H1 | 2018

Hapag-Lloyd AG

Half-year financial report

1 January to
30 June 2018

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES HALF-YEAR FINANCIAL REPORT H1 2018

		1.4.– 30.6. 2018	1.4.– 30.6. 2017	1.1.– 30.6. 2018	1.1.– 30.6. 2017	Change absolute
Key operating figures [1]						
Total vessels		226	219	226	219	7
Aggregate capacity of vessels	TTEU	1,608	1,557	1,608	1,557	51
Aggregate container capacity	TTEU	2,487	2,287	2,487	2,287	200
Freight rate (average for the period) [2]	USD/TEU	1,010	1,072	1,020	1,065	–45
Transport volume	TTEU	2,987	2,287	5,848	4,221	1,627
Revenue	million EUR	2,808	2,386	5,425	4,518	906
EBITDA [3]	million EUR	205,8	228,5	425,2	363,8	61.4
EBIT [3]	million EUR	35.0	83.2	88.7	90.7	–2.0
Group profit/loss [3]	million EUR	–66.6	15.4	–100.9	–42.7	–58.2
Earnings per share [3]	EUR	–0.40	0.10	–0.61	–0.35	–0.26
Cash flow from operating activities	million EUR	157.3	158.4	411.1	306.5	104.6
Key return figures [1]						
EBITDA margin (EBITDA/revenue) [2]	%	7.3	9.6	7.8	8.1	–0.3 ppt
EBIT margin (EBIT/revenue) [2]	%	1.2	3.5	1.6	2.0	–0.4 ppt
ROIC (Return on Invested Capital) [4]	%	0.8	2.3	1.3	1.2	0.1 ppt
Key balance sheet figures as at 30 June [1]						
Balance sheet total	million EUR	14,998	14,828	14,998	14,828	170
Equity [3]	million EUR	6,146	6,058	6,146	6,058	88
Equity ratio (equity/balance sheet total) [3]	%	41.0	40.9	41.0	40.9	0.1 ppt
Borrowed capital	million EUR	8,851	8,770	8,851	8,770	82
Financial debt	million EUR	6,170	6,336	6,170	6,336	–166
Cash and cash equivalents	million EUR	552	605	552	605	–53

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 comprised 159 companies in total as at 30 June 2018 (31 December 2017: 164 companies). The inclusion of the UASC Group means that the figures for the 2018 financial year are only comparable with those of previous years to a limited extent. The earnings development in the 2017 and 2018 financial years is affected by one-off effects resulting from the presentation of the transaction and the integration in the financial statements.

[1] The key operating figures and key return figures refer to the respective reporting period or the respective balance sheet date. The comparison of key balance sheet figures refers to the balance sheet date 31 December 2017.

[2] For the 2018 financial year, revenue for ancillary services in Latin America and Turkey was included in the calculation of freight rates. The previous year's values have been adjusted accordingly.

[3] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This increased the annual profit after taxes for the first half of 2017 by EUR 3.4 million. Retained earnings as at 31 December 2017 increased by EUR 1.0 million and cumulative other equity dropped by EUR 1.0 million. Equity remained unchanged overall.

[4] 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 non-financial liabilities). This key operating figure is calculated on an annualised basis and in US dollars.

MAIN DEVELOPMENTS IN H1 2018

- Solid volume growth: Compared to the previous year transport volume rises by 38.5% in the first 6 months, mainly due to the inclusion of UASC. On a pro forma basis [1], the transport volume would have increased by 3.9% compared to the previous year
- The freight rate of USD 1,020/TEU was lower than in the previous year (H1 2017: USD 1,065/TEU [2]). On a pro forma basis [1], the average freight rate would have increased by 3.0% compared to the previous year
- The significant rise of USD 73 per tonne in average bunker prices [3] and the inclusion of UASC for the full 6 months result in an increase of 40.9% in expenses for raw materials and supplies compared to the previous year
- Fuel related cost/bunker prices, charter rates and intermodal cost increase more than originally expected
- The synergy ramp-up resulting from the integration with UASC is progressing in line with expectations
- Positive EBITDA of EUR 425.2 million in the first 6 months of 2018 (H1 2017: EUR 363.8 million). EBITDA margin of 7.8% in H1 2018 (H1 2017: 8.1%)
- EBIT of EUR 88.7 million slightly below the previous year's level (H1 2017: EUR 90.7 million)
- Good operating cash flow of EUR 411.1 million (H1 2017: EUR 306.5 million)
- Liquidity reserve totals EUR 999.1 million as at 30 June 2018
- Equity ratio almost unchanged at 41.0% (31 December 2017: 40.9%)

[1] The pro forma basis assumes that the merger with UASC occurred on 1 January 2017 and facilitates comparability with regard to the Company's performance.

[2] For the 2018 financial year, revenue for ancillary services in Latin America and Turkey was included in the calculation of freight rates. The previous year's values have been adjusted accordingly.

[3] Weighted average MFO and MDO

This half-year financial report was published on 10 August 2018.

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INTERIM GROUP MANAGEMENT REPORT

BUSINESS ACTIVITIES

The legal merger between Hapag-Lloyd AG and United Arab Shipping Company Ltd. (UASC) was successfully completed on 24 May 2017. From this date, UASC Ltd. and its subsidiaries (the UASC Group) are included in the consolidated financial statements of Hapag-Lloyd AG. Due to the first-time consolidation of the UASC Group as at 24 May 2017, the previous year's figures are only comparable to a limited extent with the values as at 30 June 2018.

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 30 June 2018, Hapag-Lloyd's fleet (including UASC's container ships) comprised 226 container ships (31 December 2017: 219). The Group had 389 sales offices in 127 countries and offered its customers worldwide access to a network of 120 liner services. In the first 6 months of 2018, Hapag-Lloyd served approximately 24,000 customers around the world.

Network of Hapag-Lloyd services

Source: Company data

Since 1 April 2017, Hapag-Lloyd has been operating the THE Alliance together 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). The Japanese alliance partners merged their container shipping activities on 1 April 2018 and have been operating as Ocean Network Express (ONE) since then.

As at 30 June 2018, the THE Alliance covered all East–West trades with around 261 container ships.

Hapag-Lloyd conducts its container liner shipping business in an international business environment. Transactions are invoiced and payment procedures are handled mainly in US dollars. This relates not only to operating business transactions, but also to investment activities and the corresponding financing of investments. The functional currency of Hapag-Lloyd AG and its main subsidiaries is therefore the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro. For reporting purposes, the assets and liabilities of the Hapag-Lloyd Group are translated into euros using the mean exchange rate on the 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.

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.

The growing global demand for container transportation is the very foundation of the organic growth which Hapag-Lloyd hopes to achieve. IHS Global Insight (June 2018) has forecast a rise in global container shipments of 4.9% to around 148 million TEU in 2018 and a further 5.4% to approximately 156 million TEU in 2019. Hapag-Lloyd intends to increase the transport volume organically in line with market growth.

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

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

The generation of sustainable cash flows, solid corporate financing, and therefore in particular a sufficient liquidity and equity base, are once again key cornerstones of the Hapag-Lloyd Group's corporate strategy in the 2018 financial year. As at 30 June 2018, the Hapag-Lloyd Group had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 999.1 million (30 December 2017: EUR 1,059.5 million).

Strategic steps to strengthen the Group's market position and expand its shareholder base

The merger with UASC is regarded as a key strategic 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 up to 90% of these synergies can be achieved in 2018. One-off expenses of approximately USD 4 million were incurred in the first half of 2018 from the transaction and implementation of the merger. It is currently assumed that further expenses of approximately USD 4 million could be incurred by the end of 2018 for the full integration of UASC's container shipping activities.

From the Hapag-Lloyd AG Executive Board's perspective, the merger of the Hapag-Lloyd and UASC container shipping activities will bring with it the following advantages:

- Strengthened market position as one of the 5 largest container liner shipping companies (measured by the container transportation capacity of the fleet) in a container shipping industry characterised by further consolidation
- Enhanced market presence in the attractive Middle East trade and the Far East trade and solid position in all trades
- Efficient and young fleet with a low level of investment needed
- Annual synergies of approximately USD 435 million starting in 2019
- Strong partner in THE Alliance

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) and comprehensive training programmes for the new employees. Office location optimisation projects were also carried out and were largely complete as at the end of the first half of 2018.

Following the takeover of UASC 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 are included in the free float. CSAV Germany Container Holding GmbH (CSAV), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV) and Kühne Maritime GmbH together with Kühne Holding AG (Kühne) continued to be anchor shareholders. During the second quarter of 2018, Kühne increased its share in Hapag-Lloyd from 21.4% to a total of 25.0%.

The 5 major shareholders together held 89.4% of the share capital of Hapag-Lloyd AG as at 30 June 2018. CSAV, HGV and Kühne Maritime GmbH have also agreed under a shareholders' agreement to exercise their voting rights from the shares in Hapag-Lloyd AG by issuing a common voting proxy, thereby making important decisions together. The shareholder structure of Hapag-Lloyd AG as at 30 June 2018 was as follows:

Voting rights as at 30 June 2018

in %	
CSAV Germany Container Holding GmbH	25.8
Kühne Holding AG and Kühne Maritime GmbH	25.0
Qatar Holding Germany GmbH	14.5
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	13.9
The Public Investment Fund of the Kingdom of Saudi Arabia	10.2
Free float	10.6
Total	**100.0**

Short- and medium-term objectives

Due to the persistently challenging market environment – and particularly in light of the significant increases in fuel prices and charter rates – Hapag-Lloyd is aiming to make further efficiency gains. To that end, the Group introduced measures in the second quarter of 2018 in order to counteract this increased cost base. These measures include amongst others capacity reductions in some trades and reductions in administrative costs.

In addition to optimising its cost structure and revenue management, Hapag-Lloyd is working intensively on strategic medium-, and long-term topics and challenges. These encompass among others the utilisation of opportunities from a progressing digitalization, the active design of the fuel strategy against the background of the ecological changes in the shipping industry as well as a further differentiation from competitors through enhancement of the service quality along the entire supply chain.

IMPORTANT FINANCIAL PERFORMANCE INDICATORS

Important financial performance indicators for the Hapag-Lloyd Group include EBITDA, the EBIT, the transport volume and the freight rate. Since the 2015 financial year, return on invested capital (ROIC) has also been used as a performance indicator. The development of the most important financial performance indicators in the first 6 months of 2018 is presented in the section "Group earnings position". 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 non-financial liabilities. To facilitate comparison with other international shipping companies, the return on invested capital is calculated and presented exclusively on the basis of the functional currency, the US dollar.

Calculation of the return on invested capital is as follows:

	million EUR		million USD	
	H1 2018	H1 2017	**H1 2018**	H1 2017
Non-current assets	12,729.5	13,540.9	14,818.5	15,443.3
Inventory	257.1	192.0	299.3	219.0
Accounts receivables	703.2	942.2	818.6	1,074.6
Other assets	755.6	374.5	879.7	427.1
Assets	**14,445.4**	**15,049.6**	**16,816.1**	**17,164.0**
Provisions	575.3	711.9	669.7	811.9
Accounts payable	1,766.7	1,604.4	2,056.6	1,829.9
Other liabilities	339.7	245.1	395.5	279.4
Liabilities	**2,681.7**	**2,561.4**	**3,121.8**	**2,921.2**
Invested Capital	**11,763.7**	**12,488.2**	**13,694.2**	**14,242.8**
EBIT	88.7	90.7	107.4	100.4
Taxes	16.9	12.0	20.6	13.0
Net Operating Profit after Tax (NOPAT)	**71.8**	**78.7**	**86.8**	**87.4**
Return on Invested Capital (ROIC) [1]			**1.3%**	**1.2%**

[1] 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.

Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This increased the annual profit after taxes for the first half of 2017 by EUR 3.4 million. Retained earnings as at 31 December 2017 increased by EUR 1.0 million and cumulative other equity dropped by EUR 1.0 million. Equity remained unchanged overall.

IMPORTANT NON-FINANCIAL PRINCIPLES

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

Flexible fleet and capacity development

As at 30 June 2018, Hapag-Lloyd's fleet comprised a total of 226 container ships (31 December 2017: 219 ships). All of the ships are certified in accordance with the ISM (International Safety Management) Code and have a valid ISSC (ISPS) certificate. The majority of the ships are certified as per ISO 9001 (quality management) and ISO 14001 (environmental management). The TEU capacity of the entire Hapag-Lloyd fleet as at 30 June 2018 was 1,607,750 TEU, which was a slight increase compared to 31 December 2017 (1,573,377 TEU). The share of ships owned outright by Hapag-Lloyd was approximately 65% as at 30 June 2018 based on TEU capacity (31 December 2017: approximately 68%).

As at 30 June 2018, the average age of Hapag-Lloyd's total fleet (capacity-weighted) was 7.4 years. The average ship size within the Hapag-Lloyd Group fleet is 7,114 TEU, which is approximately 22% above the comparable average figure for the 10 largest container liner shipping companies (30 June 2018: 5,837 TEU) and around 73% above the average ship size in the global fleet (30 June 2018: 4,120 TEU).

As at 30 June 2018, Hapag-Lloyd owned or rented 1,513,642 containers (31 December 2017: 1,435,345) with a capacity of 2,487,277 TEU for shipping cargo (31 December 2017: 2,348,602 TEU). The capacity-weighted share of containers owned by the Group stood at around 52% as at 30 June 2018 and was therefore slightly lower compared to 31 December 2018 (54%).

Hapag-Lloyd's service network comprises 120 services (31 December 2017: 120 services).

Structure of Hapag-Lloyd's container ship fleet

	30.6.2018	31.12.2017	30.6.2017
Number of vessels	226	219	219
thereof			
Own vessels	98	102	112
Leased vessels	14	14	8
Chartered vessels	114	103	99
Aggregate capacity of vessels (TTEU)	1,608	1,573	1,557
Aggregate container capacity (TTEU)	2,487	2,349	2,287
Number of services	120	120	129

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.

Bunker consumption totalled approximately 2.2 million tonnes in the first 6 months of 2018 (H1 2017: 1.7 million tonnes). Around 12% (H1 2017: approximately 15%) of this comprised bunker with a low proportion of sulphur (MFO low sulphur, MDO). The efficiency of the container ship fleet is also reflected in the bunker consumption data per slot (as measured by the average annual container storage space) of 2.8 tonnes (H1 2017: 3.1 tonnes). Bunker consumption per transported TEU was 0.37 tonnes (H1 2017: 0.41 tonnes per TEU).

With demand for container shipping services continuing to rise, container shipping will remain a growth industry in the long term. Following the completed takeover of UASC's container shipping activities, Hapag-Lloyd will not invest heavily in new ship systems up until the end of 2019. In the context of the International Maritime Organization's (IMO) requirements from 2020 to reduce sulphur dioxide emissions, Hapag-Lloyd is currently preparing 2 pilot projects. These include testing exhaust gas cleaning systems (EGCS / scrubbers) on 2 larger container ships and converting a large vessel in the Hapag-Lloyd fleet to liquid gas (LNG).

Customers

Long-term, close business relations with customers are also important in driving value for corporate development. A global key account team manages relationships with major customers. This enables the Company to establish and maintain sustainable customer relationships. In the first 6 months of the 2018 financial year, Hapag-Lloyd completed transport contracts for approximately 24,000 customers (H1 2017: approximately 26,200).

Employees

The Hapag-Lloyd Group employed 12,277 people as at 30 June 2018 (31 December 2017: 12,567). Of this total, 10,131 were shore-based employees (31 December 2017: 10,431), while 1,948 people were sea-based (31 December 2017: 2,136). Hapag-Lloyd employed 198 apprentices as at 30 June 2018 (31 December 2017: 256).

Number of employees

	30.6.2018	31.12.2017	30.6.2017
Marine personnel	1,948	2,007	1,583
Shore-based personnel	10,131	10,304	10,811
Apprentices	198	256	191
Total	**12,277**	**12,567**	**12,585**

ECONOMIC REPORT

General economic conditions

The experts at the International Monetary Fund (IMF) anticipate global economic growth of 3.9% both in 2018 and in 2019 (IMF, World Economic Outlook, July 2018). The forecast economic growth therefore remains unchanged from the forecast published in April 2018. This indicates that global economic growth in the first 6 month of 2018 was in line with IMF expectations.

The IMF's forecast from June 2018 predicts that the volume of global trade, which is key to the demand for container shipping services, will increase by 4.8% in 2018 compared with the previous year. The institute has therefore cut its forecast from April 2018 by 0.3 percentage points. At the same time, however, global trade growth in 2017 was retrospectively increased by 0.2 percentage points to 5.1%, resulting in a higher baseline for 2018. This indicates that global trade growth in the first 6 month of 2018 was in line with IMF expectations. Further growth of 4.5% is expected in 2019 (April forecast: 4.7%).

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

in %	2019e	2018e	2017	2016	2015	2014
Global economic growth	3.9	3.9	3.7	3.2	3.5	3.6
Industrialised countries	2.2	2.4	2.4	1.7	2.3	2.1
Developing and newly industrialised countries	5.1	4.9	4.7	4.4	4.3	4.7
World trading volume (goods and services)	4.5	4.8	5.1	2.2	2.7	3.8
Container transport volume (IHS)	5.4	4.9	5.4	3.1	1.2	4.0

Source: IMF, July 2018; IHS Global Insight, June 2018

Based on the current forecasts, the global cargo volume could rise to approximately 148 million TEU in 2018 (IHS Global Insight, June 2018). The forecast global cargo volume therefore remains unchanged from the forecast published in March 2018. This indicates that global cargo volume development in the first 6 month of 2018 was in line with IHS Global Insight expectations. IHS Global Insight expects the global container shipping volume to increase by 4.9% in 2018, matching the increase in global trade. For the period 2019 to 2022, IHS Global Insight is predicting annual growth of between 4.8% and 5.4% in the global container shipping volume.

Sector-specific conditions

At the beginning of 2018, the aggregate capacity of the global container ship fleet was approximately 21 million TEU (Drewry Container Forecaster Q2 2018, July 2018). Based on the container ships on order and planned deliveries, the globally available transport capacity should see increases of around 1.1 million TEU in 2018 and around 0.7 million TEU in 2019 (Drewry Container Forecaster Q2 2018, July 2018). This includes the expected delays of deliveries in the current financial year. The tonnage of the commissioned container ships of approximately 2.3 million TEU (MDS Transmodal, July 2018) is equivalent to around 11% of the present global container fleet's capacity (approximately 22 million TEU). It therefore remains well below the highest level seen to date, which was around 56% in 2008.

In the period from January to June 2018, orders were placed for the construction of 64 container ships with a transport capacity totalling approximately 453,000 TEU (FY 2017: capacity of 700,000 TEU [Clarksons Research, July 2018]).

Development of global container fleet capacity

million TEU	2019e	2018e	2017	2016
Existing fleet (beginning of the year)	22.0	20.8	20.1	19.8
Planned deliveries	1.2	1.5	1.5	1.3
Expected scrappings	0.3	0.1	0.4	0.7
Postponed deliveries and other changes	0.1	0.2	0.4	0.4
Net capacity growth	**0.7**	**1.1**	**0.8**	**0.2**

Source: Drewry Maritime Research, Container Forecaster Q2 2018, July 2018. Expected nominal capacity based on planned deliveries. Based on existing orders and current predictions for scrapping and postponed deliveries. Figures rounded. Rounding differences may be the result of changes in the databases.

The forecast net capacity growth of 1.1 million TEU (Drewry Container Forecaster Q2 2018) coincides with growth in global container shipping volume of approximately 7.0 million TEU in 2018 (IHS Global Insight, June 2018).

The actual growth in the global container ship fleet's transport capacity is regularly lower than the projected nominal increase, as old and inefficient ships are scrapped and deliveries of newbuilds are postponed. Based on figures from MDS Transmodal, a total of 90 container ships with a transport capacity of approximately 753,000 TEU were placed into service in the first 6 months of 2018 (H1 2017: 70 ships with a transport capacity of approximately 518,000 million TEU). According to Clarksons, approximately 34,000 TEU were scrapped in the first 6 months of 2018. On a yearly basis, Drewry (Container Forecaster Q2 2018) expects scrapping to be around 100,000 TEU, which is significantly lower than in the previous years (2017: 400,000 TEU; 2016: 654,000 TEU).

Idle capacity fell to around 0.2 million TEU at the end of June 2018 (Alphaliner Weekly, June 2018), thereby accounting for approximately 1% of the global fleet. This reduction mainly stemmed from the continuing strong demand for chartered ships. The majority of idle ships have a capacity of up to 5,100 TEU.

The magnitude of the fuel costs in the shipping industry is highly correlated to the oil price development. The price of oil on 30 June 2018 was USD 79.44/barrel (Brent crude oil, Bloomberg) which is 19% above the price at the beginning of the year (31 December 2017: USD 66.57/barrel). The price increase was thus significantly higher than was expected at the beginning of the year.

Consolidation of the industry and alliances

The following 3 alliances have existed since the start of the second quarter of 2017: the "2M Alliance" consists of the two market leaders – Maersk Line (Denmark) (Maersk) and Mediterranean Shipping Company S. A. (Switzerland) (MSC) – which started operating back in early 2015. The "Ocean Alliance" consists of CMA CGM S. A. (France), including its subsidiary APL (Singapore), China COSCO Shipping (China) (COSCO), including Orient Overseas Container Line (Hong Kong) (OOCL), which was taken over by COSCO in July 2018, and Evergreen Marine Corp. Ltd. (Taiwan) (Evergreen). Hapag-Lloyd operates the THE Alliance in partnership with Ocean Network Express (ONE) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). ONE was formed on 1 April 2018 from the merger of the 3 Japanese alliance partners Kawasaki Kisen Kaisha Ltd. (Japan) ("K" Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL) and Nippon Yusen Kabushiki Kaisha Ltd. (Japan) (NYK). As at 30 June 2018, the THE Alliance covered all East–West trades with around 261 container ships.

In March 2017, MSC, Maersk and Hyundai Merchant Marine Co., Ltd (Korea) (HMM) agreed to cooperate in the East–West trades. This collaboration includes slot-chartering agreements for the respective trades.

On 19 July ZIM Integrated Shipping Services Ltd (Israel) (ZIM) announced a cooperation with the 2M Alliance on the Asia–US East Coast trade. Starting in September 2018, the partners will operate 5 loops, of which 4 loops will be provided by the 2M partners Maersk and MSC and one loop by ZIM. The parties will swap slots on all 5 loops.

Capacity share of alliances based on selected trades

Alliance	Far East trade	Transpacific trade	Atlantic trade
2M	40	19	42
Ocean Alliance	34	41	16
THE Alliance	**24**	**27**	**34**
Other	2	13	8

Source: Alphaliner, June 2018

On 30 November 2017, the legal merger between Maersk and Hamburg Südamerikanische Dampfschifffahrts-Gesellschaft ApS & Co KG (Hamburg Süd) took place.

On 7 July 2017, the 3 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 Ocean Network Express (ONE). The joint venture commenced operating on 1 April 2018, integrating the container shipping business (including the terminal business outside Japan) of the 3 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. All of the prerequisites for the takeover were fulfilled on 29 June 2018. On 13 July 2018, the companies announced that the takeover bid was accepted for 75.95% of the voting shares in OOIL. OOIL is to remain listed on the stock exchange in Hong Kong. With total transport capacity of 2.7 million TEU, COSCO has therefore further strengthened its market position and is now the world's third-largest container liner shipping company, just ahead of CMA CGM.

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.

According to data from MDS Transmodal (July 2018), the 10 largest container liner shipping companies provide approximately 83% of the total capacity of the global fleet of container ships.

GROUP EARNINGS, FINANCIAL AND NET ASSET POSITION

The earnings and financial positions are only comparable with the corresponding prior year period to a limited degree, as the UASC Group was incorporated into Hapag-Lloyd AG on 24 May 2017.

Group earnings position

Hapag-Lloyd's performance in the first 6 months of the 2018 financial year was once again dominated by the challenges in the container shipping industry.

The development of freight rates, which was lower than expectations due to unwavering intense competition, and a comparatively weak US dollar against the euro had a negative impact on its earnings position. At USD 1.21/EUR, the average dollar/euro exchange rate was significantly weaker than in the prior year period (USD 1.08/EUR). In particular, the substantial increase in the average bunker price compared with the prior year period had a negative impact on earnings. The higher transport volume and an optimised cost structure for transport-related expenses were able to partly offset these effects. Overall, Hapag-Lloyd recorded earnings before interest and taxes (EBIT) of EUR 88.7 million in the first half of 2018 (prior year period: EUR 90.7 million) and a Group loss after taxes of EUR –100.9 million (prior year period: EUR –42.7 million).

Consolidated income statement

million EUR	**Q2 2018**	Q2 2017 [1]	**H1 2018**	H1 2017 [1]
Revenue	2,808.0	2,386.2	5,424.7	4,518.3
Other operating income	10.3	77.6	46.1	103.9
Transport expenses	2,358.2	1,933.8	4,511.8	3,718.9
Personnel expenses	154.4	196.7	321.9	344.1
Depreciation, amortisation and impairment	170.8	145.3	336.5	273.1
Other operating expenses	107.4	115.6	227.4	213.8
Operating result	**27.5**	**72.4**	**73.2**	**72.3**
Share of profit of equity-accounted investees	7.5	10.8	15.5	18.4
Earnings before interest and tax (EBIT)	**35.0**	**83.2**	**88.7**	**90.7**
Interest result	–90.4	–59.6	–172.7	–121.4
Income taxes	11.2	8.2	16.9	12.0
Group profit/loss	**–66.6**	**15.4**	**–100.9**	**–42.7**
thereof profit/loss attributable to shareholders of Hapag-Lloyd AG	–70.4	13.8	–108.0	–45.0
thereof profit/loss attributable to non-controlling interests	3.8	1.6	7.1	2.3
Basic earnings per share (in EUR)	–0.40	0.10	–0.61	–0.35
EBITDA	**205.8**	**228.5**	**425.2**	**363.8**
EBITDA margin (%)	**7.3**	**9.6**	**7.8**	**8.1**
EBIT	**35.0**	**83.2**	**88.7**	**90.7**
EBIT margin (%)	**1.2**	**3.5**	**1.6**	**2.0**

[1] The figures for the first half of 2017 include the UASC Group from the first-time consolidation date of 24 May 2017. Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This increased the Group profit for the first half of 2017 by EUR 3.4 million.

Including the UASC Group, the average freight rate in the first half of 2018 was USD 1,020/TEU and was therefore USD 45/TEU down on the prior year period (USD 1,065/TEU with the UASC Group since 24 May 2017). Besides the inclusion of the UASC Group, which had a lower freight rate level overall, the main reason for the decline was the ongoing competitive market environment.

On a comparable basis (if the UASC Group had been included from 1 January 2017), the average freight rate for the prior year period would have been USD 990/TEU. This would have meant an increase of USD 30/TEU, or 3.0%, in the average freight rate.

Freight rates per trade[1]

USD/TEU	**Q2 2018**	Q2 2017	**H1 2018**	H1 2017
Atlantic	1,303	1,287	1,298	1,290
Transpacific	1,209	1,249	1,229	1,234
Far East	872	985	884	950
Middle East	767	950	775	890
Intra Asia	503	607	512	576
Latin America	1,090	1,040	1,110	1,045
EMAO (Europe, Mediterranean, Africa, Oceania)	1,077	1,047	1,079	1,030
Total (weighted average)	**1,010**	**1,072**	**1,020**	**1,065**

[1] Since financial year 2018, revenues for additional services in Latin America and Turkey are included in the calculation of freight rates. The previous year's figures have been adjusted accordingly.

With the inclusion of the UASC Group and its balanced positioning in all trades, Hapag-Lloyd was able to increase its transport volume by 1,627 TTEU to 5,848 TTEU (prior year period: 4,221 TTEU with the UASC Group since 24 May 2017), representing a rise of 38.5%. On a comparable basis (if the UASC Group had been included from 1 January 2017), the transport volume (prior year period: 5,631 TTEU) in the first 6 months of 2018 would have increased by 217 TTEU, representing a rise of 3.9%.

Transport volume per trade

TTEU	Q2 2018	Q2 2017	H1 2018	H1 2017
Atlantic	475	429	914	818
Transpacific	484	403	939	789
Far East	525	322	1,044	537
Middle East	379	203	754	326
Intra Asia	267	186	524	338
Latin America	689	611	1,352	1,163
EMAO (Europe, Mediterranean, Africa, Oceania)	168	133	321	250
Total	**2,987**	**2,287**	**5,848**	**4,221**

The Hapag-Lloyd Group's revenue rose by EUR 906.4 million to EUR 5,424.7 million in the first half of 2018 (prior year period: EUR 4,518.3 million with the UASC Group since 24 May 2017), representing an increase of 20.1%. This was primarily due to the growth in transport volumes as a result of incorporating the UASC Group. By contrast, the significantly weaker US dollar reduced revenue. Adjusted for exchange rate movements, revenue would have risen by EUR 1,378.3 million (30.5%).

Revenue per trade [1]

million EUR	Q2 2018	Q2 2017	H1 2018	H1 2017
Atlantic	517.9	501.4	979.5	974.0
Transpacific	489.8	457.6	952.6	899.3
Far East	383.4	290.2	762.1	471.1
Middle East	243.8	176.5	482.6	268.1
Intra Asia	112.5	102.9	221.7	180.0
Latin America	630.0	578.5	1,239.2	1,122.6
EMAO (Europe, Mediterranean, Africa, Oceania)	151.8	127.5	286.2	238.1
Revenue not assigned to trades	278.8	151.6	500.8	365.1
Total	**2,808.0**	**2,386.2**	**5,424.7**	**4,518.3**

[1] Since financial year 2018, revenues for additional services in Latin America and Turkey are included in the calculation of freight rates. The previous year's figures have been adjusted accordingly.

Transport expenses rose by EUR 792.9 million in the first 6 months of 2018 to EUR 4,511.8 million (prior year period: EUR 3,718.9 million). This represents an increase of 21.3% 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 220.1 million (40.9%) to EUR 758.2 million primarily results from the significantly higher bunker price in the current reporting period. In the first half of the 2018 financial year, the average bunker consumption price for Hapag-Lloyd was USD 385 per tonne, up USD 73 per tonne on the figure of USD 312 per tonne for the prior year period.

The cost of purchased services rose in the first half of 2018 compared with the prior year period by EUR 572.8 million (18.0%), which was a disproportionally lower increase compared to revenue growth. This increase is a reflection of the rise in transport volumes and, in particular, the inclusion of the UASC Group. Transport expenses were down thanks to synergy effects resulting from the incorporation of the UASC Group and cost savings from the cost-cutting measures that have now been implemented in full.

Transport expenses [1]

million EUR	**Q2 2018**	Q2 2017	**H1 2018**	H1 2017
Expenses for raw materials and supplies	409.8	279.6	758.2	538.1
Cost of purchased services	1,948.4	1,654.2	3,753.6	3,180.8
thereof:				
Port, canal and terminal costs	1,018.7	814.1	1,979.8	1,532.5
Chartering, leases and container rentals	273.2	216.0	493.0	458.5
Container transport costs	639.3	559.3	1,200.7	1,065.6
Maintenance / repair / other	17.2	64.8	80.1	124.2
Transport expenses	**2,358.2**	**1,933.8**	**4,511.8**	**3,718.9**

[1] The previous year's figures have been adjusted due to the retrospective application of the rules for designation of option contracts. This improved transport expenses in the first half of 2017 by EUR 3.4 million.

The gross profit margin (ratio of revenue less transport expenses to revenue) for the first 6 months of the current financial year came to 16.8% (prior year period: 17.7%).

Personnel expenses fell by EUR 22.2 million to EUR 321.9 million in the first half of 2018 (prior year period: EUR 344.1 million). The main reasons for this decline were the one-off expenses in the amount of EUR 38.4 million recorded in the previous year from the operational integration of UASC's business activities, which were not incurred in financial year 2018. Exchange rate gains as at the balance sheet date resulting from the valuation of pension provisions in the amount of EUR 4.6 million (prior year period: exchange rate losses of EUR 9.5 million) also had a positive effect.

Depreciation and amortisation came to EUR 336.5 million in the first 6 months of the 2018 financial year (prior year period: EUR 273.1 million). The year-on-year increase in depreciation and amortisation was primarily due to the first-time inclusion of the UASC Group as well as depreciation of the newly built ships acquired in 2017.

The earnings before interest and taxes (EBIT) amounted to EUR 88.7 million in the reporting period. They were therefore below the corresponding figure in the prior year period (EUR 90.7 million). The earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at EUR 425.2 million in the first 6 months of the 2018 financial year (prior year period: EUR 363.8 million). The annualised return on invested capital (ROIC) for the first 6 months of 2018 amounted to 1.3% (prior year period: 1.2%). Basic earnings per share in the reporting period came to EUR –0.61 per share (prior year period: EUR –0.35 per share).

Key earnings figures

million EUR	**Q2 2018**	Q2 2017 [1]	**H1 2018**	H1 2017 [1]
Revenue	2,808.0	2,386.2	5,424.7	4,518.3
EBIT	35.0	83.2	88.7	90.7
EBITDA	205.8	228.5	425.2	363.8
EBIT margin (%)	1.2	3.5	1.6	2.0
EBITDA margin (%)	7.3	9.6	7.8	8.1
Basic earnings per share (in EUR)	–0.40	0.10	–0.61	–0.35
Return on invested capital (ROIC) annualised (%) [2]	0.8	2.3	1.3	1.2

[1] The key earnings figures have been adjusted for the first quarter of 2017 due to the retrospective application of the rules for the designation of option contracts.

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

The interest result for the first 6 months of the 2018 financial year was EUR –172.7 million (prior year period: EUR –121.4 million). The rise in interest expenses was primarily due to the financial debt assumed as a result of incorporating the UASC Group, which increased interest expenses by EUR 69.3 million. The interest result was also reduced by losses of EUR 3.2 million (prior year period: gain of EUR 22.8 million) from a change in the fair value of the derivatives embedded in the bonds issued.

The Group recorded a loss of EUR –100.9 million in the first half of 2018 (prior year period: loss of EUR –42.7 million).

Group financial position

Condensed statement of cash flows

million EUR	Q2 2018	Q2 2017	H1 2018	H1 2017
Cash flow from operating activities	157.3	158.4	411.1	306.5
Cash flow from investment activities	13.7	321.5	–45.1	209.0
Free cash flow	**171.0**	**479.9**	**366.0**	**515.5**
Cash flow from financing activities	–248.0	–207.8	–433.8	–287.5
Changes in cash and cash equivalents	**–77.0**	**272.1**	**–67.8**	**228.0**

Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of EUR 411.1 million in the first 6 months of the 2018 financial year (prior year period: EUR 306.5 million).

Cash flow from investing activities

The cash outflows from investing activities totalled EUR 45.1 million (prior year period: cash inflow of EUR 209.0 million) and related to payments for investments of EUR –103.4 million, primarily in containers and ship equipment. This contrasted with cash inflows of EUR 58.3 million, which were primarily due to the proceeds from dividends (EUR 32.5 million) and the sale in the first quarter of 2018 of the ocean-going vessels held for sale as at 31 December 2017 (EUR 14.0 million).

Cash flow from financing activities

Overall, there was a cash outflow from financing activities in the current reporting period in the amount of EUR 433.8 million (prior year period: EUR 287.5 million) which mainly comprised interest and redemption payments of EUR 625.0 million (prior year period: EUR 1,163.1 million). By contrast, there were cash inflows totalling EUR 161.0 million (prior year period: EUR 909.0 million), which mainly arose from the increase in the ABS programme in the amount of EUR 122.0 million. There were also cash inflows from the realisation of derivative financial instruments used to hedge financial debt in the amount of EUR 32.7 million.

Changes in cash and cash equivalents

million EUR	Q2 2018	Q2 2017	H1 2018	H1 2017
Cash and cash equivalents at beginning of period	**597.7**	**519.8**	**604.9**	**570.2**
Changes due to exchange rate fluctuations	31.7	–38.2	15.3	–44.5
Net changes	–77.0	272.1	–67.8	228.0
Cash and cash equivalents at end of period	**552.4**	**753.7**	**552.4**	**753.7**

Overall, cash outflow totalled EUR –67.8 million in the first 6 months of 2018, such that after accounting for exchange rate-related effects in the amount of EUR 15.3 million, cash and cash equivalents of EUR 552.4 million were reported at the end of the reporting period on 30 June 2018 (30 June 2017: EUR 753.7 million). The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item "Cash and cash equivalents". In addition, there are available credit facilities of EUR 446.7 million (30 June 2017: EUR 403.3 million). The liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) therefore totalled EUR 999.1 million (30 June 2017: EUR 1,157.0 million). Cash and cash equivalents of EUR 40.3 million (30 June 2017: EUR 62.8 million) which serve as collateral for existing financial debt deposited on pledge accounts were reported under other assets due to their maturity of more than three months.

Net debt

The Group's net debt amounted to EUR 5,577.0 million as at 30 June 2018 (31 December 2017: EUR 5,681.7 million). The equity ratio of 41.0% increased slightly compared with 31 December 2017. Gearing – the ratio of net debt to balance sheet equity – decreased from 93.8% at the end of 2017 to 90.7% as at 30 June 2018.

Financial solidity

million EUR	30.6.2018	31.12.2017
Financial debt	6,169.7	6,335.5
Cash and cash equivalents	552.4	604.9
Restricted cash (other assets)	40.3	48.9
Net debt	**5,577.0**	**5,681.7**
Gearing (%) [1]	**90.7**	**93.8**
Unused credit lines	**446.7**	**454.6**
Equity ratio (%)	**41.0**	**40.9**

[1] Ratio net debt to equity

Restricted cash and cash equivalents in the amount of EUR 40.3 million (31 December 2017: EUR 48.9 million) essentially comprise cash and cash equivalents which serve as collateral for existing financial debt deposited on pledge accounts.

Group net asset position

Changes in the net asset structure

million EUR	30.6.2018	31.12.2017
Assets		
Non-current assets	12,729.5	12,633.5
of which fixed assets	12,676.3	12,570.7
Current assets	2,268.3	2,194.3
of which cash and cash equivalents	552.4	604.9
Total assets	**14,997.8**	**14,827.8**
Equity and liabilities		
Equity	6,146.4	6,058.3
Borrowed capital	8,851.4	8,769.5
of which non-current liabilities	5,736.8	6,003.8
of which current liabilities	3,114.6	2,765.7
of which financial debt	6,169.7	6,335.5
of which non-current financial debt	5,378.0	5,630.7
of which current financial debt	791.7	704.8
Total equity and liabilities	**14,997.8**	**14,827.8**
Net debt	5,577.0	5,681.7
Equity ratio (%)	41.0	40.9

The Group's balance sheet total came to EUR 14,997.8 million as at 30 June 2018 and was almost unchanged compared with the figure at the end of 2017 (EUR 14,827.8 million). The US dollar / euro exchange rate was quoted at 1.16 on 30 June 2018 (31 December 2017: 1.20).

Within non-current assets, the carrying amounts of fixed assets increased by a total of EUR 105.6 million to EUR 12,676.3 million. This rise was essentially due to investments totalling EUR 112.2 million relating primarily to containers and ship equipment. The decrease in fixed assets as a result of depreciation in the amount of EUR 336.5 million was almost entirely offset by exchange rate effects at the balance sheet date of EUR 354.0 million.

Current assets increased by EUR 74.0 million to EUR 2,268.3 million compared to the level as at 31 December 2017. Primarily the variance was the result of a rise in trade accounts receivable, including the contract assets to be reported separately from 1 January 2018, and the increase in inventories. These developments were compensated for the decrease in the market values of derivative financial instruments.

Cash and cash equivalents of EUR 552.4 million decreased by EUR 52.5 million compared to the end of 2017.

On the liabilities side, equity (including non-controlling interests) grew by EUR 88.1 million to a total of EUR 6,146.4 million. The increase came primarily from the unrealised gains and losses from foreign currency translation recognised in other comprehensive income amounting to EUR 169.4 million. The Group loss of EUR 100.9 million counteracted this change. The equity ratio of 41.0% as at 30 June of the current financial year remained nearly unchanged (31 December 2017: 40.9%).

The Group's borrowed capital increased by EUR 81.9 million to EUR 8,851.4 million compared to 31 December 2017. Mainly the variance was the result of a rise in trade accounts payable, including the contract liabilities to be reported separately from 1 January 2018. On the other hand, financial debt, which is included in the borrowed capital, decreased by EUR 165.8 million to EUR 6,169.7 million. Primarily this decrease is due to debt repayments of EUR 474.3 million. Proceeds from the increase in existing financing in the amount of EUR 161.0 million and exchange rate effects in the amount of EUR 142.8 million had the opposite effect.

Taking cash and cash equivalents and financial debt into account, net debt as at 30 June 2018 was EUR 5,577.0 million (31 December 2017: EUR 5,681.7 million).

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

Executive Board's statement on overall expected developments

The development of earnings in the first 6 months of the 2018 financial year was below the Executive Board's expectations. The reason for that is an unexpectedly significant and continuing increase in operational costs since the beginning of the year, especially with regard to fuel-related costs and charter rates as well as intermodal costs, combined with a slower than expected recovery of freight rates. As competition remains intense in the container shipping industry, the development of freight rates remains volatile. The realisation of synergies from the merger with UASC was able to partly offset the negative impact on earnings from increased operational costs. Despite a further possible intensification of trade restrictions between the USA and China, the frameworks for economic development are not subject to any material changes.

RISK AND OPPORTUNITY REPORT

Please refer to the 2017 annual report for details of significant opportunities and risks, an assessment of these and an evaluation of their probability of occurrence. The existing global macroeconomic uncertainties and ongoing stiff competition could have a significant negative impact on the development of transport volumes and freight rates again in the remainder of 2018. A further significant increase of the average bunker consumption price in the second half of 2018, compared to the price level as of 30 June 2018, would have an additional negative effect on Hapag-Lloyd´s earnings. The probability of occurrence of such a development is currently classified as middle.

Compared to the statements made in the annual report 2017, further risks have been amended. The probability of occurrence for a further decrease in the US-Dollar compared to the Euro is now classified as low with regards to current market conditions. Due to the conclusion of extended service agreements as well as an IT contingency insurance in the event of a cyber attack, the impact of potential IT risks is now also classified as low.

The effects of a potential further escalation in trade restrictions between the USA and China cannot be disregarded at present. A global escalation of the conflict could cause forecast economic growth to weaken and the demand for container transport services to fall.

At the time of reporting on the first half of 2018, there were no risks which threatened the continued existence of the Hapag-Lloyd Group.

NOTE ON SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

The notes on relationships and transactions with related parties can be found in the disclosures on page 61 of the Notes to the condensed interim consolidated financial statements.

REVISED OUTLOOK

In the medium term, demand for container shipping services should continue to rise in tandem with expected ongoing growth in global trading volume. As a result, the container shipping industry's growth prospects remain intact in the medium term. The statements made on this subject in the "Outlook" section of the Group management report for 2017 therefore remain valid.

A summary of the most important external factors is given below.

In its latest economic outlook (July 2018), the International Monetary Fund (IMF) expects global economic growth to reach 3.9% in the current year, unchanged compared to its previous outlook. This forecast means that the global economy is set to grow at a slightly faster rate in 2018 than in the previous year (+3.8%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 4.8% in 2018 (2017: +5.1%). This means that in 2018 the growth in global trade will once again outpace that of the global economy. IHS Global Insight (July 2017) is forecasting that the global container shipping volume will increase by 4.9% to approximately 148 million TEU in 2018 (2017: 5.4%). As such, the expected rise in worldwide transport volumes in container shipping for 2018 would be in line with the rate of growth for global trade.

Following a rise in transport capacities (following scrapping and delays in deliveries) of approximately 0.8 million TEU to 20.8 million TEU in 2017, Drewry forecasts net growth in transport capacities of up to approximately 1.1 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 the second half of 2018.

Hapag-Lloyd is expecting a clear increase in its transport volume in 2018 – explained by 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 12 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 clear rise in volume – a higher proportion of volumes in the Middle East and Far East trades when calculating the average freight rate. These trades have a lower freight rate level than some of Hapag-Lloyd's other trades.

Assuming that there is a general recovery of freight rates in the second half of the year caused by seasonal effects that are already showing, Hapag-Lloyd's average freight rate in 2018 is likely to be around the same as in the previous year.

Based on developments in the first 5 months of the 2018 financial year and the expected further business performance, the Executive Board of Hapag-Lloyd AG decided on 29 June 2018 to substantiate the outlook for the Group's EBIT and EBITDA in the current 2018 financial year with the following range:

	Previous outlook	**Revised outlook**
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	Increasing clearly	EUR 900 – 1,150 m
EBIT (earnings before interest and taxes), Hapag-Lloyd	Increasing clearly	EUR 200 – 450 m

The reasons for adjusting the forecast are the unexpectedly sharp and ongoing increase in operating costs since the start of this year, in particular with regard to fuel costs and charter rates, combined with a slower than anticipated recovery of freight rates ahead of the peak season.

The selected range reflects the general volatility of the shipping market as well as the high sensitivity of earnings due to changes in the average freight rate.

Not accounted for here are impairments on goodwill, other intangible assets and property, plant and equipment. Although not expected at present, these adjustments cannot be ruled out, given current geopolitical developments and market price risks.

The key benchmark figures for the 2018 outlook are contained in the following table:

Key benchmark figures for the 2018 outlook

Global economic growth (IMF)	3.9%
Increase in global trade (IMF)	4.8%
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	EUR 900–1,150 m
EBIT (earnings before interest and taxes), Hapag-Lloyd	EUR 200–450 m

The benchmark figures for the 2018 outlook, which relate to transport volume, the average bunker consumption price and the average freight rate therefore remain unchanged on the forecast published in the 2017 annual report.

The majority of the earnings are expected to be generated in the second half of the year when the peak season occurs. This is because the volume of global trade fluctuates throughout the year and is usually much higher in the second half of the year than in the first.

Business developments at Hapag-Lloyd are subject to far-reaching risks in an industry environment dominated by volatile freight rates and stiff competition. The general risks are described in detail in the risk report in the Group management report of the 2017 annual report (page 110ff.). Risks that may have a further impact on the forecast for business development are also described in detail in the risk report. Significant risks for the Group's revenue and earnings development include a renewed slowdown in global economic and trade volume growth, a sustained, significant and lasting rise in bunker prices extending beyond the level seen as at 30 June 2018, a renewed sharp and lasting increase in the euro against the US dollar and a stagnation or even a renewed reduction in freight rates. Additional risks could result from the further consolidation of the industry and its possible impact on Hapag-Lloyd's competitive position as well as from the changes in the composition of global alliances.

The occurrence of one or more of these risks could have a substantial negative impact on the industry and, by extension, on the further business development of Hapag-Lloyd in the remaining months of 2018, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT OF HAPAG-LLOYD AG

for the period 1 January to 30 June 2018

million EUR	Q2 2018	Q2 2017 [1]	H1 2018	H1 2017 [1]
Revenue	2,808.0	2,386.2	5,424.7	4,518.3
Other operating income	10.3	77.6	46.1	103.9
Transport expenses	2,358.2	1,933.8	4,511.8	3,718.9
Personnel expenses	154.4	196.7	321.9	344.1
Depreciation, amortisation and impairment	170.8	145.3	336.5	273.1
Other operating expenses	107.4	115.6	227.4	213.8
Operating result	**27.5**	**72.4**	**73.2**	**72.3**
Share of profit of equity-accounted investees	7.5	10.8	15.5	18.4
Earnings before interest and taxes (EBIT)	**35.0**	**83.2**	**88.7**	**90.7**
Interest income	4.8	4.5	11.2	6.1
Interest expenses	95.2	64.1	183.9	127.5
Earnings before income taxes	**–55.4**	**23.6**	**–84.0**	**–30.7**
Income taxes	11.2	8.2	16.9	12.0
Group profit/loss	**–66.6**	**15.4**	**–100.9**	**–42.7**
thereof attributable to shareholders of Hapag-Lloyd AG	–70.4	13.8	–108.0	–45.0
thereof attributable to non-controlling interests	3.8	1.6	7.1	2.3
Basic/diluted earnings per share (in EUR)	**–0.40**	**0.10**	**–0.61**	**–0.35**

[1] The figures for the first half of 2017 include the UASC Group from the first-time consolidation date of 24 May 2017. Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. Please refer to the explanations in Section "New accounting standards".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF HAPAG-LLOYD AG

for the period 1 January to 30 June 2018

million EUR	Q2 2018	Q2 2017 [1]	H1 2018	H1 2017 [1]
Group profit/loss	**–66.6**	**15.4**	**–100.9**	**–42.7**
Items which will not be reclassified to profit and loss:				
Remeasurements from defined benefit plans after tax	–4.7	5.4	–0.7	10.0
Remeasurements from defined benefit plans before tax	–4.9	5.6	–0.4	10.2
Tax effect	0.2	–0.2	–0.3	–0.2
Cash flow hedges (no tax effect)	26.1	–	24.6	–
Effective share of the changes in fair value	25.2	–	23.9	–
Currency translation differences	0.9	–	0.7	–
Cost of hedging (no tax effect)	0.9	–	–2.8	–
Effective share of the changes in fair value	0.8	–	–2.9	–
Currency translation differences	0.1	–	0.1	–
Currency translation differences (no tax effect)	327.9	–324.0	169.4	–377.9
Items which may be reclassified to profit and loss:				
Cash flow hedges (no tax effect)	–0.1	2.5	2.8	–3.1
Effective share of the changes in fair value	–59.4	65.2	–29.8	64.4
Reclassification to profit or loss	58.9	–62.7	32.3	–67.5
Currency translation differences	0.4	–	0.3	–
Cost of hedging (no tax effect)	–1.0	0.6	0.3	–3.4
Effective share of the changes in fair value	–7.7	–8.7	–12.4	–15.0
Reclassification to profit or loss	6.7	9.3	12.7	11.6
Other comprehensive income after tax	**349.1**	**–315.5**	**193.6**	**–374.4**
Total comprehensive income	**282.5**	**–300.1**	**92.7**	**–417.1**
thereof attributable to shareholders of Hapag-Lloyd AG	277.8	–301.5	85.0	–419.2
thereof attributable to non-controlling interests	4.7	1.4	7.7	2.1

[1] The structure of the consolidated statement of comprehensive income changed due to the retrospective adjustment relating to the first time adoption of IFRS 9. Please refer to the explanations in Section “New accounting standards”. 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 reclassified through profit or loss. The prior year figures were adjusted accordingly.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HAPAG-LLOYD AG

as at 30 June 2018

Assets

million EUR	30.6.2018	31.12.2017 [1]
Goodwill	1,531.3	1,486.8
Other intangible assets	1,790.2	1,785.5
Property, plant and equipment	9,039.0	8,966.5
Investments in equity-accounted investees	315.8	331.9
Other assets	14.6	25.7
Derivative financial instruments	8.0	8.6
Receivables from income taxes	4.1	3.8
Deferred tax assets	26.5	24.7
Non-current assets	**12,729.5**	**12,633.5**
Inventories	257.1	186.4
Trade accounts receivable	703.2	887.8
Contract assets	258.3	–
Other assets	433.2	436.7
Derivative financial instruments	31.9	42.6
Receivables from income taxes	32.2	19.6
Cash and cash equivalents	552.4	604.9
Non-current assets held for sale	–	16.3
Current assets	**2,268.3**	**2,194.3**
Total assets	**14,997.8**	**14,827.8**

[1] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. Please refer to the explanations in Section "New accounting standards".

Equity and liabilities

million EUR	30.6.2018	31.12.2017 [1]
Subscribed capital	175.8	175.8
Capital reserves	2,637.4	2,637.4
Retained earnings	3,074.9	3,174.9
Cumulative other equity	245.8	57.7
Equity attributable to shareholders of Hapag-Lloyd AG	**6,133.9**	**6,045.8**
Non-controlling interests	12.5	12.5
Equity	**6,146.4**	**6,058.3**
Provisions for pensions and similar obligations	267.7	270.2
Other provisions	76.2	80.0
Financial debt	5,378.0	5,630.7
Other liabilities	6.4	9.5
Derivative financial instruments	4.0	9.4
Deferred tax liabilities	4.5	4.0
Non-current liabilities	**5,736.8**	**6,003.8**
Provisions for pensions and similar obligations	14.2	20.7
Other provisions	217.2	244.2
Income tax liabilities	40.8	34.4
Financial debt	791.7	704.8
Trade accounts payable	1,766.7	1,559.8
Contract liabilities	130.7	–
Other liabilities	107.5	201.8
Derivative financial instruments	45.8	–
Current liabilities	**3,114.6**	**2,765.7**
Total equity and liabilities	**14,997.8**	**14,827.8**

[1] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. Please refer to the explanations in Section "New accounting standards".

CONSOLIDATED STATEMENT OF CASH FLOWS OF HAPAG-LLOYD AG

for the period 1 January to 30 June 2018

million EUR	Q2 2018	Q2 2017 [1]	H1 2018	H1 2017 [1]
Group profit/loss	–66.6	15.4	–100.9	–42.7
Income tax expenses (+)/income (–)	11.2	8.2	16.9	12.0
Interest result	90.4	59.6	172.7	121.4
Depreciation, amortisation and impairment (+)/write-backs (–)	170.8	145.3	336.5	273.1
Other non-cash expenses (+)/income (–)	–14.1	–37.2	29.9	–30.6
Profit (–)/loss (+) from hedges for financial debt	4.9	3.6	–40.5	3.6
Profit (–)/loss (+) from disposals of non-current assets and assets held for sale	–1.1	–0.2	–2.1	–0.8
Income (–)/expenses (+) from equity accounted investees and dividends from other investments	–7.5	–10.7	–15.5	–18.4
Increase (–)/decrease (+) in inventories	–39.5	–12.4	–62.6	–31.0
Increase (–)/decrease (+) in receivables and other assets	–25.6	–59.6	–59.6	–70.7
Increase (+)/decrease (–) in provisions	–62.7	26.8	–39.4	39.8
Increase (+)/decrease (–) in liabilities (excl. financial debt)	99.2	21.7	181.6	54.5
Payments received from (+)/made for (–) income taxes	–3.2	–2.9	–8.4	–5.2
Payments received for interest	1.1	0.8	2.5	1.5
Cash inflow (+)/outflow (–) from operating activities	**157.3**	**158.4**	**411.1**	**306.5**
Payments received from disposals of property, plant and equipment and intangible assets	6.2	1.3	10.9	2.9
Payments received from dividends	32.3	28.0	32.5	28.1
Payments received from the disposal of assets held for sale	–	–	14.6	–
Payments made for investments in property, plant and equipment and intangible assets	–25.1	–71.8	–103.4	–186.0
Net cash inflow (+)/outflow (–) from acquisitions	0.3	364.0	0.3	364.0
Cash inflow (+)/outflow (–) from investing activities	**13.7**	**321.5**	**–45.1**	**209.0**

[1] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. Please refer to the explanations in Section "New accounting standards".

million EUR	Q2 2018	Q2 2017 [1]	H1 2018	H1 2017 [1]
Payments made for capital increases	–	–0.1	–1.9	–0.1
Payments made from changes in ownership interests in subsidiaries	–	–0.3	–	–0.3
Payments made for dividends	–1.7	–0.7	–10.1	–1.5
Payments received from raising financial debt	7.3	275.6	161.0	909.0
Payments made for the redemption of financial debt	–189.4	–413.4	–474.3	–1,040.0
Payments made for interest and fees	–68.2	–61.4	–150.9	–123.1
Payments received (+) and made (–) from hedges for financial debt	–5.8	–4.8	32.7	–4.8
Change in restricted cash	9.8	–2.7	9.7	–26.7
Cash inflow (+)/outflow (–) from financing activities	**–248.0**	**–207.8**	**–433.8**	**–287.5**
Net change in cash and cash equivalents	**–77.0**	**272.1**	**–67.8**	**228.0**
Cash and cash equivalents at beginning of period	**597.7**	**519.8**	**604.9**	**570.2**
Change in cash and cash equivalents due to exchange rate fluctuations	31.7	–38.2	15.3	–44.5
Net change in cash and cash equivalents	–77.0	272.1	–67.8	228.0
Cash and cash equivalents at end of period	**552.4**	**753.7**	**552.4**	**753.7**

[1] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. Please refer to the explanations in Section "New accounting standards".

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF HAPAG-LLOYD AG

for the period 1 January to 30 June 2018

	Equity attributable to shareholders of		
million EUR	Subscribed capital	Capital reserves	Retained earnings
As at 1.1.2017	**118.1**	**1,061.8**	**3,152.9**
Effect from the initial application of IFRS 9	–	–	0.5
Restated as at 1.1.2017	**118.1**	**1,061.8**	**3,153.4**
Total comprehensive income (adjusted)	**–**	**–**	**–45.0**
thereof			
Group profit/loss	–	–	–45.0
Other comprehensive income	–	–	–
Transactions with shareholders	**45.9**	**1,239.4**	**–**
thereof			
Issuance of shares in relation to the acquisition of the UASC Group	45.9	1,239.4	–
Anticipated acquisition of shares from non-controlling interests	–	–	–
Acquisition of shares from non-controlling interests without change of control	–	–	–
Distribution to non-controlling interests	–	–	–
Deconsolidation	–	–	–0.2
As at 30.6.2017 [1]	**164.0**	**2,301.2**	**3,108.2**
As at 1.1.2018 [2]	**175.8**	**2,637.4**	**3,174.9**
Effect from the initial application of IFRS 9	–	–	10.3
Adjusted as at 1.1.2018	**175.8**	**2,637.4**	**3,185.2**
Total comprehensive income	**–**	**–**	**–108.0**
thereof			
Group profit/loss	–	–	–108.0
Other comprehensive income	–	–	–
Hedging gains and losses transferred to the cost of inventory	**–**	**–**	**–**
Transactions with shareholders	**–**	**–**	**–2.2**
thereof			
Anticipated acquisition of shares from non-controlling interests	–	–	–
Capital increase for non-controlling interests	–	–	–
Distribution to non-controlling interests	–	–	–2.2
Deconsolidation	**–**	**–**	**–0.1**
As at 30.6.2018	**175.8**	**2,637.4**	**3,074.9**

[1] The retrospective improvement in the result in the first half of 2017 increased retained earnings as at 30 June 2017 by EUR 3.4 million. This was offset by the recognition of a reserve for hedging costs in the amount of EUR –0.5 million as at 1 January 2017 and with a total amount of EUR –3.9 million as at 31 March 2017.

[2] Due to the retrospective application of the provisions for designating options, retained earnings generated as at 1 January 2018 had increased by EUR 1.0 million and the reserve for hedging costs amounted to EUR –1.0 million."

Hapag-Lloyd AG								
Cumulative other equity								
Remeasurements from defined benefit plans	Reserve for cash flow hedges	Reserve for cost of hedging	Translation reserve	Reserve for put options on non-controlling interests	Total cumulative other equity	Total	Non-controlling interests	Total equity
–118.9	**5.4**	**–**	**835.3**	**–**	**721.8**	**5,054.6**	**3.8**	**5,058.4**
–	–	–0.5	–	–	–0.5	–	–	–
–118.9	**5.4**	**–0.5**	**835.3**	**–**	**721.3**	**5,054.6**	**3.8**	**5,058.4**
10.0	**–3.1**	**–3.4**	**–377.7**	**–**	**–374.2**	**–419.2**	**2.1**	**–417.1**
–	–	–	–	–	–	–45.0	2.3	–42.7
10.0	–3.1	–3.4	–377.7	–	–374.2	–374.2	–0.2	–374.4
–	**–**	**–**	**–**	**–0.4**	**–0.4**	**1,284.9**	**3.8**	**1,288.7**
–	–	–	–	–	–	1,285.3	7.1	1,292.4
–	–	–	–	–0.4	–0.4	–0.4	–1.5	–1.9
–	–	–	–	–	–	–	–0.3	–0.3
–	–	–	–	–	–	–	–1.5	–1.5
–	–	–	0.2	–	0.2	–	–	–
–108.9	**2.3**	**–3.9**	**457.8**	**–0.4**	**346.9**	**5,920.3**	**9.7**	**5,930.0**
–118.8	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,045.8**	**12.5**	**6,058.3**
–	–	–	–	–	–	10.3	–	10.3
–118.8	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,056.1**	**12.5**	**6,068.6**
–0.7	**27.4**	**–2.5**	**168.8**	**–**	**193.0**	**85.0**	**7.7**	**92.7**
–	–	–	–	–	–	–108.0	7.1	–100.9
–0.7	27.4	–2.5	168.8	–	193.0	193.0	0.6	193.6
–	**–11.2**	**5.6**	**–**	**–**	**–5.6**	**–5.6**	**–**	**–5.6**
–	**–**	**–**	**–**	**0.6**	**0.6**	**–1.6**	**–7.7**	**–9.3**
–	–	–	–	0.6	0.6	0.6	–	0.6
–	–	–	–	–	–	–	0.2	0.2
–	–	–	–	–	–	–2.2	–7.9	–10.1
–	**–**	**–**	**0.1**	**–**	**0.1**	**–**	**–**	**–**
–119.5	**27.2**	**2.1**	**336.4**	**–0.4**	**245.8**	**6,133.9**	**12.5**	**6,146.4**

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FUNDAMENTAL ACCOUNTING PRINCIPLES

General information

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

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

The interim consolidated financial statements cover the period 1 January to 30 June 2018 and are reported and published in euros (EUR). All amounts recognised for the financial year are reported in million euros (EUR million) unless otherwise stated.

On 9 August 2018, the Executive Board approved the condensed interim consolidated financial statements for publication.

Accounting principles

The consolidated financial statements of Hapag-Lloyd AG and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), including the interpretations of the IFRS Interpretations Committee (IFRIC), as they are to be applied in the European Union. This interim report as at 30 June 2018 was prepared in compliance with the provisions of IAS 34. It is presented in condensed form. These condensed interim consolidated financial statements and interim Group management report of Hapag-Lloyd AG have not been subject to an audit review nor have they been reviewed in accordance with Section 317 of the German Commercial Code (HGB).

The standards and interpretations valid in the EU since 1 January 2018 were applied during the preparation of the interim consolidated financial statements. As regards the possible effects of standards and interpretations that have already been adopted, but that are not yet mandatory, we refer to the explanations in the Notes to the consolidated financial statements as at 31 December 2017, which remain valid and have not changed. The activities relating to the project of implementing IFRS 16 were continued in the first half of 2018. In this regard, there have thus far not been any significant new findings. The interim consolidated financial statements as at 30 June 2018 are to be read in conjunction with the audited and published IFRS consolidated financial statements as at 31 December 2017. With the exception of the changes outlined in the "New accounting standards" section, the interim consolidated financial statements were prepared in compliance with the same accounting and measurement principles that formed the basis for the consolidated financial statements as at 31 December 2017. Estimates and discretionary decisions were made in the same manner as in the previous year. The actual values may differ from the estimated values.

The functional currency of Hapag-Lloyd AG and all of its main subsidiaries is the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro. For reporting purposes, the assets and liabilities of the Hapag-Lloyd Group are translated into euros using the mean exchange rate on the 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.

As at 30 June 2018, the closing US dollar/euro exchange rate was quoted as USD 1.1641/EUR (31 December 2017: USD 1.1989/EUR). For the first half of 2018, the average US dollar/euro exchange rate was USD 1.2109/EUR (prior year period: USD 1.0826/EUR).

The earnings and financial position are only comparable with the corresponding prior year period to a limited degree, as the UASC Group was not incorporated into Hapag-Lloyd AG until 24 May 2017.

Change of measurement principles

As of 20 July 2018 the new Heubeck mortality tables 2018 G have been published. The resulting effect of the adjustment would be considered in the other comprehensive income. The new mortality tables have not been considered in the interim Group report.

New accounting standards

The following describes the significant changes for the Hapag-Lloyd Group resulting from the first-time application of standards IFRS 9 and IFRS 15 in the 2018 financial year.

The remaining standards, which are to be adopted for the first time in the 2018 financial year, have no significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group.

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.

Hapag-Lloyd applied IFRS 9 for the first time as at 1 January 2018. As a result of the first-time application of IFRS 9, retained earnings in the opening statement of financial position as at 1 January 2018 increased by a total of EUR 11.3 million (EUR 10.3 million of which was due to non-retrospective application of IFRS 9); a retroactive increase in the retained earnings of EUR 0.5 million was also necessary in the previous year's opening statement of financial position.

Detailed explanations regarding the impact of the standard and the applicable transitional provisions are presented below.

i. Classification of financial assets and financial liabilities

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. It then specifies three important measurement categories for financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL).

Depending on the business model, the cash flows of a financial asset (debt instrument) arise as a result of collecting contractual cash flows, through selling the financial asset or a combination of the two. In order to classify the financial asset as measured at amortised cost or measured at fair value through other comprehensive income, the contractual cash flows may only be repayments and interest payments on the outstanding capital amount.

A debt instrument is measured at amortised cost if it is held as part of a business model whose purpose is to hold assets in order to collect contractual cash flows. The contractual cash flows must also only be repayments and interest payments on the outstanding capital amount.

As a rule, a debt instrument is measured at fair value through other comprehensive income if – in addition to meeting the cash flow criterion – it is held as part of a mixed business model in which both contractual cash flows are collected and the financial assets are sold.

Unless the above-mentioned criteria for classification as at AC or FVOCI are not met, the debt instruments are measured at fair value through profit or loss. Equity instruments are always classified and measured at fair value through profit or loss.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

IFRS 9 includes, among other things, 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. 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 effects of the new category model under IFRS 9 on the Hapag-Lloyd Group's financial instruments are presented in the following table and subsequent notes, whereby for each class of the financial assets and financial liabilities, the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as well as their respective carrying amounts as at 1 January 2018 are compared.

million EUR	Notes	Classification category according to IAS 39	Classification category according to IFRS 9	Carrying amount 31.12.2017 IAS 39	**Carrying amount 1.1.2018 IFRS 9**
Assets					
Other assets	a	LaR	AC	340.6	340.4
		n.a.	n.a.	118.5	118.5
	b	AfS	FVTPL	3.0	3.0
	b	AfS	n.a.	0.3	0.3
Derivative financial instruments					
Derivatives		FAHfT	FVTPL	12.7	12.7
Hedges (Hedge accounting)		n.a.	n.a.	38.5	38.5
Trade accounts receivable	a	LaR	AC	887.8	887.2
Cash and cash equivalents		LaR	AC	604.9	604.9
Liabilities					
Financial debt	c	FLAC	FLAC	6,211.9	6,200.9
Liabilities from finance leases [1]		n.a.	n.a.	123.6	123.6
Other liabilities		FLAC	FLAC	50.6	50.6
		n.a.	n.a.	158.6	158.6
Liabilities from put options [2]		FLAC	FLAC	2.1	2.1
Derivative financial liabilities					
Derivatives		FLHfT	FVTPL	5.2	5.2
Hedges (Hedge accounting)		n.a.	n.a.	4.2	4.2
Trade accounts payable		FLAC	FLAC	1,559.8	1,559.8

[1] Part of financial debt

[2] Part of other liabilities

a) Trade accounts receivable, contract assets and other assets that were classified as loans and receivables (LaR) under IAS 39 are carried at amortised cost (AC) under IFRS 9. As a result of the new impairment model under IFRS 9 (see ii. Impairment), the respective carrying amounts decreased at the point of first-time application. The resulting effect was recognised as a reduction in retained earnings in the opening statement of financial position.

b) As at 31 December 2017, Hapag-Lloyd had financial assets in the category “available for sale” (AfS), which were 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 that do not meet the cash flow criterion of IFRS 9. The securities were therefore recategorised from the IAS 39 category AfS to the IFRS 9 category FVTPL. As a result of this, all changes in their fair value are recognised through profit or loss from 1 January 2018.

In addition, the available-for-sale financial assets include investments (EUR 0.7 million) that 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 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).

Investments of EUR 0.3 million that were not consolidated due to their minor importance to the consolidated financial statements and that also belonged to available-for-sale financial assets under IAS 39 are no longer covered by the scope of application of IFRS 9.

With regard to the three instances outlined above, there were no adjustments to carrying amounts in other assets as at 1 January 2018.

c) In relation to insubstantial modifications to financial liabilities, the carrying amount of the financial debt decreased by EUR 11.0 million in the opening statement of financial position as a result of the new provisions of IFRS 9. Retained earnings increased by the same amount in the opening statement of financial position.

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”. Financial assets that are not overdue are also subject to an impairment charge here.

The new impairment model should be applied to financial assets that are measured at amortised cost or at fair value through other comprehensive income – with the exception of equity instruments held as financial investments – as well as to contract assets in accordance with IFRS 15.

A financial asset is deemed to be in default if it has not been possible to collect the contractual payments and it is assumed that they cannot be recovered.

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 that 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 balances and other cash investments are low and are therefore not recognised. The difference between the amount of the loss allowances for other financial assets as at 31 December 2017 under IAS 39 and the amount of the loss allowances for other financial assets as at 1 January 2018 under IFRS 9 is immaterial.

The Hapag-Lloyd Group uses the simplified approach for trade accounts receivable and for contract assets.

To measure the expected credit losses from trade accounts receivable that are not credit-impaired and from contract assets that are not credit-impaired, they are grouped according to the common credit risk characteristics of “geographic region” and “customer rating” using provision matrices. The probabilities of default used in country-specific provision matrices 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 and are verified using historical credit losses. Trade accounts receivable are assumed to be credit-impaired if it is unlikely that the customer will fulfil its obligations or if trade accounts receivable are more than 90 days overdue. To measure the expected credit losses from these receivables, maturity structures, credit standing, geographic region and historical defaults are considered, while taking into account predicted future economic conditions. The amount of the loss allowances for trade accounts receivable and for contract assets as at 1 January 2018 under IFRS 9 is EUR 0.6 million higher than the amount of loss allowances for trade accounts receivable as at 31 December 2017 under IAS 39.

The recognition of expected credit losses comprises estimates and valuations of characteristics of both individual receivables and groups of receivables.

iii. 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 made the 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 has also introduced 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.

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 were recognised immediately through profit or loss under IAS 39, while they are recognised through other comprehensive income under IFRS 9, as a result of which there are now lower measurement fluctuations in the income statement. Since the new method for recognising changes in the fair value of options must be applied retroactively (see iv. Transition), measurement losses of EUR 0.5 million were reclassified from retained earnings to the reserve for hedging costs as at 1 January 2017. The negative changes in fair value of EUR 0.5 million that occurred in 2017 further increased retained earnings and reduced the reserve for hedging costs accordingly. As at 1 January 2018, the reserve for hedging costs therefore had a negative balance of EUR 1.0 million, and retained earnings were higher than under IAS 39 by the same amount.

Under IAS 39, the cumulative amounts in the reserve for cash flow hedges for all cash flow hedges were reclassified as reclassification amounts in profit or loss, and this was 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 reserve for cash flow hedges and in the reserve for hedging costs have to be recognised as an adjustment to the cost of acquisition of the inventories (basis adjustment) from 1 January 2018. However, the carrying amount of inventories as at 1 January 2018 is unchanged within the Hapag-Lloyd Group, as it is assumed that they are consumed immediately, with the result that the amounts are again recognised in transport expenses, equal to the reclassification from the reserve for cash flow hedges.

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 were designated under IAS 39 as the hedging instrument of the cash flow hedging relationship (forward-to-forward method). In order to obtain a similar accounting result, Hapag-Lloyd switched to the spot-to-spot method when it applied IFRS 9 for the first time. As a result, only the cash component is still designated as the hedging instrument from 1 January 2018. Hapag-Lloyd is making use of its option here to allocate the changes in the forward component to the reserve for hedging costs.

iv. 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:

- Hapag-Lloyd has made use of the option not to restate comparative information for previous periods with regard to changes in categorisation and measurement (including impairment). Differences between the current carrying amounts and the carrying amounts resulting from the application of IFRS 9 were generally recognised in retained earnings as at 1 January 2018.
- 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 has not made use of this option.
- 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.

v. Adjustment effects from the retrospective application of IFRS 9

Due to the retrospective application of the method for recognising the fair value of options the figures reported in the previous year were adjusted as follows:

Consolidated income statement for the period 1 January to 30 June 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 30.6.2017
Transport expenses	3,722.3	–3.4	3,718.9
Operating result	**68.9**	**3.4**	**72.3**
Earnings before interest and taxes (EBIT)	**87.3**	**3.4**	**90.7**
Earnings before income taxes	**–34.1**	**3.4**	**–30.7**
Group profit/loss	**–46.1**	**3.4**	**–42.7**
thereof attributable to shareholders of Hapag-Lloyd AG	–48.4	3.4	–45.0
Basic/Diluted earnings per share (in USD)	**–0.38**	**0.03**	**–0.35**

Consolidated statement of comprehensive income for the period 1 January to 30 June 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 30.6.2017
Group profit/loss	**–46.1**	**3.4**	**–42.7**
Other comprehensive income after tax	**–371.0**	**–3.4**	**–374.4**
Total comprehensive income	**–417.1**	**–**	**–417.1**

Consolidated statement of financial position as at 31 December 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 31.12.2017
Equity and liabilities			
Retained earnings	3,173.9	1.0	3,174.9
Cumulative other equity	58.7	–1.0	57.7
Equity	**6,058.3**	**–**	**6,058.3**

Consolidated statement of cash flows for the period 1 January to 30 June 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 30.6.2017
Group profit/loss	–46.1	3.4	–42.7
Other non-cash expenses (+)/income (–)	–27.2	–3.4	–30.6
Cash inflow (+)/outflow (–) from operating activities	**306.5**	**–**	**306.5**

IFRS 15 Revenue from Contracts with Customers

The International Accounting Standards Board 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. Under IFRS 15, a standardised five-step model applies to assessing the amount of revenue to be recognised and at which time or over which period it is to be recognised. The standard contains a range of additional rules regarding detailed issues such as presenting contract fees and contract amendments.

Hapag-Lloyd has applied IFRS 15 since 1 January 2018. The first-time application of IFRS 15 by the Hapag-Lloyd Group has not had any significant effects with regard to the amount of revenue recognised and when it is recognised. Hapag-Lloyd has not made use of eased transitional provisions regarding IFRS 15 and has therefore not reported any adjustments to the previous year's figures.

Within revenue from contracts with customers, revenue from sea freight, inland container transport and terminal handling charges are the most important sources of revenue for the Hapag-Lloyd Group. Under IFRS 15, there is one performance obligation per shipment, which is rendered on a period-related basis, i.e. for the duration of transport. 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, the first-time application of IFRS 15 by the Hapag-Lloyd Group has not had any significant effects in relation to this revenue stream. The method currently used to measure performance progress (input-based method) continues to be used under IFRS 15. IFRS 15 has also not had any effects on the recognition of variable purchase price components, in particular discounts. With regard to the other revenue streams, the first-time application of IFRS 15 has also not had any significant effects on the amount of revenue and when it is recognised.

Since application of IFRS 15 has not resulted in any material effects, no cumulative adjustment amounts had to be recognised in equity as at 1 January 2018. The application of IFRS 15 rather than IAS 18 has also not resulted in any material changes to the amount of revenue in the current reporting period.

As at 1 January 2018, the new balance sheet items “contract assets” and “contract liabilities” were introduced in accordance with the provisions of IFRS 15. “Contract assets” mainly includes receivables in connection with shipments on voyages not yet completed as at the respective reporting date (30 June 2018: EUR 258.3 million). The presentation of trade receivables in the statement of financial position was correspondingly reduced by this amount as at 30 June 2018. “Contract liabilities” mainly includes prepayments received from customers (30 June 2018: EUR 130.7 million). Other liabilities were reduced accordingly as at 30 June 2018. Contract assets and contract liabilities are disclosed separately.

Hapag-Lloyd AG breaks down its revenue by trade. This breakdown can be found in the segment reporting.

Group of consolidated companies

The consolidated financial statements include all significant subsidiaries and equity-accounted investments. In addition to Hapag-Lloyd AG, the group of consolidated companies comprised 151 fully consolidated companies (31 December 2017: 157) and 8 equity-accounted investees as at 30 June 2018 (31 December 2017: 7).

There were three additions to the group of consolidated companies in the first half of 2018 following the establishment of new companies. Four companies have been liquidated since 31 December 2017 and are therefore no longer part of the group of consolidated companies. As part of the integration process, four companies have been amalgamated into other companies within the Hapag-Lloyd Group. There were no significant effects on earnings as a result of the liquidations.

SEGMENT REPORTING

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

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

Transport volume per trade

TTEU	Q2 2018	Q2 2017	H1 2018	H1 2017
Atlantic	475	429	914	818
Transpacific	484	403	939	789
Far East	525	322	1,044	537
Middle East	379	203	754	326
Intra Asia	267	186	524	338
Latin America	689	611	1,352	1,163
EMAO (Europe, Mediterranean, Africa, Oceania)	168	133	321	250
Total	**2,987**	**2,287**	**5,848**	**4,221**

Freight rates per trade [1]

USD/TEU	Q2 2018	Q2 2017	H1 2018	H1 2017
Atlantic	1,303	1,287	1,298	1,290
Transpacific	1,209	1,249	1,229	1,234
Far East	872	985	884	950
Middle East	767	950	775	890
Intra Asia	503	607	512	576
Latin America	1,090	1,040	1,110	1,045
EMAO (Europe, Mediterranean, Africa, Oceania)	1,077	1,047	1,079	1,030
Total	**1,010**	**1,072**	**1,020**	**1,065**

[1] Since financial year 2018, revenues for additional services in Latin America and Turkey are included in the calculation of freight rates. The previous year's figures have been adjusted accordingly.

Revenue per trade [1]

million EUR	Q2 2018	Q2 2017	H1 2018	H1 2017
Atlantic	517.9	501.4	979.5	974.0
Transpacific	489.8	457.6	952.6	899.3
Far East	383.4	290.2	762.1	471.1
Middle East	243.8	176.5	482.6	268.1
Intra Asia	112.5	102.9	221.7	180.0
Latin America	630.0	578.5	1,239.2	1,122.6
EMAO (Europe, Mediterranean, Africa, Oceania)	151.8	127.5	286.2	238.1
Revenue not assigned to trades	278.8	151.6	500.8	365.1
Total	**2,808.0**	**2,386.2**	**5,424.7**	**4,518.3**

[1] Since financial year 2018, revenues for additional services in Latin America and Turkey are included in the calculation of freight rates. The previous year's figures have been adjusted accordingly.

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

million EUR	Q2 2018	Q2 2017	H1 2018	H1 2017
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**205.8**	**228.5**	**425.2**	**363.8**
Depreciation, amortisation and impairment	170.8	145.3	336.5	273.1
Earnings before interest and taxes (EBIT)	**35.0**	**83.2**	**88.7**	**90.7**
Earnings before income taxes (EBT)	**–55.4**	**23.6**	**–84.0**	**–30.7**
Share of profit of equity-accounted investees	**7.5**	**10.8**	**15.5**	**18.4**

SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENT

Detailed notes to the income statement are contained in the interim Group management report in the chapter “Group earnings position”.

Earnings per share

	Q2 2018	Q2 2017 [1]	H1 2018	H1 2017 [1]
Profit / loss attributable to shareholders of Hapag-Lloyd AG in million EUR	–70.4	13.8	–108.0	–45.0
Weighted average number of shares in million	175.8	137.0	175.8	127.5
Basic earnings per share in EUR	**–0.40**	**0.10**	**–0.61**	**–0.35**

[1] The previous year’s figures have been adjusted due to the retrospective application of the first time adoption designation of option transactions. Please refer to the explanations in Section “New accounting standards”.

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 number of shares increased in the 2017 financial year as a result of the incorporation of the UASC Group on 24 May 2017 and a further capital increase in October 2017. There were no dilutive effects in the first half of 2018 or in the corresponding prior year period.

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Goodwill and other intangible assets

Goodwill and intangible assets increased by EUR 95.9 million compared with 31 December 2017 due to currency translation effects. Offsetting this, amortisation in the amount of EUR 49.1 million reduced other intangible assets.

Property, plant and equipment

million EUR	30.6.2018	31.12.2017
Vessels	7,203.4	7,160.9
Container	1,688.1	1,659.4
Other equipment	137.1	140.3
Prepayments on account and assets under construction	10.4	5.9
Total	**9,039.0**	**8,966.5**

The carrying amounts of property, plant and equipment were reduced primarily by depreciation in the amount of EUR 287.5 million. Meanwhile, investments in ocean-going vessels and primarily in containers in the amount of EUR 102.1 million and currency effects at the reporting date of EUR 257.9 million prompted an increase in property, plant and equipment above all.

Fixed assets of EUR 179.9 million were recognised in conjunction with finance lease contracts (31 December 2017: EUR 185.1 million). Of this, EUR 93.1 million was attributable to containers (31 December 2017: EUR 96.7 million) and EUR 86.8 million to ships (31 December 2017: EUR 88.4 million).

Non-current assets held for sale
The four ocean-going vessels classified as held for sale in the 2017 financial year were sold in the first half of 2018.

Cash and cash equivalents

million EUR	30.6.2018	31.12.2017
Cash at bank	533.3	598.5
Cash in hand and cheques	19.1	6.4
Total	**552.4**	**604.9**

As at 30 June 2018, a sum totalling EUR 18.3 million with a term of up to three months was deposited in pledged accounts (31 December 2017: EUR 17.6 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 0.9 million (31 December 2017: EUR 2.3 million) at individual subsidiaries.

Cumulative other equity

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

The reserve for remeasurements from defined benefit pension plans (30 June 2018: EUR –119.5 million; 31 December 2017: EUR –118.8 million) contains income and expenses from the remeasurement of pension obligations and plan assets recognised cumulatively in other comprehensive income, among other things due to the change in actuarial and financial parameters in connection with the valuation of pension obligations and the associated fund assets. The expenses from the remeasurement of pension obligations and the associated plan assets recognised in other comprehensive income in the first half of 2018 resulted in an increase of EUR 0.7 million in the negative reserve (prior year period: reduction of EUR 10.0 million).

The reserve for cash flow hedges contains changes in the intrinsic value and in the cash component from hedging transactions that are recognised in other comprehensive income and amounted to EUR 27.2 million as at 30 June 2018 (31 December 2017: EUR 11.0 million). In the first half of 2018, the resulting gains and losses totalling EUR –5.9 million were recognised in other comprehensive income as an effective part of the hedging relationship (prior year period: EUR 64.4 million), while gains and losses of EUR 32.3 million (prior year period: EUR –67.5 million) were reclassified and recognised through profit or loss.

The reserve for hedging costs contains changes in the fair value and in the forward component from hedging transactions that are recognised in other comprehensive income and amounted to EUR 2.1 million as at 30 June 2018 (31 December 2017: EUR –1.0 million). In the first half of 2018, the resulting gains and losses totalling EUR –15.3 million were recognised in other comprehensive income as an effective part of the hedging relationship (prior year period: EUR –15.0 million), while gains and losses of EUR 12.7 million (prior year period: EUR 11.6 million) were reclassified and recognised through profit or loss.

The translation reserve of EUR 336.3 million (31 December 2017: EUR 167.5 million) includes all differences from currency translation. The differences from currency translation of EUR 168.7 million recognised in other comprehensive income in the first half of 2018 (prior year period: EUR –377.7 million) were due to the translation of the financial statements of Hapag-Lloyd AG and its subsidiaries into the reporting currency. Currency translation differences are recognised in the statement of comprehensive income under the items that are not reclassified and recognised through profit or loss, because the currency translation effects of subsidiaries with the same functional currency as the parent company cannot be recycled. The previous year amount was reclassified within the statement of comprehensive income.

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. Since the start of the year, subsequent changes in the value of the financial liability have been recognised through profit or loss in the interest result. This is a voluntary adjustment to the accounting methods that enables a more accurate and relevant presentation of the earnings position. The effects of this voluntary adjustment are immaterial.

As at 30 June 2018, the reserve for put options on non-controlling interests amounted to EUR –0.4 million (previous year: EUR 0.0 million).

Provisions

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 provision of EUR 12.2 million in place as at 31 December 2017 for the expected restructuring costs, including estimated costs incurred for IT modifications, agent terminations, consultancy costs and employee termination costs was utilised in the amount of EUR 5.5 million in the first half of 2018.

Financial instruments

The carrying amounts and fair values of the financial instruments as at 31 December 2017 are presented in the table below.

	Carrying amount		Fair value
million EUR	**Total**	thereof financial instruments	Financial instruments
Assets			
Trade accounts receivable	887.8	887.8	887.8
Other assets	462.4	343.9	343.9
Derivative financial instruments (Held for trading)	12.7	12.7	12.7
Commodity options	4.1	4.1	4.1
Embedded derivatives	8.6	8.6	8.6
Derivative financial instruments (Hedge accounting)	38.5	38.5	38.5
Currency forward contracts	31.2	31.2	31.2
Commodity options	7.3	7.3	7.3
Interest rate swaps	0.0	0.0	0.0
Cash and cash equivalents	604.9	604.9	604.9
Liabilities			
Financial debt	6,211.9	6,211.9	6,225.8
Liabilities from finance leases [1]	123.6	123.6	125.5
Trade accounts payable	1,559.8	1,559.8	1,559.8
Derivative financial instruments (Held for trading)	5.2	5.2	5.2
Interest rate swaps	5.2	5.2	5.2
Derivative financial liabilities (Hedge accounting)	4.2	4.2	4.2
Interest rate swaps	4.2	4.2	4.2
Other liabilities	209.2	50.6	50.6
Liabilities from put options [2]	2.1	2.1	2.3

[1] Part of financial debt

[2] Part of other liabilities

The carrying amounts and fair values of the financial instruments as at 30 June 2018 are presented in the table below.

	Carrying amount		Fair value
million EUR	**Total**	thereof financial instruments	Financial instruments
Assets			
Trade accounts receivable	703.2	703.2	703.2
Contract assets [1]	258.3	258.3	258.3
Other assets	447.8	336.7	336.7
Derivative financial instruments (FVTPL)	5.5	5.5	5.5
Embedded derivatives	5.4	5.4	5.4
Interest rate swaps	0.1	0.1	0.1
Derivative financial instruments (Hedge accounting) [2]	34.4	34.4	34.4
Commodity options	31.9	31.9	31.9
Interest rate swaps	2.5	2.5	2.5
Cash and cash equivalents	552.4	552.4	552.4
Liabilities			
Financial debt	6,057.3	6,057.3	6,015.1
Liabilities from finance leases [3]	112.4	112.4	114.1
Trade accounts payable	1,766.7	1,766.7	1,766.7
Derivative financial liabilities (Hedge accounting) [2]	49.8	49.8	49.8
Currency forward contracts	47.9	47.9	47.9
Interest rate swaps	1.9	1.9	1.9
Other liabilities	112.5	84.2	84.2
Liabilities from put options [4]	1.4	1.4	1.9
Contract liabilities [5]	130.7	–	–

[1] The balance of the contract assets was contained in trade accounts receivable as at 31 December 2017.

[2] The market value of the non-designated fair values and forward components, whose changes are recognised in the reserve for costs of hedging, are also recognised here.

[3] Part of financial debt

[4] Part of other liabilities

[5] The balance of the contract liabilities was contained in other liabilities as at 31 December 2017.

The derivative financial instruments were measured at fair value.

Other assets include securities with a fair value of EUR 2.1 million (31 December 2017: EUR 2.1 million) that are allocated to level 1 of the fair value hierarchy, as their prices are quoted on an active market.

The liabilities from bonds included within financial debt that, due to the quotation on an active market, are also allocated to level 1 of the fair value hierarchy have a fair value of EUR 896.6 million (31 December 2017: EUR 948.3 million). The fair values indicated for the remaining financial debt, derivative financial instruments and liabilities from finance leases are assigned to level 2 of the fair value hierarchy. This means that the instruments are measured using methods which are based on factors derived directly or indirectly from observable market data.

The put options recognised under other liabilities, whose fair value was calculated as EUR 1.9 million, belong to level 3 of the fair value hierarchy.

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

There were no transfers between levels 1, 2 and 3 in the first half of 2018.

Financial debt

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

Financial debt

million EUR	30.6.2018	31.12.2017
Liabilities to banks	4,607.7	4,747.4
Bonds	924.0	923.8
Liabilities from finance lease contracts	112.5	123.6
Other financial debt	525.5	540.7
Total	**6,169.7**	**6,335.5**

Financial debt by currency

million EUR	30.6.2018	31.12.2017
Financial debt denoted in USD (excl. transaction costs)	4,883.4	5,055.8
Financial debt denoted in EUR (excl. transaction costs)	1,092.4	1,085.7
Financial debt denoted in SAR (excl. transaction costs)	202.8	207.5
Interest liabilities	54.0	47.5
Transaction costs	–62.9	–61.0
Total	**6,169.7**	**6,335.5**

In the first half of 2018, the programme to securitise receivables was expanded by USD 100.0 million.

Furthermore, Hapag-Lloyd fully repaid an existing loan held by UASC Ltd. early in the amount of USD 100.0 million using only cash from the available liquidity.

In March 2018, Hapag-Lloyd placed an order for 55,000 standard containers with a capital expenditure of USD 109.7 million. For this purpose, Hapag-Lloyd entered into a financing obligation of USD 171.4 million which enables additional capital expenditure on containers. Delivery of the containers is scheduled to be complete by August 2018.

The Hapag-Lloyd Group had total available credit facilities of EUR 446.7 million as at 30 June 2018 (31 December 2017: EUR 454.6 million).

OTHER NOTES

Legal disputes

There have been no significant changes regarding legal disputes in comparison with the 2017 consolidated financial statements.

As at the reporting date, there were EUR 126.2 million in contingent liabilities from tax risks not classified as probable (31 December 2017: EUR 135.5 million).

Obligations from operating lease contracts

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. Charter agreements for ships are always structured as time charter contracts, i.e. in addition to the capital costs, the charterer bears part of the ship operating costs, which are reimbursed as part of the charter rate.

In the first half of 2018, lease payments of EUR 530.9 million were posted to expenses (prior year period: EUR 491.4 million).

Total future minimum lease payments from non-cancellable operating lease contracts consist of the following:

million EUR	30.6.2018	31.12.2017
Ships and containers	664.6	542.1
Administrative buildings	98.9	101.6
Other	215.3	203.2
Total	**978.8**	**846.9**

Other financial obligations

As at 30 June 2018, the purchase obligation for investments in containers amounted to EUR 222.5 million. The amount of the purchase obligation for investments in containers was immaterial as at 31 December 2017.

Related party disclosures

In carrying out its ordinary business activities, the Hapag-Lloyd Group maintained indirect or direct relationships with related companies and individuals and with its own subsidiaries included in the consolidated financial statements. These supply and service relationships are transacted at market prices. No significant changes in these supply and service relationships have arisen since 31 December 2017. With the exception of the changes detailed in the following two paragraphs, the contractual relationships with related parties described in the remuneration report from page 76 onwards of the 2017 annual report remain essentially unchanged, but are not of material importance to the Group.

In relation to the Executive Board changes as at 1 April 2018, the employment contract of an Executive Board member was terminated early on 31 March 2018 and the benefits agreed until the original end date of the employment contract were paid early in the last quarter. The remuneration of the former Executive Board member in the financial year 2018 consists of short-term employee benefits in the amount of EUR 0.2 million, termination benefits in the amount of EUR 0.5 million and share-based benefits in the amount of EUR 1.1 million (expenses recognised in 2018). Additionally, an amount of EUR 2.6 million relating to LTIP tranche 2015 to 2018 (share-based benefits) was paid.

The remuneration structure and amount for the new Executive Board member is not significantly different from the remuneration of the other Executive Board members detailed in the remuneration report of the 2017 annual report.

At its meeting on 9 May 2018, the Supervisory Board of Hapag-Lloyd AG decided to extend the contract of CEO Rolf Habben Jansen by another five years until 30 June 2024.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Annual General Meeting of Hapag-Lloyd AG took place in Hamburg on 10 July 2018. The Annual General Meeting approved the resolution proposals of the Executive Board and Supervisory Board for all agenda items.

In relation to these, it was decided to use the retained earnings of EUR 522,369,447.05 recorded in the 2017 financial year to pay out a dividend of EUR 0.57 per dividend-eligible individual share, which amounts to EUR 100,183,367.01. The residual amount after the dividend has been paid of EUR 422,168,080.04 will be carried forward to the subsequent year.

The dividend was paid out to the shareholders by the custodian banks through Clearstream Banking AG on 13 July 2018.

On 25 July 2018, the international rating agency Moody’s published an updated credit opinion for Hapag-Lloyd. The company’s rating (B2 / outlook stable) remained unchanged.

On 30 July, Hapag-Lloyd conducted a sale and leaseback transaction. An existing ship financing facility with an outstanding amount of USD 151.0 million was replaced by 3 so called Japanese Operating Leases (“JOL”) in an aggregate amount of USD 240.0 million.

Hamburg, 9 August 2018

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Joachim Schlotfeldt

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

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

Hamburg, 9 August 2018

Hapag-Lloyd Aktiengesellschaft
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FINANCIAL CALENDAR 2018

8 November 2018

Quarterly financial report, first 9 months 2018

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