Financial Statements 2017 and Management Report

Hapag-Lloyd Aktiengesellschaft

Hapag-Lloyd

FINANCIAL STATEMENTS 2017 AND MANAGEMENT REPORT

HAPAG-LLOYD AKTIENGESELLSCHAFT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

The German version of this report is the legally binding document.

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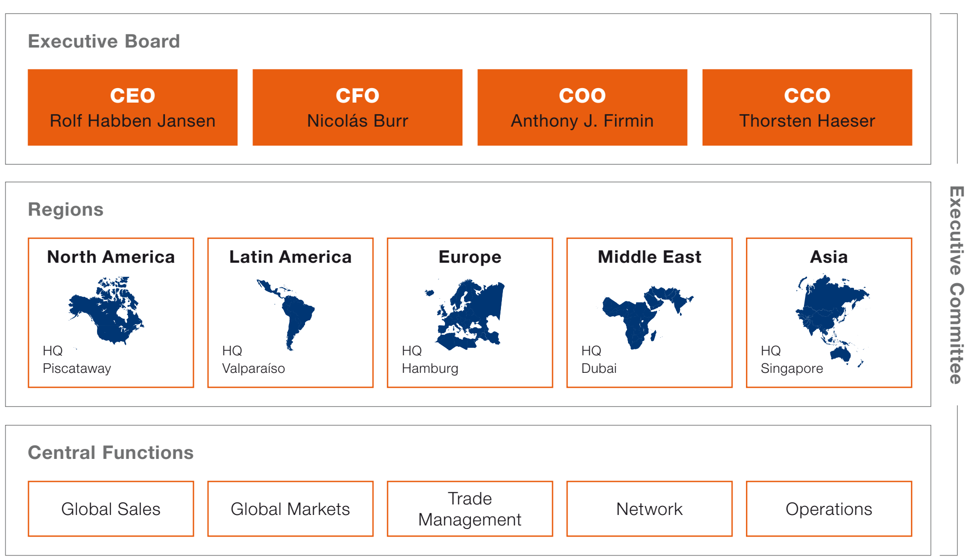
MANAGEMENT REPORT

COMPANY STRUCTURE AND SHAREHOLDERS

Hapag-Lloyd Aktiengesellschaft (hereinafter referred to as “Hapag-Lloyd” or “Hapag-Lloyd AG”) is Germany’s largest container liner shipping company and is one of the world’s leading container liner shiping companies on the basis of its transport capacity of approximately 1.5 million TEU. The controlling company of the Hapag-Lloyd Group, Hapag-Lloyd AG, is also the largest single operating company within the Group. Hapag-Lloyd AG has the following key branch offices active in the areas of sales and operations: Hapag-Lloyd Rotterdam (Rotterdam, Netherlands), Hapag-Lloyd Antwerpen (Antwerp, Belgium) and Hapag-Lloyd Denmark (Holte, Denmark).

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



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

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

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

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

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

Shareholder structure of Hapag-Lloyd AG

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

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

Voting rights as at 31 December 2017

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

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

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

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

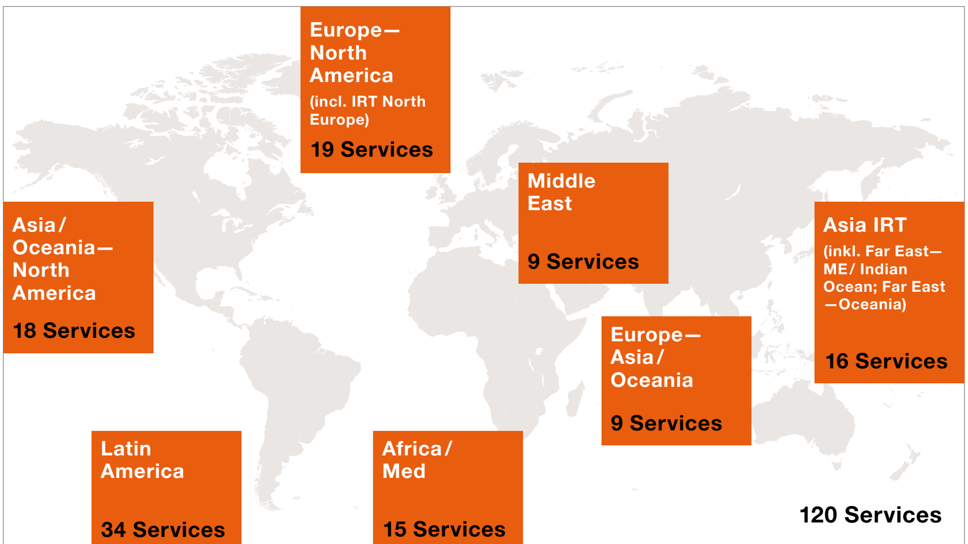
Due to the resignation of Dr Nabeel Al-Amudi for personal reasons on 30 November 2017, the Nomination Committee proposed Mr Turqi Alnowaiser to the Supervisory Board as a nominee for ordinary election at the next Annual General Meeting. At the request of the Executive Board, Hamburg district court temporarily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

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

OPERATING ACTIVITIES

Hapag-Lloyd 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.

Network of Hapag-Lloyd services



Source: Company data

As at 31 December 2017, Hapag-Lloyd AG's fleet comprised 208 container ships (previous year: 159). In partnership with Hapag-Lloyd AG's subsidiaries, the Group had 219 container ships (previous year: 166), 387 sales offices (previous year: 366) in 125 countries (previous year: 121) and offered its customers worldwide access to a network of 120 liner services (previous year: 128). In the 2017 financial year, Hapag-Lloyd served approximately 32,400 customers around the world (previous year: approximately 23,100).

The integration of UASC has enabled Hapag-Lloyd to considerably strengthen its market position as one of the world's leading container liner shipping companies, in particular in the Far East and Middle East trades. Hapag-Lloyd already had a relatively balanced market presence in both the East–West and North–South trades before the merger with UASC. As well as expanding its market presence and the range of services offered to customers, the merger with UASC allowed the Group to optimise its service structure and organisational structure.

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

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

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

COMPANY OBJECTIVES AND STRATEGY

The description of the company objectives and strategy in the Hapag-Lloyd AG management report relates to the Hapag-Lloyd Group. Hapag-Lloyd AG is the most important individual company within the Hapag-Lloyd Group, with the result that the objectives and strategy are identical.

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

In terms of increasing its transport volume, Hapag-Lloyd achieved growth of approximately 80% over the past five years. This was due mainly to the takeover of CSAV's container shipping activities in December 2014, and to the merger with UASC in May 2017, but also to the rising global demand for container shipping services.

Despite the continuing very competitive industry environment, the Hapag-Lloyd Group recorded a clear increase in its EBITDA and EBIT in 2017. Earnings in accordance with the German Commercial Code (HGB) improved significantly as a result. The Hapag-Lloyd Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) are calucuated by adding the revenue, the other operating income and the earnings of companies accounted for using the equity method generated within a period less transport expenses, personnel expenses and other operating expenses, not including amortisation of intangible assets and depreciation of property, plant and equipment. To calculate earnings before interest and taxes (EBIT), depreciation and amortisation are deducted from EBITDA.

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

Development of key performance indicators of the Hapag-Lloyd Group

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

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

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

In the 2018 financial year our focus will be on:

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

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

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

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

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

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

  The target of achieving transport volume growth equal to market growth was significantly exceeded in 2017 with an increase in the transport volume of 29%. This was largely due to the merger with UASC. On a pro forma basis[1], the transport volume increase in the reporting period was 4.8%.

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

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

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

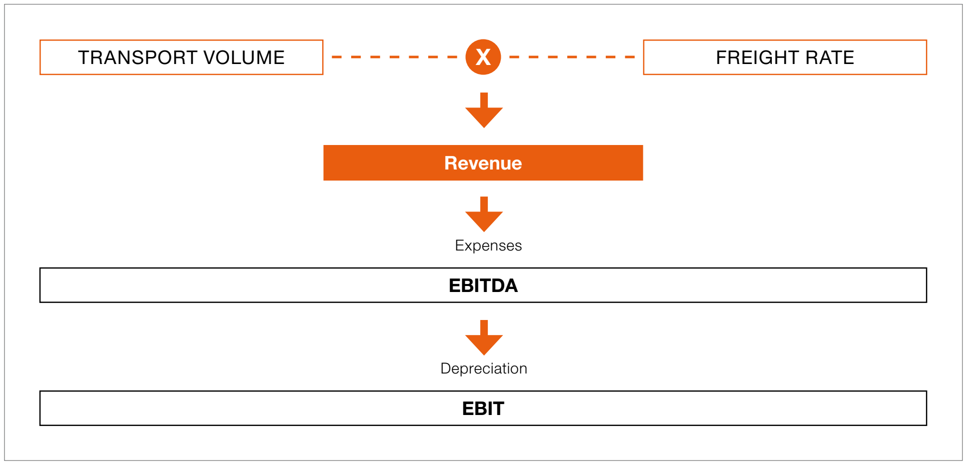
CORPORATE MANAGEMENT

The description of the corporate management in the Hapag-Lloyd AG management report relates to the Hapag-Lloyd Group. Hapag-Lloyd AG is the most important individual company in the Hapag-Lloyd Group.

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

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

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



The factors influencing Hapag-Lloyd AG's operating result and that of the Group differ mainly as a result of the accounting principles used (IFRS and HGB) and of the different functional currencies (euro and US dollar). Exchange rate effects influence Hapag-Lloyd AG's other operating income and expenses.

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

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

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

Operating costs are also influenced by bunker price changes. The bunker price correlates with the development of crude oil prices and is subject to substantial fluctuations. Depending on the competitive situation, a proportion of the fluctuations can be compensated for via the freight rate in the form of bunker surcharges. However, the extent to which this can be implemented depends very much on the prevailing market situation. Part of the Group's likely bunker fuel needs are hedged using options in order to lessen the risk of changes in the bunker price due to rising prices.

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

Calculation of return on invested capital on a Group basis

	million EUR		million USD	
	2017	2016	**2017**	2016
Non-current assets	12,633.5	9,722.9	15,146.1	10,267.4
Inventory	186.4	124.5	223.5	131.5
Accounts receivable	887.8	677.6	1,064.4	715.5
Other assets	515.2	235.7	617.7	248.9
Assets	**14,222.9**	**10,760.7**	**17,051.7**	**11,363.3**
Provisions	615.1	569.8	737,5	601.5
Accounts payable	1,559.8	1,281.6	1,870.1	1,353.3
Other liabilities	259.1	240.4	310.5	254.0
Liabilities	**2,434.0**	**2,091.8**	**2,918.1**	**2,208.8**
Invested Capital	**11,788.9**	**8,668.9**	**14,133.6**	**9,154.5**
EBIT	410.9	126.4	466.1	139.7
Taxes	24.1	19.7	27.3	21.8
Net Operating Profit after Tax (NOPAT)	**386.8**	**106.7**	**438.8**	**117.9**
Return on Invested Capital (ROIC)			**3.1%**	**1.3 %**

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

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

The chart outlines selected items from the consolidated statement of financial position and the consolidated income statement in abbreviated form only. Currency translation is based on the exchange rate on the reporting date and on the average exchange rate (USD 1.20 / EUR; USD 1.13 / EUR).

The Group's return on invested capital (ROIC) in the 2017 financial year was 3.1%, following 1.3% in the 2016 financial year. The return on capital employed in 2017 was therefore below the weighted average cost of capital. The weighted average cost of capital after income taxes as used for discounting purposes is 7.9% for the reporting period (2016: 8.2%). The weighted average cost of capital is calculated on the basis of capital market-oriented models as a weighted average of the costs of equity and borrowed capital.

PRINCIPLES AND PERFORMANCE INDICATORS

Legal framework

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

IMPORTANT FINANCIAL PERFORMANCE INDICATORS

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

IMPORTANT NON-FINANCIAL PRINCIPLES

In addition to the financial performance indicators, the optimum utilisation of the available ship and container capacities also has a substantial influence on whether Hapag-Lloyd achieves long-term profitable growth.

Sustainable and quality-conscious corporate governance and highly qualified and motivated employees are also important parameters for Hapag-Lloyd's long-term profitable growth. The following non-financial parameters are important for understanding Hapag-Lloyd as a container liner shipping company. However, they are not used by the Company as performance indicators.

Productivity and efficiency

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

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

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

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

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

In the reporting period, the capacity utilisation of the Hapag-Lloyd Group's container ship fleet (as measured by total TEU capacity on the dominant leg) fell by 2.1 percentage points to 91.1% (previous year: 93.2%). The internal classification of dominant legs changed as a result of the merger with UASC. The previous year's figures were adjusted accordingly. The container transport volume rose by 29% in the period under review. The acquisition of the UASC fleet led to a significant increase in the average ship size and a reduction in the average age. In terms of Hapag-Lloyd AG, the capacity-weighted average age was 7.1 years as at the balance sheet date (previous year: 7.8 years), while the average ship size rose from 5,909 TEU as at 31 December 2016, before the integration, to 7,194 TEU at the end of 2017. This means that Hapag-Lloyd AG currently has one of the youngest and most efficient fleets in the world.

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

Flexible fleet and capacity development

As at 31 December 2017, Hapag-Lloyd AG's fleet comprised a total of 208 container ships. All of the ships are certified in accordance with the ISM (International Safety Management) Code and have a valid ISSC (ISPS) certificate. The majority of the ships are certified as per ISO 9001 (quality management) and ISO 14001 (environmental management). The TEU capacity as at 31 December 2017 was 1,496,284 TEU, which was an increase of 556,711 TEU on the previous year (939,573 TEU). Based on the TEU capacities, around 37% of the fleet was owned by Hapag-Lloyd AG as at 31 December 2017 (previous year: approximately 51%). These changes were mainly due to the merger with UASC. Since the acquisition date, Hapag-Lloyd AG charters all ships owned by UASC.

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

Structure of Hapag-Lloyd's container ship fleet

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Number of vessels	208	159	171	144	145
thereof					
Own vessels	56	58	49	56	52
Leased vessels	14	3	3	5	7
Chartered vessels	138	98	119	83	86
Aggregate capacity of vessels (TTEU)	1,496	940	948	763	712
Aggregate container capacity (TTEU)	2,349	1,576	1,564	1,619	1,072
Number of services	120	128	121	119	97

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

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

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

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

Bunker consumption

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

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

Efficient transport services

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

Imbalances in the world's biggest trades
Cargo volume

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

Source: Drewry Container Forecaster, Q4 2017. Figures rounded

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

Hapag-Lloyd reduces imbalances better than the market [1]

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

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

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

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

Customers and customer orientation

Hapag-Lloyd has established itself as a high-quality provider among container liner shipping companies. The reliability and high quality that the customer experiences with Hapag-Lloyd services are at the very heart of Hapag-Lloyd's market presence. Top clients are supported by the Global Account Management team in Hamburg and are visited by key account managers. This enables the Company to establish and maintain long-standing, sustainable customer relationships. The Key Account Programme also ensures that top regional clients receive particular care and attention. In doing so, Hapag-Lloyd focuses on achieving a high degree of customer satisfaction and on having a diversified portfolio of customers comprising both direct customers and shipping companies, with the latter ensuring a permanent regular supply of cargo volumes.

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

Contractual relationships of up to 12 months generally exist with direct customers. Direct customers allow Hapag-Lloyd to plan the required transport capacity better because of the framework agreements concluded with them. Hapag-Lloyd has a balanced customer base, as demonstrated by the fact that its 50 largest customers represent considerably less than 50% of its cargo volume. In total, transports were completed for approximately 32,400 customers in the 2017 financial year (previous year: approximately 23,100 customers).

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

Transport volume by product category in 2017

Product category in %	**Share 2017**	Share 2016
Food products	16	18
Chemical products	14	14
Plastik products	13	12
Paper and wood products	10	10
Mechanical products	9	10
Raw materials	8	8
Textiles	8	7
Automotive parts	6	6
Electronic products	5	5
Furniture	5	4
Other products	6	6
Total	**100**	**100**

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

RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

The separate non-financial report as per Section 289 b (3) of the German Commercial Code (HGB) is contained in the sustainability report, which can be retrieved from Hapag-Lloyd AG's website via the following link: https://www.hapag-lloyd.com/en/about-us/sustainability/sustainability-report.html, and is not part of the management report.

EMPLOYEES

Hapag-Lloyd AG employed 3,362 people as at 31 December 2017 (previous year: 3,173 people). The increase resulted from the integration of UASC. 1,142 people were employed in the marine division as at 31 December 2017 (previous year: 1,141). The number of shore-based staff increased by 203, from 1,814 in the previous year to 2,017 employees. The breakdown of shore-based staff was around 45% female and 55% male. The average period of employment for shore-based staff (excluding apprentices) is 13.3 years.

Number of employees

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Marine personnel	1,142	1,141	1,232	1,259	1,254
Shore-based personnel	2,017	1,814	1,805	1,529	1,512
Apprentices	203	218	225	201	194
Total	**3,362**	**3,173**	**3,262**	**2,989**	**2,960**

There is a strong focus on vocational training and qualifications for both the shore-based and marine employees. Hapag-Lloyd attaches particular importance to extensive, high-quality training. The proportion of those offered jobs at the end of their training is generally between 80 and 90%. However, in 2017 the share was lower than in the preceding years, at 68%, mainly due to the integration of UASC. As at 31 December 2017, Hapag-Lloyd AG employed a total of 120 apprentices in shore-based positions and 83 at sea (previous year: 124 shore-based and 94 at sea).

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

REMUNERATION REPORT

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

1. PRINCIPLES AND OBJECTIVES / GENERAL PRINCIPLES

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

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

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

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

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

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

1.1 Changes to the Executive Board

There were no changes to the Executive Board in 2017.

2. MAIN REMUNERATION COMPONENTS

The main remuneration components are broken down as follows:

2.1 Non-performance-related components

a) Fixed annual remuneration

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

b) Non-cash remuneration and other fringe benefits

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

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

2.2 Performance-related components

a) Short-term variable remuneration

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

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

b) Long-term variable remuneration

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

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

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

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

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

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

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

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

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

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

Share-based remuneration under the 2017 long-term incentive plan (LTIP)
Allotment for 2017 financial year

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

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

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

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

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

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

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

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

c) Possible additional remuneration in cash (discretionary bonus)
The Executive Board contracts also stipulate that the Supervisory Board may grant additional remuneration in special circumstances or for extraordinary activities.

2.3 Company pension

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

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

2.4 Regulations in the event that Executive Board activities end

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

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

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

b) Post-contractual non-compete restrictions

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

c) Change-of-control clause

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

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

2.5 Remuneration of the Executive Board in the 2017 financial year

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

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

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

Remuneration of the Executive Board

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

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

With regard to pension commitments, the following obligations exist:

Pension plans (pension plans and death grants) pursuant to German Commercial Code (HGB)

EUR	Present value	Personnel expenses
Rolf Habben Jansen (Chairman of the Executive Board)		
2017	**4,741**	**746**
2016	3,784	1,011
Nicolás Burr		
2017	**1,711**	**448**
2016	1,174	567
Anthony J. Firmin		
2017	**1,516,834**	**–121,349**
2016	1,524,287	169,375
Thorsten Haeser		
2017	**2,084**	**640**
2016	1,361	977
Total 2017	**1,525,370**	**–119,515**
Total 2016	**1,530,606**	**171,930**

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

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

Amounts granted for the financial year

Remuneration granted	**Rolf Habben Jansen** (Chairman of the Executive Board)			
EUR	2016	2017	2017 (min.)	2017 (max.)
Fixed salary	750,000	750,000	750,000	750,000
Fringe benefits	172,238	172,086	172,086	172,086
Total	**922,238**	**922,086**	**922,086**	**922,086**
One-year variable remuneration	126,400	410,878	0	600,000
Multiple-year variable remuneration	700,000	700,000	0	1,050,000
LTIP 2016 (term: 2016–2019)	700,000	0	–	–
LTIP 2017 (term: 2017–2020)	0	700,000	0	1,050,000
Total	**826,400**	**1,110,878**	**0**	**1,650,000**
Service cost	1.986	1,760	1,760	1,760
Total remuneration	**1,750,624**	**2,034,724**	**923,846**	**2,573,846**

Amounts paid for the financial year

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

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

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

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

The total remuneration for former members of the Executive Board and their surviving dependants amounted to EUR 0.8 million in the 2017 financial year (previous year: EUR 0.9 million). Provisions created under HGB for current pensions and entitlements to pensions for former Executive Board members and their surviving dependants totalled EUR 18.7 million in the 2017 financial year (previous year: EUR 17.7 million).

3. REMUNERATION OF THE SUPERVISORY BOARD

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

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

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

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

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

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

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(Continuation)

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

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

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

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

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

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

ECONOMIC REPORT

The UASC Group was consolidated on 24 May 2017 and is included in the Hapag-Lloyd AG group of consolidated companies. As such, the figures for the 2017 financial year can only be compared with those of previous years to a limited extent. Unless stated otherwise, the figures for the 2016 financial year refer to Hapag-Lloyd without the UASC Group.

GENERAL ECONOMIC CONDITIONS

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

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

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

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

Source: IMF, January 2018

SECTOR-SPECIFIC CONDITIONS

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

Development of global container transport volume, 2012 – 2022

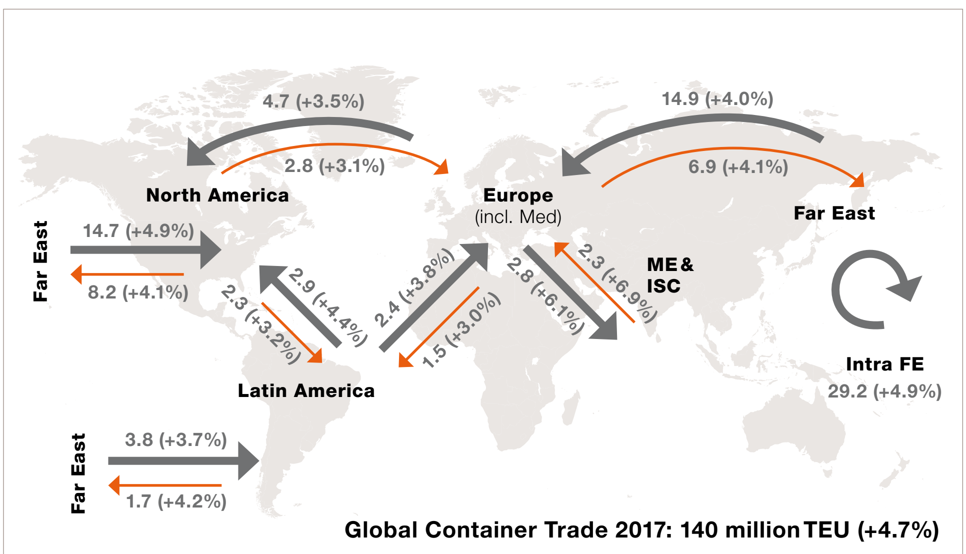
	2022e	2021e	2020e	2019e	2018e	2017	2016	2015	2014	2013
million TEU	178	170	162	154	146	140	133	129	128	123
Growth rate in %	4.6	5.0	5.1	5.1	4.9	4.7	3.1	1.2	4.0	2.2

Source: IHS Global Insight, November 2017

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

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

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



Source: IHS Global Insight, November 2017

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

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

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

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

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

Expected development of global container fleet capacity

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

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

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

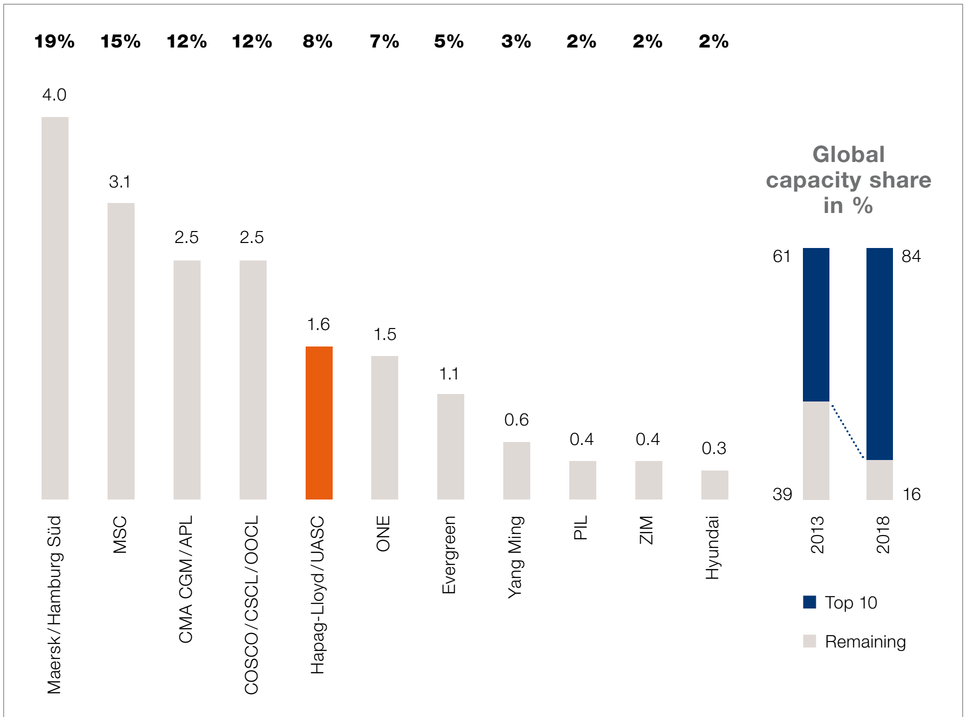
According to the sector information service Drewry (Drewry Container Forecaster, Q4 2017), container ships with an aggregate transport capacity of around 400,000 TEU were scrapped in 2017 (previous year: 650,000 TEU). This means that scrapping remained at a high level in 2017. Scrapping in 2018 is expected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

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

Continuing consolidation trend

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

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



Source: Drewry Container Forecaster, Q4 2017; MDS Transmodal January 2018; summation of individual capacities, assuming that all the mergers announced take place as planned.

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

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

Reorganisation of alliances and mergers

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

Capacity share of alliances in East–West trades

Alliance		Far East trade	Transpacific trade	Atlantic trade
2M	in %	41	21	41
Ocean Alliance	in %	34	40	16
THE Alliance	in %	**25**	**27**	**34**
Other	in %	0	12	9

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

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

The factors influencing Hapag-Lloyd AG’s operating result and that of the Group differ mainly as a result of the accounting principles used (IFRS and HGB) and of the different functional currencies (euro and US dollar). The following statements refer to the forecast for the Hapag-Lloyd Group.

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

The transport volume rose by 29% in the reporting period. As such, the forecast of a “clearly increasing” transport volume was fulfilled. As a result of the delays in deliveries, the further high level of scrapping of inefficient vessels in 2017 and a clear upswing in the demand for container transport services, it was possible to implement freight rate increases in most trades. Hapag-Lloyd’s average freight rate rose to USD 1,051 / TEU in 2017 (USD +15 / TEU). The development of the freight rate was therefore slightly better than expected. It should be noted that UASC had a structurally lower average freight rate than Hapag-Lloyd due to a different trade mix. This has impacted the development of Hapag-Lloyd´s Group freight rate after the date of consolidation. The clear increase in the average bunker consumption price was more than offset by the rise in the transport volume, a slightly better freight rate and the cost savings from the CUATRO and OCTAVE programmes. The synergies achieved in 2017 as a result of the merger with UASC were in line with expectations. The forecast of a clear increase in the operating result (EBITDA and EBIT) was therefore also fulfilled. Earnings in accordance with the German Commercial Code (HGB) improved significantly as a result.

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

Achievement of strategic projects

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

EARNINGS, FINANCIAL AND NET ASSET POSITION

For Hapag-Lloyd AG, the 2017 financial year was dominated by the legal merger with United Arab Shipping Company Ltd. on 24 May 2017 and the subsequent transfer and integration of the operating business of UASC at the beginning of the second half of 2017.

In addition, the two companies First CSAV Ships Germany GmbH and Second CSAV Ships Germany GmbH retroactively merged with Hapag-Lloyd AG as at 1 January 2017.

These transactions had a significant impact on Hapag-Lloyd AG's earnings, financial and net asset position, and it can therefore only be compared to that of the previous year to a limited degree.

EARNINGS POSITION

Hapag-Lloyd AG's business performance in 2017 was dominated by the acquisition and integration of UASC's activities and by the ongoing challenges in the container shipping industry.

In terms of operations, Hapag-Lloyd AG's freight rates continued to increase during 2017 following their low point in the second quarter of 2016. Freight rates increased in almost all trades, which had a positive effect on the earnings position. The clear increase in the transport volume and the full achievement of synergies from the cost-saving and efficiency programmes (CUATRO, OCTAVE and Close the Cost Gap) implemented in the preceding years led to a significant rise in the result from operating activities last year. In contrast to the previous year, the appreciation of the euro against the US dollar also contributed to a significant rise in earnings in the 2017 financial year. As at 31 December 2017, the US dollar exchange rate was quoted as USD 1.20/EUR, which was much weaker than in the previous year (USD 1.06/EUR). This change in the exchange rate increased earnings from operating activities by EUR 342.8 million overall. By contrast, the bunker price increases reduced earnings at the end of the financial year in particular. In total, Hapag-Lloyd AG recorded a net profit of EUR 414.0 million in the 2017 financial year (previous year: net loss of EUR 201.4 million), thereby improving its net result by EUR 615.4 million compared with the previous year.

Income statement

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Revenue	9,540.6	7,590.8
Decrease/increase in capitalised expenses for unfinished voyages	5.4	–2.0
Other operating income	1,094.6	690.1
Transport expenses	–8,099.7	–6,614.0
Personnel expenses	–266.5	–209.8
Depreciation, amortisation and impairment	–383.5	–278.6
Other operating expenses	–1,283.0	–1,270.8
Operating result	**607.9**	**–94.3**
Financial result	–166.4	–84.8
thereof interest result	–213.0	–155.7
Taxes on income	–6.4	–5.0
Result after taxes	**435.1**	**–184.1**
Other taxes	–21.1	–17.3
Net gain or loss for the year	**414.0**	**–201.4**
Retained earnings brought forward	108.4	108.4
Withdrawal from the capital reserve	0.0	201.4
Balance sheet profit	**522.4**	**108.4**
EBIT	**627.9**	**–41.9**
EBIT margin (%)	**6.6**	**–0.6**
EBITDA	**1,011.4**	**236.7**
EBITDA margin (%)	**10.6**	**3.1**

The average freight rate for Hapag-Lloyd AG in the 2017 financial year was USD 1,059/TEU, which was USD 30/TEU more than in the previous year (USD 1,029/TEU). The Company was able to implement substantial freight rate increases on the Far East and Middle East trades in particular. This was partly compensated by the lower average freight rate level of the newly integrated UASC Group.

Freight rates per trade*

USD/TEU	1.1.–31.12. 2017	1.1.–31.12. 2016
Atlantic	1,285	1,314
Transpacific	1,253	1,220
Far East	951	774
Middle East	866	700
Intra-Asia	573	554
Latin America	1,049	999
EMAO (Europe, Mediterranean, Africa, Oceania)	1,066	1,048
Total (weighted average)	**1,059**	**1,029**

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

The transport volume increased from 7,489 TTEU to 8,958 TTEU in the last financial year. The sharp rise in transport volume of 19.6% was mainly due to the integration of the operating business of UASC in the 2017 financial year.

Transport volume per trade *

TTEU	**1.1. – 31.12. 2017**	1.1. – 31.12. 2016
Atlantic	1,648	1,499
Transpacific	1,613	1,492
Far East	1,243	837
Middle East	795	462
Intra-Asia	771	608
Latin America	2,362	2,175
EMAO (Europe, Mediterranean, Africa, Oceania)	526	416
Total	**8,958**	**7,489**

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

Revenue grew by 25.7% to EUR 9,540.6 million (previous year: EUR 7,590.8 million) in the 2017 financial year as a result of the rise in the average freight rate and the significant increase in transport volume, primarily due to the integration of UASC Ltd. in the third quarter of 2017.

Other operating income rose from EUR 690.1 million to EUR 1,094.6 million in the reporting year. The main reason for this was higher exchange rate gains compared to the prior year period in the amount of EUR 903.2 million (previous year: EUR 461.3 million). These primarily resulted from the measurement of foreign currency loans and foreign currency liabilities with affiliated companies due to the change in the USD / EUR exchange rate. Netted, the exchange rate-related other operating income and other operating expenses resulted in a contribution to earnings of EUR 342.8 million (previous year: decrease in earnings of EUR 177.0 million).

The rise in transport expenses of EUR 1,485.7 million, or 22.5%, to EUR 8,099.7 million (previous year: EUR 6,614.0 million) was primarily attributable to the integration of UASC. Furthermore, the increase in expenses for raw materials, supplies and purchase goods of EUR 441.8 million to EUR 1,078.4 million primarily resulted from the higher bunker price. In the 2017 financial year, the Hapag-Lloyd Group's average bunker consumption price was USD 318 per tonne, which was a significant USD 92 per tonne above the price of the prior year period (USD 226 per tonne). From the 2017 financial year onwards, the average bunker consumption price used by Hapag-Lloyd is a combined figure for marine fuel oil (MFO) and marine diesel oil (MDO). The previous year's figure has been restated accordingly. At EUR 7,021.3 million, the cost of purchased services was significantly up by EUR 1,044.0 million year-on-year, due to the increase in transport volume.

Personnel expenses rose by 27.0% year-on-year to EUR 266.5 million (previous year: EUR 209.8 million). The main reason for this was the increased wages and salaries of EUR 215.5 million (previous year: EUR 177.6 million) as a result of the restructuring measures associated with the integration of UASC (EUR 11.0 million), the rise in the number of employees and the increased bonuses for all employees totalling EUR 24.4 million (previous year: EUR 11.2 million). Furthermore, pension costs increased from EUR 1.0 million to EUR 16.8 million, because, in the previous year, the interest rate effect of adjusting the discounting for pension obligations from a seven-year to a ten-year average rate as a result of the revision of Section 253 (6) of the German Commercial Code (HGB), was recognised in the operating result. As at 31 December 2017, a total of 3,362 people (including apprentices) were employed at Hapag-Lloyd (previous year: 3,173). The personnel expenses ratio of 2.8% was the same as in the 2016 financial year (previous year: 2.8%).

Depreciation, amortisation and impairment of EUR 383.5 million was recorded in the 2017 financial year (previous year: EUR 278.6 million). The increase here essentially resulted from the rise of EUR 74.1 million in depreciation on ships and containers, from the EUR 16.5 million increase in impairment of goodwill due to the acquisition of UASC's business operations and from the additional impairment of the goodwill of First CSAV Ships Germany GmbH and Second CSAV Ships Germany GmbH (EUR 7.0 million).

Other operating expenses were only slightly up year-on-year at EUR 1,283.0 million (previous year: EUR 1,270.8 million). They primarily comprise exchange rate losses, including bank charges, of EUR 567.0 million (previous year: EUR 644.7 million), commission expenses and selling expenses totalling EUR 431.8 million (previous year: EUR 392.1 million) and EDP expenses of EUR 100.3 million (previous year: EUR 83.6 million). Other operating expenses also include recharged restructuring costs of EUR 17.4 million which were incurred as a result of the integration of UASC in relation to affiliates.

The operating result in the last financial year was EUR 607.9 million (previous year: EUR –94.3 million). Earnings before interest and taxes also include income from profit transfer agreements, income from investments, amortisation of financial assets and marketable securities, expenses from the transfer of losses and other taxes and came to EUR 627.9 million as at the balance sheet date (previous year: EUR –41.9 million). Compared to the Group's EBIT of EUR 412.8 million, the German Commercial Code (HGB) earnings are significantly higher than the figure for the Group. The main reasons for the higher HGB earnings were the positive exchange rate effects from the translation of financial liabilities due to the development of the US dollar/euro exchange rate, UASC's business up until the voyage cut-over and differences in depreciation, amortisation and impairment. By contrast, the purchase price allocation for UASC, subsidiary earnings and consolidation effects reduced the HGB earnings. Earnings before interest, taxes, depreciation and amortisation (EBITDA) came to EUR 1,011.4 million (previous year: EUR 236.7 million) and were therefore similar to the figure for the Group (EUR 1,050.7 million; previous year: EUR 607.4 million).

In the 2017 financial year, the financial result deteriorated by EUR 81.6 million to EUR –166.4 million (previous year: EUR –84.8 million). This was primarily due to higher interest expenses in the amount of EUR 239.1 million (previous year: EUR 172.6 million). The change in interest expenses was partly due to the early redemption of US dollar bonds and euro bonds. As a result of these transactions, one-off effects totalling EUR –23.8 million were recognised in interest expenses and related to redemption charges, the disposal of associated embedded derivatives, the derecognition of premiums and other associated charges. By contrast, these transactions caused interest income to rise by EUR 5.0 million to EUR 26.1 million in the reporting period (previous year: EUR 16.9 million) due to the derecognition of the deferred premium. There was also an increase in total interest expenses as a result of interest expenses from new ship and container financing (see Financial position). The decrease in the financial result continues to be attributable to the lower income from profit transfer agreements of EUR 5.9 million compared with the previous year (previous year: EUR 56.1 million).

A net profit for the financial year of EUR 414.0 million was reported in 2017 (previous year: net loss for the financial year of EUR 201.4 million). Including retained earnings carried forward of EUR 108.4 million, the Company recorded retained earnings of EUR 522.4 million (previous year: EUR 108.4 million).

FINANCIAL POSITION

Principles and objectives of financial management

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

Maintaining an appropriate minimum liquidity level is a deciding factor. Efficient financial management is primarily based on optimising short and medium-term cash outflows. This is based on budgetary planning for a number of years and a rolling monthly liquidity plan that spans a period of one year. Financial management is carried out within the framework of relevant legislation as well as internal principles and regulations.

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

To hedge euro exchange rate risks, derivative hedging transactions are concluded, the hedging effect of which is only felt within the Group. Wherever possible, changes in the bunker price are passed on to the customers as surcharges. In addition, derivative hedging instruments are sometimes used to limit fluctuations caused by changes in the prices of commodities. Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are centrally managed within the scope of interest rate management and can be limited using derivative interest rate hedging instruments on a case-by-case basis.

Other disclosures about hedging strategies and risk management, and about financial transactions and their scope as at the balance sheet date, can be found in the risk report section of the management report (see fuel price risks, currency risks and interest rate risks).

Issuer ratings

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

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

Financing

Hapag-Lloyd AG covers its financing requirements with cash inflows from operating activities and by assuming short, medium and long-term financial debt. In addition, Hapag-Lloyd carried out a capital increase with subscription rights on 17 October 2017. This generated income of EUR 351.5 million, most of which was used for the early repayment of loans held by UASC.

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

The focus in the 2017 financial year was on the transactions in the bond and capital markets, the implementation and restructuring of financing as part of efforts to optimise the existing capital structure and reduce the interest burden, and the financing of investments made.

Financing and investing activities

In addition to the merger with UASC and the capital increase, the Company executed the following major financing and investing activities in the 2017 reporting year:

- In January 2017, a sale and leaseback transaction was entered into involving used containers and containers held by the Company. The lease agreement has a term of four years and comprises a volume of EUR 41.5 million. The lease agreement is essentially a form of borrowing, secured by the assignment of containers as collateral.
- Hapag-Lloyd put three ships into operation in the first half of 2017. Each ship has a transport capacity of 10,500 TEU, for which loans of USD 223.4 million (EUR 207.4 million) in total were drawn down.
- On 1 February 2017, Hapag-Lloyd issued a new corporate bond with a coupon of 6.75% and a maturity of five years at an issue price of 100.0%. Due to the high level of demand, the originally planned issue volume of EUR 150.0 million was increased to EUR 250.0 million. In the same month, some of the proceeds from the issue were used for the early repayment of the USD bond with an outstanding amount of USD 125.0 million (EUR 117.6 million).

- On 15 February 2017, EUR 200.0 million was added to the corporate bond issued previously, taking the total amount to EUR 450.0 million. The issue generated additional proceeds of EUR 204.8 million (issue price: 102.375%), of which EUR 200.0 million were used for the partial repayment of an existing EUR bond in March 2017.
- Hapag-Lloyd issued a EUR bond with a volume of EUR 450.0 million on 18 July 2017. The bond has a maturity of seven years and a coupon of 5.125%. The issue proceeds were used in October 2017 for the early repayment of Hapag-Lloyd's existing 7.75% and 7.50% euro bonds which would have fallen due in 2018 and 2019.
- As part of the merger with UASC, Hapag-Lloyd AG assumed UASC's existing finance lease contracts for containers. These had a total volume of EUR 40.6 million. In addition, Hapag-Lloyd AG and UASC entered into finance lease contracts for containers on 1 July 2017 in the amount of EUR 312.6 million at conditions which fully emulate those of UASC's lease contracts with external lessors. Other finance lease contracts between Hapag-Lloyd AG and UASC were concluded on 1 July 2017 in the amount of EUR 160.9 million for Hapag-Lloyd AG's own containers which are used as collateral for UASC's corresponding loans with banks. In addition, a finance lease contract between Hapag-Lloyd AG and UASC was signed for unsecured owned containers in the amount of EUR 110.9 million, whereby the lease rates are fully paid in advance by Hapag-Lloyd AG. As a result, some of the cash from UASC's capital increase was made available immediately so that UASC could repay certain loans early.
- Three sale and leaseback transactions were concluded in the second and third quarter of the reporting year to refinance existing ship portfolios. The lease agreements amount to EUR 390.5 million and have a maturity of ten years. The economic substance of these transactions is credit financing secured by the assignment of ship portfolios as collateral. Hapag-Lloyd AG remains the beneficial owner of the ship portfolios, and the disposal of the ocean-going vessels had no effect on earnings. The loan liabilities of EUR 287.8 million previously associated with the ship portfolios were repaid in full.
- Based on agreements dated 14 September 2017 and 20 October 2017, Hapag-Lloyd sold containers held by the Company to a group of investors on the basis of Japanese operating leases and then leased them back for eight and seven years respectively, with the option of buying them back upon their respective maturity. The lease agreements are essentially a form of borrowing, secured by the assignment of containers as collateral. The refinancing volume associated with these transactions amounted to EUR 86.2 million in total.
- The credit facility to finance investments in containers of USD 135.0 million which had been fully utilised as at 31 December 2016 was repaid in full during the financial year. This credit facility was increased to USD 210.0 million at the end of the year and extended by another three years.

- The credit facility in the amount of USD 125.0 million which was originally granted in relation to realisation of the IPO and which had been fully utilised as at 31 December 2016 was repaid in full at the start of the financial year. They were replaced in October 2017 by a credit facility of USD 145.0 million which was associated with the bond issue in July 2017 and which has a term of three years. As a result of a contractual change with effect from 20 December 2017, the credit facility was reduced to USD 135.0 million, as an additional facility of USD 10.0 million was simultaneously made available, under which Hapag-Lloyd AG can draw on guarantees.
- The development of used-market prices for container ships resulted in deficits in the loan-to-value ratios, prompting Hapag-Lloyd to make early repayments of EUR 60.2 million in the reporting year at the request of lending banks.

Covenant clauses of a type customary on the market have been arranged for existing financing from bonds or loans. These clauses primarily concern equity and liquidity at the Hapag-Lloyd Group level along with certain loan-to-value ratios for the financing of ship investments. As at 31 December 2017, all of the covenants were fulfilled. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period.

Liquidity analysis

Hapag-Lloyd AG's solvency was fully guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, and syndicated credit facilities. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 776.9 million as at 31 December 2017 (previous year: EUR 661.8 million). At the balance sheet date, a sum totalling EUR 9.4 million with a term of up to three months was deposited in pledged accounts (previous year: EUR 4.3 million) and was therefore subject to a limitation on disposal.

Off-balance-sheet obligations

In the course of its normal business activities, Hapag-Lloyd AG uses assets of which it is not the beneficial owner. These are, in particular, vessels and containers which are let within the framework of rental, lease and charter agreements as are customary in the industry.

A detailed presentation of the other financial obligations is provided in the Notes to the annual financial statements (Note 14).

NET ASSET POSITION

million EUR	31.12.2017	31.12.2016
Fixed assets	8,310.1	5,640.6
thereof property, plant and equipment	5,239.0	4,319.9
Current assets	1,580.6	1,400.3
thereof cash-in-hand, bank balances and cheques	322.3	472.4
Prepaid expenses	11.3	13.6
Excess of plan assets over post-employment benefit liability	0.0	3.9
Assets	**9,902.0**	**7,058.4**
Equity	3,196.1	1,143.9
Provisions	745.1	798.7
Financial liabilities	2,732.0	3,272.0
thereof short-term	363.4	771.0
Other liabilities	3,216.8	1,836.2
thereof short-term	2,251.5	1,515.6
Deferred income	12.0	7.6
Equity and liabiltities	**9,902.0**	**7,058.4**
Net financial position (liquid assets – financial debt)	–2,409.7	–2,799.6
Equity ratio (equity / total assets)	32.3%	16.2%

Compared to the previous year, Hapag-Lloyd AG's balance sheet total increased by EUR 2,843.6 million to EUR 9,902.0 million (previous year: EUR 7,058.4 million).

Within fixed assets of EUR 8,310.1 million (previous year: EUR 5,640.6 million), intangible assets increased from EUR 468.7 million to EUR 1,182.2 million, as did property, plant and equipment from EUR 4,319.9 million to EUR 5,239.0 million and financial assets from EUR 852.0 million to EUR 1,888.9 million. The increase in intangible assets was mainly due to the acquisition of UASC's business operations. In the third quarter of 2017, UASC Ltd.'s operating business was transferred to Hapag-Lloyd AG along with the associated agreements, which resulted in goodwill of EUR 662.0 million. The change in property, plant and equipment was partly due to investments in three newbuilds (EUR 153.4 million) with a capacity of 10,500 TEU each and to newly purchased containers (EUR 175.7 million), and primarily due to the containers acquired from UASC Ltd. (EUR 625.0 million) and to the additions of container ships resulting from the mergers of First CSAV Ships Germany GmbH and Second CSAV Ships Germany GmbH with Hapag-Lloyd AG (EUR 284.8 million). This effect was offset by depreciation on ships and containers totalling EUR 322.2 million (previous year: EUR 248.0 million). The main reason for the increase in financial assets is the addition of shares in UASC Ltd. totalling EUR 1,286.9 million as a result of the capital increase in exchange for contributions in kind to Hapag-Lloyd AG on 24 May 2017. In turn, the disposals of investment carrying amounts in First CSAV Ships Germany GmbH and Second CSAV Ships Germany GmbH following their merger with Hapag-Lloyd AG reduced financial assets by EUR 238.1 million.

Due to the greater volume of business, current assets increased by EUR 180.3 million year-on-year to EUR 1,580.6 million (previous year: EUR 1,400.3 million).

Accounts receivable and other assets comprised EUR 921.2 million (previous year: EUR 647.3 million). In addition to trade accounts receivable totalling EUR 327.7 million (previous year: EUR 219.2 million), they primarily included accounts receivable from affiliated companies in the amount of EUR 433.0 million (previous year: EUR 278.2 million).

Inventories increased from EUR 280.6 million to EUR 337.1 million. Apart from the rise in bunker prices, this development was largely due to the volume-related increase in bunker supplies in connection with UASC's chartered ships. There are time charter agreements in place between Hapag-Lloyd AG and UASC Ltd. for the ships held by UASC Ltd.

Cash and cash equivalents totalled EUR 322.3 million at the balance sheet date (previous year: EUR 472.4 million). Further details of cash inflows and outflows are provided in the explanatory notes to financing activities under Financial position.

As at 31 December 2017, Hapag-Lloyd AG had equity totalling EUR 3,196.1 million (previous year: EUR 1,143.9 million). The year-on-year change was caused by the capital increase of EUR 1,286.7 million in return for a contribution in kind as a result of acquiring UASC and by the cash capital increase of EUR 351.5 million agreed on 15 July 2016 and carried out on 17 October 2017 as part of the business combination agreement. In addition to this, the net profit for the year of EUR 414.0 million led to a corresponding rise in equity. Including retained earnings carried forward from the previous year of EUR 108.4 million, as at 31 December 2017 there were retained earnings of EUR 522.4 million (previous year: retained earnings of EUR 108.4 million).

Provisions fell from EUR 798.7 million to EUR 745.1 million in the reporting period. This was in particular attributable to the decrease of EUR 62.1 million in provisions for outstanding invoices and of EUR 41.1 million in provisions for onerous currency forward contracts. The provisions as at the balance sheet date included provisions for pensions and similar obligations totalling EUR 144.1 million (previous year: EUR 127.7 million), tax provisions in the amount of EUR 7.5 million (previous year: EUR 3.7 million) and other provisions of EUR 593.5 million (previous year: EUR 667.3 million).

Financial liabilities came to EUR 2,732.0 million at the balance sheet date (previous year: EUR 3,272.0 million). They comprise bonds issued by Hapag-Lloyd AG and liabilities to banks. While the portfolio of bonds grew by EUR 134.0 million as a result of the bond repayments carried out in the 2017 financial year, liabilities to banks fell from EUR 2,482.9 million to EUR 1,808.9 million. The latter development was due in particular to the fact that repayments and early repayments on existing loans in the reporting year (totalling EUR 965.4 million) exceeded new lending from banks (EUR 293.6 million) and loans assumed as a result of the mergers with First CSAV Ships Germany GmbH and Second CSAV Ships Germany GmbH (EUR 213.4 million). The early repayments of EUR 362.4 million primarily related to the refinancing of loan liabilities as three sale and leaseback liabilities. More detailed information on individual financing activities is provided under Financial position. The balance sheet date valuation effects relating to financial liabilities denominated in US dollars also resulted in a decrease of EUR 210.4 million in financial liabilities.

Other liabilities increased from EUR 1,836.2 million to EUR 3,216.8 million. The reason for this was the rise in liabilities to affiliated companies of EUR 855.3 million to EUR 1,965.9 million. This item includes liabilities to UASC of EUR 829.0 million. EUR 398.4 million of this relates to liabilities from finance lease contracts for containers between Hapag-Lloyd AG and UASC (see Financial position). In addition, liabilities from loans and other financing rose by EUR 352.2 million to EUR 560.4 million. This increase was mainly due to three sale and leaseback transactions (see details under Financial position). Other liabilities also primarily include trade accounts payable of EUR 527.4 million (previous year: EUR 337.3 million) and liabilities from finance leases of EUR 128.1 million (previous year: EUR 141.7 million).

STATEMENT ON THE OVERALL ECONOMIC POSITION

The 2017 financial year fulfilled the Executive Board's expectations. Clear growth in volumes led to a corresponding rise in revenue and costs. Freight rate increases on nearly all trades affected Hapag-Lloyd AG's profit in a positive manner. In addition, the business operations of UASC were acquired on 24 May 2017. The subsequent transfer and integration of UASC's operating business at the start of the second half of 2017 resulted in significant changes to the annual financial statements as at 31 December 2017. The frameworks for economic development are not subject to any material changes, however.

REPORT BY THE EXECUTIVE BOARD ON RELATIONSHIPS WITH AFFILIATED COMPANIES

Pursuant to Section 312 of the German Stock Corporation Act (AktG), the Executive Board of Hapag-Lloyd AG prepared a report on relationships with affiliated companies for the period from 1 January to 31 December 2017, which contains the following conclusion: “Our Company received appropriate compensation for each legal transaction listed in the report on relationships with affiliated companies in accordance with the circumstances known to us when the legal transactions were conducted. No actions required by or in the interests of the controlling companies or their affiliated companies subject to a reporting obligation were taken or omitted.”

RISK AND OPPORTUNITY REPORT

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

RISK MANAGEMENT

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

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

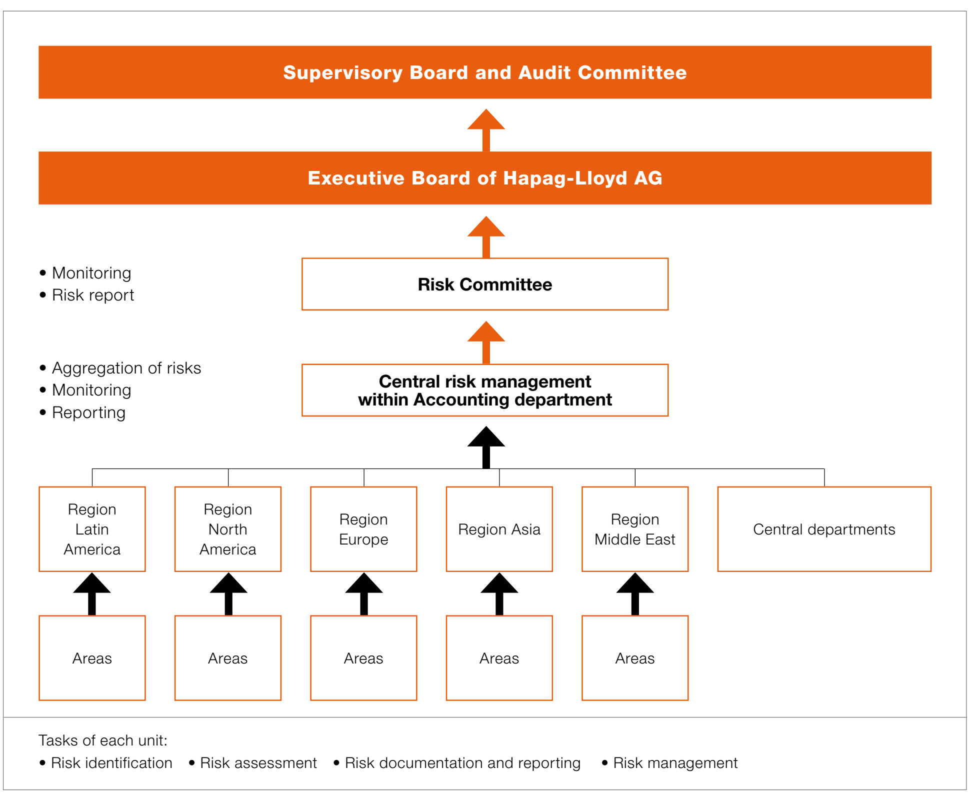
The principles, structures and processes of risk management are defined in a Group guideline which is valid for the entire organisation. The Group's significant risk categories serve as a basis for specifying the structures and responsibilities within the entire process. Furthermore, regular quarterly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

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

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

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

Risk management system of Hapag-Lloyd



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

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

Description of the significant characteristics of the accounting ICS / RMS pursuant to Section 289 (4) of the German Commercial Code (HGB)

Concept and objectives

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

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

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

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

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

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

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

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

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

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

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

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

ICS verification process

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

RISKS

The key risks and their potential impact on the earnings, financial and net asset position of Hapag-Lloyd, including their probability of occurrence, are listed on page 78. The less significant risks are also described in the following section, although the probability of their occurrence and their effects have not been assessed for risk management purposes, unless otherwise stated.

STRATEGIC RISKS

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

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

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

Risks arising from changes in trade flows

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

Risks resulting from intense competition

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

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

Risks resulting from further industry consolidation

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

30 November 2017. Prior to that, Maersk and Hamburg Süd had entered into a slot chartering agreement on East–West trades in February 2017. On 24 May 2017, Hapag-Lloyd completed the legal merger with the Arab container shipping company United Arab Shipping Company (UASC).

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

Risks arising from membership of alliances

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

Since 1 April 2017, Hapag-Lloyd has been operating THE Alliance in partnership with Kawasaki Kisen Kaisha Ltd. (Japan) ("K" Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), Nippon Yusen Kabushiki Kaisha Ltd. (Japan) (NYK) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). As part of the Hapag-Lloyd fleet, UASC's container ships are also used in THE Alliance. THE Alliance is the successor organisation to the Grand Alliance and the G6 Alliance. The partnership is scheduled to last for at least five years. Members must remain in the alliance for 36 months and then give twelve months' notice if they wish to leave. In the event of a change of control or insolvency, a member may be excluded from the alliance. The decision to exclude an alliance member must be taken unanimously by the other members.

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

Risks arising from competition from new alliances

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

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

Risks arising from state aid for competitors

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

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

OPERATING RISKS

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

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

Fuel price risks

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

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

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

In addition, price risks emanating from fuel procurement are hedged by means of hedging transactions in accordance with the internal hedging strategy. This involves hedging the Company's anticipated bunker requirements. By the end of February 2018, approximately 21% of the planned fuel consumption volumes for the 2018 financial year had been hedged.

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

Risks from fluctuations in charter rates

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

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

The proportion of own and leased ships in terms of the total capacity (in TEU) of the Hapag-Lloyd AG fleet as at 31 December 2017 was approximately 37% (previous year: approximately 51%). The remaining 63% are chartered, of which 47 ships are chartered long-term, 15 medium-term and 76 short-term.

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

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

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

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

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

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

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

Risks arising from the biggest trade, Latin America
With a share of around 25% of the container transport volume in 2017, the Latin America trade is Hapag-Lloyd's biggest trade. According to the latest IMF forecast (January 2018), economic growth in the region of Latin America and the Caribbean was 1.3% in 2017 (2016: –0.7%). Economic growth is expected to increase further by 1.9% in 2018, then by 2.6% in 2019. The recent recovery in economic growth could however quickly come to a halt once again as local economies are heavily dependent on political developments, commodity prices and exchange rates. This may have a negative impact on the region's import and export activities, and therefore also on demand for container shipments and consequently on the revenue and earnings performance of Hapag-Lloyd. The volatility of local currencies could also have a negative impact on earnings performance.

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

Risks arising from the loss of the US flag or cabotage business
In certain regional sub-trades in Latin America, Hapag-Lloyd provides container transport services on routes which are protected by regulation from general competition (cabotage business). If Hapag-Lloyd is no longer allowed to operate on these routes or if these routes are opened up to general competition, this could have a negative effect on its earnings position. The cabotage business is operated through the companies CSAV Austral SpA, Companhia Libra de Navegação S.A., Andes Operador Multimodal Ltda and Consorcio Naviero Peruano S. A. If the earnings position of these companies undergoes a sustained deterioration due to the loss of the cabotage business, this could have a negative effect on the recoverable amount of Hapag-Lloyd AG's investment. Both the probability of occurrence and the impact of such risks on Hapag-Lloyd´s earnings before interest and taxes (EBIT) are classified as medium.

Hapag-Lloyd is one of three international container liner shipping companies that provide container transport services for the governmental organisations of the USA (US flag business). If Hapag-Lloyd no longer meets the requirements for this, it could have a negative impact on its earnings position. The US flag business is operated through the company Hapag-Lloyd USA LLC. If the earnings position of this company undergoes a sustained deterioration due to the loss of the US flag business, this could have a negative effect on the recoverable amount of Hapag-Lloyd AG's investment.

Risks arising from the loss of customers and employees
Container shipping operates in a very competitive industry environment. If Hapag-Lloyd is unsuccessful in binding key customers and employees to the Company over the long term, this may have negative consequences for the revenue and earnings position of Hapag-Lloyd. A sustained loss of customer groups that were acquired through taking over the customer base of CP Ships Limited, CSAV and UASC could lead to an impairment of capitalised goodwill in Hapag-Lloyd AG's statement of financial position.

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

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

IT risks

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

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

COMPLIANCE RISKS

Risks caused by regulatory frameworks

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

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

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

Like other companies in the industry, Hapag-Lloyd AG is subject to increasing regulation in the area of data protection and IT security. When the EU General Data Protection Regulation comes into force on 25 May 2018, it will lead to greater general data protection risks and, in particular, increase the maximum fine for violations of data protection law (up to 4% of annual revenue). Similar trends towards tighter regulation and increased sanctions under data protection law are happening globally. Furthermore, the increasing digitalisation of business processes is altering Hapag-Lloyd AG's risk exposure, which means that the additional risks relating to data protection law must be continuously assessed and managed. Both the probability of occurrence and the impact of such risks on Hapag-Lloyd´s earnings before interest and taxes (EBIT) are classified as medium.

Risks resulting from the tightening of climate protection regulations

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

Legal disputes and legal risks

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

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

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

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

Risks from taxation

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

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

Risks from being a listed company

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

FINANCIAL RISKS

Management of financial risks

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

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

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

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

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

From the perspective of the individual Financial Statements of Hapag-Lloyd according to German Commercial Code a strengthening of the US-Dollar represents a significant risk, especially with regards to valuation effects on the balace sheet date of financial debt denominated in US-Dollar.

Both the probability of occurrence and the impact of such risks on Hapag-Lloyd´s earnings before interest and taxes (EBIT) are classified as low. On the other hand, a weakening of the US-Dollar respresents a chance, which has a high probability of occurrence.

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

Risks resulting from changes in the lending values of ships

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

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

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

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

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

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

Liquidity risks

Liquidity risk, i.e. the risk of not being able to fulfil existing or future payment obligations, is managed centrally at Hapag-Lloyd. The Company secures an adequate liquidity reserve for itself by means of syndicated credit facilities and bilateral bank loans, as well as its portfolio of cash and cash equivalents. The liquidity reserve of the Hapag-Lloyd Group as at 31 December 2017 amounted to EUR 1,059.5 million (previous year: EUR 759.6 million). Arrangements with the banks to provide lines of credit are based on a rolling liquidity plan. Including the free credit facilities, Hapag-Lloyd AG's liquidity reserve came to EUR 776.9 million as at 31 December 2017 (previous year: EUR 661.8 million). EUR 322.3 million of this related to cash and cash equivalents as at 31 December 2017 (previous year: EUR 472.4 million).

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

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

Credit default risks

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

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

Risks arising from debt

Hapag-Lloyd AG's financial debt as at 31 December 2017 was EUR 2,732.0 million (previous year: EUR 3,272.0 million). At Group level, Hapag-Lloyd recorded financial debt of EUR 6,335.5 million (previous year: EUR 4,180.7 million). The ability to finance the operating capital, debt servicing and other expenditure depends on the future course of business and the development of income. Due to the existing borrowed capital, a portion of income has to be used to pay interest and service debt. An increase in the total interest-bearing liabilities could possibly make it more difficult for the Company to fulfil the payment obligations for its bonds and loans taken out.

Covenant clauses that are customary in the market and are based on IFRS consolidated financial statements and individual contractual agreements are in place for existing financing from bonds or loans.

They primarily require the Company to comply with minimum adjusted equity requirements, maintain a minimum liquidity level and comply with loan-to-value ratios. In the course of 2017 and as at 31 December 2017, all of the covenants were complied with. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period.

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

Risks arising from the impairment of goodwill and other intangible assets
As at 31 December 2017, the goodwill recognised in the statement of financial position of Hapag-Lloyd AG amounted to EUR 1,175.6 million (previous year: EUR 461.2 million). The consolidated statement of financial position reported goodwill of EUR 1,486.8 million (previous year: EUR 1,661.6 million). Other intangible assets totalled a further EUR 1,785.5 million as at the balance sheet date of 31 December 2017 (previous year: EUR 1,340.4 million). Together, this represented 22.1% of the balance sheet total (previous year: 26.5%). In the event that an impairment test identifies the need to recognise an impairment charge for goodwill or for other intangible assets, this could have a significant negative effect on Hapag-Lloyd's earnings position and equity base. An impairment test as at 31 December 2017 did not identify any need for an impairment charge. As a result, the probability of a potential need for an impairment of goodwill or other intangible assets is classified as low at the time of reporting.

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

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

Risks arising from Hapag-Lloyd AG having a low equity base
As at 31 December 2017, Hapag-Lloyd AG's equity in the individual financial statements prepared under German commercial law totalled EUR 3,196.1 million (previous year: EUR 1,143.9 million) and was therefore significantly lower than the Group's equity. The equity ratio according to the German Commercial Code of 32.3% as at 31 December 2017 was significantly higher than in the previous year (previous year: 16.2%). Hapag-Lloyd AG's financial debt as at 31 December 2017 was EUR 2,732.0 million (previous year: EUR 3,272.0 million). If another loss-making situation occurs, this could have an adverse effect on Hapag-Lloyd AG's equity base under German commercial law and its ability to pay dividends. This could result, for example, from losses under German commercial law due to exchange rate changes with the US dollar. The probability of occurrence is classified as low. The current US dollar / euro exchange rate is USD 1.20 / EUR as at 31 December 2017 (previous year: USD 1.06 / EUR).

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

Risks from a downgrading of the rating
The bonds issued are assessed by the rating agencies Moody's and Standard & Poor's. In principle, the Company intends its future bond issues to be rated in the same way. The credit rating given by the rating agencies influences the Group's ability to take on additional financial debt. Any downgrading of the Hapag-Lloyd Group's rating or that of the bonds it issues could result in less favourable conditions for raising new funds and could adversely affect the price and the fungibility of the securities it has already issued. For example, if there is a sustained deterioration in the Hapag-Lloyd Group's earnings position, the rating agencies could downgrade Hapag-Lloyd's creditworthiness.

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

RISKS ARISING FROM THE TAKEOVER OF UASC

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

Risks arising from the potential failure to achieve the planned synergies
The merger with UASC is expected to deliver annual synergies of around USD 435 million from 2019. These synergies are expected to occur as a result of optimisations in the network and personnel areas and administrative functions. The UASC transaction and the realisation of synergies are expected to result in one-off expenses totalling USD 115 million. One-off expenses of approximately USD 105 million had already been incurred by 31 December 2017.

If the planned synergies cannot be achieved in full, this would have considerable negative effects on Hapag-Lloyd's future earnings.

Risks arising from a substantially higher level of debt

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

Risks arising from a larger fleet

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

Risks arising from the increase in intangible assets

The integration of UASC's business activities increased intangible assets from EUR 3,002.0 million to EUR 3,272.3 million on Hapag-Lloyd's statement of financial position as at 31 December 2017. In the event that an impairment test identifies the need to recognise an impairment charge for goodwill or for other intangible assets, this could have a significant negative effect on Hapag-Lloyd's earnings position and equity base. An impairment could result amongst others from an increase in the general, currently very low, interest rate level.

SUMMARISED OVERVIEW OF CORPORATE RISKS

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

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

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

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

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

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

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

Key risks

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

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

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

OPPORTUNITIES

Opportunities management – strategic focus on opportunities

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

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

STRATEGIC AND OPERATIONAL OPPORTUNITIES

General economic opportunities

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

Opportunities arising from changes in trade flows

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

Opportunities arising from developments in ship and container capacities
The market fluctuations between the supply of and demand for transport services can lead to opportunities as a result of the achievement of cost advantages and increasing freight rates. These opportunities are exemplified as follows:

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

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

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

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

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

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

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

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

FINANCIAL OPPORTUNITIES

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

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

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

OPPORTUNITIES ARISING FROM THE TAKEOVER OF UASC

Opportunities arising from greater than planned synergies

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

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

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

Opportunities arising from a larger fleet

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

SUMMARISED OVERVIEW OF CORPORATE OPPORTUNITIES

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

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

Key opportunities

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

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

OVERALL ASSESSMENT OF RISKS AND OPPORTUNITIES

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

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

DISCLOSURES AND NOTES RELEVANT TO THE TAKEOVER

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

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

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

law or the articles of association or (b) each at their own discretion regarding the respective shares of each of the Anchor Shareholders on resolution proposals which, pursuant to mandatory law or the articles of association, require a simple majority.

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

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

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

3. Shareholdings which exceed 10% of the voting rights

Please refer to the disclosures in the Notes for information about the investments in capital which exceed 10% of the voting rights (Section 8: Subscribed capital). This relates to the latest voting right notifications received by the Company. These do not take account of the total number of voting rights existing at the end of the reporting period.

4. Holders of shares with special rights

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

5. Type of voting right control for employee investments

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

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

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

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

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

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

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

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

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

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

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

b) As part of various ship, container and other bank financing arrangements with outstanding repayment amounts and fixed financing commitments with a value totalling approximately EUR 6,340 million (approximately USD 7,600 million), the respective lenders have an extraordinary right of termination in the event of a qualified change of control at the Company. If the outstanding amounts after the termination cannot be settled or refinanced, the creditors will have, among other options, recourse to the financed assets if necessary.

c) As part of syndicated credit facilities with a value totalling EUR 455 million (USD 545 million), the respective lenders are entitled to terminate the loan commitment and / or seek repayment of the amounts already utilised in the event of a qualified change of control at the Company. If the outstanding amounts after the termination cannot be settled or refinanced, the creditors will have recourse to the collateralised assets to a certain extent.

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

- the voting percentage jointly held in the Company by the Key Shareholders, TUI AG and other shareholders who have entered into a voting agreement or a comparable agreement with a Key Shareholder or TUI AG ("Other shareholders with a voting agreement") (i) falls to 25% or less, or (ii) falls below the percentage held by a third-party shareholder or by persons or groups acting together with this third-party shareholder within the meaning of Section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG); or

- the voting percentage jointly held by the Key Shareholders and TUI AG falls below the voting percentage held by Other shareholder with a voting agreement; or

- one of the Anchor Shareholders (including all of its affiliated companies) individually (directly or indirectly) holds 50% or more of the voting rights in the Company.

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

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

OUTLOOK

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

In its latest economic outlook (January 2018), the International Monetary Fund (IMF) expects global economic growth to reach 3.9% in the current year. This forecast means that the global economy is set to grow at a slightly faster rate in 2018 than in the previous year (+3.7%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 4.6% in 2018 (2017: +4.7%). This means that in 2018 the growth in global trade will once again outpace that of the global economy. IHS Global Insight (November 2017) is forecasting that the global container shipping volume will increase by 4.9% to approximately 146 million TEU in 2018 (2017: 4.7%). As such, the expected rise in worldwide transport volumes in container shipping for 2018 would be in line with the rate of growth 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 a nominal increase in transport capacities of up to approximately 1.2 million TEU for the current year. The anticipated significant rise, caused by the relatively high number of deliveries of large vessels, could again make it more difficult to implement freight rate increases in 2018.

Hapag-Lloyd is expecting a significant increase in its transport volume in 2018 – due in part to the inclusion of UASC's business activities for the whole year. The UASC Group will be included in the consolidated financial statements of Hapag-Lloyd AG for a full twelve months for the first time in 2018 (previous financial year: inclusion of the UASC Group from 24 May 2017). This will involve – in addition to the significant rise in volume – a higher weighting for 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 the general recovery of freight rates continues, Hapag-Lloyd's average freight rate in 2018 is likely to be around the same as in the previous year. Hapag-Lloyd is also expecting a substantial rise in the average bunker consumption price in 2018.

Provided that the expected freight rate is achieved and a significant portion of the synergies from the merger with UASC are realised, along with the expected improvement in the quality of earnings and the anticipated growth in volumes, Hapag-Lloyd is forecasting a substantial year-on-year increase in its EBITDA and EBIT at Group level in 2018. This assumption also takes account of the additional one-off expenses of around USD 10 million which are expected as a result of the merger and integration. Not accounted for here are impairments on goodwill, other intangible assets and property, plant and equipment. Although not expected at present, these cannot be ruled out, given current geopolitical developments and other factors.

The factors influencing Hapag-Lloyd AG's operating result and that of the Group differ mainly as a result of the accounting principles used (IFRS and HGB) and of the different functional currencies (euro and US dollar). The 2017 financial year at Hapag-Lloyd AG was once again dominated by a challenging operating environment. Despite the persistently intense competition in the container shipping industry, freight rates made a remarkable recovery in 2017 compared with the previous year. In contrast to the previous year, the appreciation of the euro against the US dollar helped to substantially improve earnings in the 2017 financial year.

Given the development of the operating result of Hapag-Lloyd AG in terms of currency translation effects as at the 2017 balance sheet date, we can expect a significant improvement in the operating result again in the 2018 financial year, assuming the USD / EUR exchange rate remains constant. This statement is to be considered in connection with the forecast for the Group for the 2018 financial year.

Key benchmark figures for the 2018 outlook of the Hapag-Lloyd Group

Global economic growth (IMF)	3.9%
Increase in global trade (IMF)	4.6%
Increase in global container transport volume (IHS)	4.9%
Transport volume, Hapag-Lloyd	Increasing clearly
Average bunker consumption prices, Hapag-Lloyd	Increasing clearly
Average freight rate, Hapag-Lloyd	On previous year's level
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	Increasing clearly
EBIT (earnings before interest and taxes), Hapag-Lloyd	Increasing clearly

The revenue and earnings forecast is based on the assumption of unchanged exchange rates compared with the average rates in the fourth quarter of the previous year.

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

Risks that may have an impact on the forecast for business development are described in detail in the risk report. Significant risks for the Group's revenue and earnings development include in particular a renewed slowdown in global economic and trade volume growth, a significant and lasting rise in bunker prices extending beyond the level seen at the end of 2017, a sharp and persistent increase in the euro against the US dollar and a renewed reduction in freight rates. Additional risks could result from the consolidation of the industry and changes in the composition of global alliances.

The occurrence of one or more of these risks could have a significant negative impact on the industry in 2018 and, by extension, on the business development of Hapag-Lloyd in the current financial year.

Hamburg, 23 March 2018

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Thorsten Haeser

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET

of the Hapag-Lloyd Aktiengesellschaft as at 31 December 2017

ASSETS

million EUR	Notes	31.12.2017	31.12.2016
A. Fixed assets	(1)		
I. Intangible assets		1,182.2	468.7
II Property, plant and equipment		5,239.0	4,319.9
III. Financial assets	(2)	1,888.9	852.0
		8,310.1	**5,640.6**
B. Current assets			
I. Inventories	(3)		
1. Raw materials and supplies		180.3	113.7
2. Unfinished voyages		188.7	183.3
3. Prepayments received		0.6	2.5
4. Payments received on account of orders		–32.5	–18.9
		337.1	**280.6**
II. Accounts receivable and other assets	(4)		
1. Trade accounts receivable		327.7	219.2
2. Accounts receivable from affiliated companies		433.0	278.2
3. Accounts receivable from associated companies		0.2	11.1
4. Other assets		160.3	138.8
		921.2	**647.3**
III. Cash-in-hand, bank balances and cheques	(5)	322.3	472.4
		1,580.6	**1,400.3**
C. Prepaid expenses	(6)	**11.3**	**13.6**
D. Excess of plan assets over post-employment benefit liability		**0.0**	**3.9**
Total assets		**9,902.0**	**7,058.4**

Rounding differences may occur.

EQUITY AND LIABILITIES

million EUR	Notes	31.12.2017	31.12.2016
A. Equity			
I. Subscriped capital	(7)	175.8	118.1
II Capital reserves	(8)	2,497.9	917.4
III. Retained earnings	(8)	522.4	108.4
		3,196.1	**1,143.9**
B. Provisions	(10)		
1. Provision for pensions and similar obligations		144.1	127.7
2. Tax provisions		7.5	3.7
3. Other provisions		593.5	667.3
		745.1	**798.7**
C. Liabilities	(11)		
1. Bonds		923.1	789.1
2. Liabilities to banks		1,808.9	2,482.9
3. Trade accounts payable		527.4	337.3
4. Liabilities to affiliated companies		1,965.9	1,110.6
5. Liabilities to associated companies		12.4	9.3
6. Other liabilities (thereof for taxes EUR 2.5 million; prior year: EUR 2.1 million) (thereof for social security EUR 1.0 million; prior year: EUR 1.1 million)		711.1	379.0
		5,948.8	**5,108.2**
D. Deferred income	(12)	**12.0**	**7.6**
Total equity and liabilities		**9,902.0**	**7,058.4**

Rounding differences may occur.

INCOME STATEMENT

of the Hapag-Lloyd Aktiengesellschaft
for the period 1 January to 31 December 2017

million EUR		Notes	1.1.–31.12.2017	1.1.–31.12.2016
1.	Revenue	(15)	9,540.6	7,590.8
2.	Increase/decrease in capitalised expenses for unfinished voyages		5.4	–2.0
3.	Other operating income	(16)	1,094.6	690.1
			10,640.6	**8,278.9**
4.	Transport expenses	(17)	8,099.7	6,614.0
5.	Personnel expenses	(18)	266.5	209.8
6.	Amortisation of intangible fixed assets and depreciation of property, plant and equipment	(19)	383.5	278.6
7.	Other operating expenses	(20)	1,283.0	1,270.8
			10,032.7	**8,373.2**
8.	**Operating result**		**607.9**	**–94.3**
9.	Income from profit transfer		5.9	56.1
10.	Income from investments		41.2	42.9
11.	Income from loans within financial assets		5.5	1.2
12.	Other interest and similar income		26.1	16.9
13.	Amortisation of financial assets		6.0	29.2
14.	Expenses from transfer of losses		0.0	0.1
15.	Interest and similar expenses		239.1	172.6
16.	**Financial result**	(21)	**–166.4**	**–84.8**
17.	Taxes on income	(22)	6.4	5.0
18.	**Result after taxes**		**435.1**	**–184.1**
19.	Other taxes		21.1	17.3
20.	**Net profit of the year**		**414.0**	**–201.4**
21.	Retained earnings brought forward		108.4	108.4
22.	Withdrawals from capital reserves		0.0	201.4
23.	**Retained earnings brought forward**	(8)	**522.4**	**108.4**

Rounding differences may occur.

NOTES

GENERAL NOTES

Hapag-Lloyd Aktiengesellschaft, domiciled in Hamburg, is registered in commercial register B of the district court in Hamburg under the number HRB 97937.

The annual financial statements of Hapag-Lloyd AG were prepared in accordance with the German Commercial Code (HGB) as amended by current version of the German CSR Guideline Implementation Act (CSR-RUG) dated 11 April 2017 and in accordance with the supplementary provisions of the German Stock Corporation Act (AktG).

The annual financial statements are published in the online version of the German Federal Gazette. The financial year corresponds to the calendar year.

The annual financial statements, comprising the statement of financial position, the income statement and the Notes, are prepared in euros (EUR); the amounts are quoted in million euros (million EUR).

The income statement is prepared using the total cost method. For clarity of presentation, individual items have been summarised in the statement of financial position and the income statement and are listed separately and explained in the Notes.

Hapag-Lloyd AG and the Arab shipping company United Arab Shipping Company Ltd. ("UASC Ltd."), Dubai, United Arab Emirates, signed a business combination agreement on 15 July 2016. The legal merger came into effect as at 24 May 2017 following the acquisition of 100% of the shares in UASC Ltd. in the form of a contribution in kind in exchange for the issuing of approximately 45.9 million Hapag-Lloyd shares to the previous shareholders. The shares of UASC Ltd. were recognised at fair value of EUR 1,286.9 million.

After acquiring the shares in UASC, Hapag-Lloyd also acquired UASC's entire container liner service as well as the associated intangible assets for a purchase price of EUR 662.0 million. A goodwill was recognised from the acquisition in the same amount. The gradual integration of the operating business of UASC's container shipping activities occurred in the third quarter and was completed in September 2017. This included among other things consolidating the services and ship systems in the various trades and transferring the operating business to Hapag-Lloyd's IT systems. In order to conduct the container transport operations, all of UASC's containers were provided to Hapag-Lloyd for its use with effect from 1 July 2017. Hence Hapag-Lloyd has entered into existing operating leases and finance leases through novation. Furthermore UASC has leased containers directly to Hapag-Lloyd via finance leases. Hapag-Lloyd bears all the significant risks and rewards arising from the lease agreements. From this particular transaction containers in the amount of EUR 625.0 million were recognised in property, plant and equipment and lease liabilities were recognised in the same amount. Furthermore, in addition to acquiring UASC's ship fleet through charter agreements and the integration of those vessels into the fleet planning and network, Hapag-Lloyd acquired the employees in the sales companies in Germany, the Netherlands and Belgium in particular.

In light of the aforementioned circumstances in relation to UASC, the statement of financial position – in particular, goodwill, property, plant and equipment and the corresponding lease liabilities, and financial assets – is therefore only comparable with 2016 to a limited extent. In addition, the income statement is only comparable with the previous year to a limited extent due to the acquisition of the container liner business and the resultant increase in revenue and transport expenses. Due to the transition of operating activities to Hapag-Lloyd's IT systems in the course of the year, it is not possible to quantify the increase in revenue and transport expenses attributable to UASC without incurring excessive costs. The depreciation, amortisation and impairment of intangible assets (goodwill) and property, plant and equipment (containers) related to the acquisition of UASC's container liner business and all of its containers in the course of various finance transactions amounted to EUR 46.4 million in the financial year, of which EUR 16.5 million was attributable to goodwill and EUR 29.9 million to containers. Interest expenses related to leases carried as liabilities amounted to EUR 8.8 million.

In addition, First CSAV Ships Germany GmbH ("First CSAV"), Hamburg, Germany, Second CSAV Ships Germany GmbH ("Second CSAV"), Hamburg, Germany, United Arab Shipping Company Europe GmbH ("UASC Europe"), Hamburg, Germany, and United Arab Shipping Agency Company (Deutschland) GmbH ("UASAC Deutschland"), Hamburg, Germany, merged with the sole shareholder Hapag-Lloyd AG in the reporting period, in each case as part of an upstream merger. The mergers were carried out at carrying amounts without the capital increase. The investment carrying amount and the net assets transferred for each transaction are shown in the following table:

Acquired company	Investment carrying amount (in million EUR)	Net assets transferred (in million EUR)	Merger date
First CSAV	205.4	205.4	1 January 2017
Second CSAV	32.7	32.7	1 January 2017
UASC Europe	0.7	0.7	1 July 2017
UASAC Deutschland	0.0	–1.2	1 July 2017

All the business transactions of the acquired companies from 1 January 2017 (First CSAV and Second CSAV) and 1 July 2017 (UASC Europe and UASAC Deutschland) have been presented in the annual financial statements of Hapag-Lloyd AG and all assets and liabilities of each company were acquired on these dates.

In the context of the aforementioned mergers, the statement of financial position – in particular, fixed assets and financial debt – is only comparable with 2016 to a limited extent. For more detailed information, please refer to the section "Notes on the statement of financial position – assets". The income statement is not wholly comparable in particular due to the absence of the charter expenses taken into account in the previous year as part of transport expenses in relation to the mergers of First and Second CSAV. Hapag-Lloyd's charter expenses relating to these two companies totalled EUR 82.3 million in the previous year. The depreciation, amortisation and impairment of intangible assets (goodwill) and property, plant and equipment (ships) related to the mergers amounted to EUR 26.0 million in the financial year, of which EUR 13.9 million was attributable to goodwill and EUR 12.1 million to ships. Concerning the comparability of interest expenses relating to the financing of the loans for the six container ships acquired, the basis used is the previous year's interest expenses in the amount of EUR 10.0 million due to refinancing in the current financial year.

ACCOUNTING AND MEASUREMENT PRINCIPLES

The previous year's accounting and measurement principles and balance sheet structure were maintained in the year under review.

Currency translation

In accordance with Section 256a of the German Commercial Code (HGB), foreign currency receivables/liabilities, cash and cash equivalents, and provisions are carried at the mean spot exchange rate on the reporting date. Observance of the lowest/highest value principle for long-term other foreign currency receivables/liabilities is guaranteed by comparing the acquisition and measurement exchange rates. The costs of acquisition of fixed assets purchased in foreign currency – primarily ships and containers invoiced in US dollars – are calculated by converting them on the basis of the currency exchange rates valid at the time of their acquisition.

Cash in hand, bank balances, accounts receivable and other assets denominated in foreign currencies and with a maturity of up to one year are translated on the basis of the mean spot exchange rate on the balance sheet date.

Fixed assets

Intangible assets

Intangible assets acquired in return for payment are carried at cost of acquisition, are written off on a straight-line basis over the course of their expected useful lives and are recorded as a disposal in the year in which they are written off in full. Trademark rights are not subject to amortisation due to the likelihood of an indefinite useful life. Internally generated intangible assets are not recognised as assets.

Goodwill acquired is written off on a straight-line basis over a useful life of 20 years as well as over a useful life of 10 years. The reason for the duration of 20 years is the longevity of the customer portfolio and of the expected synergy potential from acquiring the business operations of the container liner shipping company CSAV in 2015 and of UASC in 2017. The duration of 10 years is due to the goodwill acquired during the year as part of the mergers and is based on the residual useful lives of the ships acquired.

Property, plant and equipment

Property, plant and equipment are carried at historical cost less depreciation or, if applicable, impairment charges. Depreciation is recognised on a straight-line basis over the estimated useful operating life of an asset up to the amount of the anticipated residual/scrap value. Depreciation on additions to property, plant and equipment are recorded on a pro rata basis. Estimation of the residual value is based on the current realisable value for a comparable asset to be sold which has already reached the end of its useful life and which was used under similar circumstances. Ships are depreciated over a useful economic life of 25 years, taking their scrap values into account. Containers are depreciated to a residual value of 10% or 20% of their cost of acquisition depending on the container type over a useful economic life of 13 years. Write-downs are effected if there is likely to be ongoing impairment. Impairment losses are reversed up to the amount of the amortised cost if the reasons for ongoing impairment no longer apply.

Provided that Hapag-Lloyd AG as the lessee bears all the substantial risks and rewards associated with the lease, leased assets are included in the statement of financial position upon recognition at the net present value of the minimum lease payments. They are subject to straight-line depreciation throughout the term of the lease or the useful life of the asset (whichever is longer), provided that it is sufficiently certain at the beginning of the lease that legal ownership of the asset will be transferred to the Company once the contractual term expires.

Low-value assets with an historical cost of greater than EUR 150 and up to EUR 1,000 are recorded as a collective item for the financial year in accordance with Section 6 (2a) of the German Income Tax Act (EStG), this item being depreciated by 20% for the year.

Financial assets

Shares in affiliated companies and holdings are carried at cost of acquisition or fair value, whichever is lower. Impairment to a lower value is performed on the balance sheet date if the impairment is likely to be ongoing. Impairment losses are reversed at a maximum up to the amount of the cost of acquisition if the reasons for ongoing impairment no longer apply.

Loans are carried at their nominal value. Appropriate specific valuation allowances are accrued to cover items subject to risk.

Current assets

Raw materials, supplies and purchase goods are carried at historical cost or at fair value, whichever is lower. Fuel inventories are measured on the basis of a moving average price. A write-down on fuel inventories is recorded at the balance sheet date if the market price is below the carrying amount. Unfinished voyages are measured on the basis of the direct costs plus the minimum overhead costs required pursuant to German Commercial Code; interest on borrowing costs is not included. Corrections are made to the capitalised expenses of loss-making unfinished voyages to adjust them for the anticipated losses. Prepayments received are offset against the inventories.

Accounts receivable, other assets and cash and cash equivalents are carried at their nominal value. Identifiable individual risks from receivables are taken into account by means of specific valuation allowances.

Derivative financial instruments are valued at their cost of acquisition or market value, whichever is lower, at the balance sheet date. The market values of bunker options are calculated using the Black & Scholes model or the modified Turnbull & Wakeman model and are based on the current exchange rates, commodity prices, currency and commodity price volatility, yield curves and forward prices. Currency forward contracts are measured on the basis of their market-traded forward prices as at the reporting date.

Structured financial instruments are analysed to determine the existence of embedded derivatives. Embedded derivatives are recognised separately from their underlying contracts as independent assets and liabilities in accordance with the relevant German Commercial Code requirements, if, based on economic criteria, instruments demonstrate significantly higher or additional risks or opportunities compared to the host instrument, and these characteristics are due to the presence of embedded derivatives. On initial recognition, the cost of a structured financial instrument is recognised in proportion to the fair value of its separate components. The market value of the embedded derivatives is calculated using the Hull-White model together with a trinomial decision tree based on current market values.

Prepaid expenses

Expenses prior to the balance sheet date are recognised as prepaid expenses insofar as they constitute expenses for a specific period subsequent to this date.

Provisions

Provisions for pensions are determined in accordance with actuarial principles on the basis of the projected unit credit method, drawing on the 2005 G mortality tables devised by Prof. Dr Klaus Heubeck. The average market interest rate over the past ten years as published by Deutsche Bundesbank for a remaining term of 15 years is used for discounting. The positive difference between the pension provision method based on the corresponding average market interest rate for the previous 10 financial years and the pension provision method based on the corresponding average market interest rate for the previous 7 financial years is non-distributable if the freely available reserves – plus retained earnings carried forward and less losses carried forward – remaining after the distribution are not at least equal to the difference.

For measurement as at 31 December 2017, the interest rate based on the interest rate information published on 31 October 2017 is used as the basis of a forecast for 31 December 2017. This is 3.67% p. a. (previous year: 4.00% p. a.). This measurement is also based on the following assumptions: a salary trend of 2.5% p. a. (previous year: 2.5% p. a.), a pension trend of 5.5% every 3 years (previous year: 5.5% every three years), and a fluctuation rate of 1.0% p. a. (previous year: 1.0% p. a.). Deviating from these figures, the provisions relating to the branch in the Netherlands are calculated using a pension trend of 2.0% p. a. (previous year: 2.0% p. a.) and a fluctuation rate of between 0% and 10% p. a. depending on the age of the employees (previous year: between 0% and 10% p. a.).

Reinsurance agreements exist in relation to some of the pension provisions, these being pledged to the retirees. Accordingly, the provisions and the equivalent amount of the reinsurance are recognised net in accordance with Section 246 (2) of the German Commercial Code (HGB). In addition, there are special-purpose funds in place for another portion of the pension provisions and for obligations relating to employees' pre-retirement part-time employment agreements. These are not available to other creditors. Plan assets are measured at their fair value and are offset against the underlying provisions. In the event of an excess of obligations, this is recognised under provisions. If the value of the securities exceeds the obligations, they are recognised on the assets side of the statement of financial position as excess of plan assets over post-employment benefit liability. Insofar as the fair value of plan assets is above the historic cost of acquisition, the income generated by these assets is subject to the distribution restriction pursuant to Section 268 (8) (3) of the German Commercial Code (HGB).

Tax provisions and other provisions are calculated using the settlement amount estimated on the basis of prudent business judgement. All the identifiable risks are taken into account appropriately in the measurement of these provisions. Provisions with a remaining term of more than one year are discounted using the average market interest rate which corresponds to their remaining term and which is calculated based on the previous 7 financial years. The discount rates for similar maturities published by the Deutsche Bundesbank for discounting other provisions range from 1.33% to 2.02% in 2017, depending on the remaining term.

Liabilities

Liabilities are recognised at their settlement amount. In the event that the settlement amount of a liability is greater than the issue price, the difference is recognised as a prepaid expense in the income statement on a pro rata basis over the term of the liability. In the event that the settlement amount of a liability is less than the issue price, the difference is recognised as deferred income in the income statement on a pro rata basis over the term of the liability.

In the event that a leased asset is capitalised, a lease obligation is recognised at the same time, with an initial carrying amount equivalent to that of the leased asset recognised. Each lease payment is divided into an interest portion and a repayment element. The interest portion is recognised as an expense in the income statement; the repayment element reduces the lease obligation recognised.

Deferred income

Income prior to the balance sheet date is recognised as deferred income insofar as it constitutes income for a specific period subsequent to this date.

Deferred taxes

Deferred taxes resulting from temporary differences between the carrying amounts of assets, liabilities and prepaid expenses according to German Commercial Code and tax law are determined using the balance sheet concept. Tax loss carry-forwards are taken into account in addition to the temporary differences. As Hapag-Lloyd AG has opted for tonnage taxation, temporary measurement differences do not affect taxation, with the result that no deferred taxes are calculated. For domestic income which is not subject to tonnage taxation, a combined income tax rate of 32.3% was used both in 2017 and 2016 to calculate the deferred taxes. A resulting tax burden would be carried as a deferred tax liability in the statement of financial position. As in the previous year, Hapag-Lloyd AG did not avail itself of the option of recognising deferred tax assets due to tax relief generated pursuant to Section 274 (1) (2) of the German Commercial Code (HGB). Overall in the 2017 financial year, there was an unrecognised deferred tax asset. This resulted from a corporate income tax loss carry-forward and an interest carry-forward.

NOTES ON THE STATEMENT OF FINANCIAL POSITION – ASSETS

1. Fixed assets

The asset items summarised in the statement of financial position and their development in the 2017 financial year can be found in the statement of fixed assets under *Annexe I* to the Notes.

The statement of fixed assets contains separate columns to present the effects of the mergers in the 2017 financial year on fixed assets. The addition of the container ships is presented as a gross amount in the statement of fixed assets as additions resulting from the merger. In the 2017 financial year, First CSAV, Second CSAV, UASC Europe and UASAC Deutschland each merged with the sole shareholder Hapag-Lloyd AG as part of an upstream merger. The mergers were carried out at carrying amounts without the capital increase. The respective net assets are compared below with the corresponding investment carrying amounts for the significant mergers (First CSAV and Second CSAV) in the 2017 financial year.

million EUR	Transfered net assets of First CSAV Ships Germany GmbH
Fixed ssets	**345.5**
Intangible assets	92.7
Property, plant and equipment	252.8
Current assets	**79.8**
Inventories	0.4
Trade accounts receivable and other assets	72.0
Cash and cash equivalents	7.4
Prepaid expenses	**0.1**
Total assets	**425.4**
Provisions	2.4
Liabilities	217.6
Total liabilities	**220.0**
Transfered net assets	**205.4**
Carrying amount of the investment	**205.4**

million EUR	Transfered net assets of Second CSAV Ships Germany GmbH
Fixed ssets	**47.3**
Intangible assets	15.3
Property, plant and equipment	32.0
Current assets	**13.5**
Inventories	0.1
Trade accounts receivable and other assets	12.4
Cash and cash equivalents	1.0
Prepaid expenses	**0.0**
Total assets	**60.8**
Provisions	0.7
Liabilities	27.4
Total liabilities	**28.1**
Transfered net assets	**32.7**
Carrying amount of the investment	**32.7**

The increase in intangible assets is mainly due to the addition of goodwill acquired of EUR 662.0 million as a result of the acquisition of UASC's container shipping activities and to the addition of goodwill as a result of the upstream merger of First CSAV (EUR 92.7 million) and Second CSAV (EUR 15.3 million) with Hapag-Lloyd AG.

As well as additions of container ships with a net value of EUR 284.8 million as a result of the upstream merger of First CSAV and Second CSAV with Hapag-Lloyd AG, the increase in property, plant and equipment is also due to investments of EUR 960.6 million in ships and containers (previous year: EUR 266.4 million). The investments in container ships relate in particular to 3 newbuilds (EUR 153.4 million). The investments in containers relate to both new purchases (EUR 175.7 million) and containers acquired from UASC Ltd. (EUR 625.0 million).

2. Financial assets

The increase in shares in affiliated companies is primarily due to the addition of shares in UASC Ltd., which were recognised with a fair value of EUR 1,286.9 million. The fair value is calculated on the basis of the discounted cash flow method. In addition to the investment carrying amounts, a long-term loan to an affiliated company is recognised in financial investments. Hapag-Lloyd AG's main indirect and direct holdings are outlined in *Annexe II* to the Notes.

3. Inventories

million EUR	31.12.2017	31.12.2016
Raw materials and supplies	180.3	113.7
Unfinished voyages	188.7	183.3
Prepayments received	0.6	2.5
Payments received on account of orders	–32.5	–18.9
Total	**337.1**	**280.6**

4. Accounts receivable and other assets

Accounts receivable from affiliated companies primarily comprise a shareholder loan made to Hapag-Lloyd Special Finance DAC ("Hapag-Lloyd Special Finance") in Dublin, Ireland, in the amount of EUR 308.0 million (previous year: EUR 158.3 million) in connection with an existing asset securitisation.

million EUR	31.12.2017	thereof remaining duration > 1 year	31.12.2016	thereof remaining duration > 1 year
Trade accounts receivable	327.7	0.0	219.2	0.0
Accounts receivable from affiliated companies	433.0	0.0	278.2	0.0
thereof from trade accounts receivable	47.4	0.0	21.2	0.0
Accounts receivable from associated companies	0.2	0.0	11.1	0.0
Other assets	160.3	22.1	138.8	22.9
Total	**921.2**	**22.1**	**647.3**	**22.9**

Among other things, other assets include cash and cash equivalents with restricted availability of EUR 30.3 million (previous year: EUR 18.7 million) and derivative financial instruments, in particular for paid option premiums for the hedging of fuel risks. In addition, the derivative financial instruments comprise embedded derivatives in the form of buy-back options for the bonds issued. These are accounted for separately to the underlying host instruments. The carrying amount of embedded derivatives totalled EUR 7.8 million as at the balance sheet date (previous year: EUR 13.7 million).

The following derivative financial instruments with a positive fair value existed as at the balance sheet date:

Derivatives

million EUR	Nominal value as per 31.12.2017	Fair value as per 31.12.2017	Carrying amount as per 31.12.2017
Commodity options	188.4	11.4	5.2
Embedded derivatives	0.0	8.6	7.8

The term of the embedded derivatives is more than one year.

5. Cash in hand, bank balances and cheques

This item encompasses cash in hand, bank balances and other financial investments that can be converted into defined cash amounts at any time. Fully utilised overdraft facilities are not deducted from cash in hand, but rather are shown as liabilities to banks under current financial debt.

6. Prepaid expenses

This item includes amounts recognised for charters, rental and lease expenses, and insurance premiums for subsequent years.

NOTES ON THE STATEMENT OF FINANCIAL POSITION – LIABILITIES

7. Subscribed capital

Hapag-Lloyd AG has subscribed capital of EUR 175.8 million (previous year: EUR 118.1 million). It is divided into 175.8 million no-par registered shares with equal rights (previous year: 118.1 million). Each individual share represents EUR 1.00 of the share capital (previous year: EUR 1.00).

The Company's subscribed capital increased by EUR 45.9 million with effect from 24 May 2017 as a result of the incorporation of UASC Ltd. into Hapag-Lloyd AG by means of a non-cash capital increase in exchange for new shares. In a second step, a cash capital increase of EUR 11.7 million was made on 17 October 2017.

Under a resolution approved at the Annual General Meeting on 26 August 2016, the Executive Board is, subject to the approval of the Supervisory Board, authorised to increase the Company's share capital by up to EUR 50.0 million up to 30 June 2018 by issuing new no-par registered shares in exchange for cash and/or contributions in kind on one or more occasions. This authorised share capital was utilised to effect the capital increase of EUR 45.9 million on 24 May 2017.

Subject to the approval of the Supervisory Board, the Executive Board was also authorised by a resolution passed at the Annual General Meeting on 29 May 2017 to increase the Company's share capital by up to EUR 23.0 million up to 30 April 2022 by issuing new no-par registered shares in exchange for cash and/or contributions in kind on one or more occasions. This authorised share capital was utilised to effect the capital increase of EUR 11.7 million on 17 October 2017.

Disclosures on investments in the capital of Hapag-Lloyd AG

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

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

The Luksburg Stiftung, Vaduz, Liechtenstein, notified us on 5 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to

37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, Compañía Sud Americana de Vapores S.A., Quiñenco S.A., Andsberg Inversiones Limitada, Ruana Copper A.G. Agencia Chile and Inversiones Orengo S.A., of which 3% or more are assigned in each case.

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

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

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

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

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

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

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

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

The Free and Hanseatic City of Hamburg, Germany, notified us on 6 November 2015 pursuant to Section 21 (1a) WpHG that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 50.94% of the voting rights (corresponding to 60,160,816 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and CSAV Germany Container Holding GmbH. 20.63% of the voting rights (corresponding to 24,363,475 voting rights) are attributable to the Company through HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH pursuant to Section 22 (1) (1) (1) WpHG, of which 3% or more are assigned.

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

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

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

Authorised share capital

Based on the authorisation granted by the Annual General Meeting on 26 August 2016 and entered on 4 October 2016, the Executive Board made a decision on 18 May 2017, with the approval of the Supervisory Board on 23 May 2017, to increase the share capital by EUR 45,932,023.00 to EUR 164,042,940.00 in exchange for contributions in kind. The capital increase was carried out and entered into the commercial register on 24 May 2017.

Under a resolution approved at the Annual General Meeting on 29 May 2017, the information regarding authorised share capital in the articles of association was amended. Accordingly, the Executive Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 23.0 million in the period to 30 April 2022 by issuing up to 23,000,000 million new no-par registered shares in exchange for cash and/ or non-cash contributions (Authorised Share Capital 2017). The amendment to the articles of association was entered on 20 July 2017. As a general rule, subscription rights should be provided to the shareholders. The new shares can also be acquired by one or more banks, provided that they are offered to the shareholders for subscription. Under certain circumstances and subject to the approval of the Supervisory Board, the Executive Board is authorised to exclude the subscription rights of the shareholders in order to exclude fractional amounts from the subscription right.

The Executive Board's authorisation, which was subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 50.0 million in the period to 30 June 2018 by issuing up to 50,000,000 million new no-par registered shares in exchange for cash contributions and/or contributions in kind (Authorised Share Capital 2016) was cancelled with effect from the date on which the Authorised Share Capital 2017 was entered.

The Executive Board made a decision on 28 September 2017, with the approval of the Supervisory Board on 27 September 2017, to increase the share capital by EUR 11,717,353.00 to EUR 175,760,293.00 utilising the Authorised Share Capital 2017 entered on 20 July 2017. The capital increase was carried out and entered into the commercial register on 17 October 2017.

The Authorised Share Capital pursuant to the authorisation granted on 29 May 2017 (Authorised Share Capital 2017) still amounted to EUR 11,282,647.00 as at 31 December 2017 following partial utilisation.

8. Capital reserves and retained earnings

The gross issue proceeds from the two capital increases carried out in the 2017 financial year totalled EUR 1,638.2 million. Of this amount, EUR 1,286.7 million relates to the capital increase in exchange for contributions in kind on 24 May 2017 and EUR 351.5 million to the cash capital increase on 17 October 2017. The new shareholders' contributions in exchange for contributions in kind were allocated to the capital reserve pursuant to Section 272 (2) (4) of the German Commercial Code (HGB) and came to EUR 1,240.8 million. The new shareholders' contributions as a result of the cash capital increase were allocated to the capital reserve pursuant to Section 272 (2) (1) of the German Commercial Code (HGB) and came to EUR 339.8 million.

Taking into account the profit of EUR 108.4 million carried forward from 2016, the annual financial statements of Hapag-Lloyd AG reported retained earnings of EUR 522.4 million.

The Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting to use the retained earnings of EUR 522.4 million to pay a dividend of EUR 0.57 per dividend-eligible share and, following payment of the dividends totaling EUR 100.2 million, to carry forward the remaining retained earnings of EUR 422.2 million to the subsequent year.

9. Information regarding non-distributable amounts

The difference between the cost of acquisition and the plan assets of pension and pre-retirement part-time employment provisions as carried at their fair value resulted in a non-distributable amount totalling EUR 2.0 million (previous year: EUR 1.6 million).

The difference between the provision method which uses the average market interest rate for the previous ten years as at the reporting date of 31 December 2017 (interest rate of 3.67% for an assumed remaining term of 15 years) for discounting purposes and the provision method which uses the average market interest rate for the previous seven years (interest rate of 2.80% for an assumed remaining term of 15 years) for discounting purposes is EUR 32.1 million.

These non-distributable amounts are offset by freely available reserves in the amount of EUR 1,513.9 million. Freely available reserves comprise the capital reserves pursuant to Section 272 (2) (4) of the German Commercial Code (HGB).

10. Provisions

Provisions for pensions and similar obligations include pension provisions in the amount of EUR 20.2 million (previous year: EUR 19.2 million) in relation to which the entitlements from reinsurance arrangements at fair value totalling EUR 10.5 million (previous year: EUR 10.7 million) are pledged to the retirees. For pledged reinsurance arrangements, the amortised cost is the same as the fair value. Expenses relating to the discounting of provisions for pensions totalling EUR 0.8 million (previous year: EUR 0.7 million) compare with income from the fair value measurement of the plan assets in the amount of EUR 0.4 million (previous year: EUR 0.4 million).

The settlement amount for the other offset provisions totalled EUR 39.8 million on 31 December 2017 (previous year: EUR 36.7 million). The cost of all offset assets amounts to EUR 34.7 million (previous year: EUR 38.9 million), with their fair value amounting to EUR 36.8 million (previous year: EUR 40.5 million). Expenses relating to the discounting of provisions for pensions totalling EUR 1.5 million (previous year: EUR 1.4 million) compare with income from the fair value measurement of the plan assets in the amount of EUR 0.7 million (previous year: EUR 1.0 million).

The income resulting from the change to the discount rate was recognised in the operating result (personnel expenses).

Other provisions totalling EUR 593.6 million (previous year: EUR 667.3 million) include provisions for outstanding invoices in the amount of EUR 334.4 million (previous year: EUR 396.5 million), personnel expenses in the amount of EUR 61.6 million (previous year: EUR 33.9 million), maintenance of leased containers in the amount of EUR 46.1 million (previous year: EUR 60.9 million) and uninsured damage to third-party property and cargo totalling EUR 22.3 million (previous year: EUR 18.2 million). These also comprise provisions for other risks totalling EUR 129.2 million (previous year: EUR 157.8 million), which include country-specific risks (EUR 69.5 million; previous year: EUR 51.6 million) and obligations under a guarantee issued for the benefit of a subsidiary for existing pension obligations there (EUR 12.3 million; previous year: EUR 15.3 million).

11. Liabilities

million EUR	31.12.2017 Total	thereof with remaining duration less than 1 year	more than 1 year	thereof more than 5 years	31.12.2016 Total	thereof with remaining duration less than 1 year	more than 1 year	thereof more than 5 years
Financial liabilities								
Bonds	923.1	23.1	900.0	450.0	789.1	139.1	650.0	0.0
Liabilities to banks	1,808.9	340.3	1,468.6	546.2	2,482.9	631.9	1,851.0	611.0
thereof secured by liens and similar rights	1,744.3	302.2	1,442.1	546.2	2,272.0	481.4	1,790.6	611.0
	2,732.0	**363.4**	**2,368.6**	**996.2**	**3,272.0**	**771.0**	**2,501.0**	**611.0**
Other liabilities								
Liabilities to affiliated companies	1,965.9	1,596.4	369.5	31.1	1,110.6	1,079.8	30.8	30.8
thereof trade accounts payable	1,120.7	1,120.7	0.0	0.0	1,068.3	1,068.3	0.0	0.0
Liabilities to associated companies	12.4	12.4	0.0	0.0	9.3	9.3	0.0	0.0
Trade accounts payables	527.4	527.4	0.0	0.0	337.3	337.3	0.0	0.0
Other liabilities	711.1	115.3	595.8	261.7	379.0	89.2	289.8	49.0
thereof for taxes	2.5	2.5	0.0	0.0	2.1	2.1	0.0	0.0
thereof for social security	1.0	1.0	0.0	0.0	1.1	1.1	0.0	0.0
thereof secured by liens and similar rights	687.7	91.9	595.8	261.7	349.1	67.1	282.0	49.0
	3,216.8	**2,251.5**	**965.3**	**292.8**	**1,836.2**	**1,515.6**	**320.6**	**79.8**
Total	**5,948.8**	**2,614.9**	**3,333.9**	**1,289.0**	**5,108.2**	**2,286.6**	**2,821.6**	**690.8**

The liabilities secured by liens essentially relate to mortgages for the container ships being financed and collateral for the containers being financed.

The increase in liabilities to affiliated companies is predominantly due to liabilities to UASC Ltd. in the amount of EUR 829.0 million. These primarily relate to lease liabilities in connection with the UASC containers acquired during the year in the amount of EUR 398.4 million and to other liabilities of EUR 398.7 million, in particular as a result of the acquisition of UASC's container shipping activities.

In addition, the liability to Hapag-Lloyd Special Finance was EUR 587.6 million as at the reporting date (previous year: EUR 435.0 million). This liability relates to the receivables securitisation programme. This rise is primarily attributable to the increased portfolio of receivables relating to the acquisition of UASC's container shipping activities.

12. Deferred income

On the liabilities side, deferred income includes a bond-related difference of EUR 11.5 million (previous year: EUR 6.5 million). This includes EUR 7.6 million attributable to the embedded buy-back options accounted for separately (previous year: EUR 5.5 million). These differences are spread over the entire term of the bonds on a linear basis.

13. Contingencies

million EUR	31.12.2017	31.12.2016
Liabilities from guarantees	47.3	263.4
thereof in favour of affiliated companies	47.3	263.4
Liabilities from warranties	2,437.1	4.3
thereof in favour of affiliated companies	2,437.1	4.3
Total	**2,484.4**	**267.7**

Liabilities relating to warranty agreements are above all the result of bank loans taken out by subsidiaries of Hapag-Lloyd AG primarily to finance containers and ships, for which Hapag-Lloyd AG acts as the guarantor. The acquisition of UASC resulted in EUR 2,437.1 million of such liabilities. A large volume of the loans are secured by containers and ship mortgages. The equivalent values of these securities exceed the outstanding financing loan amounts and the revenues from the utilisation of these securities are sufficient to service any outstanding liabilities. For this reason, the guarantees are not expected to be utilised.

As part of the newly established THE Alliance partnership, a trust fund was set up in case one of the partner shipping companies becomes insolvent. In relation to the establishment of the trust fund, all of the participating parties are required to deposit securities in the amount of USD 10.0 million each. In this context, Hapag-Lloyd made a cash payment EUR 0.8 million (USD 1.0 million) to the trust fund. It also furnished a guarantee of USD 9.0 million.

Furthermore, the establishment of the trust fund included an agreement among the participating shipping companies which requires them to replenish the fund in the event that a compensation payment uses up the USD 10.0 million in securities deposited by the shipping company in question.

As the probability of insolvency of a partner shipping company is currently estimated to be very low, it is assumed, based on current information, that the securities deposited in the trust fund will be not utilised and that the requirement to replenish the fund will not be exercised.

Letters of comfort / guarantees

In accordance with the Group structure, capital is allocated centrally through Hapag-Lloyd AG, which provides the Group companies with liquidity and manages the issuing of guarantees and letters of comfort for Group companies.

Hapag-Lloyd AG has issued a letter of comfort for its foreign subsidiary Hapag-Lloyd (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia, to ensure that the subsidiary is able at all times to fulfil its contractual obligations. The letter of comfort has a term of at least 12 months from the company's reporting date. Hapag-Lloyd AG has also issued a guarantee relating to the purchase of minority interests by a subsidiary.

Hapag-Lloyd AG does not expect its letters of comfort or guarantee to be utilised, as it is assumed that the companies will fulfil the underlying obligations.

14. Other financial obligations

million EUR	31.12.2017	31.12.2016*
Obligations from long-term leases and license agreements (nominal value) less than 1 year	546.8	502.1
thereof from affiliated companies	172.4	97.5
Obligations from long-term leases and license agreements (nominal value) 1–5 years	457.5	988.8
thereof from affiliated companies	23.5	373.2
Obligations from long-term leases and license agreements (nominal value) more than 5 years	79.4	134.3
thereof from affiliated companies	41.1	88.3
Obligations from dry-docking less than 1 year	37.3	42.9
thereof from affiliated companies	0.0	0.0
Obligations from dry-docking less 1–5 years	95.2	85.1
thereof from affiliated companies	0.0	0.0
Obligations from dry-docking more than 5 years	52.2	27.9
thereof from affiliated companies	0.0	0.0
Purchase order commitments	0.0	151.7
Total	**1,268.4**	**1,932.8**

* In order to increase the information content in regards to the scope of the other financial obligations, obligations from dry-docking have been supplemented and the previous year's amounts have been considered accordingly.

Other financial obligations include charter and lease obligations for ships, and lease and rental obligations for containers and business premises. The classification costs result from future obligations due to legally required large-scale repairs. These comprise maintenance and repair measures to the Company's own ships needed for operation which are routinely performed as part of scheduled maintenance to ensure that these ships remain operational.

NOTES TO THE INCOME STATEMENT

15. Revenue

Revenue per trade*

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Latin America	2,193.5	1,966.5
Atlantic	1,874.0	1,782.8
Transpacific	1,790.1	1,647.8
Far East	1,046.4	586.1
Middle East	609.5	292.8
EMAO (Europe, Mediterranean, Africa, Oceania)	496.5	394.6
Intra-Asia	391.3	305.3
Revenue not assigned to trades	1,139.3	614.9
Total	**9,540.6**	**7,590.8**

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

The increase in revenue in the Far East and Middle East trades was primarily due to the acquisition of UASC's container liner business. Net freight revenue is broken down according to the trades. Slot charter revenue and income from demurrage and detention and other services are reported under the item "Revenue not attributable to trades". The slot charter revenue totalled EUR 1.4 million (previous year: EUR 12.9 million) and relates to the previous year, which means it is classified as relating to other periods.

16. Other operating income

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Exchange rate gains	903.2	461.3
Income from the release of provisions	145.7	147.9
Income from recharged costs	17.4	20.9
Income from the disposal of fixed assets	2.2	3.6
Income from the reduction of value adjustments of receivables	0.1	29.0
Other income	26.0	27.4
Total	**1,094.6**	**690.1**

Exchange rate gains include income from currency translation (EUR 874.4 million; previous year: EUR 448.2 million) and from realised exchange rate gains and the valuation of derivative financial instruments (EUR 28.8 million; previous year: EUR 13.1 million).

The income from the release of provisions, from the disposal of fixed assets and from the reduction of impairment allowances on receivables in the amount of EUR 148.0 million (previous year: EUR 180.5 million) which is contained in other operating income relates to other periods.

17. Transport expenses

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Costs of raw materials and supplies	1,078.4	636.6
Cost of purchased services	7,021.3	5,977.4
Total	**8,099.7**	**6,614.0**

The rise in the cost of purchased services was essentially due to the acquisition of UASC's container liner business. Rebates received for port, canal and terminal costs and for container transport costs are deducted from the corresponding transport costs. These rebates totalled EUR 0.1 million (previous year: EUR 13.8 million) and relate to previous years, which means they are classified as relating to other periods. Expenses from the slot charter calculation of EUR 6.4 million (previous year: income of EUR 3.2 million) are also included. They relate to the previous year, which means they are classified as relating to other periods.

18. Personnel expenses / employees

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Wages and salaries	215.5	177.6
Social security, post-employment and other employee benefit costs	51.0	32.2
thereof for pension	16.8	1.0
Total	**266.5**	**209.8**

With regard to the changes in personnel expenses in the current financial year compared with the previous year, we refer to the information on the earnings position in the management report.

The average number of employees developed as follows:

	1.1.–31.12. 2017	1.1.–31.12. 2016
Marine personnel	1,152	1,176
Shore-based personnel	1,917	1,833
Apprentices	210	202
Total	**3,279**	**3,211**

19. Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Scheduled depreciation and amortisation		
Amortisation of intangible assets	58.6	27.8
Depreciation of property, plant and equipment	324.9	250.8
Total	**383.5**	**278.6**

20. Other operating expenses

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Exchange rate losses, incl. bank charges	567.0	644.7
Commissions/sales expenses	431.8	392.1
IT service expenses	100.3	83.6
Legal and consultancy expenses/costs	34.6	25.6
Factoring	26.7	17.4
Rent and lease expenses	13.3	12.6
Other socially related material and personnel costs	11.3	15.8
Administrative expenses	10.9	9.6
Other expenses	87.1	69.4
Total	**1,283.0**	**1,270.8**

Exchange rate losses include EUR 559.4 million from currency translation (previous year: EUR 584.1 million) and EUR 1.1 million from realised exchange rate losses and the valuation of derivative financial instruments (previous year: EUR 54.3 million).

21. Financial result

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Income from associated companies	41.2	42.9
thereof from affiliated companies	12.9	12.8
Income from loans from financial assets	5.5	1.2
thereof from affiliated companies	5.5	1.2
Income from a profit and loss transfer agreement	5.9	56.1
Other interest and similar income	26.1	16.9
thereof from affiliated companies	14.3	8.4
Expenses from the transfer of losses	0.0	0.1
Interest payable and similar expenses	239.1	172.6
thereof from affiliated companies	9.4	1.9
Impairment losses from long-term financial assets and current securities	6.0	29.2
Total	**–166.4**	**–84.8**

Income from investments primarily includes dividends received of EUR 22.6 million (previous year: EUR 21.6 million) from HHLA Container Terminal Altenwerder GmbH, Hamburg, Germany.

Interest and similar expenses includes costs of EUR 7.2 million from the discounting of provisions (previous year: EUR 8.0 million).

Income from profit transfer agreements essentially comprises income from Hapag-Lloyd Grundstücksholding GmbH, Hamburg, Germany, of EUR 2.8 million (previous year: EUR 1.9 million) and from Hamburg-Amerika Linie GmbH, Hamburg, Germany, of EUR 0.8 million (previous year: EUR 0.5 million) and income resulting from the retroactive mergers of First CSAV (EUR 1.6 million) and Second CSAV (EUR 0.6 million) as at 1 January 2017 which relates to other periods.

The amortisation of financial assets relates to a foreign subsidiary and was caused by poor income prospects.

22. Income taxes

Corporate income tax, the solidarity surcharge, trade tax and paid withholding tax are recognised as income taxes. As in the previous year, a corporate income tax rate of 15.0% and a solidarity surcharge of 5.5% on corporate income tax applied in the 2017 financial year. The trade earnings tax rate, which corresponds to the specific applicable municipal assessment rate, was 16.5% and 3.3% in 2017 and 2016 respectively, insofar as it relates to income from ship operations in international transport. As a liner shipping company, Hapag-Lloyd AG, has opted for taxation in accordance with tonnage. Tax liability for tonnage taxation is not calculated using the actual profits, but rather depends on the net tonnage and the operating days of the Company's ship fleet.

Prior-period tax expenses in the amount of EUR 2.2 million are included in the actual income taxes (previous year: tax income of EUR 1.2 million).

Tax expense / income does not include any deferred taxes. Overall in the 2017 financial year, there was an (unrecognised) deferred tax asset. This resulted from a corporate income tax loss carry-forward and an interest carry-forward.

OTHER DISCLOSURES

23. Limitation of disposition rights and collateral for liabilities

Under the existing agreements for the financing of fixed assets, in particular ships and containers, Hapag-Lloyd AG has committed itself to observing specific restrictions customary on the market with regard to the disposition of these material collateral items. The secured liabilities amount in total to EUR 2,432.0 million (previous year: EUR 2,621.1 million).

Of all the vessels of which Hapag-Lloyd AG is the beneficial owner, 14 had no encumbrances and were free of third-party rights at the reporting date. There are mortgages on the remaining ships of which the Company is the beneficial owner.

Collateral security provided for some of the liabilities to banks totalling EUR 246.4 million (previous year: EUR 233.9 million) and for some of the other liabilities totalling EUR 279.4 million (previous year: EUR 299.7 million) is in the form of legal ownership of the containers being assigned to the creditors in question, while their economic ownership is attributable to Hapag-Lloyd AG. Collateral security provided for some of the other liabilities totalling EUR 408.4 million (previous year: EUR 49.3 million) is in the form of legal ownership of the container ships being assigned to the creditors in question, while their economic ownership is attributable to Hapag-Lloyd AG. From an economic perspective, this is equivalent to a secured economic interest in the containers and container ships.

24. Transactions with related parties

No significant transactions were effected in the financial year or the previous year which were not conducted on the basis of normal market terms and conditions.

25. Group affiliation

Hapag-Lloyd AG is the parent company for the smallest and largest group of companies for which consolidated financial statements are prepared. The consolidated financial statements of Hapag-Lloyd AG, Hamburg, Germany, as at 31 December 2017 are to be published in the online version of the German Federal Gazette.

26. Executive Board and Supervisory Board remuneration

The total remuneration granted to active Executive Board members in the financial year was EUR 6.2 million (previous year: EUR 5.6 million). This includes share-based payments with a fair value of EUR 2.2 million (previous year: EUR 2.2 million) on the date the remuneration was granted. The active Executive Board members were granted a total of 117,208 virtual shares in the financial year (previous year: 125,216). The total remuneration for former members of the Executive Board and their surviving dependants amounted to EUR 0.8 million in the 2017 financial year (previous year: EUR 0.9 million). The emoluments of the active members of the Supervisory Board amounted to EUR 1.1 million (previous year: EUR 0.9 million).

Pension provisions for former members of the Executive Board amounted to EUR 18.7 million (previous year: EUR 17.7 million).

For details of the basic features of Executive Board and Supervisory Board remuneration and the individual members' emoluments, please refer to the remuneration report, which is an integral component of the management report.

Details of the members of the Executive Board and Supervisory Board can be found in *Annexes III* and *IV* to the Notes. Membership of other supervisory boards and regulatory committees within the meaning of Section 125 (1) (5) AktG is listed in *Annexe V* to the Notes.

27. Declaration of conformity in accordance with Section 161 AktG

The declaration required under Section 161 AktG was issued by the Executive Board and Supervisory Board in September 2017 and has been made permanently available to shareholders on the Company's website www.hapag-lloyd.com in the "Corporate Governance" section under "Investor Relations" at https://www.hapag-lloyd.com/en/ir/corporate-governance/compliance-statement.html

28. Total external auditors' fees

In the 2017 financial year, the following fees were paid to the external auditors KPMG AG Wirtschaftsprüfungsgesellschaft:

million EUR	1.1.–31.12. 2017	1.1.–31.12. 2016
Audit fees for annual audit	1.9	1.7
Audit fees for other assurance services	0.9	0.2
Audit fees for tax consultancy	0.1	0.4
Audit fees for other services	0.1	1.2
Total	**3.0**	**3.5**

The fee for audit services rendered by KPMG AG Wirtschaftsprüfungsgesellschaft related primarily to the audit of the consolidated financial statements and the annual financial statements of Hapag-Lloyd AG including legal contractual amendments and audits of the financial statements of subsidiaries. Activities integral to the audit were also performed in relation to an enforcement process, audit reviews of interim financial statements and audits of subsidiaries' closing statements of financial position pursuant to Section 17 (2) of the German Transformation Act (UmwG).

Other attestation services relate to the issuing of letters of comfort, the audit of a profit forecast, the audit of pro-forma financial information, agreed examination actions on financial covenants, an EMIR audit pursuant to Section 20 of the German Securities Trading Act (WpHG) and other contractually agreed attestation services.

The tax consultation activities comprise support services for the integration of the UASC Group companies as well as support with obligations under VAT law.

The other services relate to quality-assuring support services and due diligence services as part of a company acquisition.

29. Events after the balance sheet date

On February 21, 2018, the existing ABS-Program was expanded by USD 100.0 million.

On February 22, 2018, 911,388 registered ordinary shares were admitted to trading in the form of no-par bearer shares. Admission was subsequently received to the already completed capital increase against contribution in kind and the admission of 42,749,568 new shares of Hapag-Lloyd AG to the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the regulated market segment (Prime Standard) of the Frankfurt Stock Exchange.

The four ocean-going vessels classified as held for sale in the 2017 financial year, were sold in the first quarter 2018.

On 20 March 2018 Hapag-Lloyd placed an order for 55,000 standard container with an investment volume of USD 109.7 million. For this purpose, Hapag-Lloyd signed a commitment for financing on 22 March 2018 in the amount of up to USD 171.4 million, which also secures additional container investments. The delivery of the respective containers is planned to be completed by August 2018.

Hamburg, 23 March 2018

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr | Anthony J. Firmin | Thorsten Haeser

ANNEXE I

Development of Fixed Assets of Hapag-Lloyd Aktiengesellschaft for the 2017 financial year

	Historical cost					
million EUR	1.1.2017	Additions	Additions from merger	Reclassifi-cations	Disposals	31.12.2017
I. Intangible assets						
1. Purchased software	29.9	2.0	0.0	0.2	0.0	32.1
2. Purchased concessions, industrial property and similar rights and assets as well as licences in such rights and assets	3.5	0.0	0.0	0.0	0.0	3.5
3. Goodwill	503.1	662.0	108.0	0.0	0.0	1,273.1
	536.5	**664.0**	**108.0**	**0.2**	**–**	**1,308.7**
II. Property, plant and equipment						
1. Land, similar rights and buildings including buildings on leasehold land	–	–	–	–	–	–
2. Vessels	4,285.4	157.2	311.7	140.3	–	4,894.6
3. Improvements on leased vessels	5.2	–	–	–	–	5.2
4. Major spare parts for vessels	3.4	0.2	–	–	–	3.6
5. Containers, chassis, gensets	1,224.0	802.1	–	–	6.6	2,019.5
6. Machinery and equipment	9.0	–	–	–	–	9.0
7. Other equipment and office equipment	19.9	1.2	0.1	0.1	1.0	20.3
8. Payments received on account of orders	141.2	1.2	–	–140.6	–	1.8
	5,688.1	**961.9**	**311.8**	**–0.2**	**7.6**	**6,954.0**
III. Financial assets						
1. Shares in affiliated companies	648.3	1,287.7	–	0.1	242.2	1,693.9
2. Holdings	319.6	0.4	–	–0.1	–	319.9
3. Loans to associated companies	99.5	1.5	–	–	6.4	94.6
4. Loans to holdings	1.4	0.1	–	–	–	1.5
	1,068.8	**1,289.7**	**–**	**–**	**248.6**	**2,109.9**
Total	**7,293.4**	**2,915.6**	**419.8**	**0.0**	**256.2**	**10,372.6**

Rounding differences may occur.

Value adjustments					Carrying amounts	
1.1.2017	Depreciation/ Amortisation	Total value adjustments regarding merger	Total value adjustments regarding disposals	31.12.2017	31.12.2017	31.12.2016
25.9	3.1	0.0	0.0	29.0	3.1	4.0
0.0	0.0	0.0	0.0	0.0	3.5	3.5
41.9	55.6	0.0	0.0	97.5	1,175.6	461.2
67.8	**58.7**	**–**	**–**	**126.5**	**1,182.2**	**468.7**
–	–	–	–	–	–	–
952.8	193.3	26.8	–	1,172.9	3,721.7	3,332.6
5.1	0.1	–	–	5.2	0.0	0.1
2.2	0.2	–	–	2.4	1.2	1.2
389.6	128.5	–	3.9	514.2	1,505.3	834.4
2.7	0.9	–	–	3.6	5.4	6.3
15.8	1.8	–	0.9	16.7	3.6	4.1
–	–	–	–	–	1.8	141.2
1,368.2	**324.8**	**26.8**	**4.8**	**1,715.0**	**5,239.0**	**4,319.9**
211.1	6.0	–	1.8	215.3	1,478.6	437.2
4.3	–	–	–	4.3	315.6	315.3
–	–	–	–	–	94.6	99.5
1.4	–	–	–	1.4	0.1	0.0
216.8	**6.0**	**–**	**1.8**	**221.0**	**1,888.9**	**852.0**
1,652.8	**389.5**	**26.8**	**6.6**	**2,062.5**	**8,310.1**	**5,640.6**

ANNEXE II

List of holdings of Hapag-Lloyd Aktiengesellschaft as at 31 December 2017

Name of the company	Registered office	Currency unit (CU)	Share-holding in %	Equity in TCU [10]	Net profit/ loss for the year in TCU [10]
Head office					
Hamburg-Amerika Linie GmbH	Hamburg	EUR	100.00	63	*
Hapag-Lloyd Grundstücksholding GmbH	Hamburg	EUR	94.90	30,045	* [13]
Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	EUR	100.00	26	*
HHLA Container Terminal Altenwerder GmbH	Hamburg	EUR	25.10	80,433	*
Hamburg-Amerikanische Packetfahrt-Gesellschaft mbH	Hamburg	EUR	100.00	63	*
Zweite Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	EUR	100.00	26	*
Europe					
Hapag-Lloyd (Austria) GmbH	Vienna	EUR	100.00	1,205	16
Oy Hapag-Lloyd Finland AB	Helsinki	EUR	100.00	245	54
Hapag-Lloyd (France) S.A.S.	Asnieres sur Seine	EUR	100.00	4,578	314
Hapag-Lloyd (Ireland) Ltd.	Dublin	EUR	100.00	154	27
Hapag-Lloyd (Italy) S.R.L.	Milano	EUR	100.00	608	49
Hapag-Lloyd Polska Sp.z.o.o.	Gdynia	PLN	100.00	479	78
Hapag-Lloyd Portugal LDA	Lisboa	EUR	100.00	175	8
Hapag-Lloyd (Schweiz) AG	Basel	CHF	100.00	400	41
Hapag-Lloyd Special Finance DAC	Dublin	USD	100.00	95	22
Hapag-Lloyd (Sweden) AB	Gothenburg	SEK	100.00	1,955	435
Hapag-Lloyd Spain S.L.	Barcelona	EUR	90.00	776	243
Hapag-Lloyd (UK) Ltd.	Barking	GBP	100.00	3,768	–792
Norasia Container Lines Ltd.	Valetta	USD	100.00	11,596	8,310
Hapag-Lloyd Denizasiri Nakliyat A.S.	Izmir	TRY	65.00	40,956	35,206
United Arab Shipping Agency Co. (Polska) Sp.z.o.o.	Warsaw	PLN	100.00	471	255
United Arab Shipping Agency Company (Italy) S.r.l.	Milano	EUR	100.00	1,081	721
UASAC Nordic A/S	Copenhagen	DKK	100.00	3,728	3,123
UASAC Sweden AB	Gothenburg	SEK	100.00	1,053	583
Oy UASAC Finland AB	Helsinki	EUR	100.00	**	**
UASAC Russia ApS	Copenhagen	DKK	100.00	–1,205	–80
UASAC Russia llc	St. Petersburg	RUB	100.00	16	13
United Arab Shipping Agency Company (CEE) Kft	Budapest	EUR	100.00	–370	47
United Arab Shipping Agency Company (Benelux) B.V.	Rotterdam	EUR	100.00	359	341
United Arab Shipping Agency Company (Denizcilik Nakliyat) ZA.S.	Istanbul	TRY	100.00	34,430	51,151
United Arab Shipping Agency Co. (United Kingdom) Ltd	London	GBP	49.00 [1]	141	119
Norddeutscher Lloyd GmbH	Bremen	EUR	100.00	31	*
CSAV Denizcilik Acentasi A.S.	Istanbul	TRY	100.00	5,606	4,477 [15]
UASAC CEE (Slovakia) s.r.o	Bratislava	EUR	100.00	–73	1
UASAC Groupement France	Marseille	EUR	100.00	**	**
Asia					
Hapag-Lloyd (Australia) Pty.Ltd.	Pyrmont	AUD	100.00	2,110	55
Hapag-Lloyd (China) Ltd.	Hong Kong	HKD	100.00	3,312	812
Hapag-Lloyd (China) Shipping Ltd.	Shanghai	CNY	100.00	90,165	4,884
Hapag-Lloyd (Japan) K.K.	Tokyo	JPY	100.00	238,883	3,602
Hapag-Lloyd (Korea) Ltd.	Seoul	KRW	100.00	1,287,233	88,595
Hapag-Lloyd (Malaysia) Sdn.Bhd.	Kuala Lumpur	MYR	100.00	75	61
Hapag-Lloyd (New Zealand) Ltd.	Auckland	NZD	100.00	915	36
Hapag-Lloyd Pte.Ltd.	Singapore	USD	100.00	5,721	455
Hapag-Lloyd (Taiwan) Ltd.	Taipei	TWD	100.00	88,437	968
Hapag-Lloyd (Thailand) Ltd.	Bangkok	THB	49.90	6,271	500
Hapag-Lloyd (Vietnam) Ltd.	Ho Chi Minh City	VND	100.00	4,540	713
CSAV Group (China) Shipping Co. Ltd.	Shanghai	CNY	100.00	6,392	3,608
United Arab Shipping Co. Korea Ltd.	Seoul	KRW	100.00	–325,636	131,211
United Arab Shipping Co. Shanghai Ltd.	Shanghai	CNY	100.00	7,309	833
United Arab Shipping Co. (Asia) Pte. Limited	Singapore	SGD	100.00	294	17,346
United Arab Shipping Agency Co. (Asia) Pte Limited	Singapore	USD	100.00	**	**
UASC Japan Co. Ltd.	Tokyo	JPY	60.00	69,504	9,504
United Arab Shipping Co. Holding (Thailand) Ltd.	Bangkok	THB	49.945	–46	–58
UASC (Thailand) Ltd.	Bangkok	THB	74.972	5,506	806
United Arab Shipping Agency Company (Vietnam) Ltd	Ho Chi Minh City	VND	100.00	12,113,780	7,581,780
United Arab Shipping Agency Company (Taiwan) Ltd	Taipei	TWD	100.00	17,565	–435
United Arab Shipping Agency Company (Hong Kong) Ltd	Hong Kong	HKD	100.00	58,456	48,946

Name of the company	Registered office	Currency unit (CU)	Share-holding in %	Equity in TCU [10]	Net profit/ loss for the year in TCU [10]
Asia (Continued)					
United Arab Shipping Agency Company (Malaysia) Sdn Bhd	Kuala Lumpur	MYR	100.00	2,355	1,779
Hapag-Lloyd Lanka (Pvt) Ltd	Colombo	LKR	40.00	137,422	144,112 [12]
United Arab Shipping Agency Company (Thailand) Ltd.	Bangkok	THB	49.00	322	12,761
United Arab Shipping Agency Company (Shenzhen) Ltd	Shenzhen	CNY	49.00	32,558	22,592
United Arab Shipping Agency Company (Ningbo) Ltd	Ningbo	CNY	49.00	37,742	30,676
Middle East					
Hapag-Lloyd Africa PTY Ltd.	Durban	ZAR	100.00	556	555
Hapag-Lloyd Global Services Pvt.Ltd.	Thane	INR	100.00	651,005	65,682 [12]
Hapag-Lloyd India Private Ltd.	Mumbai	INR	100.00	208,920	29,616 [12]
Hapag-Lloyd Middle East Shipping LLC	Dubai	AED	49.00 [1]	767	392
United Arab Shipping Company Ltd.	Dubai	USD	100.00	**	**
United Arab Shipping Company for Maritime Services LLC	Baghdad	USD	100.00	2,198	2,155
United Arab Shipping Agency Company Pakistan Pvt. Ltd	Karachi	PKR	100.00	74,441	52,941
United Arab Shipping Agencies Company Private Shareholding Company	Amman	JOD	50.00	155	30
United Arab Shipping Agency Co. India Pvt. Limited	Mumbai	INR	100.00	36,601	46,976
United Arab Shipping Agencies Co. LLC (UAE)	Dubai	USD	49.00 [1]	**	**
Hapag-Lloyd Bahrain Co. WLL (formerly United Arab Shipping Agencies Co. (Bahrain) WLL)	Manama	BHD	49.00	319	167
United Arab Shipping Agency Co. (Qatar) WLL	Doha	QAR	49.00	3,890	2,390
United Arab Shipping Agency Co. (Egypt) S.A.E	Alexandria	EGP	49.00 [1]	35,396	33,896
United Arab Shipping Agencies Co. (Saudi Arabia) Limited	Al-Damman	SAR	60.00	5,394	5,062
Hapag-Lloyd Shipping Company – State of Kuwait K.S.C.C. (formerly United Arab Shipping Agencies Company KSCC)	Safat	KWD	49.00 [1]	2,000	528
United Arab Shipping Company Services Limited (DIFC)	Dubai	USD	100.00	23,367	6,909
United Arab Shipping Company Services DMCCO	Dubai	AED	100.00	81,893	25,950
Aratrans Transport and Logistics Service LLC	Dubai	AED	49.00 [1]	6,615	–237
United Arab Shipping Company Services LLC	Al-Damman	SAR	98.80	2,122	355
Middle East Container Repair Company LLC	Dubai	AED	49.00 [2]	34,266	27,486
United Arab Shipping Engineering & Ship Repair Services LLC	Dubai	AED	24.01 [3]	–1,378	99
UASC Ships (No. 1) Limited	Dubai	USD	100.00	**	**
UASC Ships (No. 3) Limited	Dubai	USD	100.00	**	**
UASC Ships (No. 4) Limited	Dubai	USD	100.00	**	**
UASC Ships (No. 5) Limited	Dubai	USD	100.00	**	**
UASC Ships (No. 6) Limited	Dubai	USD	100.00	**	**
UASC Ships (No. 7) Limited	Dubai	USD	100.00	**	**
UASC Ships (No. 8) Limited	Dubai	USD	100.00	**	**
Ship Management No. 1 Limited	Dubai	USD	100.00	**	**
Ship Management No. 2 Limited	Dubai	USD	100.00	**	**
Djibouti Container Services FZCO	Djibouti	DJF	19.06 [4]	838,477	429,441
UASC Services (India) Pvt. Ltd. i.L.	Chennai	INR	99.99 [5]	**	**
Hapag Lloyd (Ghana) Limited	Tema	GHS	65.00	**	**
North America					
Hapag-Lloyd (America) LLC	Wilmington	USD	100.00	4,356	1,001 [14]
Hapag-Lloyd (Canada) Inc.	Montreal	CAD	100.00	–1,050	192
Hapag-Lloyd USA LLC	Wilmington	USD	100.00	312,422	25,118 [14]
Florida Vessel Management LLC	Wilmington	USD	75.00	**	**
United Arab Agencies (Inc.)	Wilmington	USD	100.00	4,547	822
Latin America					
Hapag-Lloyd Argentina S.R.L.	Buenos Aires	ARS	100.00	11,208	1,929
Hapag-Lloyd Colombia LTDA	Bogota	COP	100.00	3,425	3,161
Hapag-Lloyd Costa Rica S.A.	San Jose	CRC	100.00	718,831	–20,778
Hapag-Lloyd Guatemala S.A.	Guatemala City	GTQ	100.00	657	72
Hapag-Lloyd Mexico S.A. de C.V.	Mexico City	MXN	100.00	196,100	–50,791
Servicios Corporativos Portuarios S.A. de C.V.	Mexico City	MXN	100.00	–8,972	–853
Agencias Grupo CSAV (Mexico) S.A. de C.V.	Mexico City	MXN	100.00	–74,518	–70,311 [15]
Hapag-Lloyd (Peru) S.A.C.	Lima	PEN	60.00	9,419	31,576
Hapag-Lloyd Venezuela C.A.	Caracas	VEF	100.00	**	**
CSAV Austral SpA	Valparaíso	USD	49.00	102,533	1,843

Name of the company	Registered office	Currency unit (CU)	Share-holding in %	Equity in TCU [10]	Net profit/loss for the year in TCU [10]
Latin America (Continued)					
Hapag-Lloyd Chile SpA	Valparaíso	USD	100.00	4,401	–589 [13]
CSAV Group Agencies Uruguay S.A.	Montevideo	UYU	100.00	12,601	17,547
Libra Serviços de Navegação Limitada (formerly Companhia Libra de Navegacao S.A.)	São Paulo	BRL	100.00	164,154	8,153 [15]
Andes Operador Multimodal Ltda.	São Paulo	BRL	100.00	**	**
Corvina Maritime Holding S.A.	Panama City	USD	100.00	**	**
Sea Lion Shipping Co. S.A.	Panama City	USD	100.00	**	**
Southern Shipmanagement Co. S.A.	Panama City	USD	100.00	936	424
Southern Shipmanagement (Chile) Ltda.	Valparaíso	USD	100.00	160	11
Wellington Holding Group S.A.	Road Town	USD	100.00	**	**
Compañía Libra de Navegación (Uruguay) S.A.	Montevideo	UYU	100.00	**	**
Inversiones CNP S.A.	Lima	USD	100.00	8,833	2,387
Torksey S.A.	Montevideo	USD	100.00	**	**
Rahue Investment Co. S.A.	Panama City	USD	100.00	**	**
CNP Holding S.A.	Panama City	USD	100.00	**	**
Norasia Alya S.A.	Panama City	USD	100.00	**	**
Lanco Investments Internacional Co. S.A.	Panama City	USD	100.00	**	**
Servicios de Procesamiento Naviero S.R. L.i.L.	Montevideo	USD	100.00	19,897	15,505 [15]
United Arab Shipping Agencies Company Uruguay S.A. (Kiranbir S.A.)	Montevideo	UYU	60.00	332	331
Other					
CSAV Ships S.A.	Panama City	USD	100.00	**	**
CSBC Hull 900 Ltd.	Douglas	USD	100.00	1,077	0 [11]
Hull 1796 Co. Ltd.	Majuro	USD	100.00	5,842	0 [11]
Hull 1798 Co. Ltd.	Majuro	USD	100.00	3,767	0 [11]
Hull 1975 Co. Ltd.	Majuro	USD	100.00	3,353	0 [11]
Hull 1976 Co. Ltd.	Majuro	USD	100.00	2,013	–1 [11]
Malleco Shipping Co. S.A.	Panama City	USD	100.00	**	**
Maule Shipping Co. S.A.	Panama City	USD	100.00	**	**
Al Wakrah Limited	George Town	USD	100.00	–18	–9
Al Rayyan Limited	George Town	USD	100.00	92	45
Qurtuba Limited	George Town	USD	100.00	–55	–9
Dhat Al Salasil Limited	George Town	USD	100.00	**	**
Hira Limited	George Town	USD	100.00	–28	–9
Al Madinah Limited	George Town	USD	100.00	–18	–9
Al Mutanabbi Limited	George Town	USD	100.00	–28	–9
Manamah Limited	George Town	USD	100.00	–29	–9
Al Aziziyah Limited	George Town	USD	100.00	–18	–9
Busaiteen Limited	George Town	USD	100.00	–18	–9
Al Oyun Limited	George Town	USD	100.00	–19	–9
Onayzah Limited	Valetta	EUR	100.00	3,256	667
Barzan Limited	Valetta	EUR	100.00	4,619	3,583
Alula Limited	Valetta	EUR	100.00	3,197	865
Al Muraykh Limited	Valetta	EUR	100.00	1,588	3,380
Tayma Limited	Valetta	EUR	100.00	3,663	687
Al Zubara Limited	Valetta	EUR	100.00	3,329	3,564
Al Jasrah Limited	Majuro	USD	100.00	–2,928	–2,921
Al Nefud Limited	Valetta	EUR	100.00	2,673	3,564
Al Riffa Limited	Valetta	EUR	100.00	–566	–480
Al Dahna Limited	Valetta	EUR	100.00	–726	–709
Jebel Ali Limited	Valetta	EUR	100.00	–1,536	–535
Tihama Limited	Valetta	EUR	100.00	–352	–334
Al Qibla Limited	Valetta	USD	100.00	42,560	5,112
Umm Salal Limited	Valetta	EUR	100.00	2,576	578
Al Jowf Limited	Valetta	USD	100.00	**	**
Ain Esnan Limited	Valetta	EUR	100.00	3,427	754
Umm Qarn Limited	Majuro	USD	100.00	–2,442	–2,435
Salahuddin Limited	Majuro	USD	100.00	2,492	2,998
Afif Limited	Majuro	USD	100.00	–299	–293
Linah Limited	Majuro	USD	100.00	4,099	3,003

Name of the company	Registered office	Currency unit (CU)	Share-holding in %	Equity in TCU [10]	Net profit / loss for the year in TCU [10]
Other (Continued)					
Al Jmeliyah Limited	Majuro	USD	100.00	–298	–292
Al Nasriyah Limited	Majuro	USD	100.00	1,720	2,995
Al Rawdah Limited	Majuro	EUR	100.00	5,027	–204
Al Dhail Limited	Majuro	USD	100.00	–764	–755
Al Murabba Limited	Majuro	USD	100.00	6,017	2,991
Al Mashrab Limited	Majuro	USD	100.00	–93	–83
Sajid Limited	Majuro	USD	100.00	5,528	2,968
Hull 1794 Co. Ltd.	Majuro	USD	100.00	0	0 [11]
Hull 1800 Co. Ltd.	Majuro	USD	100.00	0	0 [11]
Hull 1906 Co. Ltd.	Majuro	USD	100.00	–998	0 [11]
Hull 2082 Co. Ltd.	Majuro	USD	100.00	–86	0 [11]
Hull 2083 Co. Ltd.	Majuro	USD	100.00	58	0 [11]
Hull 2084 Co. Ltd.	Majuro	USD	100.00	–16	0 [11]
Hull 2085 Co. Ltd.	Majuro	USD	100.00	–86	0 [11]
Hull 2086 Co. Ltd.	Majuro	USD	100.00	–86	0 [11]
Hull 2087 Co. Ltd.	Majuro	USD	100.00	–86	0 [11]
Hull 2088 Co. Ltd.	Majuro	USD	100.00	–86	0 [11]
Chacabuco Shipping Ltd.	Majuro	USD	100.00	0	0 [11]
Palena Shipping Ltd.	Majuro	USD	100.00	0	0 [11]
Brunswick Investment Co. Inc.	Nassau	USD	100.00	**	**
CSBC Hull 898 Ltd.	Douglas	USD	100.00	0	0 [11]
Hapag-Lloyd Container Ltd	Barking	EUR	100.00	4	1
Hapag-Lloyd Container (No. 2) Ltd.	Barking	EUR	100.00	4	1
Hapag-Lloyd Container (No. 3) Ltd.	Barking	EUR	100.00	1	1
Hapag-Lloyd Ships Ltd.	Barking	EUR	100.00	107	–2
Hapag-Lloyd Ships (No. 2) Ltd.	Barking	EUR	100.00	–2	–2
Khafji Limited	George Town	USD	100.00	**	**
Ash-Shahnaniyah Ltd.	George Town	USD	100.00		

1 Additional 51.00% are hold by a trustee on behalf of Hapag-Lloyd Group.
2 Additional 5.64% are hold by a trustee on behalf of Hapag-Lloyd Group.
3 Additional 75.99% are hold by a trustee on behalf of Hapag-Lloyd Group.
4 Additional 2.19% are hold by a trustee on behalf of Hapag-Lloyd Group.
5 Additional 0.01% are hold by a trustee on behalf of Hapag-Lloyd Group.

10 TCU = in thousands of currency units; financial statements as at 31 December 2016 unless otherwise stated
11 Financial statements as at 30 September 2016
12 Financial statements as at 31 March 2017
13 Financial statements as at 31 December 2017
14 IFRS Package as at 31 December 2017
15 Financial statements as at 31 December 2015
* Profit-and-loss transfer agreement
** No financial statements were available for these companies.

ANNEXE III

Executive Board members of Hapag-Lloyd Aktiengesellschaft in the 2017 financial year

Rolf Habben Jansen — **Hamburg**
Chief Executive Officer (CEO)

Nicolás Burr — **Hamburg**
Member of the Executive Board
Chief Financial Officer (CFO)

Anthony J. Firmin — **Hamburg**
Member of the Executive Board
Chief Operating Officer (COO)

Thorsten Haeser — **Hamburg**
Member of the Executive Board
Chief Commercial Officer (CCO)

ANNEXE IV

Supervisory Board members of Hapag-Lloyd Aktiengesellschaft in the 2017 financial year

Michael Behrendt (Chairman)
Chairman of the Supervisory Board of Hapag-Lloyd AG, Hamburg

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

Oscar Eduardo Hasbún Martínez (Second Deputy Chairman)
Chief Executive Officer, Compañía Sud Americana de Vapores S.A., Santiago de Chile, Chile

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

Nicola Gehrt
Head of Investor Relations TUI Group, TUI AG, Hanover

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

Dr Rainer Klemmt-Nissen
Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg

Arnold Lipinski
HR Manager for Shipping Operations, Hapag-Lloyd AG, Hamburg

José Francisco Pérez Mackenna
Chief Executive Officer, Quiñenco S.A., Las Condes, Chile

Sabine Nieswand
Chairwoman of the Works Council, Hapag-Lloyd AG, Hamburg

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

Uwe Zimmermann
Commercial Clerk, Hapag-Lloyd AG, Dusseldorf

since 29 May 2017

H.E. Sheikh Ali bin Jassim Al-Thani
Advisor to the Chief Executive Officer, Qatar Investment Authority, Doha, Qatar

since 10 June 2017

Joachim Kramer
Marine Works Council, Hapag-Lloyd AG, Hamburg

Annabell Kröger
Commercial Clerk, Hapag-Lloyd AG, Hamburg

from 29 May 2017 to 30 November 2017

H.E. Dr Nabeel M. Al-Amudi
President of the Saudi Ports Authority, Riyadh, Saudi Arabia (until October 2017),
Transport Minister of the Kingdom of Saudi Arabia (from October 2017)

since 23 February 2018

Turqi Alnowaiser
Head of International Investments
Public Investment Fund, Saudi Arabia

ANNEXE V

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

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

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

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

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

H.E. Dr Nabeel Al-Amudi
Tabadul – Supervisory Board Member (until 15 October 2017)
SAR (Saudi Railways Company) – Chairman of the Supervisory Board (from 3 October 2017)

H.E. Sheikh Ali bin Jassim Al-Thani
SCI Elysees 26 – Member of the Board of Directors
Libyan Qatari Bank – Deputy Chairman of the Board of Directors
Qatar Holding LLC – Member of the Board of Directors
Qatar Navigation Q.P.S.C. – Member of the Board of Directors

Turqi Alnowaiser (since 23 February 2018)
Noon Investment – Supervisory Board Member

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

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

Nicola Gehrt
TUI Deutschland GmbH – Supervisory Board Member

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

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

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

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

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

RESPONSIBILITY STATEMENT

PURSUANT TO SECTION 264 (2) AND SECTION 289 (1) OF THE GERMAN COMMERCIAL CODE (HGB)

We confirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the financial statements of Hapag-Lloyd AG give a true and fair view of the net asset, financial and earnings position of Hapag-Lloyd AG and that Hapag-Lloyd AG's management report includes a fair review of the development and performance of the business and the position of Hapag-Lloyd AG, together with a description of the principal opportunities and risks associated with the expected development of Hapag-Lloyd AG.

Hamburg, 23 March 2018

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Thorsten Haeser

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Opinions

We have audited the financial statements of Hapag-Lloyd Aktiengesellschaft, Hamburg, which comprise the balance sheet as at 31 December 2017, and the income statement for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Hapag-Lloyd Aktiengesellschaft, Hamburg, for the financial year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying financial statements comply, in all material respects, with the legal requirements of German commercial law applicable to corporations and give a true and fair view of the net assets and financial position of the Company as at 31 December 2017, and of its results of operations for the financial year from 1 January 2017 to 31 December 2017, in accordance with German generally accepted accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report' section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Initial and subsequent measurement of acquired shares in United Arab Shipping Company Ltd.

For the accounting policies applied, we refer to the corresponding section in the notes to the financial statements.

THE FINANCIAL STATEMENT RISK

On 24 May 2017 Hapag-Lloyd AG acquired 100% of the shares in United Arab Shipping Company Ltd, Dubai, United Arab Emirates (UASC). As compensation for the acquisition of shares, the shareholders of UASC were granted 45,932,023 new non-par value shares. The issue price of the new shares was set by the executive board of Hapag-Lloyd AG at the lowest issue price of EUR 1.00 per share. The fair value of shares in UASC exceeding the lowest issue price in the amount of EUR 1,241 million was allocated as a 'contractual debt premium' to the free capital reserve pursuant to Section 272 (2) no. 4 HGB. The shares in UASC were thus initially recognised in the balance sheet of Hapag-Lloyd at a value of EUR 1,287 million and are shown in the item 'Shares in affiliated companies' under financial assets.

Operational integration of the UASC business into the Hapag-Lloyd Group was completed in the financial year. As part of operational integration, the business of UASC was transferred to Hapag-Lloyd AG (called a 'voyage cut-over'). In this context, the shares in UASC needed to be tested for impairment as at 31 December 2017. For this purpose the book value of the shares is compared with the fair value. If the fair value is less than the book value and impairment is expected to be permanent, the shares are to be written down to the lower fair value. As at the reporting date, Hapag-Lloyd AG reported no impairment.

Determining the fair value of the shares in UASC on the acquisition date and the review as to whether the fair value of the shares is less than the book value as at the reporting date is a complex process and is based on a range of assumptions and estimates that require judgement. These relate in particular to projected business development, the expected operating margins, taking into account synergies and capital costs including their sensitivity as key input factors, as well as the status of integration and transfer of the UASC business to Hapag-Lloyd AG as at the reporting date.

There is a risk for the financial statements that the fair value of the shares in UASC at the acquisition date was not reliably determined and the amount stated in the free capital reserve pursuant to Section 272 (2) no. 4 HGB was overstated. In addition, there is the risk that an impairment of the shares in UASC as at the reporting date is not identified and the amount reported for the shares in UASC is thus impaired.

OUR AUDIT APPROACH
For the audit of the balance sheet presentation of the acquisition of shares in exchange for the issue of 45,932,023 new no-par value shares, we assessed the acquisition contract documents, including the executive board's resolution to issue the new no-par shares on the basis of the authorised capital and to allocate the fair value exceeding the lowest issue price to the unappropriated reserves. Drawing on our valuation experts, we assessed the determination of the fair value of the shares in UASC on the acquisition date. A key basis for our assessment was the valuation opinion of the independent expert engaged by Hapag-Lloyd.

We assessed the valuation method and the appropriateness and consistency of the key planning and valuation assumptions to determine the fair value. In doing so, we assessed the central assumptions underlying the UASC's business planning (revenue planning, synergies, EBIT margin) that require a particularly high level of judgement. We analysed the central planning measures taking into account past financial performance, the current legal and economic conditions as well as market studies. Since even minor changes to the weighted average cost of capital (WACC) can already impact the value stated for the shares, we compared the assumptions and parameters underlying the WACC, in particular the risk-free rate, the market risk premium, the beta factor and the country-risk premium as well as the growth discount, with our own assumptions and publicly available data.

Drawing on our valuation experts, we also assessed the determination of the fair value of the shares in UASC on the acquisition date. To this end, we assessed Hapag-Lloyd AG executive board's plan for the UASC business after transfer of the UASC business to Hapag-Lloyd AG, compared this with the findings on the current status of integration identified in the course of our audit, and discussed the analysis results with the persons responsible for the business plan. Since even minor changes to the weighted average cost of capital (WACC) can already impact the value stated for the shares, we compared the assumptions and parameters underlying the WACC, in particular the risk-free rate, the market risk premium, the beta factor and the country-risk premium, with our own assumptions and publicly available data as at the reporting date. Finally, we assessed the calculation method.

OUR OBSERVATIONS
The calculation method used to determine the fair value of the purchased shares in UASC on the date of acceptance is appropriate. Overall, the assumptions used are appropriate.

The calculation method used for reviewing the impairment testing of the shares within the scope of subsequent valuation is appropriate and in line with the relevant accounting policies. The assumptions used are consistent and appropriate overall.

Impairment testing of goodwill
Please refer to the disclosures in the notes in the section 'Intangible assets' for more information on the accounting policies applied.

THE FINANCIAL STATEMENT RISK

Goodwill of EUR 1,176 million reported as at 31 December 2017 represents the largest individual balance sheet item of Hapag-Lloyd AG. The goodwill from acquiring the operations of container shipping companies CSAV in 2015 und UASC in 2017 is amortised over a period of 20 years on a straight-line basis owing to the longevity of the underlying customer portfolio and the projected synergy potential. In addition, if permanent impairment is expected due to the book value of goodwill exceeding the fair value as at the reporting date, the asset must be written down to the lower fair value.

As Hapag Lloyd AG is the largest operating entity in the Hapag-Lloyd Group and the operating cash flows of Hapag-Lloyd AG mainly correspond to those of the Group, the recoverability of goodwill of Hapag-Lloyd AG depends significantly on the future business and earnings development of the entire container liner business of the Hapag-Lloyd Group. The assessment of the recoverability of goodwill is complex and based on a range of assumptions that require judgement. Among others, these include key input factors for the projected business and earnings performance of Hapag-Lloyd AG: freight rates, transport volumes, bunker prices and the USD/EUR exchange rate as well as the WACC applied and the growth discount including sensitivity.

There is the risk for the financial statements that the existing permanent impairment loss was not recognised as at the reporting date.

OUR AUDIT APPROACH

By involving our valuation specialists, we have also assessed the appropriateness of the key assumptions and calculation methods of the Company. For this purpose, we discussed the projected business and earnings development and the assumed growth discounts with those responsible for planning. In addition, we reconciled the projected business and earnings performance with the management planning prepared by the executive board and approved by the supervisory board. As even just minor changes to business and earnings performance can significantly impact the fair value and the economic conditions in the container shipping industry continue to be strained, we assessed the consistency of assumptions for the development of key input factors with external market assessments, findings from comparable businesses and historical values. In addition, we compared the assumptions and parameters underlying the WACC, in particular the risk-free rate, the market risk premium and the beta factor with our own assumptions and publicly available data. To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements. In order to take account of the existing forecast uncertainty, we investigated the impact of potential changes in the WAAC and earnings performance and the growth discounts on the fair value (sensitivity analysis), by calculating alternative scenarios and comparing these with the Company's figures. In doing so, we carried out a sensitivity analysis in the form of a Monte Carlo simulation with respect to the EBIT margin used in perpetual annuity.

OUR OBSERVATIONS

The calculation method used for reviewing the impairment testing of goodwill is appropriate and in line with the accounting policies to be applied. The Company's assumptions and parameters underlying the valuation are mainly in line with external market assessments and are appropriate overall. The sensitivity analysis in the form of a Monte Carlo simulation found that the EBIT margin applied for the perpetuity growth rate was in a reasonable range.

Accounting for unfinished voyages

For details on the accounting policies applied, please see the disclosures in the section 'Current assets' in the notes to the financial statements.

THE FINANCIAL STATEMENT RISK

Expenses incurred for voyages that are unfinished as at the reporting date are capitalised by Hapag-Lloyd in inventories as unfinished voyages. Trade receivables and revenue from transport orders already recorded and which are attributable to unfinished voyages are cancelled. Expected losses from unfinished voyages reduce the capitalised expenses as part of the loss-free valuation.

Determining the transport costs incurred in connection with voyages that are unfinished as at the reporting date and the margins underlying the expected loss is a highly complex process.

There is the risk for the financial statements that transport costs for unfinished voyages are not accurately recognised in respect of the cut-off reporting date and the valuation of unfinished voyages is not appropriate.

OUR AUDIT APPROACH

We assessed the design, implementation and effectiveness of the controls that are to ensure accurate recognition cut-off of revenue and transport expenses as at the reporting date. In addition, we investigated whether the policies defined by Hapag-Lloyd for recognition cut-off are appropriately structured to ensure the recognition of revenue and transport expenses on an accrual basis. We assessed the reliability of the analyses from the accounting system on an accrual basis by evaluating selected risk-based elements of the underlying documents and data of actual voyages. We assessed the method of calculating the margins for the valuation of unfinished voyages and the required cut-off procedures at the reporting date and inspected the model for computational accuracy. We assessed the appropriateness of changes in provisions for outstanding invoices using the development of transportation volumes and discussed this in meetings with employees from controlling and accounting. In addition, we obtained external confirmations from service providers using selected risk-based elements in order to assess the completeness of transport expenses as at the reporting date.

OUR OBSERVATIONS
The methods for calculating the expected margins from unfinished voyages and for the cut-off procedure for transport expenses are appropriate.

Responsibilities of Management and Supervisory Board for the Annual Financial Statements and the Management Report
Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report, which as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of an internal control relevant to the audit of the financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as auditor by the annual general meeting on 29 May 2017. We were engaged by the audit and finance committee on 20 July 2017. We have been the auditor of Hapag-Lloyd Aktiengesellschaft, Hamburg, without interruption since the financial year 2015.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the audit is Niels Madsen.

Hamburg, 23 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Madsen	signed Lippmann
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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