period attributable to:** | | | | | | |
| Owners of the parent | | (1) | 19 | 18 | (12) | 52 |
| Non-controlling interests | | 4 | 4 | 7 | 4 | 6 |
| Basic earnings per share (USD) | 8 | (0.00) | 0.04 | 0.04 | (0.03) | 0.12 |

# Statement of comprehensive income

| USD million | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 2018 |
|---|---|---|---|---|---|
| Profit for the period | 3 | 23 | 25 | (7) | 58 |
| **Other comprehensive income:** | | | | | |
| **Items that may subsequently be reclassified to the income statement** | | | | | |
| Changes in fair value of cash flow hedge instruments | (1) | - | 2 | - | (4) |
| Currency translation adjustment | (1) | (8) | (1) | (5) | (12) |
| **Items that will not be reclassified to the income statement** | | | | | |
| Remeasurement pension liabilities, net of tax | - | - | - | | 2 |
| **Other comprehensive income for the period** | **(1)** | **(8)** | **1** | **(5)** | **(13)** |
| **Total comprehensive income for the period** | **1** | **15** | **26** | **(12)** | **45** |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | (4) | 11 | 18 | (16) | 40 |
| Non-controlling interests | 5 | 4 | 8 | 4 | 5 |
| **Total comprehensive income for the period** | **1** | **15** | **26** | **(12)** | **45** |

# Balance sheet

| USD million | Notes | 30 June 2019 | 30 June 2018 | 31 Dec 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Deferred tax assets | | 114 | 91 | 105 |
| Goodwill and other intangible assets | 5 | 679 | 695 | 711 |
| Vessels, other tangible and leased assets | 6, 12 | 5,955 | 5,316 | 5,225 |
| Investments in joint ventures and associates | | 2 | 3 | 2 |
| Other non-current assets | 3 | 150 | 142 | 162 |
| **Total non-current assets** | | **6,900** | **6,247** | **6,204** |
| **Current assets** | | | | |
| Bunkers/luboil | | 93 | 128 | 107 |
| Trade receivables | | 534 | 499 | 489 |
| Other current assets | | 129 | 128 | 130 |
| Cash and cash equivalents | | 487 | 517 | 484 |
| **Total current assets** | | **1,242** | **1,272** | **1,210** |
| **Total assets** | | **8,142** | **7,519** | **7,414** |
| **EQUITY and LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 8 | 28 | 28 | 28 |
| Retained earnings and other reserves | | 2,610 | 2,578 | 2,619 |
| **Total equity attributable to owners of the parent** | | **2,639** | **2,606** | **2,647** |
| Non-controlling interests | | 237 | 215 | 228 |
| **Total equity** | | **2,876** | **2,822** | **2,876** |
| **Non-current liabilities** | | | | |
| Pension liabilities | | 64 | 73 | 65 |
| Deferred tax liabilities | | 110 | 106 | 116 |
| Non-current interest-bearing debt | 11, 12 | 3,853 | 3,052 | 3,054 |
| Non-current provisions | | 133 | 135 | 133 |
| Other non-current liabilities | | 43 | 35 | 63 |
| **Total non-current liabilities** | | **4,203** | **3,400** | **3,431** |
| **Current liabilities** | | | | |
| Trade payables | | 221 | 219 | 220 |
| Current interest-bearing debt | 11 | 485 | 672 | 530 |
| Current income tax liabilities | | 14 | 21 | 14 |
| Current provisions | | 44 | 58 | 46 |
| Other current liabilities | | 299 | 328 | 298 |
| **Total current liabilities** | | **1,063** | **1,297** | **1,107** |
| **Total equity and liabilities** | | **8,142** | **7,519** | **7,414** |

## Cash flow statement

| USD million | Notes | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 2018 |
|---|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | | |
| Profit before tax | | 6 | 27 | 30 | 22 | 78 |
| Financial (income)/expenses | | 83 | 44 | 153 | 50 | 169 |
| Share of net income from joint ventures and associates | | 0 | (0) | 0 | (1) | (2) |
| Depreciation and amortisation | | 124 | 86 | 247 | 170 | 345 |
| (Gain)/loss on sale of tangible assets | | (0) | 0 | (0) | 0 | 1 |
| Change in net pension assets/liabilities | | 0 | (3) | (1) | (1) | (11) |
| Change in derivative financial assets | 3 | (2) | (2) | (2) | 39 | 12 |
| Other change in working capital | | 5 | (234) | (65) | (253) | (292) |
| Tax paid (company income tax, withholding tax) | | (7) | (6) | (9) | (12) | (27) |
| **Net cash flow provided by operating activities** [1] | | **209** | **(87)** | **353** | **15** | **272** |
| | | | | | | |
| **Cash flow from investing activities** | | | | | | |
| Proceeds from sale of tangible assets | | 0 | 1 | 1 | 6 | 10 |
| Investments in vessels, other tangible and intangible assets | | (56) | (56) | (65) | (106) | (171) |
| Investments in subsidiaries, net of cash aquired | | - | - | - | - | (22) |
| Investments in joint ventures | | - | - | - | - | (1) |
| Interest received | | 2 | 3 | 5 | 5 | 9 |
| Changes in other investments | | - | 1 | - | (1) | - |
| **Net cash flow provided by/(used in) investing activities** | | **(54)** | **(52)** | **(60)** | **(97)** | **(174)** |
| | | | | | | |
| **Cash flow from financing activities** | | | | | | |
| Proceeds from issue of debt | | 343 | 553 | 568 | 590 | 1,269 |
| Repayment of debt | | (462) | (472) | (698) | (658) | (1,455) |
| Interest paid including interest derivatives | | (51) | (39) | (104) | (86) | (177) |
| Realised other derivatives | | (27) | (32) | (29) | (27) | (30) |
| Dividend to non-controlling interests | | (1) | (2) | (2) | (16) | (17) |
| Dividend to shareholders | | (25) | - | (25) | - | - |
| **Net cash flow used in financing activities** | | **(223)** | **7** | **(290)** | **(197)** | **(410)** |
| | | | | | | |
| **Net increase in cash and cash equivalents** | | (68) | (132) | 3 | (279) | (312) |
| Cash and cash equivalents, excluding restricted cash, at beginning of period | | 555 | 649 | 484 | 796 | 796 |
| **Cash and cash equivalents at end of period** [1)] | | **487** | **517** | **487** | **517** | **484** |

[1)] The group is located and operating world wide and every entity has several bank accounts in different currencies. Unrealised currency effects are included in net cash provided by operating activities.

## Statement of changes in equity

| USD million | Notes | Share capital | Own shares | Total paid-in capital | Retained earnings and other reserves | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | |
| **Balance at 31 December 2018** | | **28** | **(0)** | **28** | **2,619** | **2,647** | **228** | **2,876** |
| Profit for the period | | - | - | - | 18 | 18 | 7 | 25 |
| Other comprehensive income | | - | - | - | (0) | (0) | 2 | 1 |
| **Total comprehensive income** | | **-** | **-** | **-** | **18** | **18** | **8** | **26** |
| Transactions with non-controlling interests | | - | - | - | (2) | (2) | 3 | 1 |
| Dividend to owners of the parent | 9 | - | - | - | (25) | (25) | - | (25) |
| Dividend to non-controlling interests | | - | - | - | - | - | (2) | (2) |
| **Balance 30 June 2019** | | **28** | **(0)** | **28** | **2,610** | **2,638** | **237** | **2,876** |

| | | Share capital | Own shares | Total paid-in capital | Retained earnings and other reserves | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| **Balance at 31 December 2017** | | **28** | **-** | **28** | **2,594** | **2,622** | **228** | **2,850** |
| Profit for the period | | - | - | - | 52 | 52 | 6 | 58 |
| Other comprehensive income | | - | - | | (12) | (12) | (1) | (13) |
| **Total comprehensive income** | | **-** | **-** | **-** | **40** | **40** | **5** | **45** |
| Acqusition of own shares | 8 | - | (0) | (0) | (3) | (3) | - | (3) |
| Put option non-controlling interests on acquisition of subsidiary | | - | - | - | (12) | (12) | - | (12) |
| Transactions with non-controlling interests on acquisition of subsidiary | | - | - | - | - | - | 13 | 13 |
| Dividend to non-controlling interests | | - | - | - | - | - | (17) | (17) |
| **Balance 31 December 2018** | | **28** | **(0)** | **28** | **2,619** | **2,647** | **228** | **2,876** |

# Note 1 - Accounting Principles

This consolidated interim financial report has been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting. The consolidated interim financial reporting should be read in conjunction with the annual financial statements for the year end 31 December 2018 for Wallenius Wilhelmsen ASA group (the group), which has been prepared in accordance with IFRS's endorsed by the EU.

The accounting policies implemented are consistent with those of the annual financial statements for the group for the year end 31 December 2018, with the exception of IFRS 16 Leases as described below.

**Changes in accounting policies – implementation of IFRS 16 Leases**
IFRS 16 Leases replaces IAS 17 Leases that relate to the recognition of leases and related disclosures. The adoption of IFRS 16 Leases from 1 January 2019 resulted in significant changes to the group's accounting for leases previously defined as operating leases under IAS 17.

In accordance with the implementation of IFRS 16, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments),
- variable lease payment that are based on an index or a rate, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

-the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Time charter contracts contain a lease element and a performance obligation for the provision of time charter services. The lease of the vessel, representing the use of the vessel without any associated performance obligations or warranties, is accounted for in accordance with IFRS 16. Typically, lease revenues are recognized on a straight-line basis over the lease term. Revenues for time charter services are recognised over time as the service is rendered in accordance with IFRS 15.

**Use of judgements and estimates**
In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The effect of a change in an accounting estimate is recognised in profit or loss in the period where the estimate is revised or in the period of the revision and future periods if the change affects both.

The significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the critical judgements in determining the lease term following the implementation of IFRS 16.

*Critical judgements in determining the lease term*
From 1 January 2019 the Group has implemented the new leasing standard IFRS 16. For all leases, except for short-term leases and leases of low value, a lease liability and a corresponding right-of-use asset is recognised in the consolidated statement of financial position.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

As a result of rounding adjustments, the figures in one or more columns may not add up to the total of that column.

## Note 2 - Gain/(loss) from disposal of assets

| USD million | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 2018 |
|---|---|---|---|---|---|
| Deferred consideration Syngin Technology LLC (Landbased) | - | - | - | - | 2 |
| Other | 0 | (0) | 0 | (0) | (1) |
| **Net gain/(loss) on sale of assets** | **0** | **(0)** | **0** | **(0)** | **1** |

## Note 3 - Other gain/(loss)

Non-controlling shareholders hold a put option for their 20% shareholding in EUKOR through a shareholder agreement entered into in 2002. The shareholder agreement also contains a symmetrical call option held by the group.

Non-controlling interests containing a symmetrical put and call option held by the non-controlling interest shareholders and the group, respectively, is recognised as one integrated derivative financial instrument. The derivative financial instrument is recognised as a non-current asset when the options are exercisable and the fair value of the non-controlling interest exceed the value of the exercise price for symmetrical put and call option.

During second quarter 2019 the change in the value of the derivative was USD 1.9 million recognised as a positive effect under Other gain/(loss) in the income statement. The change in value during second quarter 2018 was a positive USD 1.8 million. The year-to date 2018 effect was a loss of USD 39 million due to a significant loss recognised in first quarter 2018 of USD 40 million. The loss was mainly related to a change in the fair value of the non-controlling interest reflected in the net financial derivative value.

The financial derivative is recognised as an other non-current asset and has a carrying value of USD 96 million at the end of second quarter 2019.

**Syngin Technology LLC - Deferred consideration**
In the second quarter, the group recognised a loss of USD 1.1 million related to the deferred consideration arising from the acquitisiton of Syngin Technology LLC ("Syngin") in July 2018. The deferred consideration was related to achieved results for 2018 and ended at USD 7.2 million.

Wallenius Wilhelmsen

# Note 4 - Segment reporting

| USD million | Ocean | | Landbased | | Holding & Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Q2 2019 | Q2 2018 | Q2 2019 | Q2 2018 | Q2 2019 | Q2 2018 | Q2 2019 | Q2 2018 |
| Net freight revenue | 705 | 750 | - | - | - | - | 705 | 750 |
| Surcharges | 62 | 52 | - | - | - | - | 62 | 52 |
| Other operating revenue | 33 | 41 | 205 | 202 | (0) | - | 238 | 242 |
| Internal operating revenue | 0 | - | 30 | 20 | (30) | (20) | (0) | - |
| Gain/(loss) on sale of assets | 0 | (1) | 0 | 0 | 0 | - | 0 | (0) |
| **Total income** | **800** | **842** | **235** | **222** | **(30)** | **(20)** | **1,005** | **1,044** |
| Cargo expenses | (178) | (191) | - | - | 27 | 19 | (151) | (172) |
| Bunker | (175) | (188) | - | - | - | - | (175) | (188) |
| Other voyage expenses | (113) | (124) | - | - | 0 | - | (113) | (124) |
| Ship operating expenses | (54) | (56) | - | - | - | - | (54) | (56) |
| Charter expenses | (51) | (99) | - | - | - | - | (51) | (99) |
| Manufacturing cost | - | - | (61) | (64) | 3 | - | (58) | (64) |
| Other operating expenses | (5) | (7) | (107) | (102) | 1 | - | (111) | (109) |
| Selling, general and administrative expenses | (42) | (42) | (33) | (30) | (7) | (2) | (82) | (75) |
| **Total operating expenses** | **(617)** | **(707)** | **(201)** | **(197)** | **24** | **17** | **(794)** | (888) |
| **Operating profit before depreciation, amortisation and impairment (EBITDA)** | **184** | **134** | **35** | **25** | **(7)** | **(3)** | **211** | **156** |
| Other gain/(loss) | 2 | 2 | (1) | - | - | - | 1 | 2 |
| Depreciation | (96) | (66) | (13) | (4) | (0) | - | (109) | (70) |
| Amortisation | (6) | (8) | (9) | (8) | 0 | - | (15) | (16) |
| Impairment | (0) | - | - | - | - | - | (0) | - |
| **Operating profit (EBIT)[1)]** | **84** | **62** | **11** | **13** | **(7)** | **(3)** | **88** | **72** |
| Share of profit from joint ventures and associates | 0 | - | 0 | - | 0 | - | 0 | 0 |
| Financial income/(expenses) | (80) | (37) | (17) | (3) | 14 | (6) | (83) | (45) |
| **Profit before tax** | **4** | **26** | **(6)** | **10** | **7** | **(9)** | **6** | **27** |
| Tax income/(expense) | (1) | (2) | (2) | (4) | - | 2 | (3) | (4) |
| **Profit for the period** | **3** | **24** | **(8)** | **6** | **7** | **(7)** | **3** | **23** |
| **Profit for the period attributable to:** | | | | | | | | |
| Owners of the parent | (0) | 21 | (8) | 5 | 7 | (7) | (1) | 19 |
| Non-controlling interests | 4 | 3 | 1 | 1 | (0) | - | 4 | 4 |

[1)] Cash settled portion of bunker hedge swaps is included in net operating profit by reduction/(increase) of voyage related expenses.

# Note 4 - Segment reporting

| USD million | Ocean | | | Landbased | | | Holding & Eliminations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1H 2019 | 1H 2018 | 2018 | 1H 2019 | 1H 2018 | 2018 | 1H 2019 | 1H 2018 | 2018 | 1H 2019 | 1H 2018 | 2018 |
| Net freight revenue | 1,403 | 1,412 | 2,815 | - | - | - | - | - | - | 1,403 | 1,412 | 2,815 |
| Surcharges | 133 | 96 | 234 | - | - | - | - | - | - | 133 | 96 | 234 |
| Other operating revenue | 76 | 84 | 172 | 410 | 420 | 842 | (0) | - | - | 487 | 504 | 1,014 |
| Internal operating revenue | 1 | - | - | 57 | 34 | 69 | (57) | (34) | (69) | 0 | - | - |
| Gain/(loss) on sale of assets | 0 | (1) | (1) | 0 | 0 | 2 | 0 | - | (0) | 0 | (0) | 1 |
| **Total income** | **1,613** | **1,592** | **3,220** | **467** | **454** | **914** | **(57)** | **(34)** | **(69)** | **2,022** | **2,012** | **4,065** |
| Cargo expenses | (361) | (351) | (697) | - | - | - | 51 | 33 | 62 | (310) | (318) | (635) |
| Bunker | (351) | (354) | (740) | - | - | - | - | - | - | (351) | (354) | (740) |
| Other voyage expenses | (224) | (248) | (483) | - | - | - | 0 | - | (1) | (224) | (248) | (484) |
| Ship operating expenses | (107) | (110) | (226) | - | - | - | - | - | - | (107) | (110) | (226) |
| Charter expenses | (106) | (183) | (362) | - | - | - | - | - | - | (106) | (183) | (362) |
| Manufacturing cost | - | - | - | (122) | (137) | (266) | 5 | - | 6 | (118) | (137) | (259) |
| Other operating expenses | (10) | (14) | (25) | (214) | (211) | (433) | 1 | - | 1 | (223) | (225) | (456) |
| Selling, general and administrative expenses | (79) | (88) | (160) | (63) | (61) | (125) | (11) | (6) | (15) | (154) | (155) | (301) |
| **Total operating expenses** | **(1,239)** | **(1,348)** | **(2,692)** | **(400)** | **(409)** | **(824)** | **46** | **26** | **53** | **(1,593)** | **(1,731)** | **(3,463)** |
| **Operating profit before depreciation, amortisation and impairment (EBITDA)** | **374** | **243** | **528** | **68** | **45** | **90** | **(11)** | **(7)** | **(16)** | **430** | **281** | **601** |
| Other gain/(loss) | 2 | (39) | (12) | (1) | - | - | - | - | - | 1 | (39) | (12) |
| Depreciation | (190) | (130) | (262) | (26) | (9) | (17) | - | - | - | (216) | (139) | (279) |
| Amortisation | (12) | (16) | (32) | (19) | (16) | (34) | - | - | - | (31) | (32) | (67) |
| **Operating profit (EBIT)**[1)] | **174** | **59** | **222** | **21** | **21** | **39** | **(11)** | **(7)** | **(16)** | **183** | **72** | **244** |
| Share of profit from joint ventures and associates | 0 | 1 | 2 | (0) | 0 | 0 | 0 | - | (0) | 0 | 1 | 2 |
| Financial income/(expenses) | (163) | (44) | (164) | (32) | (3) | (14) | 42 | (5) | 9 | (153) | (51) | (169) |
| **Profit before tax** | **11** | **15** | **60** | **(11)** | **18** | **25** | **30** | **(12)** | **(7)** | **30** | **22** | **78** |
| Tax income/(expense) | (3) | (24) | (20) | (2) | (8) | (3) | 0 | 3 | 4 | (5) | (29) | (20) |
| **Profit for the period** | **8** | **(9)** | **40** | **(13)** | **10** | **22** | **30** | **(9)** | **(4)** | **25** | **(7)** | **58** |
| **Profit for the period attributable to:** | | | | | | | | | | | | |
| Owners of the parent | 2 | (11) | 35 | (14) | 9 | 20 | 30 | (9) | (4) | 18 | (12) | 52 |
| Non-controlling interests | 6 | 3 | 5 | 1 | 2 | 1 | (0) | - | (0) | 7 | 4 | 6 |

[1)] Cash settled portion of bunker hedge swaps is included in net operating profit by reduction/(increase) of voyage related expenses.

## Note 5 - Goodwill, customer relations/contracts and other intangible assets

| USD million | Goodwill | Customer relations/contracts | Other intangible assets | Total intangible assets |
|---|---|---|---|---|
| **2019** | | | | |
| Cost at 1 January | 350 | 421 | 49 | 819 |
| Adjustment of purchase price allocation | (3) | - | - | (3) |
| Additions | - | - | 2 | 2 |
| Disposal | - | - | (0) | (0) |
| Currency translation adjustment | 0 | - | (0) | (0) |
| **Cost at 30 June** | **346** | **421** | **50** | **817** |
| Accumulated amortisation and impairment losses at 1 January | - | (91) | (16) | (107) |
| Amortisation | - | (28) | (2) | (31) |
| **Accumulated amortisation and impairment losses at 30 June** | **-** | **(119)** | **(18)** | **(138)** |
| **Carrying amounts at 30 June** | **346** | **301** | **32** | **679** |

| | Goodwill | Customer relations/contracts | Other intangible assets | Total intangible assets |
|---|---|---|---|---|
| **2018** | | | | |
| Cost at 1 January | 332 | 398 | 33 | 763 |
| Additions | 2 | 5 | 7 | 14 |
| Acquisitions through business combination | 16 | 17 | 8 | 42 |
| Currency translation adjustment | - | - | - | (1) |
| **Cost at 31 December** | **350** | **420** | **49** | **819** |
| Accumulated amortisation and impairment losses at 1 January | - | (37) | (4) | (41) |
| Amortisation | - | (54) | (12) | (67) |
| **Accumulated amortisation and impairment losses at 31 December** | **-** | **(91)** | **(16)** | **(107)** |
| **Carrying amounts at 31 December** | **350** | **329** | **32** | **711** |

# Note 6 - Vessels, other tangible and leased assets

| USD million | Property and land | Other tangible assets | Vessels & docking | Newbuilding contracts | Leased assets | Total tangible assets |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Cost at 1 January | 114 | 67 | 5,953 | 95 | - | 6,230 |
| Additions | 6 | 7 | 6 | 41 | 23 | 82 |
| Implementation IFRS 16 | - | - | - | - | 861 | 861 |
| Reclassification | 4 | (6) | (2,443) | (72) | 2,518 | 0 |
| Disposal | (1) | (2) | (9) | - | (2) | (15) |
| Currency translation adjustment | (0) | 0 | - | - | 4 | 5 |
| **Cost at 30 June** | **123** | **66** | **3,507** | **63** | **3,404** | **7,163** |
| | | | | | | |
| Accumulated depreciation and impairment losses at 1 January | (2) | (15) | (988) | - | - | (1,005) |
| Depreciation | (5) | (6) | (79) | - | (125) | (216) |
| Disposal | 1 | 2 | 9 | - | 2 | 14 |
| Reclassification | (1) | 2 | 227 | - | (228) | 0 |
| Impairment | - | - | - | - | - | - |
| Currency translation adjustment | 0 | (0) | - | - | (0) | (1) |
| **Accumulated depreciation and impairment losses at 30 June** | **(6)** | **(17)** | **(832)** | **-** | **(352)** | **(1,207)** |
| | | | | | | |
| **Carrying amounts at 30 June** | **117** | **48** | **2,676** | **63** | **3,052** | **5,955** |

| USD million | Property and land | Other tangible assets | Vessels & docking | Newbuilding contracts | Leased assets | Total tangible assets |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Cost at 1 January | 135 | 37 | 5,840 | 120 | - | 6,132 |
| Additions | - | 44 | 63 | 50 | - | 157 |
| Reclassification | - | - | 75 | (75) | - | - |
| Disposal | (13) | (11) | (24) | - | - | (49) |
| Currency translation adjustment | (7) | (2) | - | - | - | (9) |
| **Cost at 31 December** | **114** | **67** | **5,953** | **95** | **-** | **6,230** |
| | | | | | | |
| Accumulated depreciation and impairment losses at 1 January | (6) | (8) | (757) | - | - | (770) |
| Depreciation | (4) | (18) | (256) | - | - | (278) |
| Disposal | 6 | 10 | 24 | - | - | 40 |
| Currency translation adjustment | 2 | 1 | - | - | - | 3 |
| **Accumulated depreciation and impairment losses at 31 December** | **(2)** | **(15)** | **(988)** | **-** | **-** | **(1,005)** |
| | | | | | | |
| **Carrying amounts at 31 December** | **113** | **52** | **4,965** | **95** | **-** | **5,225** |

**2019 material additions**

In the second quarter 2019 the group took delivery of the Post-Panamax vessel M/V Traviata with a capital expenditure of USD 39 million recorded in the quarter. Further, a revision of T/C contracts for one vessel, increased the leased assets with USD 15 million in the second quarter.

# Specification on leased assets

| USD million | Property and land | Vessels | Vehicles | Other assets | Total leased assets |
|---|---|---|---|---|---|
| **2019** | | | | | |
| IFRS 16 implementation at 1 January | 419 | 440 | 1 | 0 | 861 |
| Existing financial leases under IAS 17 | - | 2,515 | 2 | - | 2,518 |
| **Total leases assets at 1 January** | **419** | **2,955** | **3** | **0** | **3,378** |
| | | | | | |
| Additions | 4 | 19 | - | - | 23 |
| Change in lease payments | 0 | (0) | - | - | (0) |
| Disposal | (1) | (1) | (0) | - | (2) |
| Currency translation adjustment | 4 | - | 0 | (0) | 4 |
| **Cost at 30 June** | **427** | **2,973** | **3** | **0** | **3,404** |
| | | | | | |
| Accumulated depreciation and impairment losses at 1 January | - | - | - | - | - |
| Existing financial leases under IAS 17 | - | (227) | (1) | - | (228) |
| Depreciation | (21) | (104) | (0) | (0) | (125) |
| Disposal | 0 | 1 | 0 | - | 2 |
| Impairment | - | - | - | - | - |
| Currency translation adjustment | (0) | - | - | - | (0) |
| **Accumulated depreciation and impairment losses at 30 June** | **(21)** | **(330)** | **(2)** | **(0)** | **(352)** |
| | | | | | |
| **Carrying amounts at 30 June** | **406** | **2,643** | **2** | **0** | **3,052** |

In the second quarter assumptions in one time-charter agreements were revised, as options to purchase the vessel was expected to be exercised. The revision increased leased vessels and leasing commitments with USD 15 million.

# Note 7 - Financial income and expenses

| USD million | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 2018 |
|---|---|---|---|---|---|
| **Financial income** | | | | | |
| Interest income | 2 | 3 | 5 | 5 | 9 |
| Other financial items | 0 | 2 | 1 | 2 | 4 |
| **Net financial income** | **2** | **4** | **6** | **6** | **13** |
| **Financial expenses** | | | | | |
| Interest expenses | (51) | (41) | (100) | (76) | (161) |
| Interest rate derivatives - realised | (0) | (5) | (4) | (10) | (17) |
| Interest rate derivatives - unrealised | (31) | 12 | (53) | 43 | 32 |
| Other financial items | (2) | (2) | (3) | (2) | (8) |
| **Net financial expenses** | **(84)** | **(35)** | **(160)** | **(46)** | **(154)** |
| **Currency** | | | | | |
| Net currency gain/(loss) | (1) | (7) | (3) | (18) | (8) |
| Derivatives for hedging of foreign currency risk - realised | (27) | (27) | (29) | (27) | (30) |
| Derivatives for hedging of foreign currency risk - unrealised | 28 | 18 | 32 | 33 | 16 |
| **Net currency** | **(0)** | **(15)** | **(0)** | **(12)** | **(21)** |
| **Financial derivatives bunker** | | | | | |
| Unrealised bunker derivatives | (1) | - | 1 | - | (7) |
| **Net bunker derivatives** | **(1)** | **-** | **1** | **-** | **(7)** |
| **Financial income/(expenses)** | **(83)** | **(45)** | **(153)** | **(51)** | **(169)** |

## Note 8 - Shares

Earnings per share takes into consideration the number of outstanding shares in the period. The company had no outstanding shares in the period.

The annual general meeting on 25 April 2018, authorised the company to acquire up to 10% of own shares. In 2018, Wallenius Wilhelmsen purchased a total of 800,000 shares in the market to cover for management's share incentive program and for an employee share purchase program financially supported by "The Foundation for WW Group employees". In December 2018, 14 136 of own shares were used in the employee share purchase program.

Basic earnings per share is calculated by dividing profit for the period after non-controlling interests, by average number of total outstanding shares. Basic earnings per share for the second quarter was USD 0.00 compared with a USD 0.04 in the same quarter last year.

| **The company's share capital is as follows:** | Number of shares | NOK million | USD million |
|---|---|---|---|
| Share capital 30 June 2019 | 423,104,938 | 220 | 28 |
| Own shares 30 June 2019 | 785,864 | | |

## Note 9 - Dividend

Ordinary dividend of 6 cent per share, total of approximately USD 25 million, was paid to the shareholders in May 2019. The Annual General Meeting also gave the board authority to pay a second dividend payment of up to USD 6 cents per share for a period limited in time up to the annual general meeting in 2020, but no longer than to 30 June 2020. In total, the dividend for 2018 may total USD 50 million.

## Note 10 - Tax

The effective tax rate for the group will, from period to period, change dependent on the group gains and losses from investments inside the exemption method and tax exempt revenues from tonnage tax regimes. Tonnage tax is considered as operating expense in the accounts.

The group recorded a tax expense of USD 3 million for the second quarter 2019, compared with an expense of USD 4 million the same quarter last year .

The effective tax rate has increased in the second quarter as a consequence of non-recognition of new deferred tax asset in the balance sheet related to tax losses in the Norwegian entities. Future utilisation of such tax losses are uncertain and hence not recognised in the accounts.

# Note 11 - Interest-bearing debt

| USD million | 30 June 2019 | 30 June 2018 | 31 Dec 2018 |
|---|---|---|---|
| Non-current interest-bearing debt | 3,853 | 3,052 | 3,054 |
| Current interest-bearing debt | 485 | 672 | 530 |
| **Total interest-bearing debt** | **4,338** | **3,723** | **3,584** |
| Cash and cash equivalents | 487 | 517 | 484 |
| **Net interest-bearing debt** | **3,851** | **2,977** | **3,100** |

| **Repayment schedule for interest-bearing debt** | Bank loans | Leasing | Bonds | Other | 30 June 2019 |
|---|---|---|---|---|---|
| Due in one year | 190 | 285 | 9 | 0 | **485** |
| Due in year +1 | 104 | 171 | | 3 | **278** |
| Due in year +2 | 233 | 279 | 88 | | **600** |
| Due in year +3 | 176 | 277 | 219 | | **672** |
| Due in year +4 and later | 1,017 | 1,273 | | 14 | **2,303** |
| **Total interest-bearing debt** | **1,720** | **2,285** | **316** | **17** | **4,338** |

| **Reconciliation of liabilities arising from financing activities** | 31 Dec 2018 | Cash flow | Debt assumed as part of acquisition | Foreign exchange movement | Amorti-sation | Other [1] | Reclass-ification | 30 June 2019 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | 1,409 | 165 | | - | 4 | (4) | (44) | 1,530 |
| Leasing commitments | 1,274 | 125 | | (1) | - | 708 | (106) | 2,000 |
| Bonds | 309 | - | | 5 | - | 3 | (10) | 306 |
| Bank overdraft / other interest-bearing debt | 63 | - | | 0 | - | 3 | (50) | 16 |
| **Total non-current interest-bearing liabilities** | **3,055** | **290** | **-** | **4** | **4** | **710** | **(210)** | **3,853** |
| Current portion of non-current debt | 530 | (419) | | 0 | 0 | 164 | 210 | 485 |
| **Total liabilities from financing activities** | **3,584** | **(130)** | **-** | **4** | **4** | **875** | **-** | **4,338** |

[1] Mainly effects from implementation of IFRS 16 Leases. See note 12 for more information.

| **Reconciliation of liabilities arising from financing activities** | 31 Dec 2017 | Cash flow | Debt assumed as part of acquisition | Foreign exchange movement | Amorti-sation | Other [2] | Reclass-ification | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|---|
| Bank loans | 1,344 | 25 | - | - | 6 | - | 34 | 1,409 |
| Leasing commitments | 1,435 | 171 | - | - | - | - | (333) | 1,274 |
| Bonds | 324 | 89 | - | (12) | - | 5 | (98) | 309 |
| Bank overdraft / other interest-bearing debt | - | 51 | 12 | - | - | - | - | 63 |
| **Total non-current interest-bearing liabilities** | **3,103** | **336** | **12** | **(12)** | **6** | **5** | **(396)** | **3,055** |
| Current portion of non-current debt | 661 | (522) | - | (5) | - | - | 396 | 530 |
| **Total liabilities from financing activities** | **3,764** | **(186)** | **12** | **(17)** | **6** | **5** | **-** | **3,584** |

[2] Interest on corporate bond with maturity in 2022.

# Note 12 - IFRS 16 - Leases

The new IFRS 16 Leasing standard is effective from 1 January 2019. The standard will significantly change how the company accounts for its lease contracts for vessels, land, buildings and equipment currently accounted for as operating leases. Virtually all leases will be brought into the balance sheet increasing the groups assets and liabilities, in addition to affecting income statement figures.  This note summarizes the expected impact on the financial reporting of Wallenius Wilhelmsen group from implementing the new standard. According to the company's existing loan agreements, the new standard will not impact the covenant requirements.

**The lease contracts**

The company has a number of leases related to vessels and land that account for the significant part of the lease liability. The group also leases office space and equipment. A lease liability and right-of-use asset will be presented for these contracts which previously were reported as operating leases.

Recognition and measurement approach on transition
Wallenius Wilhelmsen will apply IFRS 16 retrospectively with recognition of the cumulative implementation effect recognised at the date of initial application 1 January 2019. By doing this, comparative financial information shall not be restated, but the cumulative effect of initially applying this standard shall be reflected as an adjustment to the opening balance. At the time of transition, leases entered under IAS 17 will not be reassessed.

As of 1 January 2019, the lease liabilities will be measured at the present value of remaining lease payments, discounted using the incremental borrowing rate at such date. The right-of-use assets will be measured at an amount equal to the lease liability less prepayments and other direct costs.

The standard has provided options on scope and exemptions and below the group's policy choices are described:
- The standard will not be applied to leases of intangible assets and these will continue to be recognized in accordance with IAS 38 Intangible assets.
- All leases deemed short-term (<12 months) by the standard are exempt from reporting.
- All leases deemed to be of low value by the standard, or considered insignificant to the group, are exempt from reporting, which are mainly office equipment and company cars.
- Non-lease components shall be separated from the lease component in all vessel leases. For other lease agreements, the group will apply a materiality threshold when evaluating separation.

USD million

**The effect on balance sheet as at 1 January 2019 is presented below.**

| | |
|---|---|
| Lease liability at 1 January 2019 | 855 |
| Right-of-use asset at 1 January 2019 | 861 |
| **Difference between lease liability and right-of-use asset at 1 January 2019** | 6 |
| Effect from prepayments and currency translation | 6 |

**Reconciliation of lease commitment and lease liability**

| | |
|---|---|
| Operating lease commitment as at 31 December 2018 | 1,164 |
| Relief option for short-term leases [1] | (1) |
| Relief option for leases of low-value assets | (7) |
| Option periods not previously reported as lease commitments | 18 |
| Undiscounted lease liabililty | 1,173 |
| Effect of discounting lease commitment to net present value | (318) |
| **Lease liability as at 1 January 2019** | **855** |

[1] Mainly related to current vessel leases.

# Note 12 - IFRS 16 - Leases

**IFRS 16 effect income statement**

| | Ocean | | Landbased | | Total[1] | |
|---|---|---|---|---|---|---|
| USD million | Q2 2019 | 1H 2019 | Q2 2019 | 1H 2019 | Q2 2019 | 1H 2019 |
| Operating expenses | 31 | 62 | 11 | 21 | 42 | 84 |
| **Operating profit before depreciation, amortisation and impairment (EBITDA)** | **31** | **62** | **11** | **21** | **42** | **84** |
| Depreciation and amortisation | (28) | (56) | (9) | (18) | (37) | (75) |
| **EBIT** | **3** | **6** | **1** | **3** | **4** | **9** |
| Interest expense | (5) | (11) | (5) | (10) | (10) | (21) |
| **Profit for the period** | **(3)** | **(5)** | **(4)** | **(7)** | **(6)** | **(12)** |

[1] There are no leases in the Holding segment

**Expected future impact on the income and cash flow statement**

IFRS 16 Leasing will have a significant impact on the income statement when implemented in 2019. The estimated reduction of annual lease expense gives an improvement of EBITDA of approximately USD 168 million. Annual depreciation expense of leased assets will increase approximately USD 149 million.

Annual net interest expense will increase approximately USD 40 million. IFRS 16 has been implemented in the reporting from the operating segments.

# Reconciliation of alternative performance measures

**Definitions of Alternative Performance Measures (APMs)**
This section describes the non-GAAP financial alternative performance measures (APM) that are used in the quarterly and annual reports.

The following measures are not defined nor specified in the applicable financial reporting framework of IFRS. They may be considered as non-GAAP financial measures that may include or exclude amounts that are calculated and presented according to the IFRS. These APMs are intended to enhance comparability of the results and cash flows from period to period and it is the Group's experience that these are frequently used by investors, analysts and other parties. Internally, these APMs are used by the management to measure performance on a regular basis. The APMs should not be considered as a substitute for measures of performance in accordance with IFRS.

EBITDA is defined as Total income (Operating revenue and gain/(loss) on sale of assets) adjusted for Operating expenses excluding other gain/(loss). EBITDA is used as an additional measure of the group's operational profitability, excluding the impact from financial items, taxes, depreciation and amortization.

EBITDA adjusted is defined as EBITDA excluding restructuring related items and gain/loss on sale of vessels and other tangible assets. These items have been excluded as they are not regarded as part of the underlying operational performance for the period.

EBIT is defined as Total income (Operating revenue and gain/(loss) on sale of assets) less Operating expenses excluding other gain/(loss), Other gain/loss and depreciation and amortization. EBIT is used as a measure of operational profitability excluding the effects of how the operations were financed, taxed and excluding foreign exchange gains & losses.

EBIT adjusted is defined as EBIT excluding restructuring related items, gain/loss on sale of vessels and other tangible assets and other gain/loss.

For the quarters Capital Employed (CE) is calculated based on quarterly average of Total assets, Total liabilities and total interest-bearing debt. For the full year CE is calculated based on yearly average of Total assets, Total liabilities and total interest-bearing debt. CE is measured in order to assess how much capital is needed for the operations/business to function and evaluate if the capital employed can be utilized more efficiently and/or if operations should be discontinued.

In the quarterly reporting Return on Capital Employed (ROCE) is based on annualized EBIT divided by capital employed. For the annual reporting the EBIT in the ROCE calculation is the actual EBIT for the full year. ROCE is used to measure the return on the capital employed without taking into consideration the way the operations and assets are financed during the period under review. The group considers this ratio as appropriate to measure the return of the period.

# Reconciliation of alternative performance measures

USD million

| | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 2018 |
|---|---|---|---|---|---|
| **Reconciliation of Total income to EBITDA and EBITDA adjusted** | | | | | |
| Total income | 1,005 | 1,044 | 2,022 | 2,012 | 4,065 |
| Operating expenses excluding other gain/(loss) | (794) | (888) | (1,593) | (1,731) | (3,463) |
| **EBITDA** | **211** | **156** | **430** | **281** | **601** |
| | | | | | |
| EBITDA Ocean | 184 | 134 | 374 | 243 | 528 |
| Restructuring costs | - | 1 | - | 3 | 3 |
| Loss on sale of tangible assets | - | 1 | - | 1 | 1 |
| **EBITDA adjusted Ocean** | **184** | **136** | **374** | **247** | **532** |
| | | | | | |
| EBITDA Landbased | 35 | 25 | 68 | 45 | 90 |
| Gain on sale of tangible assets | - | (0) | - | (0) | (0) |
| **EBITDA adjusted Landbased** | **35** | **25** | **68** | **45** | **89** |
| | | | | | |
| EBITDA Holding/Eliminations | (7) | (3) | (11) | (7) | (16) |
| Restructuring costs | - | 1 | - | 2 | 2 |
| **EBITDA adjusted Holding/Eliminations** | **(7)** | **(2)** | **(11)** | **(5)** | **(15)** |
| | | | | | |
| **EBITDA adjusted** | **211** | **158** | **430** | **286** | **606** |
| | | | | | |
| **Reconciliation of Total income to EBIT and EBIT adjusted** | | | | | |
| EBITDA | 211 | 156 | 430 | 281 | 601 |
| Other gain/loss | 1 | 2 | 1 | (39) | (12) |
| Depreciation and amortisation | (124) | (86) | (247) | (170) | (345) |
| **EBIT** | **88** | **72** | **183** | **72** | **244** |
| Restructuring costs | - | 2 | - | 5 | 5 |
| Gain on sale of other tangible assets | - | 0 | - | 0 | 0 |
| Derivative financial asset | (2) | (2) | (2) | 39 | 12 |
| **EBIT adjusted** | **86** | **73** | **181** | **116** | **261** |

| | Quarter average | | 1H average | | Yearly average |
|---|---|---|---|---|---|
| **Reconciliation of total assets to capital employed and ROCE calculation and return on equity calculation** | Q2 2019 | Q2 2018 | 1H 2019 | 1H 2018 | 31 Dec 2018 |
| Total assets | 8,156 | 7,636 | 8,072 | 7,477 | 7,638 |
| Total liabilities | 5,272 | 4,821 | 5,189 | 4,629 | 4,776 |
| **Total equity** | **2,883** | **2,815** | **2,884** | **2,849** | **2,863** |
| Total interest-bearing debt | 4,346 | 3,675 | 4,384 | 3,654 | 3,674 |
| **Capital employed** | **7,229** | **6,490** | **7,267** | **6,503** | **6,537** |
| | | | | | |
| EBIT adjusted annualised | 346 | 291 | 356 | 218 | 261 |
| **ROCE** | **4.8%** | **4.5%** | **4.9%** | **3.4%** | **4.0%** |
| | | | | | |
| Profit for the period | 12 | 92 | 25 | (7) | 58 |
| **Return on equity** | **0.4%** | **3.3%** | **0.9%** | **-0.3%** | **2.0%** |

| | Q2 2019 | Q2 2018 | 31 Dec 2018 |
|---|---|---|---|
| **Net interest-bearing debt** | | | |
| Cash and cash equivalents | 487 | 517 | 484 |
| Non-current interest bearing debt | 3,853 | 3,052 | 3,054 |
| Current interest-bearing debt | 485 | 672 | 530 |
| **Net interest-bearing debt** | **3,851** | **3,207** | **3,100** |