



# SUMMARY OF KEY FIGURES

|  |             | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 | Change<br>absolute |
|--|-------------|---------------------|---------------------|--------------------|
| <b>Key operating figures<sup>1</sup></b>                       |             |                     |                     |                    |
| Total vessels (as at 31 December)                              |             | 219                 | 166                 | 53                 |
| Aggregate capacity of vessels                                  | TTEU        | 1,573               | 963                 | 610                |
| Aggregate capacity of containers                               | TTEU        | 2,349               | 1,576               | 773                |
| Freight rate (average for the quarter)                         | USD/TEU     | 1,051               | 1,036               | 15                 |
| Transport volume   | TTEU        | 9,803               | 7,599               | 2,204              |
| Revenue  | million EUR | 9,973               | 7,734               | 2,239              |
| EBITDA   | million EUR | 1,054.5             | 607.4               | 447.1              |
| EBIT   | million EUR | 410.9               | 126.4               | 284.5              |
| Group profit/loss  | million EUR | 32.1                | -93.1               | 125.2              |
| Earnings per share   | EUR         | 0.19                | -0.82               | 1.01               |
| Cash flow from operating activities                            | million EUR | 894                 | 417                 | 477                |
| <b>Key return figures<sup>1</sup></b>                          |             |                     |                     |                    |
| EBITDA margin (EBITDA/revenue)                                 | %           | 10.6                | 7.9                 | 2.7 ppt            |
| EBIT margin (EBIT/revenue)                                     | %           | 4.1                 | 1.6                 | 2.5 ppt            |
| ROIC (Return on Invested Capital) <sup>2</sup>                 | %           | 3.1                 | 1.3                 | 1.8 ppt            |
| <b>Key balance sheet figures as at 31 December<sup>1</sup></b> |             |                     |                     |                    |
| Balance sheet total  | million EUR | 14,828              | 11,331              | 3,497              |
| Equity   | million EUR | 6,058               | 5,058               | 1,000              |
| Equity ratio (equity/balance sheet total)                      | %           | 40.9                | 44.6                | -3.7 ppt           |
| Borrowed capital   | million EUR | 8,770               | 6,273               | 2,497              |
| <b>Key financial figures as at 31 December<sup>1</sup></b>     |             |                     |                     |                    |
| Financial debt   | million EUR | 6,336               | 4,181               | 2,155              |
| Cash and cash equivalents                                      | million EUR | 605                 | 570                 | 35                 |

<sup>1</sup> The key operating figures and key return figures refer to the respective reporting period.

<sup>2</sup> 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 in US dollars.

United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) and its subsidiaries (subsequently referred to as UASC or the UASC Group) are included in the Hapag-Lloyd AG group of consolidated companies from the acquisition date of 24 May 2017. In addition to Hapag-Lloyd AG, the group of consolidated companies increased from 82 companies (31 December 2016) to 164 companies as at 31 December 2017. The inclusion of the UASC Group means that the figures for the 2017 financial year are only comparable with those of previous years to a limited extent. The earnings development in the 2017 financial year is affected by one-off effects resulting from the transaction and the integration.

**Disclaimer:** This annual report contains statements concerning future developments at Hapag-Lloyd. Due to market fluctuations, the development of the competitive situation, world market prices for commodities, and changes in exchange rates and the economic environment, the actual results may differ considerably from these forecasts. Hapag-Lloyd neither intends nor undertakes to update forward-looking statements to adjust them for events or developments which occur after the date of this report. United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) and its subsidiaries (subsequently referred to as UASC or UASC Group) are included in the Hapag-Lloyd AG group of consolidated companies from the acquisition date of 24 May 2017. The presented figures include effects of the transaction and the integration of the UASC Group from the acquisition date and can therefore only be compared to the previous year's figures to a limited extent.

The German version of the Annual Report is the legally binding document.

**This report was published on 28 March 2018.**

# BETTER.UNITED. – GOING FROM STRENGTH TO STRENGTH

HAPAG-LLOYD IS ONE OF THE WORLD'S LEADING CONTAINER LINER SHIPPING COMPANIES AND GERMANY'S LARGEST CONTAINER LINER SHIPPING COMPANY. OUR CORE BUSINESS IS THE SHIPPING OF CONTAINERS BY SEA, BUT ALSO ENCOMPASSES TRANSPORT SERVICES FROM DOOR TO DOOR. WE HAVE A WELL-BALANCED GLOBAL TRADE NETWORK WITH A SOLID POSITION IN ATTRACTIVE MARKETS AND STRONG NICHE SEGMENTS.

THE MERGER WITH UNITED ARAB SHIPPING COMPANY LTD. (UASC) IN MAY 2017 ENABLED HAPAG-LLOYD TO FURTHER STRENGTHEN ITS COMPETITIVE POSITION.

## **Main developments in the 2017 financial year:**

- Successful launch of THE Alliance on 1 April 2017
- Merger with UASC completed on 24 May 2017, strengthening Hapag-Lloyd's competitive position significantly
- Operational integration of the UASC Group completed at the end of November 2017
- Strong growth in volume: transport volume rose by 29.0% in 2017, primarily as a result of the integration of UASC. On a pro forma basis<sup>1</sup> the transport volume would have increased by 4.8% compared to the previous year
- Average freight rate in 2017 of USD 1,051/TEU exceeds the previous year's level by 1.4% (2016: USD 1,036/TEU), despite the integration of UASC. On a pro forma basis<sup>1</sup>, the average freight rate would have increased by 9.4% compared to the previous year
- At 19.9%, transport expenses (excl. bunker costs) increase at a much lower rate than the increase in transport volume (29.0%)
- Clear increase in EBITDA to EUR 1,054.5 million in 2017 (2016: EUR 607.4 million)
- Operating result (EBIT) of EUR 410.9 million clearly above the previous year's level (2016: EUR 126.4 million)
- Successful refinancing through two corporate bonds of EUR 450.0 million each and coupons of 6.75% and 5.125% respectively. The issue proceeds were used for the early repayment of existing bonds
- Strengthening of equity as a result of capital increase of around EUR 352 million by means of a rights issue and the issuance of 11,717,353 new no-par shares on 17 October 2017 and simultaneous repayment of UASC financial debt
- Solid liquidity reserve of EUR 1,059.5 million as at 31 December 2017
- Strong cash flow from operating activities of EUR 893.9 million
- Equity ratio decreases to 40.9% as at 31 December 2017 due to the substantial increase in the balance sheet total following the consolidation of the UASC Group

<sup>1</sup> The pro forma basis assumes that the merger with UASC occurred on 1 January 2016 and facilitates comparability with regard to the Company's performance.

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## LADIES AND GENTLEMEN,

On 24 May 2017, Hapag-Lloyd and United Arab Shipping Company (UASC) merged. This marked the beginning of a new chapter in our 170-year history. Hapag-Lloyd has fundamentally strengthened its market position in the long term as one of the world's leading container liner shipping companies.

Today, we can offer our global customers a wide-ranging product portfolio and even more competitive coverage of the most important trades worldwide. The merger has enormously strengthened our presence on routes between Asia and Northern Europe. We are also among the leading liner shipping companies in the Middle East.

As a result of the merger, we now have the necessary large vessels that are used on trades between the Far East and Europe. The addition of these ships to the Hapag-Lloyd fleet means that we will not need to invest in newbuilds in the medium term. Furthermore, we have one of the youngest fleets in our industry, with an average age of around seven years. Overall, we have succeeded in completing the integration as expected.

The merger will also create substantial cost synergies, of course. These will result from optimising our network structure, operating a combined fleet, jointly purchasing services and improving our overheads. We expect these synergies to save us around USD 435 million per year from 2019 onwards.

The merger between Hapag-Lloyd and UASC will also fundamentally strengthen THE Alliance. The alliance was successfully launched on 1 April 2017 and provides our customers with a significantly enhanced range of services on East–West trades. In partnership with our Japanese partners “K” Line, NYK and MOL (which are set to merge on 1 April 2018 and will operate under the name “ONE”) and the Taiwanese company Yang Ming, we offer our customers faster transit times, extensive port coverage and ultra-modern ships. With a comprehensive network of 32 services, we connect more than 75 ports and cover all the main East–West trades.

THE Alliance is one of today's leading global networks in container shipping – with approximately 3.5 million TEU, or 244 ships. This represents around 17% of global fleet capacity.

Our industry saw further significant changes in 2017. Since 2014, nine of the 20 biggest container liner shipping companies have disappeared, either through mergers or insolvency. Hapag-Lloyd has played an active and successful part in this market consolidation. In 2005, we acquired the Canadian company CP Ships, followed in 2014 by the container shipping activities of the Chilean shipping company CSAV, and then last year we successfully completed the merger with the Arabic company UASC.



Rolf Habben Jansen  
(Chairman of the  
Executive Board)

Overall, a challenging market environment continued to dominate the container shipping industry in the 2017 financial year. Although we were able to significantly increase our global transport volume, we had to contend once again with intense competition, continuing overcapacities and, as a consequence, low freight rates. Added to this was a sharp rise in bunker prices in the second half of the year. Nevertheless, the freight rate level recovered from the low recorded in the first quarter of 2016.

Despite the difficult competitive situation and one-off costs resulting from the merger with UASC, Hapag-Lloyd performed very well in 2017. We achieved a substantial year-on-year increase in our earnings before interest and taxes (EBIT) and recorded a positive profit after taxes. Against the background of this positive business development the Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting 2017 the payment of an extraordinary dividend of EUR 100 million, resp. 57 cents per share.

We were also able to significantly strengthen our equity by around EUR 352 million as a result of the capital increase successfully completed in October. At the same time, we reduced our financing costs by issuing two bonds with a total value of approximately EUR 900 million and by repaying existing bonds earlier than scheduled. In doing so, we were also able to considerably improve the maturity structure of our financial liabilities.

However, this success has not made us overconfident. We are well aware that our industry continues to find itself in choppy waters and that the major challenges still exist. For this reason, our goals for 2018 are clear. We want to access the synergies from the merger with UASC, to continue reducing our debt, to be the first choice for our customers worldwide by offering high-quality, innovative services – and to create value for our shareholders.

Around 12,500 dedicated employees all over the world will work passionately to make these goals a reality.

I would like to sincerely thank you for your confidence and support over the last year and ask you to remain by our side in 2018.

Kind regards,

A handwritten signature in blue ink, appearing to read 'R. Habben Jansen', with a long horizontal stroke extending to the right.

Rolf Habben Jansen  
(Chairman of the Executive Board)

Hamburg, 23 March 2017



The Executive Board of Hapag-Lloyd AG:

Thorsten Haeser, Rolf Habben Jansen  
(Chairman), Nicolás Burr, Anthony J. Firmin  
(from left to right)



## REPORT OF THE SUPERVISORY BOARD

### **Dear Shareholders,**

In the 2017 financial year, the Supervisory Board of the Hapag-Lloyd AG properly and conscientiously performed all of the tasks for which it is responsible in accordance with the applicable laws, articles of association and rules of procedure. The Supervisory Board monitored the Executive Board as it managed the Company and diligently advised it on a regular basis. Its main priority at all times was to protect the interests of Hapag-Lloyd AG, the primary operating unit responsible for the Group's performance.

### **Cooperation between the Supervisory Board and the Executive Board**

In the last financial year, the Executive Board informed the Supervisory Board regularly, comprehensively and promptly about the competitive environment, the planned business policies, all strategic and fundamental operating decisions and the risk management system. The Executive Board also discussed with the Supervisory Board the most important financial indicators as a means of assessment for the Company's economic position. The focus of the reporting and consultation was on corporate planning, major investment and financing measures and, in particular, the business combination with the Arabic container shipping company United Arab Shipping Company Ltd. (UASC).

The Executive Board reported both orally and in writing to the Supervisory Board in its meetings, providing full responses to all of the Supervisory Board's questions. Outside of the meetings, regular reports on the Group's performance and on the most important transactions at Hapag-Lloyd AG also ensured that the Supervisory Board was kept well informed. Furthermore, frequent discussions on the current business took place between the Chairman of the Supervisory Board and the Chief Executive Officer. As a result, the Supervisory Board was fully up to date at all times. The reports by the Executive Board complied with legal requirements, the principles of good corporate governance and the Supervisory Board's own requirements.

The Executive Board involved the Supervisory Board at an early stage in decisions with a significant influence on the position and performance of the Company. The Supervisory Board thus monitored the Executive Board's management of the Company at all times on the basis of legality, correctness, appropriateness and viability.

In the 2017 financial year, decisions were made by the Supervisory Board, and under certain circumstances also by individual committees, on transactions requiring approval after they were examined in detail and discussed with the Executive Board. The catalogue of transactions for which the Executive Board requires the consent of the Supervisory Board is based on Section 7 of the articles of association of Hapag-Lloyd AG and the rules of procedure for the Executive Board and the Supervisory Board.



Michael Behrendt  
(Chairman of the  
Supervisory Board)

### **Meetings of the Supervisory Board and matters addressed**

The Supervisory Board met seven times in the reporting period. These meetings were held on 24 March 2017, 31 March 2017, 4 May 2017, 29 May 2017 (two meetings), 27 September 2017 and 14 November 2017. All members of the Supervisory Board attended more than half of the meetings as well as the meetings of the committees which they were part of. The average attendance rate was as follows:

- Meetings of the Supervisory Board: 97%
- Meetings of the Presidential and Personnel Committee: 100%
- Meetings of the Audit and Financial Committee: 94%

The Nomination Committee did not meet in the reporting period. However, it proposed the appointment of a shareholder representative to the Supervisory Board, to be elected at the 2018 Annual General Meeting, by means of a resolution outside of a meeting on 30 November 2017. This was due to the resignation of a shareholder representative on the Supervisory Board for personal reasons with effect as of 30 November 2017.

The Mediation Committee did not meet in the reporting period.

### Attendance of the Supervisory Board members in the 2017 financial year

| Meeting       | Meetings by the Supervisory Board |            |            |              |               |            | Meetings by the Presidential and Personnel Committee |            |            | Meetings by the Audit and Finance Committee |            |            |            |            |            |            |            |
|---------------|-----------------------------------|------------|------------|--------------|---------------|------------|--|------------|------------|---|------------|------------|------------|------------|------------|------------|------------|
|               | 24.03.2017                        | 31.03.2017 | 04.05.2017 | 29.05.2017 I | 29.05.2017 II | 27.09.2017 | 14.11.2017   | 24.03.2017 | 27.09.2017 | 14.11.2017                                  | 11.01.2017 | 23.03.2017 | 24.03.2017 | 11.05.2017 | 28.08.2017 | 08.09.2017 | 14.11.2017 |
| Name          |                                   |            |            |              |               |            |  |            |            |   |            |            |            |            |            |            |            |
| Al-Almudi     |                                   |            |            |              | ✓             | ✓          | ○  |            |            |   |            |            |            |            | ✓          | ✓          | ○          |
| Al-Thani      |                                   |            |            |              | ○             | ✓          | ✓  |            | ✓          | ✓   |            |            |            |            |            |            |            |
| Behle         | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   |            |            |            |            |            |            |            |
| Behrendt      | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   |            |            |            |            |            |            |            |
| Diekamp       | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   |            |            |            |            |            |            |            |
| Gehrt         | ✓                                 | ○          | ✓          | ✓            | ✓             | ✓          | ✓  |            |            |   |            |            |            |            |            |            |            |
| Gemandt       | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Hasbún        | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  |            |            |   | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Klemmt-Nissen | ✓                                 | ✓          | ○          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Kramer        |                                   |            |            |              |               | ✓          | ✓  |            |            |   |            |            |            |            |            |            |            |
| Kröger        |                                   |            |            |              |               | ✓          | ✓  |            |            |   |            |            |            |            | ✓          | ✓          | ✓          |
| Lipinski      | ✓                                 | ✓          | ○          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Nieswand      | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   |            |            |            |            |            |            |            |
| Pérez         | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  | ✓          | ✓          | ✓   |            |            |            |            |            |            |            |
| Schroeter     | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  |            |            |   | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Zimmermann    | ✓                                 | ✓          | ✓          | ✓            | ✓             | ✓          | ✓  |            | ✓          | ✓   | ✓          | ✓          | ✓          | ✓          | ✓          | ○          | ✓          |

✓ Meeting attendance

○ Did not attend the meeting

■ Was not a member of the Supervisory Board or the committee at the time of the meeting

### Supervisory Board meeting on 24 March 2017

At the start of its meeting on 24 March 2017, the Supervisory Board made a decision to extend two Executive Board contracts. Firstly, the employment contract of the COO, Mr Anthony J. Firmin, was extended by two years and, secondly, the employment contract of the CFO, Nicolás Burr, was also extended in advance by two years. There were no other changes to their contractual conditions. The Supervisory Board then focused primarily on the annual financial statements. Following its own review, it approved the annual financial statements and management report as well as the consolidated financial statements and Group management report for the 2016 financial year. The Supervisory Board also obtained information about the implementation status of the business combination agreement with UASC and discussed current business. In addition, the Supervisory Board focused on the agenda for the Annual General Meeting and postponed a resolution on this matter to a later date.

**Supervisory Board meeting on 31 March 2017**

At this meeting, the Supervisory Board focused on the appropriation of profits and also acknowledged and agreed with the Executive Board's report on the 2016 financial year.

The Supervisory Board passed a resolution outside of a meeting on 13 April 2017 to approve the agenda for the Company's Annual General Meeting on 29 May 2017 and adopted its resolution proposals for the agenda items. In particular, the Supervisory Board decided to follow the recommendation of the Audit and Financial Committee regarding its proposal for the selection of the external auditors of the annual and consolidated financial statements. The Supervisory Board also approved the proposed resolution on the cancellation of the Authorised Capital 2016 and the creation of an Authorised Capital 2017 with the corresponding revision of Section 5.3 of the articles of association. In addition, the Supervisory Board made a decision on the proposed resolution to increase its size to 16 members on account of the planned merger with UASC and to modify Section 9.1 of the articles of association accordingly. It also agreed on nominations for the election of shareholder representatives to the Supervisory Board.

**Supervisory Board meeting on 4 May 2017**

At this meeting, the Supervisory Board focused exclusively on the implementation of the planned merger with UASC, in particular on the essential requirements for fulfilling the business combination agreement with UASC.

The Supervisory Board had already made a decision on 28 June 2016 to enter into the closing agreement with UASC. As a result of this, a decision was made by means of resolutions outside of a meeting on 23 May 2017 regarding the capital increase from authorised capital against a contribution in kind in the form of shares in UASC Ltd. (formerly UASC S.A.G.). The decision also provided for the return of the shares in UASC Ltd. to the former shareholders in the event that the completion of the capital increase was not registered within an appropriate period of time or at all.

**Supervisory Board meetings on 29 May 2017**

Before the Annual General Meeting took place, the Supervisory Board obtained information about the current business. The discussions focused on the results for the first quarter of 2017. In addition, the Supervisory Board obtained an overview of the current status of the transaction with UASC and the initial activities for the integration of UASC. Finally, the Supervisory Board prepared for the Company's Annual General Meeting, which took place after the meeting.

In its constituent meeting after the Annual General Meeting, the Supervisory Board welcomed its newly elected members and made a decision to modify the rules of procedure to reflect the increased size of the Supervisory Board and its committees. This was followed by the elections into the committees.

The Supervisory Board approved the issuing of a high-yield corporate bond on 3 July 2017 by passing a resolution outside of a meeting.



### **Supervisory Board meeting on 27 September 2017**

In its meeting on 27 September 2017, the Supervisory Board concerned itself of the Executive Board's report on the current business and discussed the report with the Executive Board. In relation to this, the Executive Board reported, among others matters, on the integration activities with UASC. The rest of the discussions focused on the updated annual budget (joint forecast), the modalities of the capital increase agreed under the business combination agreement (BCA) and various corporate governance issues, such as the percentage of women on the Executive Board and the declaration of conformity. The Supervisory Board decided on the capital increase agreed in the BCA and the corresponding changes to the articles of association. Furthermore, the meeting dealt with the report by the Chief Commercial Officer, Mr Thorsten Haeser, on the Company's sales activities.

The Supervisory Board passed a resolution outside of a meeting on 13 October 2017 to approve a further modification of the articles of association in relation to the capital increase.

### **Supervisory Board meeting on 14 November 2017**

The focus of this meeting was on discussing the current business and current status of the integration activities with UASC as well as the 2018 annual budget, including Hapag-Lloyd AG's business plan. The Executive Board gave a precise account of the corresponding planning and went into detail on the underlying assumptions. On the recommendation of the Audit and Financial Committee, the Supervisory Board approved the Executive Board's planning. The Supervisory Board also approved the outsourcing of the review of the non-financial report, following the recommendation of the Audit and Financial Committee.

### **Meetings of the committees and matters addressed**

The work of the Supervisory Board was prepared and supported by its committees. The following committees, with the members listed beside them, were active in the reporting year:

**Presidential and Personnel Committee:** Michael Behrendt (Chairman), Sheikh Ali bin Jassim Al-Thani (from 29 May 2017) Christine Behle, Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand, José Francisco Pérez Mackenna, Uwe Zimmermann (from 29 May 2017).

**Audit and Financial Committee:** Karl Gernandt (Chairman), Dr Nabeel Al-Amudi (from 29 May 2017 to 30 November 2017), Oscar Hasbún Martínez, Dr Rainer Klemmt-Nissen, Annabell Kröger (from 10 June 2017), Arnold Lipinski, Klaus Schroeter, Uwe Zimmermann.

**Mediation Committee pursuant to Section 27 (3) of the German Co-Determination Act (MitbestG):** Michael Behrendt (Chairman), Christine Behle, Jutta Diekamp, José Francisco Pérez Mackenna.

**Nomination Committee:** Michael Behrendt (Chairman), Sheikh Ali bin Jassim Al-Thani (from 29 May 2017), Karl Gernandt, Dr Rainer Klemmt-Nissen, José Francisco Pérez Mackenna.

The responsibilities assigned to these committees are described in detail in the joint Corporate Governance Report of the Executive Board and the Supervisory Board (Corporate Governance Report) from page 35.



The **Presidential and Personnel Committee** met three times in 2017, on 24 March 2017, 27 September 2017 and 14 November 2017. As well as discussing the preparations for the Supervisory Board's plenary session on the same day, the Presidential and Personnel Committee also focused on the contract extensions of two Executive Board members on 24 March 2017 and the percentage of women on the Executive Board on 27 September 2017.

The **Audit and Financial Committee** convened seven meetings in the last financial year.

At its first meeting on 11 January 2017, the committee focused exclusively on the issuing of a high-yield corporate bond.

In the meeting on 23 March 2017, the discussions centred on issues relating to the annual financial statements, including the external auditors' report on the annual and consolidated financial statements for the 2016 financial year (see also "Annual and consolidated financial statements 2017"). The dependency report and the proposal for the selection of the external auditors were discussed, and a corresponding proposal to the Supervisory Board was passed (see also "Review of the report by the Executive Board on relationships with affiliated companies").

The meeting on 24 March 2017 dealt exclusively with the use of retained earnings in 2016 and made a decision to recommend that the Supervisory Board defer a decision on the matter.

The fourth meeting on 11 May 2017 was dominated by a discussion on the financial report for the first quarter and the forecast for the second quarter, the internal control and risk management system (ICS) and the Group's risk situation, as well as the Company's planned container investments.

In the meeting on 28 August 2017, the discussion centred on the half-year financial report for the first half of the year and the forecast for the second half and on the updated annual budget for 2018 (joint forecast). The Audit and Financial Committee also discussed the planned capital increase, the Group's financing structures, the strategy for concluding hedging transactions and the report by the Corporate Audit department. The Audit and Financial Committee then obtained detailed information about the current status of the integration activities of UASC.

On 8 September 2017, the Audit and Financial Committee once again discussed the updated annual budget for 2017 (joint forecast) and made a decision to recommend that the Supervisory Board approve the updated annual budget for 2017.

In the seventh meeting on 14 November 2017, the focus was on the presented 2018 annual budget, including Hapag-Lloyd AG's business plan. The committee discussed the targets and measures with the Executive Board in detail. It made a decision to recommend that the Supervisory Board approve the Executive Board's planning. The financial report for the third quarter was also discussed, as were the audit focal points in the external audit. Furthermore, the committee focused on the report of the Compliance Officer and took note of changes to the guidelines on non-audit services provided by the external auditors. The Audit and Financial Committee discussed in detail the awarding of the external contract for the auditing of the non-financial report and made a decision to recommend that the Supervisory Board approve this.

The **Mediation Committee** and the **Nomination Committee** did not meet in the reporting period.

### **Personnel changes in the Supervisory Board and the Executive Board**

As of the end of the Annual General Meeting on 29 May 2017, the terms of two shareholder representatives on the Supervisory Board started: Sheikh Ali bin Jassim Al-Thani and Dr Nabeel Al-Amudi. The terms of two employee representatives (Joachim Kramer and Annabell Kröger), who were newly appointed by the Hamburg district court started on 10 June 2017. In addition, the terms of Oscar Hasbún Martínez and José Francisco Pérez Mackenna as members of the Supervisory Board were extended by three years.

Due to the resignation of Dr Nabeel Al-Amudi for personal reasons with effect as of 30 November 2017, the Nomination Committee proposed Mr Turqi Alnowaiser to the Supervisory Board as a nominee for ordinary election at the next Annual General Meeting. At the request of the Executive Board, Hamburg district court temporarily appointed Mr Turqi Alnowaiser as a new member of the Supervisory Board until the next Annual General Meeting.

There were no personnel changes on the Executive Board in the 2017 financial year.

### **Corporate governance**

The Supervisory Board is committed to the principles of good corporate governance and maintained a continuous focus on these principles in the 2017 financial year. One key element of this is the recognition of the provisions of the German Corporate Governance Code (GCGC) in their versions as on 5 May 2015 and 7 February 2017 (since the announcement on 24 April 2017). This does not preclude a deviation from the recommendations of the code in certain justified cases. As a listed company, Hapag-Lloyd AG is required to issue a statement in accordance with Section 161 of the German Stock Corporation Act (AktG) indicating the extent to which it has complied and is complying with the recommendations of the GCGC or which recommendations it has not followed or is not following, and to provide reasons for deviating from recommendations (declaration of conformity). In September 2017, the Executive Board and Supervisory Board issued a declaration of conformity, which is available on the Company's website. Further details on corporate governance can be found in the joint Corporate Governance Report of the Executive Board and the Supervisory Board (Corporate Governance Report) on page 22.

The Supervisory Board members of Hapag-Lloyd AG are required to disclose any conflicts of interest to the Supervisory Board, in particular those which may occur as a result of providing advisory or consulting services to customers, suppliers, lenders or other third parties or holding positions on their corporate bodies. In line with the GCGC's recommendation, the Supervisory Board will outline any conflicts of interest that occurred and how they were dealt with in its report to the Annual General Meeting. There were no indications of actual or potential conflicts of interest in the 2017 financial year.

### **Audit of the 2017 annual and consolidated financial statements**

The Executive Board submitted the annual financial statements and management report, the consolidated financial statements and Group management report of Hapag-Lloyd AG and the proposal on the appropriation of profits to the Supervisory Board within the specified time.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements as at 31 December 2017 and management report prepared by the Executive Board in accordance with the provisions of the German Commercial Code (HGB) as well as the consolidated financial statements and the Group management report prepared in accordance with Section 315e HGB on the basis of the International Financial Reporting Standards (IFRS), as applicable in the European Union, and issued each of them with an unqualified auditor's opinion.

Before the Audit and Financial Committee made a decision on its recommendation to the Supervisory Board regarding the proposal of the external auditors to the Annual General Meeting, the external auditors declared that there were no business, financial, personal or other relationships between the auditors, their corporate bodies and their lead auditors on one side and the Company and the members of its corporate bodies on the other side that could raise doubts about the auditors' independence. This declaration also disclosed the extent to which other services had been provided to the Company in the previous financial year or contractually agreed for the following year. Within this context, the Audit and Financial Committee verified and confirmed that the required independence exists. The Supervisory Board was informed of the result of this verification process before making its decision on the proposal of the external auditors to the Annual General Meeting.

The audit engagement for the annual financial statements of the Company and the Group was awarded by the Chairman of the Supervisory Board's Audit and Financial Committee in accordance with the resolution of the Annual General Meeting on 29 May 2017.

The documents relating to the annual and consolidated financial statements and the appropriation of profits were examined and discussed at length at the meeting of the Audit and Financial Committee on 27 March 2018 in preparation for the audit and the handling of these documents by the Supervisory Board in the presence of the external auditors, who gave an account of the results of their audit, and the Executive Board; this included questions to the external auditors regarding the manner and scope of the audit as well as the audit result. As a result, the Audit and Financial Committee was convinced of the correctness of the audit and the audit report. In particular, it was also satisfied that the audit report – as well as the audit performed by the external auditors themselves – complied with all legal requirements. Within this context, the external auditors also confirmed to the Audit and Financial Committee that no circumstances existed which would lead to concerns about their impartiality. Furthermore, the Audit and Financial Committee obtained a report from the external auditors on the audit of the risk early-warning system. The external auditors stated that the Executive Board had taken the measures required under Section 91 (2) of the German Stock Corporation Act (AktG) regarding the establishment of a risk early-warning system in a suitable form and that the risk early-warning system was suitable for identifying at an early stage any developments that would endanger the existence of the Company. The Audit and Financial Committee agrees with this assessment. The Audit and Financial Committee made a recommendation to the Supervisory Board to acknowledge and approve the result of the audit performed by the external auditors, and since it had no objections of its own to the documents for the annual financial statements and consolidated financial statements along with the management report and Group management report submitted by the Executive Board, to approve the annual financial statements and management report as well as the consolidated financial statements and Group management report.

The aforementioned financial statement documents, the Executive Board's proposal on the appropriation of profits and the audit reports of the external auditors were provided to all members of the Supervisory Board in time to prepare for the Supervisory Board's meeting on 28 March 2018.

In its meeting on 28 March 2018, the Supervisory Board discussed the results of the audit performed by the external auditors and the recommendation of the Audit and Financial Committee and conducted its own in-depth review of them after the Executive Board had explained the documents submitted. This meeting was also attended by the external auditors, who reported on the main results of their audit and answered questions from the Supervisory Board about the manner and scope of the audit and the audit results. The discussion also included the risk early-warning system. The Supervisory Board agrees with the Audit and Financial Committee's understanding on the effectiveness of this system. It also obtained a report from the Audit and Financial Committee on its monitoring of the external auditors' independence, taking into account the non-audit services provided, and its assessment that the external auditors continue to have the necessary independence. The Supervisory Board fully observed the German Audit Reform Act (AReG), which came into effect on 1 January 2017, and in particular the resulting increase in monitoring duties with regard to the independence of the external auditors, using a corresponding guideline for the approval of non-audit services provided by the external auditors.

The Supervisory Board was satisfied that the external auditors had correctly performed the audit and that both the audit and the audit reports complied with the legal requirements. Following its own thorough review of the annual financial statements and management report as well as the consolidated financial statements and Group management report (including the declaration on corporate governance), the Supervisory Board declares that it has no objections to the annual financial statements and consolidated financial statements or the management report and Group management report. Following the recommendation of the Audit and Financial Committee, the Supervisory Board acknowledged and agreed with the external auditors' findings. The Supervisory Board therefore approved the annual financial statements and the consolidated financial statements in its meeting on 28 March 2018. The annual financial statements of Hapag-Lloyd AG have thereby been adopted. The Supervisory Board agrees with the Executive Board's assessment of the state of the Company and the Group as expressed in the management report and Group management report. The Supervisory Board discussed the Executive Board's proposal on the appropriation of profits, which includes a dividend of EUR 0.57 per share entitled to dividends, in particular from the perspective of the dividend policy, the effects on liquidity and the shareholders' interests; this also included an explanation from the Executive Board and a discussion with the external auditors. The remaining retained earnings of EUR 422.2 million will be carried forward to new account. The Supervisory Board concurred with the Executive Board's proposal on the appropriation of profits on 28 March 2018.

**Review of the Executive Board report on relationships with affiliates**

The Executive Board submitted its report on relationships with affiliated companies in the 2017 financial year (dependency report) to the Supervisory Board in a timely manner.

The external auditors audited the dependency report and issued the following unqualified auditor's opinion:

"Following our mandatory audit and assessment, we hereby confirm that:

1. The actual disclosures in this report are accurate
2. The payments made by the Company for the legal transactions detailed in the report were not unreasonably high"

The audit report of the external auditors was also submitted to the Supervisory Board. The dependency report and the corresponding audit report were sent to all members of the Supervisory Board in a timely manner to enable them to prepare for the discussions in the Supervisory Board meeting on 28 March 2018.

In preparation for the Supervisory Board's review and decision-making process, the Audit and Financial Committee assessed the aforementioned documents in detail. The members of the Executive Board explained the dependency report to the Audit and Financial Committee in detail in its meeting on 27 March 2018. They also answered questions from committee members. The meeting was also attended by the external auditors, who reported on their audit, in particular their audit focal points and the main results of their audit, and explained their audit report. The members of the Audit and Financial Committee took note of the audit report and the auditor's opinion, critically examined them, and discussed these documents as well as the audit itself with the external auditors. This included questions about the manner and scope of the audit and the audit results. Consequently, the Audit and Financial Committee was able to satisfy itself of the correctness of the audit and the audit report. In particular, it was satisfied that the audit report – as well as the audit performed by the external auditors themselves – complied with all legal requirements. The Audit and Financial Committee made a recommendation to the Supervisory Board to approve the result of the audit performed by the external auditors, and since it has no objections to the Executive Board's statement on the dependency report, to decide on a corresponding assessment.

The Supervisory Board performed the final review in its meeting on 28 March 2018, taking into consideration the resolution and recommendation of the Audit and Financial Committee as well as the audit report of the external auditors. The Executive Board explained the dependency report in this meeting and answered questions from Supervisory Board members. The external auditors also attended this meeting, reported on their audit of the dependency report and

their main audit results, explained their audit report, and answered questions from Supervisory Board members, in particular regarding the manner and scope of the dependency report audit and the audit results. Based on this, the Supervisory Board reviewed the legal transactions detailed in the report on the relationships with affiliates to determine whether the payments made by the Company were not unreasonably high in consideration of the circumstances that were known at the time they were made or whether disadvantages had been offset. To enable this, the Supervisory Board obtained an explanation of the most important legal transactions, which formed the basis for the payments made by the Company and the services received in return. In doing so, and on the basis of the report provided by the Audit and Financial Committee, the Supervisory Board was convinced of the correctness of the dependency report audit and the audit report. In particular, it was satisfied that the audit report – as well as the audit performed by the external auditors themselves – complied with all legal requirements. The Supervisory Board reviewed the dependency report with regard to its accuracy in particular and also verified that the affiliates were identified with the necessary diligence and that all precautions necessary for recording legal transactions and measures which are subject to reporting requirements were taken. This review did not identify any reasons for objections to the dependency report. Following the recommendation of the Audit and Financial Committee, the Supervisory Board agreed with the result of the dependency report audit by the external auditors. Based on the final results of the Supervisory Board's own review of the dependency report, there are no objections to the Executive Board's statement on the dependency report.

The Supervisory Board thus performed its own review of the Executive Board's dependency report and the external auditors' audit report.

#### **Audit of the non-financial report 2017**

The Executive Board also submitted the separate non-financial report of Hapag-Lloyd AG to the members of the Supervisory Board and the Audit Committee in good time for the Supervisory Board to review.

The Supervisory Board commissioned an external audit of the content of the non-financial report within the context of obtaining limited assurance. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, audited the non-financial report in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) within the context of providing limited assurance. The audit did not lead to any objections, and the separate non-financial report was certified obtaining limited assurance by the auditor.



The documents relating to the non-financial report were examined and discussed at length at the meeting of the Audit and Financial Committee on 27 March 2018 in preparation for the audit and the handling of these documents by the Supervisory Board in the presence of the auditors, who gave an account of the results of their audit, and the Executive Board; this included questions to the auditors regarding the manner and scope of the audit as well as the audit result. As a result, the Audit and Financial Committee was convinced of the correctness of the audit and the audit report. The Audit and Financial Committee made a recommendation to the Supervisory Board to acknowledge the result of the audit performed by auditor, and since it had no objections of its own to the documents for the non-financial report, to agree with the report.

In its meeting on 28 March 2018, the Supervisory Board discussed the results of the audit of the non-financial report and the recommendation of the Audit and Financial Committee and conducted its own in-depth review of it after the Executive Board had explained the document submitted. Following the recommendation of the Audit and Financial Committee, the Supervisory Board acknowledged and agreed with the auditors' findings. The Supervisory Board therefore adopted the non-financial report in its meeting on 28 March 2018.

#### **Acknowledgement**

The Supervisory Board would like to sincerely thank the employees and the Executive Board of the Hapag-Lloyd Group for their outstanding commitment and hard work in the last financial year.

#### **Adoption of the report**

The Supervisory Board adopted the Report of the Supervisory Board according to Section 171 (2) AktG by a resolution on 28 March 2018.

Hamburg, 28 March 2018

For the Supervisory Board



Michael Behrendt  
(Chairman of the Supervisory Board)

# CORPORATE GOVERNANCE

## PRINCIPLES OF CORPORATE GOVERNANCE AND CORPORATE STRUCTURE

Corporate governance comprises all principles relating to the management and monitoring of a company. Within this meaning, corporate governance is an expression of good and responsible corporate management and, as such, is an integral part of Hapag-Lloyd's management philosophy. The principles of corporate governance pertain, in particular, to cooperation within the Executive Board, the Supervisory Board, and between the two boards as well as between the corporate bodies and the shareholders, in particular in the Annual General Meeting. They also pertain to the relationship between the Company and other persons and institutions that have a business relationship with Hapag-Lloyd.

### **Commitment to the German Corporate Governance Code**

Hapag-Lloyd AG is a listed public limited company in accordance with German law. For Hapag-Lloyd, the starting point for ensuring responsible management and control of the Company that is geared towards sustainable appreciation is, in addition to compliance with the applicable laws, a commitment to the German Corporate Governance Code (GCGC).

The Executive Board and Supervisory Board of Hapag-Lloyd AG have given a great deal of attention to the corporate governance system of the Company and the recommendations and suggestions of the Code. In this regard, the amendments to the GCGC which were passed by the Government Commission on 7 February 2017 and published in the official section of the German Federal Gazette (Bundesanzeiger) on 24 April 2017 (and corrected on 29 May 2017) were taken into consideration in the reporting year. The Executive Board and Supervisory Board are committed to responsible corporate governance and identify with the objectives of the GCGC. According to the preamble of the GCGC, in the interests of good corporate management and an active corporate governance culture, this does not preclude non-compliance with individual provisions of the code if the deviations are justified due to the specifics of the Company.

## INFORMATION ON CORPORATE MANAGEMENT AND CORPORATE GOVERNANCE

### **Declaration of conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)**

Section 161 of the German Stock Corporation Act (AktG) requires the Executive Board and Supervisory Board of Hapag-Lloyd AG to issue an annual statement indicating that the recommendations by the “Government Commission for the German Corporate Governance Code” (GCGC), published by the German Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger) were and are being complied with, or which recommendations were not or are not being followed and why. The statement must be made permanently available to the public on the Company’s website.

### **Statement by the Executive Board and the Supervisory Board of Hapag-Lloyd Aktiengesellschaft on the recommendations of the “Government Commission for the German Corporate Governance Code” pursuant to Section 161 of the German Stock Corporation Act (AktG)**

The Executive Board and the Supervisory Board of Hapag-Lloyd Aktiengesellschaft hereby state that the Company has followed the recommendations of the “Government Commission for the German Corporate Governance Code” as amended on 5 May 2015 and published in the official part of the German Federal Gazette on 12 June 2015 for the period since the last declaration of conformity from 16 December 2016 to 23 April 2017 and the recommendations of the “Government Commission for the German Corporate Governance Code” as amended on 7 February 2017 and published in the official part of the German Federal Gazette on 24 April 2017 for the period commencing on 24 April 2017 and will continue to do so with the following exceptions:

Both Section 5.3.2 clause 3 of the German Corporate Governance Code as amended on 5 May 2015 (published on 12 June 2015, GCGC 2015) and Section 5.3.2 clause 5 as amended on 7 February 2017 (published on 24 April 2017 and announced in the corrected version on 19 May 2017, GCGC 2017) include the recommendation that the Chairman of the Audit and Financial Committee should be independent. At this time, Mr Karl Gernandt is the Chair of the Audit and Financial Committee. Mr Gernandt is also a managing director for a shareholder who holds a significant interest in Hapag-Lloyd AG. Therefore, Mr Gernandt cannot be considered as independent within the meaning of Section 5.3.2 clause 3 GCGC 2015 and Section 5.3.2 clause 5 GCGC 2017. In the opinion of the Supervisory Board, it is in the urgent interest of the Company and all its shareholders that Mr Gernandt continues to exercise his office as the Chair of the Audit and Financial Committee because Mr Gernandt is well suited to the role of Chair of the Audit and Financial Committee. There is no doubt that he exercises his office in an independent manner.

Both Section 7.1.2 clause 4 GCGC 2015 and Section 7.1.2 clause 3 GCGC 2017 recommend that the interim financial reports (GCGC 2015) and mandatory periodic financial information (GCGC 2017) should be made publicly available within 45 days of the end of the reporting period. As a result of the merger between

Hapag-Lloyd AG and United Arab Shipping Company Ltd. on 24 May 2017, a further 100 companies requiring consolidation and five companies requiring recognition as equity-accounted investees were included in the group of consolidated companies. Due to the large number of companies as well as the need to adjust the accounting principles, prepare the purchase price allocation and calculate pro forma figures for additional periods, the first-time consolidation of the UASC Group involved a significant amount of time and effort. While the half-year financial report was published before the statutory deadline, it was not made publicly available within 45 days of the end of the reporting period, thereby deviating from the recommendation under Section 7.1.2 clause 4 GCGC 2015 and Section 7.1.2 clause 3 GCGC 2017. The Company intends to conform to the recommendation in Section 7.1.2. clause 3 GCGC 2017 again in the future.

Section 5.4.1 clause 2 GCGC 2017 recommends that the Supervisory Board draw up a skills profile. The size of the Supervisory Board increased by four members as a result of the merger with United Arab Shipping Company. Furthermore, the merger involves a large number of tasks and changes. As a result, the Supervisory Board has not yet drawn up a skills profile. The intention is to conform with the recommendations of Section 5.4.1 clause 2 GCGC 2017 in the near future.

Hamburg, 27 September 2017

Executive Board and Supervisory Board  
Hapag-Lloyd Aktiengesellschaft

The Supervisory Board conclusively adopted the finished skills profile on 7 March 2018. The Company has been in conformity with the recommendations of Section 5.4.1. clause 2 GCGC since this date. This development will be reflected in the next declaration of conformity.

In addition to compliance with the accepted principles of good corporate management, Hapag-Lloyd's own guidelines and standards for good and sustainable corporate development contribute to a good and sustainable development of the Company as well.

In July 2010, Hapag-Lloyd introduced a Code of Ethics which expresses Hapag-Lloyd's commitment to law-abiding, sustainable conduct that expresses integrity as well as social responsibility. The Code of Ethics is intended to serve employees as a guideline in performing their responsibilities and defines the basic values of the Company. It serves, in particular, as a guideline on how to treat customers, suppliers, and competitors fairly and also addresses conduct within the Company.

Hapag-Lloyd believes that it is not only important that its employees are responsible and comply with the high legal and ethical standards, but also views itself as a company that highly values environmental protection, high quality standards, economic viability, and the health and safety of its employees.

This ethos is firmly anchored in the Company's sustainability policy. The Company's sustainability policy can be found at [www.hapag-lloyd.com](http://www.hapag-lloyd.com)

The significant importance of quality and environmental protection at Hapag-Lloyd is also reflected in the globally applicable integrated quality and environmental management system (ISO 9001 and 14001). Hapag-Lloyd uses this system to cover all the activities along its global transportation chain. Detailed information about Hapag-Lloyd's quality and environmental protection programmes can be found at [www.hapag-lloyd.com](http://www.hapag-lloyd.com)

### **Information on relevant corporate management practices**

#### **Corporate governance**

Apart from the exceptions mentioned and justified in the declaration of conformity, the Company follows the recommendations of the German Corporate Governance Code (see above).

#### **Compliance**

At Hapag-Lloyd, compliance has top priority, as do high quality standards, proactive environmental protection and sustainability in management and all operational processes. The Company expressly commits to fair competition as well as compliance with all national and international laws that apply to Hapag-Lloyd, in particular with regard to corruption, bribery and price fixing. Any internal or external violations of applicable law are strictly opposed and are not tolerated in any way. Hapag-Lloyd will not accept them under any circumstances and will legally pursue them. Hapag-Lloyd has a Code of Ethics which clearly spells out the respective conduct instructions (see above and below).

To prevent breaches of compliance, the Executive Board has implemented a range of measures as part of the compliance management system. These include mandatory compliance training, which every employee worldwide must complete, as well as a whistle-blower system, which allows violations to be reported anonymously.

The compliance programme of Hapag-Lloyd AG, the implementation of which is seen to by the compliance organisation, primarily consists of anti-competition and antitrust law, combating corruption, and compliance with embargoes and sanctions.

#### **Compliance organisation**

The central Global Compliance department, which reports directly to the Chief Financial Officer of Hapag-Lloyd AG, as well as the compliance officers in the regional centres and the national affiliates ensure that the Hapag-Lloyd compliance program is implemented across the Group, for example through online and on-site training sessions. The Executive Board and the Supervisory Board's Audit and Financial Committee are regularly updated via compliance reports.

The compliance organisation of Hapag-Lloyd makes it possible to fundamentally implement measures as part of the compliance programme which ensure that the Company complies with laws and internal and external guidelines.

**Compliance organisation**



**Code of Ethics**

The Global Code of Ethics reflects the corporate culture of Hapag-Lloyd and defines the basic values and expectations regarding the conduct of executives and employees, both with regard to internal and external relationships. This code summarises the principles governing fair dealings with each other as well as the customers and business partners of Hapag-Lloyd (see above).

**Corporate responsibility**

Hapag-Lloyd, with its long-standing tradition as a global company, bears a social responsibility towards its customers, employees, investors and the general public. Hapag-Lloyd therefore regards compliance with individual rights, laws and internal guidelines as the foundation of our corporate and economic activities. The global focus and strategy of profitable growth require a common system of values and principles which serves as a code of conduct for all employees.

Hapag-Lloyd’s compliance organisation helps to incorporate and permanently embed the aforementioned values in the corporate structure. It ensures that the compliance programme is implemented globally.

The Global Code of Ethics reflects the corporate culture and defines the basic values of Hapag-Lloyd and the expectations regarding the conduct of executives and employees, both with regard to internal and external relationships.

The aforementioned important documents that outline the approach of the Hapag-Lloyd Group can be found online at <https://www.hapag-lloyd.com/en/about-us.html>



**Transparency**

Informing the general public in a timely and consistent manner is an important element of good corporate governance for Hapag-Lloyd. For this purpose, extensive information is available in German and English on the Hapag-Lloyd website under Investor Relations.

A financial calendar provides a quick overview of the key publication dates.

The most up-to-date financial calendar is available at <https://www.hapag-lloyd.com/en/ir/calendar-events/financial-calendar.html>

The business development of Hapag-Lloyd is explained in particular in the financial reports, the annual report and investor relations presentations. In addition, details about Hapag-Lloyd's share and the terms and conditions of Hapag-Lloyd's issued bonds are available.

Mandatory publications under capital market law – such as ad-hoc notifications, voting right notifications and information about managers' transactions – are immediately posted on the Investor Relations web page as well.

Explanations about the corporate strategy, shareholder structure and business model complete the range of information provided.

**Executive Board and Supervisory Board**

The German Stock Corporation Act (AktG) is the legal basis of the corporate governance of Hapag-Lloyd AG. It is further enhanced by the Company's articles of association and the provisions of the German Corporate Governance Code (see above).

The Executive Board manages the business of Hapag-Lloyd AG and represents the Company. It manages the Company under its own responsibility for the benefit of the Company, i.e. taking into consideration the interests of shareholders, its employees and all other groups associated with the Company (stakeholders), and pursues the goal of sustainable value creation. It also develops the corporate strategy and controls and manages its implementation. The Executive Board ensures that the legal provisions and internal guidelines are complied with and that the Group companies follow them (compliance). It has also implemented an effective internal control and risk management system. It closely collaborates with the other corporate bodies for the benefit of the Company.

The Supervisory Board has issued rules of procedure for the Executive Board. These rules stipulate the division of responsibilities within the Executive Board and the transactions and measures that require a resolution by the entire Executive Board. The rules of procedure also include a list of transactions that may only be performed with the approval of the Supervisory Board.

The Executive Board currently has four members. One member, Mr Rolf Habben Jansen, was appointed CEO. The CEO coordinates the work of the Executive Board members and the provision of information to the Supervisory Board. He also keeps in regular contact with the Chairman of the Supervisory Board. The Executive Board members work together according to the collegiality principle and continually update each other about important measures and events in their business areas. In general, the Executive Board only passes resolutions during regularly scheduled meetings. Resolutions require a simple majority. If the vote is tied, the Chief Executive Officer has the casting vote.

As at 31 December 2017, the members of the Executive Board were Rolf Habben Jansen (Chief Executive Officer), Nicolás Burr, Anthony J. Firmin and Thorsten Haeser. None of the members of the Executive Board have a remaining term exceeding three years.

#### Members of the Executive Board of Hapag-Lloyd AG (31 December 2017)

|   |  |
|---|--|
| <b>Rolf Habben Jansen</b><br>Born in 1966 | <b>Member of the Executive Board / CEO</b>   |
| First appointment:                        | Member of the Executive Board at Hapag-Lloyd AG since 2014<br>Chief Executive Officer of Hapag-Lloyd AG since 2014 |
| Current appointment:                      | Until 31 March 2019  |
| <b>Nicolás Burr</b><br>Born in 1975       | <b>Member of the Executive Board / CFO</b>   |
| First appointment:                        | Member of the Executive Board at Hapag-Lloyd AG since 2015   |
| Current appointment:                      | Until 29 February 2020   |
| <b>Anthony J. Firmin</b><br>Born in 1953  | <b>Member of the Executive Board / COO</b>   |
| First appointment:                        | Member of the Executive Board at Hapag-Lloyd AG since 2014   |
| Current appointment:                      | Until 30 June 2019   |
| <b>Thorsten Haeser</b><br>Born in 1968    | <b>Member of the Executive Board / CCO</b>   |
| First appointment:                        | Member of the Executive Board at Hapag-Lloyd AG since 2015   |
| Current appointment:                      | Until 30 September 2018  |

The Supervisory Board works with the Executive Board to ensure that there is long-term succession planning for the Executive Board. When examining candidates for an Executive Board position, the Supervisory Board believes that the key suitability criteria are the candidates' specialist qualifications for the position in question, leadership qualities, previous performance and knowledge of the Company's business model. The Supervisory Board has adopted a diversity agenda for the composition of the Executive Board that takes account of the recommendations of the German Corporate Governance Code and ensures that diversity is taken into consideration with regard to the composition of the Executive Board. Due to the large number of tasks and changes as part of the merger with United Arab Shipping Company Limited, the Supervisory Board passed the conclusive resolution on the diversity agenda for the Executive Board on 7 March 2018.

The diversity agenda for the Executive Board comprises the following components:

- The target set by the Supervisory Board for the percentage of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Act (AktG);
- Appointments as a member of the Executive Board should end one year after the member's 65th birthday as a rule, whereby this age will increase in line with changes to the regulatory age limit in the statutory retirement pension system, and the Supervisory Board reserves the right to make exceptions in individual cases;
- Executive Board members should have long-standing managerial experience and, if possible, experience from a range of different professions;
- At least two Executive Board members should have international managerial experience;
- The Executive Board as a whole should have long-standing experience in the areas of finance and human resource management.

The Executive Board and the Supervisory Board of Hapag-Lloyd AG work together closely and in confidence for the benefit of the Company. The Executive Board and the Supervisory Board are jointly responsible for ensuring that the Supervisory Board is provided with adequate information. The Executive Board provides the Supervisory Board with reports prepared pursuant to Section 90 of the German Stock Corporation Act (AktG) and in accordance with the rules of procedure of the Supervisory Board/Executive Board. It informs the Supervisory Board regularly, promptly and comprehensively about all questions relevant to the Company and the Group relating to strategy, planning, business development, the internal control and risk management system, and adherence to compliance guidelines. If the course of business deviates from the set plans and objectives, the Executive Board addresses this and provides reasons.

The Executive Board agrees the strategic orientation of the Company with the Supervisory Board and they regularly discuss the status of the strategy implementation. Furthermore, the Executive Board promptly submits to the Supervisory Board the transactions and measures that require the approval of the Supervisory Board pursuant to the articles of association or the rules of procedure of the Supervisory Board/Executive Board such as the Group's annual budget. In individual cases, the Supervisory Board may also make other transactions and measures subject to its approval.

The Executive Board members must act in the interest of the Company. Members of the Executive Board may not pursue personal interests in their decision-making or use for their own advantage business opportunities that have arisen for the Company.

Executive Board members are subject to a comprehensive non-compete agreement while working for the Company. They may only enter into other commitments, in particular positions on supervisory boards at companies that are not associated companies of Hapag-Lloyd AG, with the approval of the Chairman of the Supervisory Board. If they do accept such offices with the approval of the Chairman of the Supervisory Board, the Executive Board member in question performs the role in a personal capacity – adhering to their strict obligation of confidentiality and the strict separation of their activities as a member of the Company's Executive Board. Each Executive Board member is required to immediately disclose any conflict of interest to the Chairman of the Supervisory Board and to inform the other Executive Board members as well.

No conflicts of interest arose among members of the Executive Board of Hapag-Lloyd AG in the 2017 financial year.

All transactions between the Company or one of its Group companies on one side and the Executive Board members and persons or undertakings close to them on the other side must adhere to customary industry standards. There were no transactions of this type in the reporting period.

Hapag-Lloyd AG has taken out pecuniary damage liability insurance (D&O insurance) for the members of the Executive Board and the Supervisory Board. For the Executive Board members, an excess of 10% of the damages up to 1.5 times the fixed annual remuneration of the Executive Board member in question has been agreed. Finally, a D&O insurance policy is in place for the members of the Supervisory Board. This covers statutory liability arising from their Supervisory Board activities. In the event of a claim, the policy includes an excess of 10% of the damages up to 1.5 times the fixed annual remuneration of the Supervisory Board member.

The Supervisory Board of Hapag-Lloyd AG advises the Executive Board in the management of the Company and monitors its business administration. It appoints the members of the Executive Board and one of its members as the CEO. If necessary, it also removes members from the Executive Board. It determines the remuneration of the Executive Board members. It reviews the annual financial statements and the consolidated financial statements and is responsible for their approval and adoption. It also reviews the Executive Board's proposal on the appropriation of profits as well as the respective management reports. The Supervisory Board has issued rules of procedure that govern its work.

The Executive Board requires the approval of the Supervisory Board for decisions of an important and fundamental nature that are specified in a list of business transactions requiring approval. These include, for example:

- the approval of the business plan and annual budget;
- investments of over EUR 100 million, unless already included in the annual budget;
- access to assets with a value of more than EUR 75 million, unless already included in the annual budget;
- legal transactions between the Company or a subsidiary of the Company and an affiliated company within the meaning of Section 15 ff. of the German Stock Corporation Act (AktG), insofar as these are not part of regular business operations or are not conducted at arm's length;
- borrowing outside of the annual budget with an amount of more than EUR 75 million;
- acceptance of sureties, guarantees or similar liabilities as well as the provision of collateral, in each case for third-party liabilities outside of regular business operations, if the value in individual cases exceeds EUR 2 million;
- conclusion, amendment or termination of contracts with businesses within the meaning of Sections 291 ff. of the German Stock Corporation Act (AktG) in which the Company has an investment.

The Supervisory Board currently consists of 16 members.

The Supervisory Board is subject to the German Co-Determination Act (MitbestG). Under the Act, the eight current representatives of the shareholders are elected by the Annual General Meeting – whereby the Supervisory Board proposes candidates following preparatory work by the Nomination Committee – and the eight current representatives of the employees are elected in accordance with the provisions of the German Co-Determination Act (MitbestG). As at the reporting date, two employee representatives were court-appointed. One representative of the shareholders was court-appointed after the reporting date.

Each member of the Supervisory Board is required to act in the interest of the Company and may not pursue personal interests in their decision-making or use for their own advantage business opportunities that have arisen for the Company. Supervisory Board members must disclose any conflict of interest to the Supervisory Board. This member is excluded from participating in resolutions at Supervisory Board meetings involving the matter where the conflict of interest exists. The Supervisory Board will outline any conflicts of interests that have arisen and how they were dealt with in its report to the Annual General Meeting. If a Supervisory Board member has a conflict of interest which is significant and not just temporary, this should lead to the termination of their position.

Any consulting agreements or other service agreements between a Supervisory Board member and the Company require the approval of the Supervisory Board. There were no such agreements or conflicts of interest among Supervisory Board members of Hapag-Lloyd AG in the 2017 financial year. The Supervisory Board has issued rules of procedure that also govern the formation and responsibilities of the committees. Two ordinary Supervisory Board meetings are held in every calendar year. In addition, Supervisory Board meetings may be convened as needed and/or resolutions passed by the Supervisory Board outside of meetings. If voting on the Supervisory Board is tied and a second vote results in another tie, the Chairman of the Supervisory Board has the casting vote.

**Composition targets and diversity agenda for the Supervisory Board**

The composition of the Supervisory Board must ensure that the body as a whole has the necessary knowledge, abilities and specialist experience to perform its roles properly. Each member of the Supervisory Board must ensure that they have enough time to perform their Supervisory Board role.

The Supervisory Board has set itself targets for its composition and drawn up a skills profile for the body. Together with the statutory gender quota, these composition targets form the diversity agenda, which ensures that the body has a diverse composition. When proposing resolutions to the Annual General Meeting for regular Supervisory Board elections and the election of a new Supervisory Board member, the composition targets and the diversity agenda must be taken into consideration:

The revised composition targets and the diversity target were conclusively passed by the Supervisory Board on 7 March 2018. The size of the Supervisory Board increased by four members as a result of the merger with United Arab Shipping Company in the 2017 financial year. Furthermore, the merger involves a large number of tasks and changes. As a result, the revised composition targets and the diversity agenda were adopted in March 2018.

**Targets for the composition of the Supervisory Board**

The Supervisory Board has set the following targets for its composition:

- At least one Supervisory Board seat on the shareholder side for an individual who does not have any potential conflicts of interest and is independent within the meaning of Section 5.4.2 of the German Corporate Governance Code (GCGC);
- The Supervisory Board should not have more than two former members of the Executive Board in accordance with Section 5.4.2 GCGC;
- As a rule, any nominations should not include individuals who are over the age of 70 at the time of the election or who have been on the Supervisory Board of the Company for more than 20 years.

### Skills profile for the Supervisory Board

The Supervisory Board has drawn up the following skills profile for itself:

- At least two Supervisory Board seats for individuals with in-depth knowledge and/or experience of regions outside of Germany in which the Hapag-Lloyd Group conducts a substantial volume of business, due to their background or professional experience with an international dimension;
- At least one Supervisory Board seat for an individual who is an expert in accounting or auditing and is thus regarded as a financial expert in accordance with Section 100 (5) of the German Stock Corporation Act (AktG);
- At least two Supervisory Board seats for individuals with in-depth knowledge of and experience in risk management and managerial accounting;
- At least two Supervisory Board seats for individuals with industry knowledge of shipping;
- At least two Supervisory Board seats for individuals with experience in managing or monitoring a major company;
- At least two Supervisory Board seats for individuals with particular knowledge of corporate governance and compliance;
- At least two Supervisory Board seats for individuals with particular knowledge of human resources;
- At least one Supervisory Board seat for an individual with particular knowledge of information technology or digitalisation.

### Diversity agenda for the Supervisory Board

The diversity agenda for the Supervisory Board comprises the following components:

- Targets for the composition of the Supervisory Board
- Skills profile for the Supervisory Board
- The gender quota of 30%, which is already legally required for the composition of the Supervisory Board of Hapag-Lloyd AG in accordance with Section 96 (2) of the German Stock Corporation Act (AktG) and must be complied with accordingly.

As per a self-assessment by the Supervisory Board, it conformed with these targets for its composition on the reporting date of 31 December 2017. In particular, the Supervisory Board fulfilled the target requiring that at least one representative on the shareholder side be independent within the meaning of GCGC on the reporting date. In this regard, the Supervisory Board member Ms Gehrt was classified as independent. The Supervisory Board and its Nomination Committee will ensure that the objective continues to be fulfilled.



## Members of the Supervisory Board of Hapag-Lloyd AG

### Michael Behrendt

(Chairman of the Supervisory Board)

### Christine Behle

Member of the Federal Executive Board,  
Head of Transport  
ver.di – Vereinte Dienstleistungsgewerkschaft, Berlin  
(First Deputy Chairman of the Supervisory Board)

### Oscar Eduardo Hasbún Martínez

Chief Executive Officer  
Compañía Sud Americana de Vapores S.A.,  
Santiago de Chile, Chile  
(Second Deputy Chairman of the Supervisory Board)

### H.E. Dr. Nabeel Al-Amudi

(from 29 May 2017 to 30 November 2017)  
President  
Saudi Ports Authority, Saudi Arabia

### H.E. Sheikh Ali bin Jassim Al-Thani

(since 29 May 2017)  
Advisor to the CEO  
Qatar Investment Authority, Qatar

### Turqi Alnowaiser

(since 23 February 2018)  
Head of International Investments  
Public Investment Fund, Saudi Arabia

### Jutta Diekamp

Deputy Chairwoman of the Works Council for Shipping Operations  
Hapag-Lloyd AG, Hamburg

### Nicola Gehrt

Head of Investor Relations TUI Group  
TUI AG, Hanover

### Karl Gernandt

President of the Administrative Board  
Kühne Holding AG, Schindellegi, Switzerland

### Dr Rainer Klemmt-Nissen

Managing Director  
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg

### Joachim Kramer

(since 10 June 2017)  
Marine Works Council  
Hapag-Lloyd AG, Hamburg

### Annabell Kröger

(since 10 June 2017)  
Commercial Clerk  
Hapag-Lloyd AG, Hamburg

### Arnold Lipinski

HR Manager for Shipping Operations  
Hapag-Lloyd AG, Hamburg

### Sabine Nieswand

Chairwoman of the Works Council  
Hapag-Lloyd AG, Hamburg

### José Francisco Pérez Mackenna

Managing Director  
Quiñenco S.A., Las Condes, Chile

### Klaus Schroeter

Federal Group Leader for the shipping industry  
ver.di – Vereinte Dienstleistungsgewerkschaft, Berlin

### Uwe Zimmermann

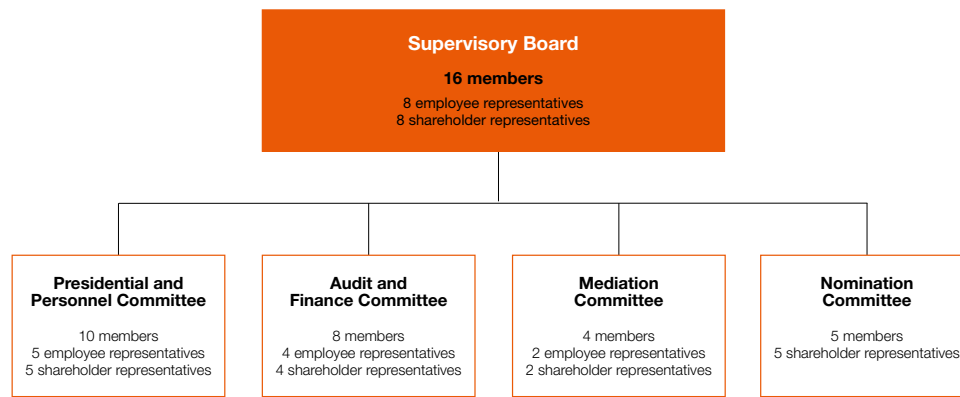
Commercial Clerk  
Hapag-Lloyd AG, Dusseldorf

### Supervisory Board committees

During the past financial year, the Supervisory Board formed the following committees:

In order to efficiently handle its responsibilities, the Supervisory Board has set up a total of four committees that prepare the resolutions of the Supervisory Board and the topics to be discussed during board meetings. To the extent this is legally permitted, the Supervisory Board may in certain situations transfer decision-making authority to its committees. The Supervisory Board has established a Presidential and Personnel Committee, an Audit and Financial Committee, a Nomination Committee and a Mediation Committee as permanent committees in accordance with Section 27 (3) of the German Co-Determination Act (MitbestG).

### Supervisory Board and committees of Hapag-Lloyd AG



- (1) The **Presidential and Personnel Committee** coordinates the work of the Supervisory Board and its committees. It generally prepares the Supervisory Board meetings and monitors the execution of the resolutions passed by the Supervisory Board. As a general rule, it prepares the resolutions of the Supervisory Board regarding legal transactions requiring approval. The Presidential and Personnel Committee also prepares the Supervisory Board's decisions on the appointment and dismissal of Executive Board members, on the conclusion, amendment and termination of employment contracts with Executive Board members, and on the Executive Board's remuneration system.

#### Members:

Michael Behrendt (Chairman), Sheikh Ali bin Jassim Al-Thani (since 29 May 2017), Christine Behle, Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand, José Francisco Pérez Mackenna, Uwe Zimmermann (since 29 May 2017)

- (2) The **Audit and Financial Committee** of the Supervisory Board handles the financial planning and reviews the investment projects of the Hapag-Lloyd Group. It is responsible for performing the preliminary examination of the documents for the annual financial statements and the consolidated financial statements, including the respective management reports and the Executive Board's proposal on the appropriation of profits. It prepares the adoption of the annual financial statements and the approval of the consolidated financial statements by the Supervisory Board, as well as its decision on the Executive Board's proposed resolution on the appropriation of profits. The Audit and Financial Committee also submits a substantiated recommendation to the Supervisory Board for the selection of the external auditors at the Annual General Meeting and handles the awarding of the audit engagement to the external auditors and the fee agreement. It also monitors the external

auditors' independence. In addition to the above, it is responsible for monitoring the effectiveness of the internal control system, the risk management system, the compliance and the internal auditing system.

**Members:**

Karl Gernandt (Chairman), Dr Nabeel Al-Amudi (from 29 May until 30 November 2017), Oscar Hasbún Martínez, Dr Rainer Klemmt-Nissen, Annabell Kröger (since 10 June 2017), Arnold Lipinski, Klaus Schroeter, Uwe Zimmermann

- (3) The **Nomination Committee** makes proposals to the Supervisory Board regarding suitable candidates to act as shareholder representatives on the Supervisory Board. In turn, the Supervisory Board submits proposals to the Annual General Meeting. In line with the GCGC's recommendation, the Nomination Committee consists solely of shareholder representatives.

**Members:**

Michael Behrendt (Chairman), Sheikh Ali bin Jassim Al-Thani (since 29 May 2017), Karl Gernandt, Dr Rainer Klemmt-Nissen, José Francisco Pérez Mackenna

- (4) In addition, a **Mediation Committee** has been established in accordance with Section 27 (3) of the German Co-Determination Act (MitbestG). This committee submits proposals to the Supervisory Board for the appointment of Executive Board members if the necessary two-thirds majority of votes by Supervisory Board members is not reached in the first round of voting.

**Members:**

Michael Behrendt (Chairman), Christine Behle, Jutta Diekamp, José Francisco Pérez Mackenna

The Mediation Committee and the Nomination Committee only meet when needed. All other committees meet regularly and also on specific occasions in accordance with their respective responsibilities as per the Supervisory Board's rules of procedure. The activities of the Supervisory Board and its committees in the last financial year are detailed in the Report of the Supervisory Board. It also provides information about the attendance of Supervisory Board members at meetings.

**Share transactions and shareholdings of members of the Executive Board and the Supervisory Board**

In accordance with the Market Abuse Regulation (MAR) (Article 19 MAR), persons who perform management functions, in other words the members of executive boards and supervisory boards, as well as persons closely related to them (including spouses, registered partners and dependent children) are required to report any transactions of their own involving the shares of Hapag-Lloyd AG, or any related financial instruments of Hapag-Lloyd AG, and the German Federal Financial Supervisory Authority (BaFin) if the total amount of the transactions of an executive board member or supervisory board member and persons closely related to them reaches or exceeds EUR 5,000.00 in the calendar year. The transactions reported have been published on the website of Hapag-Lloyd AG at <https://www.hapag-lloyd.com/en/ir/corporate-governance/directors-dealings.html>

As at the reporting date, the total volume of shares in Hapag-Lloyd AG and related financial instruments held by all members of the Executive Board and Supervisory Board was less than 1% of issued shares.

### Executive Board and Supervisory Board remuneration

An important component of responsible corporate governance is a remuneration system structure for the Executive Board and the Supervisory Board that provides incentives and rewards good performance.

The basic features of the remuneration system and the Executive Board and Supervisory Board members' remuneration are outlined in the remuneration report as part of the management report.

### Shareholders

The shareholders exercise their rights at the Annual General Meeting. The Annual General Meeting selects the external auditors, elects the shareholder representatives to the Supervisory Board and passes resolutions on the discharge of the members of the Executive Board and the Supervisory Board, the appropriation of profits, capital measures and changes to the articles of association. The shares are registered. Shareholders who are recorded in the share register and have registered in time before the Annual General Meeting are entitled to attend the Annual General Meeting and exercise their voting rights. Shareholders can either exercise their voting right at the Annual General Meeting themselves or have it exercised by a proxy of their choice or by a voting representative of the Company who is required to follow their instructions. Each share grants one vote.

As at 31 December 2017, the shareholders of Hapag-Lloyd AG were:

| in %   | 2017         |
|--|--------------|
| CSAV Germany Container Holding GmbH                                      | 25.5         |
| Kühne Holding AG and Kühne Maritime GmbH                                 | 20.5         |
| Qatar Holding Germany GmbH   | 14.5         |
| HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH | 13.9         |
| Public Investment Fund of the Kingdom of Saudi Arabia                    | 10.2         |
| Free float   | 15.4         |
| <b>Total</b>   | <b>100.0</b> |

### Accounting and auditing

The Executive Board prepares the annual financial statements and associated management report of Hapag-Lloyd AG in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), as applicable within the European Union, and the German legal provisions applicable in accordance with Section 315e (1) of the German Commercial Code (HGB). The Group management report is prepared in accordance with the provisions of the German Commercial Code (HGB). The annual and consolidated financial statements as well as the management report and Group management report are examined by the external auditors and by the Supervisory Board.

At the proposal of the Supervisory Board, the Annual General Meeting on 29 May 2017 selected KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, (KPMG) as the external auditors of the annual and consolidated financial statements as well as the respective management reports of Hapag-Lloyd AG for the 2017 financial year. The Supervisory Board had previously verified the independence of the external auditors. The signatory auditors of the annual and consolidated

financial statements of Hapag-Lloyd AG are Niels Madsen (since the 2017 financial year) and Markus Lippmann (since the 2015 financial year). The audits covered the risk early-warning system in addition to the accounting system.

### **Risk management and internal control system (ICS)**

The Hapag-Lloyd Group's risk management system, including the ICS as it relates to the accounting process, is detailed in the risk report as part of the management report.

### **Information on statutory diversity requirements**

The German Law for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector is now in force. Its provisions are in addition to existing diversity requirements under the GCGC, which Hapag-Lloyd AG already complies with. Hapag-Lloyd has addressed the requirements at the various levels and in the responsible committees and has passed the necessary resolutions.

As a listed company which is also subject to the German Co-Determination Act (MitbestG), a fixed gender quota applies to the Supervisory Board of Hapag-Lloyd AG and must be observed for new appointments from 1 January 2016. This means that the Supervisory Board must consist of at least 30% women and at least 30% men. As at 31 December 2017, there were five women on the Supervisory Board of Hapag-Lloyd AG. This means that 31% of the Supervisory Board members were women as at the reporting date. The statutory requirements have thus been fulfilled.

Hapag-Lloyd will also take the statutory regulations into account for new appointments in the future so that it fulfils the corresponding requirements.

The German Law for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector also requires that targets be set for the percentage of women on the Executive Board and at the two management levels below the Executive Board as well as deadlines for achieving this.

The initial deadline to be set for achieving the target could not be later than 30 June 2017. The Supervisory Board set a target of 0% for the Executive Board for the period until 30 June 2017 and maintained the status quo at the time. No women had been appointed as Executive Board members as at the reporting date of 30 June 2017. For the period until 30 June 2022, the Supervisory Board has decided on a target of 20% for the Executive Board.

For the first two management levels below the Executive Board, the Executive Board at that time set targets of 0% for the first management level and 14% for the second management level, taking succession planning into consideration, and also specified 30 June 2017 as the deadline for reaching these targets. As at the reporting date of 30 June 2017, the percentage of women at the first management level was 0% and at the second management level it was 14%.

For the period until 30 June 2022, the Executive Board of Hapag-Lloyd AG has set a target of 5% for the percentage of women at the first management level and 15% at the second management level.

**Offices held by members of the Executive Board in supervisory boards and other comparable regulatory committees of commercial companies**

**Rolf Habben Jansen**

Stolt-Nielsen Limited – Member of the Board of Directors  
World Shipping Council – Supervisory Board Member

**Anthony J. Firmin**

HHLA Container Terminals GmbH – Supervisory Board Member (until 18 August 2017)  
HHLA Container Terminal Altenwerder GmbH – Supervisory Board Member  
SCA Service Center Altenwerder GmbH – Supervisory Board Member  
FRANK Beteiligungsgesellschaft mbH – Advisory Board Member  
The Britannia Steam Ship Insurance Association Ltd. – Vice Chairman  
Through Transport Mutual Insurance Association Ltd. – Member of the Board of Directors (until 1 April 2017)

**Thorsten Haeser**

REVIDERM AG – Supervisory Board Member (since 1 December 2017)

**Offices held by members of the Supervisory Board in other supervisory boards and other comparable regulatory committees of commercial companies**

**H.E. Dr Nabeel Al-Amudi**

Tabadul – Supervisory Board Member (until 15 October 2017)  
SAR (Saudi Railways Company) – Chairman of the Supervisory Board (from 3 October 2017)

**H.E. Sheikh Ali bin Jassim Al-Thani**

SCI Elysees 26 – Member of the Board of Directors  
Libyan Qatari Bank – Deputy Chairman of the Board of Directors  
Qatar Holding LLC – Member of the Board of Directors  
Qatar Navigation Q.P.S.C. – Member of the Board of Directors

**Turqi Alnowaiser (since 23 February 2018)**

Noon Investment – Supervisory Board Member

**Christine Behle**

Deutsche Lufthansa AG – Deputy Chairwoman of the Supervisory Board  
Bremer Lagerhaus-Gesellschaft – Aktiengesellschaft von 1877 – Deputy Chairwoman of the Supervisory Board  
Bochum-Gelsenkirchener Straßenbahnen Aktiengesellschaften – Supervisory Board Member

**Michael Behrendt**

Barmenia Allgemeine Versicherungs AG – Deputy Chairman of the Supervisory Board  
Barmenia Krankenversicherung AG – Deputy Chairman of the Supervisory Board  
Barmenia Lebensversicherung AG – Deputy Chairman of the Supervisory Board  
ESSO Deutschland GmbH – Supervisory Board Member  
EXXON Mobil Central Europe Holding GmbH – Supervisory Board Member  
MAN SE – Supervisory Board Member  
MAN Diesel Turbo SE – Supervisory Board Member  
MAN Truck & Bus AG – Supervisory Board Member  
Renk AG – Supervisory Board Member

**Nicola Gehrt**

TUI Deutschland GmbH – Supervisory Board Member

**Karl Gernandt**

Kühne + Nagel International AG – Vice Chairman of the Board of Directors  
Kühne Holding AG – Chairman of the Board of Directors  
Kühne Logistics University – Chairman of the Supervisory Board  
Kühne Real Estate AG – Chairman of the Board of Directors  
Hochgebirgsklinik Davos AG – Member of the Board of Directors  
VTG Aktiengesellschaft – Supervisory Board Member  
HSV Fußball AG – Supervisory Board Member (until 6 February 2018)

**Dr Rainer Klemmt-Nissen**

Hamburger Hochbahn AG – Supervisory Board Member  
HSH Nordbank AG – Supervisory Board Member  
HSH Beteiligungsmanagement GmbH – Supervisory Board Member (since 1 February 2017)  
Vattenfall Wärme Hamburg GmbH – Supervisory Board Member  
HMC Hamburg Messe und Congress GmbH – Supervisory Board Member  
HSH Finanzfonds AöR – Member of the Guarantor Assembly



**José Francisco Pérez Mackenna**

Banchile Corredores de Seguros Limitada – Member of the Board of Directors  
 Banco de Chile – Member of the Board of Directors  
 Compañía Cervecerías Unidas S.A. – Member of the Board of Directors  
 Compañía Cervecerías Unidas Argentina S.A – Member of the Board of Directors  
 Cervecera CCU Limitada – Member of the Board of Directors  
 Central Cervecera de Colombia SAS – Member of the Board of Directors  
 Compañía Industrial Cervecera S.A. – Member of the Board of Directors  
 Compañía Pisquera de Chile S.A. – Member of the Board of Directors  
 Compañía Sud Americana de Vapores S.A. – Chairman of the Board of Directors  
 Embotelladoras Chilenas Unidas S.A – Member of the Board of Directors  
 Empresa Nacional de Energía S.A. ENEX – Chairman of the Board of Directors  
 Hidrosur S.A. – Chairman of the Board of Directors  
 Invexans S.A. – Chairman of the Board of Directors  
 Inversiones IRSA Limitada – Member of the Board of Directors  
 Inversiones LQ-SM Limitada – Member of the Board of Directors  
 Inversiones y Rentas S.A. – Member of the Board of Directors  
 Nexans S.A. – Member of the Board of Directors  
 LQ Inversiones Financieras S.A. – Member of the Board of Directors  
 SAAM S.A. – Member of the Board of Directors  
 Sociedad Administradora de la Obligación Subordinada SAOS S.A. – Member of the Board of Directors  
 Sociedad Matriz del Banco de Chile S.A. – Member of the Board of Directors  
 Sociedad Matriz SAAM S.A. – Member of the Board of Directors  
 Sudamericana Agencias Aéreas y Marítimas S.A. – Member of the Board of Directors  
 Tech Pack S. A. – Chairman of the Board of Directors  
 Viña San Pedro Tarapacá S.A. – Member of the Board of Directors

**Oscar Hasbún Martínez**

SM-SAAM S.A. – Member of the Board of Directors  
 SAAM S.A. – Member of the Board of Directors  
 SAAM Logistics S.A. – Member of the Board of Directors  
 SAAM SMIT Towage Brasil S.A. – Member of the Board of Directors  
 SAAM SMIT Towage Mexico S.A. DE C.V.– Member of the Board of Directors  
 Florida International Terminal LLC. – Member of the Board of Directors  
 Sociedad Portuaria De Caldera (SPC) S.A. – Member of the Board of Directors  
 Sociedad Portuaria Granelera De Caldera (SPGC) S.A. – Member of the Board of Directors

The Executive Board and Supervisory Board members not listed above do not hold any offices on other legally required supervisory boards or comparable regulatory committees of commercial companies.

# TOGETHER INTO THE FUTURE

Larger, stronger, better and more efficient – by merging with UASC, Hapag-Lloyd has decidedly strengthened its competitive position. After joining together under the “better.united.” motto, the two companies now boast a combined fleet of 219 vessels with a total transport capacity of 1.6 million TEU. In this way, Hapag-Lloyd has succeeded in positioning itself among the top five of the largest liner shipping companies.









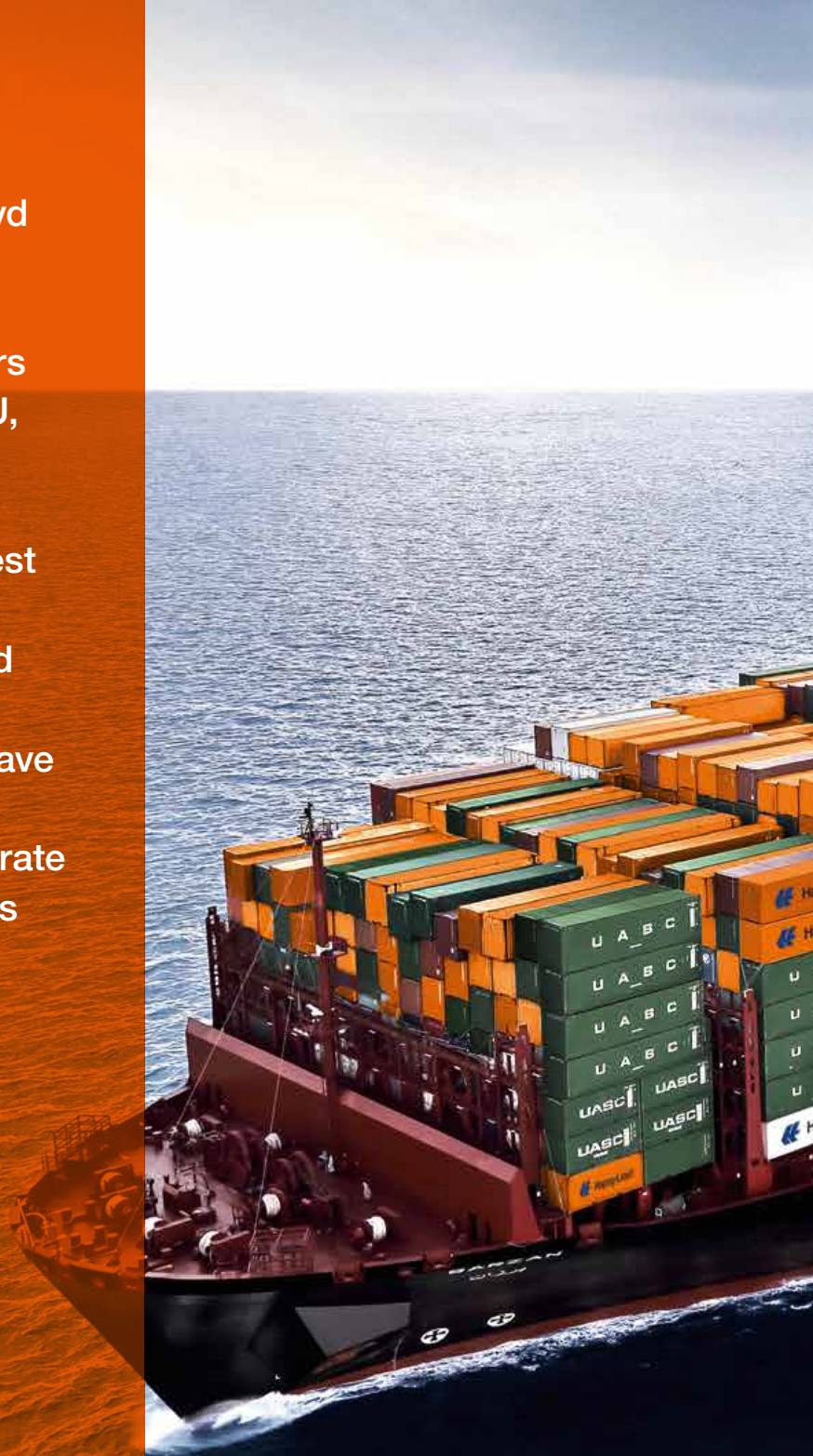
**TOGETHER**  
**STRONGER**



By merging with UASC, Hapag-Lloyd has strengthened its presence in the Middle East in particular – which also benefits our customers. Regions like East Africa, for example, are now even better connected. Hapag-Lloyd also occupies a strong position within THE Alliance. With a total of 244 vessels in 32 services, Hapag-Lloyd and its partners offer their customers a wide-ranging network in the strategically important East-West trade lanes.



With its 219 vessels, Hapag-Lloyd operates the youngest fleet in the liner shipping industry: the average ship is only seven years old. At approximately 7,200 TEU, Hapag-Lloyd has the largest average capacity per ship. Furthermore, we have the highest ownership ratio in the market – nearly 70% of our fleet is owned by Hapag-Lloyd. Furthermore, six of our 19,900 TEU vessels have already met almost all of the preconditions to be able to operate using liquid natural gas (LNG) as fuel in the future.



# MORE





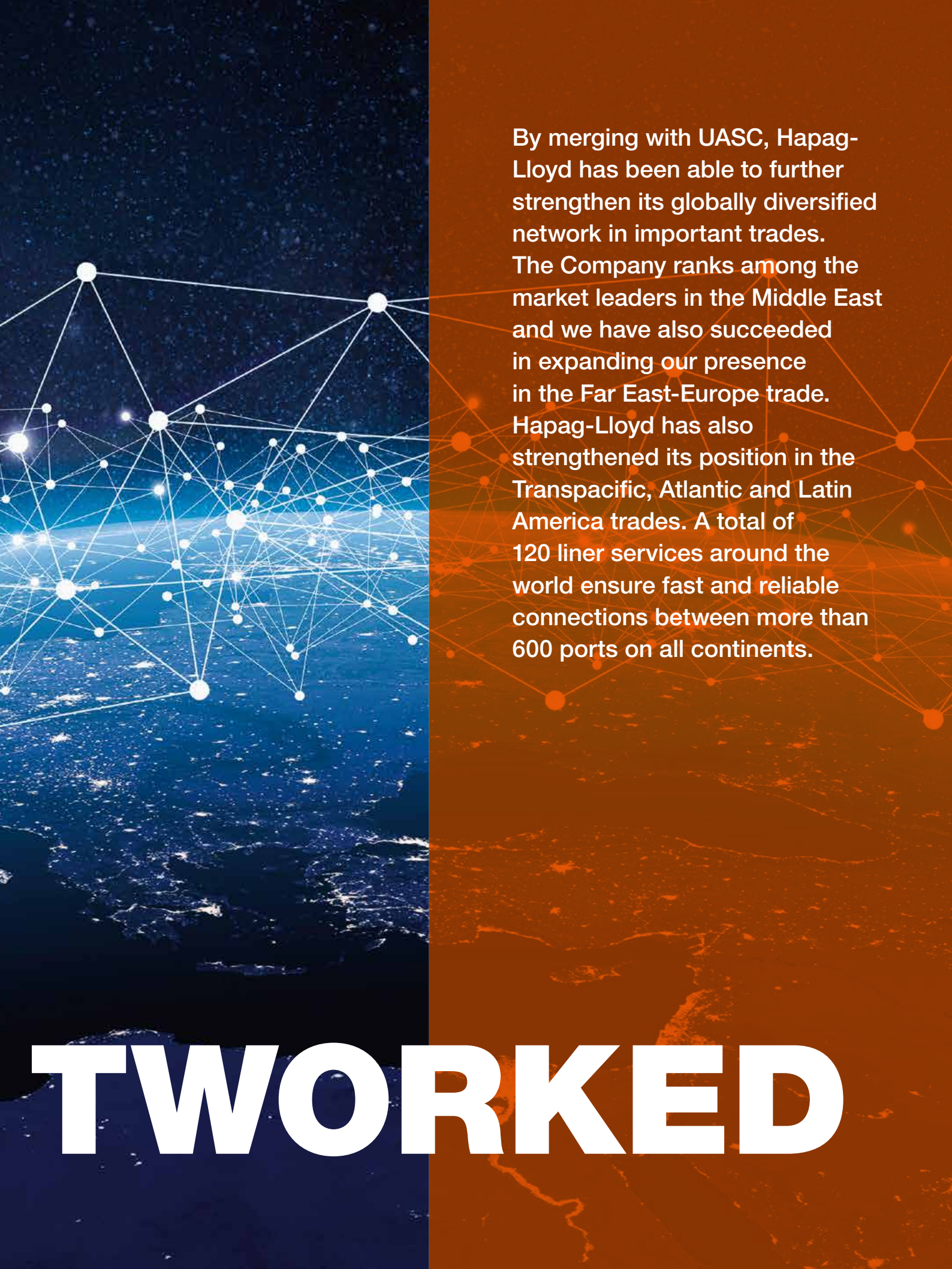
**TOGETHER**  
**EFFICIENT**





**TOGETHER**  
**MORE NE**





By merging with UASC, Hapag-Lloyd has been able to further strengthen its globally diversified network in important trades. The Company ranks among the market leaders in the Middle East and we have also succeeded in expanding our presence in the Far East-Europe trade. Hapag-Lloyd has also strengthened its position in the Transpacific, Atlantic and Latin America trades. A total of 120 liner services around the world ensure fast and reliable connections between more than 600 ports on all continents.

# TWORKED



Connecting the service networks, further optimising the deployment of ships and consolidating Sales units make significant synergies possible – from which Hapag-Lloyd expects annual savings of USD 435 million from onwards 2019. This will enable the Company to be even more successful in the future. Size is a decisive factor in our industry – in order to lower unit costs as well.



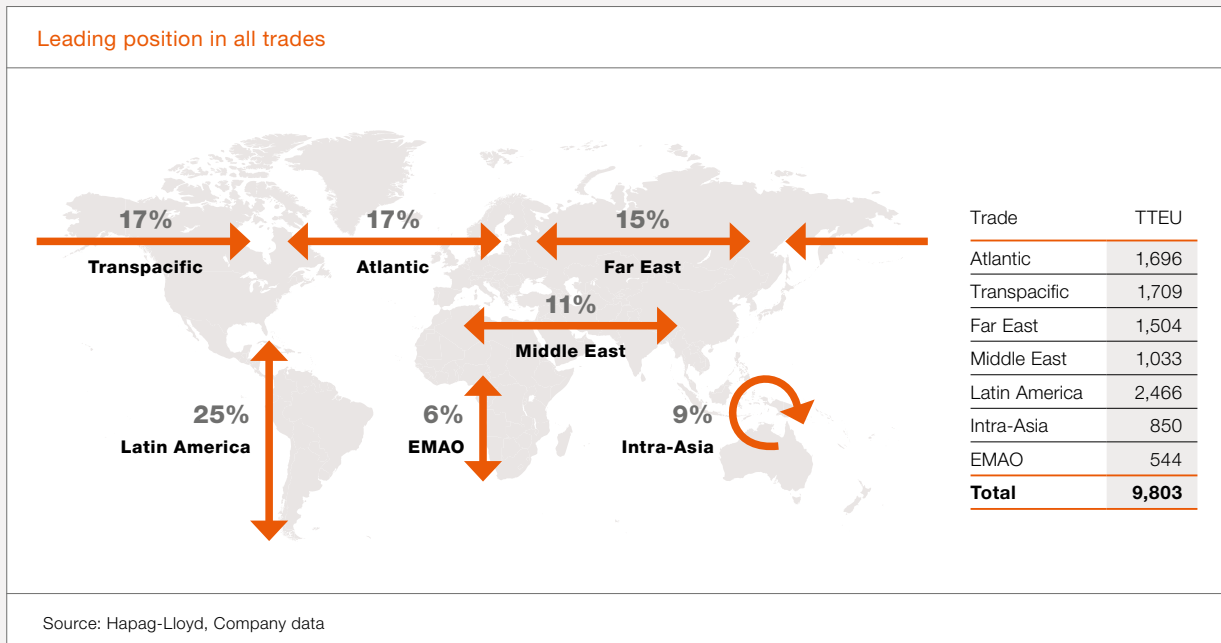
# MORE SU



**TOGETHER  
SUCCESSFUL**

# THE NEW HAPAG-LLOYD

Due to the merger with UASC, Hapag-Lloyd was able to sustainably strengthen its market position as one of the leading container liner companies. With a fleet of 219 container vessels and a transport capacity of 1.6 million TEU, Hapag-Lloyd offers a diversified service network of 120 services to their worldwide customers. The new Hapag-Lloyd is bigger, stronger, more efficient and more successful.




# AT A GLANCE

**24. May 2017**  
Legal merger between Hapag-Lloyd and the UASC Group

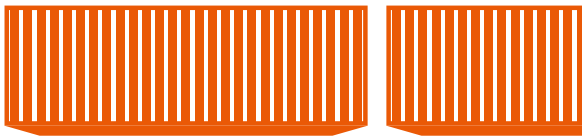


**2017**  
Successful operational integration only six months after closing

**HAMBURG** 


is strengthened as a result of the merger as the location of the Company's headquarters. Dubai is the head office of the new Middle East region

**2,350,000 TEU**  
of container transport capacity is available to customers for the transportation of cargo




**7.1** years is the average age of the entire ship fleet

 **219**  
container ships are operated by Hapag-Lloyd – a modern, efficient fleet

**1.6 million TEU**  
 is the total transport capacity of the container ships. This means that Hapag-Lloyd operates one of the world's largest container ship fleets

**7,184 TEU**  
is the average size of Hapag-Lloyd's new fleet



**435** million USD  
in synergies are expected annually from 2019

**THE Alliance**

**3** strong partners make up THE Alliance, following the joint venture between the Japanese shipping companies

|                          |
|--------------------------|
| Hapag-Lloyd 43%          |
| "K" Line + MOL + NYK 41% |
| Yang Ming 16%            |

# **GROUP MANAGEMENT REPORT**

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## BASIC PRINCIPLES OF THE GROUP

United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) and its subsidiaries (subsequently referred to as UASC or the UASC Group) are included in the Hapag-Lloyd AG group of consolidated companies since the acquisition date of 24 May 2017. In addition to Hapag-Lloyd AG, the group of consolidated companies increased from 82 companies (31 December 2016) to 164 companies as at 31 December 2017. The inclusion of the UASC Group means that the figures for the 2017 financial year are only comparable with those of previous years to a limited extent. The earnings development in the 2017 financial year is affected by one-off effects resulting from the presentation of the transaction in the financial statements.

Unless stated otherwise, the figures for the 2016 financial year refer to Hapag-Lloyd without the UASC Group.

### GROUP STRUCTURE AND SHAREHOLDERS

Together with its subsidiaries, Hapag-Lloyd AG (hereinafter referred to as “the Hapag-Lloyd Group”, “Hapag-Lloyd” or “the Group”) is Germany’s largest container liner shipping company and is one of the world’s leading container liner shipping companies on the basis of its transport capacity of approximately 1.6 million TEU. The controlling company of the Hapag-Lloyd Group, Hapag-Lloyd AG, is also the largest single operating company within the Group. Hapag-Lloyd AG has the following key branch offices active in the areas of sales and operations: Hapag-Lloyd Rotterdam (Rotterdam, Netherlands), Hapag-Lloyd Antwerpen (Antwerp, Belgium) and Hapag-Lloyd Denmark (Holte, Denmark).

In terms of operations, the Group structure of Hapag-Lloyd AG as at 31 December 2017 is as follows:



To make use of external growth opportunities, a business combination agreement regarding the merging of container activities was signed with the United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) (UASC) on 15 July 2016. The legal merger between Hapag-Lloyd and UASC occurred on 24 May 2017 via a contribution in kind in exchange for the issuing of approximately 45.9 million new Hapag-Lloyd shares. The shares originated from authorised share capital with a nominal amount of EUR 50.0 million, which was passed by resolution at the Annual General Meeting of Hapag-Lloyd AG on 26 August 2016. In accordance with the resolution for the creation of authorised share capital, the shareholders' subscription rights were excluded when the new shares were issued.

On 19 July 2017, 42,749,568 of the shares resulting from the capital increase in exchange for contributions in kind were listed for trading on the Frankfurt and Hamburg stock exchanges.

The business combination agreement stipulated that a cash capital increase equivalent to around USD 400 million would be carried out within six months of the completion of the merger. To that end, the shareholders of Hapag-Lloyd AG approved the creation of new authorised share capital of EUR 23.0 million at the Annual General Meeting on 29 May 2017.

On 27 September 2017, the Executive Board decided, with the approval of the Supervisory Board, to use a portion of the authorised share capital for a capital increase with subscription rights. On 28 September 2017, the terms for the cash capital increase announced in summer 2016 were published. The new no-par shares were offered for subscription at a ratio of 14:1 for a subscription price of EUR 30.00. The capital increase was carried out and entered into the commercial register on 17 October 2017.

As part of the capital increase carried out in October 2017, the total number of voting rights increased from 164,042,940 to 175,760,293. The 11,717,353 no-par shares resulting from the capital increase with subscription rights were included in the existing listing on the Frankfurt and Hamburg stock exchanges on 20 October 2017. As a result of the capital increase, the equity of Hapag-Lloyd AG was strengthened by approximately EUR 352 million, with a corresponding increase in the equity ratio and a reduction in the gearing of Hapag-Lloyd AG. The shares held by CSAV Germany Container Holding GmbH initially increased to 24.7% as part of the capital increase, before rising further during the year to 25.5% as at the balance sheet date.

### Shareholder structure of Hapag-Lloyd AG

Following the takeover of UASC on 24 May 2017 in the form of a capital increase in exchange for contributions in kind, UASC's former primary shareholders, Qatar Holding LLC on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund Saudi Arabia (PIF), became additional major shareholders in Hapag-Lloyd AG, with initial stakes in its share capital of 14.4% (QIA) and 10.1% (PIF). The shares held by the other previous UASC shareholders (Kuwait, Iraq, United Arab Emirates and Bahrain) totalling around 3.4% of Hapag-Lloyd shares have been included in the free float since the acquisition date. CSAV Germany Container Holding GmbH (CSAV), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV) and Kühne Maritime GmbH together with Kühne Holding AG (Kühne) continue to be anchor shareholders as at 31 December 2017.

The five major shareholders together held around 84.6% of the share capital of Hapag-Lloyd AG as at the balance sheet date. CSAV, HGV and Kühne Maritime GmbH have also entered into a Shareholder's Agreement and agreed to uniformly exercise any and all voting rights from the shares in Hapag-Lloyd AG by issuing a common voting proxy and will therefore make important decisions together. The shareholder structure of Hapag-Lloyd AG as at 31 December 2017 was as follows:

### Voting rights as at 31 December 2017

| in %   | 2017         | 2016         |
|--|--------------|--------------|
| CSAV Germany Container Holding GmbH                                      | 25.5         | 31.4         |
| Kühne Holding AG and Kühne Maritime GmbH                                 | 20.5         | 20.2         |
| Qatar Holding Germany GmbH   | 14.5         | 0            |
| HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH | 13.9         | 20.6         |
| Public Investment Fund of the Kingdom of Saudi Arabia                    | 10.2         | 0            |
| TUI AG/TUI Hapag Beteiligungs AG   | 0            | 12.3         |
| Free float   | 15.4         | 15.5         |
| <b>Total</b>   | <b>100.0</b> | <b>100.0</b> |

The former major shareholder TUI Beteiligungs GmbH sold its entire portfolio of Hapag-Lloyd shares on 11 July 2017. Kühne Holding AG acquired around 5 million shares in Hapag-Lloyd AG from TUI Beteiligungs GmbH as part of the sale of its shares.

**Changes to the composition of the Hapag-Lloyd AG Supervisory Board**

As of the end of the Annual General Meeting on 29 May 2017, the terms of two shareholder representatives on the Supervisory Board started: Sheikh Ali bin Jassim Al-Thani and Dr Nabeel Al-Amudi. The terms of two employee representatives (Joachim Kramer and Annabell Kröger), who were newly appointed by the district court in accordance with the rules of the right of co-determination, started on 10 June 2017. In addition, the terms of Oscar Hasbún Martínez and José Francisco Pérez Mackenna as members of the Supervisory Board were extended by three years.

Due to the resignation of Dr Nabeel Al-Amudi for personal reasons on 30 November 2017, the Nomination Committee proposed Mr Turqi Alnowaiser to the Supervisory Board as a nominee for ordinary election at the next Annual General Meeting. At the request of the Executive Board, Hamburg district court temporarily appointed Mr Turqi Alnowaiser as a new member of the Supervisory Board until the next Annual General Meeting.

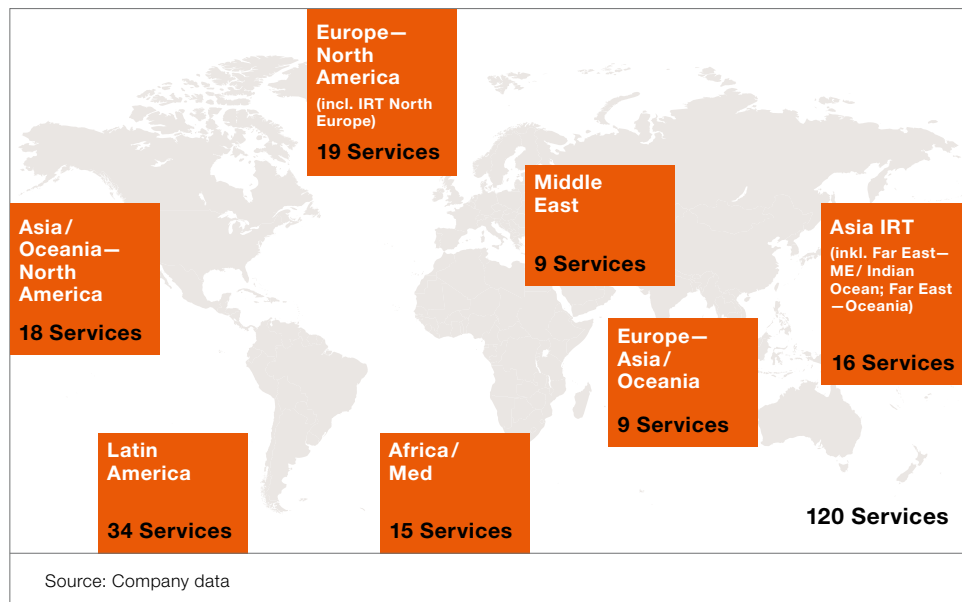
There were no personnel changes on the Executive Board in the 2017 financial year.

**OPERATING 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.

As at 31 December 2017, the Hapag-Lloyd Group deployed a total of 219 ships with a transport capacity of around 1.6 million TEU and a global network of 120 services.

**Network of Hapag-Lloyd services**



As at 31 December 2017, the Hapag-Lloyd Group had 219 container ships (previous year: 166), 387 sales offices (previous year: 366) in 125 countries (previous year: 121) and offered its customers worldwide access to a network of 120 liner services (previous year: 128). In the 2017 financial year, Hapag-Lloyd served approximately 32,400 customers around the world (previous year: approximately 23,100). The integration of UASC has enabled Hapag-Lloyd to considerably strengthen its market position as one of the world's leading container liner shipping companies, in particular in the Far East and Middle East trades. Hapag-Lloyd already had a relatively balanced market presence in both the East–West and North–South trades before the merger with UASC. As well as expanding its market presence and the range of services offered to customers, the merger with UASC allowed the Group to optimise its service structure and organisational structure.

Hapag-Lloyd conducts its container liner shipping business in an international business environment in which transactions are invoiced mainly in US dollars and payment processes are handled in US dollars. This relates not only to operating business transactions, but also to investment activities such as the acquisition, chartering and rental of ships and containers, as well as the corresponding financing of investments.

The Hapag-Lloyd Group's functional currency is the US dollar. The reporting currency of the individual and consolidated financial statements of Hapag-Lloyd is, however, the euro. Assets and liabilities recognised in the consolidated financial statements of Hapag-Lloyd AG are translated into euros as at the balance sheet date (closing date rate) using the middle rate of that day. The translation differences are recognised directly in the Group's other comprehensive income. If required, hedging transactions are conducted in the Hapag-Lloyd Group to hedge against the USD/EUR exchange rate.

The targets, framework conditions and principles upon which the Group conducts business successfully are presented below. These include achieving sustainable operating cash flows, a solid financing structure and a sound liquidity and equity base. The takeover of UASC's business activities led to a significant rise both in Hapag-Lloyd's assets and its level of debt in the 2017 financial year.

## GROUP OBJECTIVES AND STRATEGY

The prime strategic objective of the Hapag-Lloyd Group is to achieve long-term profitable growth measured on the basis of developments in the transport volume and the key performance indicators of EBITDA and EBIT.

In terms of increasing its transport volume, Hapag-Lloyd achieved growth of more than 100% over the past eight years. This was due mainly to the takeover of CSAV's container shipping activities in December 2014, and to the merger with UASC in May 2017, but also to the rising global demand for container shipping services.

Despite the continuing very competitive industry environment, Hapag-Lloyd recorded a clear increase in its EBITDA and EBIT in 2017. Earnings before interest, taxes, depreciation and amortisation (EBITDA) are calculated by adding the revenue, other operating income and the earnings of companies accounted for using the equity method generated within a period less transport expenses, personnel expenses and other operating expenses, not including amortisation of intangible assets and depreciation of property, plant and equipment. To calculate earnings before interest and taxes (EBIT), depreciation and amortisation are deducted from EBITDA.

Hapag-Lloyd achieved an EBITDA margin of 10.6% in the 2017 financial year. This was helped in particular by the synergies, cost savings and efficiency improvements achieved and a relatively balanced presence both in East–West and in North–South trades.

#### Development of key performance indicators

|                                 | 2017  | 2016  | 2015  | 2014  | 2013  |
|---------------------------------|-------|-------|-------|-------|-------|
| Transport volume (in TTEU)      | 9,803 | 7,599 | 7,401 | 5,907 | 5,496 |
| EBITDA (in million EUR)         | 1,055 | 607   | 831   | 99    | 389   |
| EBIT (in million EUR)           | 411   | 126   | 366   | –383  | 64    |
| EBITDA margin (in % of revenue) | 10.6  | 7.9   | 9.4   | 1.5   | 5.9   |
| EBIT margin (in % of revenue)   | 4.1   | 1.6   | 4.1   | –5.6  | 1.0   |

Hapag-Lloyd intends to increase the transport volume in line with market growth. Hapag-Lloyd should be able to further improve its operating result by fully exploiting the synergies from the UASC integration and by means of additional cost savings and efficiency improvements, expected growth in volume and an improvement in revenue quality.

Despite what continued to be a very competitive industry environment and the increase in the balance sheet total resulting from the UASC integration, the return on invested capital (ROIC) came to 3.1% in 2017. The aim is to generate a return on invested capital equal to the weighted average cost of capital (WACC) in the medium term. The weighted average cost of capital in the reporting period was 7.9% (previous year: 8.2%).

In the 2018 financial year our focus will be on:

- Harnessing the expected synergies from the integration of UASC, which are forecast to reach a total of approximately USD 435 million from 2019
- Intensifying Hapag-Lloyd's partnership within THE Alliance
- Implementing further measures to improve the quality of earnings in the expanded Hapag-Lloyd Group, particularly in relation to the "Compete to Win" strategic measure initiated in 2015

In previous years, Hapag-Lloyd implemented extensive synergy, cost-saving and efficiency programmes. The most important programmes – CUATRO, OCTAVE and Close the Cost Gap – were successfully implemented by the end of the first quarter of 2017 and made a considerable contribution to the positive operating result (EBIT) in the past financial year.

- **CUATRO project – full achievement of a wide range of synergies**

The integration of CSAV's container shipping activities under the CUATRO project – in particular combining services, sales activities and important head office functions – was completed by the end of the first half of 2015 as planned.

- **OCTAVE project – comprehensive reduction in costs**

The OCTAVE project was implemented in 2015 to comprehensively reduce costs. In the course of a multi-stage optimisation programme, substantial annual cost savings were achieved as early as 2016. Implementation of the project was completed in the first quarter of 2017.

- **Close the Cost Gap project – increase in ship fleet efficiency**

Targeted investments in the modernisation and renewal of the fleet were to be used to further increase its productivity and efficiency (e.g. in terms of bunker consumption). These measures were an essential part of efforts to significantly increase the Company's profitability. As an important element of the Close the Cost Gap programme, the efficiency of the Company's own fleet was sustainably improved after seven new container ships, each with a transport capacity of 9,300 TEU, were put into service in 2014 and 2015. A further five container ships, each with a transport capacity of 10,500 TEU, were put into service between October 2016 and April 2017. Targeted investments in new containers also aimed to gradually increase the percentage of the Company's own containers in the container fleet to around 50%. Following the merger with UASC, Hapag-Lloyd currently has a capacity-weighted ownership ratio within the container fleet of around 54% (previous year: 43%).

- **Compete to Win project – increase in revenue quality and better utilisation of stronger market presence**

It is not just by reducing costs and harnessing synergies that the Company is expecting to substantially increase its profitability in the coming years. The Compete to Win project aims to improve the services offered to customers, raise the percentage of higher-value cargo in the overall transport volume and increase customers' contribution margins. In addition, more refined customer targeting should result in better marketing of the Company's global service, its strong presence in all key trades and its local market leadership in the Transatlantic trade as well as in the trades between North and South America. Compete to Win was also implemented in the UASC business directly following the acquisition, and the new employees were trained accordingly.

The target of achieving transport volume growth equal to market growth was significantly exceeded in 2017 with an increase in the transport volume of 29.0%. This was largely due to the merger with UASC. On a pro forma basis<sup>2</sup>, the transport volume increase in the reporting period was 4.8%.

The completion of the implementation of the CUATRO and OCTAVE projects in the first quarter of 2017 laid the foundations for generating annual synergies, efficiency improvements and cost savings of approximately USD 600 million as against the comparable cost base in the 2014 financial year, and assuming that external factors remain the same. The business performance and development of earnings in 2017 was correspondingly positive and in line with expectations.

In addition to the efficiency and cost-cutting programmes already implemented, the merger with UASC is another key strategical step towards strengthening Hapag-Lloyd's market position and competitiveness. It is anticipated that the synergies from the merger with UASC will contribute approximately USD 435 million per annum from the 2019 financial year onwards. The Executive Board of Hapag-Lloyd AG expects that the bulk of the synergies can be achieved in the 2018 financial year. Following the merger on 24 May 2017, the operational integration of the UASC Group was successfully completed by October 2017. A significant step in the operational integration was the incorporation of all UASC services into Hapag-Lloyd's existing IT system (voyage cut-over). The first office location optimisations and all the training programmes for former UASC employees were also successfully completed in the reporting period. One-off expenses of approximately USD 105 million were incurred until 31 December 2017 from the transaction and implementation of the merger. It is currently assumed that further expenses for the transaction and the full integration of UASC's container shipping activities of approximately USD 10 million could be incurred by the end of the first half of 2018. This means that the one-off expenses are likely to total around USD 115 million, as planned.

## CORPORATE MANAGEMENT

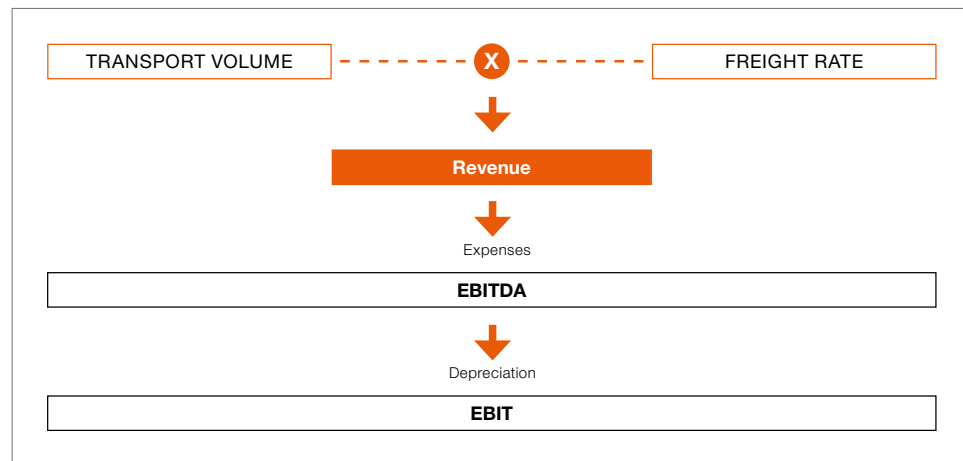
The Group's key performance indicators for its operating business are EBITDA and EBIT. EBITDA is an important indicator of the achievement of sustainable company results and gross cash flows. Hapag-Lloyd – which owns more than 68% of its fleet (as measured by transport capacity) – uses EBITDA as an important parameter for investment and financing decisions. The financial performance indicators, EBITDA and EBIT, are only used to analyse and manage the operating results of the Group as a whole.

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.

<sup>2</sup> The pro forma basis assumes that the merger with UASC occurred on 1 January 2016 and facilitates comparability with regard to the Company's performance.



Earnings before interest, taxes, depreciation and amortisation (EBITDA) equal the revenue, the other operating income and the earnings of companies accounted for using the equity method generated within a period less transport expenses, personnel expenses and other operating expenses, not including amortisation of intangible assets and depreciation of property, plant and equipment. To calculate earnings before interest and taxes (EBIT), depreciation and amortisation are deducted from EBITDA.



The global transport volume is dependent on the prevailing economic developments around the world and therefore also on the various levels of demand for shipping services. Other factors influencing Hapag-Lloyd's transport volume are container ship capacity and the accompanying change in the competitive situation in the trades.

Freight rates can be managed only to a limited degree because they are heavily dependent on market capacity and market demand. The Group follows a yield management approach, according to which individual container shipments are examined using profitability criteria. The proportion of unprofitable cargo is continuously reviewed and managed through targeted yield management. Business operations around the globe have benefited from the deployment of customised IT systems.

Efficient cost management provides essential control over the EBIT value. The system of cost management is supported by a standardised, integrated IT solution which provides essential and up-to-date data required for management and for implementing and maintaining cost reduction measures. The cost base is, however, largely dependent on external factors. Due to the global nature of the Group's business operations, exchange rate fluctuations can have a considerable influence on costs. If necessary, the Group hedges a portion of its cash outflows in euros using a rolling hedge with the aim of limiting currency risks in the consolidated financial statements.

Operating costs are also influenced by bunker price changes. The bunker price correlates with the development of crude oil prices and is subject to substantial fluctuations. Depending on the competitive situation, a proportion of the fluctuations can be compensated for via the freight rate in the form of bunker surcharges. However, the extent to which this can be implemented depends very much on the prevailing market situation.

Part of the Group's likely bunker fuel needs are hedged using options in order to lessen the risk of changes in the bunker price due to rising prices.

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 income 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 return on invested capital on a Group basis

|   | million EUR     |                 | million USD     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2017            | 2016            | 2017            | 2016            |
| Non-current assets                            | 12,633.5        | 9,722.9         | 15,146.1        | 10,267.4        |
| Inventory                                     | 186.4           | 124.5           | 223.5           | 131.5           |
| Accounts receivable                           | 887.8           | 677.6           | 1,064.4         | 715.5           |
| Other assets                                  | 515.2           | 235.7           | 617.7           | 248.9           |
| <b>Assets</b>                                 | <b>14,222.9</b> | <b>10,760.7</b> | <b>17,051.7</b> | <b>11,363.3</b> |
| Provisions                                    | 615.1           | 569.8           | 737.5           | 601.5           |
| Accounts payable                              | 1,559.8         | 1,281.6         | 1,870.1         | 1,353.3         |
| Other liabilities                             | 259.1           | 240.4           | 310.5           | 254.0           |
| <b>Liabilities</b>                            | <b>2,434.0</b>  | <b>2,091.8</b>  | <b>2,918.1</b>  | <b>2,208.8</b>  |
| <b>Invested Capital</b>                       | <b>11,788.9</b> | <b>8,668.9</b>  | <b>14,133.6</b> | <b>9,154.5</b>  |
| EBIT  | 410.9           | 126.4           | 466.1           | 139.7           |
| Taxes   | 24.1            | 19.7            | 27.3            | 21.8            |
| <b>Net Operating Profit after Tax (NOPAT)</b> | <b>386.8</b>    | <b>106.7</b>    | <b>438.8</b>    | <b>117.9</b>    |
| <b>Return on Invested Capital (ROIC)</b>      |                 |                 | <b>3.1%</b>     | <b>1.3%</b>     |

Figures are in USD, rounded, aggregated and calculated on an annualised basis.

UASC Ltd. and its subsidiaries are included in Hapag-Lloyd AG's consolidated financial statements from the date control was transferred on 24 May 2017. The presented figures include the effects of the transaction from this date and can therefore only be compared to the prior-year's figures to a limited extent.

The chart 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 are given in the Notes to the consolidated financial statements on page 175.

The return on invested capital (ROIC) in the 2017 financial year was 3.1%, following 1.3% in the 2016 financial year. The return on capital employed in 2017 was therefore below the weighted average cost of capital. The weighted average cost of capital after income taxes as used for discounting purposes is 7.9% for the reporting period (2016: 8.2%). For information about the calculation of the average cost of capital, please refer to the disclosures in the Notes to the consolidated statement of financial position in the Notes to the consolidated financial statements from page 202.

### **Principles and objectives of financial management**

Hapag-Lloyd AG's financial management is conducted on a centralised basis and includes all of the Group companies in which Hapag-Lloyd AG has a majority stake, either directly or indirectly. Financial management is conducted in accordance with guidelines that cover all of the payment-related aspects of the Group's business activities. The objectives of financial management are to provide Hapag-Lloyd AG and its subsidiaries with a sufficient supply of liquidity, to ensure compliance with any financial performance indicators (known as financial covenants) agreed with the banks and to limit financial risks arising from fluctuations in exchange rates, raw material prices and interest rates.

### **Securing liquidity**

As part of its annual Group planning, Hapag-Lloyd AG develops a multi-year financial plan which forms the basis for its long-term financing and refinancing needs. By using this information and monitoring financial markets to identify financing opportunities, the Company makes its decisions regarding what investments to finance in the long term and what instruments to use for its financing at an early stage.

Hapag-Lloyd secures its liquidity reserve by means of cash, cash equivalents and syndicated credit facilities. As at 31 December 2017, there was a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,059.5 million (previous year: EUR 759.6 million). As part of the Group-wide provision of finance, the liquidity surpluses of individual Group companies are pooled at Hapag-Lloyd AG. Arrangements with the banks to provide lines of credit are based on a rolling liquidity plan.

### **Compliance with financial performance indicators**

In various loan agreements, Hapag-Lloyd is required to comply with certain financial performance indicators known as financial covenants. Essentially, this means maintaining (a) sufficient liquidity and (b) a minimum level of equity at Group level. The liquidity reserve needed and the solid equity base were above the stipulated covenant requirements at all times. In addition, set loan-to-value ratios are in place for individual loans collateralised by property, plant and equipment.

**Limiting financial risks**

Hedging currency risks: in the container shipping sector, transactions are invoiced mainly in US dollars and payment procedures are handled in US dollars. However, the reporting currency of Hapag-Lloyd is the euro. As a European company, Hapag-Lloyd also has a significant percentage of its costs in euros. Currency risks are hedged using derivative financial instruments, insofar as this makes commercial sense.

Changes in fuel prices have an impact on Hapag-Lloyd AG, particularly with regard to the cost of procuring fuel (bunker oil). Insofar as it is possible, these price increases are passed on to the customer on the basis of contractual agreements. In addition, some of the price risks arising from fuel procurement are hedged using derivative hedging transactions.

Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are monitored within the scope of interest rate management and will be partly limited using derivative interest rate hedging instruments.

**Strengthening the equity base**

At the balance sheet date, equity came to approximately EUR 6,058.3 million (previous year: EUR 5,058.4 million). The incorporation of UASC into Hapag-Lloyd AG and the capital increase carried out on 17 October 2017 in the amount of approximately EUR 352 million by means of a rights issue and the issuance of 11,717,353 new no-par shares resulted in the further strengthening of the Group's equity.

**Reducing gearing**

Net gearing was 93.8% in the 2017 financial year (2016: 71.0%). The takeover of UASC's business activities led to a significant rise in Hapag-Lloyd's level of debt in the 2017 financial year. The Company aims to reduce its debt quickly in the coming years by generating a high level of operating cash flow and by minimising investment. Initial measures to reduce debt were implemented in the second half of 2017.

**Shareholder participation in the Company's success**

Hapag-Lloyd AG's retained earnings under German commercial law form the basis for determining the distribution of dividends. Under German law, the Annual General Meeting decides how the retained earnings are to be used. Against the background of this positive business development the Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting 2017 the payment of an extraordinary dividend of EUR 100 million, resp. 57 cents per share. In general, Hapag-Lloyd aims to pay a dividend of 20–30% of its consolidated Group profit for the year, as far as legally and financially possible as far part of commercial and financial options.

## PRINCIPLES AND PERFORMANCE INDICATORS

### Legal framework

Hapag-Lloyd's business is subject to multiple regulatory and legal provisions. In order to engage in business operations, it is necessary to have authorisations, licences and certificates. Compliance with the ISM Code (International Safety Management), which regulates the measures required for ensuring safety at sea, and the ISPS Code (International Ship and Port Facility Security) must be given particular emphasis. The latter stipulates what measures are to be taken to prevent hazards on board ships and in ports, thereby contributing to supply chain security. There are also numerous country-specific rules, such as "advance manifest rules", which stipulate certain disclosure obligations in relation to the ship's cargo. Adherence to international regulations and compliance specifications is a basic requirement for the provision of services.

### IMPORTANT FINANCIAL PERFORMANCE INDICATORS

Important financial performance indicators for the Hapag-Lloyd Group include EBIT, EBITDA, the transport volume and freight rates. Transport volume and freight rates are important factors influencing revenue development. A description and the calculation of the performance indicators can be found in the "Corporate Management" section. Since the 2015 financial year, return on invested capital (ROIC) has also been used as a performance indicator.

### IMPORTANT NON-FINANCIAL PRINCIPLES

In addition to the financial performance indicators, the optimal utilisation of the available ship and container capacities also 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 parameters for Hapag-Lloyd's long-term 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.

**Productivity and efficiency**

Hapag-Lloyd pays special attention to productivity and efficiency. In this respect, important measures include yield management and continuous cost control. In recent years in particular, profitability has improved as a result of comprehensive cost-cutting and efficiency-boosting programmes.

Business operations around the globe have benefited from the deployment of customised IT systems.

The globally standardised blueprint organisational structure allows for a standardised exchange of information between the head office, the various Regions and the offices, ensuring that standardised information is used all over the world. This enables the Group to increase productivity and ensures that the ship and container fleets are used efficiently.

Hapag-Lloyd's membership of alliances and various other collaborative projects makes it possible to optimise fleet deployment and expand the services provided. This likewise guarantees that the fleet is used efficiently and keeps the cost per transport unit low, thereby ensuring increased productivity. Due to increasing requirements to cut emissions to further reduce energy consumption and costs, the Fleet Support Center (FSC) department was established in 2013 to create an integrated energy management concept for both the Company's own ships as well as chartered ships. Its primary aim is to achieve optimum fleet deployment across all trades and regions.

Another important factor in connection with the fleet's capacity utilisation is the turnaround frequency of the containers. Each container was transported on average 4.9 times in 2017, calculated on the basis that integration already took place on 1 January 2017 (previous year: 4.8 times). The average number of deployments per container per year is calculated. The objective is to increase the turnaround frequency in order to boost productivity and keep the total number of containers required as low as possible. Hapag-Lloyd also makes beneficial use of modern IT systems to do this.

In the reporting period, the capacity utilisation of the container ship fleet (as measured by total TEU capacity on the dominant leg) fell by 2.1 percentage points to 91.1% (previous year: 93.2%). The internal classification of dominant legs changed as a result of the merger with UASC. The previous year's figures were adjusted accordingly. The container transport volume rose by 29.0% in the period under review. The acquisition of the UASC fleet led to a significant increase in the average ship size and a reduction in the average age. The capacity-weighted average age of the Hapag-Lloyd fleet was 7.1 years as at the balance sheet date (prior to the merger with UASC: 8.5 years), while the average ship size rose from 5,858 TEU as at 31 March 2017, before the integration, to 7,184 TEU at the end of 2017. This means that Hapag-Lloyd currently has one of the youngest and most efficient fleets in the world.

The incorporation of UASC's business activities after the consolidation date of 24 May 2017 and the launch of THE Alliance caused the capacity utilisation to deteriorate slightly in the 2017 financial year.

### Flexible fleet and capacity development

As at 31 December 2017, Hapag-Lloyd's fleet comprised a total of 219 container 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 31 December 2017 was 1,573,377 TEU, which was an increase of 610,603 TEU on the previous year. This change was mainly due to the merger with UASC (previous year: 962,774 TEU). Based on the TEU capacities, around 68% of the fleet was owned by the Group as at 31 December 2017 (previous year: approximately 57%). The average age of the ships (capacity-weighted) was 7.1 years (previous year: 7.9 years). The average ship size within the Hapag-Lloyd Group fleet was 7,184 TEU, which is 35% above the comparable average figure for the fifteen largest container liner shipping companies and about double the average ship size in the global fleet.

Hapag-Lloyd also owned or rented 1,435,345 containers with a capacity of 2,348,602 TEU for shipping cargo. Around 54% of containers (capacity-weighted) were owned by the Group as at 31 December 2017 (previous year: around 43%). With a fleet of around 92,000 reefer containers capable of transporting approximately 176,600 TEU, Hapag-Lloyd has a strong competitive position in the attractive market segment for refrigerated shipping. In order to benefit from the growing market opportunities, Hapag-Lloyd invested further in the expansion of its reefer fleet in 2017. In addition to the 11,700 reefer containers taken over from UASC, Hapag-Lloyd placed orders for a further 7,700 reefer containers in the 2017 financial year.

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

|                                      | 31.12.2017 | 31.12.2016 | 31.12.2015 | 31.12.2014 | 31.12.2013 |
|--------------------------------------|------------|------------|------------|------------|------------|
| Number of vessels                    | 219        | 166        | 177        | 191        | 151        |
| thereof                              |            |            |            |            |            |
| Own vessels                          | 102        | 72         | 68         | 77         | 57         |
| Leased vessels                       | 14         | 3          | 3          | 5          | 7          |
| Chartered vessels                    | 103        | 91         | 106        | 109        | 87         |
| Aggregate capacity of vessels (TTEU) | 1,573      | 963        | 966        | 1,009      | 729        |
| Aggregate container capacity (TTEU)  | 2,349      | 1,576      | 1,564      | 1,619      | 1,072      |
| Number of services                   | 120        | 128        | 121        | 119        | 97         |

UASC Ltd. and its subsidiaries are included in Hapag-Lloyd AG's consolidated financial statements from the date control was transferred on 24 May 2017. The presented figures include the effects of the transaction from this date and can therefore only be compared to the prior-year's figures to a limited extent. The figures from 2014 onwards relate to Hapag-Lloyd's fleet, including the container activities acquired from CSAV. The figures for 2013 relate to Hapag-Lloyd only and do not include CSAV's container shipping activities. The data for 2017 relates to Hapag-Lloyd's fleet, including UASC.

Hapag-Lloyd's order book at the start of the financial year comprised three 10,500-TEU ships. These were all delivered by April 2017. At the time of the merger between Hapag-Lloyd and UASC (24 May 2017), UASC's order book comprised two 15,000-TEU ships, which had been put into service by September 2017. There are no further orders for newbuilds as at the balance sheet date.

Following the merger with UASC, Hapag-Lloyd has a very young and efficient fleet. As a result, it will not be necessary to invest in new ship systems in the coming years. The joint fleet and cooperation with the partners in THE Alliance will make it possible to utilise the medium-term expansion opportunities resulting from market growth and to realise economies of scale in ship operations.

The efficiency of the container ship fleet is also reflected in the bunker consumption data. Absolute bunker consumption rose as a result of the growth of the container ship fleet to a total of 3,925,736 tonnes. Bunker consumption per slot (as measured by the average annual container storage space) was 2.85 tonnes (previous year: 3.28 tonnes). The calculation basis was changed as a result of the merger with UASC. The previous year's figures were adjusted accordingly.

#### Bunker consumption

| metric tons                     | 2017             | 2016             |
|---------------------------------|------------------|------------------|
| MFO (High sulphur)              | 3,416,868        | 2,644,788        |
| MDO, MFO (Low sulphur)          | 508,868          | 496,251          |
| <b>Total bunker consumption</b> | <b>3,925,736</b> | <b>3,141,039</b> |

Based on the total transport volume, the bunker consumption per TEU amounted to 0.40 metric tonnes (previous year: 0.41 metric tonnes per TEU).

#### Efficient transport services

In container liner shipping, the flow of goods to and from different regions varies in terms of size and structure. This is due to volume differences in the import and export of goods. Most trades therefore have a "dominant leg" with a higher cargo volume and a "non-dominant leg" with a lower transport volume.



## Imbalances in the world's biggest trades

### Cargo volume

| TTEU                       | 2017   | 2016   |
|----------------------------|--------|--------|
| <b>Transatlantic trade</b> |        |        |
| Europe – North America     | 3,271  | 4,000  |
| North America – Europe     | 2,079  | 2,400  |
| <b>Far East trade</b>      |        |        |
| Asia – Europe              | 15,571 | 14,200 |
| Europe – Asia              | 7,485  | 6,400  |
| <b>Transpacific trade</b>  |        |        |
| Asia – North America       | 19,491 | 13,700 |
| North America – Asia       | 7,419  | 7,100  |

Source: Drewry Container Forecaster, Q4 2017. Figures rounded

The transport capacities must be planned to meet the volumes on the dominant leg. The return transport of empty containers produces costs. The relevant performance indicator here is the ratio of loaded containers on the dominant leg to the number of loaded containers on the non-dominant leg. The objective is to keep the number of empty container transport operations low or balance the ratio to the greatest possible extent. Furthermore, empty containers are repositioned into the regions with high demand via the shortest, quickest and cheapest route.

### Hapag-Lloyd reduces imbalances better than the market <sup>1</sup>

|              | Hapag-Lloyd AG | Industry average |
|--------------|----------------|------------------|
| Transpacific | 4.7            | 3.8              |
| Atlantic     | 5.9            | 6.4              |
| Far East     | 5.3            | 4.8              |

<sup>1</sup> Number of full containers on the non-dominant leg per ten full containers on the dominant leg. (The higher the rate, the lower the imbalance in the respective trade.)

Source: Drewry Container Forecaster, Q4 2017; Hapag-Lloyd 2017; figures as per Drewry's definition of trades; in connection with the acquisition of the UASC Group, Hapag-Lloyd changed its internal definition of trades and dominant legs.

The number of loaded containers transported on the non-dominant leg on the key trades is well above the market average thanks to Hapag-Lloyd's use of modern IT and network management systems.

### Customers and customer orientation

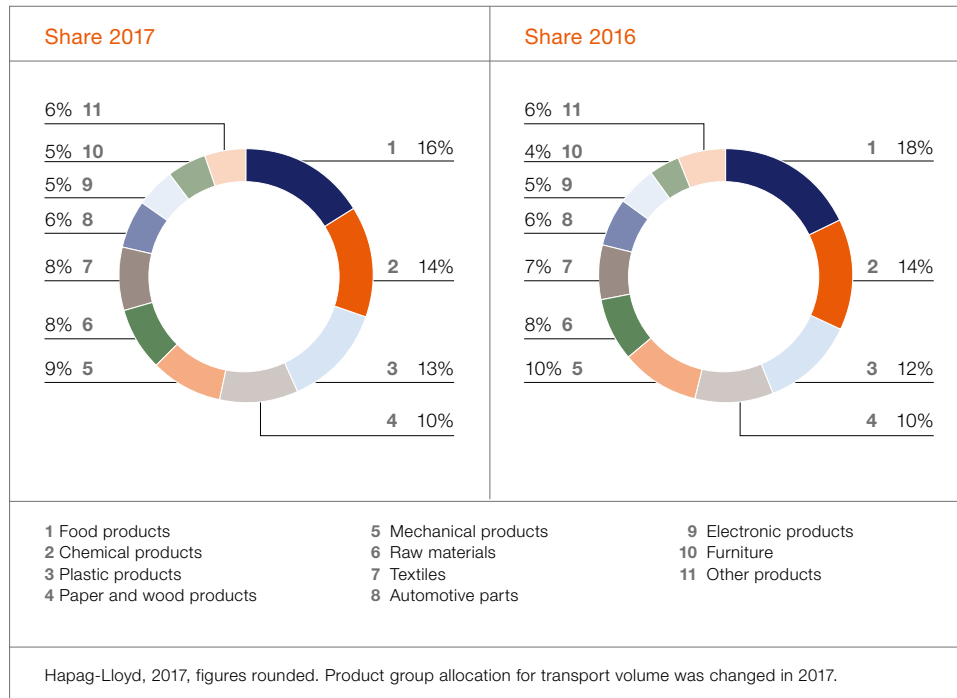
Hapag-Lloyd has established itself as a high-quality provider among container liner shipping companies. The reliability and high quality that the customer experiences with Hapag-Lloyd services are at the very heart of Hapag-Lloyd's market presence. Top clients are supported by the Global Account Management team in Hamburg and are visited by key account managers. 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. In doing so, Hapag-Lloyd focuses on achieving a high degree of customer satisfaction and on having a diversified portfolio of customers comprising both direct customers and shipping companies, with the latter ensuring a regular supply of cargo volumes.

The Global Industry Management team pools expertise and develops customised solutions for particular market segments, such as the chemicals industry. There is also a special department for looking after reefer customers on a global scale.

Contractual relationships of up to twelve months generally exist with direct customers. Direct customers allow Hapag-Lloyd to plan the required transport capacity better because of the framework agreements concluded with them. Hapag-Lloyd has a balanced customer base, as demonstrated by the fact that its 50 largest customers represent considerably less than 50% of its cargo volume. In total, transports were completed for approximately 32,400 customers in the 2017 financial year (previous year: approximately 23,100 customers).

A breakdown of the goods shipped according to product category shows a relatively balanced distribution. No individual product category accounted for a share of over 16% during the past financial year.

**Transport volume by product category in 2017**



This means that the economic cycles affecting individual sectors have relatively little impact on developments in the transport volume. In a normal economic environment, the volume transported will therefore increase continuously.

## RESEARCH AND DEVELOPMENT

Hapag-Lloyd does not pursue any noteworthy research and development activities of its own. Expenses relating to the modernisation and optimisation of the IT systems and software components (IT) developed in-house are recorded in operating expenses. The IT system developed by the Company is constantly improved.

The use of modern, networked systems guarantees a swift exchange of data between partners in the transport chain around the world. This places considerable demands on the IT systems used. Some examples of how IT systems are used for container shipping are presented here: operating empty legs as efficiently as possible using modern forecast algorithms as part of the Company's equipment deficit action planning, using IT-supported processes in yield management to determine the earnings contribution of container shipments, writing quotations, profit-oriented cargo volume management, and also designing new shipment services. Special IT systems support the efficient commissioning and invoicing of terminal services. The use of efficient IT solutions is also particularly important in trans-shipment planning and commissioning.

The IT systems are continuously being enhanced, and new opportunities which are currently arising as a particular result of digitalisation are being identified. The Digital Channel & Incubation Unit (DCIU) was established in 2017. This new specialist department will work together in the future with the various regions and the IT department to develop new, digitally available services and business models.

The security of Hapag-Lloyd AG's central IT systems is continuously monitored, managed and improved. In addition, Hapag-Lloyd maintains continuous contact with external security experts. To minimise potential future financial risks as a result of cyberattacks, the Company entered into service agreements with external partners in the reporting period which came into effect in January 2018. The systems essential for ship operations are not connected to the IT system on land, which means that there is currently no risk of cyberattacks on ships. A separate security review is conducted for the security of the operating systems on our ships.

## NON-FINANCIAL GROUP DECLARATION AS PER GERMAN CSR GUIDELINE IMPLEMENTATION ACT (CSR-RICHTLINIE-UMSETZUNGSGESETZ)

In addition to the non-financial principles already outlined, sustainable economic, ecological and social action is regarded as a basic commercial principle for Hapag-Lloyd.

The separate non-financial Group report as per Section 315b (3) of the German Commercial Code (HGB) is contained in the sustainability report, which can be retrieved from Hapag-Lloyd AG's website via the following link: <https://www.hapag-lloyd.com/en/about-us/sustainability/sustainability-report.html>, and is not part of the management report.

## EMPLOYEES

The Hapag-Lloyd Group employed 12,567 persons as at 31 December 2017 (previous year: 9,413 persons). The increase resulted from the integration of UASC. 2,136 people were employed in the marine division as at 31 December 2017 (previous year: 1,389). The number of shore-based staff increased by 2,407, from 8,024 in the previous year to 10,431 employees. The breakdown of shore-based staff was around 46% female and 54% male. The average tenure for shore-based staff is nine years.

As at 31 December 2017, the proportion of women in management positions (L2–3) was around 12%.

### Number of employees\*

|                       | 31.12.2017    | 31.12.2016   | 31.12.2015   | 31.12.2014    | 31.12.2013   |
|-----------------------|---------------|--------------|--------------|---------------|--------------|
| Marine personnel      | 2,007         | 1,295        | 1,411        | 1,408         | 1,254        |
| Shore-based personnel | 10,304        | 7,895        | 7,771        | 8,901         | 5,553        |
| Apprentices           | 256           | 223          | 235          | 214           | 194          |
| <b>Total</b>          | <b>12,567</b> | <b>9,413</b> | <b>9,417</b> | <b>10,523</b> | <b>7,001</b> |

\* The figures from 2014 onwards relate to the Hapag-Lloyd Group, including CSAV's container shipping activities. The figures for 2017 include UASC.

There is a strong focus on vocational training and qualifications for both the shore-based and marine employees. Hapag-Lloyd attaches particular importance to extensive, high-quality training. The proportion of those offered jobs at the end of their training is generally between 80 and 90%. However, in 2017 the share was lower than in the preceding years, at 68%. This was mainly due to the integration of UASC. As at 31 December 2017, Hapag-Lloyd employed a total of 127 apprentices in shore-based positions and 129 at sea (previous year: 129 shore-based and 94 at sea).

For the vast majority of employees, bonuses are based on EBIT (adjusted). For this purpose that the Hapag-Lloyd Group's EBIT (adjusted) is still calculated when the consolidated financial statements are being prepared.

# REMUNERATION REPORT

The remuneration report is part of the Group management report of Hapag-Lloyd AG and describes the basic features of the remuneration system for the Executive Board and Supervisory Board members and the amount and structure of individual remuneration. The report adheres to the requirements of the German Corporate Governance Code (GCGC), complies with the legal provisions of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB) and incorporates the principles of German Accounting Standard 17 (DRS 17).

## 1. PRINCIPLES AND OBJECTIVES / GENERAL PRINCIPLES

The Supervisory Board regularly reviews the remuneration of the Executive Board and, if necessary, engages the services of external consultants for this purpose. As part of this review, both the remuneration structure and the amount of Executive Board remuneration are assessed, in particular by comparing them with the external market (horizontal benchmarking) and other remuneration within the Company (vertical benchmarking). If the review identifies the need to change the remuneration system, structure or amount, the Supervisory Board's Presidential and Personnel Committee submits appropriate proposals to the Supervisory Board for approval.

The purpose of the remuneration system for the Executive Board is to remunerate the Executive Board members appropriately in accordance with their duties and responsibilities, while directly taking into consideration the performance of each Executive Board member and the success of the Company.

The structure of the remuneration system for the Executive Board of Hapag-Lloyd AG aims to incentivise successful, long-term corporate governance that increases the value of the Company.

Executive Board remuneration initially comprises fixed basic remuneration, which is paid monthly and takes into consideration the duties and activities of the Executive Board members, and performance-related short-term variable remuneration in the form of an annual bonus. The Supervisory Board can also grant additional remuneration in special circumstances, such as for extraordinary activities and workloads during the financial year. In addition, benefits in kind and other fringe benefits are granted to the Executive Board members.

In addition, a long-term remuneration element exists for all Executive Board members (long-term incentive plan – LTIP) which is directly linked to changes in the value of the Company and therefore aims to incentivise long-term commitment to the Company.

There were no changes to the Executive Board remuneration in the 2017 financial year.



### 1.1 Changes to the Executive Board

There were no changes to the Executive Board in 2017.

## 2. MAIN REMUNERATION COMPONENTS

The main remuneration components are broken down as follows:

### 2.1 Non-performance-related components

#### a) Fixed annual remuneration

Fixed annual remuneration is cash remuneration based on the financial year. In particular, it reflects the responsibilities and the position of the respective Executive Board member. This fixed income is set individually and is divided into twelve equal amounts which are paid at the end of each month. If an employment contract starts or ends during a financial year, the fixed remuneration is paid pro rata.

#### b) Non-cash remuneration and other fringe benefits

Non-cash remuneration and other fringe benefits comprise benefits in kind such as the provision of a company car, use of the company driver service, retirement benefits, funeral allowances and allowances for surviving dependants, and insurance cover such as accident insurance. Non-cash remuneration due is detailed in this remuneration report with the amounts stipulated by tax legislation.

The Company reimburses Mr Burr for living costs at an appropriate amount. It also covers the school costs of Mr Burr's children and the cost of one flight per year to Chile for Mr Burr and his family. Furthermore, the Company covers the language tuition costs of Mr Burr and his wife. If Mr Burr is required to pay income tax on these benefits, Hapag-Lloyd AG will pay the applicable income tax and the benefits will increase accordingly.

### 2.2 Performance-related components

#### a) Short-term variable remuneration

Short-term variable remuneration is granted in the form of an annual bonus which is paid after the consolidated financial statements have been examined and audited by the external auditors and subsequently approved. Since the 2016 financial year, the annual bonus of the ordinary Executive Board members has been equal to 0.065% of the Group's earnings before interest and taxes (EBIT), capped at EUR 400,000.00 (gross); the CEO's annual bonus is equal to 0.1% of the Group's EBIT, capped at EUR 600,000.00 (gross).

As such, Mr Burr received a guaranteed bonus of at least EUR 200,000.00 (gross) for the 2016 financial year. Mr Haeser received a guaranteed bonus of EUR 25,000.00 (gross) for every full calendar month in which he worked for the Company as an Executive Board member in the period from 1 October 2015 to 30 September 2016.

**b) Long-term variable remuneration**

Under long-term variable remuneration (long-term incentive plan – LTIP), a specified euro amount is granted to the Executive Board members per calendar year. This allocation amount is converted into virtual shares in the Company on a specific date. The relevant share price for the conversion at the time of allocation is the average share price over the last 60 trading days before the virtual shares are granted, which happens on the first trading day of the calendar year. The virtual shares are divided equally into performance share units and retention share units. They are subject to a four-year vesting period, during which the corresponding values are unavailable.

The retention share units automatically become non-forfeitable when the vesting period expires (non-forfeitable retention share units). They then depend entirely on the Executive Board member's length of service.

The number of performance share units relevant for the payment depends on the performance of the Hapag-Lloyd share compared with a specific, industry-based reference index – the DAXglobal Shipping index – over the performance period. The number of performance share units can be a maximum of 1.5 and a minimum of zero, depending on the performance of the Hapag-Lloyd share relative to the chosen index as measured by a performance factor. If the performance factor is zero, all of the performance share units are forfeited.

If capital measures which affect the value of real shares are carried out during the term of the LTIP, the conditions of the plan state that the Executive Board members must be treated like owners of real shares as a rule. In the event of an ordinary capital increase, the stake in the Company held by owners of real shares is diluted. However, they are granted subscription rights to new shares in return. Under the conditions of the plan, the Executive Board members are not automatically granted a subscription right in the event of an ordinary capital increase. To compensate them for being treated differently to owners of real shares, for all LTIP tranches belonging to Executive Board members which are in existence when a capital increase is carried out, the number of shares is adjusted by a value equal to the subscription rights that an owner of real shares with the same number of shares is entitled to. The additional virtual shares here are valued at the arithmetical share price on the day before trading of the subscription rights commences (ex-subscription rights). The rule must be applied separately to all LTIP tranches in existence at the time of the capital measure. The additional virtual shares are based directly on the existing virtual shares of the respective LTIP tranches. As a result, the additional virtual shares are given the same parameters as were defined in the conditions of the plan and at the time the respective tranche was granted. The additional virtual shares are consequently a component of the respective tranche.

Hapag-Lloyd AG carried out an ordinary capital increase in October 2017. The capital increase led to a reduction in the share price and therefore to a markdown on the value of the existing virtual shares for the Executive Board members. This dilution of the virtual shares was compensated for by adjusting the number of virtual shares based on the procedure outlined above, whereby an arithmetical share price of EUR 35.13 was used.

When the performance period expires, the number of non-forfeitable virtual shares is converted into a euro amount by multiplying the non-forfeitable virtual shares by the relevant share price. This share price is equal to the average share price over the last 60 trading days before the performance period ends.

The amount calculated in this way is paid to the respective Executive Board member as a gross amount up to a specific limit on 31 March of the year following the end of the performance period. This upper limit is EUR 750,000.00 (gross) for ordinary Executive Board members and EUR 1,050,000.00 (gross) for the CEO.

If an Executive Board member steps down from their position before the performance period ends without cause or if their employment contract is extraordinarily terminated by Hapag-Lloyd for cause pursuant to Section 626 of the German Civil Code (BGB) ("bad leaver"), all entitlements under the long-term incentive programme are forfeited.

If the employment contract of an Executive Board member expires, the participant retires or the employment contract ends due to the invalidity of the participant, their entitlements under the LTIP for the allocation amounts which have not yet been paid remain. The allocation amount for the financial year in which the participant resigns is paid on a pro rata basis. The performance period then ends when the employment contract ends, and payment is made at the latest at the end of the third calendar month following the end of the performance period.

If an employment contract begins during a financial year, the long-term variable remuneration component is granted on the basis of the allocation amount for the full financial year.

### Share-based remuneration under the 2017 long-term incentive plan (LTIP)

#### Allotment for 2017 financial year

|  | Number of shares on allotment* | Fair value on allotment in EUR | Total value on allotment (allotment amount) in EUR |
|--|--------------------------------|--------------------------------|--|
| Rolf Habben Jansen (Chairman of the Executive Board) | 37,294                         | 18.77                          | 700,000  |
| Nicolás Burr   | 26,638                         | 18.77                          | 500,000  |
| Anthony J. Firmin                                    | 26,638                         | 18.77                          | 500,000  |
| Thorsten Haeser                                      | 26,638                         | 18.77                          | 500,000  |
| <b>Total</b>   | <b>117,208</b>                 |                                | <b>2,200,000</b>                                   |

\* The number of shares allotted is rounded up to the nearest whole number in accordance with the terms and conditions of the 2017 LTIP.

As a result of the ordinary capital increase carried out by Hapag-Lloyd AG in October 2017, the number of shares in the LTIP 2017 for the CEO, Mr Habben Jansen, was adjusted by 392, and for all other members of the Executive Board by 280.

**Share-based remuneration under the 2016 long-term incentive plan (LTIP)****Allotment for 2016 financial year**

|  | Number of shares on allotment* | Fair value on allotment in EUR | Total value on allotment (allotment amount) in EUR |
|--|--------------------------------|--------------------------------|--|
| Rolf Habben Jansen (Chairman of the Executive Board) | 39,842                         | 17.57                          | 700,000  |
| Nicolás Burr   | 28,458                         | 17.57                          | 500,000  |
| Anthony J. Firmin                                    | 28,458                         | 17.57                          | 500,000  |
| Thorsten Haeser                                      | 28,458                         | 17.57                          | 500,000  |
| <b>Total</b>   | <b>125,216</b>                 |                                | <b>2,200,000</b>                                   |

\* The number of shares allotted is rounded up to the nearest whole number in accordance with the terms and conditions of the 2016 LTIP.

As a result of the ordinary capital increase carried out by Hapag-Lloyd AG in October 2017, the number of shares in the LTIP 2016 for the CEO, Mr Habben Jansen, was adjusted by 420, and for all other members of the Executive Board by 300.

For the LTIP 2015, the ordinary capital increase carried out by Hapag-Lloyd AG resulted in the number of shares being adjusted by 378 for the CEO, Mr Habben Jansen, and by 270 for all other members of the Executive Board.

**Expense recognised for share-based remuneration under the long-term incentive plans (LTIP)**

|  | LTIP 2015–2017                     |                  |
|--|------------------------------------|------------------|
|  | Total personnel expense recognised |                  |
|  | 2017<br>in EUR                     | 2016<br>in EUR   |
| Rolf Habben Jansen (Chairman of the Executive Board) | 1,402,287                          | 318,348          |
| Nicolás Burr   | 699,434                            | 331,778          |
| Anthony J. Firmin                                    | 657,520                            | 445,161          |
| Thorsten Haeser                                      | 1,193,434                          | 302,406          |
| <b>Total</b>   | <b>3,952,675</b>                   | <b>1,397,693</b> |

**c) Possible additional remuneration in cash (discretionary bonus)**

The Executive Board contracts also stipulate that the Supervisory Board may grant additional remuneration in special circumstances or for extraordinary activities.

### 2.3 Company pension

For every full calendar year, the Executive Board members receive an annual lump sum equal to 20% of their fixed annual remuneration for the purpose of a pension in the form of a defined contribution payment pursuant to Section 1 (2) (1) of the German Company Pensions Act (BetrAVG). The payment is financed by annual contributions from the Company to an assistance fund and is made until the Executive Board members have reached the age of 67 or until their employment contracts end. If an employment contract starts or ends during a financial year, the amount is paid pro rata.

An exception to this is the company pension of Mr Anthony J. Firmin, who is due a company pension payment of EUR 72,000 per annum as a result of his long-standing service prior to his appointment as an Executive Board member. This amount will be paid when his statutory retirement commences. This will be further supplemented by the annual conversion of 20% of fixed annual remuneration into pension entitlements. Mr Firmin's entitlements under this company pension will be transferred to his surviving dependants to a limited extent after he is deceased.

### 2.4 Regulations in the event that Executive Board activities end

#### a) Severance payment cap in the event that Executive Board activities end prematurely

In accordance with the German Corporate Governance Code (GCGC), the employment contracts of the Executive Board members provide for a general cap on any severance payments. Accordingly, payments to an Executive Board member whose Executive Board activities end prematurely will not exceed two annual remunerations and must not remunerate more than the remaining term of the employment contract. In the event that an Executive Board member's contract is terminated for cause pursuant to Section 626 BGB ("bad leaver"), the employment contracts do not provide for any severance payment or remuneration under the LTIP.

When calculating the severance payment cap, the remuneration in the last full financial year is used as a basis (including short-term variable remuneration and fringe benefits); if the Executive Board member has been in office for two full financial years when the contract ends prematurely, the average remuneration for the last two financial years is used as a basis. The LTIP is not taken into consideration when calculating the severance payment.

#### b) Post-contractual non-compete restrictions

No post-contractual non-compete restrictions have been agreed with the Executive Board members.

#### c) Change-of-control clause

The employment contracts of the Executive Board members do not contain any change-of-control clauses.

The LTIP stipulates that the LTIP ceases in the event of a change of control as defined in the German Securities Acquisition and Takeover Act (WpÜG). The virtual shares granted until then become non-forfeitable when the change of control occurs and, pursuant to the conditions of the LTIP, are converted into a euro amount that is to be paid to the respective Executive Board member in the short term. If this amount falls below the relevant allocation amount for the Executive Board member, the Executive Board member receives a payment equal to the allocation amount instead.



## 2.5 Remuneration of the Executive Board in the 2017 financial year

### a) Total remuneration of active Executive Board members pursuant to the German Commercial Code (HGB) and German Accounting Standard 17 (DRS 17)

The total remuneration granted to active Executive Board members in the financial year was EUR 6.2 million (2016: EUR 5.6 million). This includes share-based payments with a fair value of EUR 2.2 million (2016: EUR 2.2 million) on the date the remuneration was granted. The active Executive Board members were granted a total of 117,208 virtual shares in the financial year (2016: 125,216).

### b) Individual remuneration of active Executive Board members pursuant to the German Commercial Code (HGB) and German Accounting Standard 17 (DRS 17)

#### Remuneration of the Executive Board

|  | Fixed remuneration |                 | Variable remuneration |   | Total remuneration |
|--|--------------------|-----------------|-----------------------|---|--------------------|
|  | Fixed salary       | Fringe benefits | Bonuses               | Components with short-term incentive effect<br>Components with long-term incentive effects<br>Share-based remuneration (LTIP 2016, LTIP 2017) |                    |
| EUR  |                    |                 |                       |   |                    |
| <b>Rolf Habben Jansen</b><br>(Chairman of the Executive Board) |                    |                 |                       |   |                    |
| <b>2017</b>  | <b>750,000</b>     | <b>172,086</b>  | <b>410,878</b>        | <b>700,000</b>  | <b>2,032,964</b>   |
| 2016   | 750,000            | 172,238         | 126,400               | 700,000   | 1,748,638          |
| <b>Nicolás Burr</b>  |                    |                 |                       |   |                    |
| <b>2017</b>  | <b>450,000</b>     | <b>357,781</b>  | <b>267,071</b>        | <b>500,000</b>  | <b>1,574,852</b>   |
| 2016   | 450,000            | 393,302         | 200,000               | 500,000   | 1,543,302          |
| <b>Anthony J. Firmin</b>                                       |                    |                 |                       |   |                    |
| <b>2017</b>  | <b>450,000</b>     | <b>22,086</b>   | <b>267,071</b>        | <b>500,000</b>  | <b>1,239,157</b>   |
| 2016   | 450,000            | 22,086          | 82,160                | 500,000   | 1,054,246          |
| <b>Thorsten Haeser</b>   |                    |                 |                       |   |                    |
| <b>2017</b>  | <b>450,000</b>     | <b>104,629</b>  | <b>267,071</b>        | <b>500,000</b>  | <b>1,321,700</b>   |
| 2016   | 450,000            | 107,770         | 245,540               | 500,000   | 1,303,310          |
| <b>Total 2017</b>  | <b>2,100,000</b>   | <b>656,582</b>  | <b>1,212,091</b>      | <b>2,200,000</b>  | <b>6,168,673</b>   |
| <b>Total 2016</b>  | <b>2,100,000</b>   | <b>695,396</b>  | <b>654,100</b>        | <b>2,200,000</b>  | <b>5,649,496</b>   |

In the past financial year, no member of the Executive Board received payments or corresponding commitments from a third party with regard to their activities as an Executive Board member. In addition, there were no advance payments or loans to members of the Executive Board as at 31 December 2017 or 31 December 2016.

With regard to pension commitments, the following obligations exist:

#### Pension plans (pension plans and death grants) pursuant to IFRS

| EUR   | Present value    | Service cost   |
|---|------------------|----------------|
| <b>Rolf Habben Jansen</b> (Chairman of the Executive Board) |                  |                |
| <b>2017</b>   | <b>5,334</b>     | <b>1,760</b>   |
| 2016  | 4,323            | 1,986          |
| <b>Nicolás Burr</b>   |                  |                |
| <b>2017</b>   | <b>2,074</b>     | <b>842</b>     |
| 2016  | 1,448            | 912            |
| <b>Anthony J. Firmin</b>                                    |                  |                |
| <b>2017</b>   | <b>2,004,177</b> | <b>218,981</b> |
| 2016  | 2,065,189        | 231,972        |
| <b>Thorsten Haeser</b>                                      |                  |                |
| <b>2017</b>   | <b>2,347</b>     | <b>1,260</b>   |
| 2016  | 1,547            | 1,654          |
| <b>Total 2017</b>   | <b>2,013,932</b> | <b>222,843</b> |
| <b>Total 2016</b>   | <b>2,072,507</b> | <b>236,524</b> |

**c) Disclosure of remuneration pursuant to the German Corporate Governance Code (GCGC)**

The German Corporate Governance Code (GCGC) for listed companies also recommends disclosure of Executive Board remuneration in a table detailing the amounts granted and amounts paid.

**Amounts granted for the financial year**

| Remuneration granted                | <b>Rolf Habben Jansen</b><br>(Chairman of the Executive Board) |                  |                |                  |
|-------------------------------------|--|------------------|----------------|------------------|
|                                     | 2016   | 2017             | 2017<br>(min.) | 2017<br>(max.)   |
| EUR                                 |  |                  |                |                  |
| Fixed salary                        | 750,000  | 750,000          | 750,000        | 750,000          |
| Fringe benefits                     | 172,238  | 172,086          | 172,086        | 172,086          |
| <b>Total</b>                        | <b>922,238</b>   | <b>922,086</b>   | <b>922,086</b> | <b>922,086</b>   |
| One-year variable remuneration      | 126,400  | 410,878          | 0              | 600,000          |
| Multiple-year variable remuneration | 700,000  | 700,000          | 0              | 1,050,000        |
| LTIP 2016 (term: 2016 – 2019)       | 700,000  | 0                | –              | –                |
| LTIP 2017 (term: 2017 – 2020)       | 0  | 700,000          | 0              | 1,050,000        |
| <b>Total</b>                        | <b>826,400</b>   | <b>1,110,878</b> | <b>0</b>       | <b>1,650,000</b> |
| Service cost                        | 1,986  | 1,760            | 1,760          | 1,760            |
| <b>Total remuneration</b>           | <b>1,750,624</b>   | <b>2,034,724</b> | <b>923,846</b> | <b>2,573,846</b> |

**Amounts paid for the financial year**

| Remuneration disbursed              | <b>Rolf Habben Jansen</b><br>(Chairman of the Executive Board) |                  |
|-------------------------------------|--|------------------|
|                                     | 2017   | 2016             |
| EUR                                 |  |                  |
| Fixed salary                        | 750,000  | 750,000          |
| Fringe benefits                     | 172,086  | 172,238          |
| <b>Total</b>                        | <b>922,086</b>   | <b>922,238</b>   |
| One-year variable remuneration      | 410,878  | 126,400          |
| Multiple-year variable remuneration | 0  | 0                |
| LTIP 2015 (term: 2015 – 2018)       | 0  | 0                |
| LTIP 2016 (term: 2016 – 2019)       | 0  | 0                |
| LTIP 2017 (term: 2017 – 2020)       | 0  | –                |
| Other                               | 0  | 0                |
| <b>Total</b>                        | <b>410,878</b>   | <b>126,400</b>   |
| Service cost                        | 1,760  | 1,986            |
| <b>Total remuneration</b>           | <b>1,334,724</b>   | <b>1,050,624</b> |

| Nicolás Burr     |                  |                |                  | Anthony J. Firmin |                  |                |                  | Thorsten Haeser  |                  |                |                  |
|------------------|------------------|----------------|------------------|-------------------|------------------|----------------|------------------|------------------|------------------|----------------|------------------|
| 2016             | 2017             | 2017<br>(min.) | 2017<br>(max.)   | 2016              | 2017             | 2017<br>(min.) | 2017<br>(max.)   | 2016             | 2017             | 2017<br>(min.) | 2017<br>(max.)   |
| 450,000          | 450,000          | 450,000        | 450,000          | 450,000           | 450,000          | 450,000        | 450,000          | 450,000          | 450,000          | 450,000        | 450,000          |
| 393,302          | 357,781          | 357,781        | 357,781          | 22,086            | 22,086           | 22,086         | 22,086           | 107,770          | 104,629          | 104,629        | 104,629          |
| <b>843,302</b>   | <b>807,781</b>   | <b>807,781</b> | <b>807,781</b>   | <b>472,086</b>    | <b>472,086</b>   | <b>472,086</b> | <b>472,086</b>   | <b>557,770</b>   | <b>554,629</b>   | <b>554,629</b> | <b>554,629</b>   |
| 200,000          | 267,071          | 0              | 400,000          | 82,160            | 267,071          | 0              | 400,000          | 245,540          | 267,071          | 0              | 400,000          |
| 500,000          | 500,000          | 0              | 750,000          | 500,000           | 500,000          | 0              | 750,000          | 500,000          | 500,000          | 0              | 750,000          |
| 500,000          | 0                | –              | –                | 500,000           | 0                | –              | –                | 500,000          | 0                | –              | –                |
| 0                | 500,000          | 0              | 750,000          | 0                 | 500,000          | 0              | 750,000          | 0                | 500,000          | 0              | 750,000          |
| <b>700,000</b>   | <b>767,071</b>   | <b>0</b>       | <b>1,150,000</b> | <b>582,160</b>    | <b>767,071</b>   | <b>0</b>       | <b>1,150,000</b> | <b>745,540</b>   | <b>767,071</b>   | <b>0</b>       | <b>1,150,000</b> |
| 912              | 842              | 842            | 842              | 231,972           | 218,981          | 218,981        | 218,981          | 1,654            | 1,260            | 1,260          | 1,260            |
| <b>1,544,214</b> | <b>1,575,694</b> | <b>808,623</b> | <b>1,958,623</b> | <b>1,286,218</b>  | <b>1,458,138</b> | <b>691,067</b> | <b>1,841,067</b> | <b>1,304,964</b> | <b>1,322,960</b> | <b>555,889</b> | <b>1,705,889</b> |

| Nicolás Burr     |                  | Anthony J. Firmin |                | Thorsten Haeser |                |
|------------------|------------------|-------------------|----------------|-----------------|----------------|
| 2017             | 2016             | 2017              | 2016           | 2017            | 2016           |
| 450,000          | 450,000          | 450,000           | 450,000        | 450,000         | 450,000        |
| 357,781          | 393,302          | 22,086            | 22,086         | 104,629         | 107,770        |
| <b>807,781</b>   | <b>843,302</b>   | <b>472,086</b>    | <b>472,086</b> | <b>554,629</b>  | <b>557,770</b> |
| 267,071          | 200,000          | 267,071           | 82,160         | 267,071         | 245,540        |
| 0                | 0                | 0                 | 0              | 0               | 0              |
| 0                | 0                | 0                 | 0              | 0               | 0              |
| 0                | 0                | 0                 | 0              | 0               | 0              |
| 0                | –                | 0                 | –              | 0               | –              |
| 0                | 0                | 0                 | 0              | 0               | 0              |
| <b>267,071</b>   | <b>200,000</b>   | <b>267,071</b>    | <b>82,160</b>  | <b>267,071</b>  | <b>245,540</b> |
| 842              | 912              | 218,981           | 231,972        | 1,260           | 1,654          |
| <b>1,075,694</b> | <b>1,044,214</b> | <b>958,138</b>    | <b>786,218</b> | <b>822,960</b>  | <b>804,964</b> |

**d) Former Executive Board members, including those who resigned in the financial year**

The total remuneration for former members of the Executive Board and their surviving dependants amounted to EUR 0.8 million in the 2017 financial year (previous year: EUR 0.9 million).

Provisions created under IFRS for current pensions and entitlements to pensions for former Executive Board members and their surviving dependants totalled EUR 25.3 million in the 2017 financial year (previous year: EUR 24.9 million).

### 3. REMUNERATION OF THE SUPERVISORY BOARD

Remuneration of the Supervisory Board is regulated in Section 12 of the Company's articles of association. The remuneration system reflects the responsibilities and activities of the Supervisory Board members. In addition to a reimbursement of their expenses and the VAT payable on their remuneration and expenses, the members of the Supervisory Board receive fixed annual remuneration. There is no variable remuneration component.

The fixed annual remuneration of the Supervisory Board is EUR 150,000.00 for the Chairman, EUR 75,000.00 for deputies and EUR 50,000.00 for other members. The Chairman of the Presidential and Personnel Committee and the Chairman of the Audit and Finance Committee each receive additional remuneration of EUR 20,000.00 and the other members of these committees each receive EUR 10,000.00. If Supervisory Board members receive remuneration for activities on the Supervisory Board of a subsidiary of Hapag-Lloyd AG, this remuneration is offset against the aforementioned remuneration.

The members of the Supervisory Board also receive an attendance fee of EUR 300.00 for every meeting of the Supervisory Board and its committees that they attend.

For Supervisory Board members who are only on the Supervisory Board for part of the financial year, remuneration is granted pro rata, rounded to full months. This also applies to increases in remuneration for the Chairman of the Supervisory Board and his deputies as well as for increases in remuneration for membership and chairmanship of a Supervisory Board committee.

The following table shows the amounts due to the individual members of the Supervisory Board:

| EUR                 | Fixed remuneration |         | Remuneration for committee service |        | Meeting allowance |       | Total   |         |
|---------------------|--------------------|---------|------------------------------------|--------|-------------------|-------|---------|---------|
|                     | 2017               | 2016    | 2017                               | 2016   | 2017              | 2016  | 2017    | 2016    |
| Dr Nabeel Al-Amudi  | 29,167             | ./.     | 5,833                              | ./.    | 1,200             | ./.   | 36,200  | ./.     |
| Sheikh Ali Al-Thani | 33,333             | ./.     | 6,667                              | ./.    | 600               | ./.   | 40,600  | ./.     |
| Andreas Bahn        | 0                  | 33,333  | 0                                  | ./.    | 0                 | 900   | 0       | 34,233  |
| Horst Baier         | 0                  | 33,333  | 0                                  | 6,667  | 0                 | 2,100 | 0       | 42,100  |
| Christine Behle     | 75,000             | 31,250  | 10,000                             | 4,167  | 2,100             | 900   | 87,100  | 36,317  |
| Michael Behrendt    | 150,000            | 112,500 | 20,000                             | 20,000 | 2,100             | 2,100 | 172,100 | 134,600 |
| Karl-Heinz Biesold  | 0                  | 50,000  | 0                                  | 6,667  | 0                 | 1,500 | 0       | 58,167  |
| Oliver Bringe       | 0                  | 33,333  | 0                                  | 13,333 | 0                 | 2,400 | 0       | 49,066  |
| Renate Commerell    | 0                  | 33,333  | 0                                  | ./.    | 0                 | 1,500 | 0       | 34,833  |
| Jutta Diekamp       | 50,000             | 50,000  | 10,000                             | 16,667 | 2,100             | 3,600 | 62,100  | 70,267  |
| Nicola Gehrt        | 50,000             | 20,833  | 0                                  | ./.    | 1,800             | 900   | 51,800  | 21,733  |
| Karl Gernandt       | 50,000             | 66,667  | 30,000                             | 30,000 | 4,200             | 3,600 | 84,200  | 100,267 |
| Oscar Hasbún        | 75,000             | 60,417  | 10,000                             | 10,000 | 4,200             | 3,300 | 89,200  | 73,717  |

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(Continuation)

| EUR                     | Fixed remuneration |                | Remuneration for committee service |                | Meeting allowance |               | Total            |                |
|-------------------------|--------------------|----------------|------------------------------------|----------------|-------------------|---------------|------------------|----------------|
|                         | 2017               | 2016           | 2017                               | 2016           | 2017              | 2016          | 2017             | 2016           |
| Dr Rainer Klemmt-Nissen | 50,000             | 50,000         | 20,000                             | 14,167         | 3,900             | 2,400         | 73,900           | 66,567         |
| Joachim Kramer          | 29,167             | ./.            | 0                                  | ./.            | 600               | ./.           | 29,767           | ./.            |
| Annabell Kröger         | 29,167             | ./.            | 5,833                              | ./.            | 1,500             | ./.           | 36,500           | ./.            |
| Arnold Lipinski         | 50,000             | 50,000         | 20,000                             | 20,000         | 3,900             | 3,300         | 73,900           | 73,300         |
| Sabine Nieswand         | 50,000             | 20,833         | 10,000                             | 4,167          | 2,100             | 900           | 62,100           | 25,900         |
| Francisco Pérez         | 50,000             | 50,000         | 10,000                             | 10,000         | 2,100             | 1,800         | 62,100           | 61,800         |
| Klaus Schroeter         | 50,000             | 20,833         | 10,000                             | 4,167          | 4,200             | 1,200         | 64,200           | 26,200         |
| Uwe Zimmermann          | 50,000             | 20,833         | 16,667                             | 4,167          | 3,900             | 900           | 70,567           | 25,900         |
| <b>Total</b>            | <b>870,833</b>     | <b>737,498</b> | <b>185,000</b>                     | <b>164,169</b> | <b>40,500</b>     | <b>33,300</b> | <b>1,096,333</b> | <b>934,967</b> |

The Supervisory Board remuneration and attendance fees have been included in the overview based on the expense incurred in the respective financial year. For the Supervisory Board members who resigned or were appointed, the amounts have been calculated pro rata. The Supervisory Board members did not receive any ancillary remuneration in the aforementioned period.

The Chairman of the Supervisory Board is provided with an office and assistant and a driver service so that he can perform his duties. If the Chairman of the Supervisory Board attends certain appointments and performs certain representative duties on behalf of Hapag-Lloyd AG to promote the business of the Company and foster a positive public image of the Company and does so for no fee, he may use the Company's internal resources to prepare for and perform these activities for no fee. He is reimbursed for expenses incurred in connection with these activities at an appropriate amount.

There were no advance payments or loans to members of the Supervisory Board as at 31 December 2017 or 31 December 2016. Furthermore, the Supervisory Board members did not receive any remuneration in 2017 or the comparative period for their own services provided, in particular consultation and mediation services.

**Declaration on corporate governance in accordance with Section 315d in conjunction with Section 289f (1) of the German Commercial Code (HGB) and declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG)**

The declaration on corporate governance in accordance with Section 289f of the German Commercial Code (HGB) and the declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) have been published and made permanently available in the "Corporate Governance" Section under "Investor Relations" on the Company's website, <https://www.hapag-lloyd.com/en/home.html>, at <https://www.hapag-lloyd.com/en/ir/corporate-governance/compliance-statement.html> and are not part of the management report.

## ECONOMIC REPORT

The UASC Group was consolidated on 24 May 2017 and is included in the Hapag-Lloyd AG group of consolidated companies. In addition to Hapag-Lloyd AG, the group of consolidated companies increased from 82 companies (31 December 2016) to 164 companies (31 December 2017). As such, the figures for the 2017 financial year can only be compared with those of previous years to a limited extent.

Unless stated otherwise, the figures for the 2016 financial year refer to Hapag-Lloyd without the UASC Group.

### GENERAL ECONOMIC CONDITIONS

The pace at which the global economy grows and, by extension, at which global trade expands is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' cargo volumes. According to the IMF (January 2018), the global economy grew by 3.7% in 2017 (previous year: 3.2%). In its latest economic outlook, the IMF expects global economic growth to reach 3.9% overall both in 2018 and in 2019.

According to the IMF, the volume of global trade, which is key to the demand for container shipping services, grew by 4.7% in 2017 (previous year: 2.5%) and is forecast to increase by 4.6% in 2018 and by a further 4.4% in 2019. This means that global trade outpaced the global economy in 2017 and is likely to do so again in 2018 and 2019.

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

| in %  | 2019e | 2018e | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------|-------|------|------|------|------|------|
| Global economic growth                        | 3.9   | 3.9   | 3.7  | 3.2  | 3.2  | 3.4  | 3.3  |
| Industrialised countries                      | 2.2   | 2.3   | 2.3  | 1.7  | 2.1  | 1.8  | 1.4  |
| Developing and newly industrialised countries | 5.0   | 4.9   | 4.7  | 4.4  | 4.1  | 4.6  | 5.0  |
| World trading volume (goods and services)     | 4.4   | 4.6   | 4.7  | 2.5  | 2.7  | 3.8  | 3.4  |

Source: IMF, January 2018

**SECTOR-SPECIFIC CONDITIONS**

IHS Global Insight (November 2017) stated that the global container shipping volume grew by 4.7% in 2017 (previous year: 3.1%). For 2018 IHS Global Insight is forecasting a rise of 4.9% and for 2019 an increase of 5.1% to around 154 million TEU.

**Development of global container transport volume, 2012–2022**

|                  | 2022e | 2021e | 2020e | 2019e | 2018e | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------|-------|-------|-------|-------|-------|------|------|------|------|------|
| million TEU      | 178   | 170   | 162   | 154   | 146   | 140  | 133  | 129  | 128  | 123  |
| Growth rate in % | 4.6   | 5.0   | 5.1   | 5.1   | 4.9   | 4.7  | 3.1  | 1.2  | 4.0  | 2.2  |

Source: IHS Global Insight, November 2017

Current forecasts put the expected compound annual growth rate (CAGR) for the period from 2018 to 2022 at 5.0%, compared with an average growth rate of around 3.0% between 2013 and 2017. The volume of global container shipping could reach around 154 million TEU in 2019. As a result, container shipping will continue to be a growth industry.

The expected growth is spread relatively evenly across individual trades according to estimations by IHS Global Insight.

**Transport volume and growth rates for global container traffic, 2017–2022 in million TEU**



Although the prospects for growth remain positive in the medium term, there may be temporary imbalances in supply and demand, which could have a substantial impact on the respective transport volumes and freight rates. For example, as additional larger ships with a transport capacity of more than 15,000 TEU go into service, transport capacities increase sharply, negatively affecting the development of freight rates in all the trades.

Transport volumes and freight rates in container liner shipping are subject to seasonal fluctuations. Demand for transport services is traditionally higher in the second and third quarter of any given year.

While the rate of global trade growth determines the demand for container shipping services, putting new vessels into service and scrapping inefficient ones are the most important factors influencing the supply of transport capacities. Supply has grown at a faster pace than demand in recent years as a result of new and particularly large container ships continually being put into service. Freight rates reached a record low in the second quarter of 2016. Despite the continuous increase in the supply of transport capacity, freight rates made a remarkable recovery from the lows recorded, due to the growing global demand for container transport services in 2017.

The total capacity of newbuilds commissioned in 2017 was around 700,000 TEU, which was a significant increase on the previous year (around 200,000 TEU) (Clarksons Research, January 2018). Nevertheless, the total capacity commissioned can be regarded as relatively low compared with previous years (2015: around 2.2 million TEU; 2014: around 1.1 million TEU; 2013: around 2.0 million TEU) (Clarksons Research, January 2018). Deliveries of newbuilds totalling around 1.2 million TEU occurred alongside new orders of approximately 0.7 million TEU (Drewry Container Forecaster, Q4 2017; Clarksons Research, January 2018). As at 31 December 2017, the order book amounted to around 2.8 million TEU (previous year: 3.4 million TEU). At around 13.4% of the global container fleet's capacity, the TEU capacity of the container ships on order at the end of 2017 was far below the record high of 56% seen in 2008 (Drewry Container Forecaster, Q4 2017; MDS Transmodal, January 2018). Measured in terms of the transport capacity of the newbuilds ordered, approximately 80% relates to ships with a capacity of over 10,000 TEU (MDS Transmodal, January 2018).

With the total capacity of the world container ship fleet estimated at 20.8 million TEU at the beginning of 2018 (Drewry), the nominal supply capacity should – based on the current orders – see increases of around 2.0 million TEU and 1.4 million TEU in 2018 and 2019 respectively. The actual increase in the global container ship fleet's transport capacity is expected to be lower due to the scrapping of older and less efficient vessels and delays in the delivery of newbuilds.

### Expected development of global container fleet capacity

| million TEU                            | 2019       | 2018       | 2017       | 2016       |
|--|------------|------------|------------|------------|
| Existing fleet (beginning of the year) | 22.0       | 20.8       | 20.0       | 19.7       |
| Planned deliveries                     | 1.4        | 2.0        | 1.5        | 1.3        |
| Scrappings                             | 0.3        | 0.3        | 0.4        | 0.7        |
| Postponed deliveries                   | 0.3        | 0.5        | 0.3        | 0.4        |
| <b>Net capacity growth</b>             | <b>0.8</b> | <b>1.2</b> | <b>0.8</b> | <b>0.2</b> |

Source: Drewry Container Forecaster, Q4 2017. Figures rounded. Due to better data consistency, Drewry is to be used from 2016 instead of MDS Transmodal for information on the development of the global container ship fleet.

The net increase in transport capacities of the global container ship fleet in 2017 was only 0.8 million TEU, compared with the originally expected nominal growth of 1.5 million TEU.

According to the sector information service Drewry (Container Forecaster, Q4 2017), container ships with an aggregate transport capacity of around 400,000 TEU were scrapped in 2017 (previous year: 650,000 TEU). This means that scrapping remained at a high level in 2017. Scrapping in 2018 is expected to be slightly less than half the previous year's level, amounting to around 315,000 TEU (Drewry Container Forecaster, Q4 2017).

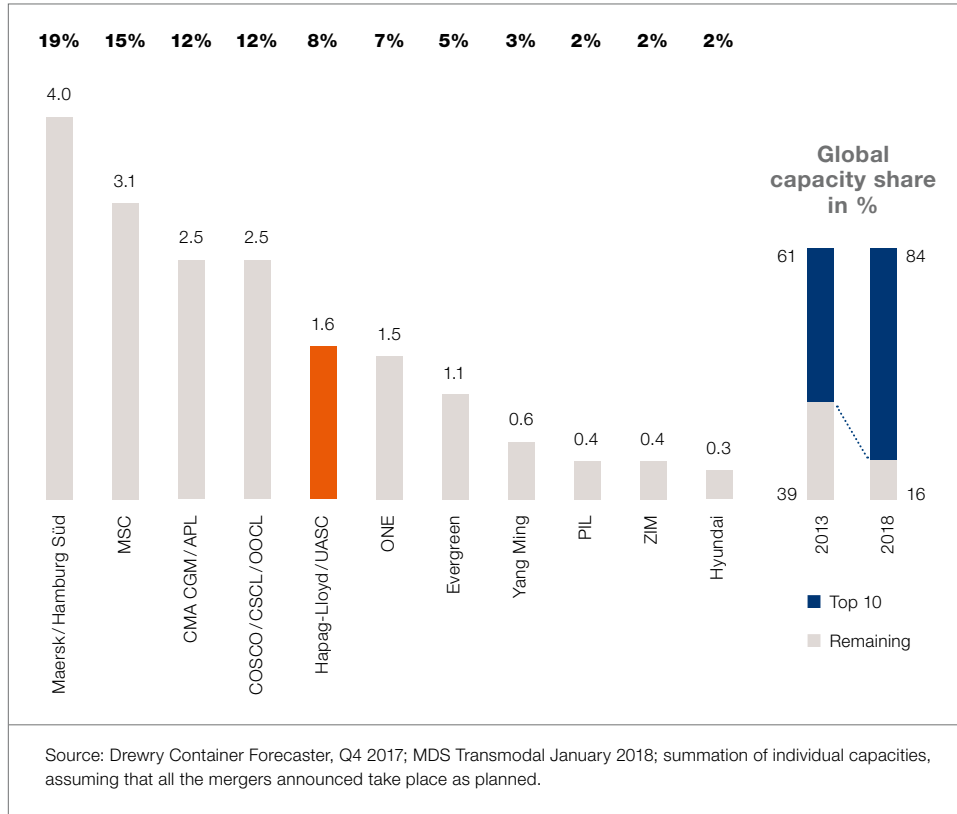
Due to the very positive overall outlook for the global economy and the demand for container transport services associated with this, the transport capacity of the idle fleet fell to around 0.4 million TEU (Alphaliner, January 2018) in the course of 2017, compared with idle capacities of around 1.5 million TEU at the end of 2016. Consequently, the idle capacities corresponded to around 2.0% of the global container fleet's total tonnage. Of the 117 ships idle at the beginning of 2018, approximately 19% are Panamax ships in the 3,000 to 5,100 TEU size class (previous year: 30%). Following the opening of the expanded Panama Canal in mid-2016, which can now be used by ships with a capacity of up to 14,000 TEU, the special Panamax ships used in the past for routes through the Panama Canal are less competitive.

### Continuing consolidation trend

Following the merger between the two Chinese shipping companies China Ocean Shipping Company and China Shipping Group to form China COSCO Shipping Group (COSCO) in February 2016, and the takeover by the French shipping company CMA CGM S.A. (CMA CGM) of the shipping company Neptune Orient Lines (NOL), Singapore, in July 2016, the consolidation trend in container liner shipping continued in 2017. The merger between Hapag-Lloyd and UASC occurred on 24 May 2017.



Fleet capacity and market share of the top container liner shipping companies in TTEU



On 1 December 2016, Maersk Line (Maersk) announced the takeover of Hamburg Südamerikanische Dampfschiffahrts-Gesellschaft ApS & Co KG (Hamburg Süd). The legal merger between the two companies ultimately occurred on 30 November 2017. Prior to that, Maersk and Hamburg Süd had entered into a slot chartering agreement on East–West trades in February 2017.

In March 2017, Mediterranean Shipping Company S.A (MSC), Maersk and Hyundai Merchant Marine Co.,Ltd (HMM) agreed to cooperate in the East–West trades. This collaboration includes slot-chartering agreements for the respective trades. On 7 July 2017, the three Japanese shipping companies Kawasaki Kisen Kaisha Ltd. (“K” Line), Mitsui O.S.K. Lines Ltd. (MOL) and Nippon Yusen Kabushiki Kaisha Ltd. (NYK) established a new holding company for the planned joint venture One Network Express (ONE). The joint venture is expected to commence operating on 1 April 2018 and integrate the container shipping business (including the terminal business outside Japan) of the three companies. On 9 July 2017, the Chinese shipping company COSCO announced a takeover bid for Orient Overseas (International) Limited (OOIL), Hong Kong. The majority shareholder of OOIL has approved the sale of the shares. However, the approvals of the regulatory bodies have not yet been fully granted. With a total transport capacity of 2.4 million TEU, this would strengthen COSCO’s market position as the fourth-largest container shipping company in the world. On 8 August 2017, 14 Korean liner shipping companies signed a memorandum of understanding, thereby founding the “Korean Shipping Partnership” (KSP). The initiative will be supported by the Korean government and the Korea Shipowners Association and led by HMM.

### Reorganisation of alliances and mergers

The alliances operating in the East–West trades were extensively reorganised at the beginning of the second quarter of 2017. The shipping companies which had previously been operating in four alliances formed three alliances: the “2M Alliance” consists of the two market leaders – Maersk (Denmark) and MSC (Switzerland) – which started operating back in early 2015. The “Ocean Alliance” consists of CMA CGM (France), including the shipping company American President Lines Ltd. (APL) (Singapore), which was taken over by CMA CGM, Orient Overseas Container Line (OOCL) (Hong Kong), Evergreen Marine Corp. Ltd. (Evergreen) (Taiwan) and COSCO (China). Since 1 April 2017, Hapag-Lloyd has operated THE Alliance in partnership with “K” Line (Japan), MOL (Japan), NYK (Japan) and Yang Ming Marine Transport Corp. Ltd. (Yang Ming) (Taiwan).

### Capacity share of alliances in East–West trades

| Alliance            |      | Far East trade | Transpacific trade | Atlantic trade |
|---------------------|------|----------------|--------------------|----------------|
| 2M                  | in % | 41             | 21                 | 41             |
| Ocean Alliance      | in % | 34             | 40                 | 16             |
| <b>THE Alliance</b> | in % | <b>25</b>      | <b>27</b>          | <b>34</b>      |
| Other               | in % | 0              | 12                 | 9              |

Source: Alphaliner February 2018 excluding slot chartering, etc.; THE Alliance including Hapag-Lloyd and UASC; 2M including Hamburg Süd.

### Report on the Hapag-Lloyd Group's development in 2017 compared with the forecast

The forecast published in the Group management report as at 31 December 2016 related to the Hapag-Lloyd Group at the time of publication, excluding UASC's container shipping activities which were consolidated on 24 May 2017. The forecast was adjusted accordingly with the publication of the half-year financial report on 30 June 2017. The following explanations therefore relate to the adjusted forecast.

The transport volume rose by 29.0% in the reporting period. As such, the forecast of a “clearly increasing” transport volume was fulfilled. As a result of the delays in deliveries, the further high level of scrapping of inefficient vessels in 2017 and a clear upswing in the demand for container transport services, it was possible to implement freight rate increases in most trades. Hapag-Lloyd's average freight rate rose to USD 1,051/TEU in 2017 (USD +15/TEU). The development of the freight rate was therefore slightly better than expected. It should be noted that UASC had a structurally lower average freight rate than Hapag-Lloyd due to a different trade mix. This has impacted the development of Hapag-Lloyd Group's freight rate after the date of consolidation. The clear increase in the average bunker consumption price was more than offset by the rise in the transport volume, a slightly better freight rate and the cost savings from the CUATRO and OCTAVE programmes. The synergies achieved in 2017 as a result of the merger with UASC were in line with expectations. The forecast of a clear increase in the operating result (EBITDA and EBIT) was therefore also fulfilled.

|  | Value 2017 | Value 2016 | Change | Forecast in the half-year financial report as at 30.6.2017 | Forecast in the Group management report as at 31.12.2016 |
|--|------------|------------|--------|--|--|
| Transport volume (TTEU)                        | 9,803      | 7,599      | +29.0% | Increasing clearly   | Increasing moderately                                    |
| Average bunker consumption price (MFO, USD/mt) | 307        | 210        | +97    | Increasing clearly   | Increasing clearly                                       |
| Average freight rate Hapag-Lloyd (USD/TEU)     | 1,051      | 1,036      | +1.4%  | Unchanged  | Increasing moderately                                    |
| EBITDA (million EUR)                           | 1,054.5    | 607.4      | +447.1 | Increasing clearly   | Increasing clearly                                       |
| EBIT (million EUR)                             | 410.9      | 126.4      | +284.5 | Increasing clearly   | Increasing clearly                                       |

### Achievement of strategic projects

The completion of the implementation of the CUATRO and OCTAVE projects in the first quarter of 2017 laid the foundations for generating annual synergies, efficiency improvements and cost savings of approximately USD 600 million as against the comparable cost base in the 2014 financial year, and assuming that external factors remain the same. The business performance and development of earnings in 2017 was correspondingly positive and in line with expectations. Alongside the strategic projects already implemented, the merger with UASC represents another major strategic step. The integration of the UASC Group is progressing as planned. It is anticipated that the synergies from the merger with UASC will contribute approximately USD 435 million per annum from the 2019 financial year onwards. The Executive Board of Hapag-Lloyd AG expects that the bulk of the synergies can be achieved in 2018.

Notwithstanding the intense competitive environment, the Executive Board considered the Hapag-Lloyd Group's economic position to be robust at the time that the management report was being prepared. With its portfolio of services and current financial profile, the Hapag-Lloyd Group is well positioned and has clearly strengthened its market position as a result of the merger with UASC. Business has developed in accordance with expectations in the first few weeks of 2018.

## EARNINGS, FINANCIAL AND NET ASSET POSITION

The earnings, financial and net assets position for the 2017 financial year is only comparable with the corresponding prior year period to a limited degree, as the UASC Group was included in the consolidated financial statements of Hapag-Lloyd AG for the first time from 24 May 2017. In addition to Hapag-Lloyd AG, the group of consolidated companies increased from 82 companies (31 December 2016) to 164 companies as at 31 December 2017.

### GROUP EARNINGS POSITION

The Hapag-Lloyd Group's earnings position developed well in the 2017 financial year and was shaped by the first-time inclusion of the UASC Group. Global economic growth stood at 3.7% in 2017 (previous year: 3.2%), which was higher than the IMF's original forecasts (+3.4% January 2017). Freight rates increased year-on-year in almost all trades. This was partly compensated by the lower average freight rate level of the newly integrated UASC Group. The rise in the transport volume, the full realisation of synergy effects resulting from the integration of CSAV, initial synergies from the ongoing integration of the UASC Group, and cost savings from the cost-cutting programmes initiated in the preceding years also had a positive effect on the earnings position. By contrast, the sharp year-on-year increase in average bunker consumption prices impacted negatively on the earnings position.

One-off income and expenses totalling EUR –30.5 million were recorded in the 2017 financial year. These resulted primarily from the acquisition and integration of the UASC Group and the business combination in stages of another subsidiary.

Overall, Hapag-Lloyd significantly improved its earnings before interest and taxes (EBIT) by EUR 284.5 million year-on-year to EUR 410.9 million in the 2017 financial year (prior year period EUR 126.4 million) and recorded a profit after taxes of EUR 32.1 million (prior year period: EUR –93.1 million).

**Group income statement**

| million EUR   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Revenue   | 9,973.4             | 7,734.2             |
| Other operating income  | 133.0               | 97.1                |
| Transport expenses  | 7,990.0             | 6,364.0             |
| Personnel expenses  | 679.8               | 496.1               |
| Depreciation, amortisation and impairment                             | 643.6               | 481.0               |
| Other operating expenses  | 439.1               | 386.2               |
| <b>Operating result</b>   | <b>353.9</b>        | <b>104.0</b>        |
| Share of profit of equity-accounted investees                         | 38.1                | 27.1                |
| Other financial result  | 18.9                | -4.7                |
| <b>Earnings before interest and taxes (EBIT)</b>                      | <b>410.9</b>        | <b>126.4</b>        |
| Interest result   | -354.7              | -199.8              |
| Income taxes  | 24.1                | 19.7                |
| <b>Group profit/loss</b>  | <b>32.1</b>         | <b>-93.1</b>        |
| thereof profit/loss attributable to shareholders<br>of Hapag-Lloyd AG | 27.4                | -96.6               |
| thereof profit/loss attributable to non-controlling interests         | 4.7                 | 3.5                 |
| Basic/Diluted earnings per share (in EUR)                             | 0.19                | -0.82               |
| <b>EBITDA</b>   | <b>1,054.5</b>      | <b>607.4</b>        |
| <b>EBITDA margin (%)</b>  | <b>10.6</b>         | <b>7.9</b>          |
| <b>EBIT</b>   | <b>410.9</b>        | <b>126.4</b>        |
| <b>EBIT margin (%)</b>  | <b>4.1</b>          | <b>1.6</b>          |

Including the UASC Group, the average freight rate in the 2017 financial year was USD 1,051/TEU and was therefore a slight USD 15/TEU (1.4%) up on the prior year period (USD 1,036/TEU without the UASC Group). Freight rate increases, particularly in the Far East, Middle East and Latin America trades, had a positive impact on earnings in the reporting period. On a comparable basis (if the UASC Group had been included since 1 January 2016), the average freight rate for the 2017 financial year would have been USD 1,015/TEU. Compared with the corresponding value in the previous year of USD 928/TEU, there would have been a rise in the average freight rate of USD 87/TEU (9.4%).

**Freight rates per trade \***

| USD/TEU                                       | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Atlantic                                      | 1,302               | 1,338               |
| Transpacific                                  | 1,241               | 1,222               |
| Far East                                      | 947                 | 774                 |
| Middle East                                   | 864                 | 700                 |
| Intra-Asia                                    | 578                 | 554                 |
| Latin America                                 | 1,049               | 1,001               |
| EMAO (Europe, Mediterranean, Africa, Oceania) | 1,067               | 1,052               |
| <b>Total (weighted average)</b>               | <b>1,051</b>        | <b>1,036</b>        |

\* In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly.

The transport volume developed extremely well in the 2017 financial year. With the inclusion of the UASC Group and its balanced positioning in all trades, Hapag-Lloyd was able to increase its transport volume by 2,203 TTEU (29.0%) to 9,803 TTEU (prior year period: 7,599 TTEU). All of the trades contributed to this positive performance. On a comparable basis (if the UASC Group had been included since 1 January 2016), the transport volume in the 2017 financial year would have come to 11,212 TTEU in total (prior year period: 10,698 TTEU), which would have meant an increase of 514 TTEU (4.8%).

#### Transport volume per trade \*

| TTEU  | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Atlantic                                      | 1,696               | 1,534               |
| Transpacific                                  | 1,709               | 1,494               |
| Far East                                      | 1,504               | 836                 |
| Middle East                                   | 1,033               | 462                 |
| Intra-Asia                                    | 850                 | 608                 |
| Latin America                                 | 2,466               | 2,248               |
| EMAO (Europe, Mediterranean, Africa, Oceania) | 544                 | 417                 |
| <b>Total</b>                                  | <b>9,803</b>        | <b>7,599</b>        |

\* In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly.

The Hapag-Lloyd Group generated revenue of EUR 9,973.4 million in the 2017 financial year (previous year: EUR 7,734.2 million). The growth of 29.0% was due both to the increase in transport volume and in the average freight rate and to the first-time inclusion of the UASC Group.

#### Revenue per trade \*

| million EUR                                   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Atlantic                                      | 1,955.3             | 1,857.2             |
| Transpacific                                  | 1,877.5             | 1,651.7             |
| Far East                                      | 1,260.8             | 586.2               |
| Middle East                                   | 789.9               | 292.9               |
| Intra-Asia                                    | 435.1               | 305.2               |
| Latin America                                 | 2,291.3             | 2,035.9             |
| EMAO (Europe, Mediterranean, Africa, Oceania) | 514.4               | 397.2               |
| Revenue not assigned to trades                | 849.2               | 607.9               |
| <b>Total</b>                                  | <b>9,973.4</b>      | <b>7,734.2</b>      |

\* In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly.

The UASC Group is included in the expenses and income presented below from its first-time consolidation as at 24 May 2017. A comparison with the corresponding prior year period is therefore only possible to a limited extent.



Other operating income increased by EUR 35.9 million to EUR 133.0 million in the current financial year compared to the respective prior year period. The Hapag-Lloyd Group conducted a purchase price allocation pursuant to IFRS 3 at the time of acquisition of the UASC Group in the 2017 financial year in order to include the acquired assets and liabilities in the consolidated financial statements. As part of the purchase price allocation, all assets and liabilities which the Company was aware of at this time were identified and measured at fair value. This resulted in a gain from a bargain purchase of EUR 28.2 million which was recognised through profit or loss in the 2017 financial year. This also includes adjustments to the provisional purchase price allocation in the amount of EUR 18.6 million within the measurement period pursuant to IFRS 3.45 for the UASC Group, which was acquired during the year. The adjustments were due to the measurement of assets and liabilities. The provisional nature of the purchase price allocation concluded at the end of the financial year.

In the 2017 financial year, transport expenses rose by EUR 1,626.0 million to EUR 7,990.0 million (prior year period: EUR 6,364.0 million). This represents an increase of 25.5% that is primarily due to the acquisition of the UASC Group and the relating growth in transport volume as well as increased bunker prices.

The increase in the expenses for raw materials, supplies and purchase goods of EUR 496.2 million (72.1%) to EUR 1,184.1 million primarily results from the higher bunker price in the current reporting period and the growth in transport volume due to the acquisition of the UASC Group. In the 2017 financial year, the average bunker consumption price for Hapag-Lloyd was USD 318 per tonne, up USD 92 per tonne on the prior year period's figure of USD 226 per tonne. From the 2017 financial year onwards, the average bunker consumption price used by Hapag-Lloyd is a combined figure for marine fuel oil (MFO) and marine diesel oil (MDO). The previous year's figure has been restated accordingly.

The cost of purchased services rose year-on-year by EUR 1,129.8 million (19.9%) to EUR 6,805.9 million, which was a disproportionately lower increase compared to revenue growth. This increase is a reflection of the rise in transport volumes and, in particular, the initial inclusion of the UASC Group. Within the cost of purchased services, chartering, lease and container rentals decreased, due mainly to changes in the fleet structure following the operational integration of the UASC Group.

### Transport expenses

| million EUR  | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Expenses for raw materials, supplies and purchased goods | 1,184.1             | 687.9               |
| Cost of purchased services                               | 6,805.9             | 5,676.1             |
| thereof  |                     |                     |
| Port, canal and terminal costs                           | 3,472.9             | 2,651.7             |
| Container transport costs                                | 2,236.3             | 1,899.1             |
| Chartering, leases and container rentals                 | 836.2               | 934.9               |
| Maintenance/repair/other                                 | 260.5               | 190.4               |
| <b>Total</b>   | <b>7,990.0</b>      | <b>6,364.0</b>      |

The gross profit margin (ratio of revenue less transport expenses to revenue) for the 2017 financial year came to 19.9% (prior year period: 17.7%).

Personnel expenses increased by 37.0% to EUR 679.8 million in the 2017 financial year (previous year: EUR 496.1 million), primarily due to the acquisition of the UASC Group in the 2017 financial year and the associated growth in the number of employees. The costs incurred for the restructuring of the UASC Group as part of the operational integration of UASC's business activities and associated one-off effects amounting to EUR 40.9 million in total also led to an increase in personnel expenses. In addition, the exchange rate losses at the balance sheet date resulting from the valuation of pension provisions in the amount of EUR 15.2 million increased personnel expenses compared with the prior year period (exchange rate gain: EUR 3.3 million).

The Group employed an annual average of 11,505 people (previous year: 9,384 people). The personnel expenses ratio increased compared to the previous year from 6.4% to 6.8%.

#### Development of personnel expenses

| million EUR                         | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|-------------------------------------|---------------------|---------------------|
| Personnel expenses                  | 679.8               | 496.1               |
| Revenue                             | 9,973.4             | 7,734.2             |
| <b>Personnel expenses ratio (%)</b> | <b>6.8</b>          | <b>6.4</b>          |

Other operating expenses came to EUR 439.1 million in 2017 (prior year period: EUR 386.2 million). In particular, these included expenses related to the first-time inclusion of the UASC Group. They also included one-off expenses of EUR 32.7 million associated with the acquisition of the UASC Group. These primarily include legal and consultancy expenses of EUR 19.4 million.

Changes in the US dollar/euro exchange rate caused period-specific exchange rate gains and losses to increase in the period under review. This was reflected in other operating income and other operating expenses. Netted, this resulted in an exchange rate gain of EUR 20.0 million in the 2017 financial year (prior year period: exchange rate loss of EUR –21.0 million).

The financial result consists of the earnings of equity-accounted investees totalling EUR 38.1 million (prior year period: EUR 27.1 million) and the other financial result amounting to EUR 18.9 million (prior year period: EUR –4.7 million). The other financial result includes a profit from the business combination in stages of a company in the amount of EUR 18.3 million which resulted from the remeasurement of a joint venture previously recognised as an equity-accounted share.

The Group therefore recorded earnings before interest, taxes, depreciation and amortisation (EBITDA) of EUR 1,054.5 million in the 2017 financial year (prior year period: EUR 607.4 million). The EBITDA margin was 10.6% (prior year period: 7.9%).

Depreciation and amortisation of EUR 643.6 million (prior year period: EUR 481.0 million) primarily relates to depreciation of ships and containers and amortisation of intangible assets. The increase was partly due to the inclusion of the UASC Group's ships and containers as a result of the acquisition.

Earnings before interest and taxes (EBIT) increased significantly from EUR 126.4 million in the previous year to EUR 410.9 million. This resulted in an EBIT margin of 4.1% (prior year period: 1.6%). The return on invested capital (ROIC) for the 2017 financial year amounted to 3.1% (prior year period: 1.3%). Basic earnings per share for the 2017 financial year came to EUR 0.19 per share (prior year period: EUR –0.82 per share).

### Key earnings figures

| million EUR                                      | 2017    | 2016    |
|--|---------|---------|
| Revenue  | 9,973.4 | 7,734.2 |
| EBIT   | 410.9   | 126.4   |
| EBITDA   | 1,054.5 | 607.4   |
| EBIT margin (%)                                  | 4.1     | 1.6     |
| EBITDA margin (%)                                | 10.6    | 7.9     |
| Basic earnings per share (in EUR)                | 0.19    | –0.82   |
| Return on invested capital (ROIC) annualised (%) | 3.1     | 1.3     |

\* The calculation of the return on invested capital is based on the functional currency USD.

An interest result of EUR –354.7 million was reported for the 2017 financial year (previous year: EUR –199.8 million). An increase of EUR 76.3 million was due to the first-time inclusion of the UASC Group. Existing US dollar and euro bonds were also repaid in 2017. These transactions were associated with one-off effects totalling EUR –29.9 million as a result of redemption charges, the disposal of associated embedded derivatives and other associated transaction costs. Interest expenses resulting from newly utilised ship and container financing and other financing agreements also prompted overall interest expenses to rise. Changes in the fair value of the embedded derivatives of the bonds issued resulted in expenses of EUR –4.2 million in contrast to income in the prior year period of EUR 14.6 million.

Overall, earnings after taxes (EAT) came to EUR 32.1 million (previous year: EUR –93.1 million).

Earnings after taxes consist of the earnings attributable to shareholders of the parent company of EUR 27.4 million (prior year period: EUR –96.6 million) and the earnings attributable to non-controlling interests of EUR 4.7 million (prior year period: EUR 3.5 million).

The total comprehensive income of the Group of EUR –631.2 million (previous year: EUR 23.9 million) comprises the earnings after taxes and the other comprehensive income of EUR –663.3 million (prior year period: EUR 117.0 million). In addition to the change of the value of hedging instruments in cash flow hedges of EUR 5.6 million (prior year period: EUR 4.2 million), other

comprehensive income from currency translation amounted to EUR –669.0 million (prior year period: EUR 156.5 million) and other comprehensive income from the remeasurement of defined benefit pension plans amounted to EUR 0.1 million (prior year period: EUR –43.7 million).

## GROUP FINANCIAL POSITION

### Principles and objectives of financial management

The Hapag-Lloyd Group's financial management is conducted on a centralised basis by Hapag-Lloyd AG and aims to ensure the permanent solvency of the Company and thus its ability to maintain financial stability at all times. In addition to making sure there is a sufficient supply of liquidity, financial risks are limited by means of the hedging of net positions in foreign currency, the use of derivative financial instruments, the implementation of a cash pooling system and the optimisation of loan conditions.

Maintaining an appropriate minimum liquidity level is a deciding factor. Efficient financial management is primarily based on optimising short and medium-term cash outflows. This is based on budgetary planning for a number of years and a rolling monthly liquidity plan that spans a period of one year. Hapag-Lloyd AG secures its short-term liquidity reserve by means of syndicated credit facilities and bilateral bank loans, as well as its portfolio of cash and cash equivalents. Financial management is carried out within the framework of relevant legislation as well as internal principles and regulations.

The Hapag-Lloyd Group is an international company that is active around the world. It is exposed to operational financial transaction risks which result from the business operations of Hapag-Lloyd AG. In particular, these risks include currency risk and interest rate risk. The transactions of the Group companies are conducted mainly in US dollars. The euro, Canadian dollar, Brazilian real, Indian rupee, British pound sterling, Chinese renminbi, Australian dollar, Japanese yen and Mexican peso are also significant currencies. For the euro, this also applies to financial debt.

Derivative hedging transactions are entered into so as to hedge against euro exchange rate risks. Changes in commodity prices have an impact on the Hapag-Lloyd Group, particularly with regard to the cost of procuring fuel such as bunker oil. These price risks arising from fuel procurement are partly hedged using derivative hedging transactions. Insofar as it is possible to pass bunker price changes on to the customer based on contractual agreements, this is also incorporated into the Company's hedging activities. Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are centrally managed within the scope of interest rate management and can be limited using derivative interest rate hedging instruments on a case-by-case basis.

The use of derivative hedging is strictly transaction-related; derivatives are not used for speculation purposes.

Other disclosures about hedging strategies and risk management, as well as financial transactions and their scope as at the balance sheet date, can be found in the risk report contained within the Group management report, and in the “(28) Financial instruments” Section in the Notes to the consolidated financial statements.

### Issuer ratings

| Rating/Outlook    | 31.12.2017  | 31.12.2016                |
|-------------------|-------------|---------------------------|
| Standard & Poor's | B+ / Stable | B+ / CreditWatch Negative |
| Moody's           | B2 / Stable | B2 / Stable               |

The issuer rating for Hapag-Lloyd AG was unchanged at B+ by the international rating agency Standard & Poor's. However, the outlook was upgraded during the year from CreditWatch negative to stable. The rating agency Moody's maintained the corporate rating at B2 with a stable outlook.

### Financing

The Group covers its financing requirements with cash inflows from operating activities and by assuming short, medium and long-term financial debt. In addition, the Group's equity was strengthened and additional liquidity was generated by means of a contribution in kind relating to the acquisition of the UASC Group and a subsequent capital increase in the amount of EUR 351.5 million on 17 October 2017.

The financing mix in terms of borrowing is designed to optimise financing conditions, create a balanced range of maturities and achieve investor diversification.

The focus in the 2017 financial year was on the financing of ship and container investments made, the optimisation of the existing capital structure, the reduction of the interest burden and transactions in the bond and capital markets.

Further disclosures about the maturity profile of existing financing arrangements, as well as financial transactions and their scope as at the balance sheet date, can be found in the “(28) Financial instruments” Section in the Notes to the consolidated financial statements.

### Financing and investing activities

In addition to the merger with the UASC Group and the associated capital increase, the Group conducted the following significant financing activities in the 2017 financial year:

Hapag-Lloyd placed two corporate bonds in euros on the capital market in the financial year with a total amount of EUR 900.0 million. On 1 February 2017, Hapag-Lloyd issued a corporate bond for an amount of EUR 250.0 million, a coupon of 6.75% and a maturity of five years. This was increased by EUR 200.0 million on 15 February 2017, taking the total amount to EUR 450.0 million. Another corporate bond was issued on 18 July 2017 for EUR 450.0 million with a maturity of seven years and a coupon of 5.125%. The proceeds from bond issues were used for the repayment of existing US dollar bonds and euro bonds totalling USD 125.0 million and EUR 650.0 million. In the cases of early repayments, Hapag-Lloyd exercised its contractually agreed early termination options for each of the repayments.

Three sale and leaseback transactions were concluded in the second and third quarter of the reporting year to refinance an existing ship portfolio. The lease contracts amount to USD 454.0 million (EUR 378.7 million) and have a maturity of ten years. The economic substance of these transactions is credit financing secured by the assignment of the ship portfolio as collateral. The loan liabilities of USD 335.6 million (EUR 280.0 million) previously associated with the ships were repaid in full.

Hapag-Lloyd put three ships into operation in the first half of the year. Each ship has a transport capacity of 10,500 TEU, for which loans of USD 74.5 million each were drawn down, resulting in a total loan amount of USD 223.4 million (EUR 186.4 million).

In January 2017, a sale and leaseback transaction was entered into involving used containers and containers held by the Company. The lease agreement has a term of four years and comprises a volume of USD 44.1 million (EUR 36.8 million). The lease agreement is essentially a form of borrowing, secured by the assignment of containers as collateral.

On 21 September and 27 October 2017, Hapag-Lloyd sold containers held by the Company to a group of investors on the basis of Japanese operating leases and then leased them back for up to eight and seven years respectively, with the option of buying them back upon their respective maturity. The lease agreements are essentially a form of borrowing, secured by the assignment of containers as collateral. The refinancing volume associated with these transactions totalled USD 101.1 million (EUR 84.4 million).

The credit facility to finance investments in containers of USD 135.0 million (EUR 112.6 million) which had been fully utilised as at 31 December 2016 was repaid in full during the financial year. This credit facility was increased to USD 210.0 million (EUR 175.2 million) at the end of 2017 and simultaneously extended by another three years.

The credit facility of USD 125.0 million (EUR 104.3 million) originally granted in connection with the implementation of the IPO and fully utilised as at 31 December 2016 was repaid in full at the start of the 2017 financial year and replaced in the fourth quarter of the financial year by a new credit facility of USD 135.0 million (EUR 112.6 million) with a term of another three years.

Hapag-Lloyd increased the current ABS programme by an additional USD 30.2 million (EUR 25.2 million) in May 2017. As a result of the increased volume of trade accounts receivable following the merger with the UASC Group, the ABS programme of USD 350 million was increased to USD 500 million, although it had not yet been utilised in full at the end of the 2017 financial year.



Covenant clauses of a type customary on the market have been arranged for existing financing. These clauses primarily relate to certain equity and liquidity indicators of the Group. As at 31 December 2017, these covenants were fulfilled for the existing financing. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period. In addition, set loan-to-value ratios are in place for individual loans collateralised by property, plant and equipment. The current development of used-market prices for container ships resulted in deficits in the loan-to-value ratios, prompting Hapag-Lloyd to make early repayments of USD 69.4 million (EUR 57.9 million) in the reporting year.

## Net debt

### Financial solidity

| million EUR                    | 2017           | 2016           |
|--------------------------------|----------------|----------------|
| Financial debt                 | 6,335.5        | 4,180.7        |
| Cash & cash equivalents        | 604.9          | 570.2          |
| Restricted cash (other assets) | 48.9           | 18.7           |
| <b>Net debt</b>                | <b>5,681.7</b> | <b>3,591.8</b> |
| EBITDA                         | 1,054.5        | 607.4          |
| <b>Gearing (%)*</b>            | <b>93.8</b>    | <b>71.0</b>    |
| Unused credit lines            | 454.6          | 189.4          |
| <b>Equity ratio (%)</b>        | <b>40.9</b>    | <b>44.6</b>    |

\* Ratio net debt to equity

The first-time consolidation of the UASC Group increased the Group's net debt to EUR 5,681.7 million as at 31 December 2017, compared to EUR 3,591.8 million in the previous year. The calculation of net debt includes restricted cash in the amount of EUR 48.9 million (previous year: EUR 18.7 million), which is held in trust as security for existing financial debt and due to its maturity is reported under other assets. Gearing (net debt/equity) increased to 93.8% (31 December 2016: 71.0%).

The first-time consolidation of the UASC Group also reduced the equity ratio to 40.9% as at 31 December 2017 (31 December 2016: 44.6%).

### Liquidity analysis

The Hapag-Lloyd Group's solvency was guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, as well as bilateral and syndicated loan agreements with banks. There was an additional inflow of liquidity of EUR 351.5 million as a result of the cash capital increase effected on 17 October 2017. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,059.5 million (previous year: EUR 759.6 million). Disclosures regarding restrictions of cash and cash equivalents can be found in the Notes to the consolidated financial statements, section "(17) Cash and cash equivalents".

**Statement of cash flows and capital expenditure****Cash flow**

| million EUR                                 | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| <b>EBITDA</b>                               | <b>1,054.5</b>      | <b>607.4</b>        |
| Changes in working capital                  | –97.6               | –162.6              |
| Other effects                               | –63.0               | –27.6               |
| <b>Cash flow from operating activities</b>  | <b>893.9</b>        | <b>417.2</b>        |
| Cash flow from investment activities        | 31.8                | –318.4              |
| <b>Free cash flow</b>                       | <b>925.7</b>        | <b>98.8</b>         |
| Cash flow from financing activities         | –806.3              | –119.4              |
| <b>Changes in cash and cash equivalents</b> | <b>119.4</b>        | <b>–20.6</b>        |

The statement of cash flows shows the development of cash and cash equivalents using separate presentation of cash inflows and outflows from operating, investing and financing activities.

**Cash flow from operating activities**

EUR 893.9 million was generated from ordinary operating activities in the 2017 financial year (prior year period: EUR 417.2 million). The year-on-year increase was primarily due to the positive development of the operating result, improved working capital and the acquisition of the UASC Group in 2017.

**Cash flow from investing activities**

The cash inflow from investing activities totalled EUR 31.8 million (prior year period: cash outflow of EUR 318.4 million). As a result of acquiring the UASC Group and obtaining control of the subsidiary Hapag-Lloyd Denizasiri Nakliyat A.S., Turkey, which was an equity-accounted investee until 1 October 2017, net cash inflow was EUR 380.6 million. This includes additions of cash and cash equivalents of EUR 389.1 million. The Group received additional cash inflows, in particular from dividend payments received and asset disposals. This was offset by cash outflows of EUR 411.3 million (prior year period: EUR 353.7 million). This mainly consisted of payments for investments in ships and containers totalling EUR 403.8 million (prior year period: EUR 341.1 million). Additionally, non-cash investments in containers in the amount of EUR 55.6 million were made (prior year period: EUR 52.4 million). After deducting the cash outflows from investing activities, there was a positive free cash flow of EUR 925.7 million in the 2017 financial year (prior year period: EUR 98.8 million).

**Cash flow from financing activities**

The cash outflow from financing activities increased year-on-year by EUR 686.9 million to EUR 806.3 million in the 2017 financial year (prior year period: EUR 119.4 million).

New financial debt amounting to EUR 1,641.9 million (prior year period: EUR 966.0 million) related primarily to cash inflows from the placement of two euro bonds of EUR 886.6 million and payments for the financing of vessels and containers. Additional cash inflows were caused by the cash capital increase of EUR 351.5 million in connection with the acquisition of the UASC Group. The proceeds from the cash capital increase were used to repay loans with a relatively high interest burden at the level of UASC Ltd. Furthermore, a finance lease contract (known as a Chinese lease), which was entered into to replace ship financing, resulted in early repayments. Proceeds from transactions for foreign currency hedging amounted to EUR 19.8 million (prior year period: payments of EUR 11.3 million).

The borrowings were offset by cash outflows totalling EUR 2,783.2 million (prior year period: EUR 1,049.7 million) from the repayment of US dollar and euro bonds with original terms between 2017 and 2019 and by interest and redemption payments.

#### Changes in cash and cash equivalents

| million EUR   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| <b>Cash and cash equivalents at beginning of period</b> | <b>570.2</b>        | <b>573.7</b>        |
| Changes due to exchange rate fluctuations               | -84.7               | 17.1                |
| Net changes   | 119.4               | -20.6               |
| <b>Cash and cash equivalents at end of period</b>       | <b>604.9</b>        | <b>570.2</b>        |

Cash and cash equivalents increased by EUR 34.7 million in the 2017 financial year with the result that, taking account of cash and exchange rate-related changes, cash and cash equivalents amounting to EUR 604.9 million were reported as at the end of the reporting period. The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item "Cash and cash equivalents". As at 31 December 2017, there were also unutilised, free credit facilities of EUR 454.6 million (previous year: EUR 189.4 million) as well as cash and cash equivalents managed in trust as security for existing financial debt of EUR 48.9 million (previous year: EUR 18.7 million), which is reported under other assets due to its maturity. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,059.5 million as at 31 December 2017 (31 December 2016: EUR 759.6 million).

The detailed statement of cash flows and further details on it are contained in the consolidated financial statements and the Notes to the statement of cash flows as part of the Notes to the consolidated financial statements.

#### Capital expenditure

With the acquisition of the UASC Group and the additions to property, plant and equipment and intangible assets associated with the expansion of the group of consolidated companies, capital expenditure came to EUR 459.1 million in the last financial year (previous year: EUR 392.2 million) and related in particular to investments in vessels and containers. Five newbuilds were delivered to Hapag-Lloyd in the 2017 financial year, three ships with a capacity of 10,500 TEU each and two ships with a capacity of 15,000 TEU each. Further investments

were also made in containers. The development of fixed assets is discussed in the “Group net asset position” section. For further details, see the note “(12) Property, plant and equipment” in the Notes to the consolidated financial statements.

### Off-balance-sheet obligations

No significant new orders for containers or ships were placed in the 2017 financial year. As a result, Hapag-Lloyd did not have any purchase commitments as at 31 December 2017 (31 December 2016: EUR 151.7 million).

In the course of its normal business activities, Hapag-Lloyd uses assets of which it is not the beneficial owner. These are, in particular, vessels and containers for which the Company entered into rental, lease and charter agreements – known as operating leases – as are customary in the industry. These agreements give rise to future payment obligations in the amount of EUR 846.9 million (previous year: EUR 1,025.8 million). Details of the operating rental, lease and charter agreements and the structure of the remaining terms of financial obligations can be found in the “(32) Leases” Section in the Notes to the consolidated financial statements.

## GROUP NET ASSET POSITION

### Changes in the net asset structure

| million EUR                         | 31.12.2017      | 31.12.2016      |
|-------------------------------------|-----------------|-----------------|
| <b>Assets</b>                       |                 |                 |
| Non-current assets                  | 12,633.5        | 9,722.9         |
| of which fixed assets               | 12,570.7        | 9,643.3         |
| Current assets                      | 2,194.3         | 1,608.0         |
| of which cash and cash equivalents  | 604.9           | 570.2           |
| <b>Total assets</b>                 | <b>14,827.8</b> | <b>11,330.9</b> |
| <b>Equity and liabilities</b>       |                 |                 |
| Equity                              | 6,058.3         | 5,058.4         |
| Borrowed capital                    | 8,769.5         | 6,272.5         |
| of which non-current liabilities    | 6,003.8         | 3,633.2         |
| of which current liabilities        | 2,765.7         | 2,639.3         |
| of which financial debt             | 6,335.5         | 4,180.7         |
| of which non-current financial debt | 5,630.7         | 3,265.5         |
| of which current financial debt     | 704.8           | 915.2           |
| <b>Total equity and liabilities</b> | <b>14,827.8</b> | <b>11,330.9</b> |
| Net debt                            | 5,681.7         | 3,591.8         |
| Equity ratio (in %)                 | 40.9            | 44.6            |

The initial inclusion of the UASC Group as at 24 May 2017 resulted in a significant change in the consolidated statement of financial position and means that comparisons with the previous year are only possible to a limited extent. The Group’s balance sheet total increased by 30.9% compared to 31 December 2016, from EUR 11,330.9 million to EUR 14,827.8 million.

Fixed assets increased by EUR 2,927.4 million to EUR 12,570.7 million. EUR 4,536.7 million of this related to additions following the acquisition of the UASC Group, in particular the addition of ships and containers but also intangible assets such as customer relationships, brand and software. Besides these additions from the company acquisition, further investments of EUR 459.1 million (31 December 2016: EUR 392.2 million) were made in ships and containers in particular. Five new ships with capacities ranging from 10,500 TEU (three ships) to 15,000 TEU (two ships) were delivered to Hapag-Lloyd in the 2017 financial year. In addition, six ships were sold in the 2017 financial year, and a further four ships were reclassified as "held for sale" within current assets due to specific intentions to sell. Exchange rate effects of EUR 1,392.6 million as at the reporting date and depreciation amounting to EUR 643.6 million also prompted a fall in the carrying amounts of the fixed assets and therefore in non-current assets. The US dollar/euro exchange rate was quoted at USD 1.20/EUR on 31 December 2017 (31 December 2016: USD 1.06/EUR).

Current assets increased, particularly due to the acquisition of the UASC Group, and totalled EUR 2,194.3 million as at 31 December 2017 (31 December 2016: EUR 1,608.0 million). This figure includes a rise in trade accounts receivable of EUR 210.2 million to EUR 887.8 million. Cash and cash equivalents increased by EUR 34.7 million (6.1%) year-on-year to EUR 604.9 million.

Equity (including non-controlling interests) amounted to EUR 6,058.3 million as at 31 December 2017 (previous year: EUR 5,058.4 million). The increase of EUR 999.9 million was primarily due to the capital increases carried out in the 2017 financial year and the Group profit of EUR 32.1 million. Equity rose by EUR 1,286.2 million as a result of the capital increase in return for a contribution in kind following the acquisition of the UASC Group. The cash capital increase carried out in October 2017 increased equity by EUR 351.5 million. The two capital increases resulted in transaction costs of EUR 4.4 million, which reduced equity. The balance of the unrealised gains and losses from foreign currency translation recognised in other comprehensive income also counteracted the effects of the capital increases and reduced equity by EUR 669.0 million. The equity ratio fell to 40.9% as at 31 December 2017 (31 December 2016: 44.6%) as a result of the significant rise in borrowed capital following the first-time consolidation of the UASC Group.

The Group's borrowed capital rose by EUR 2,497.0 million to EUR 8,769.5 million in comparison to the previous year, primarily as a result of the acquisition of the UASC Group.

There was a considerable change in the Company's financial debt, which increased by EUR 2,154.8 million compared with 31 December 2016 to EUR 6,335.5 million. The inclusion of the UASC Group as at 24 May 2017 contributed EUR 3,551.4 million to this increase. Financial debt also rose as a result of cash inflows of EUR 1,641.9 million, which mainly resulted from cash inflows from the placement of new bonds and to loans for the financing of vessels and containers. Hapag-Lloyd issued a new bond with an issue volume of EUR 250.0 million on 1 February 2017. This was increased by EUR 200.0 million on 15 February 2017, taking the total amount to EUR 450.0 million. A further bond in the amount of EUR 450 million was issued on 18 July 2017. The proceeds from bond issues were used for the early repayment of existing US dollar bonds and euro bonds of EUR 766.9 million. Hapag-Lloyd exercised its contractually agreed termination options for the repayments. Including the cash outflows for the bond repayments, financial debt was reduced overall by redemption payments of EUR 2,475.7 million and exchange effects of EUR –576.2 million as at the reporting date.

The significant impact of the takeover of the UASC Group on the development of borrowed capital of the Hapag-Lloyd Group was also reflected in the increase in current liabilities of EUR 126.4 million to EUR 2,765.7 million. This includes an increase in trade accounts payable of EUR 278.2 million and in pensions and similar obligations of EUR 14.1 million, primarily due to the acquisition of the UASC Group. Repayments of current financial debt of EUR 210.4 million had the opposite effect.

For further information on significant changes to specific balance sheet items and on the extent of the investment obligations, please refer to the Notes to the consolidated statement of financial position, paragraphs (11) to (28), which can be found in the Notes to the consolidated financial statements.

### **EXECUTIVE BOARD'S STATEMENT ON OVERALL ECONOMIC PERFORMANCE**

The 2017 financial year fulfilled the Executive Board's expectations. Clear growth in volumes led to a corresponding rise in revenue and transport expenses. Freight rate increases on nearly all trades affected Group profit in a positive manner. In addition, during the 2017 financial year as at 24 May 2017, the UASC Group was incorporated into the Group, leading to considerable changes to the consolidated financial statements. The frameworks for economic development were not subject to any material changes, however.



## RISK AND OPPORTUNITY REPORT

Risk management and the strategic focus on business opportunities are designed to enhance the Company's value by providing stable, long-term growth, to contribute to the attainment of its medium-term financial goals and to ensure its long-term existence as a going concern. The following information relates to the Hapag-Lloyd Group, including UASC as and from its first-time consolidation on 24 May 2017.

### RISK MANAGEMENT

The objective of risk management is to recognise and assess risks of all kinds at an early stage and promptly minimise them by taking appropriate steps. Thanks to monitoring and control systems installed throughout the Group, business developments and their associated risks are regularly recorded, assessed and monitored with regard to their effects on Hapag-Lloyd. Risk management is decentralised in accordance with Hapag-Lloyd's organisational structure. Due to their overriding importance, however, strategic risks are generally identified at the top management level and factored into medium and long-term planning. The management and the Executive Board of Hapag-Lloyd evaluate the opportunities which result from market and company developments on a regular basis.

The Executive Board and operational management have integrated multilevel reporting systems at their disposal for risk management purposes. The planning and controlling system, for example, conducts a monthly analysis of how actual business developments have deviated from planned developments, and uses this analysis to identify and report risks early on that may jeopardise the operating result of the Company. As well as regular reporting on operational and financial risks, such as the development of freight rates, transport volumes and liquidity, an additional autonomous reporting system is incorporated into the risk management system (RMS) and includes measures to identify risks to the Company's existence at an early stage.

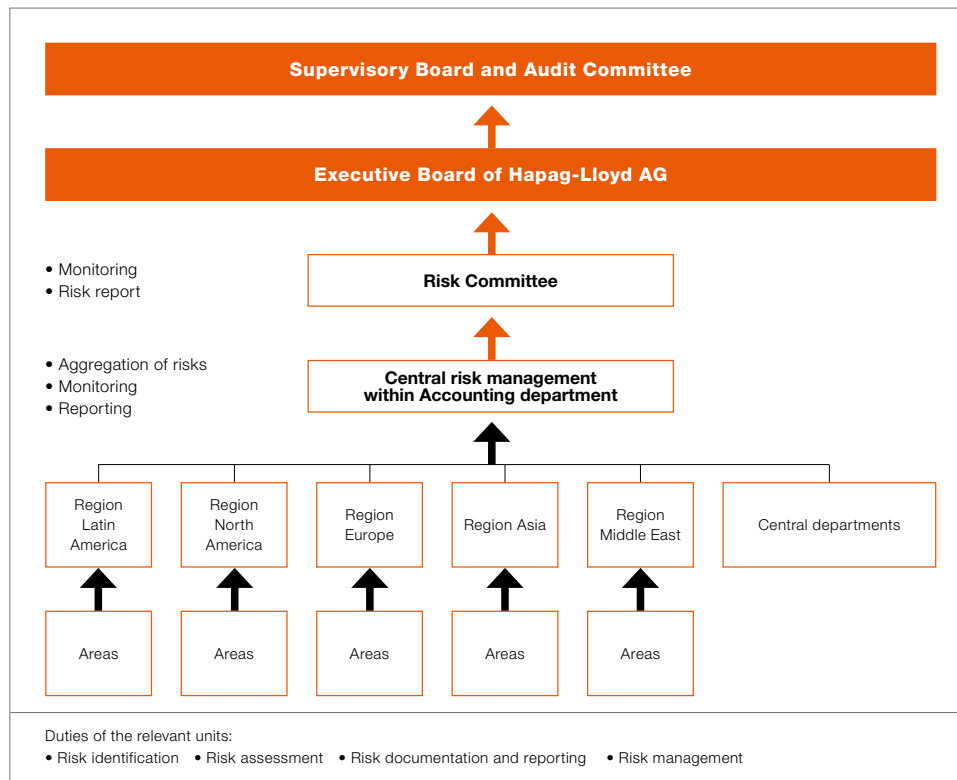
The principles, structures and processes of risk management are defined in a Group guideline which is valid for the entire organisation. The Group's significant risk categories serve as a basis for specifying the structures and responsibilities within the entire process. Furthermore, regular quarterly reporting and ad-hoc reporting is conducted on the basis of mandatory regulations.

Within the context of the decentralised structure of risk management, risk managers are appointed across the Group and are responsible for continuously identifying, assessing, managing and monitoring operational and financial risks in the various regions and central departments (e.g. Treasury & Finance). These risk managers assess and document the risks identified, including the measures to reduce risks as part of risk reporting.

Risk reports are submitted on a regular quarterly basis to the central risk management unit in the Accounting department. Unscheduled reports must also be submitted if risks are newly identified or newly assessed, with the result that reporting thresholds are exceeded (ad-hoc reporting).

The central Risk Management unit monitors the regular reporting by risk managers and summarises the significant risks for the Risk Committee on a quarterly basis and, if urgent, on an unscheduled basis. The Risk Committee discusses and assesses the risks present and subsequently reports on the overall risk situation to the Executive Board. In particular, it reports on the risk status of significant factors, such as the current development of freight rates and transport volumes, on the potential effects of significant fluctuations in these factors and on significant individual risks.

### Risk management system of Hapag-Lloyd



The Corporate Audit department conducts regular checks of the risk management processes and – in particular – the early-warning system for risks, focusing on different aspects each time. In connection with the auditing of Hapag-Lloyd AG's financial statements as at 31 December 2017, the external auditors examined the fundamental suitability of the early-warning system for risks to identify going-concern risks in accordance with the principles of Section 317 (4) of the German Commercial Code (HGB).

In risk management, the methods, systems and controls are adapted according to the type of risk and are continuously checked, enhanced and adapted to the constantly changing business conditions. As part of risk management, risks are hedged by the decentralised companies and central departments to the greatest extent possible. Insurance policies are concluded to cover claims and various other risks that arise in everyday business operations, insofar as these are economically justifiable. The Company also holds a number of insurance policies which are customary in the industry and tailored to the requirements of Hapag-Lloyd. These include third-party liability, property and personal insurance, as well as shipping insurance. The policies are examined regularly and adjusted if required.

### **Description of the significant characteristics of the accounting ICS/RMS pursuant to Section 315 (4) of the German Commercial Code (HGB)**

#### **Concept and objectives**

Hapag-Lloyd has established an internal control system (ICS) on the basis of the internationally acknowledged framework "COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework". The system was documented as part of a project in 2010 and safeguarded by means of a verification process. A central ICS coordination framework exists for the continuous further development and securing of the internal control system. A technical platform also exists to monitor processes globally. This internal control system includes the accounting-related ICS.

The primary objectives of the accounting-related ICS are to prevent the risk of significant errors in accounting, detect substantially incorrect valuations and ensure compliance with applicable regulations. The principles, processes and measures implemented to this end are regularly checked and enhanced. Irrespective of its form or structure, however, an ICS cannot provide absolute assurance that these objectives will be achieved.

#### **Integration of UASC's companies and business activities into the Hapag-Lloyd Group's ICS/RMS system**

The UASC Group has been part of the Group since the merger with Hapag-Lloyd AG on 24 May 2017. As part of the due diligence prior to the merger, UASC's risk management system was analysed, and corresponding preparations were made to ensure transparent risk management for the newly acquired subgroup.

Preparations for the integration of UASC and the new Region Middle East into Hapag-Lloyd's regular risk reporting took place in the third quarter of 2017, and was implemented in the fourth quarter of 2017.

**Organisation and significant processes in accounting and consolidation**

Hapag-Lloyd AG prepares its annual financial statements in accordance with German accounting standards and its consolidated financial statements in accordance with the requirements of IFRS. An accounting guideline is used. This is codified in the form of procedures and regulations. Changes to the legal provisions and standards are constantly monitored and the accounting guidelines and procedures are examined promptly for any adjustments that might be required. There is also a uniform chart of accounts for Hapag-Lloyd.

The Accounting department has overall responsibility for the consolidation process, the preparation of the financial statements and the internal and external Group and individual reporting. Information is obtained from other departments and processed in the course of preparing the financial statements. This includes information from the Treasury department for the reporting of hedge relationships and financial derivatives, and information from the Controlling department pertaining to Company planning in relation to the impairment tests that are carried out.

Individual items are accounted for based on the input of external specialists and appraisers, such as actuaries for pension valuation. The process of preparing the financial statements is carried out in accordance with a detailed time schedule (the financial statements calendar), which is agreed with the departments and subsidiaries. The Accounting department is responsible for ensuring that these time limits are adhered to. Accounting throughout the Group is supported by means of suitable and standard market accounting systems at Hapag-Lloyd AG and its subsidiaries. The subsidiaries send reporting packages needed for the preparation of the group consolidated financial statements. These packages are compiled to form the consolidated financial statements using the SAP Financial Consolidations (FC) system. The necessary steps to be taken in the consolidation process are initiated by the Accounting department. UASC Ltd. and its subsidiaries were initially included in the consolidated financial statements as a subgroup both on 24 May 2017 as part of the first-time consolidation and on 31 December 2017. The UASC subgroup will be split into individual subsidiaries in 2018.

**General and internal controlling activities**

Potential effects on financial reporting are already often taken into consideration in the organisational environment, e.g. significant investments and financing should already be agreed upon with the Accounting department before being approved by the Executive Board, particularly in light of their presentation in the financial statements, and are critically assessed with regard to their impact on the consolidated financial statements. Further risks are also identified and evaluated by having the Head of Accounting preside over the Risk Committee to ensure that significant circumstances or events within the Group and their potential accounting-related effects can be recorded and assessed at an early stage.

Compliance with accounting and valuation regulations is monitored by internal controls. Some of these internal controls are integrated into processes, while others are established independently of them. These internal controls encompass preventive as well as detective activities.

Segregation of duties and a dual control principle have been implemented as fundamental process-integrated controls to ensure proper accounting. For example, entries are authorised by way of a multilevel approval and release procedure. The booking systems, for example, can only be accessed by authorised employees due to the presence of an authorisation system. In addition, reports concerning changes and exceptions, for example, are verified as downstream control activities for sensitive areas. With regard to the merger completed on 24 May 2017, the existence of such fundamental control activities was confirmed for the UASC Group based on a questionnaire. The expansion of Hapag-Lloyd AG's ICS to include the new business of the expanded Group commenced in the third quarter of 2017.

The Corporate Audit department has a fundamental supervisory role to play in the process-independent control measures. The Corporate Audit department reports directly to the CEO of Hapag-Lloyd AG and has a wide range of informational, auditing and access rights to enable it to fulfil its role as an internal auditor and advisor. In 2016, the Corporate Audit department was subject to an independent quality assessment examining compliance with the professional regulations issued by the German Institute of Internal Auditors (DIIR). The subjects examined by the Corporate Audit department are systematically selected using a risk-based approach to auditing. They regularly include processes and controls which are relevant to accounting. An independent external assessment of the key controls documented in the ICS for the central departments was also carried out in 2016. The auditing and advisory duties and the informational, auditing and access rights were extended accordingly following the merger with UASC on 24 May 2017. The Corporate Audit department familiarised itself with UASC's internal auditing system in June 2017 and integrated UASC's audit department in the third quarter of 2017.

#### **ICS verification process**

Hapag-Lloyd AG has put in place a standard procedure to confirm the establishment of the ICS. The results of this procedure are compiled in a report on an annual basis ("ICS verification process"). This ensures that the Hapag-Lloyd AG Audit Committee is kept informed about the internal control system by the Executive Board.

## RISKS

The key risks and their potential impact on the earnings, financial and net asset position of Hapag-Lloyd, including their probability of occurrence, are listed on page 131. The less significant risks are also described in the following section, although the probability of their occurrence and their effects have not been assessed for risk management purposes, unless otherwise stated.

### STRATEGIC RISKS

#### General economic risks

Container shipping is heavily dependent on the general prevailing conditions in the world's economies and is subject to a high level of risk of being affected to an above-average degree by fluctuations in the economic climate. The development of freight rates, which have a significant influence on Hapag-Lloyd's financial and earnings position, is particularly dependent on the transport volume and capacity supply on routes and therefore on economic developments in individual regions.

The pace at which the global economy grows and, by extension, at which global trade expands is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' cargo volumes. In its latest economic outlook (January 2018), the IMF expects global economic growth to reach 3.9% overall in 2018 (2017: 3.7%) and to achieve further growth of 3.9% in 2019.

Despite the current positive performance of the global economy and the corresponding expected performance of container transport volumes, there continue to be significant risks for the global economy in 2018. A detailed forecast can be found in the "General economic conditions" chapter. Geopolitical tensions, increasing protectionism in some countries, uncertainties about the USA's future economic, trade and financial policies, the effects of the Brexit and high valuations on the capital markets represent the main risks for global economic performance in 2018. A slowdown in global economic growth could lead to a significant decrease in the global transport volume in the container shipping segment. According to IHS Global Insight, the rise in global demand for container shipping services fell short of the original forecasts in recent years. The main reason for this was the modest pace of global economic growth. The lower than anticipated increase in the transport volume, coupled with the sharp rise in capacity supply, has led to a marked decline in freight rates in all the main trades in recent years. If the transport volume remains below expectations and freight rates fall further, this could have a considerable negative impact on Hapag-Lloyd's earnings.



**Risks arising from changes in trade flows**

The utilisation of the Group's capacities is influenced by the development of the trade flows between the various regions. In the case of transport between regions comprising net exporters and regions comprising net importers, capacity utilisation in the two directions is divergent. This results in empty container transports and associated costs. An increase in the imbalances in global trade could further push up the costs associated with empty container transports. In 2017, for example, the importation bans on materials for recycling (primarily waste paper and plastic) and temporary plant closures for environmental protection reasons in China led to a temporary weakening of Chinese imports and exports.

**Risks resulting from intense competition**

Global container shipping is characterised by intense competition among the shipping companies. Some of the competitors are larger than Hapag-Lloyd in terms of business volume, fleet size, transport volume and capacities. Others have better capital resources. This means that these competitors can be better positioned on the market to achieve economies of scale and are able to invest in more efficient ships. They would therefore be able to offer a more cost-effective service and lower freight rates. This, in turn, might have an adverse effect on Hapag-Lloyd's market share.

Generally, Hapag-Lloyd does not conclude long-term or exclusive contracts with its customers. The majority of customers maintain similar business relationships with other shipping companies. Depending on the market circumstances, customers may partially or solely use other shipping companies' services. In global container shipping, there are no restrictions for competitors who want to expand their service to cover other trades or routes. Each of the competitors might therefore offer a comparable service on the routes where Hapag-Lloyd maintains a liner service and try to undercut the Group's freight rates. In view of the currently low charter rates for ships, new competitors could also emerge and provide a liner service with particularly low freight rates.

**Risks resulting from further industry consolidation**

Container shipping is going through a phase of consolidation at present. In December 2014, Hapag-Lloyd took over CSAV's container shipping activities. In February 2016, the two Chinese shipping companies China Ocean Shipping Company and China Shipping Group merged to form China COSCO Shipping Group (COSCO). In July 2016, the French shipping company CMA CGM S.A. completed the takeover of the shipping company Neptune Orient Lines (Singapore) (NOL). On 31 October 2016, the Japanese shipping companies Kawasaki Kisen Kaisha Ltd. (Japan) ("K" Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), and Nippon Yusen Kaisha Ltd. (Japan) (NYK) announced the creation of a new joint venture. The three companies' container shipping activities as well as their global terminal activities (outside Japan) will be combined in this new company. It is expected to commence operations on 1 April 2018. On 1 December 2016, Maersk Line (Denmark) (Maersk) announced the takeover of the German shipping company Hamburg Südamerikanische Dampfschiffahrts-Gesellschaft KG (Hamburg Süd). The legal merger between the two companies took place on 30 November 2017. Prior to that, Maersk and Hamburg Süd had entered into a slot chartering agreement on East-West trades in February 2017. On 24 May 2017, Hapag-Lloyd completed the legal merger with the Arab container shipping company United Arab Shipping Company (UASC).

Takeovers and mergers could enable some individual shipping companies to achieve greater economies of scale and increase their financial strength, with the result that these companies could be more competitive in terms of price and more able to endure greater market volatility than Hapag-Lloyd.

#### **Risks arising from membership of alliances**

Hapag-Lloyd's membership of alliances is important for it to be able to cover all the key trades and offer a global service network. Membership of alliances can involve risks alongside the opportunities described in the opportunity report. The conditions within the alliances could change or other shipping companies could relinquish or not renew their membership.

Since 1 April 2017, Hapag-Lloyd has been operating THE Alliance in partnership with Kawasaki Kisen Kaisha Ltd. (Japan) ("K" Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), Nippon Yusen Kabushiki Kaisha Ltd. (Japan) (NYK) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). As part of the Hapag-Lloyd fleet, UASC's container ships are also used in THE Alliance. THE Alliance is the successor organisation to the Grand Alliance and the G6 Alliance. The partnership is scheduled to last for at least five years. Members must remain in the alliance for 36 months and then give twelve 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.

Hapag-Lloyd needs to be a member of an alliance in order to offer a global service network. If Hapag-Lloyd were to be excluded from an alliance or refused membership of an alliance, this would have significant negative effects on its competitive situation and therefore its earnings position.

#### **Risks arising from competition from new alliances**

The alliances operating in the East-West trades were extensively reorganised at the beginning of the second quarter of 2017. The shipping companies which had previously been operating in four alliances formed the following three alliances: the "2M Alliance" consists of the two market leaders, Maersk Line and MSC, the "Ocean Alliance" consists of CMA CGM, OOCL, Evergreen and COSCO, and "THE Alliance" which is operated by Hapag-Lloyd in partnership with "K" Line, MOL, NYK and Yang Ming.

These different alliances have varying degrees of presence in the respective trades. Different cost advantages may arise as a result of the expansion of the networks and the range of services on offer to customers. Hapag-Lloyd may not be able to match the cost advantages offered by other container liner shipping companies.

#### **Risks arising from state aid for competitors**

Direct and indirect state aid from countries such as China, Taiwan and South Korea to their own shipping companies creates an unequal competitive environment and may put pressure on freight rates or result in the excessive availability of container transport capacity on the market.

State aid for exports in the form of lower interest rates on ship financing for customers placing orders at local shipyards as well as the sharp increase in ship financing activities from Chinese banks and lease companies may result in too many ships being ordered, causing capacity supply to grow faster than demand, with negative effects on freight rates.

## OPERATING RISKS

### **Measures for ensuring the effectiveness of bunker price, currency and interest rate hedges**

The intended effective risk hedging is ensured by closely aligning the hedging transactions with the parameters of the risk-bearing hedged items (currency, nominal value, maturity, index, etc.). Moreover, the amount of the underlying risks and the resulting hedging ratio are continuously monitored.

### **Fuel price risks**

Hapag-Lloyd's business activity exposes it to market price risks arising from the procurement of fuels (bunker fuel) for the container fleet. Bunker fuel expenditure accounts for a substantial proportion of overall operating costs. Bunker price fluctuations have a delayed effect on transport expenses, depending on when the bunker fuel was purchased and subsequently consumed.

In the 2017 financial year, the cost of the ships' fuel amounted to 11.2% of the Hapag-Lloyd Group's revenue. The bunker consumption price is the most important factor influencing fuel costs, which is one of the main cost components for the container shipping industry. In 2017, the average bunker consumption price (MFO+MDO) was USD 318 per tonne (MFO: USD 307 per tonne; MDO: USD 478 per tonne). This was USD 92 per tonne higher than the average for the previous year. Changes in the price of bunker fuel are aligned with the price of crude oil, which has been subject to substantial fluctuations and influenced by a number of economic and geopolitical factors in the past. Bunker prices rose significantly again at the end of 2017. If this trend continues, it is likely to lead to a sharp increase in fuel costs in 2018.

The average freight rate contains bunker surcharges. These bunker surcharges vary, depending on the trade. Fluctuating bunker prices can therefore have a major impact on average freight rates, depending on the trade in question. To limit the effect that rising bunker prices have on its shipping costs, Hapag-Lloyd is endeavouring to offset a large proportion of the fluctuations in raw materials prices by means of a bunker fuel surcharge on freight rates. However, the extent to which this can be implemented depends heavily on the prevailing market situation.

In addition, price risks emanating from fuel procurement are hedged by means of hedging transactions in accordance with the internal hedging strategy. This involves hedging the Company's anticipated bunker requirements. Please refer to the "Financial instruments" Section in the Notes to the consolidated financial statements for more information on the scope and type of the hedging instruments used as at the balance sheet date. By the end of February 2018, approximately 21% of the planned fuel consumption volumes for the 2018 financial year had been hedged.

The requirement to use marine diesel oil (MDO) as a result of stricter environmental regulations governing coastal regions may lead to a considerable rise in transport costs, given the significantly higher price of MDO. In 2017, around 13% (previous year: around 16%) of total bunker consumption of approximately 3.9 million tonnes (previous year: approximately 3.1 million tonnes) was low-sulphur bunker. From 2020, the use of low-sulphur fuels is mandatory.

### **Risks from fluctuations in charter rates**

Within the framework of a charter contract, a ship owner puts a ship at the disposal of a container shipping company for a contractually agreed period, with the owner usually also providing the crew, insuring the ship and being responsible for maintenance. As charter rates are subject to severe fluctuations influenced by how market participants anticipate that supply and demand will develop in the future – especially for short-term contracts – chartering ships in periods of increasing demand can be more expensive than operating own ships. It cannot be ruled out that charter rates could rise sharply in the future and that it might not be possible to pass on these cost increases to customers in the form of higher freight rates.

Charter rates are determined by the supply of and demand for ship capacities and by developments in freight rates. As a rule, charter rates shadow the trend in freight rates, which are dependent on expectations regarding the future development of the supply of and demand for transport capacities, with a time lag of several months. This time lag in adjusting charter rates is caused by the contractual bond between the ship's owner and the liner shipping company. This means that in the event of increasing demand, the owner cannot raise their charter rates before the contract expires. If demand is weakening, on the other hand, the shipping company cannot reduce its charter rates before existing contracts expire. In this case, falling freight rates accompanied by fixed charter rates can lead to a decrease in revenue, particularly after a phase of high demand for ship chartering. As a result, Hapag-Lloyd may be unable to reduce its portfolio of chartered ships with above-average charter rates in comparison to the market for several months as a response to falling freight rates.

The proportion of own and leased ships in terms of the total capacity (in TEU) of the Hapag-Lloyd fleet as at 31 December 2017 was approximately 68% (previous year: approximately 57%). The remaining 32% are chartered, of which twelve ships are chartered long-term, 15 medium-term and 76 short-term.

### **Risks resulting from fluctuating transport volumes and freight rates**

In respect of the development of transport volumes and freight rates, there are differences between the various trades in which Hapag-Lloyd is active. The development of transport volumes depends heavily on economic activity in the regions linked together by the trades. Freight rate developments are also largely determined by the available transport capacities within a trade. In view of the fact that transport capacities are set to increase further in the near future, intensified competition between the shipping companies may again lead to greater price competition in individual trades in 2018, as has been the case in recent years. Transport volumes and freight rates in container shipping are traditionally subject to sharp seasonal fluctuations. The peak season in the third quarter of the calendar year is of particular importance to the Company's performance and earnings.

**Risks from capacity bottlenecks at individual ports**

Over the past few years, capacities in container shipping have grown more quickly than the number of available berths at the ports. This leads to waiting times at the ports in question and results in a sometimes considerable amount of lost time during loading and unloading of the ships. If capacities were increased further, the loss of time at the ports concerned could be even greater. This would make it harder to keep to the timetables and could put pressure on the Company's earnings and financial position. Decisions on whether to expand the ports are the responsibility of the respective governments and are therefore beyond the influence of Hapag-Lloyd. Labour disputes at the ports could likewise make it difficult to adhere to timetables and possibly result in substantial additional costs.

**Risks from long delivery periods for newbuilds**

The lead time between the ordering and delivery of newbuilds is two to three years, with the placement of the order being based on expectations of future demand for transport capacities. The market situation can change by the time new ships are delivered. There is also the risk that the available capacity will be too low and Hapag-Lloyd cannot meet its customers' demands. This would lead to falls in revenue and a loss of market share. If additional capacities had to be chartered to retain customers, higher charter rates would have to be paid as a consequence of increased demand, leading to an additional cost burden. At present, Hapag-Lloyd is not planning any further investments in ship newbuilds, particularly in view of the merger with UASC.

**Risks from the operation of ships**

The operation of ships involves specific risks which include accidents, collisions, total loss of a ship, environmental damage, fire, explosions, loss of or damage to the cargo, damage caused by material defects, human error, war, terrorism, piracy, political activities in individual countries, loss of certification of ships, difficult weather conditions and delays resulting from strikes by the crews or dock workers.

All of the points listed above can prevent the ships from operating, impede a shipment's progress or lead to the death or injury of people as well as to the loss of or damage to property. This could damage the reputation of the Company and put pressure on customer relationships. As far as possible, Hapag-Lloyd has concluded economically appropriate insurance policies to counter these risks. However, it cannot be ruled out that the existing insurance policies do not cover the full amount of all types of damage. This could have a significant negative impact on Hapag-Lloyd's earnings position.

**Risks arising from claims by suppliers and service providers**

If unpaid invoices lead to claims against Hapag-Lloyd, then suppliers of goods and services and crew members could have the ships seized when they enter ports, thereby preventing them from continuing on their journeys. Unless Hapag-Lloyd makes the court-ordered payments immediately, this could result in an interruption to transport services, which, in turn, could lead to a high level of material damage.

**Risks caused by general political conditions and protectionism**

Hapag-Lloyd is active in many countries around the world. Its commercial activities can be hindered by political tension, wars, terrorism, and economic and social problems. This can result in disruptions to the production processes of its customers or interruptions in its own liner services. The use of ports or other major shipping channels (Panama Canal, Suez Canal) might be hindered as a further result. Individual countries could react to financial or economic crises by resorting to protectionist measures, for example by introducing import or foreign exchange restrictions. Other countries could initiate countermeasures, thereby encouraging protectionism around the world. This would have a negative impact on the development of container shipping.

**Risks arising from the biggest trade, Latin America**

With a share of around 25.2% of the container transport volume in 2017, the Latin America trade is Hapag-Lloyd's biggest trade. According to the latest IMF forecast (January 2018), economic growth in the region of Latin America and the Caribbean was 1.3% in 2017 (2016: -0.7%). Economic growth is expected to increase further by 1.9% in 2018, then by 2.6% in 2019. The recent recovery in economic growth could however quickly come to a halt once again as local economies are heavily dependent on political developments, commodity prices and exchange rates. This may have a negative impact on the region's import and export activities, and therefore also on demand for container shipments and consequently on the revenue and earnings performance of Hapag-Lloyd. The volatility of local currencies could also have a negative impact on earnings performance.

**Risks arising from the increased importance of the Middle East trade**

Following the merger with UASC, the Middle East trade is one of Hapag-Lloyd's most important trades, with a share of around 10.5% of the container transport volume in 2017. According to the latest IMF forecast (January 2018), economic growth in the region of the Middle East, North Africa, Afghanistan and Pakistan increased by 2.5% in 2017 (2016: 4.9%). Economic growth is expected to increase by 3.6% in 2018. The further slowdown in economic growth may have a negative impact on the region's import and export activities, and therefore also on demand for container shipments and consequently on the revenue and earnings performance of Hapag-Lloyd.

**Risks arising from the loss of the US flag or cabotage business**

In certain regional sub-trades in Latin America, Hapag-Lloyd provides container transport services on routes which are protected by regulation from general competition (cabotage business). If Hapag-Lloyd is no longer allowed to operate on these routes or if these routes are opened up to general competition, this could have a negative effect on its earnings position. The cabotage business is operated through the companies CSAV Austral SpA, Companhia Libra de Navegação S.A., Andes Operador Multimodal Ltda and Consorcio Naviero Peruano S. A.

Hapag-Lloyd is one of three international container liner shipping companies that provide container transport services for the governmental organisations of the USA (US flag business). If Hapag-Lloyd no longer meets the requirements for this, it could have a negative impact on its earnings position. The US flag business is operated through the company Hapag-Lloyd USA LLC.



**Risks arising from the loss of customers and employees**

Container shipping operates in a very competitive industry environment. If Hapag-Lloyd is unsuccessful in binding key customers and employees to the Company over the long term, this may have negative consequences for the revenue and earnings position of Hapag-Lloyd.

**Risks arising from the lower earnings contribution of projects**

The successful harnessing of synergies from the merger with UASC and the envisaged increase in revenue quality (Compete to Win project) has a large impact on how earnings develop and whether the corporate objectives are achieved.

If implementation of the Compete to Win project and the integration of UASC does not deliver the expected contribution to earnings, this could have a negative effect on Hapag-Lloyd's earnings position and make it more difficult, or even impossible, to achieve the financial targets. Changes to internal structures (e.g. the structure of services in the respective trades) and the development of external factors, such as currency fluctuations, bunker prices and the development of freight rates, also have a substantial effect on the development of revenue and operating costs. These developments can either assist with, duplicate or counteract the implementation of the projects. The development of the income statement may therefore only reflect the planned effects of the strategic measures to a limited extent.

**IT risks**

Hapag-Lloyd ensures that all necessary data on transport volumes, freight rates, transport costs, container locations and timetables is supplied by means of its own IT systems. The availability of the systems is necessary for the management of the fleet and the containers, for the efficient management of business processes and for cost control. An IT systems failure could hinder business processes and lead to higher costs.

The IT systems are protected in several ways. It can nevertheless not be ruled out that damage, such as that caused by fire, power failures, system errors, hacker attacks, cases of fraud or terrorism, could lead to the loss of data. The recovery of this data, if at all possible, could lead to increased costs and/or negatively affect the customer or partner relationship. The occurrence of IT risks described above could have a material impact on the financial position of Hapag-Lloyd. The probability of occurrence is classified as low.

**COMPLIANCE RISKS****Risks caused by regulatory frameworks**

As a container shipping company, Hapag-Lloyd is subject to numerous regulations with domestic and international applicability. The alteration or broadening of such regulations and the necessity of obtaining further authorisations can be a burden on the course of business and possibly require a change of strategy. The Company could face considerable compensation demands and fines if it infringes applicable regulations.

Container shipping is subject to numerous safety, security and customs regulations in the respective countries of origin, transit and destination. Checks by the authorities responsible could lead to the seizure of containers or their contents or to delays in the loading or unloading of the ships.

In connection with this, customs duties could be levied or fines imposed on exporters, importers or the shipping company. Based on current and foreseeable regulatory frameworks, there are no discernible factors that could lead to restrictions affecting the Group's commercial activity.

Like other companies within the industry, Hapag-Lloyd AG is subject to increasing regulation in the area of data protection and IT security. The European Union's General Data Protection Regulation that comes into effect on 25 May 2018 will result in an increase in the general data protection risks and also in particular in the maximum fine risk for violations of data protection legislation (up to 4% of annual revenue). Similar developments in the direction of greater regulation and more stringent data protection sanctions are being seen around the world. Additionally, the increasing digitalisation of business processes is shifting Hapag-Lloyd AG's risk exposure such that the further data protection risks arising need to be continuously assessed and managed. Both the probability of occurrence and the impact of such risks on Hapag-Lloyd's earnings before interest and taxes (EBIT) are classified as medium.

#### **Risks resulting from the tightening of climate protection regulations**

The emission standards set by the International Maritime Organization (IMO) require a further significant reduction in emissions. The legally stipulated use of particularly low-sulphur fuels has been applicable since January 2015 in US coastal areas (and in the coastal areas of California since January 2014) as well as in Hong Kong and certain coastal areas around Europe. The IMO has decided to expand these climate protection regulations to all of the world's oceans. From 2020 onwards, the threshold for sulphur content will be limited to 0.5%. This could lead to a sharp rise in specific fuel prices. If the rise in costs cannot be passed on to the customers in the form of fuel surcharges, either wholly or in part, this will have a negative impact on the earnings position.

#### **Legal disputes and legal risks**

Hapag-Lloyd AG and some of its subsidiaries are currently involved in legal disputes. These include disputes with foreign tax authorities, claims asserted by former employees and disputes arising from contractual relationships with suppliers, former agents and customers. Even if the Company is successful in legal disputes, they can involve substantial costs if uninsured and can damage the Company's reputation.

Subpoenas were served to company representatives attending the twice-yearly conference of the International Council of Containership Operators (known as the "Box Club") in San Francisco on 15 March 2017, ordering them to attend a hearing by the U.S. Department of Justice Antitrust Division ("DoJ"). Concrete allegations have not been made at present, however the subpoenas have been issued in connection with the DoJ investigation into the global container liner shipping industry. Hapag-Lloyd is cooperating fully with the authorities, and the investigation is ongoing. A quantification of a possible risk that may result from the investigations still cannot be made at the time of reporting.

Hapag-Lloyd is subject to regular tax audits and these may lead to the payment of tax arrears. Investigations by local tax authorities concerning individual circumstances are currently taking place in a number of jurisdictions, such as in Mexico, India and Brazil. To the extent that the Company can expect to incur charges and these charges are quantifiable, these were accounted for by creating corresponding provisions.

As at the reporting date, there was also EUR 135.5 million in contingent liabilities from tax risks (previous year: EUR 128.4 million), whereby the probability of occurrence is classified as low overall. The increase was due to the acquisition of UASC's business activities.

#### **Risks from taxation**

In 1999, Hapag-Lloyd AG decided to make use of the possibility of having its commercial activities taxed on the basis of the transport capacities utilised ("tonnage tax"). There are also comparable taxation systems in other European countries. Under this system, the tax burden is determined by the capacity of the fleet, not by the earnings actually achieved. It requires a certain percentage of the fleet to be registered and managed in Germany and deployed as an international liner service. Any change in or discontinuation of tonnage tax or any failure of the Company to meet the prerequisites for continuing to use the tonnage tax option could considerably increase the tax burden, particularly in periods of high earnings.

Some of the ships do not fulfil the requirements for tonnage taxation, and as a result approximately 5% of the Group's income was subject to regular German taxation in 2017 (2016: approximately 4%).

#### **Risks from being a listed company**

As a listed company, Hapag-Lloyd is subject to a range of regulatory requirements. If Hapag-Lloyd does not comply with, or only partly complies with, the statutory regulations and the regulations under private law, it is at risk of incurring financial sanctions and a significant loss of reputation.

### **FINANCIAL RISKS**

#### **Management of financial risks**

Hapag-Lloyd has a worldwide presence through its business activities. Within the scope of its ordinary business activities, Hapag-Lloyd is primarily exposed to currency risks, interest rate risks and liquidity risks, which can have a significant impact on its net asset, financial and earnings position.

Its corporate strategy is to limit the currency and commodity price risks resulting from ordinary business operations by using hedging transactions. The individual rules, responsibility assignments and processes as well as the limits for transactions and risk positions are established in guidelines and implementation rules. Compliance with the guidelines and transaction limits is monitored on an ongoing basis. Hedging transactions are only concluded in order to hedge anticipated underlying transactions or such transactions recognised in the statement of financial position. Approved, standardised software is used for the recording, valuation and reporting of the hedging transactions concluded.

**Currency risks**

In international container shipping, the US dollar is the currency in which the bulk of services are usually invoiced. This applies to freight and charter rates, fuel, and the financing of containers and ships. The US dollar is the functional currency within the Hapag-Lloyd Group. However, the Group is a business which conducts its operations worldwide and is therefore exposed to the risk of currency fluctuations because various currencies account for its income and expenses. This also applies to financial debt assumed in euros. In addition to the US dollar and the euro, the Canadian dollar, Brazilian real, Indian rupee, British pound sterling, Chinese renminbi, Australian dollar, Japanese yen and Mexican peso are also significant currencies.

Key risks arising from exchange rate fluctuations are monitored on an ongoing basis. If necessary, the Group hedges a portion of its cash outflows in euros using a rolling hedge with the aim of limiting currency risks in the consolidated financial statements. Additional currency hedging transactions may also be effected as required. Despite this, fluctuations in exchange rates can have a significant influence on Hapag-Lloyd's earnings position.

The reporting currency for the Hapag-Lloyd Group and the individual financial statements of Hapag-Lloyd AG is the euro. Changes in the USD/EUR exchange rate thus have a considerable impact on the key financial indicators reported in the annual and quarterly financial statements. As a result, the key financial indicators reported in euros can diverge significantly from the key financial indicators for the operating activities reported in US dollars.

**Interest rate risks**

Interest rate risks which arise as a result of raising new funds are reduced with a balanced portfolio of fixed and variable interest rate structures. Interest rate hedges can be implemented if necessary. As part of the merger with UASC, Hapag-Lloyd acquired the company's interest rate swaps.

**Risks resulting from changes in the lending values of ships**

The development of market prices for used container ships in the fourth quarter of 2016, driven primarily by the insolvency of the liner shipping company Hanjin, resulted in short-term deficits in the loan-to-value ratios for some of Hapag-Lloyd's ship loans. In light of this, Hapag-Lloyd made early repayments in the amount of USD 51.3 million (EUR 42.8 million) in 2017 as requested by the financing banks.

As a result, loans with critical loan-to-value ratios were refinanced during the year in order to prevent the risk of further potential deficits. The Company was also able to recover the early repayments made by implementing these refinancings.

As part of efforts to optimise the entire portfolio with a bank, proactive early repayments on a loan in the amount of USD 28 million in total (EUR 23.3 million) were agreed. USD 18 million (EUR 15.0 million) of this was paid on 1 December 2017. The remaining USD 10 million (EUR 8.3 million) was due for payment on 1 March 2018.

Furthermore, the used-market prices as at the balance sheet date provide a sufficient buffer in the loan-to-value ratios of the Company's ship loans.

**Risks resulting from a more restrictive lending policy by banks towards shipping companies**

Ship financing banks could make their lending policies more restrictive which, in turn, could either make it more difficult for Hapag-Lloyd to obtain new financing or increase lending costs. This, in turn, would have a negative effect on Hapag-Lloyd's financial situation and earnings.

**Liquidity risks**

Liquidity risk, i.e. the risk of not being able to fulfil existing or future payment obligations, is managed centrally at Hapag-Lloyd. The Company secures an adequate liquidity reserve for itself by means of syndicated credit facilities and bilateral bank loans, as well as its portfolio of cash and cash equivalents. The liquidity reserve as at 31 December 2017 amounted to EUR 1,059.5 million (previous year: EUR 759.6 million). Arrangements with the banks to provide lines of credit are based on a rolling liquidity plan.

Bank default risk management also covers the Hapag-Lloyd Group's derivative financial instruments and financial investments. The maximum default risk of the derivative financial instruments concluded is restricted to the sum of the positive market values of all of these instruments because the financial damages in the event of their non-fulfilment by the contractual partners would not exceed this amount. No default risks are expected as derivative financial instruments have been concluded with different borrowers of impeccable credit standing.

Nonetheless, the counterparty risk is monitored constantly and managed by means of internal bank limits.

**Credit default risks**

In order to prevent or reduce bad debt losses, Hapag-Lloyd operates a uniform, centrally controlled receivables management system. Its components include a standardised approval procedure for granting loans, complete with a creditworthiness risk check by Dun & Bradstreet (the world's largest provider of business information and analyses), securing the customer receivables by means of credit insurance, and a centrally managed monthly reporting system for monitoring the outstanding amounts, including their age structure and the guidelines and rules of receivables management.

With regard to derivative financial instruments, all the counterparties must have a credit rating or, alternatively, a corresponding internal credit assessment determined according to clear specifications.

**Risks arising from debt**

As at 31 December 2017, the Group's financial debt amounted to EUR 6,335.5 million (previous year: EUR 4,180.7 million). The ability to finance the operating capital, debt servicing and other expenditure depends on the future course of business and the development of income. Due to the existing borrowed capital, a portion of income has to be used to pay interest and service debt. An increase in the total interest-bearing liabilities could possibly make it more difficult for the Company to fulfil the payment obligations for its bonds and loans taken out.

Covenant clauses that are customary in the market and are based on IFRS consolidated financial statements and individual contractual agreements are in place for existing financing from bonds or loans. They primarily require the Company to comply with minimum adjusted equity requirements, maintain a minimum liquidity level and comply with loan-to-value ratios. In the course of 2017 and as at 31 December 2017, all of the covenants were complied with. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period.

The bonds issued entail certain limitations with regard to possible payments to the shareholders and subordinated creditors. In addition, there are termination clauses which are customary in the market relating to much of the financial debt in the event that more than 50% of the Company's shares are acquired by a third party.

**Risks arising from the impairment of goodwill and other intangible assets**

As at 31 December 2017, the goodwill recognised in the consolidated statement of financial position amounted to EUR 1,486.8 million (previous year: EUR 1,661.6 million). Other intangible assets totalled a further EUR 1,785.5 million as at the balance sheet date of 31 December 2017 (previous year: EUR 1,340.4 million). Together, this represented 22.1% of the balance sheet total (previous year: 26.5%). In the event that an impairment test identifies the need to recognise an impairment charge for goodwill or for other intangible assets, this could have a significant negative effect on Hapag-Lloyd's earnings position and equity base. An impairment test as at 31 December 2017 did not identify any need for an impairment charge. As a result, the probability of a potential need for an impairment of goodwill or other intangible assets is classified as low at the time of reporting.



**Risks arising from the impairment of the investment in Container Terminal Altenwerder GmbH**

Hapag-Lloyd has a 25.1% stake in Container Terminal Altenwerder GmbH ("CTA"). CTA operates Container Terminal Altenwerder in the Port of Hamburg. CTA's earnings position, and therefore its dividend distributions and investment value, are dependent on container throughput at the terminal. This is also dependent on the continuation of the project to dredge and widen the Elbe shipping channel. A decrease in container throughput would have a negative impact on the earnings position and could negatively affect CTA's investment carrying amount.

**Risks arising from differing perspectives on the operation of joint ventures**

Hapag-Lloyd currently operates a range of companies together with partners (subsidiaries with non-controlling interests and equity-accounted investees). As a result of the merger with UASC, the number of joint ventures increased. Differing perspectives regarding the operation and strategic focus of these joint ventures could have a considerable impact on the operational performance of these companies and their value.

**Risks arising from Hapag-Lloyd AG having a low equity base**

As at 31 December 2017, Hapag-Lloyd AG's equity in the individual financial statements prepared under German commercial law totalled EUR 3,196.1 million (previous year: EUR 1,143.9 million) and was therefore significantly lower than the Group's equity. The equity ratio according to the German Commercial Code of 32.3% as at 31 December 2017 was significantly higher than in the previous year (previous year: 16.2%). Hapag-Lloyd AG's financial debt as at 31 December 2017 was EUR 2,732 million (previous year: EUR 3,272.0 million). If another loss-making situation occurs, this could have an adverse effect on Hapag-Lloyd AG's equity base under German commercial law and its ability to pay dividends. This could result, for example, from losses under German commercial law due to exchange rate changes with the US dollar. The probability of occurrence is classified as low. The current US dollar/euro exchange rate is USD 1.20/EUR as at 31 December 2017 (previous year: USD 1.06/EUR).

The authorised share capital of Hapag-Lloyd AG is approximately EUR 11 million as at the balance sheet date. The Executive Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital by this amount up to 30 April 2022 by issuing new no-par shares, thereby strengthening the Company's equity.

**Risks from a downgrading of the rating**

The bonds issued are assessed by the rating agencies Moody's and Standard & Poor's. In principle, the Company intends its future bond issues to be rated in the same way. The credit rating given by the rating agencies influences the Group's ability to take on additional financial debt. Any downgrading of the Hapag-Lloyd Group's rating or that of the bonds it issues could

result in less favourable conditions for raising new funds and could adversely affect the price and the fungibility of the securities it has already issued. For example, if there is a sustained deterioration in the Hapag-Lloyd Group's earnings position, the rating agencies could downgrade Hapag-Lloyd's creditworthiness.

The international rating agency Standard & Poor's is currently rating Hapag-Lloyd with an issuer rating of B+ and upgraded the outlook for Hapag-Lloyd AG to stable on 12 December 2017. Therefore the rating agency improved the outlook for the Company twice in the 2017 financial year (December 2016: credit watch negative; June 2017: negative). On 20 July 2017, the rating agency Moody's confirmed Hapag-Lloyd's unchanged corporate rating of B2 and an outlook of stable. Both rating agencies took a positive view of the acquisition of UASC's business activities with regard to Hapag-Lloyd's competitiveness and the opportunity to achieve additional cost savings. Both rating agencies indicated the possibility of a rating downgrade if Hapag-Lloyd was unable to reduce its high level of debt following the merger with UASC as announced. Such a rating downgrade could have negative effects on the financing costs of Hapag-Lloyd, which in turn would adversely affect the earnings position.

#### **RISKS ARISING FROM THE TAKEOVER OF UASC**

The merger with UASC took place on 24 May 2017, and the operational integration was completed by the end of November 2017.

##### **Risks arising from the potential failure to achieve the planned synergies**

The merger with UASC is expected to deliver annual synergies of approximately USD 435 million from 2019. These synergies are expected to occur as a result of optimisations in the network and personnel areas and administrative functions. The UASC transaction and the realisation of synergies are expected to result in one-off expenses totalling USD 115 million. Until the balance sheet date 31 December 2017 one-off expenses of USD 105 million have already been incurred.

If the planned synergies cannot be achieved in full and/or the one-off expenses are significantly higher than predicted, this would have considerable negative effects on Hapag-Lloyd's future earnings.

**Risks arising from a substantially higher level of debt**

The takeover of UASC's business activities led to a considerable rise in Hapag-Lloyd's level of debt. Future cash and cash equivalents and freely available cash flows may not be enough to quickly reduce the level of debt as planned. This, in turn, would have considerable negative effects on Hapag-Lloyd's financial situation and solidity.

**Risks arising from a larger fleet**

As a result of the completed merger with UASC, Hapag-Lloyd has acquired the company's fleet of ships. If the actual cargo volume is not enough to fill the expanded transport capacities, the resulting overcapacities could have an adverse effect on Hapag-Lloyd's earnings.

**Risks arising from the increase in intangible assets**

The integration of UASC's business activities increased intangible assets from EUR 3,002 million to EUR 3,272 million on Hapag-Lloyd's balance sheet. In the event that an impairment test identifies the need to recognise an impairment charge for goodwill or for other intangible assets, this could have a significant negative effect on Hapag-Lloyd's earnings position and equity base. An impairment could result amongst others from an increase in the general, currently very low, interest rate level.

**SUMMARISED OVERVIEW OF CORPORATE RISKS**

The key risks relate to a possible decline in transport volume, a noticeably negative trend in average freight rates, a potentially sharp rise in average bunker prices, a sustained depreciation of the US dollar against the euro, liquidity developments that were much poorer than expected, the lower earnings contribution of efficiency projects and the expected synergies from the UASC integration. The probability of the potential risks occurring and their potential impact on corporate development were classified on the basis of the system for assessing the Group's risk situation in internal Group risk management reports (based on internal sensitivity analyses and models).

The operating risk situation was also compared with that of the previous year. The details relating to possible effects on the Group net result are netted, i. e. after the effects of risk mitigation measures have been accounted for. The probability of possible risks occurring based on the annual budget for the 2018 financial year as at the time of preparation of the management report is classified as follows:

- Low: The probability of occurrence is 25% or less
- Medium: The probability of occurrence is more than 25% and up to 50%
- Hoch: The probability of occurrence is more than 50%

After taking countermeasures into consideration, the possible effects on the Group operating result (EBIT) in the financial year were recalibrated in the reporting year and are classified as follows:

- Low: In the event of occurrence, the negative impact on the Group's earnings before interest and taxes (EBIT) will be up to USD 100 million (previous year: up to USD 100 million)
- Medium: In the event of occurrence, the negative impact on the Group's earnings before interest and taxes (EBIT) will be more than USD 100 million and up to USD 250 million (previous year: more than USD 100 million and up to USD 250 million)
- High: In the event of occurrence, the negative impact on the Group's earnings before interest and taxes (EBIT) will be more than USD 250 million (previous year: more than USD 250 million)

The assessment of the risk situation compared to the previous year results from the change in the probability of occurrence:

- Lower: The probability of occurrence has considerably decreased
- Equal: The probability of occurrence is unchanged
- Higher: The probability of occurrence has considerably increased

### Key risks

| Risk                                     | Probability of occurrence | Potential impact | Probability of occurrence in 2018 in comparison to the previous year |
|--|---------------------------|------------------|--|
| Decrease in transport volume             | Low                       | Low              | Equal  |
| Decrease in average freight rate         | Medium                    | High             | Equal  |
| Decline in USD vs. EUR                   | High                      | Low              | Higher   |
| Rise in bunker consumption prices        | High                      | Medium           | Higher   |
| Liquidity*                               | Low                       | High             | Equal  |
| Lower earnings contribution of synergies | Low                       | High             | n. a.  |

\* The assessment relates to the impact on the covenants to be complied with and on the liquidity situation.

In the previous year reference was made to the contribution to earnings by the efficiency programs. For the financial year 2017 the synergies from the merger with UASC have gained greater importance.

## OPPORTUNITIES

### **Opportunities management – strategic focus on opportunities**

At Hapag-Lloyd, recognising and exploiting opportunities are core elements of strategic management. Basis for the identification of opportunities are the systematic observation and analysis of developments on the markets relevant to the Company and general and sector-specific trends from which opportunities can be derived and assessed. This analysis and assessment forms the basis for the initiation of measures which are geared towards long-term profitable growth and are designed to contribute to a lasting increase in the Company's value. As one of the world's leading container liner shipping companies, Hapag-Lloyd is subject to a wide range of developments on the domestic and international markets. The general conditions described in this report and the information regarding market, competition and business developments reveal a diversity of potential opportunities.

By utilising and enhancing its own strengths and competitive advantages, Hapag-Lloyd strives to exploit any potential opportunities that arise to the greatest possible extent. The continuous identification of potential opportunities is an integral part of the strategy described in the chapter "Group objectives and strategy". Significant potential opportunities arise from the following developments:

### **STRATEGIC AND OPERATIONAL OPPORTUNITIES**

#### **General economic opportunities**

Container shipping is heavily dependent on the general prevailing conditions in the world's economies. Fluctuations in the economic climate have a strong, disproportionately high effect on this industry. The development of freight rates, which have a significant influence on Hapag-Lloyd's financial and earnings position, are particularly dependent on the transport volume on the routes and therefore on the economic development. According to IMF estimates, in 2018, the world trade volume may grow by 4.6%, a similarly strong pace to 2017 (+4.7%). IHS Global Insight believes that the volume of global container shipments will rise by 4.9% in 2018 and therefore at a somewhat faster rate than in 2017 (4.7%). Furthermore, all trades can expect to see an increase in transport volumes in 2018. If the economic recovery and, by extension, the demand for container shipping services progresses at a faster rate than forecast in the current year, this would present an opportunity to achieve additional volume growth.

#### **Opportunities arising from changes in trade flows**

The increasing industrialisation of the emerging economic regions in Latin America, Asia and Africa, and the rising consumption-related demand in these countries may result in more goods being exchanged between these countries and with industrialised nations. This could offer additional opportunities for growth in container shipping in 2018, particularly if the emerging markets are able to overcome their current weak growth in the course of 2018. Hapag-Lloyd is endeavouring to make the most of these opportunities with a suitable service network.

**Opportunities arising from developments in ship and container capacities**

The market fluctuations between the supply of and demand for transport services can lead to opportunities as a result of the achievement of cost advantages and increasing freight rates. These opportunities are exemplified as follows:

If there is a large inventory of chartered ships, there may be cost advantages lasting several months if ships are chartered at favourable rates and the freight rates increase as a result of higher demand.

Hapag-Lloyd is working continuously on the further development of IT-based forecast models in order to minimise empty legs and reduce the costs incurred because of them. This results in cost advantages if efforts to reduce the empty leg ratio to below the market average prove to be successful. This in turn would have a positive effect on the earnings position of Hapag-Lloyd.

**Opportunities arising from membership of THE Alliance**

Hapag-Lloyd's membership of alliances puts it in a position to offer its own customers a more comprehensive network of liner services on important trades with regular departure times, which would not be possible with its own fleet. This means the Company is better able to capitalise on opportunities arising from developments in transport volumes and ship capacities.

A possible expansion of the services and collaboration within THE Alliance, for example into hinterland transport, could provide additional growth opportunities.

**Opportunities arising from local market leadership**

The merger between Hapag-Lloyd and UASC took place on 24 May 2017, and the integration was completed by the end of November 2017. The integration of UASC's business activities has strengthened Hapag-Lloyd's market position in the Far East trade and provides it with market access to the attractive Middle East trade. This gives the Company the opportunity to increase its share of container shipments in these trades.

With its acquisition of CSAV's container shipping activities, Hapag-Lloyd had already enhanced its market position in the North and South America trades in particular, and also its local market leadership in the Transatlantic trade.

**Opportunities arising from industry consolidation**

Container shipping is still going through a phase of consolidation. In December 2014, Hapag-Lloyd took over CSAV's container shipping activities. The legal merger between Hapag-Lloyd and UASC occurred on 24 May 2017. If Hapag-Lloyd were to take an active role in another process of consolidation, this could result in a stronger competitive position with a larger alliance of companies. This could then translate into additional revenue and earnings for the Company.

**Opportunities arising from the trend towards sustainability and energy efficiency**

The launch of five ships with a transport capacity of 10,500 TEU each in 2016 and 2017 and the replacement of smaller ships by those with a larger transport capacity meant that the fuel efficiency of shipments as measured in terms of bunker consumption per slot improved further in 2017. Furthermore, Hapag-Lloyd acquired UASC's young and efficient fleet as a result of the merger. The use of these ships will also have a positive effect on the efficiency of the Hapag-Lloyd fleet. A further reduction in bunker consumption per shipped container by using more efficient ships may lead to a decline in consumption-related costs.

**FINANCIAL OPPORTUNITIES****Opportunities arising from improvements to financing options in the shipping industry**

A number of major banks continue to remain cautious with regard to providing ship loans. Although Hapag-Lloyd was able to successfully secure key financing in 2017, a less restrictive lending policy would give the Company additional options in raising financing for possible growth-related investments.

**Opportunities arising from an improvement in the company rating**

The international rating agency Standard & Poor's has given Hapag-Lloyd an issuer rating of B+ and upgraded the outlook for Hapag-Lloyd AG to stable on 12 December 2017. This means that the rating agency improved the outlook for the Company twice in the 2017 financial year (December 2016: credit watch negative; June 2017: negative). On 20 July 2017, the rating agency Moody's confirmed Hapag-Lloyd's unchanged corporate rating of B2 and an outlook of stable. Both rating agencies took a positive view of the acquisition of UASC's business activities with regard to Hapag-Lloyd's competitiveness and the opportunity to achieve additional cost savings. If there is a further significant improvement in Hapag-Lloyd's earnings position, the rating agencies could upgrade its company rating. An improved company rating could result in lower finance costs.

**Opportunities arising from improved access to the capital market**

The shares of Hapag-Lloyd AG have been listed on the Prime Standard segment of the Frankfurt Stock Exchange since 6 November 2015. Following its successful IPO, Hapag-Lloyd has strengthened its equity base and improved its access to the capital market. As a listed company, there are a wider range of financing options available to Hapag-Lloyd if it needs to obtain financing in the future, e. g. through the increased issuing of corporate bonds.



## OPPORTUNITIES ARISING FROM THE TAKEOVER OF UASC

### **Opportunities arising from greater than planned synergies**

The merger with UASC should generate annual synergies of approximately USD 435 million from 2019 onwards, thanks in particular to the optimisation of the joint network and administrative functions. One-off expenses of approximately USD 115 million are likely to arise from the transition and implementation of the merger. If the planned synergies are greater than planned, this would have considerable positive effects on Hapag-Lloyd's earnings.

### **Opportunities arising from a stronger presence in the Far East and Middle East trades**

The planned takeover of UASC's business activities would enable Hapag-Lloyd to strengthen its presence in the Far East and Middle East trades. This would increase the influence of these trades on Hapag-Lloyd's performance as a company. Its earnings position could be positively affected by higher than expected economic growth in the Middle East and Far East regions as well as a higher than predicted cargo volume.

### **Opportunities arising from a larger fleet**

The merger between Hapag-Lloyd and UASC took place on 24 May 2017. Following the merger, UASC's fleet is now available to Hapag-Lloyd. If the development of the cargo volume is higher than predicted, resulting in greater than planned utilisation of the expanded transport capacities, this would have a significantly positive impact on Hapag-Lloyd's earnings.

## SUMMARISED OVERVIEW OF CORPORATE OPPORTUNITIES

In the opinion of Hapag-Lloyd's Executive Board, the key opportunities relate to the speedy implementation of the integration of UASC's business activities into the Hapag-Lloyd Group and the resulting synergies, a noticeably positive trend in average freight rates, a much sharper than expected increase in transport volume and the appreciation of the US dollar against the euro.

These opportunities are regularly analysed and discussed in Hapag-Lloyd's management bodies. The Executive Board informs the Supervisory Board about the potential impact of the aforementioned opportunities on the Company's performance in its scheduled meetings and in individual discussions.

### Key opportunities

| Opportunities                             | Probability of occurrence | Potential impact | Probability of occurrence in 2018 in comparison to the previous year |
|---|---------------------------|------------------|--|
| Increase in transport volume              | High                      | Low              | Equal  |
| Increase in average freight rate          | Medium                    | High             | Equal  |
| Increase in USD vs. EUR                   | Low                       | Low              | Lower  |
| Decrease in bunker consumption prices     | Low                       | Medium           | Lower  |
| Higher earnings contribution of synergies | High                      | Low              | n. a.  |

In the previous year reference was made to the contribution to earnings by the efficiency programs. For the financial year 2017 the synergies from the merger with UASC have gained greater importance.

### OVERALL ASSESSMENT OF RISKS AND OPPORTUNITIES

The assessment of Hapag-Lloyd's overall risk situation is the result of an examination of all of the Group's significant individual risks as they affect the Group as a whole. After the balance sheet date of 31 December 2017, there are currently no indications of any risks, either alone or in combination with other risks, which endanger the continued existence of Hapag-Lloyd as a going concern. The once again solid balance sheet and the more than sufficient liquidity situation provide a stable foundation for Hapag-Lloyd's expected organic growth. In light of the continuing macroeconomic and geopolitical uncertainties in 2018, the assessment of overall risk remains unchanged from 2017.

The main risk facing Hapag-Lloyd in 2018 continues to be a market environment characterised by a strong level of competition, which could lead to renewed pressure on freight rates and, in turn, to a significant potential impact on the earnings position. The outlook for global economic performance is stable, and this should lead to increasing global trade and therefore to growing demand for container transport services.

# DISCLOSURES AND NOTES RELEVANT TO THE TAKEOVER

## REPORT PURSUANT TO SECTION SECTION 289 a (1) OF THE GERMAN COMMERCIAL CODE (HGB)

### 1. Composition of subscribed capital

The Company's subscribed capital totalled EUR 175,760,293.00 as at the balance sheet date. It is divided into 175,760,293 no-par registered shares, with each individual share representing EUR 1.00 of the share capital. The shares are ordinary shares, without exception. Different share classes are not issued and are not provided for in the articles of association. Each share is eligible for voting rights and dividends from the time that it is created. Each share grants one vote at the Annual General Meeting (Section 15 [1] of the articles of association).

### 2. Restrictions which affect voting rights or the transfer of shares

On 16 April 2014, CSAV Germany Container Holding GmbH, Hamburg ("CG Hold Co"), HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg ("HGV") and Kühne Maritime GmbH, Hamburg ("Kühne") (CG Hold Co, HGV and Kühne also jointly referred to as the "Anchor Shareholders") entered into a shareholders' agreement (as amended and acceded to by Compañía Sud Americana de Vapores S.A., Santiago, Chile ["CSAV"] and Tollo Shipping Co. S.A., Panamá, Panama, on 17 November 2014, the "Shareholders' Agreement"), in which the parties agreed to pool their voting rights. The voting rights were originally pooled through a consortium company, Hamburg Container Lines Holding GmbH & Co. KG. In conjunction with the business combination with United Arab Shipping Company Ltd., the Anchor Shareholders revised, amended and restated the agreement (the "New Shareholders' Agreement") and agreed that the pooling of the voting rights through the consortium company should only be applied until the end of the day of the 2017 Annual General Meeting. CG Hold Co, HGV and Kühne agreed under the New Shareholders' Agreement to uniformly exercise any and all voting rights after this point in time by issuing a common voting proxy and giving binding instructions to an agent. To ensure a uniform voting, the Anchor Shareholders intend to pass a resolution on how the pooled votes shall be cast prior to shareholders' meetings. If the Anchor Shareholders are unable to pass a unanimous resolution on their voting for any agenda item, the decision will be transferred to the decision-makers of the Anchor Shareholders' ultimate shareholders. If the ultimate shareholders cannot pass a unanimous decision either, the Anchor Shareholders should cast the votes (a) against the measure with regard to resolutions requiring a 75% majority of the votes cast or of the subscribed capital present at the time of adoption of the resolution pursuant to mandatory law or the articles of association or (b) each at their own discretion regarding the respective shares of each of the Anchor Shareholders on resolution proposals which, pursuant to mandatory law or the articles of association, require a simple majority.

By coordinating their voting rights, the shareholders will be in a position to exert a significant influence on the Annual General Meeting and, consequently, on matters decided at the Annual General Meeting, including the appointment of the Company's Supervisory Board, the distribution of dividends or proposed capital increases.

Although the New Shareholders' Agreement shall have a fixed term until 30 November 2024, the parties are free to dispose of their shares. The parties have granted each other a right of first refusal in the event that one party would like to sell shares representing a certain portion of voting rights.

On 28 September 2017, CG Hold Co, Kühne, Qatar Holding Germany GmbH and the Public Investment Fund of the Kingdom of Saudi Arabia entered into an Irrevocable Take-up Commitment in connection with the capital increase of Hapag-Lloyd AG registered on 17 October 2017 and undertook to the Joint Global Coordinators (Goldman Sachs International and Joh. Berenberg, Gossler & Co. KG), Hapag-Lloyd AG and the other shareholders involved not to dispose of their shares during a period of 90 days after the completion of the rights offering without the prior consent of Joint Global Coordinators. The restrictions shall not apply to transfers among the four shareholders involved or the four shareholders and HGV or in the event of a takeover offer in respect of Hapag-Lloyd AG.

### 3. Shareholdings which exceed 10% of the voting rights

At the time of preparation of the financial statements, the Company had received the following information about shareholdings subject to mandatory disclosure pursuant to Section 160 (1) (8) of the German Stock Corporation Act (AktG). The following voting right announcements do not take account of the total number of voting rights existing at the end of the reporting period:

Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH, Hamburg, Germany, notified us on 6 November 2015 pursuant to Section 21 (1a) of the German Securities Trading Act (WpHG) that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 20.63% of the voting rights (corresponding to 24,363,475 voting rights) are held directly by the Company. 50.94% of the voting rights (corresponding to 60,160,816 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through CSAV Germany Container Holding GmbH and Kühne Maritime GmbH.

The Luksburg Stiftung, Vaduz, Liechtenstein, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, Compañía Sud Americana de Vapores S.A., Quiñenco S.A., Andsberg Inversiones Limitada, Ruana Copper A.G. Agencia Chile and Inversiones Orenge S.A., of which 3% or more are assigned in each case.

Inversiones Orenco S.A., Santiago, Chile, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, Compañía Sud Americana de Vapores S.A. and Quiñenco S.A., of which 3% or more are assigned in each case.

Ruana Copper A.G. Agencia Chile, Santiago, Chile, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, Compañía Sud Americana de Vapores S.A. and Quiñenco S.A., of which 3% or more are assigned in each case.

Quiñenco S.A., Santiago, Chile, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH and Compañía Sud Americana de Vapores S.A., of which 3% or more are assigned in each case.

Compañía Sud Americana de Vapores S.A., Santiago, Chile, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, of which 3% or more are assigned in each case.

CSAV Germany Container Holding GmbH, Hamburg, Germany, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are held directly by the Company. 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH.

Andsberg Inversiones Limitada, Santiago, Chile, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, Compañía Sud Americana de Vapores S.A. and Quiñenco S.A., of which 3% or more are assigned in each case.

Mr Klaus-Michael Kühne, Switzerland, notified us on 6 November 2015 pursuant to Section 21 (1a) WpHG that his share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 72.20% (corresponding to 85,274,291 voting rights). 51.98% of the voting rights (corresponding to 61,396,218 voting rights) are attributable to Mr Kühne pursuant to Section 22 (2) WpHG through CSAV Germany Container Holding GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. 20.22% of the voting rights (corresponding to 23,878,073 voting rights) are attributable to him pursuant to Section 22 (1) (1) (1) WpHG through Kühne Holding AG and Kühne Maritime GmbH, of which 3% or more are assigned in each case.

Kühne Holding AG, Schindellegi, Switzerland, notified us on 6 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 72.20% (corresponding to 85,274,291 voting rights). 51.98% of the voting rights (corresponding to 61,396,218 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through CSAV Germany Container Holding GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. 19.58% of the voting rights (corresponding to 23,128,073 voting rights) are attributable to the Company through Kühne Maritime GmbH pursuant to Section 22 (1) (1) (1) WpHG, of which 3% or more are assigned.

The Free and Hanseatic City of Hamburg, Germany, notified us on 6 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 50.94% of the voting rights (corresponding to 60,160,816

voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and CSAV Germany Container Holding GmbH. 20.63% of the voting rights (corresponding to 24,363,475 voting rights) are attributable to the Company through HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH pursuant to Section 22 (1) (1) WpHG, of which 3% or more are assigned.

Kühne Maritime GmbH, Hamburg, Germany, notified us on 6 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 19.58% of the voting rights (corresponding to 23,128,073 voting rights) are held directly by the Company. 51.98% of the voting rights (corresponding to 61,396,218 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through CSAV Germany Container Holding GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH.

The Public Investment Fund of the Kingdom of Saudi Arabia, Riyadh, Saudi Arabia, notified us on 24 May 2017 pursuant to Section 21 (1) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 24 May 2017 was 10.14% (corresponding to 16,637,197 voting rights).

The State of Qatar, acting through the Qatar Investment Authority, Doha, Qatar, notified us on 24 May 2017 pursuant to Section 21 (1) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 24 May 2017 was 14.43% (corresponding to 23,663,648 voting rights). All of the aforementioned voting rights are attributable to the State of Qatar, acting through the Qatar Investment Authority, Doha, Qatar, pursuant to Section 22 (1) of the German Securities Trading Act (WpHG). The companies through which the voting rights are held are (starting with the top subsidiary): Qatar Holding LLC, Doha, Qatar, Qatar Holding Luxembourg II S.à.r.l., Luxembourg, Qatar Holding Netherlands B.V., Amsterdam, Netherlands, Qatar Holding Germany GmbH, Frankfurt am Main, Germany.

#### **4. Holders of shares with special rights**

There are no shares with special rights that confer powers of control.

#### **5. Type of voting right control for employee investments**

The Company is not aware of any employees who hold an interest in its capital and do not exercise their control over voting rights directly.

#### **6. Rules on appointing and discharging members of the Executive Board and on amending the articles of association**

The guidelines on the appointment and discharge of members of the Executive Board are based on Sections 84 and 85 of the German Stock Corporation Act (AktG) and on Section 31 of the German Co-Determination Act (MitbestG) in conjunction with Section 7 (1) of the articles of association. Pursuant to Section 7 (1) of the articles of association the Executive Board shall comprise not less than two members. The Supervisory Board determines the number of members of the Executive Board taking into account the minimum number, it may appoint one member of the Executive Board as Chairman and may appoint deputy members of the Executive Board.



The articles of association can only be amended by a resolution of the Annual General Meeting in accordance with Section 179 of the German Stock Corporation Act (AktG). The resolution of the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is being adopted; Sections 179 ff. of the German Stock Corporation Act (AktG) are applicable. In accordance with Section 20 of the articles of association, the Supervisory Board is authorised to make amendments to the articles of association which only affect the wording. The Supervisory Board is also entitled to amend the wording of the articles of association after a share capital increase from the Authorised Capital 2017 and after the authorisation period expires, in accordance with the amount of the capital increase.

#### **7. Powers of the Executive Board, in particular regarding the option of issuing or buying back shares**

In accordance with Section 5 (3) of the articles of association, the Executive Board, subject to the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to EUR 11,282,647.00 fully or in partial amounts, on one or more occasions up to 30 April 2022 by issuing up to 11,282,647 new no-par registered shares against cash contributions and/or contributions in kind (Authorised Capital 2017). As a general rule, subscription rights must be granted to the shareholders. The new shares can also be taken up by one or more banks, with the obligation to offer them to the shareholders for subscription.

Under certain circumstances and subject to the approval of the Supervisory Board, the Executive Board is authorised to exclude the subscription rights of the shareholders in order to exclude fractional amounts from the subscription right.

Section 71 of the German Stock Corporation Act (AktG) includes rules regarding the acquisition of own shares. Furthermore, there is no authorisation of the Executive Board granted by the Annual General Meeting to buy back own shares.

#### **8. Significant agreements of the Company which are subject to the condition of a change of control following a takeover bid, and the resulting effects**

The following significant agreements which are subject to the condition of a change of control are in place at the Company:

- a) As part of two bonds issued by the Company with a value totalling EUR 900 million, the Company is obliged to offer to buy back the bonds from the bondholders at an amount equal to 101% of the respective nominal value plus interest accrued if, among other reasons, a third party who is not an Anchor Shareholder, IDUNA Vereinigte Lebensversicherung auf Gegenseitigkeit für Handwerk, Handel und Gewerbe, HSH Nordbank AG, HanseMercur Krankenversicherung AG, HanseMercur Lebensversicherung AG, M.M.Warburg & CO Gruppe (GmbH & Co) KGaA (jointly also referred to as the "Key Shareholders"), Qatar Holding LLC, the Public Investment Fund of the Kingdom of Saudi Arabia or TUI AG, directly or indirectly acquires more than 50% of the voting rights of the Company's shares.

- b) As part of various ship, container and other bank financing arrangements with outstanding repayment amounts and fixed financing commitments with a value totalling EUR 6,340 million (USD 7,600 million), the respective lenders have an extraordinary right of termination in the event of a qualified change of control at the Company. If the outstanding amounts after the termination cannot be settled or refinanced, the creditors will have, among other options, recourse to the financed assets if necessary.
- c) As part of syndicated credit facilities with a value totalling EUR 455 million (USD 545 million), the respective lenders are entitled to terminate the loan commitment and/or seek repayment of the amounts already utilised in the event of a qualified change of control at the Company. If the outstanding amounts after the termination cannot be settled or refinanced, the creditors will have recourse to the collateralised assets to a certain extent.

The qualified change of control mentioned in b) and c) occurs if:

- the voting percentage jointly held in the Company by the Key Shareholders, TUI AG and other shareholders who have entered into a voting agreement or a comparable agreement with a Key Shareholder or TUI AG (“Other shareholders with a voting agreement”) (i) falls to 25% or less, or (ii) falls below the percentage held by a third-party shareholder or by persons or groups acting together with this third-party shareholder within the meaning of Section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG); or
- the voting percentage jointly held by the Key Shareholders and TUI AG falls below the voting percentage held by Other shareholders with a voting agreement; or
- one of the Anchor Shareholders (including all of its affiliated companies) individually (directly or indirectly) holds 50% or more of the voting rights in the Company.

#### **9. Company compensation agreements with Executive Board members or employees in the event of a takeover bid**

Company compensation agreements which are entered into with the members of the Executive Board or employees in the event of a takeover bid are not in place.

## OUTLOOK

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

In its latest economic outlook (January 2018), the International Monetary Fund (IMF) expects global economic growth to reach 3.9% in the current year. This forecast means that the global economy is set to grow at a slightly faster rate in 2018 than in the previous year (+3.7%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 4.6% in 2018 (2017: +4.7%). This means that in 2018 the growth in global trade will once again outpace that of the global economy. IHS Global Insight (November 2017) is forecasting that the global container shipping volume will increase by 4.9% to approximately 146 million TEU in 2018 (2017: 4.7%). As such, the expected rise in worldwide transport volumes in container shipping for 2018 would be in line with the rate of growth or global trade.

Following a rise in transport capacities (following scrapping and delays in deliveries) of approximately 0.8 million TEU to 20.8 million TEU in 2017, Drewry forecasts a nominal increase in transport capacities of up to approximately 1.2 million TEU for the current year. The anticipated significant rise, caused by the relatively high number of deliveries of large vessels, could again make it more difficult to implement freight rate increases in 2018.

Hapag-Lloyd is expecting a significant increase in its transport volume in 2018 – due in part to the inclusion of UASC's business activities for the whole year. The UASC Group will be included in the consolidated financial statements of Hapag-Lloyd AG for a full twelve months for the first time in 2018 (previous financial year: inclusion of the UASC Group from 24 May 2017). This will involve – in addition to the significant rise in volume – a larger weighting for the Middle East and Far East trades when calculating the average freight rate. These trades currently have a lower freight rate level than some of Hapag-Lloyd's other trades. Assuming that the general recovery of freight rates continues, Hapag-Lloyd's average freight rate in 2018 is likely to be around the same as in the previous year. Hapag-Lloyd is also expecting a substantial rise in the average bunker consumption price in 2018.

Provided that the expected freight rate is achieved and a significant portion of the synergies from the merger with UASC are realised, along with the expected improvement in the quality of earnings and the anticipated growth in volumes, Hapag-Lloyd is forecasting a substantial year-on-year increase in its EBITDA and EBIT in 2018. This assumption also takes account of the additional one-off expenses of around USD 10 million which are expected as a result of the merger and integration. Not accounted for here are impairments on goodwill, other intangible assets and property, plant and equipment. Although not expected at present, these cannot be ruled out, given current geopolitical developments and other factors.

**Key benchmark figures for the 2018 outlook**

|  |                          |
|--|--------------------------|
| Global economic growth (IMF)   | 3.9%                     |
| Increase in global trade (IMF)   | 4.6%                     |
| Increase in global container transport volume (IHS)                                  | 4.9%                     |
| Transport volume, Hapag-Lloyd  | Increasing clearly       |
| Average bunker consumption prices, Hapag-Lloyd                                       | Increasing clearly       |
| Average freight rate, Hapag-Lloyd  | On previous year's level |
| EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd | Increasing clearly       |
| EBIT (earnings before interest and taxes), Hapag-Lloyd                               | Increasing clearly       |

The revenue and earnings forecast is based on the assumption of unchanged exchange rates compared with the average rates in the fourth quarter of the previous year.

The majority of the earnings are expected to be generated in the second half of the year, particularly in the third quarter, when the peak season occurs. This is because the volume of global trade fluctuates throughout the year and is usually much higher in the second half of the year than in the first.

Risks that may have an impact on the forecast for business development are described in detail in the risk report. Significant risks for the Group's revenue and earnings development include in particular a renewed slowdown in global economic and trade volume growth, a significant and lasting rise in bunker prices extending beyond the level seen at the end of 2017, a sharp and persistent increase in the euro against the US dollar and a renewed reduction in freight rates. Additional risks could result from the consolidation of the industry and changes in the composition of global alliances.

The occurrence of one or more of these risks could have a significant negative impact on the industry in 2018 and, by extension, on the business development of Hapag-Lloyd in the current financial year.

Hamburg, 23 March 2018

**Hapag-Lloyd AG**

Executive Board



Rolf Habben Jansen



Nicolás Burr



Anthony J. Firmin



Thorsten Haeser

# CONSOLIDATED FINANCIAL STATEMENTS

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## CONSOLIDATED INCOME STATEMENT

of Hapag-Lloyd AG for the period 1 January to 31 December 2017

| million EUR   | Notes | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|-------|---------------------|---------------------|
| Revenue   | (1)   | 9,973.4             | 7,734.2             |
| Other operating income                                    | (2)   | 133.0               | 97.1                |
| Transport expenses  | (3)   | 7,990.0             | 6,364.0             |
| Personnel expenses  | (4)   | 679.8               | 496.1               |
| Depreciation, amortisation and impairment                 | (5)   | 643.6               | 481.0               |
| Other operating expenses                                  | (6)   | 439.1               | 386.2               |
| <b>Operating result</b>                                   |       | <b>353.9</b>        | <b>104.0</b>        |
| Share of profit of equity-accounted investees             | (13)  | 38.1                | 27.1                |
| Other financial result                                    | (7)   | 18.9                | -4.7                |
| <b>Earnings before interest and taxes (EBIT)</b>          |       | <b>410.9</b>        | <b>126.4</b>        |
| Interest income   | (8)   | 11.3                | 5.7                 |
| Interest expenses   | (8)   | 366.0               | 205.5               |
| <b>Earnings before income taxes</b>                       |       | <b>56.2</b>         | <b>-73.4</b>        |
| Income taxes  | (9)   | 24.1                | 19.7                |
| <b>Group profit/loss</b>                                  |       | <b>32.1</b>         | <b>-93.1</b>        |
| thereof attributable to shareholders<br>of Hapag-Lloyd AG |       | 27.4                | -96.6               |
| thereof attributable to non-controlling interests         | (22)  | 4.7                 | 3.5                 |
| <b>Basic/diluted earnings per share (in EUR)</b>          | (10)  | <b>0.19</b>         | <b>-0.82</b>        |



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of Hapag-Lloyd AG for the period 1 January to 31 December 2017

| million EUR  | Notes | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|-------|---------------------|---------------------|
| <b>Group profit/loss</b>   |       | <b>32.1</b>         | <b>-93.1</b>        |
| <b>Items which will not be reclassified to profit or loss:</b>         |       |                     |                     |
| Remeasurements from defined benefit plans after tax                    | (21)  | 0.1                 | -43.7               |
| Remeasurements from defined benefit plans before tax                   |       | 0.6                 | -45.3               |
| Tax effect   |       | -0.5                | 1.6                 |
| Currency translation differences (no tax effect)*                      | (21)  | -670.3              | 156.5               |
| <b>Items which may be reclassified to profit or loss:</b>              |       |                     |                     |
| Cash flow hedges (no tax effect)                                       | (21)  | 5.6                 | 4.2                 |
| Effective share of the changes in fair value                           |       | 103.2               | -17.9               |
| Reclassification to profit or loss                                     |       | -96.7               | 21.9                |
| Currency translation differences                                       |       | -0.9                | 0.2                 |
| Reclassification of currency translation differences to profit or loss | (21)  | 1.3                 | -                   |
| <b>Other comprehensive income after tax</b>                            |       | <b>-663.3</b>       | <b>117.0</b>        |
| <b>Total comprehensive income</b>                                      |       | <b>-631.2</b>       | <b>23.9</b>         |
| thereof attributable to shareholders of Hapag-Lloyd AG                 |       | -635.1              | 20.4                |
| thereof attributable to non-controlling interests                      | (22)  | 3.9                 | 3.5                 |

\* See Note 21 regarding the disclosure of currency translation differences.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of Hapag-Lloyd AG as at 31 December 2017

### ASSETS

| million EUR                               | Notes | 31.12.2017      | 31.12.2016      |
|---|-------|-----------------|-----------------|
| Goodwill                                  | (11)  | 1,486.8         | 1,661.6         |
| Other intangible assets                   | (11)  | 1,785.5         | 1,340.4         |
| Property, plant and equipment             | (12)  | 8,966.5         | 6,315.6         |
| Investments in equity-accounted investees | (13)  | 331.9           | 325.7           |
| Other assets                              | (14)  | 25.7            | 27.0            |
| Derivative financial instruments          | (15)  | 8.6             | 24.1            |
| Receivables from income taxes             | (9)   | 3.8             | 3.3             |
| Deferred tax assets                       | (9)   | 24.7            | 25.2            |
| <b>Non-current assets</b>                 |       | <b>12,633.5</b> | <b>9,722.9</b>  |
| Inventories                               | (16)  | 186.4           | 124.5           |
| Trade accounts receivable                 | (14)  | 887.8           | 677.6           |
| Other assets                              | (14)  | 436.7           | 197.5           |
| Derivative financial instruments          | (15)  | 42.6            | 13.5            |
| Income tax receivables                    | (9)   | 19.6            | 24.7            |
| Cash and cash equivalents                 | (17)  | 604.9           | 570.2           |
| Non-current assets held for sale          | (18)  | 16.3            | –               |
| <b>Current assets</b>                     |       | <b>2,194.3</b>  | <b>1,608.0</b>  |
| <b>Total assets</b>                       |       | <b>14,827.8</b> | <b>11,330.9</b> |

## EQUITY AND LIABILITIES

| million EUR  | Notes | 31.12.2017      | 31.12.2016      |
|--|-------|-----------------|-----------------|
| Subscribed capital   | (19)  | 175.8           | 118.1           |
| Capital reserves   | (19)  | 2,637.4         | 1,061.8         |
| Retained earnings  | (20)  | 3,173.9         | 3,152.9         |
| Cumulative other equity                                      | (21)  | 58.7            | 721.8           |
| <b>Equity attributable to shareholders of Hapag-Lloyd AG</b> |       | <b>6,045.8</b>  | <b>5,054.6</b>  |
| Non-controlling interests                                    | (22)  | 12.5            | 3.8             |
| <b>Equity</b>  |       | <b>6,058.3</b>  | <b>5,058.4</b>  |
| Provisions for pensions and similar obligations              | (23)  | 270.2           | 238.0           |
| Other provisions   | (24)  | 80.0            | 114.0           |
| Financial debt   | (25)  | 5,630.7         | 3,265.5         |
| Other liabilities  | (26)  | 9.5             | 12.1            |
| Derivative financial instruments                             | (27)  | 9.4             | 1.8             |
| Deferred tax liabilities                                     | (9)   | 4.0             | 1.8             |
| <b>Non-current liabilities</b>                               |       | <b>6,003.8</b>  | <b>3,633.2</b>  |
| Provisions for pensions and similar obligations              | (23)  | 20.7            | 6.6             |
| Other provisions   | (24)  | 244.2           | 211.2           |
| Income tax liabilities                                       | (9)   | 34.4            | 17.6            |
| Financial debt   | (25)  | 704.8           | 915.2           |
| Trade accounts payable                                       | (26)  | 1,559.8         | 1,281.6         |
| Other liabilities  | (26)  | 201.8           | 167.8           |
| Derivative financial instruments                             | (27)  | -               | 39.3            |
| <b>Current liabilities</b>                                   |       | <b>2,765.7</b>  | <b>2,639.3</b>  |
| <b>Total equity and liabilities</b>                          |       | <b>14,827.8</b> | <b>11,330.9</b> |

## CONSOLIDATED STATEMENT OF CASH FLOWS

of Hapag-Lloyd AG for the period 1 January to 31 December 2017

| million EUR   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Group profit / loss   | 32.1                | -93.1               |
| Income tax expenses (+)/income (-)  | 24.1                | 19.7                |
| Interest result   | 354.7               | 199.8               |
| Depreciation, amortisation and impairment (+)/ write-backs (-)                          | 643.6               | 481.0               |
| Impairment (+)/write-backs (-) of financial assets                                      | -                   | 0.6                 |
| Other non-cash expenses (+)/income (-)  | 19.8                | -7.6                |
| Profit (-)/loss (+) from hedges for financial debt                                      | -35.5               | 11.3                |
| Profit (-)/loss (+) from disposals of non-current assets and assets held for sale       | 0.0                 | 2.8                 |
| Income (-) expenses (+) from equity-accounted investees and dividends                   | -38.2               | -27.2               |
| Increase (-)/decrease (+) in inventories  | -35.0               | -26.2               |
| Increase (-)/decrease (+) in receivables and other assets                               | -69.2               | 20.1                |
| Increase (+)/decrease (-) in provisions   | -45.1               | -109.6              |
| Increase (+)/decrease (-) in liabilities (excl. financial debt)                         | 51.7                | -46.9               |
| Payments for income taxes   | -11.9               | -9.1                |
| Payments received for interest  | 2.8                 | 1.6                 |
| <b>Cash inflow (+)/outflow (-) from operating activities</b>                            | <b>893.9</b>        | <b>417.2</b>        |
| Payments received from disposals of property, plant and equipment and intangible assets | 33.0                | 6.5                 |
| Payments received from the disposal of other investments                                | 0.9                 | -                   |
| Payments received from dividends  | 29.1                | 28.8                |
| Payments made for investments in property, plant and equipment and intangible assets    | -411.3              | -353.7              |
| Payments made for investments in other investments                                      | -0.5                | -                   |
| Net payments received from acquisitions   | 380.6               | -                   |
| <b>Cash inflow (+)/outflow (-) from investing activities</b>                            | <b>31.8</b>         | <b>-318.4</b>       |

| million EUR   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Payments received from capital increases                              | 351.5               | –                   |
| Payments made for capital increases                                   | –4.0                | –                   |
| Payments made from changes in ownership interests in subsidiaries     | –15.0               | –0.3                |
| Payments made for dividends   | –3.1                | –6.3                |
| Payments received from raising financial debt                         | 1,641.9             | 966.0               |
| Payments made for the redemption of financial debt                    | –2,475.7            | –859.8              |
| Payments made for interest and fees                                   | –307.5              | –189.9              |
| Payments received (+) and made (–) from hedges for financial debt     | 19.8                | –11.2               |
| Change in restricted cash   | –14.2               | –17.9               |
| <b>Cash inflow (+)/outflow (–) from financing activities</b>          | <b>–806.3</b>       | <b>–119.4</b>       |
| <b>Net change in cash and cash equivalents</b>                        | <b>119.4</b>        | <b>–20.6</b>        |
| <b>Cash and cash equivalents at the beginning of period</b>           | <b>570.2</b>        | <b>573.7</b>        |
| Change in cash and cash equivalents due to exchange rate fluctuations | –84.7               | 17.1                |
| Net change in cash and cash equivalents                               | 119.4               | –20.6               |
| <b>Cash and cash equivalents at the end of period</b>                 | <b>604.9</b>        | <b>570.2</b>        |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of Hapag-Lloyd AG for the period 1 January to 31 December 2017

| million EUR   | Equity attributable to shareholders |                     |                      |
|---|-------------------------------------|---------------------|----------------------|
|   | Sub-<br>scribed<br>capital          | Capital<br>reserves | Retained<br>earnings |
| <b>As at 1.1.2016</b>   | <b>118.1</b>                        | <b>1,263.2</b>      | <b>3,052.3</b>       |
| <b>Total comprehensive income</b>   | <b>-</b>                            | <b>-</b>            | <b>-96.6</b>         |
| thereof   |                                     |                     |                      |
| Group profit/loss   | -                                   | -                   | -96.6                |
| Other comprehensive income  | -                                   | -                   | -                    |
| <b>Transactions with shareholders</b>   | <b>-</b>                            | <b>-</b>            | <b>-</b>             |
| thereof   |                                     |                     |                      |
| Acquisition of shares from non-controlling interests<br>without change of control | -                                   | -                   | -                    |
| Distribution to non-controlling interests   | -                                   | -                   | -                    |
| <b>Transfer from capital reserves</b>   | <b>-</b>                            | <b>-201.4</b>       | <b>201.4</b>         |
| <b>Deconsolidation</b>  | <b>-</b>                            | <b>-</b>            | <b>-4.2</b>          |
| <b>As at 31.12.2016</b>   | <b>118.1</b>                        | <b>1,061.8</b>      | <b>3,152.9</b>       |
| <b>As at 1.1.2017</b>   | <b>118.1</b>                        | <b>1,061.8</b>      | <b>3,152.9</b>       |
| <b>Total comprehensive income</b>   | <b>-</b>                            | <b>-</b>            | <b>27.4</b>          |
| thereof   |                                     |                     |                      |
| Group profit/loss   | -                                   | -                   | 27.4                 |
| Other comprehensive income  | -                                   | -                   | -                    |
| <b>Transactions with shareholders</b>   | <b>57.7</b>                         | <b>1,575.6</b>      | <b>-6.0</b>          |
| thereof   |                                     |                     |                      |
| Issuance of shares in relation to the acquisition of the UASC Group               | 46.0                                | 1,240.2             | -                    |
| Issuance of shares  | 11.7                                | 339.8               | -                    |
| Transaction costs   | -                                   | -4.4                | -                    |
| Step acquisition of Hapag-Lloyd Denizasiri Nakliyat A.S.                          | -                                   | -                   | 7.2                  |
| Anticipated acquisition of shares from non-controlling interests                  | -                                   | -                   | -                    |
| Acquisition of shares from non-controlling interests<br>without change of control | -                                   | -                   | -11.6                |
| Distribution to non-controlling interests   | -                                   | -                   | -1.6                 |
| <b>Deconsolidation</b>  | <b>-</b>                            | <b>-</b>            | <b>-0.4</b>          |
| <b>As at 31.12.2017</b>   | <b>175.8</b>                        | <b>2,637.4</b>      | <b>3,173.9</b>       |

CONSOLIDATED STATEMENT OF OF CHANGES IN EQUITY

of Hapag-Lloyd AG

| Remea-<br>surements<br>from defined<br>benefit plans | Reserve for<br>cash flow<br>hedges | Translation<br>reserve | Reserve for<br>put-options<br>on non-<br>controlling<br>interests | Cumulative<br>other equity | <b>Total</b>   | Non-<br>controlling<br>interests | <b>Total equity</b> |
|--|------------------------------------|------------------------|---|----------------------------|----------------|----------------------------------|---------------------|
| <b>-75.2</b>   | <b>1.2</b>                         | <b>678.8</b>           | -   | <b>604.8</b>               | <b>5,038.4</b> | <b>7.8</b>                       | <b>5,046.2</b>      |
| <b>-43.7</b>   | <b>4.2</b>                         | <b>156.5</b>           | -   | <b>117.0</b>               | <b>20.4</b>    | <b>3.5</b>                       | <b>23.9</b>         |
| -  | -                                  | -                      | -   | -                          | -96.6          | 3.5                              | -93.1               |
| -43.7  | 4.2                                | 156.5                  | -   | 117.0                      | 117.0          | -                                | 117.0               |
| -  | -                                  | -                      | -   | -                          | -              | <b>-6.6</b>                      | <b>-6.6</b>         |
| -  | -                                  | -                      | -   | -                          | -              | -0.3                             | -0.3                |
| -  | -                                  | -                      | -   | -                          | -              | -6.3                             | -6.3                |
| -  | -                                  | -                      | -   | -                          | -              | -                                | -                   |
| -  | -                                  | -                      | -   | -                          | <b>-4.2</b>    | <b>-0.9</b>                      | <b>-5.1</b>         |
| <b>-118.9</b>  | <b>5.4</b>                         | <b>835.3</b>           | -   | <b>721.8</b>               | <b>5,054.6</b> | <b>3.8</b>                       | <b>5,058.4</b>      |
| <b>-118.9</b>  | <b>5.4</b>                         | <b>835.3</b>           | -   | <b>721.8</b>               | <b>5,054.6</b> | <b>3.8</b>                       | <b>5,058.4</b>      |
| <b>0.1</b>   | <b>5.6</b>                         | <b>-668.2</b>          | -   | <b>-662.5</b>              | <b>-635.1</b>  | <b>3.9</b>                       | <b>-631.2</b>       |
| -  | -                                  | -                      | -   | -                          | 27.4           | 4.7                              | 32.1                |
| 0.1  | 5.6                                | -668.2                 | -   | -662.5                     | -662.5         | -0.8                             | -663.3              |
| -  | -                                  | -                      | <b>-1.0</b>   | <b>-1.0</b>                | <b>1,626.3</b> | <b>4.8</b>                       | <b>1,631.1</b>      |
| -  | -                                  | -                      | -   | -                          | 1,286.2        | 7.1                              | 1,293.3             |
| -  | -                                  | -                      | -   | -                          | 351.5          | -                                | 351.5               |
| -  | -                                  | -                      | -   | -                          | -4.4           | -                                | -4.4                |
| -  | -                                  | -                      | -   | -                          | 7.2            | 4.3                              | 11.5                |
| -  | -                                  | -                      | -1.0  | -1.0                       | -1.0           | -1.2                             | -2.2                |
| -  | -                                  | -                      | -   | -                          | -11.6          | -3.8                             | -15.4               |
| -  | -                                  | -                      | -   | -                          | -1.6           | -1.6                             | -3.2                |
| -  | -                                  | <b>0.4</b>             | -   | <b>0.4</b>                 | -              | -                                | -                   |
| <b>-118.8</b>  | <b>11.0</b>                        | <b>167.5</b>           | <b>-1.0</b>   | <b>58.7</b>                | <b>6,045.8</b> | <b>12.5</b>                      | <b>6,058.3</b>      |



# NOTES TO THE 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 declaration of conformity with the German Corporate Governance Code required under Section 161 AktG was issued by the Executive Board and Supervisory Board and has been made permanently available on the Company's website ([www.hapag-lloyd.com](http://www.hapag-lloyd.com)).

The consolidated financial statements are reported and published in euros (EUR). All amounts recognised for the financial year are reported in million euros (EUR million) unless otherwise stated.

These consolidated financial statements encompass the financial year from 1 January to 31 December 2017 and were approved by the Executive Board of Hapag-Lloyd AG for passing on to the Supervisory Board on 23 March 2018. The Supervisory Board will review and approve the Notes to the consolidated financial statements on 28 March 2018.

### Accounting principles

The consolidated financial statements of Hapag-Lloyd AG were prepared in accordance with the International Financial Reporting Standards (IFRS) laid out by 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). In addition, the German commercial law provisions that must be observed pursuant to Section 315e (1) of the German Commercial Code (HGB) in the version applicable in the financial year have also been taken into consideration. The consolidated financial statements are published in the online version of the German Federal Gazette.

### New accounting standards

The following changes to existing standards published by the IASB, which have already been endorsed, had to be applied for the first time in the 2017 financial year.

- Amendment to IAS 7: *Disclosure Initiative*
- Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses*
- Annual improvements to IFRS, 2014–2016 cycle

Only the provisions which are relevant to the Hapag-Lloyd Group are explained below.

The purpose of the amendments to IAS 7 is to require a company to provide disclosures that enable users of financial statements to assess changes in liabilities whose cash flows are shown in the statement of cash flows under cash flow from financing activities. For this purpose, the relationship between the changes in financial debt and the cash flow from financing activities is outlined in the section "Financial debt".

The first-time application of the amendments did not have a significant effect on the net asset, financial and earnings position of the Hapag-Lloyd Group.

The following amended standards and interpretations that were adopted by the IASB at the time these consolidated financial statements were prepared were not yet mandatory in the 2017 financial year.

| Standard/ Interpretation |   | Mandatory application as per | Adopted by EU Commission |
|--------------------------|---|------------------------------|--------------------------|
| IFRS 2                   | Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions                                | 1.1.2018                     | yes                      |
| IFRS 4                   | Amendments to IFRS 4: Applying IFRS 9 with IFRS 4   | 1.1.2018                     | yes                      |
| IFRS 9                   | Financial Instruments   | 1.1.2018                     | yes                      |
| IFRS 15                  | Revenue from Contracts with Customers   | 1.1.2018                     | yes                      |
| IFRS 15                  | Amendments to IFRS 15: Clarifications   | 1.1.2018                     | yes                      |
| IFRS 16                  | Leases  | 1.1.2019                     | yes                      |
| Various                  | Annual Improvements to IFRS (2014–2016)   | 1.1.2018                     | yes                      |
| IAS 19                   | Amendments to IAS 19: Plan Amendment, Curtailment or Settlement   | 1.1.2019                     | no                       |
| IAS 28                   | Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures  | 1.1.2019                     | no                       |
| IAS 40                   | Amendments to IAS 40: Transfers of Investment Property  | 1.1.2018                     | no                       |
| IFRS 9                   | Amendments to IFRS 9: Prepayment Features with negative Compensation  | 1.1.2019                     | no                       |
| IFRS 10<br>IAS 28        | Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture | open                         | no                       |
| IFRS 17                  | Insurance Contracts   | 1.1.2021                     | no                       |
| IFRIC 22                 | Foreign Currency Transactions and Advance Consideration   | 1.1.2018                     | no                       |
| IFRIC 23                 | Uncertainty over Income Tax Treatments  | 1.1.2019                     | no                       |
| Various                  | Annual Improvements to IFRS (2015–2017)   | 1.1.2019                     | no                       |

These are regulations which will not be mandatory until the 2018 financial year or later. Hapag-Lloyd AG abstained from adopting the standards early. Only the provisions which are relevant to the Hapag-Lloyd Group are explained below. Unless stated otherwise, the effects are currently being reviewed.

**EU endorsement has been given****IFRS 2 Classification and measurement of share-based payments**

The amendments to IFRS 2 relate to the recognition of share-based payments settled in cash, which includes calculating the fair value of the obligations resulting from share-based payments. In addition, clarification is provided regarding the classification of share-based payments which envisage a net settlement for taxes that are being retained as well as regarding recognition in the event of a change in the classification of the payments from “settled in cash” to “settled with equity instruments”. The Group is currently assessing what the potential effects of the amendments on its consolidated financial statements could be.

**IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 *Financial Instruments* which replaces the existing provisions of IAS 39 on the recognition and measurement of financial instruments. The new standard contains revised guidelines for the classification and measurement of financial instruments, including a new model for calculating the impairment of financial assets, and new general requirements for hedge accounting.

IFRS 9 becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2018. The standard may be applied before then. The Group has not applied IFRS 9 early in these consolidated financial statements and therefore will not apply IFRS 9 for the first time until 1 January 2018.

The new standard requires the Group to adapt its financial reporting processes and internal controls in relation to the presentation of financial instruments. The effects of applying IFRS 9 to the Hapag-Lloyd Group are detailed below, based on its accounting items as at 31 December 2017 and the hedging relationships determined in accordance with IAS 39 in 2017.

**i. Classification – financial assets**

IFRS 9 contains a new method for the classification and measurement of financial assets that reflects the business model within which the assets are held and the characteristics of their cash flows. Depending on the business model, the cash flows arise as a result of collecting contractual cash flows (held to collect), selling the financial assets (trading) or a combination of the two (held to collect and sell). Pursuant to the SPPI criterion, the contractual cash flows may consist of a financial asset solely comprising the repayment of the principal and interest on the principal amount outstanding (SPPI = solely payments of principal and interest).

IFRS 9 contains three important measurement categories for financial assets: measured at amortised cost (AC), measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI).

Under IFRS 9, derivatives which are embedded in contracts, whereby the underlying is a financial asset within the scope of application of the standard, are never recognised separately. Instead, the hybrid financial asset is assessed as a whole with regard to classification.

With the exception of the amendments outlined below, the new classification model of IFRS 9 will not have any effects on the classification and measurement of financial instruments in the Hapag-Lloyd Group.

As at 31 December 2017, Hapag-Lloyd had financial assets in the category available-for-sale (AFS) which are measured at fair value directly in equity pursuant to IAS 39. As at the reporting date of 31 December 2017, the carrying amount of these financial instruments was EUR 3.3 million. These include securities of EUR 2.3 million which do not meet the cash flow criterion of IFRS 9 due to their cash flow characteristics. The securities will therefore be recategorised from the IAS 39 category AFS to the IFRS 9 category FVTPL. As a result of this, all changes in their fair value will in future be recognised through profit or loss, which will increase the volatility of the Group net result.

In addition, the available-for-sale financial assets include investments (EUR 0.7 million) which are not held for trading purposes. These were previously measured at cost pursuant to IAS 39 in conjunction with IAS 39.46(c) and will be assigned to the category FVTPL pursuant to IFRS 9. The fair value does not differ from the carrying amount on the date of first-time application.

The Hapag-Lloyd Group did not exercise the option of classifying equity instruments covered by IFRS 9 as FVOCI when applying the new standard for the first time (FVOCI option).

#### ii. Impairment

The “incurred losses” model for calculating risk provisioning and impairments under IAS 39 is replaced by a forward-looking model under IFRS 9 based on “expected credit losses”.

The new impairment model should be applied to financial assets which are measured at amortised cost or at FVOCI – with the exception of equity instruments held as financial investments – as well as to contractual assets in accordance with IFRS 15. Financial assets which are not overdue are also subject to an impairment charge here.

There are two approaches for applying the new impairment model. The general approach involves creating a risk provision for the 12-month expected credit losses (level 1) or for the lifetime expected credit losses (levels 2 and 3). Assignment to the levels is based on whether the credit risk for the financial instrument has significantly increased since first-time recognition (level 2) or whether the financial assets became credit-impaired (level 3). The simplified approach should be applied to trade accounts receivable or contract assets under IFRS 15 which do not contain any significant financing components. With the simplified approach, changes in the credit risk are not tracked, and a risk provision is always recognised for the lifetime expected credit losses (levels 2 and 3).

The general approach is used by the Hapag-Lloyd Group for cash and cash equivalents and other financial assets that fall within the scope of application for impairments under IFRS 9. Due to the short-term nature of bank balances and other cash investments and the high credit rating of the banks involved, the expected credit losses in relation to bank losses and other cash investments are low and are unlikely to be recognised. The expected increase in loss allowances for other financial assets is insignificant.

The Hapag-Lloyd Group primarily uses the simplified approach for trade accounts receivable and for contractual assets. To measure the expected credit losses, the trade accounts receivable and the contractual assets are grouped according to the common credit risk characteristics of “geographic region” and “customer rating” using provision matrices. The probabilities of default used in the country-specific provision matrices tables take macroeconomic data into consideration as well as financial and non-financial information about the customers grouped by rating. The probabilities of default used are forward-looking. They take account of differences between historical economic conditions, the current economic conditions and the expected future economic conditions during the expected lifetime of the accounts receivable. These probabilities of default are verified using historical credit defaults. Trade accounts receivable are assumed credit-impaired if it is unlikely that the customer will fulfil its obligations or if trade accounts receivable are more than 90 days overdue and there is a dispute with the customer regarding the accounts receivable. The new impairment model is not expected to lead to a significant increase in loss allowances.

### iii. Classification – financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

Under IAS 39, however, all changes in the fair value of liabilities which have been specified as measured at fair value through profit or loss are recognised through profit or loss. By contrast, these changes in fair value will generally be presented as follows under IFRS 9.

The change in fair value which is attributable to changes in the credit risk of the liability will be presented in other comprehensive income.

The remaining change in fair value will be presented in profit or loss.

Hapag-Lloyd did not designate any financial liabilities as measured at fair value through profit or loss. This means that there are no effects from the first-time application of IFRS 9 with regard to the classification of financial liabilities as at 1 January 2018. IFRS 9 also includes new provisions for taking account of contractual modifications to financial liabilities. For substantial modifications that lead to the disposal of the financial liability from the financial statements, the provisions remain unchanged in comparison to IAS 39. For insubstantial modifications that do not result in the disposal of the financial liability from the financial statements,

the carrying amount should be adjusted through profit or loss pursuant to IFRS 9. The new carrying amount is calculated from the present value of the modified cash flow while applying the original effective interest rate. The adjustment to the carrying amount equates to the modification gain or loss. Under IAS 39, no modification gain or loss was recognised, but instead the effective interest rate was adjusted for the remaining term of the modified liability. The new provisions of IFRS 9 resulted in correction amounts for the financial liabilities, which should be recognised in the equity of the opening statement of financial position in the retained earnings at the point of first-time application in the amount of EUR 11.0 million.

iv. Hedge accounting

When IFRS 9 is applied for the first time, the Group can choose to continue applying the requirements for hedge accounting of IAS 39 instead of the requirements of IFRS 9. Hapag-Lloyd has taken a decision to apply the new requirements of IFRS 9.

Under IFRS 9, Hapag-Lloyd must ensure that its accounting for hedging relationships is in line with the objectives and strategy of the Group risk management system and that a more qualitative and future-based method is applied when assessing the effectiveness of hedging transactions. IFRS 9 also introduces new requirements with regard to the new weighting of hedging relationships and prohibits the voluntary termination of hedge accounting. Under the new model, it is possible that more risk management strategies – in particular those which include a risk hedging component (with the exception of foreign currency risk) of a non-financial item – will fulfil the requirements for hedge accounting. The Hapag-Lloyd Group does not currently hedge risk components of this type.

The types of accounting for hedging relationships which the Hapag-Lloyd Group currently has will fulfil the requirements of IFRS 9, as the Group will make certain intended changes to its internal documentation and monitoring procedures.

IFRS 9 also includes new requirements for the recognition of hedging costs if only the change in the intrinsic value or in the value of the cash component as the hedging instrument is designated. Under IAS 39, changes in the value of the non-designated time values, i. e. of the forward component, are recognised directly through profit or loss. When applying IFRS 9, the change in fair value must be recognised through other comprehensive income in this case, in a separate reserve for hedging costs. The change in the interest component and in the foreign currency basis spread can be recognised through other comprehensive income.

The Hapag-Lloyd Group uses bunker options to hedge against fuel price risks, whereby only the intrinsic value is included in the hedging relationship. The resulting changes in fair value of EUR –0.6 million were therefore recognised immediately through profit or loss in the current financial statements under IAS 39. Under IFRS 9, these measurement gains would be recognised through other comprehensive income, as a result of which there would be lower measurement fluctuations in the income statement for the same amount.

Hapag-Lloyd also uses currency forward contracts to hedge against fluctuations in cash flows in relation to changes in foreign exchange rates for certain financial debt. Here, all price components are currently designated as the hedging instrument of the cash flow hedging relationship (forward-to-forward method). In order to obtain a similar accounting result, Hapag-Lloyd will switch to the spot-to-spot method when it applies IFRS 9 for the first time. As a result, only the cash component will be designated as the hedging instrument in the future. Hapag-Lloyd is making use of its option here to allocate the changes in the forward component to the reserve for hedging costs. As a consequence, the resulting amounts from the forward component totalling EUR 0.5 million should be reclassified from the reserve for cash flow hedges to the reserve for hedging costs.

At present, the cumulative amounts in the cash flow hedge reserve for all cash flow hedges are reclassified as reclassification amounts in profit or loss, and this is done in the same period in which the respective underlying transactions affect profit or loss. Under IFRS 9, however, the option to reclassify is no longer available when hedging non-financial assets. This means that, when recognising inventories, the cumulative amounts in the cash flow hedge reserve and in the hedging cost reserve will in future have to be recognised as an adjustment to the cost of acquisition of the inventories (basis adjustment). However, the Hapag-Lloyd Group does not expect this to have any significant effects on transport expenses.

#### v. Transition

Changes to financial reporting methods resulting from the application of IFRS 9 will generally be applied retroactively with the exception of the following cases:

1. Hapag-Lloyd will make use of the option not to restate comparative information for previous periods with regard to changes in classification and measurement (including impairment). Differences between the current carrying amounts and the carrying amounts resulting from the application of IFRS 9 will generally be recognised in retained earnings as at 1 January 2018.
2. New requirements for hedge accounting should generally be applied prospectively. However, the recognition of time values of options must be restated retroactively. By contrast, when it comes to the expected change in financial reporting for the forward component and the foreign currency basis spread, the Group has the option of applying this retroactively. Hapag-Lloyd will not make use of this option.
3. The facts and circumstances in existence at the point of first-time application should form the basis for determining the business model within which a financial asset is held.

#### **IFRS 15 Revenue from Contracts with Customers**

The IASB published IFRS 15 *Revenue from Contracts with Customers* in May 2014 and Clarifications to IFRS 15: *Revenue from Contracts with Customers* in April 2016. IFRS 15 replaces the previous guidelines on the recognition of revenue, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The new standard specifies uniform basic principles for the recognition of revenue that are applicable to all



sectors and to all types of revenue transaction. A five-step model will henceforth apply to assessing the amount of revenue to be recognised and at which time or over which period it is to be recognised. The standard also contains a range of additional rules regarding detailed issues such as presenting contract fees and contract amendments.

The Hapag-Lloyd Group is required to apply IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018.

As part of the IFRS 15 implementation project, the Hapag-Lloyd Group's main revenue streams have been analysed. This analysis has nearly been fully completed.

Within revenue from contracts with customers, sea freight, inland container transport and terminal handling charges are the most important sources of revenue for the Hapag-Lloyd Group, accounting for 92.0% as at 31 December 2017 (previous year: 92.7%). As part of the analysis of this revenue stream, the Group identified one performance obligation per shipment, which is rendered on a period-related basis, i.e. for the duration of transport. The analysis also showed that combining several shipments on a single ship journey produces essentially the same results with regard to the amount of revenue recognised and when it is recognised as are produced when the revenue is recognised on the basis of the single shipment. Since revenue from sea freight, inland container transport and terminal handling charges is already recognised and categorised on a period-related basis and in line with the end-of-journey principle, the initial application of IFRS 15 by the Hapag-Lloyd Group will not have any significant effects with regard to the amount of revenue recognised and when it is recognised in relation to this revenue stream. The method currently used to measure performance progress (input-based method) will continue to be used under IFRS 15. IFRS 15 will also not have any effects on the recognition of variable purchase price components, in particular discounts.

With regard to the other revenue streams, the analyses also found that the initial application of IFRS 15 will not have any significant effects on the amount of revenue and when it is recognised.

Hapag-Lloyd will not make use of eased transitional provisions regarding IFRS 15 and will not report any previous year's figures adopted. In accordance with the provisions of IFRS 15, the new balance sheet items "contract assets" and "contract liabilities" will be introduced from 1 January 2018. The main items recognised under "contract assets" will be receivables in relation to shipments on journeys not yet completed as at the reporting date. The main items recognised under "contract liabilities" will be prepayments received from customers.

#### **IFRS 16 Leases**

IFRS 16 replaces the existing guidelines on leases, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*.

The new standard aims to ensure that all leases and associated contractual rights and obligations are recognised in the lessee's statement of financial position. This means that a lessee recognises both a right of use that constitutes the right to use the underlying asset and a liability under the lease that constitutes the obligation to make future lease payments. The previously required distinction between finance and operating leases will no longer apply to the lessee in future. Simplified reporting methods are in place for short-term leases and leases with a low value. With regard to the recognition of leases by the lessor, IFRS 16 specifies regulations which are similar to the currently still applicable IAS 17. This stipulates that lease contracts will continue to be classified as either finance leases or operating leases. For classification in accordance with IFRS 16, the criteria of IAS 17 have been adopted.

The standard was adopted into European law by the EU on 31 October 2017 and becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2019. The standard may be applied before then if IFRS 15 *Revenue from Contracts with Customers* is also applied at the same time. However, the Hapag-Lloyd Group does not intend to do so.

The Hapag-Lloyd Group has begun an initial assessment of the possible effects of applying IFRS 16 to its consolidated financial statements. The actual effects of applying IFRS 16 to the consolidated financial statements at the point of first-time application will depend on future economic conditions, such as the composition of the lease portfolio and of the interest level at that point in time and the Group's assessment regarding the exercising of options to extend. Without being able to provide specific quantitative details at present, the Hapag-Lloyd Group's assets and liabilities are expected to increase significantly when IFRS 16 is applied for the first time due to the recognition of existing operating leases, in particular for ships and containers, thereby reducing the equity ratio accordingly. However, we currently do not expect the reduction in the equity ratio to prevent the Group from complying with minimum equity requirements which have been agreed to under loan agreements. In addition, the type of expenses associated with the leases covered by IFRS 16 will change. IFRS 16 replaces the linear expenses for operating leases with amortisation expenses for right of use assets and interest expenses for liabilities under the lease.

#### **EU endorsement still pending**

The amendments to IAS 28 clarify that long-term interests whose economic content is such that they form part of the net investment in an equity-accounted investee should also be recognised and measured in accordance with IFRS 9. However, the provision of IAS 28.38 continues to apply whereby interests of this type should also be taken into consideration when allocating losses as part of the application of the equity method to the value of investments.

The amendments to IFRS 9 will enable financial assets with an early repayment option to be measured at amortised cost or at fair value in other comprehensive income (FVOCI) under certain conditions whereby the terminating party will receive appropriate additional compensation as part of the repayment ("prepayment feature with negative compensation").

IFRIC 22 provides clarification on IAS 21 *Effects of Changes in Foreign Exchange Rates*. The interpretation aims to specify the date on which the foreign exchange rate should be calculated for translating transactions in foreign currencies including prepayments received and payments on account. Accordingly, the date on which the asset or liability resulting from the prepayment is recognised for the first time is relevant for determining the translation rate for the underlying asset, income or expense.

IFRIC 23 supplements the provisions of IAS 12 *Income Taxes* in terms of taking into consideration uncertainty over income tax treatment of circumstances and transactions. According to IFRIC 23, tax risks should be recognised if the tax authorities are unlikely to accept the tax circumstance. This approach rules out the danger of a possible discovery (risk of discovery) by the tax authorities. The tax risks can be measured with the most likely value or with the expected value. According to the interpretation, the measurement method that best reflects the existing risk should be used. The interest on additional tax claims and rebates as well as any penalties incurred are not covered by the interpretation.

### **Consolidation principles and methods**

All significant subsidiaries, joint ventures and associated companies are included in the consolidated financial statements of Hapag-Lloyd AG.

### **Subsidiaries**

Subsidiaries are all companies that are subject to direct or indirect control by Hapag-Lloyd AG. Control exists if Hapag-Lloyd AG has the power to make decisions due to voting rights or other rights and is exposed to positive or negative variable returns from the subsidiary and can influence these returns through its power to make decisions. Subsidiaries are fully consolidated from the time at which control over the subsidiary is acquired. If the control agreement comes to an end, the companies in question leave the group of consolidated companies.

Subsidiaries may also be structured companies. Structured companies are companies which are designed in such a way that voting or comparable rights are not the dominant factor when assessing who controls these companies. This is the case, for example, if voting rights do only relate to administrative duties, and the relevant activities are governed by contractual agreements. A structured company often performs limited activities and has a narrowly and precisely defined objective, such as securitisation vehicles (ABS structures). A subsidiary is consolidated for the first time using the acquisition method. To begin with, a complete fair value measurement of all the subsidiary's identifiable assets, liabilities and contingent liabilities at the time of acquisition is performed. The consideration measured at fair value for the acquisition of the investment share is offset against the equity relating to the share acquired. Any positive difference is recognised as goodwill and is recorded as an asset. Any negative difference is recognised directly through profit or loss at the time when it occurs and is reported in other operating income. The option to capitalise the proportionate goodwill on non-controlling interests is not applied. Transaction costs incurred in connection with a business combination are recognised as expenses.

Any resulting goodwill is examined for impairment at least once a year at the end of the planning process or, if there are any indications of a possible impairment in value in the subsequent periods, is examined for its recoverable amount and, in the event of impairment, is written down to the lower recoverable amount (impairment test). Any impairments of this kind are recognised separately in the consolidated income statement as impairment of goodwill.

The individual financial statements of Hapag-Lloyd AG and its subsidiaries form the basis for the consolidated financial statements, which are prepared using the standard Group accounting and measurement principles.

Intercompany receivables and liabilities, as well as expenses and income, are eliminated during the process of consolidation. Intercompany profits and losses are eliminated insofar as they are not of minor significance for the Group. Deferred taxes are reported for consolidation measures with an impact on income taxes.

Minority interests in the equity of a subsidiary are recognised as non-controlling interests within Group equity. The share of Group profit which is attributable to non-controlling interests is reported separately as such in the consolidated income statement and the consolidated statement of comprehensive income. Transactions whereby the Hapag-Lloyd Group acquires additional shares in or sells shares in an existing subsidiary without prompting a change of control are recognised as equity transactions between shareholders. The difference between the consideration received/transferred and the shares sold/received is recognised in the Group's equity.

#### **Joint arrangements**

Joint arrangements are contractual arrangements, based on which two or more parties establish a commercial activity that they jointly control. Joint control exists if the two parties must work together to manage the relevant activities, and decisions must be made unanimously. If the Hapag-Lloyd Group jointly controls a company together with other parties, an assessment is made as to whether this is a joint operation or a joint venture. A joint operation exists if the jointly controlling parties have direct rights to assets and direct obligations for liabilities. In a joint venture, the jointly controlling parties only have rights to the equity. Interests in joint ventures are disclosed in the consolidated financial statements using the equity method.

The joint arrangements within the Hapag-Lloyd Group are currently joint ventures only.

#### **Associated companies and joint ventures**

Companies in which the Hapag-Lloyd Group is able to exert a significant influence over the business and financial policy (associated companies) or which are jointly controlled with other parties (joint ventures) are included in the consolidated financial statements from their acquisition date using the equity method. As a rule, it is assumed that Hapag-Lloyd exerts significant influence if Hapag-Lloyd AG directly or indirectly holds between 20% and 50% of the voting rights. The acquisition date constitutes the point in time from which it becomes possible to exert significant influence or exercise joint control.

A positive difference between the cost of acquisition of the acquired shares and the proportionate fair value of the acquired assets, liabilities and contingent liabilities at the time of acquisition is included as goodwill in the carrying amount of the associated company or joint venture.

The Hapag-Lloyd Group's share of the result for the period or other comprehensive income from associated companies or joint ventures is reported in the consolidated income statement or in the Group's other comprehensive income. The cumulative changes since the acquisition date increase or decrease the carrying amount of the associated company or joint venture. Proportional losses that exceed the investment carrying amount of the associated company or joint venture are not recognised unless further instruments are issued to the company.

If the carrying amount exceeds the recoverable amount of an investment in an associated company or joint venture, the carrying amount of the investment is written down to the recoverable amount. Impairments of the carrying amount are recognised in the share of profit of equity-accounted investees in the consolidated income statement.

### Group of consolidated companies

In addition to Hapag-Lloyd AG, a total of 164 (previous year: 82) companies are included in consolidated financial statements for the 2017 financial year:

|                   | Fully consolidated |            | Equity method |          | Total      |
|-------------------|--------------------|------------|---------------|----------|------------|
|                   | domestic           | foreign    | domestic      | foreign  |            |
| 31.12.2016        | 5                  | 73         | 1             | 3        | 82         |
| Additions UASC    | 2                  | 94         | 0             | 5        | 101        |
| Further additions | 0                  | 1          | 0             | 0        | 1          |
| Disposals         | 4                  | 14         | 0             | 2        | 20         |
| <b>31.12.2017</b> | <b>3</b>           | <b>154</b> | <b>1</b>      | <b>6</b> | <b>164</b> |

With regard to the fully consolidated companies, one of the companies is a consolidated structured company, as was the case in the previous year.

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

Some of the subsidiaries which were included in the consolidated financial statements as part of the integration of CSAV's container shipping business in 2014 and the integration of the UASC Group in 2017 have been merged with Hapag-Lloyd companies in the respective countries. As a result, the group of consolidated companies decreased by eight companies in the 2017 financial year. In addition, five companies were removed from the group of consolidated companies as they were of minor overall importance to the Group's net asset, financial and earnings position. A further five companies were liquidated.

**Mergers**

| Merged company  | Receiving company                               |
|---|---|
| First CSAV Ships Germany GmbH, Hamburg                          | Hapag-Lloyd AG, Hamburg                         |
| Second CSAV Ships Germany GmbH, Hamburg                         | Hapag-Lloyd AG, Hamburg                         |
| United Arab Shipping Company Europe GmbH, Hamburg               | Hapag-Lloyd AG, Hamburg                         |
| United Arab Shipping Agency Company (Deutschland) GmbH, Hamburg | Hapag-Lloyd AG, Hamburg                         |
| UASAC GmbH, Vienna  | Hapag-Lloyd (Austria) GmbH, Vienna              |
| United Arab Shipping Agency Company France S.A.S., Marseille    | Hapag-Lloyd (France) S.A.S., Asnieres sur Seine |
| United Arab Shipping Agencies Company Iberia S.L., Valencia     | Hapag-Lloyd Spain S.L., Barcelona               |
| UASAC Switzerland GmbH, Basel                                   | Hapag-Lloyd (Schweiz) AG, Basel                 |

**Liquidations**

|   |             |
|---|-------------|
| CSAV UK & Ireland Limited i.L.            | Liverpool   |
| CSAV Group (Hong Kong) Ltd. i.L.          | Hong Kong   |
| CSAV Group Agencies (Hong Kong) Ltd. i.L. | Hong Kong   |
| Arab Transport Company Aratrans KSC i.L.  | Kuwait City |
| Invermar Management S.A.                  | Panama City |

**Deconsolidation due to immateriality**

|  |             |
|--|-------------|
| Servicios de Procesamiento Naviero S.R.L. i.L.                     | Montevideo  |
| Lanco Investments Internacional Co. S.A.                           | Panama City |
| Hull 1906 Co. Ltd.   | Majuro      |
| UASAC CEE (Slovakia) s.r.o   | Bratislava  |
| United Arab Shipping Agencies Company Uruguay S.A. (Kiranbir S.A.) | Montevideo  |

The following companies are fully consolidated as Hapag-Lloyd AG has majority voting rights and therefore exerts full control over them.

| Company   | Registered office | Shareholding in % |
|---|-------------------|-------------------|
| Hapag-Lloyd (Thailand) Ltd.   | Bangkok           | 49.9              |
| Hapag-Lloyd Middle East Shipping LLC  | Dubai             | 49.0              |
| United Arab Shipping Agency Co. (United Kingdom) Ltd  | London            | 49.0              |
| United Arab Shipping Co. Holding (Thailand) Ltd.  | Bangkok           | 49.945            |
| United Arab Shipping Agencies Company PJS   | Amman             | 50.0              |
| United Arab Shipping Agencies Co. LLC (UAE)   | Dubai             | 49.0              |
| United Arab Shipping Agencies Co. (Bahrain) WLL   | Manama            | 49.0              |
| United Arab Shipping Agency Co. (Qatar) WLL   | Doha              | 49.0              |
| United Arab Shipping Agency Co. S.A.E (Egypt)   | Alexandria        | 49.0              |
| Hapag-Lloyd Shipping Company – State of Kuwait K.S.C.C. (formerly United Arab Shipping Agencies Company KSCC) | Safat             | 49.0              |
| Aratrans Transport and Logistics Service LLC  | Dubai             | 49.0              |
| Middle East Container Repair Company LLC  | Dubai             | 49.0              |
| United Arab Shipping Engineering & Ship Repair Services LLC   | Dubai             | 24.01             |

Although Hapag-Lloyd AG only holds 48.95% of the voting shares in the fully consolidated CSAV Austral SpA, Valparaíso, it accounts for the majority of the members of the decision-making body. Hapag-Lloyd AG also holds 100% of the shares entitled to dividend payments. As such, beneficial ownership is exclusively within the Hapag-Lloyd Group.

Details of non-controlling interests can be found in Note (22).

In the reporting year, 17 fully consolidated companies and one equity-accounted investee had a financial year that differed from that of the Group. The values carried forward as at 31 December 2017 are used for purposes relating to inclusion in the consolidated financial statements. All other companies have financial years that correspond with Hapag-Lloyd AG.

A list of the subsidiaries and associated companies in the Hapag-Lloyd Group is provided in Note (40).

## **Company acquisitions**

### **Acquisition of UASC Group**

On 24 May 2017, Hapag-Lloyd acquired 100% of the shares and voting rights in UASC. As at the acquisition date, UASC was the biggest container liner shipping company in the Middle East. The shares in UASC are not publicly traded. The business combination between Hapag-Lloyd and UASC strengthens Hapag-Lloyd's market position in an industry which is continuing to consolidate. As a result of the integration, Hapag-Lloyd operates one of the biggest container ship fleets in the world. It also gives Hapag-Lloyd access to UASC's customer relationships. The business combination is expected to result in annual synergies of USD 435 million starting in 2019.

UASC's shareholders were granted 45,932,023 new ordinary shares as consideration for the share acquisition. The consideration had a fair value of EUR 1,286.1 million as at 24 May 2017. In return for this transfer, the sellers received 28% of the shares in Hapag-Lloyd AG, the parent company of the Hapag-Lloyd Group. The fair value of the ordinary shares issued was based on the share price of Hapag-Lloyd AG on 24 May 2017 of EUR 28.00 per share.

Hapag-Lloyd and UASC already began operating an alliance (hereinafter referred to as the "mini alliance") on 1 April 2017 before the acquisition in order to incorporate UASC's ships into the network of THE Alliance. THE Alliance is an alliance of autonomous container shipping companies. The mini alliance operated at market conditions.

Acquisition-related costs were incurred for Hapag-Lloyd in the amount of EUR 15.7 million in relation to the business combination, which were recognised as other operating expenses and mainly result from consultancy fees. Of this, EUR 8.6 million was accrued in the 2016 financial year and EUR 7.1 million in the current financial year. The costs of EUR 1.6 million relating to the issue of the new ordinary shares transferred as a consideration were accounted for as a deduction from equity.



The fair values for the acquired assets and liabilities at the time of acquisition are summarised below.

| Fair values as at the date of acquisition                       | million EUR    |
|---|----------------|
| <b>Assets</b>   |                |
| Other intangible assets   | 748.0          |
| Property, plant and equipment                                   | 3,760.9        |
| Investments in equity-accounted investees                       | 3.8            |
| Financial assets  | 1.0            |
| Other assets and receivables                                    | 136.4          |
| Deferred tax assets   | 0.4            |
| <b>Non-current assets</b>                                       | <b>4,650.5</b> |
| Inventories   | 48.3           |
| Trade accounts receivable                                       | 238.0          |
| Other assets and receivables                                    | 139.3          |
| Cash and cash equivalents                                       | 366.3          |
| Non-current assets held for sale                                | 13.4           |
| <b>Current assets</b>   | <b>805.3</b>   |
| <b>Total assets</b>   | <b>5,455.8</b> |
| <b>Liabilities and non-controlling interests</b>                |                |
| Provisions for pensions and similar obligations                 | 17.8           |
| Other provisions  | 6.1            |
| Financial debt  | 3,099.0        |
| Derivative financial instruments                                | 19.2           |
| Deferred tax liabilities  | 0.7            |
| <b>Non-current liabilities</b>                                  | <b>3,142.8</b> |
| Provisions for pensions and similar obligations                 | 65.1           |
| Other provisions  | 56.2           |
| Income tax liabilities  | 11.2           |
| Financial debt  | 452.3          |
| Trade accounts payable  | 401.8          |
| Other liabilities and non-controlling interests                 | 12.1           |
| <b>Current liabilities</b>                                      | <b>998.7</b>   |
| <b>Total liabilities and non-controlling interests</b>          | <b>4,141.5</b> |
| Acquired net assets attributable to Hapag-Lloyd AG shareholders | 1,314.3        |
| Consideration transferred                                       | 1,286.1        |
| <b>Gain from bargain purchase</b>                               | <b>-28.2</b>   |

New details about facts and circumstances which already existed at acquisition date were identified after acquisition date. As a result, the fair values of the acquired intangible assets (increase of EUR 13.8 million) and property, plant and equipment (reduction of EUR 23.0 million) and the fair values of the assumed current other provisions (increase of EUR 7.3 million) and income tax liabilities (increase of EUR 2.1 million) were retroactively adjusted. Overall, the above-mentioned adjustments reduced the acquisition gain by EUR 18.6 million, from EUR –46.8 million to EUR –28.2 million. In addition, an amount of EUR 1.0 million was reclassified from other non-current assets to non-current financial assets and an amount of EUR 10.7 million was reclassified from other provisions to trade accounts payable. The purchase price allocation is therefore no longer provisional.

Pursuant to the requirements of IFRS 3, all acquired assets, liabilities and contingent liabilities are to be measured at fair value. The valuation methods used to determine the fair values of the main assets are as follows:

**Relief from royalty method:** The relief from royalty method considers the discounted estimated payments of royalties that may be saved by owning the brand. This method was used for brand valuation.

**Residual value method:** The residual value method considers the present value of expected net cash flows generated by the customer relationships, with the exception of all cash flows that are linked to supporting assets. This method was used to evaluate customer relationships.

**Incremental cash flow method:** In the incremental cash flow method, expected cash flows are compared to alternative values (market value conditions). This method was used for the measurement of advantageous and disadvantageous contracts.

**Market comparison method:** This valuation method considers the listed market prices of similar objects if these are available and, if applicable, depreciated replacement costs. Depreciated replacement costs reflect changes relating to physical deterioration as well as functional overhauling and economic obsolescence. This method was used for the valuation of the owned ships, containers, software and inventories.

The purchase price allocation resulted in a profit from the acquisition of UASC (EUR –28.2 million) which had been recognised in other operating income. The profit from the acquisition of UASC can be economically attributed to the participation of the seller in the expected positive share price performance, as the purchaser and the seller believe that the equity of container shipping companies is undervalued by the market.

The following table presents the net cash inflow resulting from the company acquisition:

|   | million EUR  |
|---|--------------|
| Acquired net assets attributable to Hapag-Lloyd AG shareholders | 1,314.3      |
| Gain from bargain purchase                                      | -28.2        |
| Consideration transferred                                       | 1,286.1      |
| ./. Acquisition through issuance of shares                      | 1,286.1      |
| In 2017 cash-effective acquisition-related costs                | -8.7         |
| + Acquired cash   | 366.3        |
| <b>Net payments received from acquisitions</b>                  | <b>357.6</b> |

In the course of the acquisition, receivables with a fair value of EUR 489.6 million were recognised, EUR 238.0 million of which related to trade accounts receivable. The gross amount was EUR 519.6 million, EUR 268.0 million of which related to trade accounts receivable. Of this amount, EUR 30.0 million is likely to be uncollectable.

At the time of acquisition, contingent liabilities in the amount of EUR 17.2 million were recognised relating to tax risks. The settlement amount was determined on the basis of internal estimates. It is currently not possible to determine a fixed utilisation date.

Since the date of acquisition, revenue of EUR 565.7 million and earnings (EBIT) of EUR -44.9 million have been attributed to UASC, taking the purchase price allocation into account.

Had the acquisition taken place on 1 January 2017 (pro forma consideration), Group revenue would have come to EUR 11,059.5 million and earnings (EBIT) would have totalled EUR 459.9 million. The Hapag-Lloyd Group for the period 1 January to 31 December 2017 together with the UASC Group for the period 1 January to 24 May 2017, accounted for in accordance with the accounting principles of Hapag-Lloyd, served as the starting point for the preparation of the pro forma figures. The pro forma consideration was calculated including the effects of the purchase price allocation, while effects from transactions which were contractually required before the time of acquisition were not included. Furthermore, in calculating these amounts, it was assumed that the adjustments made to the fair values at the time of acquisition would also have been valid if the acquisition had occurred on 1 January 2017. The required pro forma adjustments are based on the available information.

Based on the outlined assumptions, the presented pro forma net result does not necessarily equate to the Group net result that the Group would have generated had the acquisition of UASC in fact been completed on 1 January 2017.

#### **Acquisition of Hapag-Lloyd Denizasiri Nakliyat A.S.**

As at 5 October 2017, Hapag-Lloyd acquired 15% of the capital and voting rights in Hapag-Lloyd Denizasiri Nakliyat A.S., Izmir, Turkey ("HLOT"). As a result, the share of equity held by Hapag-Lloyd in this company rose from 50% to 65%, and Hapag-Lloyd obtained control of HLOT. Previously, Hapag-Lloyd had recognised the stake as an investment in a joint venture using the equity method.

On 24 May 2017, Hapag-Lloyd merged with UASC. As part of the integration and restructuring of the acquired UASC business, Hapag-Lloyd will now handle the Turkish, Greek and Macedonian operations of UASC via its existing agent HLOT, thus allowing for the dismantling of the redundant agency structure and facilitating the harnessing of synergies.

With this in mind, a decision was taken to amend the shareholder structure and the existing agency agreement. Hapag-Lloyd was the only participant in a HLOT capital increase in October 2017, thus increasing its stake and voting rights in HLOT to 65%.

The non-controlling interests will in future participate on a pro rata basis in the UASC agency business incorporated into HLOT. The fair value of this interest in the incorporated agency business was EUR 13.2 million at the time of acquisition. As part of this transaction, the existing agency agreement was adjusted. The value of the adjustment to the agreement reduced the consideration transferred to the non-controlling shareholders by EUR 5.9 million. The fair value of the consideration transferred to acquire the majority share in HLOT was therefore EUR 7.3 million at the time of acquisition.

The agency activities performed by HLOT for Hapag-Lloyd prior to the acquisition occurred at standard market conditions. The costs associated with the merger are insignificant.

The net assets of HLOT identified as part of its first-time acquisition amount to EUR 12.2 million and chiefly comprise trade accounts receivable (EUR 26.4 million), cash and cash equivalents (EUR 22.8 million), trade accounts payable (EUR 32.1 million) and other non-current liabilities (EUR 3.5 million).

The gross amount of trade accounts receivable is EUR 26.7 million. Of this amount, EUR 0.3 million is likely to be uncollectable. The net cash inflow corresponds to the cash and cash equivalents acquired. The non-controlling interests were valued at EUR 4.3 million in accordance with their share of the identifiable net assets.

The merger resulted in goodwill in the amount of EUR 23.8 million. The goodwill embodies the expectations for the future economic benefit that will arise from HLOT's business operations, including the expected synergies from cost reductions.

The fair value of the equity interest in HLOT, which was recognised as an investment in a joint venture using the equity method immediately prior to the acquisition, amounted to EUR 24.4 million at the time of acquisition. The remeasurement of this investment as a result of the business combination achieved in stages led to a gain of EUR 18.3 million, which was recognised in the other financial result.

Since neither the fair value of the incorporated UASC agency business in Turkey, Greece and Macedonia nor the fair value of the HLOT investment, which had been recognised as interests in a joint venture under the equity method immediately before the acquisition, can be observed on the market, the fair value was calculated in each case in accordance with IFRS 13 using a discounted cash flow with the help of input factors at level 3 (unobservable inputs). This valuation method is based on a cash flow forecast derived from the available budgets of the companies valued, which a hypothetical market participant would assume on the date of acquisition.

The significant assumptions used to derive the fair values are based on internal and external sources and comprise, in particular, the future development of the transport volume and of the agency fees.

Using the company figures for the 2016 financial year, annual volume growth of 3.0% was assumed in the detailed planning period on the basis of the current agency agreement. For the terminal value, a growth rate of 1.0% was assumed as part of free agency activities. The weighted average cost of capital comes to 10.8% or 9.8% for the terminal value.

Since HLOT performs agency activities for Hapag-Lloyd, the majority of the revenue is eliminated in the consolidated income statement. Following elimination of the revenue with Hapag-Lloyd AG, HLOT has been responsible for revenue of EUR 15.7 million and earnings (EBIT) of EUR -6.1 million since the acquisition date.

Had the acquisition taken place on 1 January 2017 (pro forma consideration), Group revenue would have come to EUR 10,011.4 million and earnings (EBIT) would have totalled EUR 422.8 million. The Hapag-Lloyd Group for the period 1 January to 31 December 2017 together with HLOT for the period 1 January to 30 September 2017, accounted for in accordance with the accounting principles of Hapag-Lloyd, served as the starting point for the preparation of the pro forma figures. The required pro forma adjustments are based on the available information.

Based on the outlined assumptions, the presented pro forma net result does not necessarily equate to the Group net result that the Group would have generated had the acquisition of HLOT in fact been completed on 1 January 2017.

#### **Currency translation**

The annual financial statements are prepared in the respective functional currency of the company. The respective functional currency of a company corresponds to the currency of the primary economic environment in which the company operates. The functional currency of Hapag-Lloyd AG and the majority of its subsidiaries is the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro.

For purposes relating to their inclusion in the consolidated financial statements of Hapag-Lloyd AG, the assets and liabilities of the Hapag-Lloyd Group are translated into euros at the average exchange rate applicable as at the balance sheet 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.

The cash flows, income and expenses of the acquired UASC Group were translated at the average US dollar/euro exchange rate between 24 May and 31 December 2017 of 1.1687.

Transactions in foreign currency are recorded at the applicable exchange rate as at the date of the transaction. As at the balance sheet date, monetary items are translated at the closing rate at year-end, while non-monetary items are translated at the historical rate. Any differences arising during translation are recognised through profit or loss. Exceptions are changes in the value of derivative financial instruments that are designated as qualified cash flow hedges. These are recognised in other comprehensive income.

Gains and losses due to exchange rates are shown in the item which results in the currency effects. For example, gains and losses due to exchange rates that are in connection with transport services are recorded in both revenue and transport expenses. Other gains and losses due to exchange rates are shown in other operating income or other operating expenses as well as in personnel expenses and income taxes.

#### Exchange rates of significant currencies

| per EUR                | Closing rate |            | Average rate |           |
|------------------------|--------------|------------|--------------|-----------|
|                        | 31.12.2017   | 31.12.2016 | 2017         | 2016      |
| US dollar              | 1.19890      | 1.05600    | 1.12940      | 1.10490   |
| Brazilian real         | 3.96566      | 3.44131    | 3.60532      | 3.86622   |
| Indian rupee           | 76.48900     | 71.16050   | 73.54459     | 74.28232  |
| Canadian dollar        | 1.50280      | 1.42280    | 1.46607      | 1.46831   |
| Chinese renminbi       | 7.83385      | 7.32547    | 7.63223      | 7.34561   |
| British pound sterling | 0.88731      | 0.85840    | 0.87720      | 0.81868   |
| Australian dollar      | 1.53311      | 1.46160    | 1.47369      | 1.48917   |
| Japanese yen           | 134.88869    | 123.49400  | 126.64971    | 120.52139 |
| Mexican peso           | 23.66094     | 21.82269   | 21.36954     | 20.65652  |

#### Accounting and measurement

The annual financial statements of the subsidiaries included in the Group are prepared in accordance with consistent accounting and measurement principles.

#### Goodwill

Goodwill is not amortised, but is tested for impairment once a year. For detailed information about the impairment test, see the section "Impairment testing".

### Other intangible assets

Acquired intangible assets such as advantageous contracts, customer base and/or trademark rights are capitalised at their fair value as at the acquisition date. Other intangible assets are capitalised at cost.

If intangible assets can be used for a limited period only, they are amortised on a straight-line basis over their expected useful lives. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment on an annual basis, as is the case with goodwill. In addition, impairment tests are conducted if there are any indications of a potential loss in value of the assets.

For detailed information about the impairment test, see the section "Impairment testing".

The anticipated useful lives of the intangible assets are as follows:

|                                | Useful life<br>in years |
|--------------------------------|-------------------------|
| Customer base                  | 20–25                   |
| "Hapag-Lloyd" brand            | unlimited               |
| Other brands                   | 5–20                    |
| Charter and lease agreements   | 5–10                    |
| Transport and supply contracts | 2–5                     |
| Computer software              | 5–8                     |
| Other                          | 3                       |

The global container liner service is almost exclusively operated under the acquired brand "Hapag-Lloyd", which, due to national and international declaration and registration, is subject to indefinite legal protection. The indefinite useful life is the result of the brand recognition already being maintained by international operations, so that additional measures or investments for the conservation of the value of the brand are not necessary. The acquired brand "CSAV" will continue to be used for individual South America services and amortised on a straight-line basis over a useful life of 20 years. The decision not to operate any container liner services under the acquired brand "UASC" has further strengthened Hapag-Lloyd's competitive position, particularly in the Middle East. The resulting expected development of the usefulness is reflected in the useful life of five years.

For intangible assets with finite useful lives, their useful life is examined at least at the end of every financial year. For intangible assets with indefinite useful lives, an annual check is carried out as to whether the assessment of an indefinite useful life can be maintained. Any changes in the anticipated useful life are treated prospectively as changes in estimates.

### Property, plant and equipment

Property, plant and equipment are measured at depreciated cost of acquisition or production. The cost of acquisition comprises all costs incurred to purchase an asset and bring it to working condition. The cost of production is determined on the basis of direct costs and appropriate allocations of overheads.



Borrowing costs as defined by IAS 23 which are directly associated with the acquisition, construction or production of qualifying assets are included in the cost of acquisition or production until the assets in question are ready for their intended use.

Use-related depreciation using the straight-line method is based on the following useful economic lives, which are the same as in the previous year:

|                     | Useful life<br>in years |
|---------------------|-------------------------|
| Buildings           | 40                      |
| Vessels             | 25                      |
| Containers, chassis | 13                      |
| Other equipment     | 3–10                    |

Dry dock work carried out to obtain an operating licence (vessel classification costs) is depreciated as a separate component over a period of five years. Furthermore, the level of depreciation is determined by the residual values expected at the end of the useful economic life of an asset. The residual value of container ships is based on their scrap value.

Useful economic lives and assumed residual values are both reviewed on an annual basis during the preparation of the financial statements. Impairment tests are conducted if there are any indications of a potential loss in value of the assets.

For detailed information about the impairment test, see the section “Impairment testing”.

#### **Impairment testing**

Intangible assets with finite useful lives and property, plant and equipment are tested regularly for impairment if there are any indications of a possible loss in value. This test compares the recoverable amount of the asset in question with its carrying amount. If an asset’s carrying amount exceeds its recoverable amount, an impairment is recognised.

If no recoverable amount can be ascertained for an individual asset, this value is determined for the smallest identifiable group of assets to which the asset in question can be attributed and which is capable of achieving cash inflows (cash-generating unit, CGU) largely independently of other assets.

Container shipping in its entirety is defined as a cash-generating unit in the Group, as it is not possible to allocate the operating cash flows to individual assets due to the complexity of the transport business (see Notes in the section “Segment reporting”).

Intangible assets with indefinite useful lives are tested for impairment if circumstances require, but at least annually at the end of the financial year. This applies to the Hapag-Lloyd brand, for which the recoverable amount was calculated at fair value. A need for impairment was not ascertained.

Goodwill is tested for impairment at least once a year. Impairment testing is also conducted if events or circumstances occur that indicate that it may no longer be possible to recover the carrying amount. Goodwill is tested for impairment at the level of the cash-generating unit "container shipping".

An impairment loss is recognised if the recoverable amount is lower than the cash-generating unit's carrying amount. If a need for impairment has been ascertained, the goodwill is impaired first. Any need for impairment over and above this is spread in proportion to the carrying amount over the remaining non-current assets.

If, following an impairment recognised in previous years, the asset or cash-generating unit has a higher recoverable amount at some later date, a reversal of the impairment to no higher than the amortised cost is carried out. No reversals of impairment of goodwill are carried out as they are not permitted under IAS 36.

The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the cash-generating unit or the individual asset. If one of these amounts is greater than the carrying amount, it is not necessary to calculate both values.

The fair value is the price that independent market participants would pay at the balance sheet date under normal market conditions if the asset or cash-generating unit were sold. The value in use is ascertained by discounting the cash flows anticipated from future operational use.

The recoverable amount of the container shipping CGU is used for the impairment testing of goodwill and is calculated on the basis of the value in use. This is calculated on the basis of a discounted cash flow method.

The future expected cash flows from Hapag-Lloyd's management planning, which has been approved by the Supervisory Board, are taken as the calculation basis. This planning includes synergies from the merger with and the successfully completed integration of UASC.

The cash flow forecasts contain specific estimates for five years and a perpetual rate of growth thereafter. For container shipping, the central planning assumptions are the future development of transport volumes, freight rates, bunker prices and exchange rates, the synergies from measures already implemented and the EBIT margin in the perpetual annuity.

These are dependent on a number of macroeconomic factors, in particular the trends in gross domestic product and global trade. For that reason, the assessments of external economic and market research institutes regarding the future development of global container shipping are obtained while the plans are being prepared and are adjusted and supplemented with experiences and assessments of the Group's own competitive position on its various trades.

The long-term growth rate is ascertained on the basis of the forecast for long-term annual average industry developments.

The budgeted after-tax cash flows are discounted using the weighted average cost of capital after income taxes. This is calculated on the basis of capital market-oriented models as a weighted average of the costs of equity and borrowed capital. Due to tonnage tax regulations, the pre-tax weighted average cost of capital corresponds to the weighted average cost of capital after income taxes.

### Leases

A lease is the term given to all arrangements that transfer the right of use of specified assets in return for payment. This includes rental agreements for buildings and containers as well as charter agreements for ships. On the basis of the commercial risks and rewards inherent in a leased item, it is assessed whether beneficial ownership of the leased item is attributable to the lessee or the lessor.

#### Finance lease

Provided that the Hapag-Lloyd Group as lessee bears all the substantial risks and rewards associated with the lease, the leased assets are included in the statement of financial position upon commencement of the lease agreement at the assets' fair value or the net present value of the minimum lease payments, whichever is lower. They are subject to straight-line depreciation throughout the term of the lease or the useful life of the asset (whichever is longer), provided that it is sufficiently certain at the beginning of the lease that legal ownership of the asset will be transferred to the Company once the contractual term expires.

At the same time, a lease obligation is entered which is equivalent to the carrying amount of the leased asset upon recognition. Each lease rate is divided into an interest portion and a repayment element. The interest portion is recognised as an expense in the consolidated income statement; the repayment element reduces the lease obligation recognised.

#### Operating lease

Rental expenses from operating lease contracts are recorded through the consolidated income statement using the straight-line method over the term of the respective contracts.

If the Group acts as lessor in the context of operating leases, the respective leasing object is still recorded and depreciated in the consolidated financial statements. Lease income from operating leases is recorded in revenue or other operating income using the straight-line method over the term of the respective contracts.

Profits or losses from sale-and-leaseback transactions that result in operating lease contracts are recognised immediately if the transactions were effected at market values. If a loss is offset by future lease instalments being below the market price, this loss is deferred and amortised over the term of the lease agreement. If the agreed sales price exceeds the fair value, the profit from the difference between these two values is also deferred and amortised.

### **Financial instruments**

Financial instruments are contractually agreed rights or obligations that will lead to an inflow or outflow of financial assets or the issue of equity rights. They also encompass derivative rights or obligations derived from primary financial instruments.

In accordance with IAS 39, financial instruments are broken down into financial assets or liabilities measured at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and other liabilities. The valuation category of financial assets or liabilities measured at fair value through profit or loss is subdivided into the categories “held for trading” and “fair value option”.

Derivative financial instruments that are not part of an effective hedging relationship as set out in IAS 39 (hedge accounting) are classified as “held for trading”. The Group also holds financial assets in the “loans and receivables” and “available-for-sale financial assets” categories. By contrast, there are no held-to-maturity investments in these financial statements. Primary liabilities only exist in the category of financial liabilities measured at amortised cost.

Non-derivative host contracts are analysed to determine the existence of embedded derivatives. Embedded derivatives are to be recognised separately from the host contract as an independent financial instrument if the two components demonstrate different economic properties which are not closely linked to each other. Embedded derivatives are likewise classified as “held for trading”.

Financial assets and financial liabilities that fall within the scope of IAS 39 can be irrecoverably assigned to the subcategory “fair value option” under certain circumstances. Neither for financial assets nor for financial liabilities was the fair value option used.

In the 2017 financial year, as in the previous financial year, there were no reclassifications within the individual classification categories.

**Primary financial assets**

Financial assets are recognised at their value as at the trading date, i.e. the date on which the Group commits to buying the asset. Primary financial assets are classified as loans and receivables or as available-for-sale financial assets when recognised for the first time. Loans and receivables as well as available-for-sale financial assets are initially recognised at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable contractual payments which are not listed on an active market. They are shown in the statement of financial position under trade accounts receivable and other assets, and are classified as current assets if they mature within twelve months of the balance sheet date.

As part of subsequent measurements, loans and receivables are measured at amortised cost using the effective interest method. Impairments are recognised for identifiable individual risks. Where default of a certain proportion of the receivables portfolio is probable, impairments are recognised to the extent that the carrying amount of a financial asset exceeds its recoverable amount. Indications for identifiable individual risks include, for example, a material deterioration in creditworthiness, considerable default as well as a high probability of insolvency and the corresponding inability of the customer to repay debt. If the reasons for impairment cease to exist, write-backs are recorded, albeit not in excess of the amortised costs. Impairments and impairment reversals are recorded in other operating expenses and income.

Impairments of trade accounts receivable and other assets are, in part, recorded using an impairment account. The decision to record impairment either by using an impairment account or by directly reducing the trade receivable depends on the degree of reliability of the risk evaluation. Concrete losses lead to a write-off of the respective asset.

Available-for-sale financial assets are non-derivative financial assets which are either explicitly allocated to this category individually or are unable to be allocated to any other category of financial assets. In the Hapag-Lloyd Group, these consist of securities and shares in companies. They are allocated to non-current assets unless the management intends to sell them within twelve months of the balance sheet date.

Available-for-sale financial assets are measured at fair value after their initial measurement. Changes in fair value are recorded under other comprehensive income until the disposal of the assets. A permanent reduction in fair value gives rise to impairments recognised with effect on net income. In the event of a subsequent write-back of the impairment recorded in profit or loss, the impairment is not reversed but is posted against other comprehensive income.

If no listed market price on an active market is available for shares held and other methods to determine an objective market value are not applicable, the shares are measured at cost.

Assets are no longer recognised as at the date at which all the risks and opportunities associated with their ownership are transferred or cease.

#### **Cash and cash equivalents**

Cash and cash equivalents encompass cash in hand, bank balances and other financial investments that can be converted into defined cash amounts at any time and are only subject to minor changes in value. Fully utilised overdraft facilities are not netted, but are shown as liabilities to banks under current financial debt.

Cash which is deposited in pledged accounts with a term of no more than three months is recognised as cash and cash equivalents. If the term exceeds three months then the cash is recorded under other assets.

#### **Primary financial liabilities**

The initial recognition of a primary financial liability is carried out at fair value, taking account of directly allocable transaction costs. In subsequent measurements, primary financial liabilities are measured at amortised cost using the effective interest method.

Primary financial liabilities are written off if contractual obligations have been settled, annulled or expired. If a review of changes in contractual conditions using quantitative and qualitative criteria leads to the assessment that both contracts are substantially the same, the old liability continues to exist with the new conditions.

#### **Derivative financial instruments and hedge accounting**

Derivative financial instruments are initially measured at their fair values on the day the agreement was concluded. Subsequent measurement is also carried out at the fair value applicable on the respective balance sheet date. The method used to record gains and losses depends on whether the derivative financial instrument is classified as a hedge and on the type of hedging relationship.

Derivative financial instruments are classified either as fair value hedges of assets or liabilities, or as cash flow hedges to hedge against the risks of future cash flows from recorded assets and liabilities or highly probable future transactions.

Upon conclusion of the transaction in accordance with IAS 39, the hedging relationships between the hedging instrument and the underlying transaction and between the risk management goal and the underlying strategy are documented. In addition, an assessment is made and documented both at the beginning of the hedging relationship and on a continual basis

as to whether the derivatives used in the hedging relationship compensate for the changes in the fair values or cash flows of the underlying transactions in a highly effective manner. Derivative financial instruments are recorded as current or non-current financial assets or liabilities according to their remaining terms.

The effective proportion of changes in the fair value of derivatives which are designated as cash flow hedges is recognised in other comprehensive income. The ineffective proportion of such changes in fair value is recognised immediately in profit or loss. Hedge accounting by means of options records the changes in fair value directly in profit or loss because they are excluded from the hedging relationship. Amounts recorded in other comprehensive income are reclassified to the consolidated income statement and recognised as income or expenses in the period in which the hedged underlying transaction is recognised in profit or loss. In the case of hedging relationships based on currency forward contracts, the entire effective market value change in the hedging transaction is initially recorded under other comprehensive income. In the next step, the spot component is reclassified from other comprehensive income to the consolidated income statement and is recognised through profit or loss in line with the change in the value of the underlying transaction. The forward component is recognised through profit or loss on a pro rata basis over the term of the hedging relationship. In the case of hedging relationships based on interest rate swaps, all the effective market value changes in the hedging transaction are initially recorded under other comprehensive income. The deferred interest contained in them is then immediately reclassified again under the interest result through profit or loss, since the as yet unpaid interest on the hedged loan is also deferred through profit or loss and, in this way, an interest expense equal to the fixed interest rate hedged by the interest rate swap is recognised.

If a hedge expires, is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss remains in other comprehensive income and is not recognised through profit or loss in the consolidated income statement until the underlying transaction occurs. If the future transaction is no longer expected to occur, the cumulative gains or losses recognised outside the consolidated income statement must immediately be recognised through profit or loss.

Changes in the fair values of derivative financial instruments not meeting the criteria for hedge accounting, including embedded derivatives which must be separated, are recognised directly through profit or loss in the consolidated income statement.

### **Inventories**

Inventories are measured at the lower of cost of acquisition or net realisable value. The measurement method applied to similar inventory items is the weighted average cost formula. The net realisable value is the estimated selling price in the ordinary course of business.

Inventories mainly comprise fuel and lubricants.



### **Pensions and similar obligations**

The valuation of defined benefit plans from pension obligations and other post-employment benefits (e.g. health care benefits) is carried out in accordance with IAS 19 *Employee Benefits* using the projected unit credit method. The actuarial obligation (defined benefit obligation, DBO) is calculated annually by an independent actuarial expert. The present value of the DBO is calculated by discounting the expected future outflows at the interest rate of first-rate corporate bonds. The corporate bonds are issued in the currency of the payment to be made and have matching maturities with the pension obligations.

Differences between the assumptions made and the actual developments, as well as changes in the actuarial assumptions for the valuation of defined benefit pension plans and similar obligations, lead to actuarial gains and losses. As with the difference between calculated interest income and the actual return on plan assets, these are reported in full in other comprehensive income, i.e. not in the consolidated income statement.

If the benefits accruing from a plan are changed or cut, both the part of the change in benefits which relates to previous periods (past service cost) and the gains or losses arising from the plan cuts are immediately recognised through profit or loss. Gains or losses arising from a defined benefit plan being cut or paid out are recognised at the time at which the cut or payment is made.

If individual benefit obligations are financed using external assets (e.g. through qualified insurance policies), provisions for pension benefits and similar obligations which match the present value of defined benefit obligations on the balance sheet date are recorded after deducting the fair value of the plan assets.

A negative net pension obligation resulting from advance payments for future contributions is included as an asset only insofar as it leads to a reimbursement from the plan or a reduction in future contributions.

With defined benefit contribution plans, the Group makes contributions to statutory or private pension insurance plans on the basis of a legal, contractual or voluntary obligation. The Group does not have any further payment obligations on top of the payment of the contributions. The contributions are recorded as personnel expenses when they fall due.

### **Other provisions**

Provisions are recognised for all legal or factual obligations resulting from a past event and impending losses from pending transactions insofar as their utilisation is probable and their amount and date can be reliably determined. Provisions are recorded at the best commercial estimate of their repayable amount and take account of cost and price increases. The present value is assessed for provisions with terms exceeding one year. Over the course of time, the provisions are adjusted on the basis of new knowledge gained.

Releases of provisions are generally recorded in the same consolidated income statement position that was originally used for the expense. Exceptions to this rule are significant releases, which are recorded as other operating income.

If there are many similar obligations, the probability of utilisation is determined on the basis of this group of obligations. A provision is also recognised even if the probability of a charge is low in relation to an individual obligation contained within this group.

Provisions for guarantee, warranty and liability risks are created on the basis of existing or estimated future damages. Provisions for restructuring measures are created if a detailed formal restructuring plan was prepared and a justified expectation existed among the affected parties.

#### **Put options on non-controlling interests**

Put options written involving a commitment to buy non-controlling interests when exercised are recognised as a financial liability in the amount of the present value of the exercise price pursuant to IAS 32. This entails application of the anticipated acquisition method which is founded on the assumption that acquisition of the non-controlling interests has already occurred: a financial obligation to acquire own equity instruments is carried as a liability. The non-controlling interests are derecognised in equity and the difference between the non-controlling interests and the likely purchase price is recognised in the remaining equity. Changes in the value of the financial liability are subsequently recognised directly in equity.

The anticipated acquisition of non-controlling interests was disclosed separately in the statement of changes in equity.

#### **Share-based payments**

The share-based payment plans used by the Group are payment plans which are settled in cash. The debt incurred by the Group as a result is recognised in expenses at fair value at the time when the service is rendered by the eligible party (pro rata allocation). Until the end of the performance period, the fair value of the debt is remeasured at every balance sheet date. Any changes in the fair value are recognised in profit or loss.

#### **Realisation of income and expenses**

Revenue and other operating income are realised when the transport services have been rendered, i.e. the risks have been transferred to the customer. Revenue is therefore recognised using the percentage of completion method as per IAS 18.20. The percentage of completion/transport progress is determined on the basis of the ratio of expenses incurred to expected total expenses.

The revenue amount is measured by the fair value of the consideration received or to which there will be an entitlement. Revenue is recognised net of value added tax and reductions in earnings. Other operating income and other revenue are generally recorded upon delivery of the assets or upon transfer of their ownership or risk.

Operating expenses are recognised in profit or loss when the service has been utilised or at the time of its occurrence.

Please refer to Note (28) for the recording of gains and losses from derivative financial instruments used in hedges.

Dividends from non-equity-accounted investees are recorded when the legal claim to them has arisen.

Interest income and expenses are recognised pro rata using the effective interest method.

#### **Earnings per share**

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. In both the 2017 financial year and the previous year, basic earnings per share were the same as diluted earnings per share.

#### **Taxes**

As a liner shipping company, Hapag-Lloyd AG, the largest company in the Hapag-Lloyd Group, has opted for taxation in accordance with tonnage. Tax liability for tonnage taxation is not calculated using the actual profits, but rather depends on the net tonnage and the operating days of the Company's ship fleet. All profits in direct connection with the operating of merchant ships in international trade are essentially subject to tonnage tax. Income from capital and equity investments is taxed according to the normal rules. The same applies to ships that do not meet the requirements of tonnage taxation. Current income taxes for the reporting period and for previous periods are measured as the amount at which their payment to or rebate from the tax authority is anticipated. They are ascertained on the basis of the Company's tax rates as at the balance sheet date. Income tax provisions are netted against the corresponding tax rebate claims if they apply in the same fiscal territory and are of the same type and maturity.

Deferred taxes are recognised using the balance sheet liability method in accordance with IAS 12. They result from temporary differences between the recognised amounts of assets and liabilities in the consolidated statement of financial position and those in the tax balance sheet.

Expected tax savings from temporary differences or from the use of tax loss carry-forwards are capitalised if they are estimated to be recoverable in the future. In their valuation, time limitations on the loss carry-forwards are taken into account accordingly. In order to evaluate whether deferred tax assets from tax loss carry-forwards can be used, i. e. recovered, the tax-related budget of the Group is consulted. The tax-related budget is based on the medium-term budget for 2018 to 2022, which has been extended to ten years for tax purposes.

Deferred taxes are charged or credited directly to other comprehensive income if the tax relates to items likewise recognised directly in other comprehensive income.

Their valuation takes account of the respective national income tax rates prevailing when the differences are recognised.

Deferred tax claims (tax assets) and deferred tax debts (tax liabilities) are netted insofar as the Company has the right to net current income tax assets and liabilities against each other and if the deferred tax assets and liabilities relate to current income taxes.

#### **Fair value**

A number of accounting and valuation methods require that the fair value of both financial and non-financial assets and liabilities be determined. The fair value is the price that independent market participants would pay on the relevant day under normal market conditions if the asset were sold or the liability were transferred.

Fair value is measured using a three-level hierarchy based on the valuation parameters used.

##### Level 1:

Unchanged adoption of quoted prices on active markets for identical assets or liabilities.

##### Level 2:

Use of valuation parameters whose prices are not the listed prices referred to in level 1, but which can be observed either directly or indirectly for the asset or liability in question.

##### Level 3:

Use of factors not based on observable market data for the measurement of the asset or liability (non-observable valuation parameters).

Every fair value measurement is set at the lowest level of the hierarchy based on the valuation parameter, provided that the valuation parameter is essential. If the method of determining the fair value of assets or liabilities to be measured on a regular basis changes, resulting in the need to assign them to a different hierarchy level, such reclassification is performed at the end of the reporting period.

Additional explanations of fair values can be found in Note (28) "Financial instruments".

**Significant assumptions and estimates**

The preparation of consolidated financial statements in accordance with IFRS requires estimates and assumptions in order to determine the assets, liabilities and provisions shown in the statement of financial position, the disclosures of contingent claims and liabilities as at the balance sheet date, and the recognised income and expenses for the reporting period. Estimates and assumptions are continuously re-evaluated and are based on historic experiences and expectations regarding future events which seem reasonable under the existing conditions.

This specifically applies to the following cases:

- Useful lives and residual values for intangible assets and property, plant and equipment
- Verification of the realisable values of intangible assets and property, plant and equipment
- Measurement of assets acquired and liabilities assumed as part of the company acquisitions
- Classification of leases
- Allowance for doubtful receivables
- Recognition of deferred tax assets on loss carry-forwards
- Specification of parameters for measuring pension provisions
- Recognition and measurement of other provisions
- Assignment of a fair value to a fair value hierarchy

**Useful lives and residual values for intangible assets and property, plant and equipment**

Useful lives and residual values for intangible assets and property, plant and equipment are estimated on the basis of past experience. The management regularly reviews the estimates for individual assets or groups of assets with similar characteristics based on changes in the quality of maintenance programmes, amended environmental requirements and technical developments. In the case of significant changes it adjusts the useful lives and residual values.

On 24 May 2017, Hapag-Lloyd acquired UASC. Included in the acquisition were UASC's customer relationships, which will be amortised on a straight-line basis over a period of 20 years as a result. The amortisation periods of the existing customer relationships were examined in this context. The outcome of this was a reduction of five years in the useful lives of the CSAV customer relationships – from an original length of 30 years to 25 years. These changes lead to an increase of EUR 5.9 million per year in amortisation from financial year 2017 onwards. From 2040 to 2043 amortisation per year will decrease by EUR 26.0 million.

The estimation of residual values of container ships is affected by uncertainties and fluctuations due to the long useful life of ships, the uncertainties regarding future economic developments and the future price of steel, which is a significant parameter for determining the residual values of container ships. As a rule, the residual value of a container ship or a class

of container ships is determined by its scrap value. The scrap value is calculated on the basis of a container ship's empty weight and the average price of steel. Adjustments are made to the residual value of a container ship based on its longevity if it is expected that (long-term) market fluctuations will exist until the end of the ship's useful operating life.

Disclosures on the useful lives can be found in the section "Accounting and measurement". The carrying amounts of intangible assets and property, plant and equipment are shown in Notes (11) and (12).

#### **Verification of the realisable values of intangible assets and property, plant and equipment**

Verification of the realisable values of intangible assets and property, plant and equipment also requires assumptions and estimates to be made regarding future cash flows, anticipated growth rates, exchange rates and discount rates. All material parameters are therefore at the discretion of the management regarding the future development, particularly in terms of the global economy. They involve the uncertainty of all forecasting activity. The assumptions made for this purpose can be subject to alterations which could lead to impairments in value in future periods. Regarding the approach, we refer to the presentation concerning impairment testing; regarding the carrying amounts of intangible assets and property, plant and equipment, see Notes (11) and (12).

#### **Measurement of assets acquired and liabilities assumed as part of the company acquisitions**

Measurement of the assets acquired and liabilities assumed as part of company acquisitions depends on estimates and assumptions. Existing uncertainties were suitably applied to measurement during the purchase price allocation. All the estimates and assumptions are based on relationships and assessments as at the date of acquisition.

The assumptions and estimates that could have a material impact on the carrying amounts of assets and liabilities relate mainly to the following cases:

- Setting the parameters for determining the fair value of the transferred contribution and the acquired assets, liabilities and contingent liabilities (e.g. assumptions regarding business development, operating margins and market conditions [charter rates, lease rates] and assumptions used to determine capital costs).
- Determining the useful life of intangible assets (e.g. brand, customer relationships and software).
- Measurement of tax and legal risks.

The estimates and assumptions regarding UASC at the time of acquisition had changed as at the reporting date, as new details about facts and circumstances which already existed at the time of acquisition were identified after the time of acquisition. The changes to fair values at the time of acquisition can be found in the section on the acquisition of UASC.

Specific details on company mergers can be found in the section “Company acquisitions”.

#### **Classification of leases**

During the classification of leases, discretionary decisions are made regarding the assignment of beneficial ownership to either the lessor or the lessee. Regarding the approach, we refer to the presentation concerning the recognition and measurement of leases; regarding the amounts, see Note (32).

#### **Allowance for doubtful receivables**

The allowance for doubtful receivables largely comprises estimates and valuations of both individual receivables and groups of receivables that are based on the respective creditworthiness of the customer, current economic trends and analysis of maturity structures and historical defaults. For further explanations, we refer to Note (14).

#### **Recognition of deferred tax assets on loss carry-forwards**

The amount of deferred taxes recognised on loss carry-forwards in the Group is dependent primarily on the estimation of the future usability of the tax loss carry-forwards. In this respect, the amount of the deferred tax assets depends on the budgeting of future tax results. As a result of discrepancies between planned and actual developments, these amounts may need to be adjusted in future periods. Further explanations of deferred taxes are given in Note (9).

#### **Specification of parameters for measuring pension provisions**

The valuation of provisions for pensions and similar obligations is based on, among other things, assumptions regarding discount rates, anticipated future increases in salaries and pensions, and mortality tables. These assumptions can diverge from the actual figures as a result of changed external factors such as economic conditions, the market situation and/or mortality rates. For detailed explanations, see Note (23).

**Recognition and measurement of other provisions**

The other provisions are naturally subject to a high level of estimation uncertainty with regard to the amount of the obligations or the time of their occurrence. The Company must sometimes use empirical values as the basis for making assumptions regarding the likelihood of occurrence of the obligation or future developments, e.g. the costs to be estimated for the valuation of obligations. These can be subject to estimation uncertainties, particularly in the case of non-current provisions.

Provisions are made within the Group if losses from pending transactions are imminent, a loss is probable and the loss can be reliably estimated. Due to the uncertainties associated with this valuation, the actual losses can deviate from the original estimates and the respective provision amount. For provisions for guarantee, warranty and liability risks, there is particular uncertainty concerning the estimate of future damages.

For detailed explanations, see Note (24).

**Assignment of a fair value to a fair value hierarchy**

In a number of cases, the valuation parameters used to determine the fair value of an asset or liability can be assigned to various levels of the fair value hierarchy. In such cases, fair value measurement as a whole is assigned to the same hierarchy level as the valuation parameter of the lowest level that is of significance to the measurement in its entirety. The evaluation of the significance of a specific valuation parameter for measurement as a whole requires a discretionary decision in which the characteristic factors relating to the asset or liability are to be taken into consideration. See the section "Impairment testing" and Note (28) "Financial instruments" on the approach taken.

**Risks and uncertainties**

Influencing factors which can result in deviations from expectations comprise not only macro-economic factors such as exchange rates, interest rates and bunker prices, but also the future development of container shipping.



## 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 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 via its complete 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 \*

| TTEU                                       | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Atlantic                                   | 1,696               | 1,534               |
| Transpacific                               | 1,709               | 1,494               |
| Far East                                   | 1,504               | 836                 |
| Middle East                                | 1,033               | 462                 |
| Intra-Asia                                 | 850                 | 608                 |
| Latin America                              | 2,466               | 2,248               |
| EMAO (Europe-Mediterranean-Africa-Oceania) | 544                 | 417                 |
| <b>Total</b>                               | <b>9,803</b>        | <b>7,599</b>        |

\* In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly.

### Freight rates per trade \*

| USD/TEU                                    | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Atlantic                                   | 1,302               | 1,338               |
| Transpacific                               | 1,241               | 1,222               |
| Far East                                   | 947                 | 774                 |
| Middle East                                | 864                 | 700                 |
| Intra-Asia                                 | 578                 | 554                 |
| Latin America                              | 1,049               | 1,001               |
| EMAO (Europe-Mediterranean-Africa-Oceania) | 1,067               | 1,052               |
| <b>Total (weighted average)</b>            | <b>1,051</b>        | <b>1,036</b>        |

\* In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly.

**Revenue per trade \***

| million EUR                                | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Atlantic                                   | 1,955.3             | 1,857.2             |
| Transpacific                               | 1,877.5             | 1,651.7             |
| Far East                                   | 1,260.8             | 586.2               |
| Middle East                                | 789.9               | 292.9               |
| Intra-Asia                                 | 435.1               | 305.2               |
| Latin America                              | 2,291.3             | 2,035.9             |
| EMAO (Europe-Mediterranean-Africa-Oceania) | 514.4               | 397.2               |
| Revenue not assigned to trades             | 849.2               | 607.9               |
| <b>Total</b>                               | <b>9,973.4</b>      | <b>7,734.2</b>      |

\* In connection with the merger of the UASC Group, the trades have been restructured and the assignment of individual services amended. The prior period figures have been amended accordingly.

Operating earnings before interest, taxes, depreciation and amortisation (EBITDA) were 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 corresponded to those of the Group (see Note [13]).

| million EUR  | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| <b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b> | <b>1,054.5</b>      | <b>607.4</b>        |
| Depreciation and amortisation  | -643.6              | -481.0              |
| <b>EBIT</b>  | <b>410.9</b>        | <b>126.4</b>        |
| <b>Earnings before income taxes (EBT)</b>                                      | <b>56.2</b>         | <b>-73.4</b>        |
| <b>Share of profit of equity-accounted investees</b>                           | <b>38.1</b>         | <b>27.1</b>         |

**Non-current assets**

| million EUR                               | 2017            | 2016           |
|---|-----------------|----------------|
| Goodwill                                  | 1,486.8         | 1,661.6        |
| Other intangible assets                   | 1,785.5         | 1,340.4        |
| Property, plant and equipment             | 8,966.5         | 6,315.6        |
| Investments in equity-accounted investees | 331.9           | 325.7          |
| <b>Total</b>                              | <b>12,570.7</b> | <b>9,643.3</b> |
| thereof domestic                          | 9,464.2         | 9,403.2        |
| thereof foreign                           | 3,106.5         | 240.1          |
| <b>Total</b>                              | <b>12,570.7</b> | <b>9,643.3</b> |

When assessing the cash-generating unit (CGU), non-current assets cannot be broken down by region due to their shared use. As a result, these have primarily been assigned to the parent company in Germany. The non-current assets held abroad with an amount of EUR 2,890.9 million (prior year: EUR 0.3 million) are mainly attributable to the United Arab Emirates.

There was no dependency on individual customers in the 2017 financial year.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 1. Revenue

Revenue in the amount of EUR 9,973.4 million (previous year: EUR 7,734.2 million) was primarily generated from the rendering of transport services amounting to EUR 9,856.7 million (previous year: EUR 7,628.2 million). The rise in revenue was mainly due to the merger with UASC during the year.

### 2. Other operating income

| million EUR                            | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Exchange rate gains                    | 35.5                | 21.8                |
| Gain from the purchase of UASC         | 28.2                | 0.0                 |
| Income from the reversal of provisions | 16.8                | 20.4                |
| Subsidies and grants                   | 10.5                | 13.6                |
| Income from write-backs                | 5.4                 | 10.9                |
| Income from the disposal of assets     | 2.5                 | 1.9                 |
| Other income                           | 34.1                | 28.5                |
| <b>Total</b>                           | <b>133.0</b>        | <b>97.1</b>         |

The exchange rate gains from currency items were mainly attributable to exchange rate fluctuations between the origination date and the payment date of assets and liabilities, and to the measurement of financial assets and financial liabilities.

The first-time consolidation of the UASC Group generated one-off income from the purchase price allocation.

Income from the release of provisions mainly includes releases of provisions for guarantee, warranty and liability risks and for insurance premiums.

Income from write-backs essentially consists of write-backs on receivables.

Miscellaneous operating income comprises items that cannot be allocated to any of the items mentioned above. This includes among other things income from cost transfers for services provided and rental and lease income.

### 3. Transport expenses

| million EUR  | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Expenses for raw materials, supplies and purchased goods | 1,184.1             | 687.9               |
| Cost of purchased services                               | 6,805.9             | 5,676.1             |
| thereof  |                     |                     |
| Port, canal and terminal costs                           | 3,472.9             | 2,651.7             |
| Container transport costs                                | 2,236.3             | 1,899.1             |
| Chartering, leases and container rentals                 | 836.2               | 934.9               |
| Maintenance/repair/other                                 | 260.5               | 190.4               |
| <b>Total</b>   | <b>7,990.0</b>      | <b>6,364.0</b>      |

The cost of raw materials, consumables and supplies refers in particular to fuel expenses and effects from fuel hedging instruments.

### 4. Personnel expenses

| million EUR   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Wages and salaries                                      | 552.9               | 403.8               |
| Social security costs, pension costs and other benefits | 126.9               | 92.3                |
| <b>Total</b>  | <b>679.8</b>        | <b>496.1</b>        |

Pension costs include, among other things, expenses for defined benefit and defined contribution pension obligations. A detailed presentation of pension commitments is provided in Note (23).

#### Employees

The average number of employees was as follows:

|                       | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|-----------------------|---------------------|---------------------|
| Marine personnel      | 1,508               | 1,387               |
| Shore-based personnel | 9,753               | 7,789               |
| Apprentices           | 244                 | 208                 |
| <b>Total</b>          | <b>11,505</b>       | <b>9,384</b>        |

## 5. Depreciation, amortisation and impairment

| million EUR                                   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| Scheduled amortisation / depreciation         | 642.1               | 481.0               |
| Amortisation of intangible assets             | 100.3               | 78.5                |
| Depreciation of property, plant and equipment | 541.8               | 402.5               |
| Impairment of property, plant and equipment   | 1.5                 | –                   |
| <b>Total</b>                                  | <b>643.6</b>        | <b>481.0</b>        |

The amortisation of intangible assets largely concerned amortisation of the customer base. The depreciation of property, plant and equipment was largely accounted for by ocean-going vessels and containers. A break-down of depreciation and amortisation can be found in the Notes to the respective balance sheet item.

Explanatory notes on the impairments can be found in Note (18).

## 6. Other operating expenses

| million EUR   | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|---|---------------------|---------------------|
| EDP costs   | 111.2               | 92.5                |
| Commissions   | 53.4                | 49.9                |
| Exchange rate losses  | 15.4                | 42.8                |
| Other taxes   | 50.3                | 38.8                |
| Expenses for charges, fees, consultancy and other professional services | 36.7                | 30.2                |
| Rental and lease expenses   | 33.0                | 28.5                |
| Other social security expenses  | 32.7                | 23.1                |
| Car and travel expenses   | 17.9                | 14.7                |
| Administrative expenses   | 16.3                | 13.5                |
| Bank charges  | 7.7                 | 8.4                 |
| Miscellaneous operating expenses  | 64.5                | 43.8                |
| <b>Total</b>  | <b>439.1</b>        | <b>386.2</b>        |

The exchange rate losses from currency items were mainly attributable to exchange rate fluctuations between the origination date and the payment date of assets and liabilities, and to the measurement of financial assets, liabilities and currency forward contracts as at the balance sheet date.

Miscellaneous operating expenses comprise items that cannot be allocated to any of the items mentioned above. These include expenses from insurance payments, maintenance and repair costs and audit fees.

## 7. Other financial result

The other financial result of EUR 18.9 million (previous year: EUR –4.7 million) mainly comprises profit of EUR 18.3 million from the remeasurement of the equity investment in HLOT. Further details on this transaction can be found in the section “Acquisition of Hapag-Lloyd Denizasiri Nakliyat A.S.”.

## 8. Interest result

The interest result was as follows:

| million EUR  | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Interest income  | 11.3                | 5.7                 |
| Interest income from fund assets for the financing of pensions and similar obligations | 3.4                 | 4.0                 |
| Other interest and similar income  | 7.9                 | 1.7                 |
| Interest expenses  | 335.8               | 220.1               |
| Interest expenses from the valuation of pensions and similar obligations               | 9.3                 | 9.0                 |
| Other interest and similar expenses  | 332.6               | 211.1               |
| Interest expenses from the change in fair value of embedded derivatives                | -24.1               | 14.6                |
| <b>Total</b>   | <b>-354.7</b>       | <b>-199.8</b>       |

The other interest and similar income relates in particular to income from the measurement of interest rate swaps and interest income from bank balances. Other interest and similar expenses mainly comprises interest for bonds and loans as well as interest from finance leases and other financial debt.

## 9. Income taxes

The taxes on income and earnings actually paid or owed in the individual countries are disclosed as income taxes. As in the previous year, corporate entities based in Germany are subject to a corporate income tax rate of 15.0% and a solidarity surcharge of 5.5% of the corporate income tax owed. Additionally, these companies are subject to trade earnings tax, which for the years 2017 and 2016 is at 16.5% for the Group, corresponding to the specific applicable municipal assessment rate. The combined income tax rate for domestic companies is therefore 32.3%. Furthermore, comparable actual income taxes are disclosed for foreign subsidiaries. In the Group, the tax rates ranged from 6.0% to 40.0% in 2017 (previous year: between 12.5% and 40.0%).

In addition, deferred taxes are recognised in this item for temporary differences in carrying amounts between the statement of financial position prepared in accordance with IFRS and the tax balance sheet as well as on consolidation measures and, where applicable, realisable loss carry-forwards in accordance with IAS 12 *Income Taxes*.

Income taxes were as follows:

| million EUR                        | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|------------------------------------|---------------------|---------------------|
| Actual income taxes                | 23.7                | 18.7                |
| thereof domestic                   | 4.6                 | 6.2                 |
| thereof foreign                    | 19.1                | 12.5                |
| Deferred tax income/expenses       | 0.4                 | 1.0                 |
| thereof from temporary differences | 1.4                 | 1.1                 |
| thereof from loss carry-forwards   | -1.0                | -0.1                |
| <b>Total</b>                       | <b>24.1</b>         | <b>19.7</b>         |

Domestic income taxes include tax expenses of EUR 1.9 million which relate to tonnage tax (previous year: EUR 1.9 million).

Prior-period tax expenses in the amount of EUR 3.2 million are included in the actual income taxes (previous year: income of EUR 0.9 million).

As Hapag-Lloyd AG has opted for tonnage taxation, temporary measurement differences do not affect taxation, with the result that no deferred taxes are calculated. For domestic income which is not subject to tonnage taxation, a combined income tax rate of 32.3% was used both in 2017 and 2016 to calculate the deferred taxes.

For foreign-based companies, the tax rates of the country in question were used to calculate the deferred taxes. The income tax rates applied for foreign-based companies in 2016 ranged from 16.5% to 39.0% (previous year: between 16.5% and 35.0%).

The following table shows a reconciliation statement from the expected to the reported income tax expense. This contrasts with the previous year's table, with the result that the previous year's figures have also been adjusted. To calculate the expected tax expense, the Group profit is first divided between the result that falls under tonnage taxation and the result that is subject to regular taxation. The result that is subject to regular taxation is multiplied by the statutory income tax rate of 32.3% prevailing for Hapag-Lloyd AG in the financial year, as the bulk of the Group profit was generated by Hapag-Lloyd AG.

#### Reconciliation statement

| million EUR  | 1.1.–31.12.<br>2017 | 1.1.–31.12.<br>2016 |
|--|---------------------|---------------------|
| Earnings before income taxes                                       | 56.2                | -73.4               |
| thereof under tonnage tax  | 78.5                | -200.2              |
| thereof under regular income tax                                   | -22.3               | 126.8               |
| <b>Expected income tax expense (+)/income (-) (tax rate 32.3%)</b> | <b>-7.2</b>         | <b>40.9</b>         |
| Difference between the actual tax rates and the expected tax rates | 46.5                | -5.2                |
| Effects of income not subject to income tax                        | -2.2                | -2.6                |
| Non-deductible expenses and trade tax additions and reductions     | 3.6                 | 0.4                 |
| Effects from changes in unrecognised deferred taxes                | -4.6                | -9.2                |
| Effective tax expenses and income relating to other periods        | 3.2                 | 0.9                 |
| Tax effect from equity-accounted investees                         | -12.3               | -8.8                |
| Exchange rate differences  | -3.5                | 2.3                 |
| Other differences  | 0.6                 | 1.0                 |
| <b>Reported income tax expenses (+)/income (-)</b>                 | <b>24.1</b>         | <b>19.7</b>         |

Effects due to deviating tax rates for domestic and foreign taxes from the income tax rate of Hapag-Lloyd AG are disclosed in the above reconciliation statement under the difference between the actual tax rates and the expected tax rates.

Effects from changes in unrecognised deferred taxes essentially comprise income of EUR 3.5 million (previous year: EUR 8.2 million) from changes in unrecognised corporate income tax loss carry-forwards both at home and abroad. EUR 3.0 million of this income (previous year: EUR 6.8 million) relates to the reduction of actual income taxes due to the use of tax losses previously not taken into consideration. It also includes income of EUR 1.2 million (previous year: EUR 3.5 million) which relates to the non-recognition of deferred taxes on tax interest carry-forwards. EUR 0.3 million of this income (previous year: EUR 3.2 million) relates to the reduction of actual income taxes due to the use of tax interest carry-forwards previously not taken into consideration.

Deferred tax assets and deferred tax liabilities result from temporary differences and tax loss carry-forwards as follows:

| million EUR  | 31.12.2017  |            | 31.12.2016  |            |
|--|-------------|------------|-------------|------------|
|  | Asset       | Liability  | Asset       | Liability  |
| Recognition and measurement differences for property, plant and equipment and non-current assets | 1.8         | 2.9        | 2.0         | 1.2        |
| Recognition differences for receivables and other assets   | 2.1         | 0.3        | 1.2         | 0.0        |
| Measurement of pension provisions  | 5.9         | 0.4        | 6.3         | 0.1        |
| Recognition and measurement differences for other provisions                                     | 4.5         | 0.0        | 3.8         | 0.0        |
| Other transactions   | 3.0         | 1.2        | 4.0         | 0.9        |
| Capitalised tax savings from recoverable loss carry-forwards                                     | 8.2         | –          | 8.3         | –          |
| Netting of deferred tax assets and liabilities   | –0.8        | –0.8       | –0.4        | –0.4       |
| <b>Balance sheet recognition</b>   | <b>24.7</b> | <b>4.0</b> | <b>25.2</b> | <b>1.8</b> |



The change in deferred taxes in the statement of financial position is recognised as follows:

| million EUR   | As per<br>1.1.2016 | Recognised<br>as taxes in<br>the income<br>statement | Recognised<br>in other com-<br>prehensive<br>income | Recognised<br>as an<br>exchange<br>rate<br>difference | As per<br>31.12.2016 |
|---|--------------------|--|---|---|----------------------|
| Recognition and measure-<br>ment differences for property,<br>plant and equipment and<br>other non-current assets | 0.1                | 0.7  | –   | –   | 0.8                  |
| Recognition differences for<br>receivables and other assets   | 3.2                | –2.0   | –   | –   | 1.2                  |
| Measurement of pension<br>provisions  | 4.6                | –0.2   | 1.6   | 0.2   | 6.2                  |
| thereof recognised<br>directly in equity  | 4.3                | –  | 1.6   | –   | 5.9                  |
| Recognition and measurement<br>differences for other provisions   | 3.8                | –0.1   | –   | 0.1   | 3.8                  |
| Other transactions  | 2.5                | 0.5  | –   | 0.1   | 3.1                  |
| Capitalised tax savings<br>from recoverable loss<br>carry-forwards  | 7.9                | 0.1  | –   | 0.3   | 8.3                  |
| <b>Balance sheet recognition</b>  | <b>22.1</b>        | <b>–1.0</b>  | <b>1.6</b>  | <b>0.7</b>  | <b>23.4</b>          |

| million EUR   | As per<br>1.1.2017 | Change in<br>the group<br>of con-<br>solidated<br>compa-<br>nies | Recog-<br>nised as<br>taxes<br>in the<br>income<br>statement | Recog-<br>nised<br>in other<br>compre-<br>hensive<br>income | Recog-<br>nised<br>as an<br>exchange<br>rate<br>difference | As per<br>31.12.2017 |
|---|--------------------|--|--|---|--|----------------------|
| Recognition and measure-<br>ment differences for property,<br>plant and equipment and<br>other non-current assets | 0.8                | –0.6   | –1.5   | –   | 0.2  | –1.1                 |
| Recognition differences for<br>receivables and other assets   | 1.2                | –  | 0.7  | –   | –0.1   | 1.8                  |
| Measurement of pension<br>provisions  | 6.2                | –  | –0.2   | –0.5  | –  | 5.5                  |
| thereof recognised<br>directly in equity  | 5.9                | –  | –  | –0.5  | –  | 5.4                  |
| Recognition and measurement<br>differences for other provisions   | 3.8                | 0.6  | 0.6  | –   | –0.5   | 4.5                  |
| Other transactions  | 3.1                | –  | –1.0   | –   | –0.3   | 1.8                  |
| Capitalised tax savings<br>from recoverable loss<br>carry-forwards  | 8.3                | –  | 1.0  | –   | –1.1   | 8.2                  |
| <b>Balance sheet recognition</b>  | <b>23.4</b>        | <b>0.0</b>   | <b>–0.4</b>  | <b>–0.5</b>   | <b>–1.8</b>  | <b>20.7</b>          |

Deferred tax liabilities of EUR 0.3 million (previous year: EUR 0.3 million) were recognised for temporary differences between the net assets and the carrying amount of subsidiaries for tax purposes, whereby the reversal of the temporary differences is likely in the foreseeable future.

No deferred tax liabilities were recognised for the remaining taxable differences between the net assets and the carrying amount of subsidiaries for tax purposes amounting to EUR 49.5 million (previous year: EUR 25.0 million), as Hapag-Lloyd is able to steer how the temporary differences are reversed over time and no reversal of the temporary differences is likely in the near future.

Deferred tax assets and liabilities are classified as non-current in the statement of financial position in accordance with IAS 1, irrespective of their expected realisation date.

Deferred tax assets are recognised for temporary differences and tax loss carry-forwards if their realisation seems certain in the near future. The loss carry-forwards not recognised relate primarily to foreign subsidiaries that are not covered by tonnage taxation. The amounts of unutilised tax losses and the capacity to carry forward the tax losses for which no deferred tax assets were recognised are as follows:

| million EUR   | 31.12.2017     | 31.12.2016     |
|---|----------------|----------------|
| <b>Loss carry-forwards for which deferred tax assets were recognised</b>    | <b>37.7</b>    | <b>38.0</b>    |
| <b>Loss carry-forwards for which no deferred tax assets were recognised</b> | <b>1,318.6</b> | <b>1,496.0</b> |
| thereof loss carry-forwards forfeitable in more than 5 years                | 1.1            | 1.2            |
| Non-forfeitable loss carry-forwards   | 1,317.5        | 1,494.8        |
| thereof interest carry-forwards   | 17.4           | 17.5           |
| <b>Total of unutilised loss carry-forwards</b>                              | <b>1,356.3</b> | <b>1,534.0</b> |

## 10. Earnings per share

|   | 1.1.–31.12.2017 | 1.1.–31.12.2016 |
|---|-----------------|-----------------|
| Profit/loss attributable to shareholders in million EUR | 27.4            | –96.6           |
| Weighted average number of shares                       | 148.2           | 118.1           |
| <b>Basic earnings per share in EUR</b>                  | <b>0.19</b>     | <b>–0.82</b>    |

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.

The average number of shares in the 2017 financial year was derived from the number of shares outstanding at the start of the year (118,110,917 shares) and the pro rata number of shares issued as part of the incorporation of the UASC Group on 24 May 2017 (45,932,023 shares) and the capital increase on 17 October 2017 (11,717,353 shares). The number of shares in the previous year was unchanged throughout the year. There were no dilutive effects in the 2017 financial year or in the previous year.

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 11. Intangible assets

| million EUR                        | Goodwill       | Cus-<br>tomer<br>base | Advan-<br>tageous<br>contracts | Brand        | Software     | Total          |
|------------------------------------|----------------|-----------------------|--------------------------------|--------------|--------------|----------------|
| <b>Historical cost</b>             |                |                       |                                |              |              |                |
| As per 1.1.2016                    | 1,610.8        | 1,189.2               | 157.7                          | 273.5        | 117.4        | 3,348.6        |
| Additions                          | –              | –                     | –                              | –            | 2.7          | 2.7            |
| Transfers                          | –              | –                     | –                              | –            | 0.1          | 0.1            |
| Exchange rate differences          | 50.8           | 37.5                  | 5.0                            | 8.6          | 3.8          | 105.7          |
| <b>As per 31.12.2016</b>           | <b>1,661.6</b> | <b>1,226.7</b>        | <b>162.7</b>                   | <b>282.1</b> | <b>124.0</b> | <b>3,457.1</b> |
| <b>Accumulated amortisation</b>    |                |                       |                                |              |              |                |
| As per 1.1.2016                    | –              | 143.0                 | 122.0                          | 2.3          | 94.2         | 361.5          |
| Additions                          | –              | 43.2                  | 17.8                           | 1.9          | 15.6         | 78.5           |
| Exchange rate differences          | –              | 6.5                   | 4.7                            | 0.2          | 3.7          | 15.1           |
| <b>As per 31.12.2016</b>           | <b>–</b>       | <b>192.7</b>          | <b>144.5</b>                   | <b>4.4</b>   | <b>113.5</b> | <b>455.1</b>   |
| <b>Carrying amounts 31.12.2016</b> | <b>1,661.6</b> | <b>1,034.0</b>        | <b>18.2</b>                    | <b>277.7</b> | <b>10.5</b>  | <b>3,002.0</b> |
| <b>Historical cost</b>             |                |                       |                                |              |              |                |
| As per 1.1.2017                    | 1,661.6        | 1,226.7               | 162.7                          | 282.1        | 124.0        | 3,457.1        |
| Addition from business combination | 23.8           | 688.3                 | 3.6                            | 42.8         | 13.5         | 772.0          |
| Additions                          | –              | –                     | –                              | –            | 2.0          | 2.0            |
| Disposals                          | –              | –                     | 132.3                          | –            | –            | 132.3          |
| Exchange rate differences          | –198.6         | –192.0                | –12.0                          | –36.5        | –15.6        | –454.7         |
| <b>As per 31.12.2017</b>           | <b>1,486.8</b> | <b>1,723.0</b>        | <b>22.0</b>                    | <b>288.4</b> | <b>123.9</b> | <b>3,644.1</b> |
| <b>Accumulated amortisation</b>    |                |                       |                                |              |              |                |
| As per 1.1.2017                    | –              | 192.7                 | 144.5                          | 4.4          | 113.5        | 455.1          |
| Additions                          | –              | 67.3                  | 16.9                           | 6.6          | 9.5          | 100.3          |
| Disposals                          | –              | –                     | 132.3                          | –            | –            | 132.3          |
| Exchange rate differences          | –              | –26.2                 | –10.4                          | –0.8         | –13.9        | –51.3          |
| <b>As per 31.12.2017</b>           | <b>–</b>       | <b>233.8</b>          | <b>18.7</b>                    | <b>10.2</b>  | <b>109.1</b> | <b>371.8</b>   |
| <b>Carrying amounts 31.12.2017</b> | <b>1,486.8</b> | <b>1,489.2</b>        | <b>3.3</b>                     | <b>278.2</b> | <b>14.8</b>  | <b>3,272.3</b> |

Intangible assets not subject to amortisation comprise goodwill in the amount of EUR 1,486.8 million (previous year: EUR 1,661.6 million) and the Hapag-Lloyd brand in the amount of EUR 214.1 million (previous year: EUR 238.5 million).

At the end of the financial year 2017 an impairment test was carried out for the entire cash-generating unit container shipping. We refer to the information on impairment testing in the section “Fundamental accounting principles”.

Based on IHS Global Insight’s assessment and on the available capacities, an increase in transport volume in line with market growth was assumed for the detailed planning period. At the time of planning, IHS Global Insight expected an increase in global container traffic of 4.9% in 2018 and of between 4.7% and 4.9% for the years 2019 to 2022. Additionally, it is expected that freight rates in the planning period will remain at the same level as in 2017, given typical seasonal fluctuations, alongside an increase in transport expenses. The USD/EUR exchange rate for all budget years has been kept constant. The synergies from the merger with and successfully completed integration of UASC have been calculated as USD 435 million per year in the detailed planning period following an initial phase in 2018. The EBIT margin in the perpetual annuity corresponds to the expected average long-term performance of the industry.

The weighted average cost of capital after income taxes as used for discounting purposes is 7.9% for the planning period (previous year: 8.2%). In order to extrapolate the plans beyond the planning period, a growth reduction of 1.0% was taken into consideration (previous year: 1.0%). As such, the weighted average cost of capital for the subsequent period is 6.9% (previous year: 7.2%).

As part of the impairment test performed, the respective results were verified using a sensitivity analysis. Various capitalisation rates were used for this. There was no need for impairment for capitalisation costs of up to 8.8%. In addition, to take account of the volatility of the value-driving factors (transport volumes, freight rates, bunker prices and the USD/EUR exchange rate) a sensitivity analysis as to the anticipated surplus (free cash flow) in the period thereafter was performed in the context of a cash flow determination. A decrease in the free cash flow of up to 16.9% in the period thereafter and an unchanged cost of capital did not result in a need for impairment. After consideration of new findings up until the completion of the consolidated financial statements on 23 March 2018, no significant changes in the previous estimates regarding future development were necessary.

At the balance sheet date, the value in use exceeded the carrying amount on the basis of the plans and the sensitivity analyses, with the result that no impairment needed to be recognised at the level of the cash-generating unit.

For the Hapag-Lloyd brand, the recoverable amount was calculated at fair value. As in the previous year, no need for an impairment charge was identified in the financial year.

As part of the business combinations, existing contracts were identified as being advantageous if their contractual terms had a positive market value compared with the market conditions at the time of acquisition of the companies. This included charter and lease agreements in particular.

As in the previous year, no development costs were capitalised. The costs for the maintenance of software, which cannot be capitalised, amounted to EUR 7.4 million (previous year: EUR 6.8 million) and were recognised as expenses.

## 12. Property, plant and equipment

| million EUR                        | Vessels        | Containers,<br>chassis | Other<br>equipment | Payments<br>on account<br>and assets<br>under con-<br>struction | Total           |
|------------------------------------|----------------|------------------------|--------------------|---|-----------------|
| <b>Historical cost</b>             |                |                        |                    |   |                 |
| As per 1.1.2016                    | 6,087.1        | 1,403.6                | 189.1              | 153.7   | 7,833.5         |
| Additions                          | 255.9          | 58.8                   | 9.9                | 65.0  | 389.6           |
| Disposals                          | 16.0           | 4.5                    | 3.2                | –   | 23.7            |
| Transfers                          | 62.9           | –                      | 0.1                | –62.9   | 0.1             |
| Exchange rate differences          | 205.8          | 46.8                   | 3.1                | 5.0   | 260.7           |
| <b>As per 31.12.2016</b>           | <b>6,595.7</b> | <b>1,504.7</b>         | <b>199.0</b>       | <b>160.8</b>  | <b>8,460.2</b>  |
| <b>Accumulated depreciation</b>    |                |                        |                    |   |                 |
| As per 1.1.2016                    | 1,254.6        | 380.4                  | 54.9               | –   | 1,689.9         |
| Additions                          | 279.7          | 109.9                  | 12.9               | –   | 402.5           |
| Disposals                          | 14.9           | 0.9                    | 2.8                | –   | 18.6            |
| Transfers                          | –              | –                      | 0.1                | –   | 0.1             |
| Exchange rate differences          | 51.8           | 17.0                   | 1.9                | –   | 70.7            |
| <b>As per 31.12.2016</b>           | <b>1,571.2</b> | <b>506.4</b>           | <b>67.0</b>        | <b>–</b>  | <b>2,144.6</b>  |
| <b>Carrying amounts 31.12.2016</b> | <b>5,024.5</b> | <b>998.3</b>           | <b>132.0</b>       | <b>160.8</b>  | <b>6,315.6</b>  |
| <b>Historical cost</b>             |                |                        |                    |   |                 |
| As per 1.1.2017                    | 6,595.7        | 1,504.7                | 199.0              | 160.8   | 8,460.2         |
| Addition from business combination | 2,743.0        | 811.7                  | 25.1               | 181.6   | 3,761.4         |
| Additions                          | 201.6          | 185.1                  | 7.9                | 62.5  | 457.1           |
| Disposals                          | 44.1           | 9.1                    | 3.5                | –   | 56.7            |
| Reclassifications to held for sale | –15.2          | –                      | –                  | –   | –15.2           |
| Transfers                          | 380.6          | –                      | –                  | –380.6  | –               |
| Exchange rate differences          | –993.7         | –243.8                 | –14.8              | –18.4   | –1,270.7        |
| <b>As per 31.12.2017</b>           | <b>8,867.9</b> | <b>2,248.6</b>         | <b>213.7</b>       | <b>5.9</b>  | <b>11,336.1</b> |
| <b>Accumulated depreciation</b>    |                |                        |                    |   |                 |
| As per 1.1.2017                    | 1,571.2        | 506.4                  | 67.0               | –   | 2,144.6         |
| Addition from business combination | –              | –                      | 0.3                | –   | 0.3             |
| Additions                          | 369.3          | 157.3                  | 15.2               | –   | 541.8           |
| Impairments                        | 1.5            | –                      | –                  | –   | 1.5             |
| Disposals                          | 26.2           | 5.7                    | 1.5                | –   | 33.4            |
| Reclassifications as held for sale | –2.7           | –                      | –                  | –   | –2.7            |
| Transfers                          | 0.3            | –                      | –0.3               | –   | –               |
| Exchange rate differences          | –206.4         | –68.8                  | –7.3               | –   | –282.5          |
| <b>As per 31.12.2017</b>           | <b>1,707.0</b> | <b>589.2</b>           | <b>73.4</b>        | <b>–</b>  | <b>2,369.6</b>  |
| <b>Carrying amounts 31.12.2017</b> | <b>7,160.9</b> | <b>1,659.4</b>         | <b>140.3</b>       | <b>5.9</b>  | <b>8,966.5</b>  |

The carrying amount of the property, plant and equipment subject to restrictions of ownership was EUR 8,033.3 million as at the balance sheet date (previous year: EUR 5,675.1 million). These restrictions of ownership mainly pertain to ship mortgages from existing financing contracts for ships and land. Additional collateral exists with containers transferred by way of security.

As in the previous year, there was no capitalisation of directly attributable borrowing costs in the 2017 financial year. The capitalisation of borrowing costs relating to general external financing came to EUR 1.4 million (previous year: EUR 13.2 million). The weighted average borrowing costs for the general raising of borrowed funds (cost of debt) amounted to 6.62% p.a. for the 2017 financial year, as in the previous year.

Explanatory notes on the impairments can be found in Note (18).

### 13. Equity-accounted investees

The following companies were incorporated into the Hapag-Lloyd Group using the equity method as at 31 December 2017.

| Name of the company                                  | Registered office | Proportion of ownership in the group (in %) |            |
|--|-------------------|---|------------|
|  |                   | 31.12.2017                                  | 31.12.2016 |
| <b>Joint venture</b>                                 |                   |   |            |
| Consorcio Naviero Peruano S.A.*                      | San Isidro        | 47.93                                       | 47.93      |
| <b>Associated companies</b>                          |                   |   |            |
| Hapag-Lloyd Lanka (Pvt) Ltd*                         | Colombo           | 40.00                                       | 40.00      |
| HHLA Container Terminal Altenwerder GmbH**           | Hamburg           | 25.10                                       | 25.10      |
| United Arab Shipping Agency Company (Thailand) Ltd.* | Bangkok           | 49.00                                       | 0.00       |
| United Arab Shipping Agency Company (Shenzhen) Ltd.* | Shenzhen          | 49.00                                       | 0.00       |
| United Arab Shipping Agency Company (Ningbo) Ltd.*   | Ningbo            | 49.00                                       | 0.00       |
| Djibouti Container Services FZCO*                    | Djibouti          | 19.06                                       | 0.00       |

\* Ship agents and local shipping companies

\*\* Container terminal

The Hapag-Lloyd Group exerts significant control on Djibouti Container Services FZCO, Djibouti, as its share of voting rights in the group is 21.25%.

Proportionate cumulative losses for equity-accounted joint ventures of EUR –1.0 million (previous year: EUR –1.2 million) were not taken into consideration in the financial year. No impairment losses are included in the proportionate equity result.

HHLA Container Terminal Altenwerder GmbH provides terminal services for the Hapag-Lloyd Group. Financial information for this significant equity-accounted investee reported in the statement of financial position (on a 100% basis and therefore not adjusted to the percentage held) is contained in the following table:

| million EUR  | HHLA Container Terminal<br>Altenwerder GmbH |              |
|--|---|--------------|
|  | 2017  | 2016         |
| <b>Statement of comprehensive income</b>   |   |              |
| Revenues   | 281.4                                       | 239.1        |
| Annual result  | 88.2  | 62.8         |
| Dividend payments to Hapag-Lloyd Group   | -22.6                                       | -21.6        |
| <b>Balance sheet</b>   |   |              |
| Current assets   | 78.6  | 131.8        |
| Non-current assets   | 70.4  | 72.3         |
| Current liabilities  | 27.9  | 84.7         |
| Non-current liabilities  | 40.7  | 39.0         |
| <b>Net assets</b>  | <b>80.4</b>                                 | <b>80.4</b>  |
| Group share in net assets  | 20.2  | 20.2         |
| Goodwill   | 276.8                                       | 276.8        |
| Pro-rata share of current financial year's profit                                | 30.9  | 22.6         |
| <b>Carrying amount of the participation<br/>at the end of the financial year</b> | <b>327.9</b>                                | <b>319.6</b> |

The recognised share of equity-accounted investees developed as follows:

| million EUR                            | HHLA Container Terminal<br>Altenwerder GmbH |              | Non-material<br>associated companies |            |
|--|---|--------------|--------------------------------------|------------|
|  | 2017  | 2016         | 2017                                 | 2016       |
| <b>Participation 1.1.</b>              | <b>319.6</b>                                | <b>318.6</b> | <b>0.3</b>                           | <b>0.4</b> |
| Addition from business combination     | -   | -            | 3.7                                  | -          |
| Pro-rata share at earnings after taxes | 30.9  | 22.6         | 1.1                                  | 0.2        |
| Dividend payments                      | -22.6                                       | -21.6        | -1.1                                 | -0.3       |
| <b>Participation 31.12.</b>            | <b>327.9</b>                                | <b>319.6</b> | <b>4.0</b>                           | <b>0.3</b> |

As a result of the incorporation of the UASC Group, non-significant associated companies with carrying amounts totalling EUR 3.7 million were added.

By acquiring 15% of the capital and voting rights in Hapag-Lloyd Denizasiri Nakliyat A.S., Izmir (HLOT), Hapag-Lloyd gained control of the former joint venture. From this time onwards, the former equity-accounted joint venture was fully consolidated in the Hapag-Lloyd Group.

HLOT's pro rata profit after taxes recognised using the equity method came to EUR 6.1 million in the 2017 financial year. The dividends paid to Hapag-Lloyd were EUR 5.2 million.

Further details on this transaction can be found in the section "Acquisition of Hapag-Lloyd Denizasiri Nakliyat A.S."

**14. Trade accounts receivable and other assets**

| million EUR   | 31.12.2017     |                                 | 31.12.2016   |                                 |
|---|----------------|---------------------------------|--------------|---------------------------------|
|   | Total          | Remaining term more than a year | Total        | Remaining term more than a year |
| <b>Financial assets</b>                             |                |                                 |              |                                 |
| Trade accounts receivable                           | 887.8          | –                               | 677.6        | –                               |
| from third parties                                  | 887.8          | –                               | 677.5        | –                               |
| from affiliated non-consolidated companies          | –              | –                               | 0.1          | –                               |
| Other assets  | 343.8          | 21.0                            | 126.2        | 14.2                            |
| Available-for-sale financial assets                 | 1.3            | 1.3                             | 0.8          | 0.8                             |
| Receivables relating to offset or advanced payments | 92.4           | –                               | 68.1         | –                               |
| Receivables from other financial assets             | 137.4          | 0.5                             | 0.3          | 0.1                             |
| Receivables from deposits and prepayments           | 22.9           | 2.9                             | 7.2          | 1.9                             |
| Cash securities                                     | 48.9           | 14.3                            | 18.7         | 11.4                            |
| Other assets  | 40.9           | 2.0                             | 31.1         | –                               |
| <b>Total</b>  | <b>1,231.6</b> | <b>21.0</b>                     | <b>803.8</b> | <b>14.2</b>                     |
| <b>Non-financial assets</b>                         |                |                                 |              |                                 |
| Other assets  | 118.6          | 4.7                             | 98.3         | 12.8                            |
| Claims arising from the refund of other taxes       | 63.2           | 0.5                             | 61.7         | 0.3                             |
| Capitalised transaction costs                       | 4.3            | 2.3                             | 11.7         | 10.3                            |
| Prepaid expenses                                    | 31.2           | 1.1                             | 15.8         | 1.1                             |
| Other assets  | 19.9           | 0.8                             | 9.1          | 1.1                             |
| <b>Total</b>  | <b>118.6</b>   | <b>4.4</b>                      | <b>98.3</b>  | <b>12.8</b>                     |

As at 31 December 2017, in relation to ship financing there were assignments on earnings of a type customary on the market for trade accounts receivable resulting from revenue.

In addition to this, trade accounts receivable were pledged as part of the programme to securitise receivables.

Other assets include restricted cash in the amount of EUR 48.9 million (previous year: EUR 18.7 million), which is held in trust as security for existing financial debt.

If no prices listed on an active market are available and the fair value cannot be determined reliably, the available-for-sale financial assets are measured at cost. In the 2017 financial year, as in the previous year, no impairment was recognised in the “available-for-sale financial assets” category.



### Credit risks

The following table provides information about the credit risks contained in trade accounts receivable and other assets:

| million EUR               | Carrying amounts of financial instruments | Thereof neither over-due nor impaired | Thereof not impaired and overdue in the following periods |                        |                        |                         |                    |
|---------------------------|---|---------------------------------------|---|------------------------|------------------------|-------------------------|--------------------|
|                           |   |                                       | less than 30 days   | between 31 and 60 days | between 61 and 90 days | between 91 and 180 days | more than 180 days |
| <b>31.12.2016</b>         |   |                                       |   |                        |                        |                         |                    |
| Trade accounts receivable | 677.6                                     | 508.7                                 | 133.6   | 17.2                   | 7.5                    | 6.1                     | 4.5                |
| Other assets              | 126.2                                     | 126.2                                 | –   | –                      | –                      | –                       | –                  |
| <b>Total</b>              | <b>803.8</b>                              | <b>634.9</b>                          | <b>133.6</b>  | <b>17.2</b>            | <b>7.5</b>             | <b>6.1</b>              | <b>4.5</b>         |
| <b>31.12.2017</b>         |   |                                       |   |                        |                        |                         |                    |
| Trade accounts receivable | 887.8                                     | 632.5                                 | 195.4   | 24.9                   | 20.1                   | 8.9                     | 6.0                |
| Other assets              | 343.9                                     | 343.9                                 | –   | –                      | –                      | –                       | –                  |
| <b>Total</b>              | <b>1,231.7</b>                            | <b>976.4</b>                          | <b>195.4</b>  | <b>24.9</b>            | <b>20.1</b>            | <b>8.9</b>              | <b>6.0</b>         |

With regard to the portfolio of trade accounts receivable and other assets which are neither impaired nor defaulted, there are no indications as at the balance sheet date that the respective debtors will not honour their obligations to pay.

### Impairment allowances

The impairment allowances on trade accounts receivable and other assets developed as follows:

| million EUR                               | 2017        | 2016        |
|---|-------------|-------------|
| <b>Impairment allowances as of 1.1.</b>   | <b>49.2</b> | <b>52.7</b> |
| Additions                                 | 31.0        | 23.1        |
| Utilisation                               | 10.7        | 9.8         |
| Release                                   | 25.7        | 17.6        |
| Addition from first-time consolidation    | 30.3        | 0.6         |
| Exchange rate differences                 | –7.5        | –1.4        |
| <b>Impairment allowances as of 31.12.</b> | <b>66.6</b> | <b>49.2</b> |

In the financial year, there were minor cash inflows from trade accounts receivable that were already written off.

## 15. Derivative financial instruments

| million EUR  | 31.12.2017 |                                 | 31.12.2016 |                                 |
|--|------------|---------------------------------|------------|---------------------------------|
|  | Total      | Remaining term more than 1 year | Total      | Remaining term more than 1 year |
| Receivables from derivative financial instruments    | 51.2       | 8.6                             | 37.6       | 24.1                            |
| thereof derivatives in hedge accounting              | 38.5       | –                               | 4.6        | –                               |
| thereof derivatives not included in hedge accounting | 12.7       | 8.6                             | 33.0       | 24.1                            |

Derivative financial instruments are shown at fair value (market value). They serve to hedge both the future operating business and the currency risks and interest rate risks in the area of financing. This item also contains embedded derivatives in the form of buy-back options for issued bonds. A detailed presentation of the derivative financial instruments is contained in the explanatory note on financial instruments (Note [28]).

## 16. Inventories

The inventories were as follows:

| million EUR                | 31.12.2017   | 31.12.2016   |
|----------------------------|--------------|--------------|
| Raw materials and supplies | 185.8        | 122.0        |
| Prepayments                | 0.6          | 2.5          |
| <b>Total</b>               | <b>186.4</b> | <b>124.5</b> |

Raw materials, consumables and supplies primarily comprised fuel and lubricating oil. At EUR 182.9 million, they were up EUR 64.7 million on the previous year.

The carrying amount of inventories recognised at net realisable value comes to EUR 88.9 million (previous year: EUR 63.6 million).

Of the expenses for raw materials, supplies and purchase goods totalling EUR 1,184.1 million, EUR 1,111.3 million was recognised as fuel expenses in the reporting period (previous year: EUR 632.7 million).

Impairments of fuel inventories in the amount of EUR 0.1 million were recognised as expenses in the reporting period (previous year: EUR 0.2 million). No write-backs were recognised.

## 17. Cash and cash equivalents

| million EUR              | 31.12.2017   | 31.12.2016   |
|--------------------------|--------------|--------------|
| Cash at bank             | 598.5        | 565.9        |
| Cash in hand and cheques | 6.4          | 4.3          |
| <b>Total</b>             | <b>604.9</b> | <b>570.2</b> |

As at 31 December 2017, a sum totalling EUR 17.6 million with a term of up to three months was deposited in pledged accounts (31 December 2016: EUR 12.7 million) and was therefore subject to a limitation on disposal.

Due to local restrictions, the Hapag-Lloyd Group has limited access to cash and cash equivalents of EUR 2.3 million (previous year: EUR 3.9 million) at individual subsidiaries.

#### **18. Non-current assets held for sale**

The Executive Board of Hapag-Lloyd AG decided to sell ten older vessels of the UASC Group during the 2017 financial year. As at 31 December 2017, four of these ships were still classified as held for sale. These ships are expected to be sold in the first quarter of 2018. The remaining six older ships were sold during the 2017 financial year.

Impairments of EUR 1.5 million were recognised in the write-downs on property, plant and equipment in the 2017 financial year when classifying the assets as held for sale.

The carrying amount of the four ships still held for sale corresponds to the fair value less costs of disposal and amounts to EUR 16.3 million as at the balance sheet date.

#### **19. Subscribed capital and capital reserves**

As at 31 December 2017, Hapag-Lloyd AG's subscribed capital is divided into 175.8 million (previous year: 118.1 million) no-par registered shares with equal rights. Each individual share represents EUR 1.00 of the share capital (previous year: EUR 1.00).

##### **2017 capital increase**

The Company's subscribed capital increased by EUR 46.0 million with effect from 24 May 2017 as a result of the incorporation of UASC Ltd. into Hapag-Lloyd AG by means of a non-cash capital increase in exchange for new shares. In a second step, a cash capital increase of EUR 11.7 million was made on 17 October 2017.

The gross issue proceeds from the two capital increases carried out in the 2017 financial year totalled EUR 1,637.7 million. EUR 1,286.2 million of this was attributable to the capital increase in return for contributions in kind and EUR 351.5 million to the cash capital increase. The new shareholders' contributions amounted to EUR 1,240.2 million from the capital increase in return for contributions in kind and EUR 339.8 million from the cash capital increase. In connection with the capital increases, transaction costs totalling EUR 4.4 million were deducted from the capital reserves.

##### **Authorised share capital**

Based on the authorisation granted by the Annual General Meeting on 26 August 2016 and entered on 4 October 2016, the Executive Board made a decision on 18 May 2017, with the approval of the Supervisory Board on 23 May 2017, to increase the share capital by EUR 46.0 million to EUR 164.1 million in exchange for contributions in kind. The capital increase was carried out and entered on 24 May 2017.

Under a resolution approved at the Annual General Meeting on 29 May 2017, the information regarding authorised share capital in the articles of association was amended. Accordingly, the Executive Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 23.0 million in the period to 30 April 2022 by issuing up to 23 million new no-par registered shares in exchange for cash contributions and/or contributions in kind (Authorised Share Capital 2017). The amendment to the articles of association was entered on 20 July 2017. As a general rule, subscription rights should be provided to the shareholders. The new shares can also be acquired by one or more banks, provided that they are offered to the shareholders for subscription. Under certain circumstances and subject to the approval of the Supervisory Board, the Executive Board is authorised to exclude the subscription rights of the shareholders in order to exclude fractional amounts from the subscription right.

The Executive Board's authorisation, which was subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 50.0 million in the period to 30 June 2018 by issuing up to 50 million new no-par registered shares in exchange for cash contributions and/or contributions in kind (Authorised Share Capital 2016) was cancelled with effect from the date on which the Authorised Share Capital 2017 was entered.

The Executive Board made a decision on 28 September 2017, with the approval of the Supervisory Board on 27 September 2017, to increase the share capital by EUR 11.7 million to EUR 175.8 million utilising the Authorised Share Capital 2017 entered on 20 July 2017. The capital increase was carried out and entered in the commercial register on 17 October 2017.

The Authorised Share Capital pursuant to the authorisation granted on 29 May 2017 (Authorised Share Capital 2017) still amounted to EUR 11.3 million as at 31 December 2017 following partial utilisation.

## **20. Retained earnings**

Retained earnings essentially comprise earnings from the financial year and previous years as well as reclassifications from the capital reserves. In the previous financial years, a total of EUR 1,682.3 million was withdrawn from the capital reserves in the individual financial statements under German commercial law and reclassified accordingly in the consolidated financial statements as retained earnings.

### **Use of retained earnings**

In accordance with the German Stock Corporation Act (AktG), the Annual General Meeting passes resolutions regarding use of the retained earnings reported in the annual financial statements prepared on the basis of German commercial law. Taking into account retained earnings brought forward from 2016 in the amount of EUR 108.4 million, the annual financial statements of Hapag-Lloyd AG recognised retained earnings of EUR 522.4 million. The Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting to use the retained earnings of EUR 522.4 million to pay a dividend of EUR 0.57 per dividend-eligible share and following payment of the dividends totalling EUR 100.2 million, to carry forward the remaining retained earnings of EUR 422.2 million to the subsequent year.

## 21. 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 plans (2017: EUR –118.8 million; previous year: EUR –118.9 million) results from income and expenses from the remeasurement of pension obligations and plan assets recognised in other comprehensive income, among other things due to the change in actuarial and financial parameters in connection with the valuation of pension obligations and the associated fund assets. The expenses from the remeasurement of pension obligations and the associated fund assets recognized in other comprehensive income in the financial year resulted in an increase of the reserve by EUR 0.1 million (previous year: reduction of EUR 43.7 million).

The reserve for cash flow hedges contains changes in market value from hedging transactions that are recognised in other comprehensive income and amounted to EUR 11.0 million as at 31 December 2017 (previous year: EUR 5.4 million). In the 2017 financial year, changes in the fair values of derivative financial instruments in hedging relationships resulted in gains and losses totalling EUR 103.2 million, which were recognised in other comprehensive income as an effective part of the hedging relationship (previous year: EUR –17.9 million), while gains and losses of EUR 96.7 million (previous year: EUR –21.9 million) were reclassified and recognised through profit or loss. More detailed information can be found in the section “Derivative financial instruments and hedging transactions” in the explanatory note on financial instruments (Note [28]).

The translation reserve of EUR 167.5 million (previous year: EUR 835.4 million) includes all differences from currency translation. The differences from currency translation of EUR –670.3 million recognised in the year under review (previous year: EUR 156.5 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 which 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. The previous year’s amount was reclassified within the statement of comprehensive income.

In addition, differences from currency translation from previous years of EUR 1.3 million relating to a foreign joint venture with foreign currency were recycled through profit or loss within the first-time consolidation of this company.

The difference between the relevant non-controlling interests and the expected purchase price at the time the put option was entered is recognised in the reserve for put options on non-controlling interests, as are subsequent changes in the value of the put option as at the balance sheet date. As at 31 December 2017, the reserve for put options on non-controlling interests amounted to EUR –1.0 million (previous year: EUR 0.0 million).

## 22. Non-controlling interests

The non-controlling interests within the Hapag-Lloyd Group are not material from a quantitative and qualitative perspective.

As part of the acquisition of the UASC Group, companies with non-controlling interests were added to the Hapag-Lloyd Group which are of minor overall significance to the Group's net asset, financial and earnings position. As part of the Hapag-Lloyd Group's acquisition of non-controlling interests in seven of these companies in the 2017 financial year, payments of EUR 15.0 million were made to the shareholder of the non-controlling interests. Due to the transactions the non-controlling interests were reduced by EUR 3.8 million and the retained earnings by EUR 11.6 million. The shares of the group in all seven companies rose to 100%.

By acquiring 15% of the capital and voting rights in Hapag-Lloyd Denizasiri Nakliyat A.S., Izmir (HLOT), the share of equity held by the Hapag-Lloyd Group in HLOT rose from 50% to 65%, and Hapag-Lloyd gained control of HLOT. From this time, HLOT is no longer recognised as an equity-accounted interest in a joint venture and instead is fully consolidated in the Hapag-Lloyd Group, while 35% of HLOT's equity is recognised as non-controlling interests. At the point of first-time consolidation, the non-controlling interest in HLOT amounted to EUR 4.3 million. Further details on this transaction can be found in the section "Acquisition of Hapag-Lloyd Denizasiri Nakliyat A.S."

## 23. Provisions for pensions and similar obligations

### Defined benefit pension plans

Hapag-Lloyd AG maintains domestic and foreign defined benefit pension plans.

Provisions for domestic benefit obligations and similar obligations are primarily made due to benefit commitments for pensions, survivorship annuities and disability benefits. The amount of the benefit depends on which benefit group the employees belong to based on years of service, and therefore on the total number of years of service. The monthly pension payable corresponds to the balance of the benefit account of the employee when pension payments begin. The balance of the benefit account is zero when employment begins. It increases by the increment set for the benefit group for every year of eligible service. After the 25th year of service, the annual amount increases by a fifth of the increment applicable to the benefit group. There is no obligation for employees to participate in the pension plan by way of paying contributions.

Furthermore, there are individually agreed pension commitments with entitlements to pension, survivorship annuity and disability benefits, the amount of which is specified in the corresponding agreements. A small number of people also have the option of forgoing their bonuses in favour of a company pension.

Pension commitments are provided to former Executive Board members based on a separate defined benefit plan. These also include entitlements to pension, survivorship annuity and disability benefits, the amount of which is based on an individually specified percentage of the pensionable emoluments. In some cases, they are also secured by plan assets in the form of reinsurance policies. Active Executive Board members do not receive any commitments for a company pension, with one exception. For one Executive Board member, there is a commitment for pension, survivorship annuity and disability benefits, the amount of which is determined by a fixed amount. Retirement benefits are paid out in the form of monthly pension payments.

Foreign defined benefit pension plans relate primarily to plans in the United Kingdom, the Netherlands, Canada and Mexico. These likewise include entitlements to pension, survivorship annuity and disability benefits. The amount of the benefits corresponds to a defined percentage together with the eligible years of service and emoluments. The net income generated from the amounts paid in is also taken into account. Plan assets exist for these plans. Contributions to the foreign plans are paid by Hapag-Lloyd and its employees. In Mexico, the contributions are paid solely by the employer. Benefits abroad are usually paid out in the form of monthly pension payments. However, in Mexico employees have the option of choosing between ongoing pension payments and one-time payments. The additions from the incorporation of the UASC Group mainly comprise a pension plan in the United Kingdom and statutory claims for employee termination benefits.

The Company is exposed to a variety of risks associated with defined benefit pension plans. Aside from general actuarial and financial risks such as longevity risks and interest rate risks, the Company is exposed to currency risk and investment/capital market risk.

#### Financing status of the pension plans

| million EUR                                      | 31.12.2017   | 31.12.2016   |
|--|--------------|--------------|
| <b>Domestic defined benefit obligations</b>      |              |              |
| Net present value of defined benefit obligations | 216.9        | 205.3        |
| Less fair value of plan assets                   | 10.5         | 10.6         |
| <b>Deficit (net liabilities)</b>                 | <b>206.4</b> | <b>194.7</b> |
| <b>Foreign defined benefit obligations</b>       |              |              |
| Net present value of defined benefit obligations | 212.1        | 158.1        |
| Less fair value of plan assets                   | 127.6        | 108.2        |
| <b>Deficit (net liabilities)</b>                 | <b>84.5</b>  | <b>49.9</b>  |
| <b>Total</b>                                     | <b>290.9</b> | <b>244.6</b> |

### Composition and management of plan assets

The Group's plan assets are as follows:

| million EUR                                     | 31.12.2017   | 31.12.2016   |
|---|--------------|--------------|
| Equity instruments                              |              |              |
| with quoted market price in an active market    | 34.9         | 24.1         |
| without quoted market price in an active market | 1.6          | 2.1          |
| Government bonds                                |              |              |
| with quoted market price in an active market    | 31.3         | 29.6         |
| without quoted market price in an active market | –            | –            |
| Corporate bonds                                 |              |              |
| with quoted market price in an active market    | 25.5         | 26.0         |
| without quoted market price in an active market | –            | –            |
| Other debt instruments                          |              |              |
| mortgage-backed securities                      |              |              |
| with quoted market price in an active market    | 6.7          | 7.3          |
| without quoted market price in an active market | –            | –            |
| (other) asset-backed securities                 |              |              |
| with quoted market price in an active market    | 1.3          | 2.6          |
| without quoted market price in an active market | –            | –            |
| Derivatives                                     |              |              |
| with quoted market price in an active market    | 11.3         | 6.7          |
| without quoted market price in an active market | 3.3          | –            |
| Pension plan reinsurance                        | 10.5         | 10.6         |
| Real estate                                     | 1.3          | 1.7          |
| Cash and cash equivalents                       | 4.5          | 2.0          |
| Other   | 5.9          | 6.1          |
| <b>Fair value of plan assets</b>                | <b>138.1</b> | <b>118.8</b> |

The plan assets have been entrusted to independent external financial service providers for investment and management. The plan assets contain neither the Group's own financial instruments nor real estate used by the Group itself. All bonds in the plan assets had a rating of at least AA as at the balance sheet date.

Committees (trustees) exist in the United Kingdom, Canada and Mexico to manage the foreign plan assets; these consist of plan participants and representatives of Hapag-Lloyd management.

When plan assets are invested in these countries, legally independent financial service providers are called in to provide advice and support. They make a capital investment proposal to the respective committee, complete with risk and success scenarios. The committee is then responsible for taking the investment decision in close consultation with Hapag-Lloyd AG;



their decisions tally with their respective investment strategy. The investment strategy first and foremost focuses on reducing the interest rate risk and on safeguarding liquidity and optimising returns. To this end, the anticipated pension payments, which will be incurred in a specific time frame, are aligned with the maturity of the capital investments. In the case of maturities from eight to twelve years, low-risk investment forms are chosen, e.g. fixed-interest or index-linked government and corporate bonds. For any other obligations falling due, investments are made in forms with a higher risk, but which have a greater expected return.

In the Netherlands, an independent financial service provider is responsible both for managing the plan assets and for deciding how to invest them.

The financing conditions in the United Kingdom are set by the regulatory body for pensions together with the corresponding laws and regulations. Accordingly, a valuation is carried out in line with local regulations every three years, which usually leads to a greater obligation compared to measurement pursuant to IAS 19. Based on the most recent technical valuation, the defined benefit plan in the United Kingdom has a financing deficit. The Company and trustees have agreed on a plan to reduce the deficit, which includes additional annual payments for a limited period.

#### Development of the present value of defined benefit obligations

The present value of defined benefit obligations has developed as follows:

| million EUR  | 2017         | 2016         |
|--|--------------|--------------|
| <b>Net present value of defined benefit obligations as at 1.1.</b>   | <b>363.4</b> | <b>311.7</b> |
| Current service cost   | 11.8         | 8.3          |
| Interest expenses  | 9.3          | 9.0          |
| Remeasurements:  |              |              |
| Gains (-)/losses (+) from changes in demographic assumptions         | 2.3          | -0.7         |
| Gains (-)/losses (+) from changes in financial assumptions           | 1.9          | 53.9         |
| Gains (-)/losses (+) from changes due to experience                  | -2.3         | -1.2         |
| Past service cost  | 2.2          | 0.3          |
| Plan reductions  | -1.0         | -            |
| Plan settlements   | -0.2         | -            |
| Contributions by plan participants                                   | 0.3          | 0.6          |
| Benefits paid  | -50.7        | -8.5         |
| Exchange rate differences  | -6.2         | -10.0        |
| Additions from change in the group of consolidated companies         | 98.2         | -            |
| <b>Net present value of defined benefit obligations as at 31.12.</b> | <b>429.0</b> | <b>363.4</b> |

The weighted average maturity of defined benefit obligations was 19.8 years as at 31 December 2017 (previous year: 20.4 years).

### Development of the fair value of the plan assets

The fair value of the plan assets has developed as follows:

| million EUR  | 2017         | 2016         |
|--|--------------|--------------|
| <b>Fair value of plan assets as at 1.1.</b>                  | <b>118.8</b> | <b>119.9</b> |
| Interest income  | 3.4          | 4.0          |
| Return and losses on plan assets (excluding interest income) | -1.4         | 4.5          |
| Employer contributions                                       | 3.2          | 2.7          |
| Contributions by plan participants                           | 0.2          | 0.4          |
| Benefits paid  | -4.2         | -4.5         |
| Exchange rate differences                                    | -3.3         | -8.2         |
| Additions from change in the group of consolidated companies | 21.4         | -            |
| <b>Fair value of plan assets as at 31.12.</b>                | <b>138.1</b> | <b>118.8</b> |

### Net pension expenses

Net pension expenses reported in the income statement for the period are as follows:

| million EUR                      | 1.1.-31.12.<br>2017 | 1.1.-31.12.<br>2016 |
|----------------------------------|---------------------|---------------------|
| Current service cost             | 11.8                | 8.3                 |
| Interest expenses                | 9.3                 | 9.0                 |
| Interest income                  | -3.4                | -4.0                |
| Past service cost                | 2.2                 | 0.3                 |
| Plan settlements/plan reductions | -1.2                | -                   |
| <b>Net pension expenses</b>      | <b>18.7</b>         | <b>13.6</b>         |

The expenses incurred in connection with pensions and similar obligations are contained in the following items in the consolidated income statement:

| million EUR                               | 1.1.-31.12.<br>2017 | 1.1.-31.12.<br>2016 |
|---|---------------------|---------------------|
| Personnel expenses                        | 12.7                | 8.6                 |
| Interest expenses (+)/interest income (-) | 6.0                 | 5.0                 |
| <b>Total</b>                              | <b>18.7</b>         | <b>13.6</b>         |

### Actuarial assumptions

The valuation date for pension provisions and plan assets is generally 31 December. The valuation date for current net pension expenses is generally 1 January. The parameters established for the calculation of the pension provisions and the interest rate to determine interest income on plan assets to be reported in the income statement vary in accordance with the prevailing market conditions in the currency region in which the pension plan was set up.

The 2005 G mortality tables devised by Heubeck served as the demographic basis for calculating the domestic pension provisions. The following significant financial and actuarial assumptions were also used:

| percentage points                  | 2017 | 2016 |
|------------------------------------|------|------|
| Discount factors                   | 1.70 | 1.80 |
| Expected rate of pension increases | 1.80 | 1.80 |

Demographic assumptions based on locally generally applicable guidance tables were used to measure the significant foreign pension provisions. The following financial and actuarial assumptions were also used:

| percentage points                        | 2017  | 2016  |
|--|-------|-------|
| Discount factors for pension obligations |       |       |
| United Kingdom                           | 2.60  | 2.60  |
| Netherlands                              | 1.70  | 1.80  |
| Canada                                   | 3.25  | 3.50  |
| Mexico                                   | 7.87  | 6.80  |
| Expected rate of pension increases       |       |       |
| United Kingdom                           | 2.90  | 2.90  |
| Netherlands                              | 2.00  | 2.00  |
| Canada                                   | n. a. | n. a. |
| Mexico                                   | 3.50  | 3.30  |

The discount factors for the pension plans are determined annually as at 31 December on the basis of first-rate corporate bonds with maturities and values matching those of the pension payments. An index based on corporate bonds with relatively short terms is used for this purpose. The resultant interest rate structure is extrapolated on the basis of the yield curves for almost risk-free bonds, taking account of an appropriate risk premium, and the discounting rate is determined in accordance with the duration of the obligation.

### Remeasurements

Remeasurements from defined benefit pension plans recognised in other comprehensive income amounted to EUR 0.6 million before tax as at 31 December 2017 for the 2017 financial year (previous year: EUR –45.3 million) and can be broken down as follows:

| million EUR                                       | 31.12.2017 | 31.12.2016   |
|---|------------|--------------|
| Actual gains (+)/losses (-) from                  |            |              |
| Changes in demographic assumptions                | -2.3       | 0.7          |
| Changes in financial assumptions                  | -1.9       | -53.9        |
| Changes from experience                           | 2.3        | 1.2          |
| Return on plan assets (excluding interest income) | -1.5       | 4.5          |
| Exchange rate differences                         | 4.0        | 2.2          |
| <b>Remeasurements</b>                             | <b>0.6</b> | <b>-45.3</b> |

The cumulative amount of remeasurements recognised in other comprehensive income after taxes totalled EUR –118.8 million as at 31 December 2017 (previous year: EUR –118.9 million).

#### Future contribution and pension payments

For 2018, the Group is planning to make contributions to pension plan assets amounting to EUR 2.7 million (2017: EUR 2.8 million). Payments for unfunded pension plans, including employee termination costs, are anticipated in the amount of EUR 8.0 million in 2018 (2017: EUR 3.6 million).

#### Sensitivity analyses

An increase or decrease in the significant actuarial assumptions would have the following effects on the present value of pension provisions as at 31 December 2017:

| million EUR                                   | <b>Δ Present<br/>value<br/>31.12.2017</b> | Δ Present<br>value<br>31.12.2016 |
|---|---|----------------------------------|
| Discount factor 0.8% points higher            | –54.5                                     | –51.4                            |
| Discount factor 0.8% points lower             | 68.2                                      | 42.8                             |
| Expected rate of pension increase 0.2% higher | 8.3                                       | 8.0                              |
| Expected rate of pension increase 0.2% lower  | –8.0                                      | –7.7                             |
| Life expectancy 1 year longer                 | 13.3                                      | 12.6                             |

The sensitivity calculations are based on the average maturity of pension provisions determined as at 31 December 2017. In order to present the effects on the present value of pension provisions as at 31 December 2017 separately, the calculations for the key actuarial parameters were performed individually. Correlations between the effects and valuation assumptions were not considered either. Given that sensitivity analyses are based on the average duration of the anticipated pension provisions and, as a result, the expected payout date is not considered, they only provide approximate information and indications of trends.

#### Defined contribution pension plans

At Hapag-Lloyd, the expenses for defined contribution pension plans relate predominantly to the contributions to the statutory retirement pension system. In the period from 1 January to 31 December 2017, expenses incurred in connection with defined contribution pension plans totalled EUR 27.8 million (previous year: EUR 23.9 million). This amount includes an expense of EUR 1.0 million in connection with a joint plan operated by several employers in the USA (previous year: EUR 1.0 million).

In the 2008 financial year, pension and medical benefit provisions in the USA were transferred, together with the corresponding plan assets, from the Company's own benefit plan to the joint plan of several employers. This plan is a defined benefit pension plan. As the joint plan does not provide sufficient and timely information regarding the development of the entitlement of employees of the Group or the Group's share in the plan assets, this plan has been recognised as a contribution plan since then.

Contributions are paid to finance the plan. These are determined on the basis of current service cost, the anticipated costs of the earned entitlement of active participants for the current year and the distribution of shortfalls. The total amount required is spread in an amount calculated per working hour which falls due per participant and paid working hour.

A total of 17 shipping companies participate in the plan. When joining the plan, the companies brought with them deficits of EUR 20.6 million (pensions) and EUR 57.7 million (medical care). Hapag-Lloyd's share amounted to a surplus of EUR 0.9 million (pensions) and a deficit of EUR 1.9 million (medical care). These initial surpluses and deficits are being equalised over a period of ten years by means of reduced contributions or additional contributions respectively. In this context, the Company reported a net liability of EUR 0.1 million as at 31 December 2017 (previous year: EUR 0.1 million).

Deficits which have arisen since the calculation of the initial deficits are spread over 15 years, which results in higher contributions. Deficits are calculated by deducting the market value of the plan assets from the cumulative obligations.

According to the most recent report (1 January 2017; previous year: 1 January 2016), the plan participants were as follows:

#### Plan participants (total)

|                              | Medical care | Pensions   | Medical care | Pensions   |
|------------------------------|--------------|------------|--------------|------------|
|                              | 2017         |            | 2016         |            |
| Active vested participants   | 562          | 528        | 571          | 537        |
| Inactive vested participants | –            | 42         | –            | 47         |
| Beneficiaries                | 214          | 224        | 188          | 192        |
| <b>Total</b>                 | <b>776</b>   | <b>794</b> | <b>759</b>   | <b>776</b> |

#### Plan participants (Hapag-Lloyd)

|                              | Medical care | Pensions  | Medical care | Pensions  |
|------------------------------|--------------|-----------|--------------|-----------|
|                              | 2017         |           | 2016         |           |
| Active vested participants   | 30           | 30        | 41           | 41        |
| Inactive vested participants | –            | 2         | –            | –         |
| Beneficiaries                | 2            | 2         | 8            | 2         |
| <b>Total</b>                 | <b>32</b>    | <b>34</b> | <b>49</b>    | <b>43</b> |

In the event that a company wishes to leave the plan, they must pay a withdrawal liability. This withdrawal liability is calculated on the basis of the current proportionate deficit by taking into account only the non-forfeitable benefits less the market value of the plan assets. If a company leaves the plan without being able to pay the withdrawal liability, for instance in the event of insolvency, the deficit remains within the plan and must be covered by the other companies.

For 2018, payments to the plan are expected to amount to EUR 1.2 million (2017: EUR 1.1 million).

As a result of the incorporation of the UASC Group, there is an additional defined benefit plan operated by several employers. The Merchant Navy Officer's Pensions Fund (MNOF) is registered in the United Kingdom and has been established worldwide for British merchant navy officers.

As at 31 December 2017, a liability of EUR 4.9 million was recorded for this plan.

#### 24. Other provisions

Other provisions developed as follows in the financial year and previous year:

| million EUR                                  | As per<br>1.1.2016 | Addition<br>from<br>business<br>combi-<br>nation | Utilisation  | Release     | Addition    | Exchange<br>rate dif-<br>ferences | As per<br>31.12.<br>2016 |
|--|--------------------|--|--------------|-------------|-------------|-----------------------------------|--------------------------|
| Risks from pending transactions and lawsuits | 169.5              | –  | 62.4         | 1.3         | 0.6         | 2.4                               | 108.8                    |
| Guarantee, warranty and liability risks      | 99.3               | –  | 21.3         | 10.0        | 10.7        | 2.2                               | 80.9                     |
| Personnel costs                              | 74.1               | –  | 48.9         | 2.7         | 41.3        | 1.6                               | 65.4                     |
| Insurance premiums                           | 15.8               | –  | 1.2          | 4.8         | 5.3         | 0.5                               | 15.6                     |
| Provisions for other taxes                   | 2.4                | –  | 0.6          | 0.1         | 0.5         | –                                 | 2.2                      |
| Restructuring                                | 16.0               | –  | 9.7          | 4.5         | –           | –0.1                              | 1.7                      |
| Other provisions                             | 53.0               | –  | 17.8         | 1.7         | 15.8        | 1.3                               | 50.6                     |
| <b>Other provisions</b>                      | <b>430.1</b>       | <b>–</b>   | <b>161.9</b> | <b>25.1</b> | <b>74.2</b> | <b>7.9</b>                        | <b>325.2</b>             |

| million EUR                                  | As per<br>1.1.2017 | Addition<br>from<br>business<br>combi-<br>nation | Utilisation  | Release     | Addition     | Exchange<br>rate dif-<br>ferences | As per<br>31.12.<br>2017 |
|--|--------------------|--|--------------|-------------|--------------|-----------------------------------|--------------------------|
| Personnel costs                              | 65.4               | 1.9  | 39.0         | 3.2         | 84.9         | –6.9                              | 103.1                    |
| Guarantee, warranty and liability risks      | 80.9               | 19.7   | 16.0         | 13.2        | 7.3          | –10.2                             | 68.5                     |
| Risks from pending transactions and lawsuits | 108.8              | 29.8   | 58.9         | 1.0         | 0.1          | –12.1                             | 66.7                     |
| Insurance premiums                           | 15.6               | –  | 2.6          | –           | 4.5          | –2.0                              | 15.5                     |
| Restructuring                                | 1.7                | –  | –            | –           | 12.2         | –0.9                              | 13.0                     |
| Provisions for other taxes                   | 2.2                | 10.5   | 2.5          | 1.9         | 2.7          | –0.9                              | 10.1                     |
| Other provisions                             | 50.6               | 0.5  | 18.1         | 3.2         | 22.3         | –4.8                              | 47.3                     |
| <b>Other provisions</b>                      | <b>325.2</b>       | <b>62.4</b>                                      | <b>137.1</b> | <b>22.5</b> | <b>134.0</b> | <b>–37.8</b>                      | <b>324.2</b>             |

Provisions for personnel costs comprise provisions for leave not yet taken, bonuses not yet paid, severance compensation, anniversary payments and share-based payment agreements which are part of the Executive Board's variable remuneration. Details of the long-term incentive plans are outlined in section (34). Provisions for insurance premiums include outstanding premiums for general and business insurance policies entered into with insurers outside the Group.

Provisions for guarantee, warranty and liability risks relate primarily to maintenance obligations in connection with leased containers and to obligations to compensate for uninsured damage to cargo.

The risks from pending transactions and legal disputes primarily relate to disadvantageous charter and lease agreements identified as part of purchase price allocations pursuant to IFRS 3. As a result of the acquisition of the UASC Group, further disadvantageous charter and lease agreements in the amount of EUR 28.1 million were acquired in the 2017 financial year. By comparison with the prevailing market conditions at the time of acquisition, these agreements had a negative market value. They are recognised as provisions and utilised over the respective contractual terms of the underlying agreements. No new increases in the discounted amount due to the passage of time were recorded here during the financial year. The change in the remaining discounted non-current provisions is insignificant due to an adjusted discount rate.

As part of the Hapag-Lloyd Group's acquisition of the UASC Group on 24 May 2017, the Executive Board of the Hapag-Lloyd Group decided to implement a restructuring plan in June 2017. The plan comprises implementation of the integration and the Group's new organisational structure which resulted directly from this. The restructuring costs, including estimated costs incurred for IT modifications, agent terminations, consultancy costs and employee termination costs, which the announcement of the plan is expected to bring, prompted the Group to recognise a provision of EUR 12.2 million as at 31 December 2017.

Other provisions comprise items that cannot be allocated to any of the items already mentioned and include in particular provisions for country-specific risks and archiving provisions.

The maturities of the other provisions are as follows:

| million EUR                                     | 31.12.2017      |                 |              |                         | 31.12.2016      |                 |              |                         |
|---|-----------------|-----------------|--------------|-------------------------|-----------------|-----------------|--------------|-------------------------|
|   | Remaining terms |                 |              |                         | Remaining terms |                 |              |                         |
|   | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years |
| Personnel costs                                 | 103.1           | 86.6            | 6.0          | 10.5                    | 65.4            | 50.6            | 7.2          | 7.6                     |
| Guarantee, warranty<br>and liability risks      | 68.5            | 49.1            | 14.2         | 5.2                     | 80.9            | 54.9            | 21.1         | 4.9                     |
| Risks from pending<br>transactions and lawsuits | 66.7            | 37.4            | 29.3         | –                       | 108.8           | 52.0            | 55.0         | 1.8                     |
| Insurance premiums                              | 15.5            | 15.5            | –            | –                       | 15.6            | 15.6            | –            | –                       |
| Restructuring                                   | 13.0            | 13.0            | –            | –                       | 1.7             | 1.7             | –            | –                       |
| Provisions for other taxes                      | 10.1            | 10.1            | –            | –                       | 2.2             | 2.2             | –            | –                       |
| Other Provisions                                | 47.3            | 32.5            | 7.1          | 7.7                     | 50.6            | 34.2            | 9.4          | 7.0                     |
| <b>Other Provisions</b>                         | <b>324.2</b>    | <b>244.2</b>    | <b>56.6</b>  | <b>23.4</b>             | <b>325.2</b>    | <b>211.2</b>    | <b>92.7</b>  | <b>21.3</b>             |

## 25. Financial debt

| million EUR                                 | 31.12.2017      |                 |                |                         | 31.12.2016      |                 |                |                         |
|---|-----------------|-----------------|----------------|-------------------------|-----------------|-----------------|----------------|-------------------------|
|   | Remaining terms |                 |                |                         | Remaining terms |                 |                |                         |
|   | Total           | up to<br>1 year | 1–5<br>years   | more<br>than<br>5 years | Total           | up to<br>1 year | 1–5<br>years   | more<br>than<br>5 years |
| Liabilities to banks                        | 4,747.4         | 589.9           | 2,739.6        | 1,417.9                 | 3,050.1         | 711.3           | 1,600.0        | 738.8                   |
| Bonds                                       | 923.8           | 23.5            | 451.1          | 449.2                   | 785.2           | 137.1           | 648.1          | –                       |
| Liabilities from finance<br>lease contracts | 123.6           | 29.0            | 81.3           | 13.3                    | 137.2           | 35.2            | 77.1           | 24.9                    |
| Other financial liabilities                 | 540.7           | 62.4            | 239.5          | 238.8                   | 208.2           | 31.6            | 152.9          | 23.7                    |
| <b>Total</b>                                | <b>6,335.5</b>  | <b>704.8</b>    | <b>3,511.5</b> | <b>2,119.2</b>          | <b>4,180.7</b>  | <b>915.2</b>    | <b>2,478.1</b> | <b>787.4</b>            |

### Financial debt by currency exposure

| million EUR  | 31.12.2017     | 31.12.2016     |
|--|----------------|----------------|
| Financial liabilities denoted in USD (excl. transaction costs) | 5,055.8        | 3,394.0        |
| Financial liabilities denoted in EUR (excl. transaction costs) | 1,085.7        | 819.0          |
| Financial liabilities denoted in SAR (excl. transaction costs) | 207.5          | –              |
| Interest payable   | 47.5           | 37.4           |
| Accounting for transaction costs                               | –61.0          | –69.7          |
| <b>Total</b>   | <b>6,335.5</b> | <b>4,180.7</b> |

The increase in financial debt was primarily due to the inclusion of UASC Group in the Group as a whole. As at 31 December 2017, the UASC Group accounted for EUR 2,656.7 million of the Hapag-Lloyd Group's total financial debt.



Financial debt includes liabilities to banks, bonds, liabilities from finance lease contracts and other financial debt.

#### **Liabilities to banks**

Liabilities to banks mainly comprise loans to finance the existing fleet of ships and containers.

Hapag-Lloyd has drawn down long-term loan agreements for a total of USD 223.4 million (EUR 186.3 million) in connection with three 10,500 TEU ships delivered in the 2017 financial year.

Hapag-Lloyd put the MV Afif into service in July 2017, followed by the MV Al Jmelyah in September 2017, each of which has a transport capacity of 15,000 TEU. The last instalments of USD 25.5 million (EUR 21.3 million) for the construction of each ship became payable to the shipyard upon delivery. Both ships were financed with a long-term loan in the amount of USD 94.8 million (EUR 79.1 million) each, which had already been utilised in full upon delivery.

The development of used-market prices for container ships in the fourth quarter of 2016, driven primarily by the insolvency of the liner shipping company Hanjin, resulted in short-term deficits in the loan-to-value ratios for some of Hapag-Lloyd's ship loans. In light of this, Hapag-Lloyd made early repayments in the amount of USD 51.3 million (EUR 42.8 million) in 2017 as requested by the financing banks.

As part of efforts to optimise the entire portfolio with a bank, voluntary early repayments on a loan in the amount of USD 28.0 million in total (EUR 23.3 million) were agreed. USD 18.0 million (EUR 15.0 million) of this was paid on 1 December 2017. The remaining USD 10.0 million (EUR 8.3 million) will be due for payment on 1 March 2018.

Significant elements of the liabilities to banks are collateralised with ship mortgages. Additional collateral exists in the form of land charges in connection with the Ballindamm property and securitised trade accounts receivable amounting to EUR 399.3 million (previous year: EUR 301.4 million).

#### **Bonds**

On 1 February 2017, Hapag-Lloyd issued a new corporate bond with a coupon of 6.75% and a maturity of five years at an issue price of 100.00%. Due to the high level of demand, the originally planned issue volume of EUR 150.0 million was increased to EUR 250.0 million. In the same month, some of the proceeds from the issue were used for the early repayment of the US dollar bond with an outstanding amount of USD 125.0 million.

On 15 February 2017, EUR 200.0 million was added to the corporate bond issued previously, taking the total amount to EUR 450.0 million. The issue generated additional proceeds of EUR 204.8 million (issue price: 102.375%), of which EUR 200.0 million were used for the partial repayment of an existing euro bond.

Hapag-Lloyd issued a euro bond with a volume of EUR 450.0 million on 18 July 2017. The bond has a maturity of seven years and a coupon of 5.125%. The issue proceeds were used in October 2017 for the early repayment of Hapag-Lloyd's existing 7.75% and 7.50% euro bonds which would have fallen due in 2018 and 2019.

On 1 October 2017, Hapag-Lloyd repaid an existing euro bond in the amount of EUR 200.0 million and a coupon of 7.75% due in 2018 early at a rate of 100.0%.

On 15 October 2017, Hapag-Lloyd repaid a further existing euro bond in the amount of EUR 250.0 million and a coupon of 7.50% due in 2019 early at a rate of 101.875%.

#### **Other financial debt**

Three sale and leaseback transactions were concluded in the 2017 financial year to refinance existing ship portfolios. The lease contracts amount to USD 454.0 million (EUR 378.7 million) and have a maturity of ten years. The economic substance of these transactions is credit financing secured by the assignment of ship portfolios as collateral. Classification is in accordance with SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*, because the agreements contain purchase obligations at the end of the lease term. The Group remains the beneficial owner of the ship portfolios, and the disposal of the ocean-going vessels had no effect on earnings. The loan liabilities of USD 335.6 million (EUR 279.9 million) associated with the ship portfolios were repaid in full.

In the 2017 financial year and in previous financial years, various container sale and leaseback transactions were effected and investments were made in new containers. The economic substance of these transactions is credit financing secured by the assignment of containers as collateral. These transactions expire between 2018 and 2025. Classification is in accordance with SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*, because the agreements contain attractive purchase options that mean that it can be assumed with sufficient certainty that the options will be exercised and therefore that legal ownership of the containers will be transferred back to Hapag-Lloyd AG. Part of these transactions is included in liabilities to banks. Four such transactions were concluded in the 2017 financial year.

Overall, transactions of this kind resulted in liabilities to banks totalling EUR 522.5 million as at the reporting date (previous year: EUR 187.3 million) and other financial debt totalling EUR 540.7 million (previous year: EUR 207.5 million). Interest totalling EUR 29.5 million was recognised in interest expenses in the 2017 financial year (previous year: EUR 19.3 million).

**Credit facilities**

The credit facilities of USD 260.0 million (EUR 216.9 million) utilised as at 31 December 2016 to finance container investments were also repaid in the 2017 financial year. In the 2017 financial year, the agreement was extended until December 2020 and the credit facility was increased to USD 210 million.

The term of a further credit facility for USD 200.0 million was extended in the reporting year until October 2020.

The Hapag-Lloyd Group had total available credit facilities of EUR 454.6 million as at 31 December 2017 (31 December 2016: EUR 189.4 million).

**Reconciliation of the changes in financial debt with the cash flow from financing activities**

| million EUR   | Liabilities from financing activities |              |                                 |                                   | Liabilities (+)/<br>assets (-) from<br>derivative financial<br>instruments in hedge<br>accounting |                           | Total           |
|---|---------------------------------------|--------------|---------------------------------|-----------------------------------|---|---------------------------|-----------------|
|   | Liabilities<br>to banks               | Bonds        | Finance<br>lease<br>liabilities | Other<br>financial<br>liabilities | Forward<br>exchange<br>contracts  | Interest<br>rate<br>swaps |                 |
| <b>Balance at<br/>1.1.2017</b>  | <b>3,050.1</b>                        | <b>785.2</b> | <b>137.2</b>                    | <b>208.2</b>                      | <b>41.1</b>   | <b>-</b>                  | <b>4,221.8</b>  |
| <b>Changes from<br/>financing cash flows</b>  |                                       |              |                                 |                                   |   |                           |                 |
| Payments received from<br>raising financial debt  | 314.2                                 | 886.6        | -                               | 441.1                             | -   | -                         | 1,641.9         |
| Payments made<br>for redemption<br>of financial debt  | -1,613.8                              | -767.0       | -36.7                           | -58.3                             | -   | -                         | -2,475.8        |
| Payments received (+)/<br>made (-) from hedges<br>for financial debt                                  | -                                     | -            | -                               | -                                 | 24.7  | -4.9                      | 19.8            |
| Payments made for<br>interest and fees  | -186.3                                | -89.0        | -8.7                            | -23.5                             | -   | -                         | -307.5          |
| <b>Total changes from<br/>financing cash flows</b>  | <b>-1,485.9</b>                       | <b>30.6</b>  | <b>-45.4</b>                    | <b>359.3</b>                      | <b>24.7</b>   | <b>-4.9</b>               | <b>-1,121.6</b> |
| <b>Changes arising from<br/>obtaining or losing<br/>control of subsidiaries<br/>or other business</b> | <b>3,508.8</b>                        | <b>-</b>     | <b>42.5</b>                     | <b>-</b>                          | <b>-</b>  | <b>19.1</b>               | <b>3,570.4</b>  |
| The effect of changes<br>in foreign exchange  | -520.4                                | 9.4          | -18.3                           | -46.8                             | -0.7  | -1.0                      | -577.8          |
| Changes in fair value   | -                                     | -            | -                               | -                                 | -95.3   | -3.8                      | -99.1           |
| Other changes   | 194.8                                 | 98.6         | 7.6                             | 20.0                              | -1.0  | -                         | 320.0           |
| <b>Balance at<br/>31.12.2017</b>  | <b>4,747.4</b>                        | <b>923.8</b> | <b>123.6</b>                    | <b>540.7</b>                      | <b>-31.2</b>  | <b>9.4</b>                | <b>6,313.7</b>  |

**26. Trade accounts payable and other liabilities**

| million EUR  | 31.12.2017      |                 |              |                         | 31.12.2016      |                 |              |                         |
|--|-----------------|-----------------|--------------|-------------------------|-----------------|-----------------|--------------|-------------------------|
|  | Remaining terms |                 |              |                         | Remaining terms |                 |              |                         |
|  | Total           | up to<br>1 year | 1-5<br>years | more<br>than<br>5 years | Total           | up to<br>1 year | 1-5<br>years | more<br>than<br>5 years |
| <b>Financial liabilities</b>                       |                 |                 |              |                         |                 |                 |              |                         |
| Trade accounts payable                             | 1,559.8         | 1,559.8         | -            | -                       | 1,281.6         | 1,281.6         | -            | -                       |
| thereof<br>to third parties                        | 1,559.8         | 1,559.8         | -            | -                       | 1,281.6         | 1,281.6         | -            | -                       |
| thereof<br>to investments                          | -               | -               | -            | -                       | 0.0             | 0.0             | -            | -                       |
| Other liabilities                                  | 52.6            | 45.9            | 6.6          | 0.1                     | 50.8            | 42.2            | 8.4          | 0.2                     |
| Other liabilities<br>to employees                  | 2.8             | 2.7             | -            | 0.1                     | 1.7             | 1.5             | -            | 0.2                     |
| Put option   | 2.1             | -               | 2.1          | -                       | -               | -               | -            | -                       |
| Other liabilities                                  | 47.7            | 43.2            | 4.5          | -                       | 49.1            | 40.7            | 8.4          | -                       |
| <b>Total</b>                                       | <b>1,612.4</b>  | <b>1,605.7</b>  | <b>6.6</b>   | <b>0.1</b>              | <b>1,332.4</b>  | <b>1,323.8</b>  | <b>8.4</b>   | <b>0.2</b>              |
| <b>Non-financial liabilities</b>                   |                 |                 |              |                         |                 |                 |              |                         |
| Other liabilities                                  | 158.7           | 155.9           | 2.8          | -                       | 129.1           | 125.6           | 3.4          | 0.1                     |
| Prepayments<br>received                            | 122.5           | 122.5           | -            | -                       | 103.0           | 103.0           | -            | -                       |
| Other liabilities<br>as part of<br>social security | 21.2            | 19.2            | 2.0          | -                       | 9.9             | 8.0             | 1.8          | 0.1                     |
| Other liabilities<br>from other taxes              | 8.1             | 8.1             | -            | -                       | 7.6             | 7.6             | -            | -                       |
| Other liabilities                                  | 6.9             | 6.1             | 0.8          | -                       | 8.6             | 7.0             | 1.6          | 0.0                     |
| <b>Total</b>                                       | <b>158.7</b>    | <b>155.9</b>    | <b>2.8</b>   | <b>0.0</b>              | <b>129.1</b>    | <b>125.6</b>    | <b>3.4</b>   | <b>0.1</b>              |

**27. Derivative financial instruments**

| million EUR  | 31.12.2017 |                             | 31.12.2016 |                             |
|--|------------|-----------------------------|------------|-----------------------------|
|  | Total      | Remaining term up to 1 year | Total      | Remaining term up to 1 year |
| Liabilities from derivative financial instruments    | -9.4       | -9.4                        | -41.1      | -1.8                        |
| thereof derivatives in hedge accounting              | -4.2       | -4.2                        | -41.1      | -1.8                        |
| thereof derivatives not included in hedge accounting | -5.2       | -5.2                        | -          | -                           |

Liabilities from derivative financial instruments are solely the result of interest rate swaps. A detailed presentation of the derivative financial instruments is contained in the explanatory note on financial instruments (Note [28]).

**28. Financial instruments****Financial risks and risk management****Risk management principles**

The Hapag-Lloyd Group's global business activity exposes it to market risks. The market risks include, in particular, currency risk, fuel price risk and interest rate risk. The objective of financial risk management is to reduce market risks. For this purpose, selected derivative financial instruments are deployed at Hapag-Lloyd AG; these are used solely as an economic hedging measure and not for trading or other speculative purposes.

In addition to market risks, the Hapag-Lloyd Group is subject to liquidity risks and default risks, which involve the risk that the Group itself or one of its contractual partners cannot meet its contractually agreed payment obligations.

The basic features of financial risk management have been established and described in a financial management guideline approved by the Executive Board. The guideline stipulates areas of responsibility, describes the framework for action and the reporting function, and establishes the strict separation of trading and handling with binding force.

The derivative financial instruments used to limit market risks are acquired only through financial institutions with first-rate creditworthiness. The hedging strategy is approved by the Executive Board of Hapag-Lloyd AG. Implementation, reporting and ongoing financial risk management are the responsibility of the Treasury department.

#### Market risk

Market risk is defined as the risk that the fair values or future cash flows of a primary or derivative financial instrument fluctuate as a result of underlying risk factors.

The causes of the existing market price risks to which the Hapag-Lloyd Group is exposed lie particularly in the significant cash flows in foreign currencies at the level of Hapag-Lloyd AG, fuel consumption and interest rate risks that result from external financing.

In order to portray the market risks, IFRS 7 demands sensitivity analyses that show the effects of hypothetical changes in relevant risk variables on profit or loss for the period and equity. The hypothetical changes in these risk variables relate to the respective portfolio of primary and derivative financial instruments on the balance sheet date.

The analyses of the risk reduction activities outlined below and the amounts determined using sensitivity analyses constitute hypothetical and therefore risky and uncertain information. Due to unforeseeable developments on the global financial markets, actual events may deviate substantially from the information provided.

#### Currency risk

Currency risks are hedged as far as they influence the Hapag-Lloyd Group's cash flow. The objective of currency hedging is the fixing of cash flows based on hedging rates for preventing future disadvantageous fluctuations of the currency exchange rate.

The Hapag-Lloyd Group's functional currency is the US dollar. Currency risks mainly result from incoming or outgoing payments in currencies other than the US dollar and from financial debt taken on in euros. In addition to the euro, the Brazilian real, Indian rupee, Canadian dollar, Chinese renminbi, British pound sterling, Australian dollar, Japanese yen and Mexican peso are significant currencies.

If necessary, currency hedging transactions are conducted, while taking account of internal guidelines. The Group hedges a portion of its operating cost exposure denominated in euros by using options on a twelve-month basis with the aim of limiting currency risks. The repayment of euro-denominated financial debt is also hedged up to as much as 100%. The risks are hedged by making use of derivative financial instruments in the form of currency forward contracts and instruments that have a natural hedging effect (e.g. euro money market investments).

The following sensitivity analysis contains the Hapag-Lloyd Group's currency risks in relation to primary and derivative financial instruments. It reflects the risk that arises in the event that the US dollar as the functional currency appreciates or depreciates by 10% against the major Group currencies (EUR, CAD, INR) at the reporting date. In the previous year, the significant currencies were EUR, CAD and GBP. The analysis is depicted on the basis of a posted foreign currency exposure of USD –1,153.6 million.

| million USD    | 31.12.2017         |                                       | 31.12.2016         |                                       |
|----------------|--------------------|---------------------------------------|--------------------|---------------------------------------|
|                | Effect on earnings | Reserve for cash flow hedges (equity) | Effect on earnings | Reserve for cash flow hedges (equity) |
| <b>USD/EUR</b> |                    |                                       |                    |                                       |
| +10%           | 9.9                | 0.2                                   | 7.2                | 0.2                                   |
| -10%           | -9.9               | -0.2                                  | -7.2               | -0.2                                  |
| <b>USD/CAD</b> |                    |                                       |                    |                                       |
| +10%           | -6.9               | -                                     | -6.7               | -                                     |
| -10%           | 6.9                | -                                     | 6.7                | -                                     |
| <b>USD/INR</b> |                    |                                       |                    |                                       |
| +10%           | 1.9                | -                                     | n. a.              | n. a.                                 |
| -10%           | -1.9               | -                                     | n. a.              | n. a.                                 |

Risks at the level of Hapag-Lloyd AG's consolidated financial statements arise from the translation of the US dollar consolidated financial statements into the reporting currency, the euro (translation risk). This risk has no impact on the Group's cash flow; instead, it is reflected in equity and is not currently hedged.

#### Fuel price risk

As a result of its operating activities, the Hapag-Lloyd Group is exposed to a market price risk for the procurement of bunker fuel.

The risk management's basic objective is securing up to 80% of the forecast bunker requirements. Derivative financial instruments in the form of commodity options are used to hedge against price fluctuations.

In order to portray the fuel price risks according to IFRS 7, a sensitivity analysis was performed, with an implied hypothetical market price change of +/-10%. The consequent effects on earnings and equity – resulting from the market price changes of the derivative financial instrument used – are shown in the following table.

| million EUR                  | 31.12.2017 |      | 31.12.2016 |      |
|------------------------------|------------|------|------------|------|
|                              | 10%        | -10% | 10%        | -10% |
| Reserve for cash flow hedges | 13.5       | -7.1 | 4.1        | -3.9 |
| Earnings before income taxes | 19.1       | -3.8 | 18.1       | -5.2 |

### Interest rate risk

The Hapag-Lloyd Group is exposed to interest rate risks affecting cash flow, particularly from financial debt based on variable interest rates. In order to minimise the interest rate risk, the Group strives to achieve a balanced combination of assets and liabilities with variable and fixed interest rates. Interest rate swaps were also used in 2017 to hedge the interest rate risk. In addition, non-cash interest rate risks relating to the measurement of separately recognised embedded derivatives exist in the form of early buy-back options for issued bonds. Effects from the market valuation of these financial instruments are also reflected in the interest result.

In order to present the interest rate risks pursuant to IFRS 7, a sensitivity analysis was performed and used to determine the effects of hypothetical changes in market interest rates on interest income and expenses. The market interest rate as at 31 December 2017 was increased or decreased by +/-100 basis points. Taking into account the low interest rate level, hypothetical, negative changes in interest rates were only made up to nil. The determined effect on earnings relates to financial debt with a variable interest rate amounting to EUR 4,048.0 million that existed at the balance sheet date (previous year: EUR 2,781.5 million), the fair value of interest rate swaps of EUR -9.4 million and the market value of embedded derivatives totalling EUR 8.6 million (previous year: EUR 26.3 million). It is assumed that this exposure also constitutes a representative figure for the next financial year.

| million EUR                      | 31.12.2017          |                     | 31.12.2016          |                     |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                  | +100<br>base points | -100<br>base points | +100<br>base points | -100<br>base points |
| Change in variable interest rate |                     |                     |                     |                     |
| Reserve for cash flow hedges     | 8.3                 | -8.3                | -                   | -                   |
| Earnings before income taxes     | -22.7               | 20.1                | -30.5               | 28.7                |

### Credit risk

In addition to the market risks described above, the Hapag-Lloyd Group is exposed to default risks. Default risk constitutes the risk that a contracting partner will be unable to meet its contractual payment obligations. It refers to both the Hapag-Lloyd Group's operating activities and the counterparty risk vis-à-vis external banks.

Generally, a risk of this kind is minimised by the creditworthiness requirements which the respective contracting partners are required to fulfil. With regard to its operating activities, the Group has an established credit and receivables management system at area, regional and head office level which is based on internal guidelines. Payment periods for customers are determined and continuously monitored within the framework of a credit check. This process takes account of both internal data based on empirical values and external information on the respective customer's creditworthiness and rating. To provide protection against default risks, a credit insurance policy or bank guarantees are also used to hedge just over three quarters of the trade accounts receivable as at the balance sheet date.



The Hapag-Lloyd Group is not exposed to major default risk from an individual counterparty. The concentration of the default risk is limited due to the broad and heterogeneous customer base.

If there are discernible risks in the area of trade accounts receivable and other assets, these are taken into account by means of appropriate impairment allowances. With regard to the age structure analysis for the trade accounts receivable and other assets, please refer to Note (14).

The portfolio of primary financial assets is reported in the statement of financial position. The carrying amounts of the financial assets correspond to the maximum default risk.

With regard to derivative financial instruments, all the counterparties must have a credit rating or, alternatively, a corresponding internal credit assessment determined according to clear specifications. The maximum risk corresponds to the sum total of the positive market values as at the balance sheet date, as this is the extent of the loss that would have to be borne.

For the derivative financial instruments with positive fair values totalling EUR 42.6 million and negative fair values totalling EUR –9.4 million, there is the potential to offset financial assets and financial liabilities in the amount of EUR 0.0 million, taking into account the German Master Agreement for Financial Derivatives and the ISDA Framework Agreement. The market values of embedded derivatives linked to the buy-back option of issued bonds totalling EUR 8.6 million were not taken into account here.

In addition to these, there are no further long-term financial obligations or loans with external contracting partners from which a potential default risk may arise.

#### Liquidity risk

Generally, liquidity risk constitutes the risk that a company will be unable to meet its obligations resulting from financial liabilities. Permanent solvency is ensured and refinancing costs are continuously optimised as part of central financial management.

To ensure solvency at all times, the liquidity requirements are determined by means of multi-year financial planning and a monthly rolling liquidity forecast and are managed centrally. Liquidity needs were covered by liquid funds and confirmed lines of credit at all times over the past financial year.

The bonds issued entail certain limitations with regard to possible payments to the shareholders and subordinated creditors. In addition, there are termination clauses which are customary in the market relating to much of the financial debt in the event that more than 50% of the Company's shares are acquired by a third party.

Further explanatory notes regarding the management of liquidity risks are included in the risk and opportunity report of the Group management report.

Current undiscounted contractually fixed cash flows from both primary financial liabilities (interest and redemption) and derivative financial instruments are as follows:

#### Cash flows of financial instruments (31.12.2016)

| million EUR   | 2017            | 2018            | Cash inflows<br>and outflows<br>2019–2021 | from 2021     | Total           |
|---|-----------------|-----------------|---|---------------|-----------------|
| <b>Primary financial liabilities</b>                    |                 |                 |   |               |                 |
| Liabilities to banks <sup>1</sup>                       | -774.0          | -813.7          | -1,073.8                                  | -838.9        | -3,500.4        |
| Bonds   | -148.8          | -423.7          | -288.7                                    | -5.4          | -866.6          |
| Liabilities from<br>finance lease                       | -43.2           | -30.1           | -63.7                                     | -27.1         | -164.1          |
| Other financial liabilities<br>(excl. operating leases) | -41.9           | -41.9           | -135.7                                    | -25.4         | -244.9          |
| Trade accounts payable                                  | -1,281.6        | -               | -   | -             | -1,281.6        |
| Other liabilities                                       | -42.1           | -8.4            | -   | -0.2          | -50.7           |
| <b>Total primary financial<br/>liabilities</b>          | <b>-2,331.6</b> | <b>-1,317.8</b> | <b>-1,561.9</b>                           | <b>-897.0</b> | <b>-6,108.3</b> |
| <b>Total derivative financial<br/>liabilities</b>       | <b>-39.7</b>    | <b>-1.9</b>     | <b>-</b>                                  | <b>-</b>      | <b>-41.6</b>    |

<sup>1</sup> In relation to a contractually fixed loan for the financing of new ships, there is a further nominal amount of USD 223.5 million to be paid upon delivery of the ships. The loans have a term of twelve years starting with the delivery of the financed ships and are subject to an interest rate of USD LIBOR +1.71%.

#### Cash flows of financial instruments (31.12.2017)

| million EUR   | 2018            | 2019          | Cash inflows<br>and outflows<br>2020–2022 | from 2021       | Total           |
|---|-----------------|---------------|---|-----------------|-----------------|
| <b>Primary financial liabilities</b>                    |                 |               |   |                 |                 |
| Liabilities to banks                                    | -1,084.9        | -813.2        | -2,304.2                                  | -1,621.4        | -5,823.7        |
| Bonds   | -53.4           | -53.4         | -595.1                                    | -496.1          | -1,198.0        |
| Liabilities from<br>finance lease                       | -36.5           | -42.6         | -52.0                                     | -13.9           | -145.0          |
| Other financial liabilities<br>(excl. operating leases) | -73.1           | -73.0         | -188.7                                    | -243.8          | -578.6          |
| Trade accounts payable                                  | -1,559.8        | -             | -   | -               | -1,559.8        |
| Other liabilities                                       | -45.9           | -4.5          | -   | -0.2            | -50.6           |
| Liabilities from put options                            | -               | -             | -3.5                                      | -               | -3.5            |
| <b>Total primary financial<br/>liabilities</b>          | <b>-2,853.6</b> | <b>-986.7</b> | <b>-3,140.0</b>                           | <b>-2,375.4</b> | <b>-9,355.7</b> |
| <b>Total derivative financial<br/>liabilities</b>       | <b>-4.2</b>     | <b>-2.1</b>   | <b>-3.2</b>                               | <b>-0.8</b>     | <b>-10.3</b>    |

It is not expected that the cash outflows in the maturity analysis will occur at points in time that differ significantly or in amounts that differ significantly.

All financial instruments for which payments had already been contractually agreed as at the reporting date of 31 December 2017 were included. Amounts in foreign currencies were translated at the spot rate as at the reporting date. In order to ascertain the variable interest payments arising from the financial instruments, the interest rates fixed on the balance sheet date were used for the following periods as well.

The cash outflows from the put options resulted from the undiscounted expected strike price of the put option.

The cash outflows from derivative financial instruments include the (undiscounted) estimated net payments of the interest rate swaps used on the basis of the yield curve applicable on the balance sheet date.

### **Derivative financial instruments and hedges**

Derivative financial instruments are generally used to hedge existing or planned underlying transactions and serve to reduce foreign currency risks, fuel price risks and interest rate risks, which occur in day-to-day business activities in the context of investment and financial transactions.

Currency risks are currently hedged by means of currency forward contracts. Commodity options are used as hedges for fuel price risks. Interest rate swaps are used to hedge interest rate risks.

Hedging relationships in accordance with IAS 39 (Hedge Accounting) were exclusively shown as cash flow hedges in the year under review. The hedged cash flows from the underlying transactions are expected to be recognised in profit or loss within a period of up to ten years, with early transactions sometimes possible for long-term hedged items. The corresponding hedging instruments have shorter maturities, up to 2024 at the latest. To ensure that the hedged items are fully hedged, subsequent hedging transactions are intended, insofar as the Company does not make use of the option to enter into an early transaction.

In the 2017 financial year, changes in the fair values of derivative financial instruments in hedging relationships resulted in gains and losses totalling EUR 103.2 million, which were recognised in other comprehensive income (previous year: EUR –17.9 million). These changes in value represent the effective share of the hedging relationship.

In the reporting period, gains and losses of EUR 96.7 million from other comprehensive income were reclassified and recognised through profit or loss (previous year: EUR –21.9 million). EUR 113.4 million (previous year: EUR –20.5 million) of this related to exchange rate hedging, which was recognised in other operating loss along with the exchange rate losses from the hedged items. The respective interest portion from currency forward contracts in the amount of EUR –17.8 million (previous year: EUR –7.7 million) was recognised as interest expense. In addition, gains of EUR 3.6 million (previous year: EUR 6.3 million) relating to commodity hedges, the earnings contribution of which is shown in transport expenses, were reclassified

and recognised through profit or loss in the past financial year. A further EUR –2.5 million (previous year: EUR 0.0 million) in relation to interest hedges was reclassified under interest result. It includes a reclassification amount of EUR –1.1 million, which was recognised through profit or loss in the interest result as a result of the termination of hedge accounting when a hedged item was repaid early.

In the reporting period, inefficiencies from hedging relationships occurred in the amount of EUR 2.2 million.

Derivative financial instruments were at no time used for speculative purposes.

The following table shows the nominal values of the derivative financial instruments:

| million EUR                       | 31.12.2017      |                     |         | 31.12.2016      |                     |       |
|-----------------------------------|-----------------|---------------------|---------|-----------------|---------------------|-------|
|                                   | Remaining terms |                     |         | Remaining terms |                     |       |
|                                   | up to<br>1 year | more than<br>1 year | Total   | up to<br>1 year | more than<br>1 year | Total |
| <b>Currency forward contracts</b> |                 |                     |         |                 |                     |       |
| Asset                             | 1,034.6         | –                   | 1,034.6 | –               | –                   | –     |
| Liability                         | –               | –                   | –       | 634.6           | 30.6                | 665.2 |
| <b>Commodity options</b>          |                 |                     |         |                 |                     |       |
| Asset                             | 188.4           | –                   | 188.4   | 204.5           | –                   | 204.5 |
| <b>Interest rate swaps</b>        |                 |                     |         |                 |                     |       |
| Asset                             | –               | 45.8                | 45.8    | –               | –                   | –     |
| Liability                         | –               | 422.2               | 422.2   | –               | –                   | –     |

The fair value determined for the derivative financial instruments is the price at which a contracting party would assume the rights and/or obligations of the other contracting party.

The market values of currency and commodity options are calculated using the Black & Scholes model or the modified Turnbull & Wakeman model and are based on the current exchange rates, commodity prices, currency and commodity price volatility, yield curves and forward prices. Currency forward contracts are measured on the basis of their market-traded forward price as at the reporting date. The fair value of the interest rate swaps is calculated as the present value of the anticipated future cash flows. The estimates of future cash flows from variable interest payments are based on quoted swap rates and interbank interest rates. The estimate of the fair value is adjusted by the credit risk of the Group and the counterparty.

An analysis of the underlying contracts conducted on the bonds issued by Hapag-Lloyd resulted in the identification of embedded derivatives in the form of early buy-back options. These are presented at their fair values as separate derivatives independently of the underlying contract and are classified as held for trading. The market value of the embedded derivatives is calculated using the Hull-White model together with a trinomial decision tree based on current market values.

The positive and/or negative fair values of derivative financial instruments are shown as follows:

| million EUR   | 31.12.2017             |                        | 31.12.2016             |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | Positive market values | Negative market values | Positive market values | Negative market values |
| Hedging instruments acc. to IAS 39 (Hedge accounting) |                        |                        |                        |                        |
| Commodity options                                     | 7.3                    | –                      | 4.6                    | –                      |
| Currency forward contracts                            | 31.2                   | –                      | –                      | –41.1                  |
| Interest rate swaps                                   | 0.0                    | –4.2                   | –                      | –                      |
| <b>Hedges</b>   | <b>38.5</b>            | <b>–4.2</b>            | <b>4.6</b>             | <b>–41.1</b>           |
| Hedging instruments (Held for trading)                |                        |                        |                        |                        |
| Commodity options                                     | 4.1                    | –                      | 6.7                    | –                      |
| Currency forward contracts                            | –                      | –                      | –                      | –                      |
| Interest rate swaps                                   | –                      | –5.2                   | –                      | –                      |
| Embedded derivatives                                  | 8.6                    | –                      | 26.3                   | –                      |
| <b>Other derivative financial instruments</b>         | <b>12.7</b>            | <b>–5.2</b>            | <b>33.0</b>            | <b>–</b>               |
| <b>Total</b>  | <b>51.2</b>            | <b>–9.4</b>            | <b>37.6</b>            | <b>–41.1</b>           |

#### Financial instruments – additional disclosures, carrying amounts and fair values

The fair value of a financial instrument is the price that would be received for an asset or that would be paid for the transfer of a liability on the relevant day in the course of a normal transaction between market participants.

Where financial instruments are quoted in an active market, as with bond issues in particular, the fair value of the financial instrument corresponds to the respective price on the balance sheet date.

The carrying amounts of cash and cash equivalents, trade accounts receivable and significant portions of other assets, and trade accounts payable and other liabilities are a suitable approximation of the fair values. The decision was taken not to report the fair value in these cases. The available-for-sale financial assets included in other assets are generally measured at fair value. If no reliable fair value is available, the assets are measured at cost.

For liabilities to banks and other non-current financial liabilities, the fair value is determined as the net present value of the future cash flows taking account of yield curves and the relevant credit spreads. Traded bonds are measured at the market price as at the balance sheet date.

**Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2016**

| million EUR   | Classifi-<br>cation<br>category<br>accord-<br>ing to<br>IAS 39 | Carrying<br>amount<br>31.12.2016 | Amount recognised in the balance sheet<br>under IAS 39 |                          |   |   | Amount<br>recog-<br>nised<br>in the<br>balance<br>sheet<br>under<br>IAS 17 | Fair<br>value of<br>financial<br>instru-<br>ments |
|---|--|----------------------------------|--|--------------------------|---|---|--|---|
|   |  | Total                            | Amor-<br>tised<br>acqui-<br>sition<br>cost             | Acquisi-<br>tion<br>cost | Fair value<br>with no<br>effect on<br>profit or<br>loss | Fair value<br>through<br>profit and<br>loss |  |   |
| <b>Assets</b>   |  |                                  |  |                          |   |   |  |   |
| Other assets  | LaR  | 125.4                            | 125.4  | -                        | -   | -   | -  | 125.4   |
|   | n.a.   | 98.3                             | -  | -                        | -   | -   | -  | -   |
|   | AfS  | 0.8                              | -  | 0.8                      | -   | -   | -  | 0.8   |
| Derivative financial<br>instruments   |  |                                  |  |                          |   |   |  |   |
| Derivatives<br>(Held for trading)   | FAHfT  | 33.0                             | -  | -                        | -   | 33.0  | -  | 33.0  |
| Hedges<br>(Hedge accounting)  | n.a.   | 4.6                              | -  | -                        | 4.6   | -   | -  | 4.6   |
| Trade accounts receivable   | LaR  | 677.6                            | 677.6  | -                        | -   | -   | -  | 677.6   |
| Cash and cash equivalents   | LaR  | 570.2                            | 570.2  | -                        | -   | -   | -  | 570.2   |
| <b>Liabilities</b>  |  |                                  |  |                          |   |   |  |   |
| Financial debt  | FLAC   | 4,043.5                          | 4,043.5  | -                        | -   | -   | -  | 4,082.2   |
| Liabilities from<br>finance leases <sup>1</sup>                               | n.a.   | 137.2                            | -  | -                        | -   | -   | 137.2  | 143.6   |
| Other liabilities   | FLAC   | 50.7                             | 50.7   | -                        | -   | -   | -  | 50.7  |
|   | n.a.   | 129.2                            | -  | -                        | -   | -   | -  | -   |
| Derivative financial liabilities  |  |                                  |  |                          |   |   |  |   |
| Derivatives<br>(Held for trading)   | FLHfT  | -                                | -  | -                        | -   | -   | -  | -   |
| Hedges<br>(Hedge accounting)  | n.a.   | 41.1                             | -  | -                        | 41.1  | -   | -  | 41.1  |
| Trade accounts payable  | FLAC   | 1,281.6                          | 1,281.6  | -                        | -   | -   | -  | 1,281.6   |
| <b>Thereof aggregated<br/>according to IAS 39<br/>classification category</b> |  |                                  |  |                          |   |   |  |   |
| Loans and receivables (LaR)   |  | 1,373.2                          | 1,373.2  | -                        | -   | -   | -  | -   |
| Held-to-maturity<br>investments (HtM)   |  | -                                | -  | -                        | -   | -   | -  | -   |
| Available-for-sale<br>financial assets (AfS)                                  |  | 0.8                              | -  | 0.8                      | -   | -   | -  | -   |
| Financial assets held for trading<br>(FAHfT)                                  |  | 33.0                             | -  | -                        | -   | 33.0  | -  | -   |
| Financial liabilities measured at<br>amortised cost (FLAC)                    |  | 5,375.8                          | 5,375.8  | -                        | -   | -   | -  | -   |
| Financial liabilities held for trading<br>(FLHfT)                             |  | -                                | -  | -                        | -   | -   | -  | -   |

<sup>1</sup> Part of financial debt

**Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2017**

| million EUR   | Classifi-<br>cation<br>category<br>accord-<br>ing to<br>IAS 39 | Carrying<br>amount<br>31.12.2017 | Amount recognised in the balance sheet<br>under IAS 39 |                       |   |   | Amount<br>recog-<br>nised<br>in the<br>balance<br>sheet<br>under<br>IAS 17 | Fair<br>value of<br>financial<br>instru-<br>ments |
|---|--|----------------------------------|--|-----------------------|---|---|--|---|
|   |  | Total                            | Amor-<br>tised<br>acquisi-<br>tion cost                | Acquisi-<br>tion cost | Fair value<br>with no<br>effect on<br>profit or<br>loss | Fair value<br>through<br>profit and<br>loss |  |   |
| <b>Assets</b>   |  |                                  |  |                       |   |   |  |   |
| Other assets  | LaR  | 340.6                            | 340.6  | –                     | –   | –   | –  | 340.6   |
|   | n.a.   | 118.5                            | –  | –                     | –   | –   | –  | –   |
|   | AfS  | 3.3                              | –  | 1.2                   | 2.1   | –   | –  | 3.3   |
| Derivative financial<br>instruments   |  |                                  |  |                       |   |   |  |   |
| Derivatives<br>(Held for trading)   | FAHfT  | 12.7                             | –  | –                     | –   | 12.7  | –  | 12.7  |
| Hedges<br>(Hedge accounting)  | n.a.   | 38.5                             | –  | –                     | 38.5  | –   | –  | 38.5  |
| Trade accounts receivable   | LaR  | 887.8                            | 887.8  | –                     | –   | –   | –  | 887.8   |
| Cash and cash equivalents   | LaR  | 604.9                            | 604.9  | –                     | –   | –   | –  | 604.9   |
| <b>Liabilities</b>  |  |                                  |  |                       |   |   |  |   |
| Financial debt  | FLAC   | 6,211.9                          | 6,211.9  | –                     | –   | –   | –  | 6,225.8   |
| Liabilities from<br>finance leases <sup>1</sup>                               | n.a.   | 123.6                            | –  | –                     | –   | –   | 123.6  | 125.5   |
| Other liabilities   | FLAC   | 50.6                             | 50.6   | –                     | –   | –   | –  | 50.6  |
|   | n.a.   | 158.6                            | –  | –                     | –   | –   | –  | –   |
| Liabilities from put options <sup>2</sup>                                     | FLAC   | 2.1                              | 2.1  | –                     | –   | –   | –  | 2.3   |
| Derivative financial liabilities  |  |                                  |  |                       |   |   |  |   |
| Derivatives<br>(Held for trading)   | FLHfT  | 5.2                              | –  | –                     | –   | 5.2   | –  | 5.2   |
| Hedges<br>(Hedge accounting)  | n.a.   | 4.2                              | –  | –                     | 4.2   | –   | –  | 4.2   |
| Trade accounts payable  | FLAC   | 1,559.8                          | 1,559.8  | –                     | –   | –   | –  | 1,559.8   |
| <b>Thereof aggregated<br/>according to IAS 39<br/>classification category</b> |  |                                  |  |                       |   |   |  |   |
| Loans and receivables (LaR)   |  | 1,833.3                          | 1,833.3  | –                     | –   | –   | –  | –   |
| Held-to-maturity<br>investments (HtM)   |  | –                                | –  | –                     | –   | –   | –  | –   |
| Available-for-sale<br>financial assets (AfS)                                  |  | 3.3                              | –  | 1.2                   | 2.1   | –   | –  | –   |
| Financial assets held for trading<br>(FAHfT)                                  |  | 12.7                             | –  | –                     | –   | 12.7  | –  | –   |
| Financial liabilities measured at<br>amortised cost (FLAC)                    |  | 7,824.4                          | 7,824.4  | –                     | –   | –   | –  | –   |
| Financial liabilities held for trading<br>(FLHfT)                             |  | 5.2                              | –  | –                     | –   | 5.2   | –  | –   |

<sup>1</sup> Part of financial debt

<sup>2</sup> Part of other liabilities

The securities in the available-for-sale category which are included in other assets are measured at their quoted market price. The financial instruments in the available-for-sale category also contain investments not listed on a stock exchange for which there are no market prices listed on an active market. The market values were not determined as these do not provide any additional information of value. The disposal of the investments is not planned at present.

The fair values are allocated to different levels of the fair value hierarchy based on the input factors used in the valuation methods. An explanation of the individual levels from 1 to 3 of the fair value hierarchy can be found in the chapter "Accounting and measurement principles" in the Notes to the consolidated financial statements. There were no transfers between levels 1 to 3 in the previous financial year.

The following table shows the classification of the financial instruments measured at fair value in the three levels of the fair value hierarchy. In addition to the fair value of the financial instruments that are recognised at fair value under IAS 39, the table also includes financial instruments that are recognised at amortised cost and whose fair value differs from this.

| million EUR   | Classification category according to IAS 39 | 31.12.2016 |         |         | Total   |
|---|---|------------|---------|---------|---------|
|   |   | Level 1    | Level 2 | Level 3 |         |
| <b>Assets</b>                                       |   |            |         |         |         |
| Derivative financial instruments (Hedge accounting) | n. a.                                       | –          | 4.6     | –       | 4.6     |
| Derivative financial instruments (Trading)          | FLHfT                                       | –          | 33.0    | –       | 33.0    |
| <b>Liabilities</b>                                  |   |            |         |         |         |
| Derivative financial instruments (Hedge accounting) | n. a.                                       | –          | 41.1    | –       | 41.1    |
| Derivative financial instruments (Trading)          | FLHfT                                       | –          | –       | –       | –       |
| Financial debt                                      | FLAC  | 830.8      | 3,251.4 | –       | 4,082.2 |
| Liabilities from financial lease <sup>1</sup>       | n. a.                                       | –          | 143.6   | –       | 143.6   |

<sup>1</sup> Part of financial debt

| million EUR   | Classification category according to IAS 39 | 31.12.2017 |         |         | Total   |
|---|---|------------|---------|---------|---------|
|   |   | Level 1    | Level 2 | Level 3 |         |
| <b>Assets</b>                                       |   |            |         |         |         |
| Securities  | AfS   | 2.1        | 1.2     | –       | 3.3     |
| Derivative financial instruments (Hedge accounting) | n. a.                                       | –          | 38.5    | –       | 38.5    |
| Derivative financial instruments (Trading)          | FLHfT                                       | –          | 12.7    | –       | 12.7    |
| <b>Liabilities</b>                                  |   |            |         |         |         |
| Derivative financial instruments (Hedge accounting) | n. a.                                       | –          | 4.2     | –       | 4.2     |
| Derivative financial instruments (Trading)          | FLHfT                                       | –          | 5.2     | –       | 5.2     |
| Financial debt                                      | FLAC  | 948.3      | 5,277.5 | –       | 6,225.8 |
| Liabilities from financial lease <sup>1</sup>       | n. a.                                       | –          | 125.5   | –       | 125.5   |
| Liabilities from put options <sup>2</sup>           | FLAC  | –          | –       | 2.3     | 2.3     |

<sup>1</sup> Part of financial debt

<sup>2</sup> Part of other liabilities



### Net earnings

The net earnings of the financial instruments by classification category pursuant to IAS 39 are as follows:

| million EUR                                       | 31.12.2017    |                    |               | 31.12.2016    |                    |               |
|---|---------------|--------------------|---------------|---------------|--------------------|---------------|
|   | From interest | Other net earnings | Net earnings  | From interest | Other net earnings | Net earnings  |
| Loans and receivables                             | -0.7          | 56.7               | 56.0          | -2.3          | -40.2              | -42.5         |
| Available-for-sale financial assets               | 0.0           | -                  | 0.0           | 0.0           | -                  | 0.0           |
| Financial assets and liabilities held for trading | -21.2         | -9.5               | -30.7         | 14.6          | -4.5               | 10.1          |
| Financial liabilities measured at amortised cost  | -280.6        | -164.1             | -444.7        | -181.7        | 23.9               | -157.8        |
| <b>Total</b>                                      | <b>-302.5</b> | <b>-116.9</b>      | <b>-419.4</b> | <b>-169.4</b> | <b>-20.7</b>       | <b>-190.2</b> |

In addition to interest expenses from the liabilities to banks and other financial debt, the net earnings mainly comprise the foreign currency valuation of the EUR bonds issued by Hapag-Lloyd AG as well as the realised and unrealised earnings from derivative financial instruments that are not part of an effective hedging relationship as set out in IAS 39.

### Capital management

The Hapag-Lloyd Group strives to achieve an adequate financial profile in order to guarantee the continuation of the Company and its financial flexibility and independence. The goal of its capital management is to safeguard the capital base over the long term. It intends to achieve this with a healthy balance of financing requirements for the desired profitable growth.

In the course of the successful IPO, the return on invested capital (ROIC) was defined at Group level at the end of 2015 as an indicator of the performance within a period and will be calculated and managed as a performance indicator in the future. This performance indicator will be used at Group level as of the 2016 financial year with a view to earning the weighted average cost of capital starting in 2017. To facilitate comparison with other international shipping companies, the return on invested capital will be calculated and presented exclusively on the basis of the functional currency, the US dollar.

Covenant clauses of a type customary on the market have been arranged for existing financing. These clauses primarily concern certain equity and liquidity indicators of the Group along with loan-to-value ratios. As at 31 December 2017, these covenants were fulfilled for the existing financing. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period.

## OTHER NOTES

### 29. Government assistance

The Federal Maritime and Hydrographic Agency awarded training subsidies and subsidies for marine personnel totalling EUR 8.9 million in 2017 (previous year: EUR 8.2 million) according to the guideline for lowering indirect labour costs in the German marine industry; this amount is recorded as other operating income. Overall, the Group received assistance and subsidies of EUR 10.5 million in the reporting year (previous year: EUR 13.6 million).

### 30. Contingencies

Contingencies are contingent liabilities not accounted for in the statement of financial position which are recognised in accordance with their amounts repayable estimated as at the balance sheet date.

As at 31 December 2017, there were no sureties or guarantees requiring disclosure.

### 31. Legal disputes

Hapag-Lloyd AG and several of its foreign subsidiaries are involved in legal proceedings. These encompass a range of topics, such as disputes with foreign tax authorities, claims asserted by departed employees and disputes arising from contractual relationships with customers, former agents and suppliers. It is regarded as unlikely that these proceedings will result in any noteworthy payment obligations. Consequently, no provisions for litigation risks are formed and no contingent liabilities are reported in the Notes in this context.

Subpoenas were served to company representatives attending the twice-yearly conference of the International Council of Containership Operators (known as the "Box Club") in San Francisco on 15 March 2017, ordering them to attend a hearing by the U.S. Department of Justice Antitrust Division ("DoJ"). Concrete allegations have not been made at present, however the subpoenas have been issued in connection with the DoJ investigation into the global container liner shipping industry. Hapag-Lloyd is cooperating fully with the authorities, and the investigation is ongoing. A quantification of a possible risk that may result from the investigations still cannot be made at the time of reporting.

Hapag-Lloyd is subject to regular tax audits and these may lead to the payment of tax arrears. Investigations by local tax authorities concerning individual circumstances are currently taking place in a number of jurisdictions, such as in Mexico, India and Brazil. To the extent that the Company can expect to incur charges and these charges are quantifiable, these were accounted for by creating corresponding provisions. As at the reporting date, there were also EUR 135.5 million in contingent liabilities from tax risks not classified as probable (previous year: EUR 128.4 million).

Naturally, the outcome of the legal disputes cannot be predicted with any certainty. Provisions for pending and imminent proceedings are formed if a payment obligation is probable and its amount can be determined reliably. It is possible that the outcome of individual proceedings for which no provisions were formed may result in payment obligations whose amounts could not have been foreseen with sufficient accuracy as at 31 December 2017. Such payment obligations will not have any significant influence on the Group's net asset, financial and earnings position.

### 32. Leases

#### Lessee – finance leases

The items leased on the basis of finance lease contracts are primarily ships and containers. The contracts have terms of up to nine years. The containers can continue to be used in line with the contracts once the term of a contract has expired. As at 31 December 2017, the ships recognised in connection with the finance lease contracts had a net carrying amount of EUR 88.4 million (previous year: EUR 100.4 million); the containers were recognised at EUR 96.7 million as at 31 December 2017 (previous year: EUR 81.2 million).

The future minimum lease payments and their present values are as follows:

| million EUR                   | 31.12.2017      |                 |              |                         | 31.12.2016      |                 |              |                         |
|-------------------------------|-----------------|-----------------|--------------|-------------------------|-----------------|-----------------|--------------|-------------------------|
|                               | Remaining terms |                 |              |                         | Remaining terms |                 |              |                         |
|                               | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years |
| Future minimum lease payments | 144.9           | 36.5            | 94.5         | 13.9                    | 164.1           | 43.2            | 93.8         | 27.1                    |
| Interest portion              | -21.3           | -7.5            | -13.2        | -0.6                    | -26.9           | -8.0            | -16.7        | -2.2                    |
| <b>Present value</b>          | <b>123.6</b>    | <b>29.0</b>     | <b>81.3</b>  | <b>13.3</b>             | <b>137.2</b>    | <b>35.2</b>     | <b>77.1</b>  | <b>24.9</b>             |

At the balance sheet date, there were no expectations of future income from non-cancellable subletting arrangements, nor were there any contingent rental payments.

#### Lessee – operating leases

The Group's obligations from operating lease contracts above all relate to charter and lease agreements for ships and containers, and rental agreements for business premises. The agreements have terms of between one year and 13 years, with the majority maturing after a term of up to five years. A number of the agreements include prolongation and purchase options. There is no obligation to repurchase them. Some of the rental agreements for business premises include contingent rental payments based on the consumer price index for Germany.

Charter agreements for ships are nearly always structured as time charter contracts, i.e. in addition to the capital costs, the ship owner bears all of the ship operating costs, which are reimbursed as part of the charter rate. In the existing charter agreements, these operating cost refunds account for around 50% of the total charter expenses.

In the 2017 financial year, lease payments of EUR 909.3 million (previous year: EUR 997.1 million) were recognised in expenses. No contingent rental payments were recognised as expenses in 2017.

Total future minimum lease payments from non-cancellable operating lease contracts consist of the following:

| million EUR            | 31.12.2017      |                 |              |                         | 31.12.2016      |                 |              |                         |
|------------------------|-----------------|-----------------|--------------|-------------------------|-----------------|-----------------|--------------|-------------------------|
|                        | Remaining terms |                 |              |                         | Remaining terms |                 |              |                         |
|                        | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years |
| Vessels and containers | 542.1           | 282.5           | 246.1        | 13.5                    | 682.7           | 303.5           | 362.6        | 16.6                    |
| Business premises      | 101.6           | 21.6            | 50.9         | 29.1                    | 103.9           | 21.9            | 48.9         | 33.1                    |
| Other                  | 203.2           | 60.3            | 142.9        | –                       | 239.2           | 58.3            | 180.9        | –                       |
| <b>Total</b>           | <b>846.9</b>    | <b>364.4</b>    | <b>439.9</b> | <b>42.6</b>             | <b>1,025.8</b>  | <b>383.7</b>    | <b>592.4</b> | <b>49.7</b>             |

As at 31 December 2017, future minimum lease income from subletting arrangements relating to non-cancellable subletting arrangements totalled EUR 0.2 million (previous year: EUR 4.5 million).

### Lessor – operating leases

Hapag-Lloyd acts as lessor in the context of operating lease contracts only to a very limited degree. The assets let within the scope of the operating lease contracts are primarily fully owned ships and slots on ships.

The following future minimum lease payments relate to non-cancellable operating lease contracts:

| million EUR       | 31.12.2017      |                 |              |                         | 31.12.2016      |                 |              |                         |
|-------------------|-----------------|-----------------|--------------|-------------------------|-----------------|-----------------|--------------|-------------------------|
|                   | Remaining terms |                 |              |                         | Remaining terms |                 |              |                         |
|                   | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years | Total           | up to<br>1 year | 1–5<br>years | more<br>than<br>5 years |
| Vessels           | 27.5            | 27.5            | –            | –                       | 11.7            | 11.7            | –            | –                       |
| Business premises | 4.1             | 1.5             | 2.3          | 0.3                     | 0.7             | 0.2             | 0.5          | 0.0                     |
| <b>Total</b>      | <b>31.6</b>     | <b>29.0</b>     | <b>2.3</b>   | <b>0.3</b>              | <b>12.4</b>     | <b>11.9</b>     | <b>0.5</b>   | <b>0.0</b>              |

At the reporting date, the gross carrying amounts of the chartered ships totalled EUR 327.5 million (previous year: EUR 135.2 million). Depreciation for the period amounted to EUR 8.5 million (previous year: EUR 5.3 million) and correspond to the cumulative depreciation (previous year: EUR 12.0 million). No contingent rental payments were recorded through profit or loss in the 2017 financial year.

### 33. Other financial obligations

The Group's other financial obligations as at 31 December 2017 comprised a purchase obligation for investments in container ships amounting to EUR 151.7 million, the deliveries of which were completed in full in the 2017 financial year. There were no significant orders in the reporting year.

### 34. Share-based payment

As part of the Company's IPO, long-term variable remuneration was introduced for Executive Board members in the form of virtual shares. Under the long-term incentive plan (LTIP), a specified euro amount (allocation amount) contractually agreed on an individual basis is allocated to each Executive Board member at the start of every calendar year, reflecting performance in the current and following three financial years (performance period).

This allocation amount is converted into virtual shares in the Company based on the average price of the Hapag-Lloyd AG share over the 60 trading days preceding the day on which the shares are granted. For the first tranche after the IPO in November 2015 ("IPO tranche"), this share price was calculated differently and is based on the average of the 20 trading days that followed the 30th trading day after the IPO. For the second tranche, which was granted on 4 January 2016, there was also a different calculation for the share price conversion. This share price was based on the average of the 60 trading days that followed the 30th trading day after the IPO.

The virtual shares are divided equally into performance share units and retention share units.

Entitlements under the long-term incentive plan take effect on a pro rata basis when the performance period ends. The retention share units automatically become non-forfeitable when the performance period expires. They therefore depend entirely on the Executive Board member's length of service.

The number of performance share units relevant for the payment is dependent on a performance factor. This factor is calculated by comparing the performance of the Hapag-Lloyd share (total shareholder return – TSR) with a specific, industry-based reference index – the DAXglobal Shipping index – over the four-year performance period. The number of performance share units can be a maximum of 1.5 times and a minimum of zero, as measured by a performance factor, when the performance period ends. If the performance factor is zero, all of the performance share units are forfeited.

When the performance period ends and the performance share units have been calculated, payments under the LTIP are automatically made. The number of non-forfeitable virtual shares is converted into a euro amount by multiplying the non-forfeitable virtual retention and performance shares by the relevant share price. This share price is equal to the average share price over the last 60 trading days before the performance period ends.

The amount calculated in this way is paid to the respective Executive Board member as a gross amount up to a specific, individually agreed limit on 31 March of the year following the end of the performance period.

In the event that an Executive Board member's activities cease, the performance period and the employment contract will end simultaneously, insofar as the employment contract is not terminated for cause attributable to the Executive Board member or by the Executive Board member without cause. In this case, all entitlements under the long-term incentive plan are forfeited.

If capital measures which affect the value of real shares are carried out during the term of the LTIP, the conditions of the plan state that the Executive Board members must be treated like owners of real shares as a rule. In the event of an ordinary capital increase, the stake in the company held by owners of real shares is diluted. However, they are granted subscription rights to new shares in return. Under the conditions of the plan, the Executive Board members are not automatically granted a subscription right in the event of an ordinary capital increase. To compensate them for being treated differently to owners of real shares, for all LTIP tranches belonging to Executive Board members which are in existence when a capital increase is carried out, the number of shares is adjusted by a value equal to the subscription rights that an owner of real shares with the same number of shares is entitled to. The additional virtual shares here are valued at the arithmetical share price on the day before trading of the subscription rights commences (ex-subscription rights). The rule must be applied separately to all LTIP tranches in existence at the time of the capital measure. The additional virtual shares are based directly on the existing virtual shares of the respective LTIP tranches. As a result, the additional virtual shares are given the same parameters as were defined in the conditions of the plan and at the time the respective tranche was granted. The additional virtual shares are consequently a component of the respective tranche.

The maturities of the other provisions are as follows:

|                                    | Virtual shares | Fair value<br>million EUR |
|------------------------------------|----------------|---------------------------|
| <b>As per 31.12.2015</b>           | <b>112,586</b> | <b>2.2</b>                |
| Virtual shares granted             | 125,216        | 2.2                       |
| Virtual shares exercised           | –              | –                         |
| Virtual shares forfeited           | –              | –                         |
| Measurement result                 | –29,723        | –0.5                      |
| <b>As per 31.12.2016</b>           | <b>208,079</b> | <b>3.9</b>                |
| Virtual shares granted             | 117,208        | 2.2                       |
| Adjustment due to capital increase | 3,740          | 0.1                       |
| Virtual shares exercised           | –              | –                         |
| Virtual shares forfeited           | –              | –                         |
| Measurement result                 | 119,417        | 8.9                       |
| <b>As per 31.12.2017</b>           | <b>448,444</b> | <b>15.1</b>               |

The measurement of the virtual shares at the time they are granted is based on the allocation amount. The adjusted number of shares following the ordinary capital increase in October 2017 was calculated as outlined above. The arithmetical share price on the day before trading of the subscription rights commences (ex-subscription rights) was used as a basis here and stood at EUR 35.13.

In the reporting period, EUR 4.0 million (previous year: EUR 1.4 million) was recognised for share-based payments through profit or loss. The provision for share-based payments amounted to EUR 5.9 million as at 31 December 2017 (previous year: EUR 2.0 million).

### 35. Utilisation of Section 264 (3) of the German Commercial Code (HGB)

The following corporate entities, which are affiliated consolidated subsidiaries of Hapag-Lloyd AG and for which the consolidated financial statements of Hapag-Lloyd AG are the exempting consolidated financial statements, utilise the exempting option provided by Section 264 (3) of the German Commercial Code (HGB):

- Hapag-Lloyd Grundstücksholding GmbH, Hamburg
- Hapag-Lloyd Schiffvermietungsgesellschaft mbH, Hamburg
- Hamburg-Amerika Linie GmbH, Hamburg

### 36. Services provided by the auditors of the consolidated financial statements

In the 2017 financial year, the following fees were paid to the external auditors KPMG AG Wirtschaftsprüfungsgesellschaft within the global KPMG network:

| million EUR                             | 1.1.–31.12.2017 |            | 1.1.–31.12.2016 |            |
|---|-----------------|------------|-----------------|------------|
|   | Total           | Domestic   | Total           | Domestic   |
| Audit fees for annual audit             | 3.2             | 1.9        | 3.4             | 1.7        |
| Audit fees for other assurance services | 1.0             | 0.9        | 0.2             | 0.2        |
| Audit fees for tax consultancy          | 0.3             | 0.1        | 0.7             | 0.4        |
| Audit fees for other services           | 0.1             | 0.1        | 1.2             | 1.2        |
| <b>Total</b>                            | <b>4.6</b>      | <b>3.0</b> | <b>5.5</b>      | <b>3.5</b> |

The fee for audit services rendered by KPMG AG Wirtschaftsprüfungsgesellschaft related primarily to the audit of the consolidated financial statements and the annual financial statements of Hapag-Lloyd AG including legal contractual amendments and audits of the financial statements of subsidiaries. Activities integral to the audit were also performed in relation to an enforcement process, audit reviews of interim financial statements and audits of subsidiaries' closing statements of financial position pursuant to Section 17 (2) of the German Transformation Act (UmwG).

Other attestation services relate to the issuing of letters of comfort, the audit of a profit forecast, the audit of pro-forma financial information, agreed examination actions on financial covenants, an EMIR audit pursuant to Section 20 of the German Securities Trading Act (WpHG) and other contractually agreed attestation services.

The tax consultation activities comprise support services for the integration of the UASC Group companies as well as support with obligations under VAT law.

The other services relate to quality-assuring support services and due diligence services as part of a company acquisition.

### 37. Related party disclosures

In carrying out its ordinary business activities, Hapag-Lloyd AG maintains direct and indirect relationships with related parties as well as with its own subsidiaries included in the consolidated financial statements.

On 15 July 2016, Hapag-Lloyd AG entered into a business combination agreement (BCA) with United Arab Shipping Company Ltd. ("UASC") and agreed that the Company would acquire UASC's shares whereby all of UASC's shareholders would submit their shares in UASC to the Company by means of a contribution in kind. The legal merger between Hapag-Lloyd and UASC occurred on 24 May 2017 via a contribution in kind in exchange for the issuing of approximately 45.9 million Hapag-Lloyd shares. Following the capital increase in exchange for contributions in kind, UASC's former primary shareholders, Qatar Holding LLC on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund Saudi Arabia (PIF), are additional major shareholders in Hapag-Lloyd's share capital.

As part of the merger with UASC, the anchor shareholders reformulated the original shareholders' agreement on the pooling of voting rights and agreed that the voting rights should only be pooled by the consortium company until the end of the day of the 2017 Annual General Meeting. CSAV Germany Container Holding GmbH (CSAV), HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV) and Kühne Maritime GmbH (Kühne Maritime) agreed under the New Shareholders' Agreement to uniformly exercise their voting rights after this point in time by issuing a joint mandate for voting rights along with binding instructions to the proxy.

As at 31 December 2017, CSAV, HGV and Klaus-Michael Kühne (including companies attributable to him, in particular through Kühne Maritime) together held around 60% of the share capital of Hapag-Lloyd.

In the following disclosures on transactions with shareholders, the relationships with Kühne Holding AG as well as Kühne Maritime and CSAV and their respective related parties are outlined. During the reporting period Hapag-Lloyd mainly conducted legal transactions within the scope of its ordinary activities with Kühne Maritime and CSAV and their respective related parties. These comprise terminal and transport services in particular. Performance and consideration have been agreed on the basis of normal market conditions.

With regard to HGV and its shareholder, the Free and Hanseatic City of Hamburg, as well as its Group companies, the Hapag-Lloyd Group applies the relief provisions of IAS 24 regarding government-related entities. This relates mainly to port and terminal services as well as inland transport services.



**Shares**

| %   | 2017         | 2016         |
|---|--------------|--------------|
| CSAV Germany Container Holding GmbH   | 25.5         | 31.4         |
| Kühne Holding AG/Kühne Maritime GmbH  | 20.5         | 20.2         |
| Qatar Holding Germany GmbH  | 14.5         | 0.0          |
| HGV Hamburger Gesellschaft für Vermögens- und<br>Beteiligungsmanagement mbH | 13.9         | 20.6         |
| Public Investment Fund of the Kingdom of Saudi Arabia                       | 10.2         | 0.0          |
| TUI AG/TUI-Hapag Beteiligungs GmbH  | 0.0          | 12.3         |
| Streubesitz   | 15.4         | 15.5         |
| <b>Gesamt</b>   | <b>100.0</b> | <b>100.0</b> |

Transactions with related parties (excluding management in key positions):

| million EUR                                | Delivered goods and services<br>and other income recognised |                     | Goods and services received<br>and other expenses recognised |                     |
|--|---|---------------------|--|---------------------|
|  | 1.1.–31.12.<br>2017   | 1.1.–31.12.<br>2016 | 1.1.–31.12.<br>2017  | 1.1.–31.12.<br>2016 |
| Shareholders                               | 414.2   | 321.6               | 87.6   | 106.1               |
| Associated companies and<br>joint ventures | 16.3  | 18.8                | 163.2  | 116.8               |
| Other investments                          | –   | –                   | 0.0  | –                   |
| <b>Total</b>                               | <b>430.5</b>  | <b>340.4</b>        | <b>250.8</b>   | <b>222.9</b>        |

| million EUR                           | Receivables |             | Liabilities |             |
|---------------------------------------|-------------|-------------|-------------|-------------|
|                                       | 31.12.2017  | 31.12.2016  | 31.12.2017  | 31.12.2016  |
| Shareholders                          | 43.7        | 43.5        | 7.5         | 10.2        |
| Affiliated non-consolidated companies | –           | –           | 0.2         | 0.2         |
| Associated companies                  | 0.8         | 14.6        | 28.1        | 13.9        |
| <b>Total</b>                          | <b>44.5</b> | <b>58.1</b> | <b>35.8</b> | <b>24.3</b> |

The amounts arising from transactions with related parties contained in the above table result from services rendered (EUR 430.5 million; previous year: EUR 340.2 million).

Of the expenses shown above, EUR 249.9 million result from operating services (previous year: EUR 221.5 million) and EUR 0.9 million are from other services (previous year: EUR 1.4 million).

**Remuneration of key management personnel**

The remuneration of key management personnel in the Group to be disclosed under IAS 24 encompasses the remuneration paid to the current members of the Executive Board and Supervisory Board of Hapag-Lloyd AG. The basic features of the remuneration system and the amount of remuneration for the Executive Board and Supervisory Board are presented and explained in more detail in the remuneration report. The remuneration report is part of the Group management report.

The active members of the Executive Board and the Supervisory Board were remunerated as follows:

| million EUR              | Executive Board |            | Supervisory Board |            |
|--------------------------|-----------------|------------|-------------------|------------|
|                          | 2017            | 2016       | 2017              | 2016       |
| Short-term benefits      | 3.9             | 3.5        | 1.5               | 1.4        |
| Post-employment benefits | 0.2             | 0.2        | –                 | –          |
| Share based benefits     | 4.0             | 1.4        | –                 | –          |
| <b>Total</b>             | <b>8.1</b>      | <b>5.1</b> | <b>1.5</b>        | <b>1.4</b> |

In the 2017 financial year, the employee representatives on the Supervisory Board received EUR 0.4 million (previous year: EUR 0.5 million) as part of their employment contracts, in addition to their Supervisory Board emoluments. These are included in the remuneration for members of the Supervisory Board pursuant to IAS 24.

Additional disclosures concerning total remuneration pursuant to Section 315e HGB:

| million EUR          | Executive Board |            | Supervisory Board |            |
|----------------------|-----------------|------------|-------------------|------------|
|                      | 2017            | 2016       | 2017              | 2016       |
| Active board members | 6.2             | 5.6        | 1.1               | 0.9        |
| Former board members | 0.8             | 0.9        | –                 | –          |
| <b>Total</b>         | <b>7.0</b>      | <b>6.5</b> | <b>1.1</b>        | <b>0.9</b> |

The active Executive Board members were granted 117,208 virtual shares in total in the financial year, with a fair value of EUR 2.2 million at the time they were granted (previous year: 125,216 virtual shares with a fair value of EUR 2.2 million).

A total of EUR 25.3 million was allocated to pension provisions for former Executive Board members as at 31 December 2017 (previous year: EUR 24.9 million).

As in the previous year, no loans or advance payments were granted to members of the Executive Board and Supervisory Board in the year under review.

### **38. Declaration of conformity with the German Corporate Governance Code pursuant to Section 161 AktG**

The declaration required under Section 161 AktG was issued by the Executive Board and Supervisory Board in September 2017 and has been made permanently available to shareholders in the “Corporate Governance” section under “Investor Relations” of the Company’s website, <https://www.hapag-lloyd.com/en/ir/corporate-governance/compliance-statement.html>

**39. Significant transactions after the balance sheet date**

On 21 February 2018, the program to securitise receivables was expanded by USD 100.0 million.

On 22 February 2018, Hapag-Lloyd repaid an existing loan held by UASC Ltd. early in the amount of USD 100.0 million using only cash from the available liquidity.

On 22 February, 2018, 911,388 registered ordinary shares were admitted to trading in the form of no-par value shares. Admission was subsequently received to the already completed capital increase against contribution in kind and the admission of 42,749,568 new shares of Hapag-Lloyd AG to the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the regulated market segment (Prime Standard) of the Frankfurt Stock Exchange.

The four ocean-going vessels classified as held for sale in the 2017 financial year, were sold in the first quarter 2018.

On 20 March 2018 Hapag-Lloyd placed an order for 55,000 standard container with an investment volume of USD 109.7 million. For this purpose, Hapag-Lloyd signed a commitment for financing on 22 March 2018 in the amount of up to USD 171.4 million, which also secures additional container investments. The delivery of the respective containers is planned to be completed by August 2018.

**40. List of holdings pursuant to Section 315e of the German Commercial Code (HGB)**

| Name of the company   | Registered office  | Currency unit (CU) | Shareholding %     |
|---|--------------------|--------------------|--------------------|
| <b>Affiliated consolidated companies</b>                        |                    |                    |                    |
| <b>Head office</b>  |                    |                    |                    |
| Hamburg-Amerika Linie GmbH                                      | Hamburg            | EUR                | 100.00             |
| Hapag-Lloyd Grundstücksholding GmbH                             | Hamburg            | EUR                | 94.90              |
| Hapag-Lloyd Schiffsvermietungsgesellschaft mbH                  | Hamburg            | EUR                | 100.00             |
| <b>Europe</b>   |                    |                    |                    |
| Hapag-Lloyd (Austria) GmbH                                      | Vienna             | EUR                | 100.00             |
| Oy Hapag-Lloyd Finland AB                                       | Helsinki           | EUR                | 100.00             |
| Hapag-Lloyd (France) S.A.S.                                     | Asnieres sur Seine | EUR                | 100.00             |
| Hapag-Lloyd (Ireland) Ltd.                                      | Dublin             | EUR                | 100.00             |
| Hapag-Lloyd (Italy) S.R.L.                                      | Milano             | EUR                | 100.00             |
| Hapag-Lloyd Polska Sp.z.o.o.                                    | Gdynia             | PLN                | 100.00             |
| Hapag-Lloyd Portugal LDA  | Lisboa             | EUR                | 100.00             |
| Hapag-Lloyd (Schweiz) AG  | Basel              | CHF                | 100.00             |
| Hapag-Lloyd Special Finance DAC                                 | Dublin             | USD                | 100.00             |
| Hapag-Lloyd (Sweden) AB   | Gothenburg         | SEK                | 100.00             |
| Hapag-Lloyd Spain S.L.  | Barcelona          | EUR                | 90.00              |
| Hapag-Lloyd (UK) Ltd.   | Barking            | GBP                | 100.00             |
| Norasia Container Lines Ltd.                                    | Valetta            | USD                | 100.00             |
| Hapag-Lloyd Denizasiri Nakliyat A.S.                            | Izmir              | TRY                | 65.00              |
| United Arab Shipping Agency Co. (Polska) Sp.z.o.o.              | Warsaw             | PLN                | 100.00             |
| United Arab Shipping Agency Company (Italy) S.r.l.              | Milano             | EUR                | 100.00             |
| UASAC Nordic A/S  | Copenhagen         | DKK                | 100.00             |
| UASAC Sweden AB   | Gothenburg         | SEK                | 100.00             |
| Oy UASAC Finland AB   | Helsinki           | EUR                | 100.00             |
| UASAC Russia ApS  | Copenhagen         | DKK                | 100.00             |
| UASAC Russia llc  | St. Petersburg     | RUB                | 100.00             |
| United Arab Shipping Agency Company (CEE) Kft                   | Budapest           | EUR                | 100.00             |
| United Arab Shipping Agency Company (Benelux) B.V.              | Rotterdam          | EUR                | 100.00             |
| United Arab Shipping Agency Company (Denizcilik Nakliyat) ZA.S. | Istanbul           | TRY                | 100.00             |
| United Arab Shipping Agency Co. (United Kingdom) Ltd            | London             | GBP                | 49.00 <sup>1</sup> |
| <b>Asia</b>   |                    |                    |                    |
| Hapag-Lloyd (Australia) Pty.Ltd.                                | Pyrmont            | AUD                | 100.00             |
| Hapag-Lloyd (China) Ltd.  | Hong Kong          | HKD                | 100.00             |
| Hapag-Lloyd (China) Shipping Ltd.                               | Shanghai           | CNY                | 100.00             |
| Hapag-Lloyd (Japan) K.K.  | Tokyo              | JPY                | 100.00             |
| Hapag-Lloyd (Korea) Ltd.  | Seoul              | KRW                | 100.00             |
| Hapag-Lloyd (Malaysia) Sdn.Bhd.                                 | Kuala Lumpur       | MYR                | 100.00             |
| Hapag-Lloyd (New Zealand) Ltd.                                  | Auckland           | NZD                | 100.00             |
| Hapag-Lloyd Pte.Ltd.  | Singapore          | USD                | 100.00             |
| Hapag-Lloyd (Taiwan) Ltd.                                       | Taipei             | TWD                | 100.00             |
| Hapag-Lloyd (Thailand) Ltd.                                     | Bangkok            | THB                | 49.90              |
| Hapag-Lloyd (Vietnam) Ltd.                                      | Ho Chi Minh City   | VND                | 100.00             |
| CSAV Group (China) Shipping Co. Ltd.                            | Shanghai           | CNY                | 100.00             |
| United Arab Shipping Co. Korea Ltd.                             | Seoul              | KRW                | 100.00             |
| United Arab Shipping Co. Shanghai Ltd.                          | Shanghai           | CNY                | 100.00             |
| United Arab Shipping Co. (Asia) Pte. Limited                    | Singapore          | SGD                | 100.00             |
| United Arab Shipping Agency Co. (Asia) Pte Limited              | Singapore          | USD                | 100.00             |
| UASC Japan Co. Ltd.   | Tokyo              | JPY                | 60.00              |
| United Arab Shipping Co. Holding (Thailand) Ltd.                | Bangkok            | THB                | 49.945             |
| UASC (Thailand) Ltd.  | Bangkok            | THB                | 74.972             |
| United Arab Shipping Agency Company (Vietnam) Ltd               | Ho Chi Minh City   | VND                | 100.00             |
| United Arab Shipping Agency Company (Taiwan) Ltd                | Taipei             | TWD                | 100.00             |
| United Arab Shipping Agency Company (Hong Kong) Ltd             | Hong Kong          | HKD                | 100.00             |
| United Arab Shipping Agency Company (Malaysia) Sdn Bhd          | Kuala Lumpur       | MYR                | 100.00             |

| Name of the company   | Registered office | Currency unit (CU) | Shareholding %     |
|---|-------------------|--------------------|--------------------|
| <b>Middle East</b>  |                   |                    |                    |
| Hapag-Lloyd Africa PTY Ltd.   | Durban            | ZAR                | 100.00             |
| Hapag-Lloyd Global Services Pvt.Ltd.  | Thane             | INR                | 100.00             |
| Hapag-Lloyd India Private Ltd.  | Mumbai            | INR                | 100.00             |
| Hapag-Lloyd Middle East Shipping LLC  | Dubai             | AED                | 49.00 <sup>1</sup> |
| United Arab Shipping Company Ltd.   | Dubai             | USD                | 100.00             |
| United Arab Shipping Company for Maritime Services LLC  | Baghdad           | USD                | 100.00             |
| United Arab Shipping Agency Company Pakistan Pvt. Ltd   | Karachi           | PKR                | 100.00             |
| United Arab Shipping Agencies Company Private Shareholding Company  | Amman             | JOD                | 50.00              |
| United Arab Shipping Agency Co. India Pvt. Limited  | Mumbai            | INR                | 100.00             |
| United Arab Shipping Agencies Co. LLC (UAE)   | Dubai             | USD                | 49.00 <sup>1</sup> |
| Hapag-Lloyd Bahrain Co. WLL (formerly United Arab Shipping Agencies Co. (Bahrain) WLL)                        | Manama            | BHD                | 49.00              |
| United Arab Shipping Agency Co. (Qatar) WLL   | Doha              | QAR                | 49.00              |
| United Arab Shipping Agency Co. (Egypt) S.A.E   | Alexandria        | EGP                | 49.00 <sup>1</sup> |
| United Arab Shipping Agencies Co. (Saudi Arabia) Limited  | Al-Damman         | SAR                | 60.00              |
| Hapag-Lloyd Shipping Company – State of Kuwait K.S.C.C. (formerly United Arab Shipping Agencies Company KSCC) | Safat             | KWD                | 49.00 <sup>1</sup> |
| United Arab Shipping Company Services Limited (DIFC)  | Dubai             | USD                | 100.00             |
| United Arab Shipping Company Services DMCCO   | Dubai             | AED                | 100.00             |
| Aratrans Transport and Logistics Service LLC  | Dubai             | AED                | 49.00 <sup>1</sup> |
| United Arab Shipping Company Services LLC   | Al-Damman         | SAR                | 98.80              |
| Middle East Container Repair Company LLC  | Dubai             | AED                | 49.00 <sup>2</sup> |
| United Arab Shipping Engineering & Ship Repair Services LLC   | Dubai             | AED                | 24.01 <sup>3</sup> |
| UASC Ships (No. 1) Limited  | Dubai             | USD                | 100.00             |
| UASC Ships (No. 3) Limited  | Dubai             | USD                | 100.00             |
| UASC Ships (No. 4) Limited  | Dubai             | USD                | 100.00             |
| UASC Ships (No. 5) Limited  | Dubai             | USD                | 100.00             |
| UASC Ships (No. 6) Limited  | Dubai             | USD                | 100.00             |
| UASC Ships (No. 7) Limited  | Dubai             | USD                | 100.00             |
| UASC Ships (No. 8) Limited  | Dubai             | USD                | 100.00             |
| Ship Management No. 1 Limited   | Dubai             | USD                | 100.00             |
| Ship Management No. 2 Limited   | Dubai             | USD                | 100.00             |
| <b>North America</b>  |                   |                    |                    |
| Hapag-Lloyd (America) LLC   | Wilmington        | USD                | 100.00             |
| Hapag-Lloyd (Canada) Inc.   | Montreal          | CAD                | 100.00             |
| Hapag-Lloyd USA LLC   | Wilmington        | USD                | 100.00             |
| Florida Vessel Management LLC   | Wilmington        | USD                | 75.00              |
| United Arab Agencies (Inc.)   | Wilmington        | USD                | 100.00             |
| <b>Latin America</b>  |                   |                    |                    |
| Hapag-Lloyd Argentina S.R.L.  | Buenos Aires      | ARS                | 100.00             |
| Hapag-Lloyd Colombia LTDA   | Bogota            | COP                | 100.00             |
| Hapag-Lloyd Costa Rica S.A.   | San Jose          | CRC                | 100.00             |
| Hapag-Lloyd Guatemala S.A.  | Guatemala City    | GTQ                | 100.00             |
| Hapag-Lloyd Mexico S.A. de C.V.   | Mexico City       | MXN                | 100.00             |
| Servicios Corporativos Portuarios S.A. de C.V.  | Mexico City       | MXN                | 100.00             |
| Agencias Grupo CSAV (Mexico) S.A. de C.V.   | Mexico City       | MXN                | 100.00             |
| Hapag-Lloyd (Peru) S.A.C.   | Lima              | PEN                | 60.00              |
| Hapag-Lloyd Venezuela C.A.  | Caracas           | VEF                | 100.00             |
| CSAV Austral SpA  | Valparaíso        | USD                | 49.00              |
| Hapag-Lloyd Chile SpA   | Valparaíso        | USD                | 100.00             |
| CSAV Group Agencies Uruguay S.A.  | Montevideo        | UYU                | 100.00             |
| Libra Serviços de Navegação Limitada (formerly Companhia Libra de Navegacao S.A.)                             | São Paulo         | BRL                | 100.00             |
| Andes Operador Multimodal Ltda.   | São Paulo         | BRL                | 100.00             |
| Corvina Maritime Holding S.A.   | Panama City       | USD                | 100.00             |
| Sea Lion Shipping Co. S.A.  | Panama City       | USD                | 100.00             |
| Southern Shipmanagement Co. S.A.  | Panama City       | USD                | 100.00             |
| Southern Shipmanagement (Chile) Ltda.   | Valparaíso        | USD                | 100.00             |
| Wellington Holding Group S.A.   | Road Town         | USD                | 100.00             |
| Compañía Libra de Navegación (Uruguay) S.A.   | Montevideo        | UYU                | 100.00             |
| Inversiones CNP S.A.  | Lima              | USD                | 100.00             |
| Torksey S.A.  | Montevideo        | USD                | 100.00             |

| Name of the company                                 | Registered office | Currency unit (CU) | Shareholding %     |
|---|-------------------|--------------------|--------------------|
| <b>Latin America (Continued)</b>                    |                   |                    |                    |
| Rahue Investment Co. S.A.                           | Panama City       | USD                | 100.00             |
| CNP Holding S.A.                                    | Panama City       | USD                | 100.00             |
| Norasia Alya S.A.                                   | Panama City       | USD                | 100.00             |
| <b>Other</b>  |                   |                    |                    |
| CSAV Ships S.A.                                     | Panama City       | USD                | 100.00             |
| CSBC Hull 900 Ltd.                                  | Douglas           | USD                | 100.00             |
| Hull 1796 Co. Ltd.                                  | Majuro            | USD                | 100.00             |
| Hull 1798 Co. Ltd.                                  | Majuro            | USD                | 100.00             |
| Hull 1975 Co. Ltd.                                  | Majuro            | USD                | 100.00             |
| Hull 1976 Co. Ltd.                                  | Majuro            | USD                | 100.00             |
| Malleco Shipping Co. S.A.                           | Panama City       | USD                | 100.00             |
| Maule Shipping Co. S.A.                             | Panama City       | USD                | 100.00             |
| Al Wakrah Limited                                   | George Town       | USD                | 100.00             |
| Al Rayyan Limited                                   | George Town       | USD                | 100.00             |
| Qurtuba Limited                                     | George Town       | USD                | 100.00             |
| Dhat Al Salasil Limited                             | George Town       | USD                | 100.00             |
| Hira Limited  | George Town       | USD                | 100.00             |
| Al Madinah Limited                                  | George Town       | USD                | 100.00             |
| Al Mutanabbi Limited                                | George Town       | USD                | 100.00             |
| Manamah Limited                                     | George Town       | USD                | 100.00             |
| Al Aziziyah Limited                                 | George Town       | USD                | 100.00             |
| Busaiteen Limited                                   | George Town       | USD                | 100.00             |
| Al Oyun Limited                                     | George Town       | USD                | 100.00             |
| Onayzah Limited                                     | Valetta           | EUR                | 100.00             |
| Barzan Limited                                      | Valetta           | EUR                | 100.00             |
| Alula Limited                                       | Valetta           | EUR                | 100.00             |
| Al Muraykh Limited                                  | Valetta           | EUR                | 100.00             |
| Tayma Limited                                       | Valetta           | EUR                | 100.00             |
| Al Zubara Limited                                   | Valetta           | EUR                | 100.00             |
| Al Jasrah Limited                                   | Majuro            | USD                | 100.00             |
| Al Nefud Limited                                    | Valetta           | EUR                | 100.00             |
| Al Riffa Limited                                    | Valetta           | EUR                | 100.00             |
| Al Dahna Limited                                    | Valetta           | EUR                | 100.00             |
| Jebel Ali Limited                                   | Valetta           | EUR                | 100.00             |
| Tihama Limited                                      | Valetta           | EUR                | 100.00             |
| Al Qibla Limited                                    | Valetta           | USD                | 100.00             |
| Umm Salal Limited                                   | Valetta           | EUR                | 100.00             |
| Al Jowf Limited                                     | Valetta           | USD                | 100.00             |
| Ain Esnan Limited                                   | Valetta           | EUR                | 100.00             |
| Umm Qarn Limited                                    | Majuro            | USD                | 100.00             |
| Salahuddin Limited                                  | Majuro            | USD                | 100.00             |
| Afif Limited  | Majuro            | USD                | 100.00             |
| Linah Limited                                       | Majuro            | USD                | 100.00             |
| Al Jmelyah Limited                                  | Majuro            | USD                | 100.00             |
| Al Nasriyah Limited                                 | Majuro            | USD                | 100.00             |
| Al Rawdah Limited                                   | Majuro            | EUR                | 100.00             |
| Al Dhail Limited                                    | Majuro            | USD                | 100.00             |
| Al Murabba Limited                                  | Majuro            | USD                | 100.00             |
| Al Mashrab Limited                                  | Majuro            | USD                | 100.00             |
| Sajid Limited                                       | Majuro            | USD                | 100.00             |
| <b>Associated companies</b>                         |                   |                    |                    |
| HHLA Container Terminal Altenwerder GmbH            | Hamburg           | EUR                | 25.10              |
| Hapag-Lloyd Lanka (Pvt) Ltd                         | Colombo           | LKR                | 40.00              |
| United Arab Shipping Agency Company (Thailand) Ltd. | Bangkok           | THB                | 49.00              |
| United Arab Shipping Agency Company (Shenzhen) Ltd  | Shenzhen          | CNY                | 49.00              |
| United Arab Shipping Agency Company (Ningbo) Ltd    | Ningbo            | CNY                | 49.00              |
| Djibouti Container Services FZCO                    | Djibouti          | DJF                | 19.06 <sup>4</sup> |

| Name of the company  | Registered office | Currency unit (CU) | Shareholding %     |
|--|-------------------|--------------------|--------------------|
| <b>Affiliated non-consolidated companies</b>                       |                   |                    |                    |
| Hapag-Lloyd Container Ltd  | Barking           | EUR                | 100.00             |
| Hapag-Lloyd Container (No. 2) Ltd.                                 | Barking           | EUR                | 100.00             |
| Hapag-Lloyd Container (No. 3) Ltd.                                 | Barking           | EUR                | 100.00             |
| Hapag-Lloyd Ships Ltd.   | Barking           | EUR                | 100.00             |
| Hapag-Lloyd Ships (No. 2) Ltd.                                     | Barking           | EUR                | 100.00             |
| Hapag Lloyd (Ghana) Limited  | Tema              | GHS                | 65.00              |
| Brunswick Investment Co. Inc.                                      | Nassau            | USD                | 100.00             |
| CSAV Denizcilik Acentasi A.S.                                      | Istanbul          | TRY                | 100.00             |
| CSBC Hull 898 Ltd.   | Douglas           | USD                | 100.00             |
| Hull 1794 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 1800 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 1906 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2082 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2083 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2084 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2085 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2086 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2087 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Hull 2088 Co. Ltd.   | Majuro            | USD                | 100.00             |
| Chacabuco Shipping Ltd.  | Majuro            | USD                | 100.00             |
| Palena Shipping Ltd.   | Majuro            | USD                | 100.00             |
| Lanco Investments Internacional Co. S.A.                           | Panama City       | USD                | 100.00             |
| Servicios de Procesamiento Naviero S.R.L. i.L.                     | Montevideo        | USD                | 100.00             |
| United Arab Shipping Agencies Company Uruguay S.A. (Kiranbir S.A.) | Montevideo        | UYU                | 60.00              |
| UASAC CEE (Slovakia) s.r.o   | Bratislava        | EUR                | 100.00             |
| UASAC Groupement France  | Marseille         | EUR                | 100.00             |
| UASC Services (India) Pvt. Ltd. i.L.                               | Chennai           | INR                | 99.99 <sup>5</sup> |
| Khafji Limited   | George Town       | USD                | 100.00             |
| Ash-Shahnaniyah Ltd.   | George Town       | USD                | 100.00             |
| Hamburg-Amerikanische Packetfahrt-Gesellschaft mbH                 | Hamburg           | EUR                | 100.00             |
| Norddeutscher Lloyd GmbH   | Bremen            | EUR                | 100.00             |
| Zweite Hapag-Lloyd Schiffvermietungsgesellschaft mbH               | Hamburg           | EUR                | 100.00             |

<sup>1</sup> Additional 51.00% are held by a trustee on behalf of Hapag-Lloyd Group.

<sup>2</sup> Additional 5.64% are held by a trustee on behalf of Hapag-Lloyd Group.

<sup>3</sup> Additional 75.99% are held by a trustee on behalf of Hapag-Lloyd Group.

<sup>4</sup> Additional 2.19% are held by a trustee on behalf of Hapag-Lloyd Group.

<sup>5</sup> Additional 0.01% are held by a trustee on behalf of Hapag-Lloyd Group.

Hamburg, 23 March 2018

## Hapag-Lloyd AG

Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Thorsten Haeser

## 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 consolidated financial statements of Hapag-Lloyd AG give a true and fair view of the net asset, financial and earnings position of the Group and that the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, 23 March 2018

Hapag-Lloyd AG  
Executive Board



Rolf Habben Jansen



Nicolás Burr



Anthony J. Firmin



Thorsten Haeser



# INDEPENDENT AUDITOR'S REPORT

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

### Opinions

We have audited the consolidated financial statements of Hapag-Lloyd Aktiengesellschaft, Hamburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Hapag-Lloyd Aktiengesellschaft, Hamburg, for the financial year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB ('Handelsgesetzbuch': German Commercial Code) and give a true and fair view of the net assets and financial position of the Group as at 31 December 2017, and of its results of operations for the financial year from 1 January 2017 to 31 December 2017, in accordance with these requirements, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those

requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

### **Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

#### **The acquisition and first-time consolidation of United Arab Shipping Company Ltd.**

Please refer to the Section on 'Acquisitions – Acquisition of the UASC Group' in the notes to the consolidated financial statements for further information on the accounting policies applied.

#### **THE FINANCIAL STATEMENT RISK**

In the year under review, Hapag-Lloyd AG acquired 100% of the shares in United Arab Shipping Company Ltd, Dubai, United Arab Emirates (UASC). As compensation for the acquisition of shares, the shareholders of UASC were granted 45,932,023 new non-par value shares with a fair value on the acquisition date of EUR 1,286.1 million. For the first-time consolidation the acquired assets and assumed liabilities of UASC were assumed at fair value into the consolidated financial statements of Hapag-Lloyd AG. The fair value of the acquired net assets was EUR 1,314.3 million, meaning that a gain (negative goodwill) of EUR 28.2 million based on final purchase price allocation resulted from the transaction.

The business combination has a significant impact on the assets, liabilities, financial position and financial performance of the Hapag-Lloyd Group and, thus, is highly relevant for the users of the financial statements. The accounting policies to be applied following the business combination are complex and the valuation measurement of acquired assets and assumed liabilities is based on a series of assumptions and estimates that require judgement. This relates in particular to the projected business development, the projected operating margins, the synergies from the business combination, customer churn and capital costs as the key input factors for measuring key recognised intangible assets mainly in the form of customer relationships.

There is the risk for the financial statements that the acquired assets and assumed liabilities are not fully or appropriately identified and their value is not measured in compliance with the relevant accounting rules and the gain resulting from the business combination is too high.

There is also the risk that the necessary disclosures in the notes to the consolidated financial statements are not appropriate.

#### OUR AUDIT APPROACH

For the audit of the balance sheet presentation of the business combination, we assessed the acquisition contract documents. We reconciled the value stated as consideration transferred for the acquisition of UASC with the issued no-par value shares and the market price of the shares of Hapag-Lloyd on the acquisition date. Drawing on our valuation experts, we assessed the identification and measurement of the fair values of the assets acquired and liabilities assumed from UASC. A key basis for our assessment were the valuation reports of the independent expert engaged by Hapag-Lloyd.

We assessed the process of identifying the assets and liabilities. In addition, we assessed the measurement method and the appropriateness and consistency of key planning and valuation assumptions to determine the fair value of the customer relationships. In doing so, we assessed the central assumptions underlying UASC's business planning (revenue planning, EBIT margins, customer churn), along with the synergies expected from the business combination, which were used to measure intangible assets and that require a particularly high level of judgement. We analysed the central planning measures taking into account past financial performance, the current legal and economic conditions as well as market studies. Since even minor changes to the weighted average cost of capital (WACC) can already impact the value stated for intangible assets, we compared the assumptions and parameters underlying the WACC to our own analyses and publicly available data. In addition, we assessed the valuation models used for measurement for computational accuracy in a selected risk-based scope. We also verified the accuracy of the gain resulting from the business combination.

In light of the gain resulting from the business combination, we performed a general validation test. For this purpose, we subjected the calculated value of customer relationships, as by far the largest intangible asset, to a sensitivity analysis of all key budget and measurement assumptions in the form of a Monte Carlo simulation, as this value includes a particularly high level of budget assumptions and judgements.

In addition, we assessed the appropriateness of the disclosures in the notes to the consolidated financial statements taking into account the check lists and documentary evidence provided.

## OUR OBSERVATIONS

The underlying approach for the identification and valuation of acquired assets and assumed liabilities is appropriate and in line with the relevant accounting provisions. Overall, the assumptions used for the measurement of acquired assets and assumed liabilities are reasonable. The gain resulting from the business combination was accurately calculated. The disclosures in the notes to consolidated financial statements on the business combination are appropriate.

### **Impairment testing of goodwill and the Hapag-Lloyd brand**

Please refer to the disclosures in the notes to the consolidated financial statements in the section 'Impairment testing' and the disclosures on the judgements made by management in the Section on 'Material assumptions and estimates' for further information on the accounting policies applied. Please see consolidated notes number 11 for disclosures on goodwill and intangible assets.

## THE FINANCIAL STATEMENT RISK

The carrying amount of goodwill as at 31 December 2017 amounted to EUR 1,486.8 million and the carrying amount of the Hapag-Lloyd brand equalled EUR 214.1 million.

The recoverability of goodwill and the brand as an intangible asset with an indefinite useful life is reviewed each year in accordance with IAS 36 on the level of the cash-generating unit 'Container shipping'. The carrying amount is compared with the recoverable amount of the cash-generating unit. If the carrying amount exceeds the recoverable amount of the assets, an impairment loss is recognised. The recoverable amount is the higher value of fair value less costs of disposal and the value in use of the cash-generating unit. Impairment testing of goodwill and the Hapag-Lloyd brand is complex and based on a range of assumptions that require judgement. Among others, these include key input factors for the projected business and earnings performance of the Hapag-Lloyd Group: freight rates, transport volumes, bunker prices, synergies from the combination with UASC, the long-term revenue level and long-term EBIT margin as well as the WACC applied and the growth discount including sensitivity.

There is the risk for the financial statements that the existing impairment loss was not recognised as at the reporting date. There is also the risk that the related disclosures in the notes to the consolidated financial statements are not appropriate.

#### OUR AUDIT APPROACH

By involving our valuation specialists, we have also assessed the appropriateness of the key assumptions and calculation method of the company. For this purpose, we discussed the projected business and earnings development and the assumed growth discounts with those responsible for planning. In addition, we reconciled the projected business and earnings performance with the management planning prepared by the executive board and approved by the supervisory board. As even just minor changes to business and earnings performance can significantly impact the results of impairment testing and the economic conditions in the container shipping industry continue to be strained, we assessed the consistency of assumptions for the development of key input factors with external market assessments, findings from comparable businesses and historical values. In addition, we compared the assumptions and parameters underlying the capital costs to our own assumptions and publicly available data. To ensure the computational accuracy of the valuation models used, we verified the company's calculations on the basis of selected risk-based elements. In order to take forecast uncertainty into account, we investigated – with respect to testing goodwill for impairment – the impact of potential changes to the cost of capital and earnings performance along with the growth discount on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these to the Company's figures. In doing so, we carried out a sensitivity analysis in the form of a Monte Carlo simulation with respect to the EBIT margin used in perpetual annuity. Finally, we assessed whether the disclosures in the notes to the consolidated financial statements regarding impairment of goodwill and the brand are appropriate.

#### OUR OBSERVATIONS

The calculation methods used to test goodwill and the Hapag-Lloyd brand for impairment are appropriate and in line with the relevant accounting policies. The company's assumptions and parameters underlying the valuations are mainly in line with external market estimates and are balanced overall. The sensitivity analysis in the form of a Monte Carlo simulation found that the EBIT margin applied for the perpetual annuity was in a reasonable range. The related disclosures in the notes to the consolidated financial statements are appropriate.

#### **Accounting for unfinished voyages**

Please refer to the disclosures in the section 'Recognition of income and expenses' in the notes to the financial statements for further information on the accounting policies applied.

#### THE FINANCIAL STATEMENT RISK

Revenue and transport expenses for unfinished voyages are recorded by Hapag-Lloyd by reference to the voyage progress as at the reporting date. In determining voyage progress, the ratio of expenses incurred up to the reporting date to the expected total expenses per voyage is relevant. Determining the transport costs incurred in connection with the voyages that are unfinished as at the reporting date and the margins underlying revenue recognition is a highly complex process.

There is the risk for the financial statements that revenue and transport expenses for unfinished voyages are not accurately recognised in respect of the cut-off reporting date.

#### OUR AUDIT APPROACH

We assessed the design, implementation and effectiveness of the controls that are to ensure accurate recognition cut-off of revenue and transport expenses as at the reporting date. We assessed the accounting policies applied by Hapag-Lloyd for revenue recognition for compliance with the requirements of IAS 18. In addition, we assessed whether the policies defined by Hapag-Lloyd for recognition cut-off are appropriately structured to ensure the recognition of revenue and transport expenses on an accrual basis. We assessed the reliability of the analyses from the accounting system on an accrual basis by examining selected risk-based elements of the underlying documents and the actual voyage data. We assessed the method of calculating the margins for revenue recognition and the required cut-off procedures at the reporting date and evaluated the model for computational accuracy. We assessed the appropriateness of changes in liabilities for outstanding invoices using the development of transportation volumes and discussed this in meetings with employees from controlling and accounting. In addition, we obtained external confirmations from service providers using selected risk-based elements in order to assess the completeness of transport expenses as at the reporting date.

#### OUR OBSERVATIONS

The methods for determining the margins relevant for revenue recognition and cut-off procedures for transport expenses are in line with the accounting policies to be applied.

#### **Other Information**

Management is responsible for the other information. Other information comprises the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

**Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report**

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report, which as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 29 May 2017. We were engaged by the audit and finance committee on 20 July 2017. We have been group auditor of Hapag-Lloyd Aktiengesellschaft, Hamburg, without interruption since the financial year 2015.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (longform audit report).

## GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the audit is Niels Madsen.

Hamburg, 23 March 2018

KPMG AG  
Wirtschaftsprüfungsgesellschaft  
[Original German version signed by:]

signed by Madsen  
Wirtschaftsprüfer  
[German Public Auditor]

signed by Lippmann  
Wirtschaftsprüfer  
[German Public Auditor]

## PRELIMINARY FINANCIAL CALENDAR

**14 MAY 2018**

Quarterly financial report, first quarter 2018

**10 JULY 2018**

Annual General Meeting

**10 AUGUST 2018**

Half-year financial report, first half 2018

**8 NOVEMBER 2018**

Quarterly financial report, first nine months 2018

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