Financial Statements 2016 and Management Report

Hapag-Lloyd Aktiengesellschaft

Hapag-Lloyd

FINANCIAL STATEMENTS 2016 AND MANAGEMENT REPORT

HAPAG-LLOYD AKTIENGESELLSCHAFT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

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

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MANAGEMENT REPORT

COMPANY STRUCTURE AND SHAREHOLDERS

Together with its subsidiaries, the Hapag-Lloyd Group (hereinafter referred to as “the Hapag-Lloyd Group”, “Hapag-Lloyd” or “the Group”) is Germany’s largest liner shipping company and one of the largest in the world, ranked on the basis of its transport capacity of approximately one million TEU. The controlling company, 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).

To make use of external growth opportunities, the Arabian container shipping company United Arab Shipping Company S.A.G. (UASC) and Hapag-Lloyd AG signed a business combination agreement with the purpose of merging their container shipping activities on 15 July 2016. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017.

At the time of preparation of the financial statements and management report of the parent company, the closing of the UASC business combination is mainly subject to the occurrence or waiver of the following conditions:

- the granting of all necessary consent and waivers as well as the implementation of the amended loan documentation by the financing banks and lessors of UASC (Ltd.) and its respective controlled subsidiaries;
- the entering by UASC (Ltd.) into certain unsecured debt maturity extension agreements with the relevant financing banks; and
- the absence of judicial or official orders or other decisions permanently or temporarily preventing the implementation of the UASC business combination.

As part of the planned integration of UASC into Hapag-Lloyd AG, a non-cash capital increase would be carried out at the time of completion of the legal merger in return for the issuing of 45.9 million shares in Hapag-Lloyd AG. The shares would originate from authorised share capital with a nominal amount of EUR 50.0 million. In accordance with the resolution passed at the Annual General Meeting of Hapag-Lloyd AG on 26 August 2016 for the creation of authorised share capital, the shareholders’ subscription rights will be excluded when the new shares are issued.

Shareholder structure of Hapag-Lloyd AG

CSAV Germany Container Holding GmbH and Kühne Holding AG, together with Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, were Hapag-Lloyd AG's largest single shareholders as at 31 December 2016. These three anchor shareholders held a total of around 72% of Hapag-Lloyd's share capital. They have also entered into a shareholders' agreement whereby the voting rights from the originally acquired shares in Hapag-Lloyd AG have been pooled into a consortium company and will therefore make important decisions together. The shareholder structure of Hapag-Lloyd AG as at 31 December 2016 was as follows:

Voting rights

in %	2016
CSAV Germany Container Holding GmbH	31.4
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	20.6
Kühne Holding AG and Kühne Maritime GmbH	20.2
TUI AG / TUI-Hapag Beteiligungs AG	12.3
Free float	15.5
Total	**100.0**

The shareholders of United Arab Shipping Company S.A.G. (UASC) would receive 45.9 million shares in Hapag-Lloyd AG for the incorporation of its business activities into Hapag-Lloyd AG as a contribution in kind. The new shares would be issued using the existing authorised share capital with a nominal amount of EUR 50.0 million. This would increase the number of issued shares from 118.1 million to 164.0 million registered shares.

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

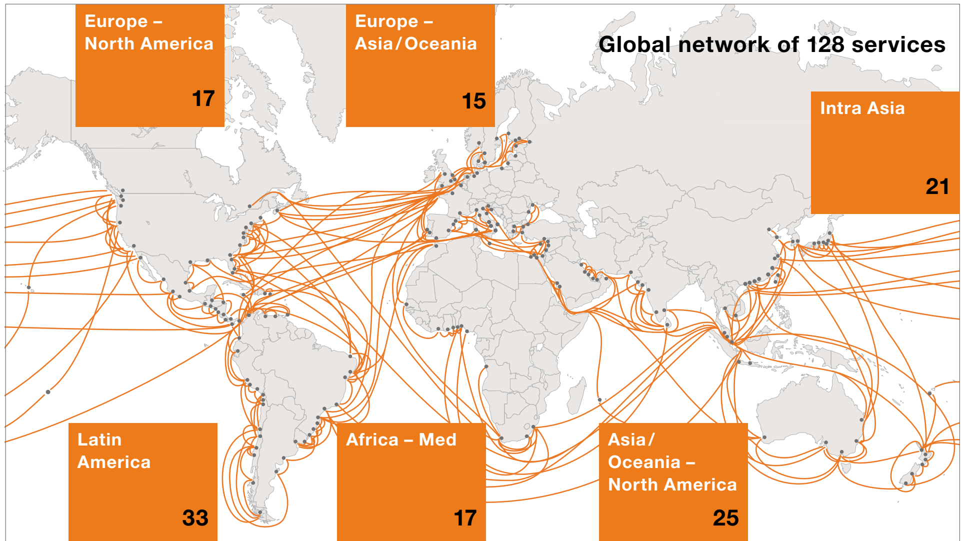
As of the end of the Annual General Meeting on 26 August 2016, the term of the following four employee representatives on the Supervisory Board started: Ms Christine Behle, Ms Sabine Nieswand, Mr Klaus Schroeter and Mr Uwe Zimmermann. The following four employee representatives left the Supervisory Board: Mr Andreas Bahn, Mr Karl-Heinz Biesold, Mr Oliver Bringe and Ms Renate Commerell. Mr Horst Baier did not seek re-election as the shareholder representative, and the Annual General Meeting elected Ms Nicola Gehrt to replace him on the Supervisory Board.

OPERATING ACTIVITIES

The following reporting pertains to the Hapag-Lloyd Group excluding UASC's business activities, unless otherwise stated.

Hapag-Lloyd is Germany's largest container liner shipping company and is one of the world's leading liner shipping companies in terms of global market coverage. Following the integration of UASC's business activities, the Group's core business will continue to be 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 2016, Hapag-Lloyd AG had 159 container ships (previous year: 171). As at 31 December 2016, the Hapag-Lloyd Group had 366 sales offices (previous year: 366) in 121 countries (previous year: 118) and offered its customers worldwide access to a network of 128 liner services (previous year: 121). In the 2016 financial year, Hapag-Lloyd served approximately 23,100 customers around the world (previous year: approximately 25,400 customers). The takeover of UASC would enable Hapag-Lloyd to strengthen its market position as one of the world's leading container liner shipping companies, in particular in the Far East trade including the Middle East sub-trade. Hapag-Lloyd already had a relatively balanced market presence in both the East–West and North–South trades as at 31 December 2016.

Hapag-Lloyd conducts its container liner shipping business in an international business environment in which transactions are invoiced mainly in US dollars and payment procedures 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 functional currency of Hapag-Lloyd AG and its main subsidiaries is the US dollar. The reporting currency of the individual and consolidated financial statements of Hapag-Lloyd is, however, the euro. Assets and liabilities recognised in the consolidated financial statements of Hapag-Lloyd AG are translated into euros as at the balance sheet date (closing date rate) using the middle rate of that day. The translation differences are recognised directly in the Group's other comprehensive income. If required, hedging transactions are conducted in the Hapag-Lloyd Group to hedge against the USD/EUR exchange rate.

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

COMPANY OBJECTIVES AND STRATEGY

The presentation of the Company objectives and strategy in the management report of Hapag-Lloyd AG refers to the Hapag-Lloyd Group. Hapag-Lloyd AG is the most important subsidiary of the Hapag-Lloyd Group.

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

In terms of increasing its transport volume, Hapag-Lloyd achieved growth of more than 50% over the past seven years. This was due mainly to the takeover of CSAV's container shipping activities in December 2014, but also to the rising global demand for container shipping services.

Despite what continued to be a very challenging industry environment, Hapag-Lloyd achieved a positive EBITDA and a positive EBIT in 2016. 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 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 EBITDA margin amounted to 7.9%. 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. The strong level of competition and continued decline in freight rates meant that earnings remained unsatisfactory overall last year and were significantly lower than originally forecast.

Development of key performance indicators

	2016	2015	2014	2013	2012	2011	2010
Transport volume (in TTEU)	7,599	7,401	5,907	5,496	5,255	5,198	4,947
EBITDA (in million EUR)	607	831	99	389	335	367	904
EBIT (in million EUR)	126	366	–383	64	3	80	583
EBITDA margin (in % of revenue)	7.9	9.4	1.5	5.9	4.9	6.0	14.6
EBIT margin (in % of revenue)	1.6	4.1	–5.6	1.0	0.0	1.3	9.4

CSAV's container shipping activities are included in the figures from 2014 onwards from the consolidation date of 2 December 2014.

In the 2017 financial year our focus will be on:

- The rapid integration of UASC's business activities into the Hapag-Lloyd Group in case of a successful closing
- The harnessing of initial synergies from the planned integration of UASC
- The operational implementation of the new THE Alliance as a successor organisation to the G6 Alliance
- The complete integration of the programmes initiated in the previous years

In the preceding 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 in 2016 and made a considerable contribution to the positive operating result (EBIT).

- *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. The aim is to realise these synergies in full by 2017.

- *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 in 2016. Following the success of the cost reduction measures, an additional optimisation project, OCTAVE II, was launched at the end of 2015. The aim of this is to achieve further cost reductions in 2017.

- *Close the Cost Gap* project – increase in ship fleet efficiency
  Targeted investments in the modernisation and renewal of the fleet are to be used to further increase its productivity and efficiency (e.g. in terms of bunker consumption). These measures are 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 four container ships, each with a transport capacity of 10,500 TEU, were put into service between October 2016 and February 2017. An additional 10,500-TEU ship will be put into service in April 2017. Targeted investments in new containers should also gradually increase the percentage of the Company's own containers in the container fleet over the coming years to around 50%. Hapag-Lloyd currently has a capacity-weighted ownership ratio of around 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.

Following a successful test phase of the Compete to Win project in selected markets, the measures to improve the sales process and increase the efficiency of the sales organisation have gradually been implemented in all regions and areas of the Hapag-Lloyd organisation since the start of 2016.

The target of achieving transport volume growth equal to market growth was reached in 2016 with an increase in the transport volume of 2.7%.

Wide-reaching efficiency gains and cost improvements achieved

The CUATRO and OCTAVE projects alone are expected to deliver annual synergies, efficiency improvements and cost savings totalling USD 600 million from 2017 as against the comparable cost base in the 2014 financial year, and assuming that external factors remain the same. More than 90% of the expected annual synergies, efficiency improvements and cost savings were realised in the 2016 financial year. Additional cost reductions and efficiency gains should be achieved in 2017 as a result of the additional efficiency project OCTAVE II which continues on the work streams of OCTAVE.

Despite the significant improvement in cost structures, the original targets of recording a sustainable EBITDA margin of 11 – 12% from 2017 and generating a return on invested capital [ROIC] which equals the weighted average cost of capital in 2017 cannot be met from today's perspective. The reasons for this are ongoing challenges in the industry environment and the planned integration of UASC's business activities in 2017. In 2016, the Hapag-Lloyd Group recorded a ROIC of 1.3%. The capital costs amounted to 8.2%. After the integration of UASC is complete, Hapag-Lloyd will refine its medium-term strategic objectives and financial targets.

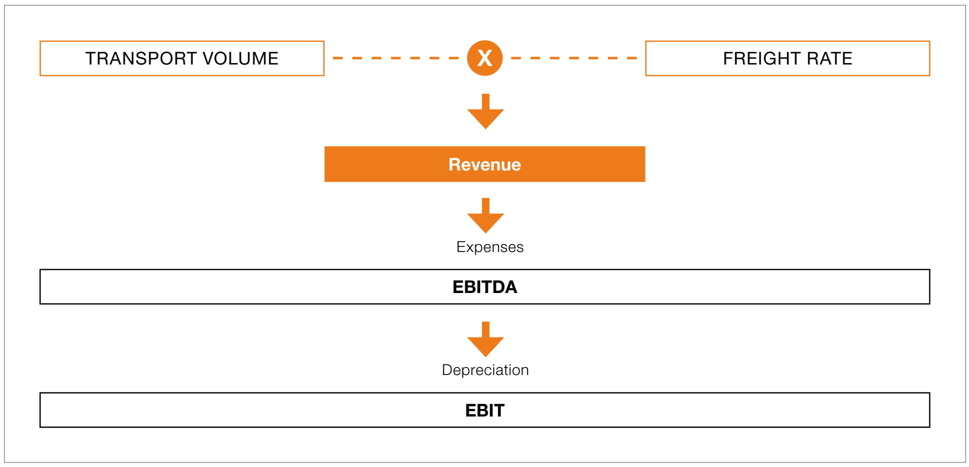
CORPORATE MANAGEMENT

The Group's key performance indicators for its operating business are EBITDA and EBIT.

EBITDA is an important indicator of the achievement of sustainable company results and gross cash flows. Hapag-Lloyd – which owns more than 50% of its fleet (as measured by transport capacity) – uses EBITDA as an important parameter for investment and financing decisions. The financial performance indicators, EBITDA and EBIT, are only used to analyse and manage the operating results of the Group as a whole.

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

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 other operating expenses, not including amortisation of intangible assets and depreciation of property, plant and equipment. To calculate earnings before interest and taxes (EBIT), depreciation and amortisation are deducted from EBITDA.



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

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

Efficient cost management provides essential control over the EBIT value. The system of cost management is supported by a standardised, integrated IT solution which provides essential and up-to-date data required for management and for implementing and maintaining cost reduction measures. The cost base is, however, largely dependent on external influencing factors. Due to the global nature of the Group's business operations, exchange rate fluctuations can have a considerable influence on costs. If necessary, currency hedging transactions are conducted, while taking account of internal guidelines. The Group hedges a portion of its cash outflows in euros by using options on a twelve-month basis 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 increasing oil prices.

In the course of the successful IPO, in addition to EBITDA and EBIT as operating performance indicators, the return on invested capital (ROIC) was defined at Group level at the end of 2015 as an indicator of the performance within a period and calculated as a performance indicator. 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 will be calculated and presented exclusively on the basis of the functional currency, the US dollar.

Calculation of return on invested capital

	million EUR		million USD	
	2016	2015	**2016**	2015
Non-current assets	9,722.9	9,514.1	10,267.4	10,363.7
Inventory	124.5	94.1	131.5	102.5
Accounts receivable	677.6	716.1	715.5	780.0
Other assets	235.7	181.1	248.9	197.3
Assets	**10,760.7**	**10,505.4**	**11,363.3**	**11,443.5**
Provisions	569.8	621.9	601.5	677.5
Accounts payable	1,281.6	1,293.8	1,353.3	1,409.3
Other liabilities	240.4	209.9	254.0	228.6
Liabilities	**2,091.8**	**2,125.6**	**2,208.8**	**2,315.4**
Invested Capital	**8,668.9**	**8,379.8**	**9,154.5**	**9,128.1**
EBIT	126.4	366.4	139.7	406.7
Tax	19.7	25.2	21.8	28.0
Net Operating Profit after Tax (NOPAT)	**106.7**	**341.2**	**117.9**	**378.7**
Return on Invested Capital (ROIC)			**1.3%**	**4.1%**

The table above outlines selected items from the consolidated statement of financial position and the consolidated income statement in abbreviated form only. Currencies are translated as per the reporting date rates and average rates given in the management report on page 40.

The return on invested capital (ROIC) in the 2016 financial year was 1.3%, following 4.1% for the full year 2015. The return on capital employed in 2016 was therefore below the weighted average cost of capital. The weighted average cost of capital after income taxes as used for discounting purposes is 8.2% for the planning period (previous year: 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 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.

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. As and from the 2015 financial year, return on invested capital (ROIC) will also be 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 not used 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. Even greater importance has been placed on cost management since 2008 following the introduction of extensive cost reduction 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 head offices, regions and offices, thus also ensuring that this standardised information is used all over the world. This enables the Group to increase productivity and ensures that the fleet is 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 further reduce energy consumption and costs, the Fleet Support Center (FSC) department was created in 2013 as the first step towards establishing an integrated energy management concept for both the Company's own ships as well as chartered ships. Its primary aim is to achieve optimum fleet deployment across all trades and regions.

Another important factor in connection with the fleet's capacity utilisation is the turnaround frequency of the containers. Each container was trans-shipped on average 4.8 times in 2016 (previous year: 4.7 times). Here, 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. Here, also, Hapag-Lloyd makes beneficial use of modern IT systems.

The use of bigger and more efficient ships increased the capacity utilisation of the container ship fleet (as measured by total TEU capacity on the dominant leg) by 4 percentage points to 94.2% in 2016 (previous year: 90.2%). The container transport volume rose by 2.7% in the period under review.

Flexible fleet and capacity development

As at 31 December 2016, Hapag-Lloyd AG's fleet comprised 159 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 amounted to 939,573 TEU. Based on the TEU capacities, around 51% of the fleet was owned by the Group as at 31 December 2016 (31 December 2015: approximately 42%).

Structure of Hapag-Lloyd's container ship fleet

	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Number of vessels	159	171	144	145	138	144
thereof						
Own vessels	58	49	56	52	54	53
Leased vessels	3	3	5	7	7	9
Chartered vessels	98	119	83	86	77	82
Aggregate capacity of vessels (TTEU)	940	948	763	712	630	663
Aggregate container capacity (TTEU)	1,576	1,564	1,619	1,072	1,047	1,042
Number of services	128	121	119	97	89	84

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.

As at 31 December 2016, Hapag-Lloyd used two chartered ships primarily for the repositioning of empty containers. The ships had a transport capacity of 6,581 TEU in total. As the ships are not employed in a liner service, they are not included in the above fleet data.

As at 31 December 2016, the Hapag-Lloyd Group's container ship fleet of comprised a total of 166 container ships. All of the ships are certified in accordance with the ISM (International Safety Management) Code and have a valid ISSC (ISPS) certificate. The majority of the ships are certified as per ISO 9001 (quality management) and ISO 14001 (environmental management). The TEU capacity of the entire Hapag-Lloyd fleet amounted to 962,774 TEU. Based on the TEU capacities, around 57% of the fleet was owned by the Group as at 31 December 2016 (previous year: approximately 54%). The average age of the ships (capacity-weighted) was 7.9 years (previous year: 7.1 years). The average ship size within the Hapag-Lloyd Group fleet was 5,800 TEU, which is 4.7% above the comparable average figure for the ten largest container liner shipping companies and around 50.4% above the average ship size in the global fleet. Hapag-Lloyd also owned or rented 959,249 containers with a capacity of 1,576,163 TEU for shipping cargo. Around 43% of containers (capacity-weighted) were owned by the Group as at 31 December 2016 (previous year: around 42%). With a fleet of around 75,000 reefer containers capable of transporting approximately 142,500 TEU, Hapag-Lloyd has a strong competitive position in the attractive market segment for refrigerated shipping.

In the fourth quarter of 2016, Hapag-Lloyd launched two newbuilds with a transport capacity of 10,500 TEU each. Hapag-Lloyd's order book as at 31 December 2016 comprised a further three 10,500-TEU ships. These will be delivered by April 2017. All of the ships have slots for up to 2,100 reefer containers. After the planned merger with UASC, Hapag-Lloyd would have a very young and efficient fleet. As a result, it would not be necessary to invest in new ship systems in the coming years. The joint fleet would make it possible to utilise the medium-term expansion opportunities resulting from market growth and to realise economies of scale in ship operations.

Efficient transport services

In container 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 trades

Trade volume

TTEU	2016	2015
Transatlantic		
Europe – North America	4,000	4,000
North America – Europe	2,400	2,400
Far East		
Asia – Europe	14,200	13,900
Europe – Asia	6,400	6,400
Transpacific		
Asia – North America	13,700	13,700
North America – Asia	7,100	6,500

Source: IHS Global Insight, February 2017. Figures rounded

The transport capacities must be planned to meet the volumes on the dominant leg. The return transport of empty containers also involves 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 positioned in 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	6.2	5.1
Atlantic	6.2	6.0
Europe – Far East	7.6	4.5

[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: IHS Global Insight, February 2017; Hapag-Lloyd 2016: market data 2016 as per Hapag-Lloyd's definition of trades

The number of loaded containers transported on the non-dominant leg on the key trades remains 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. To do 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 freight forwarding companies, with the latter guaranteeing a permanent supply of cargo volumes.

In general, the Company has long-standing contractual arrangements with its 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, transport contracts were completed for approximately 23,100 customers in the 2016 financial year (previous year: approximately 25,400 customers).

A breakdown of the goods shipped by Hapag-Lloyd according to product categories shows a relatively balanced distribution. As in the previous year, no single product category accounted for a share of more than 18% during the past financial year.

Transport volume by product category in 2016

Products	Share 2016 in %	Share 2015 in %
Food products	18	17
Chemical products	14	14
Plastic products	12	11
Paper and wood products	10	11
Mechanical engineering products	10	10
Raw materials	8	8
Textiles	7	7
Automotive parts	6	6
Electronic products	5	5
Furniture	4	5
Other products	6	6
Total	**100**	**100**

Hapag-Lloyd, 2016 financial year (FY), figures rounded. Product group allocation for transport volume was changed in 2016.

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 optimised.

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.

SUSTAINABILITY AND QUALITY MANAGEMENT

The annual surveillance audit was performed by Det Norske Veritas Germanischer Lloyd (DNV GL) in 2016. Hapag-Lloyd's QEM certificate has been renewed for the fourth time and is now valid until 21 June 2018.

As a global company, Hapag-Lloyd performs annual audits in order to maintain its high quality and environmental protection standards. In 2016, a total of 154 audits were carried out in the Group (previous year: 161). All of Hapag-Lloyd's sustainability activities, such as environmental protection measures, charitable projects and matters of quality assurance, are coordinated and managed in the Sustainability Management department. In total, there were 136 contacts for sustainability and quality matters in all of the regions / areas around the world, in the central departments and on the ships at the end of 2016 (previous year: 136).

Efficiency and environmental protection

The Hapag-Lloyd fleet's recorded carbon emissions have already been reduced on a sustainable basis over the past few years. The carbon emission data is verified by DNV GL.

In addition, DNV GL renewed Hapag-Lloyd's "GL Excellence – 5 Stars" certificate in January 2017 and thus certified the high safety, environmental protection and operational standards on Hapag-Lloyd's container ships. The certificate is valid until 20 December 2019.

The efficiency and sustainability of the Hapag-Lloyd fleet should improve further as a result of five newbuilds, each with a transport capacity of 10,500 TEU, being placed into service by April 2017. Additional improvements have been made to the ships' design and technical equipment in the last few years in an effort to reduce bunker consumption.

Bunker consumption in 2016 totalled 3.14 million tonnes (metric tons) (previous year: 3.35 million tonnes). The use of larger and more efficient ships as well as the optimisation of the deployed fleet and global service network resulted in a 6.2% decrease in bunker consumption. The share of bunker with a low sulphur content (MFO low sulphur and MDO) amounted to around 16% (previous year: 15%) of total bunker consumption in 2016.

Bunker consumption

in metric tonnes	2016	2015
MFO (High sulphur)	2,644,788	2,837,426
MFO, MDO (Low sulphur)	496,251	513,536
Total bunker consumption	**3,141,039**	**3,350,962**

Bunker consumption per slot (as measured by the average annual container storage space) was 3.26 tonnes (previous year: 3.39 tonnes).

EMPLOYEES

Hapag-Lloyd AG employed 3,173 people as at 31 December 2016 (previous year: 3,262 people). The number of employees based onshore and in the marine division decreased by 89 in total compared with the previous year. 1,235 people were employed in the marine division as at 31 December 2016 (previous year: 1,340). The number of shore-based staff rose by 16 to 1,938 people (previous year: 1,922). More than two-thirds of the shore-based employees are younger than 50 years old and a good half of them are below the age of 40. Male and female employees each account for 50% of the shore-based headcount. The average period of employment for shore-based staff is around 13 years.

Number of employees

	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Marine personnel	1,141	1,232	1,259	1,254	1,245
Shore-based personnel	1,814	1,805	1,529	1,512	1,504
Apprentices	218	225	201	194	200
Total	**3,173**	**3,262**	**2,989**	**2,960**	**2,949**

The figures for 2015 and 2014 relate to Hapag-Lloyd AG, including CSAV's container shipping activities.

The Hapag-Lloyd Group employed 9,413 people as at 31 December 2016 (previous year: 9,417 people). Internationality also plays a significant role at Hapag-Lloyd. Of the shore-based employees, some 80% worked outside Germany as at 31 December 2016 (previous year: also around 80%). People from 80 nations currently work at Hapag-Lloyd in more than 45 countries (previous year: 71 in more than 45 countries). In particular, employees are encouraged to take on foreign deployments and are shown possible ways of broadening their experience and their intercultural skills. This philosophy pervades all staff levels right up to the management of Hapag-Lloyd, where half the posts are occupied by international executives.

There is a strong focus on vocational training and qualifications in both the shore-based and marine division. Hapag-Lloyd attaches particular importance to extensive, high-quality training. The proportion of those offered jobs at the end of their training has been and still is between 80% and 90%. As at 31 December 2016, Hapag-Lloyd employed a total of 124 apprentices in shore-based positions and 94 at sea (previous year: 117 shore-based and 108 at sea).

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

REMUNERATION REPORT

The remuneration report is part of the 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 (DCGK), 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.

As part of the IPO of Hapag-Lloyd AG in November 2015, an additional, long-term remuneration element was introduced 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. In connection with this, an adjustment to the short-term variable remuneration of the Executive Board members from 1 January 2016 was also agreed.

There were no other changes to the Executive Board remuneration in the 2016 financial year.

1.1 Changes to the Executive Board

There were no changes to the Executive Board in 2016.

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 Group financial statements have been examined and audited by the auditor and subsequently approved. As part of Hapag-Lloyd AG's IPO in November 2015, changes were introduced for the short-term variable remuneration of Executive Board members and came into effect on 1 January 2016. As of the 2016 financial year, the annual bonus of the ordinary Executive Board members is 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 will receive a guaranteed bonus of at least EUR 200,000.00 (gross) for the 2016 financial year. Mr Haeser will receive a guaranteed bonus of EUR 25,000.00 (gross) for every full calendar month in which he works for the Company as an Executive Board member in the period from 1 October 2015 to 30 September 2016.

The following system for short-term variable remuneration was used for the last time in the 2015 financial year. For the 2015 financial year, the annual bonus of the ordinary Executive Board members was equal to 0.20% of the Group's earnings after taxes (EAT), capped at 200% of fixed annual remuneration (for Mr Firmin up until 1 March 2015: 0.16% of EAT, capped at 150% of fixed annual remuneration). The CEO's annual bonus was initially equal to 0.30% of the Group's EAT, capped at 150% of his fixed annual remuneration. With effect from 1 March 2015, the cap was increased to 200%.

Variable remuneration for the 2015 financial year was individually set as a guaranteed bonus which was paid irrespective of the Group's earnings for the year. If the Group's earnings for the year resulted in a higher bonus based on the calculation method outlined above, the higher amount was paid.

Mr Habben Jansen received approval for a guaranteed bonus for the period from 1 January 2015 to 31 March 2015 amounting to EUR 125,000.00 (gross), which was paid during the 2015 financial year. For the remaining months of the 2015 financial year, he received only the pro rata variable remuneration amounts which are based on the Group's earnings.

Mr Firmin received approval for a guaranteed bonus for the first half of 2015 amounting to EUR 100,000.00 (gross). For the remaining months of the 2015 financial year, he received only the pro rata variable remuneration amounts which are based on the Group's earnings.

Mr Burr received approval for a guaranteed bonus for the period from 1 March 2015 to 31 December 2015 amounting to EUR 300,000.00 (gross).

b) Long-term variable remuneration

As part of the Company's IPO, long-term variable remuneration (long-term incentive plan – LTIP) was introduced with effect from 4 November 2015 (the day on which trading in shares in Hapag-Lloyd AG commenced). Under the LTIP, a fixed amount in euros 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 performance 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.

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 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	Personnel expense recognised	
				2016 in EUR	2015 in EUR
Rolf Habben Jansen (Chairman of the Executive Board)	39,842	17.57	700,000	201,341	–
Nicolás Burr (Member of the Executive Board since 1 March 2015)	28,458	17.57	500,000	215,719	–
Anthony James Firmin	28,458	17.57	500,000	311,595	–
Thorsten Haeser (Member of the Executive Board since 1 October 2015)	28,458	17.57	500,000	169,961	–
Total	**125,216**		**2,200,000**	**898,616**	**–**

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

Share-based remuneration under the 2015 long-term incentive plan (LTIP)

Allotment for 2015 financial year

	Number of shares on allotment*	Fair value on allotment in EUR	Total value on allotment (allotment amount) in EUR	Personnel expense recognised 2016 in EUR	Personnel expense recognised 2015 in EUR
Rolf Habben Jansen (Chairman of the Executive Board)	35,822	19.54	700,000	119,164	174,999
Nicolás Burr (Member of the Executive Board since 1 March 2015)	25,588	19.54	500,000	117,933	138,893
Anthony James Firmin	25,588	19.54	500,000	136,202	200,006
Thorsten Haeser (Member of the Executive Board since 1 October 2015)	25,588	19.54	500,000	133,441	41,668
Total	**112,586**		**2,200,000**	**506,739**	**555,566**

* The number of shares allotted is rounded up to the nearest whole number in accordance with the terms and conditions of the 2015 LTIP.

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 James Firmin, who is due a company pension payment of EUR 72,000.00 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 (DCGK), 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 2016 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 5.6 million (2015: EUR 6.5 million). This includes share-based payments with a fair value of EUR 2.2 million (2015: EUR 2.2 million) on the date the remuneration was granted. The active Executive Board members were granted a total of 125,216 virtual shares in the financial year (2015: 112,586).

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

Remuneration of the Executive Board

	Fixed remuneration		Variable remuneration		Total remuneration
			Components with short-term incentive effect	Components with long-term incentive effect	
EUR	Fixed salary	Fringe benefits	Bonuses	Share-based remuneration (LTIP 2015, LTIP 2016)	
Rolf Habben Jansen (Chairman of the Executive Board)					
2016	**750,000**	**172,238**	**126,400**	**700,000**	**1,748,638**
2015	750,000	172,041	381,274	700,000	2,003,315
Nicolás Burr (Member of the Executive Board since 1 March 2015)					
2016	**450,000**	**393,302**	**200,000**	**500,000**	**1,543,302**
2015	375,000	327,103 *	300,000	500,000	1,502,103
Anthony James Firmin					
2016	**450,000**	**22,086**	**82,160**	**500,000**	**1,054,246**
2015	441,667	21,641	220,206	500,000	1,183,514
Thorsten Haeser (Member of the Executive Board since 1 October 2015)					
2016	**450,000**	**107,770**	**245,540**	**500,000**	**1,303,310**
2015	112,500	37,891	75,000	500,000	725,391
Total 2016	**2,100,000**	**695,396**	**654,100**	**2,200,000**	**5,649,496**
Total 2015	**1,679,167**	**558,676**	**976,480**	**2,200,000**	**5,414,323** **

* Previous year's figures adjusted.

** In the previous year, the total remuneration of the Executive Board included the remuneration of Peter Ganz, who left the Board as at 31 March 2015. The sum of the total remuneration of the Executive Board in 2015 as shown in this table therefore deviates from the disclosure of the total remuneration of the Executive Board in 2015 in section 2.5(a) of this remuneration report, which includes the remuneration of Peter Ganz.

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 2016.

With regard to pension commitments, the following obligations exist:

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

EUR	Present value	Personnel expenses
Rolf Habben Jansen (Chairman of the Executive Board)		
2016	**3,784**	**1,011**
2015	2,694	2,694
Nicolás Burr (Member of the Executive Board since 1 March 2015)		
2016	**1,174**	**567**
2015	596	596
Anthony James Firmin		
2016	**1,524,287**	**169,375**
2015	1,327,172	147,839
Thorsten Haeser (Member of the Executive Board since 1 October 2015)		
2016	**1,361**	**977**
2015	378	378
Total 2016	**1,530,606**	**171,930**
Total 2015	**1,330,840**	**151,507**

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

The German Corporate Governance Code (DCGK) 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	2015	2016	2016 (min.)	2016 (max.)
Fixed salary	750,000	750,000	750,000	750,000
Fringe benefits	172,041	172,238	172,238	172,238
Total	**922,041**	**922,238**	**922,238**	**922,238**
One-year variable remuneration	381,274	126,400	0	600,000
Multiple-year variable remuneration	700,000	700,000	0	1,050,000
LTIP 2015 (term: 2015–2018)	700,000	0	–	–
LTIP 2016 (term: 2016–2019)	0	700,000	0	1,050,000
Total	**1,081,274**	**826,400**	**0**	**1,650,000**
Service cost	0	1,986	1,986	1,986
Total remuneration	**2,003,315**	**1,750,624**	**924,224**	**2,574,224**

* Fringe benefits for the previous year adjusted.

Amounts paid for the financial year:

Remuneration disbursed	Rolf Habben Jansen (Chairman of the Executive Board)	
EUR	2016	2015
Fixed salary	750,000	750,000
Fringe benefits	172,238	172,041
Total	**922,238**	**922,041**
One-year variable remuneration	126,400	381,274
Multiple-year variable remuneration	0	0
LTIP 2015 (term: 2015–2018)	0	0
LTIP 2016 (term: 2016–2019)	0	–
Other	0	0
Total	**126,400**	**381,274**
Service cost	1,986	0
Total remuneration	**1,050,624**	**1,303,315**

* Fringe benefits for the previous year adjusted.

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 900,865.88 in the 2016 financial year (previous year: EUR 1,023,967.20). Provisions created under HGB for current pensions and entitlements to pensions for former Executive Board members and their surviving dependants totalled EUR 17,659,878 in the 2016 financial year (previous year: EUR 18,236,251).

	Nicolás Burr (Member of the Executive Board since 1 March 2015)				Anthony James Firmin				Thorsten Haeser (Member of the Executive Board since 1 October 2015)			
	2015*	2016	2016 (min.)	2016 (max.)	2015	2016	2016 (min.)	2016 (max.)	2015	2016	2016 (min.)	2016 (max.)
	375,000	450,000	450,000	450,000	441,667	450,000	450,000	450,000	112,500	450,000	450,000	450,000
	327,103	393,302	393,302	393,302	21,641	22,086	22,086	22,086	37,891	107,770	107,770	107,770
	702,103	**843,302**	**843,302**	**843,302**	**463,308**	**472,086**	**472,086**	**472,086**	**150,391**	**557,770**	**557,770**	**557,770**
	300,000	200,000	200,000	400,000	220,206	82,160	0	400,000	75,000	245,540	225,000	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
	800,000	**700,000**	**200,000**	**1,150,000**	**720,206**	**582,160**	**0**	**1,150,000**	**575,000**	**745,540**	**225,000**	**1,150,000**
	0	912	912	912	211,830	231,972	231,972	231,972	0	1,654	1,654	1,654
	1,502,103	**1,544,214**	**1,044,214**	**1,944,214**	**1,395,344**	**1,286,218**	**704,058**	**1,854,058**	**725,391**	**1,304,964**	**784,424**	**1,709,424**

	Nicolás Burr (Member of the Executive Board since 1 March 2015)		Anthony James Firmin		Thorsten Haeser (Member of the Executive Board since 1 October 2015)	
	2016	2015*	2016	2015	2016	2015
	450,000	375,000	450,000	441,667	450,000	112,500
	393,302	327,103	22,086	21,641	107,770	37,891
	843,302	**702,103**	**472,086**	**463,308**	**557,770**	**150,391**
	200,000	300,000	82,160	220,206	245,540	75,000
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	–	0	–	0	–
	0	0	0	0	0	0
	200,000	**300,000**	**82,160**	**220,206**	**245,540**	**75,000**
	912	0	231,972	211,830	1,654	0
	1,044,214	**1,002,103**	**786,218**	**895,344**	**804,964**	**225,391**

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 Chairman of the Supervisory Board was changed following an Annual General Meeting resolution passed on 26 August 2016. The Chairman receives EUR 150,000.00, deputies EUR 75,000.00 and other members EUR 50,000.00. 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	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Andreas Bahn	33,333	50,000	./.	./.	900	1,800	34,233	51,800
Horst Baier	33,333	50,000	6,667	10,000	2,100	3,600	42,100	63,600
Christine Behle	31,250	./.	4,167	./.	900	./.	36,317	./.
Michael Behrendt	112,500	100,000	20,000	20,000	2,100	2,100	134,600	122,100
Karl-Heinz Biesold	50,000	75,000	6,667	10,000	1,500	2,100	58,167	87,100
Oliver Bringe	33,333	50,000	13,333	20,000	2,400	3,300	49,066	73,300
Renate Commerell	33,333	50,000	./.	./.	1,500	2,100	34,833	52,100
Jutta Diekamp	50,000	50,000	16,667	20,000	3,600	3,600	70,267	73,600
Nicola Gehrt	20,833	./.	./.	./.	900	./.	21,733	./.
Karl Gernandt	66,667	75,000	30,000	30,000	3,600	3,000	100,267	108,000
Oscar Hasbún	60,417	50,000	10,000	10,000	3,300	3,600	73,717	63,600
Dr Rainer Klemmt-Nissen	50,000	50,000	14,167	10,000	2,400	1,500	66,567	61,500
Arnold Lipinski	50,000	50,000	20,000	20,000	3,300	3,600	73,300	73,600
Sabine Nieswand	20,833	./.	4,167	./.	900	./.	25,900	./.
Francisco Pérez	50,000	50,000	10,000	10,000	1,800	2,100	61,800	62,100
Klaus Schroeter	20,833	./.	4,167	./.	1,200	./.	26,200	./.
Uwe Zimmermann	20,833	./.	4,167	./.	900	./.	25,900	./.
Total	**737,498**	**700,000**	**164,169**	**160,000**	**33,300**	**32,400**	**934,967**	**892,400**

The Supervisory Board remuneration and attendance fees for 2016 and 2015 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 in 2016 and 2015, 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 2016 and 31 December 2015. Furthermore, the Supervisory Board members did not receive any remuneration in 2016 for their own services provided, in particular consultation and mediation services.

Declaration on corporate governance in accordance with Section 297 (2) and Section 315 (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 289a 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 "IR" of the Company's website, www.hapag-lloyd.com, at http://ir.hapag-lloyd.com/websites/hapaglloyd/English/8100/compliance-statement-corporate-governance-code.html.

ECONOMIC REPORT

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. In its latest economic outlook (January 2017), the IMF expects global economic growth to reach 3.4% overall in 2017 (2016: 3.1%) and for this to increase slightly to 3.6% in 2018.

According to the IMF, the volume of global trade, which is key to the demand for container shipping services, is forecast to increase by 3.8% in the current year and by 4.1% in 2018. This means that in 2017 and 2018 the growth in global trade will outpace that of the global economy.

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

in %	2018 e	2017 e	2016	2015	2014	2013
Global economic growth	3.6	3.4	3.1	3.2	3.4	3.3
Industrialised countries	2.0	1.9	1.6	2.1	1.8	1.4
Developing and newly industrialised countries	4.8	4.5	4.1	4.1	4.6	5.0
World trading volume (goods and services)	4.1	3.8	1.9	2.7	3.8	3.4
Container transport volume (IHS)	4.9	3.7	2.5	1.1	4.3	2.3

Source: IMF, January 2017, October 2016; IHS Global Insight, February 2017

SECTOR-SPECIFIC CONDITIONS

IHS Global Insight (February 2017) forecasts a 3.7% increase in the global container shipping volume in 2017 and growth of 4.9% to approximately 144 million TEU in 2018.

Development of global container transport volume, 2012 – 2022 in million TEU

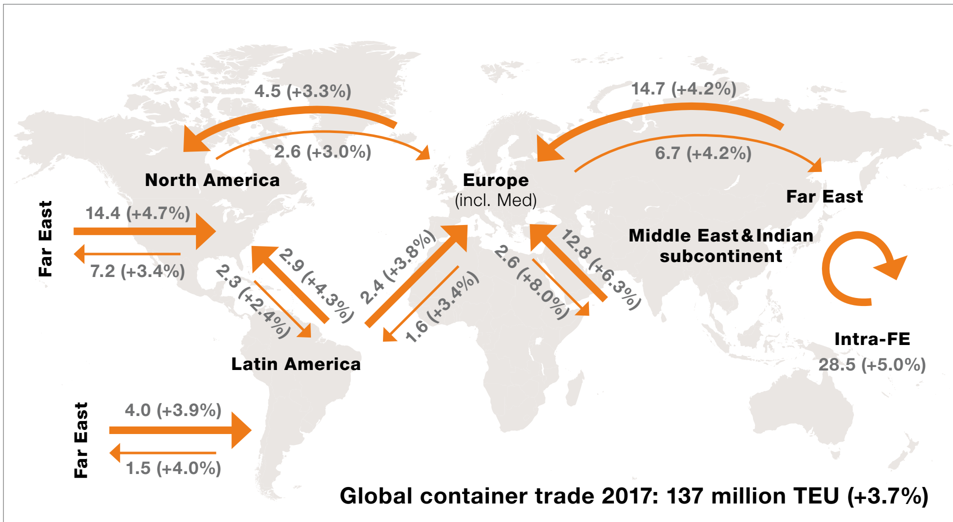
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
million TEU	120	122	128	129	132	137	144	151	158	166	174
Growth rate in %	1.4	2.3	4.3	1.1	2.5	3.7	4.9	5.0	4.9	4.9	4.8

Source: IHS Global Insight, February 2017

Current forecasts put the expected compound annual growth rate (CAGR) for the period from 2017 to 2022 at 4.9%, compared with an average growth rate of 2.5% between 2012 and 2016. The volume of global container shipping could reach around 174 million TEU in 2022. As a result, container shipping will continue to be a growth industry in the medium to long term.

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

Growth rates for global container traffic in 2017–2022 in million TEU



Source: IHS Global Insight, February 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 are expected to go into service, transport capacities may increase sharply, which could again negatively affect 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. This led to continued pressure on freight rates in all trades again in 2016.

The total capacity of the newbuilds on order in 2016 was significantly lower than in the previous year. Deliveries of newbuilds totalling around 1.1 million TEU occurred alongside new orders of approximately 0.2 million TEU (Drewry Container Forecaster, Q4 2016; Clarksons Research, February 2017). As at 31 December 2016, the order book amounted to around 3.4 (previous year: 4.0) million TEU. At around 16.9% of the global container fleet's capacity, the TEU capacity of the container ships on order at the end of 2016 was far below the record high of 56% seen in 2008 (Drewry Container Forecaster, Q4 2016; MDS Transmodal, January 2017). Measured in terms of the transport capacity of the newbuilds ordered, approximately 78% relates to ships with a capacity of over 10,000 TEU (MDS Transmodal, January 2017).

With the total capacity of the world container ship fleet estimated at 20.1 million TEU at the beginning of 2017 (Drewry), the nominal supply capacity should – based on the current orders – see increases of around 1.6 million TEU and 1.7 million TEU in 2017 and 2018 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, delays in the delivery of newbuilds and the use of slow steaming (reducing the speed at which services operate).

Expected development of global container fleet capacity

million TEU	2016	2017	2018
Existing fleet (beginning of the year)	19.7	20.1	20.9
Planned deliveries	1.1	1.6	1.7
Scrappings	0.6	0.6	0.5
Postponed deliveries	0.1	0.2	0.2
Net capacity growth	**0.4**	**0.8**	**1.0**

Source: Drewry Container Forecaster, Q4 2016, numbers 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 2016 was a mere 0.4 million TEU, compared with the originally expected nominal growth of 1.1 million TEU.

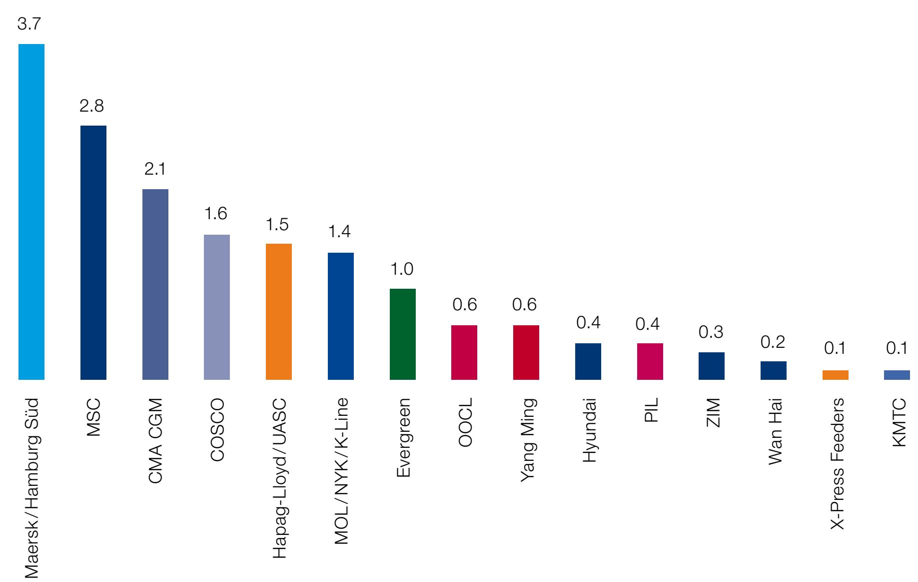
According to the sector information service Drewry (Container Forecaster, Q4 2016), container ships with an aggregate transport capacity of around 650,000 TEU were scrapped in 2016 (previous year: 193,000 TEU). Scrapping therefore reached a new record level in 2016 (previous record level in 2013: 444,000 TEU). A new record scrapping level of 600,000 TEU (Drewry) to 750,000 TEU (AXS-Alphaliner, January 2017) is currently predicted for 2017.

Due to the continuous pressure on freight rates, the transport capacity of the idle fleet remained at a high level during 2016 and amounted to around 1.5 million TEU (Alphaliner, January 2017) at the beginning of 2017, compared with approximately 1.36 million TEU at the end of 2015. Consequently, the idle capacities corresponded to around 7.5% of the global container fleet's total tonnage. Of the 378 ships idle at the start of 2017, approximately 30% are Panamax ships in the 3,000- to 5,100-TEU size class (previous year: 24%). Following the opening of the expanded Panama Canal, which can now be used by ships with a capacity of up to 14,000 TEU, the special Panamax ships previously used for routes through the Panama Canal are no longer competitive.

Continuing consolidation trend

In February 2016, the two Chinese shipping companies China Ocean Shipping Company and China Shipping Group merged to form China COSCO Shipping Group (China COSCO). On 15 July 2016, Hapag-Lloyd AG and the United Arab Shipping Company S.A.G. (UASC) agreed on the conditions of a business combination agreement with the aim of assessing the merger of the two companies' business activities. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. In July 2016, the French shipping company CMA CGM S. A. completed the takeover of the shipping company Neptune Orient Lines (NOL), Singapore.

Fleet capacity of the top 15 container liner shipping companies (in TTEU)



Source: MDS Transmodal, January 2017. The operating fleet capacity (excluding chartered ships). Chart includes announced mergers. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017.

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, A.P. Møller – Mærsk A/S (Maersk) announced the takeover of Hamburg Süd.

Reorganisation of alliances and mergers

The alliances operating in the East–West trades were extensively reorganised in the second quarter of 2016. In April 2016, the Ocean Alliance was established by CMA CGM S. A. (France), including the shipping company American President Lines Ltd. (Singapore) (APL), which was taken over by CMA CGM, Orient Overseas Container Line (Hong Kong) (OOCL), Evergreen Marine Corp. (Taiwan) Ltd. (Taiwan) (Evergreen) and China Ocean Shipping (Group) Company (China) (COSCO) Container Lines.

In May 2016, Hapag-Lloyd set up the THE Alliance along 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). UASC’s container ships could be used in the THE Alliance as part of the Hapag-Lloyd fleet. The 2M Alliance, which comprises the two market leaders Maersk Line (Denmark) and Mediterranean Shipping Company S. A. (Switzerland) (MSC), began operating at the start of 2015. Maersk and MSC have entered into slot chartering agreements with the Korean shipping company HYUNDAI Merchant Marine Co. Ltd. (HMM) in East–West trades. Furthermore, Maersk and Hamburg Süd entered into a slot chartering agreement on East–West trades in February 2017.

Capacity share of new alliances in East–West trades

Alliance		Far East trade	Transpacific trade	Atlantic trade
2M	in %	38	20	49
Ocean Alliance	in %	34	42	13
THE Alliance	in %	**23**	**29**	**33**
Other	in %	5	9	5

Source: Alphaliner, February 2017. Excluding slot chartering, etc. THE Alliance including Hapag-Lloyd and UASC; 2M including Hamburg Süd. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017.

Insolvency of what was the world’s seventh-largest container liner shipping company, Hanjin Shipping Co. Ltd.

The sharp decline in freight rates exacerbated the unsatisfactory earnings situation of the majority of container shipping companies in the first half of 2016. On 31 August 2016, the Korean shipping company Hanjin Shipping Co. Ltd. (Hanjin) filed for insolvency in accordance with Korean and US regulations. Hanjin operated 100 container ships and had a transport capacity of approximately 617,000 TEU. In terms of transport capacity, Hanjin was the seventh-largest container liner shipping company in the world and had a market share of around 3%. Hanjin was primarily active in the Asia–Europe trade (market share of approximately 4.9%), the Transpacific trade (market share of 6.7%) and the Intra-Asia trade. The interruption of Hanjin’s services has resulted in some considerable increases in spot market freight rates, in particular in the Far East and Transpacific trades. Hanjin’s insolvency and the sharp increase in the idle fleet has led to a significant oversupply of ships and has significantly depressed the market value of container ships and could furthermore have a negative impact on the loan-to-value ratio clauses in the financing agreements. On 17 February 2017, the relevant South Korean court ruled to dissolve Hanjin.

Report on the Hapag-Lloyd Group's development in 2016 compared with the forecast
The transport volume rose by 2.7% in total in the reporting period. As such, the forecast of a "slightly increasing" transport volume was fulfilled.

The imbalance between supply and demand, which continued in the first half of 2016 in particular, impacted adversely on the development of freight rates in all trades and prevented freight rates from rising at the start of the important peak season. It was not possible to meet the forecasts for average freight rates and operating earnings development, as measured by EBITDA and EBIT, due to the slower than expected rise in rates at the start of the 2016 peak season in particular, coupled with an industry environment that remained challenging. This was reported on in an ad-hoc notification on 18 July 2016 as well as in the half-year financial report as at 30 June 2016.

	Value 2016	Value 2015	Change	Forecast in the Group management report as at 31.12.2015	Forecast in the half-year financial report as at 30.6.2016
Transport volume (TTEU)	7,599	7,401	+2.7%	Increasing slightly	Increasing slightly
Average bunker consumption price (MFO, USD/mt)	210	312	–102.0	Decreasing clearly	Decreasing clearly
Average freight rate Hapag-Lloyd (USD/TEU)	1,036	1,225	–15.4%	Increasing moderately	Decreasing clearly
EBITDA (million EUR)	607.4	831.0	–223.6	Increasing moderately	Decreasing clearly
EBIT (million EUR)	126.4	366.4	–240.0	Increasing clearly	Decreasing clearly

Achievement of strategic projects
The CUATRO and OCTAVE projects alone are expected to deliver annual synergies, efficiency improvements and cost savings totalling USD 600 million from 2017 as against the comparable cost base in the 2014 financial year, and assuming that external factors remain the same. More than 90% of the expected synergies, efficiency improvements and cost savings were realised in the 2016 financial year. The targets of the strategic project described on page 10 were thereby all achieved in 2016.

EARNINGS, NET ASSET AND FINANCIAL POSITION

Due to the first-time application of the German Accounting Directive Implementation Act (BilRUG) effective from 1 January 2016, the income statement is in part only comparable to a limited degree. In addition, the integration of the operating business of CSAV's container shipping activities during the previous year restricts the comparability with the current financial year.

The retroactive merger of Third CSAV Ships Germany GmbH with Hapag-Lloyd AG as at 1 September 2016 had a notable impact on the net asset position, in particular on property, plant and equipment and financial liabilities.

EARNINGS POSITION

The 2016 financial year at Hapag-Lloyd AG was once again dominated by a challenging operating environment and subdued global economic growth. Sustained competitive pressure in the container shipping industry led to a further significant decline in freight rates in the 2016 financial year. As in the previous year, the appreciation of the US dollar against the euro again weighed heavily on earnings in the 2016 financial year, if not to the same extent. As at 31 December 2016, the US dollar exchange rate was quoted as USD 1.06 / EUR, which was stronger than in the previous year (USD 1.09 / EUR). By contrast, the earnings position was positively impacted by synergy effects from the merger with CSAV's container shipping activities, by cost-cutting programmes initiated in the preceding years and by a fall in the average bunker consumption price compared with the previous year. However, these alleviating factors were unable to compensate for the sharp drop in the average freight rate and the exchange-rate-related earnings effects. In total, Hapag-Lloyd AG recorded a net loss of EUR 201.4 million in the 2016 financial year, which was EUR 434.3 million less than in the previous year.

Notes to the income statement

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Revenue	7,590.8	7,900.5
Decrease/increase in capitalised expenses for unfinished voyages	–2.0	55.3
Other operating income	690.1	916.5
Transport expenses	–6,614.0	–6,887.7
Personnel expenses	–209.8	–235.8
Depreciation, amortisation and impairment	–278.6	–414.9
Other operating expenses	–1,270.8	–1,618.9
Operating result	**–94.3**	**–285.0**
Financial result	–84.8	–333.3
thereof interest result	–155.7	–182.5
Taxes on income	–5.0	–4.6
Result after taxes	**–184.1**	**–622.9**
Other taxes	–17.3	–12.8
Net loss for the year	–201.4	–635.7
Retained earnings brought forward	108.4	108.4
Withdrawal from the capital reserve	201.4	635.7
Balance sheet profit	**108.4**	**108.4**

The average freight rate for Hapag-Lloyd AG in the 2016 financial year was USD 1,029/TEU, which was USD 203/TEU less than in the previous year (USD 1,232/TEU). The reason for this was the persistently difficult market environment. Freight rates could not be increased as announced as a result of the continued intense competition caused by existing overcapacities and subdued growth in demand being felt in all trades.

Freight rate per trade

USD/TEU	1.1.–31.12. 2016	1.1.–31.12. 2015
Atlantic	1,314	1,495
Transpacific	1,220	1,593
Far East	765	947
Latin America	999	1,091
Intra-Asia	538	659
EMAO (Europe–Mediterranean–Africa–Oceania)	1,048	1,206
Total (weighted average)	**1,029**	**1,232**

The transport volume increased from 6,581 TTEU to 7,489 TTEU in the last financial year. This equates to an increase of 13.8%. The sharp rise in volume was mainly due to the integration of the operating business of CSAV's container shipping activities in 2015.

Transport volume per trade

TTEU	1.1.–31.12. 2016	1.1.–31.12. 2015
Atlantic	1,499	1,468
Transpacific	1,492	1,381
Far East	1,245	1,188
Latin America	2,175	1,645
Intra-Asia	662	537
EMAO (Europe–Mediterranean–Africa–Oceania)	416	362
Total	**7,489**	**6,581**

The revenue of Hapag-Lloyd AG decreased overall by EUR 309.7 million to EUR 7,590.8 million in the 2016 financial year as a result of the significant fall in freight rates in all trades. Due to the first-time applicability of the BilRUG provisions in the 2016 financial year, revenue rose by a reporting-related EUR 32.9 million compared with the previous year. Under the previous regulations, these revenue components were recognised in other operating income (see section “Notes to the income statement” for further details). If the new definition of revenue had already been in place in the previous year, revenue in 2015 would have come to EUR 7,931.7 million. This means that revenue fell by EUR 340.9 million on a comparable basis.

Other operating income fell by EUR 226.4 million to EUR 690.1 million (previous year: EUR 916.5 million). The main reason for this was lower exchange rate gains compared to the prior year period, which primarily resulted from the measurement of foreign currency receivables due to the change in the USD/EUR exchange rate in the amount of EUR 461.3 million (previous year: EUR 714.2 million). Furthermore, income from the release of the restructuring provision created in relation to the integration of CSAV’s container shipping activities came to EUR 4.4 million, which was EUR 51.7 million lower than in the previous year. In the 2015 annual financial statements, this income of EUR 56.1 million was recognised in extraordinary profit or loss. Due to the changes as part of BilRUG, this item no longer appears in the income statement, which means that the previous year’s figure for other operating income had to be adjusted by the corresponding amount. By contrast, other operating income was positively affected by the increase in income from the release of provisions for outstanding invoices from EUR 48.5 million to EUR 106.9 million.

Transport expenses decreased by EUR 273.7 million year-on-year in 2016 to EUR 6,614.0 million. Within transport expenses, expenses for raw materials, supplies and purchased goods, in particular bunker, decreased by 27.9% to EUR 636.6 million (previous year: EUR 882.6 million). The reason for this, alongside the reduced average bunker consumption price, was in particular a decrease in bunker consumption in 2016 due to the use of larger and more efficient vessels as well as the optimisation of the fleet and global service network. In the financial year 2016, the Hapag-Lloyd Group’s average bunker consumption price (MFO) was USD 210 per tonne, which was a significant USD 102 per tonne below the price of the prior year period (312 USD per tonne). At EUR 5,977.4 million, the cost of purchased services was also down by EUR 27.7 million year-on-year, despite a slight increase in the transport volume. This was due to the realisation of synergy effects from the merger with CSAV's container shipping activities and from the cost-cutting measures initiated in the previous years. Within the cost of purchased services, chartering, lease and container rentals decreased further, due mainly to falling charter rates and a reduced use of mid-term and long-term chartered ships.

Personnel expenses fell by 11.0% year-on-year to EUR 209.8 million (previous year: EUR 235.8 million). This was primarily due to lower pension costs of EUR 1.0 million (EUR 24.9 million). In the previous year, the pension provision increased as a result of the fall in the interest rate as at 31 December 2015. As at 31 December 2016, a total of 3,173 people (including apprentices) were employed at Hapag-Lloyd (previous year: 3,262). At 2.8%, there was only a slight drop in the personnel expenses ratio compared to the 2015 financial year (previous year: 3.0%).

Depreciation, amortisation and impairment totalled EUR 278.6 million in the 2016 financial year (previous year: EUR 414.9 million). The decrease in depreciation, amortisation and impairment was mainly due to the impairment of current assets in the previous year in the amount of EUR 156.7 million in relation to accounts receivable from affiliated companies.

Other operating expenses fell by EUR 348.1 million year-on-year to EUR 1,270.8 million (previous year: EUR 1,618.9 million). This was due to significantly lower exchange rate losses, including bank charges, of EUR 644.7 million (previous year: EUR 1,003.1 million) in particular as a result of the balance sheet date valuation effects relating to liabilities denominated in US dollars. Netted, the exchange-rate-related other operating expenses and other operating income resulted in a decrease in earnings of EUR 177.0 million (previous year: EUR 279.1 million). Other operating expenses also primarily comprise commission expenses and selling expenses totalling EUR 392.1 million (previous year: EUR 373.4 million) and EDP expenses of EUR 83.6 million (previous year: EUR 81.1 million).

The operating result in the last financial year was EUR –94.3 million (previous year: EUR –285.0 million).

In the 2016 financial year, the financial result improved by EUR 248.5 million to EUR –84.8 million (previous year: EUR –333.3 million). This was primarily due to lower amortisation of financial assets in the amount of EUR 29.2 million (previous year: EUR 182.5 million). Furthermore, income from the transfer of profits rose from EUR 1.7 million to EUR 56.1 million in the reporting year.

A net loss for the financial year of EUR 201.4 million was reported for the 2016 financial year (previous year: net loss for the financial year of EUR 635.7 million). To balance the net loss for the year, EUR 201.4 million (previous year: EUR 635.7 million) was withdrawn from the free capital reserves pursuant to Section 272 (2) (4) of the German Commercial Code (HGB). Following this transfer from capital reserves, the Company's retained earnings remained unchanged from the previous year and amounted to EUR 108.4 million. This sum is to be carried forward.

NET ASSET POSITION

million EUR	31.12.2016	31.12.2015
Fixed assets	5,640.6	5,229.4
thereof property, plant and equipment	4,319.9	3,825.6
Current assets	1,400.3	1,365.5
thereof cash-in-hand, bank balances and cheques	472.4	426.4
Prepaid expenses	13.6	12.6
Excess of plan assets over post-employment benefit liability	3.9	3.5
Assets	**7,058.4**	**6,602.0**
Equity	1,143.9	1,345.3
Provisions	798.7	820.3
Financial liabilities	3,272.0	2,810.0
thereof short-term	771.0	516.2
Other liabilities	1,836.2	1,614.7
thereof short-term	1,515.6	1,319.7
Deferred income	7.6	11.7
Equity and liabilities	**7,058.4**	**6,602.0**
Net financial position (liquid assets – financial debt)	–2,799.6	–2.383.6
Equity ratio (equity / total assets)	16.2%	20.4%

Compared to the previous year, Hapag-Lloyd AG's balance sheet total increased by EUR 456.4 million to EUR 7,058.4 million (previous year: EUR 6,602.0 million).

Within fixed assets, property, plant and equipment in particular increased from EUR 3,825.6 million to EUR 4,319.9 million, while financial assets fell from EUR 910.0 million to EUR 852.0 million. In addition to investments of EUR 266.4 million in ships and containers (previous year: EUR 406.2 million), the change in property, plant and equipment primarily comprises additions to container ships resulting from the merger during the year of Third CSAV Ships Germany GmbH with Hapag-Lloyd AG (EUR 505.2 million). This effect was offset by depreciation on ships and containers totalling EUR 273.7 million (previous year: EUR 236.2 million). The decline in financial assets was attributable in particular to the disposal of the investment carrying amount for the merged company Third CSAV Ships Germany GmbH and the liquidation of other affiliated companies with a total value of EUR 220.2 million as well as the impairment of shares in affiliated companies in the amount of EUR 28.6 million (previous year: EUR 182.5 million). A capital increase in the form of a debt waiver of EUR 91.8 million and the contractual restructuring of a former account receivable as a long-term loan to an affiliated company of EUR 99.5 million in turn led to a rise in financial assets.

The increase in current assets to EUR 1,400.3 million (previous year: EUR 1,356.5 million) related, among other things, to an essentially price-related rise in bunker stock of EUR 34.9 million to EUR 280.6 million, which in particular resulted from higher bunker prices at year-end compared to the previous year.

Cash and cash equivalents totalled EUR 472.4 million at the balance sheet date (previous year: EUR 426.4 million). Further details of cash inflows and outflows are provided in the explanatory notes to financing activities in the financial position.

As at 31 December 2016, equity was down by EUR 201.4 million to EUR 1,143.9 million (previous year: EUR 1,345.3 million). The decrease resulted from the net loss for the financial year of EUR 201.4 million, which was offset by a corresponding withdrawal from the free capital reserves in accordance with Section 272 (2) (4) of the German Commercial Code (HGB). Taking into account the withdrawal from the capital reserves and retained earnings brought forward in the amount of EUR 108.4 million, retained earnings amounted to EUR 108.4 million on 31 December 2016 (previous year: retained earnings of EUR 108.4 million).

Financial liabilities came to EUR 3,272.0 million at the balance sheet date (previous year: EUR 2,810.0 million). They comprise bonds issued by Hapag-Lloyd AG and liabilities to banks. The year-on-year increase in financial debt relates especially to new financing for ships and containers totalling EUR 887.8 million and to the loans taken over as a result of the merger of Third CSAV Ships Germany GmbH in the amount of EUR 274.4 million. The raising of funds was offset by capital repayments totalling EUR 790.6 million. Of this sum, EUR 373.9 million related to additional repayments, most of which were made for the complete early redemption of the loans taken over as part of the merger. The balance sheet date valuation effects relating to financial liabilities denominated in US dollars resulted in a EUR 86.0 million increase in financial liabilities.

Other liabilities increased from EUR 1,614.7 million to EUR 1,836.2 million. The main reason for this was the rise in liabilities to affiliated companies from EUR 956.9 million to EUR 1,110.6 million. The liabilities to Hapag-Lloyd Special Finance DAC, Dublin, Ireland, which are included in this item, rose by EUR 105.9 million to EUR 435.0 million as a result of the increase in the receivables securitisation programme (previous year: EUR 329.1 million). In addition to liabilities to affiliated companies, other liabilities in particular comprise trade accounts payable in the amount of EUR 337.3 million (previous year: EUR 293.7 million), other container financing totalling EUR 207.5 million (previous year: EUR 190.8 million) and finance lease liabilities in the amount of EUR 141.7 million (previous year: EUR 155.0 million). Balance sheet date valuation effects relating to currency translation likewise boosted other liabilities as at 31 December 2016.

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. An essential basis for an efficient financial management is to optimise 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 a 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, Canadian dollar, Brazilian real, Indian rupee, British pound sterling, Chinese renminbi, Australian dollar, Japanese yen and Mexican peso are also significant currencies. For the euro, this also applies to financial debt.

To hedge euro exchange rate risks, derivative hedging transactions are concluded whose hedging effect 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 partially 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	31.12.2016	31.12.2015
Standard & Poor's	B+ / CreditWatch Negative	B+ / Stable
Moody's	B2 / Stable	B2 / Positive

The issuer rating for Hapag-Lloyd AG was unchanged at B+ by the international rating agency Standard & Poor's. However, the outlook was downgraded during the year from stable to CreditWatch Negative. The rating agency Moody's maintained the corporate rating at B2, although it revised the outlook downwards from positive to stable.

Financing

Hapag-Lloyd AG covers the Group's financing requirements with cash inflows from operating activities and by assuming short, medium and long-term financial debt.

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 2016 financial year was on the financing of investments made and the implementation and restructuring of financing as part of efforts to optimise the existing capital structure and reduce the interest burden.

Financing and investing activities

In addition to the signing of the business combination agreement with UASC, the Company executed the following major financing and investing activities in the 2016 reporting year:

- Hapag-Lloyd put two ships into operation, one on 2 November 2016 and the other on 7 December 2016. Each ship has a transport capacity of 10,500 TEU, for which loans of USD 74.5 million (EUR 68.2 million and EUR 69.9 million respectively) were drawn down.
- On 12 April 2016, Hapag-Lloyd sold containers held by the Company to a group of investors on the basis of a so-called Japanese operating lease contract and then leased them back for up to seven years with the option of buying them back upon their respective maturity. The lease contract is essentially a form of borrowing with the containers transferred by way of security. The refinancing volume associated with this transaction amounted to EUR 44.6 million.
- As part of cost-saving measures, the terms of existing operating lease contracts were extended and the lease rates reduced. As a result of these contractual changes, some contracts were reclassified as finance lease contracts and recognised in the amount of EUR 8.9 million.

- Delivery of the 5,750 new reefer containers ordered in September 2016, comprising 5,000 40-foot and 750 20-foot reefers, began in October 2016. While 2,500 of the reefers were rented, 3,250 were subject to beneficial ownership. The latter were financed via a leasing agreement comprising a volume of USD 36.1 million.
- On 20 December 2016, new fleet financing of USD 396.0 million (EUR 381.5 million) was paid out. This financing with a term of eight years was used to repay the existing loan financing of Third CSAV Germany GmbH, which has now merged with Hapag-Lloyd AG, for seven of its own ships in the amount of EUR 287.3 million. The remaining EUR 94.2 million of the amount paid out is freely available to Hapag-Lloyd AG.
- On 23 August 2016, Hapag-Lloyd Grundstücksholding GmbH signed an agreement with the existing financial backer to extend the financing term for the headquarters on Ballindamm by another ten years until 2026 and increase the real estate loan from EUR 54.4 million to EUR 85.0 million. The additional loan amount of EUR 30.6 million was passed on to Hapag-Lloyd AG in the form of an internal loan agreement.
- A credit facility obtained in the 2015 financial year to finance investments in containers of USD 135.0 million was fully utilised as at the current balance sheet date (31 December 2016: EUR 127.8 million; previous year: USD 94.0 million, or EUR 86.3 million).
- The credit facility in the amount of USD 125.0 million granted in relation to realisation of the IPO was fully utilised as at the balance sheet date (31 December 2016: EUR 118.4 million; previous year: EUR 0.0 million).

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 as well as certain loan-to-value ratios for the financing of ship investments. As at 31 December 2016, all of the covenants were fulfilled. Based on current planning, the Executive Board expects that the covenants will also be adhered to during the next period.

Liquidity analysis
The solvency of Hapag-Lloyd AG 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 661.8 million (previous year: EUR 762.4 million).

Off-balance-sheet obligations
Other financial obligations pertaining to purchase commitments relate to payment obligations to the shipyard for ordered container ships. These decreased year-on-year due to the delivery of two ships, the “Valparaíso Express” and the “Callao Express”, in 2016. At the reporting date, there were still three ships on the order book, each with a capacity of 10,500 TEU. The plan is to put the new ships into service by April 2017.

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, ships 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 (Note [15]).

STATEMENT ON THE OVERALL ECONOMIC POSITION

The ongoing difficult market conditions last year had an adverse effect on the development of Hapag-Lloyd's earnings. It was not possible to meet the forecasts for average freight rates and operating earnings development, as measured by EBITDA and EBIT, due to the slower than expected rise in rates at the start of the 2016 peak season in particular, coupled with an industry environment that remained challenging. Notwithstanding the existing general economic and sector-specific challenges, the Executive Board considered the Hapag-Lloyd Group's economic position to be robust at the time that the management report was being prepared. With its portfolio of services and current financial profile, the Hapag-Lloyd Group is well positioned and should strengthen its market position as a result of the planned merger with UASC. The take-over of UASC's business activities would lead to a significant rise in Hapag-Lloyd's level of debt in the 2017 financial year. Business has developed in accordance with expectations in the first few weeks of 2017.

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 2016, 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.

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 addressed at the top management level and factored in to 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.

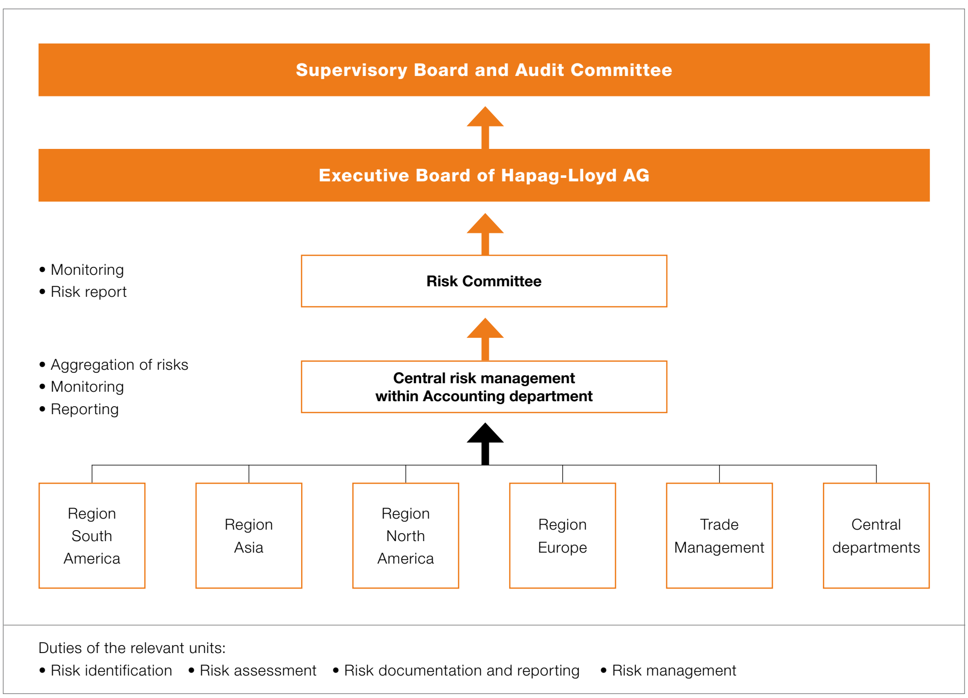
Within the context of the decentralised structure of risk management, risk managers are appointed across the Group and are responsible for continuously identifying, assessing, managing and monitoring operational and financial risks in the various regions and central departments (e. g. Treasury & Finance). 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 chart of Hapag-Lloyd AG



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 2016, 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 AG. These include third-party liability, property and personal insurance, as well as shipping insurance. The policies are examined regularly and adjusted if required.

DESCRIPTION OF THE SIGNIFICANT CHARACTERISTICS OF THE ACCOUNTING ICS / RMS PURSUANT TO SECTION 315 (2) (5) AND SECTION 289 (5) 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 was put in place to strengthen the continuous further development of the internal control system. A technical platform was also implemented 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.

Organisation and significant processes in accounting and consolidation

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

The Accounting department has overall responsibility for the consolidation process, the preparation of the financial statements and the internal and external Group and individual reporting.

Information is obtained from other departments and processed in the course of preparing the financial statements. This includes information from the Treasury department for the reporting of hedge relationships and financial derivatives, and information from the Controlling department pertaining to Company planning in relation to the impairment tests that are carried out. Individual items are accounted for based on the input of external specialists and appraisers, such as actuaries for pension valuation.

The process of preparing the financial statements is carried out in accordance with a detailed time schedule (the financial statements calendar), which is agreed with the departments and subsidiaries. The Accounting department is responsible for ensuring that these time limits are adhered to. Accounting throughout the Group is supported by means of suitable and standard market accounting systems at Hapag-Lloyd AG and its subsidiaries. The subsidiaries send 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.

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. Controls have also been implemented in the IT systems; the booking systems, for example, can only be accessed by authorised employees due to the presence of an authorisation system. In addition, reports concerning changes and exceptions, for example, are verified as downstream control activities for sensitive areas.

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 effectiveness of the key controls documented in the ICS for the central departments was also carried out in 2016.

ICS verification process

Hapag-Lloyd AG has a procedure to confirm the effectiveness of the ICS ("ICS verification process"). This was introduced in 2010 and has been continuously conducted ever since. The results of the effectiveness verification are compiled each year in a report. The Hapag-Lloyd AG Audit Committee is kept abreast of the effectiveness of the internal control system by the Executive Board.

RISKS

The key risks and their potential impact on the financial and earnings position of Hapag-Lloyd, including their probability of occurrence, are listed on page 73. 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.

Due to weaker growth in newly industrialised countries and the sluggish economic recovery in the eurozone, global economic growth in 2016 was again below the International Monetary Fund's (IMF) forecast of 3.4% (January 2016) and came to 3.1%. However, while global economic growth is expected to pick up in 2017, there continue to be a number of significant risks for the global economy in 2017. A detailed forecast can be found in the "General economic conditions" chapter. The sluggish economic recovery in industrialised countries, especially in the eurozone, the weak economic growth in key newly industrialised countries such as China and Brazil, the economic sanctions in place against Russia and a greater trend towards protectionism represent the most imminent risks for global economic growth in 2017. 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 the last four 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 developments. Protectionism could have a considerable impact on global trade and therefore on the container transport volume.

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 legs and the costs that arise from them. An increase in the imbalances in global trade could further push up the costs associated with empty legs. In 2016, weakening exports in the Chinese economy and the recession in Brazil, for example, led to a lower than expected cargo volume in the respective trades and a considerable drop in freight rates.

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 (China COSCO). 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 (UASC) on 15 July 2016. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. In July 2016, the French shipping company CMA CGM S. A. completed the takeover of the shipping company Neptune Orient Lines (NOL), Singapore. 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 announced the takeover of the German shipping company Hamburg Süd.

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.

From 1 April 2017, Hapag-Lloyd will operate the THE Alliance along 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). UASC's container ships would be used in the THE Alliance as part of the Hapag-Lloyd fleet. The THE Alliance is the successor organisation to the Grand and G6 Alliance. In the event that the merger with UASC is not completed before 1 April 2017, Hapag-Lloyd has signed corresponding vessel sharing agreements with UASC to ensure that the capacity pledged to the THE Alliance can be provided. The partnership is scheduled to last for at least five years. Members must remain in the alliance for 36 months and then give 12 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 so that it can 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 in the second quarter of 2016. In April 2016, the Ocean Alliance was established by CMA CGM S. A. (France), including the shipping company American President Lines Ltd. (Singapore) (APL), which was taken over by CMA CGM, Orient Overseas Container Line (Hong Kong) (OOCL), Evergreen Marine Corp. (Taiwan) Ltd. (Taiwan) (Evergreen) and China Ocean Shipping (Group) Company (China) (COSCO) Container Lines.

The 2M Alliance, which comprises the two market leaders Maersk Line (Denmark) and Mediterranean Shipping Company S. A. (Switzerland) (MSC), began operating at the start of 2015. The 2M Alliance is scheduled to last for a period of ten years.

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.

OPERATING RISKS

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

Effective risk hedging is achieved 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. In the 2016 financial year, the cost of the ships' fuel accounted for 7.6% of 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 the year under review, the average bunker consumption price (MFO) was USD 210 per tonne. This was USD 102 per tonne less 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 therefore rose significantly again in the second half of 2016. If this trend continues, it is likely to lead to a sharp increase in fuel costs in 2017.

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 very much on the prevailing market situation.

In addition, price risks emanating from fuel procurement are hedged against by means of hedging transactions in accordance with the internal hedging strategy. This involves hedging up to a maximum of 80% of the Company's anticipated bunker requirements. Please refer to the "Financial instruments" section in the Notes to the consolidated financial statements for more information on the scope and type of the hedging instruments used as at the balance sheet date. As at the end of February 2017, approximately 28% of the planned fuel consumption volumes for the 2017 financial year had been hedged.

The requirement to use marine diesel oil (MDO) as a result of stricter environmental regulations governing the traversing of coastal regions may lead to a considerable rise in transport costs, given the significantly higher price of MDO. In 2016, around 16% (previous year: around 15%) of total bunker consumption of approximately 3.1 million tonnes (previous year: approximately 3.4 million tonnes) was low-sulphur bunker. From 2020, the use of low-sulphur is mandatory.

Risk from fluctuations in charter rates

Within the framework of a charter contract, a shipowner 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 Group's fleet as at 31 December 2016 was approximately 57% (previous year: approximately 54%). The remaining 43% are chartered, of which 11 ships are chartered long-term, 22 medium-term and 58 short-term.

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 2016 was approximately 51%. The remaining 49% are chartered, of which 18 ships are chartered long-term, 22 medium-term and 58 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 2017, 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 further increased, 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 planned merger with UASC. If the demand for container transport capacity would be lower than expected, this could result in a further build-up of overcapacity.

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 employees.

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.

Risk 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. This, 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 increased importance of the Latin America trade

With a share of around 30% of the container transport volume in 2016, the Latin America trade is Hapag-Lloyd's biggest trade. According to the latest IMF forecast (January 2017), economic growth in the region of Latin America and the Caribbean contracted by 0.7% in 2016 (2015: +0.1%).

Economic growth is expected to increase slightly by 1.2% in 2017, then by 2.1% in 2018. The current modest pace of 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. The volatility of local currencies could also have a negative impact on earnings performance.

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.

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.

Risks arising from the loss of customers and employees

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

Risks arising from an unsatisfactory earnings position

The earnings position of Hapag-Lloyd for the financial year 2016 showed a significant negative deviation from the original outlook for the year. If such negative deviations from the outlook were also to occur in the future, this may have a negative impact on the value of goodwill recognised in the consolidated financial statements and on Hapag-Lloyd's financing options and liquidity situation due to its high level of financial debt.

Risks arising from the lower earnings contribution of projects

The successful implementation of the projects to improve efficiency and reduce costs and to boost revenue has a major impact on how earnings develop and whether the corporate objectives are achieved (Compete to Win project). The synergies anticipated from the integration of the acquired CSAV container shipping activities (CUATRO project) and the cost savings from the OCTAVE project are expected to have a combined total of USD 600 million per annum as of the 2017 financial year, as against the comparable cost base in the 2014 financial year and assuming that external factors remain the same. Furthermore, the intensification of the cost-saving and efficiency measures (OCTAVE II project) in 2017 is expected to deliver a high double-digit million US dollar amount. If implementation of the CUATRO, Close the Cost Gap, Compete to Win and OCTAVE I + II projects does not deliver the expected contribution to earnings, this could have a significant 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 items may therefore only show the success 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 very 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.

Risks resulting from the tightening of climate protection regulations
The emission standards set by the International Maritime Organization (IMO), the US state of California and the EU provide for a further significant reduction in emissions. The legally stipulated use of particularly low-sulphur fuels in US coastal areas since January 2015 (and in the coastal areas of California since January 2014) as well as in Hong Kong and certain coastal areas around Europe may result in a dramatic rise in specific fuel prices. Climate protection regulations are likely to become even more stringent in the coming years. 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 departed 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.

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

As at the reporting date, there were also EUR 128.4 million in contingent liabilities from tax risks (previous year: EUR 124.0 million), whereby the probability of occurrence is in total classified as low.

In May 2011, the European Commission began examining whether EU competition law had been violated since the exemption regulation for liner conferences was abolished in Europe in October 2008. To avoid further prolonging a time-consuming and costly legal dispute, in November 2015 Hapag-Lloyd joined other affected liner shipping companies in an initiative which was already under way to settle the case. As part of this initiative, Hapag-Lloyd signed a formal commitment in November 2015. The purpose of this was to settle the legal dispute and bring the European Commission's case to an end.

The European Commission approved the commitments of the liner shipping companies on 7 July 2016. It did not announce any significant provisos with its official approval. The investigation by the European Commission in case COMP/39.850 – Top Hat has thus concluded that the commitments are legally binding for Hapag-Lloyd and a violation is subject to penalty.

Authorities in two jurisdictions have launched official investigations into possible breaches of competition law. One investigation has already been suspended without resulting in a fine. A further investigation is expected to be settled without paying a formal fine. In both cases, the financial effects for the Group as a whole are therefore classified as very small.

Risks from taxation

In 1999, Hapag-Lloyd AG decided to avail itself 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 4% of the Group's income was subject to regular German taxation in 2016 (2015: approximately 10%).

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 is represented all over the world 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. Currency hedging transactions will be used to partly mitigate the risks from currency fluctuations. At the balance sheet date of 31 December 2016, this related to USD/EUR transactions. Additional currency hedging transactions may also be effected as required. Despite this, fluctuations in exchange rates can have a significant influence on Hapag-Lloyd's earnings position.

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

Interest rate risks

Interest rate risks which arise as a result of raising new funds are reduced with a balanced portfolio of fixed and variable interest rate structures. Interest rate hedges can also be effected, if necessary.

Risks resulting from changes in the lending values of ships
The lending values for ships financed by loans may change as a result of fluctuations in the market prices for ships and changes in the costs for newbuilds. Hanjin's insolvency and the sharp rise in the size of the idle fleet led to a significant oversupply of ships in the third and fourth quarters of 2016 in particular, and to a considerable decrease in the market value of container ships. In agreement with the lending financial institutions, Hapag-Lloyd will make early repayments on its ship financing. This could have a negative impact on the Company's liquidity situation and could result in the need to take out unsecured loans at unfavourable conditions. The current development of used-market prices for container ships resulted in deficits in the loan-to-value ratios in the amount of USD 62.2 million (EUR 58.9 million) in the fourth quarter of 2016. In the first quarter of 2017, the financing bank requested that Hapag-Lloyd make a corresponding additional early repayment. Current negotiations have led to a significant reduction in the additional early repayments to be made to USD 41.0 million (EUR 38.8 million). Further requests to make additional early repayments of USD 10.3 million (EUR 9.8 million) were also received in the first quarter of 2017.

Risks resulting from a more restrictive lending policy by banks towards shipping companies
The insolvency of the Korean shipping company Hanjin could lead to a more restrictive lending policy by the banks which finance the shipping industry. This could either make it more difficult for Hapag-Lloyd to obtain new financing or increase lending costs. This, in turn, would have a negative effect on Hapag-Lloyd's financial situation and earnings.

Liquidity risks
Liquidity risk, i.e. the risk of not being able to fulfil existing or future payment obligations, is managed centrally at Hapag-Lloyd. The Company secures an adequate liquidity reserve for itself by means of syndicated credit facilities and bilateral bank loans, as well as its portfolio of cash and cash equivalents. The liquidity reserve as at 31 December 2016 amounted to EUR 759.6 million (previous year: EUR 962.4 million). Arrangements with the banks to provide lines of credit are based on a rolling liquidity plan. The liquidity reserves, including unused credit facilities of the parent company Hapag-Lloyd AG, amounted to EUR 661.8 million (previous year: EUR 762.4 million) as at 31 December. Thereof, cash and cash equivalents amounted to EUR 472.4 million (previous year: EUR 426.4 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. 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.

Credit default risks

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

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

Risks arising from debt

As at 31 December 2016, the parent company financial debt amounted to EUR 3,272.0 million (previous year: EUR 2,810.0 million).

As at 31 December 2016, the Group's financial debt amounted to EUR 4,180.7 million (previous year: EUR 3,907.3 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.

In addition, it may put Hapag-Lloyd at a disadvantage when it comes to raising new funds on favourable terms. 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 2016 and as at 31 December 2016, 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 current development of used-market prices for container ships resulted in deficits in the loan-to-value ratios in the amount of USD 62.2 million (EUR 58.9 million) in the fourth quarter of 2016. In the first quarter of 2017, the financing bank requested that Hapag-Lloyd make a corresponding additional early repayment. Current negotiations have led to a significant reduction in the additional early repayments to be made to USD 41.0 million (EUR 38.8 million). Further requests to make additional early repayments of USD 10.3 million (EUR 9.8 million) were also received in the first quarter of 2017.

Risks arising from the impairment of goodwill and other intangible assets
As at 31 December 2016, the goodwill recognised in the statement of financial position of Hapag-Lloyd AG amounted to EUR 468.7 million (previous year: EUR 498.8 million).

As at 31 December 2016, the goodwill recognised in the statement of financial position amounted to EUR 1,661.6 million (previous year. EUR 1,610.8 million). Other intangible assets totalled a further EUR 1,340.4 million (previous year: EUR 1,376.3 million) as at the balance sheet date of 31 December 2016. This represented 26.5% of the balance sheet total (previous year: 27.0%). 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 2016 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 with joint venture partners
Hapag-Lloyd currently participates in a number of joint ventures with different partners, including HHLA Container Terminal Altenwerder GmbH and Consorcio Naviero Peruano S. A., and may enter into additional joint ventures in the future. 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 the value of these joint ventures.

Risks arising from Hapag-Lloyd AG having a low equity base
As at 31 December 2016, Hapag-Lloyd AG's equity in the individual financial statements prepared under German commercial law totalled EUR 1,143.9 million (previous year: EUR 1,345.3 million) and was therefore significantly lower than the Group's equity. The equity ratio under German commercial law of 16.2% as at 31 December 2016 was low (previous year: 20.4%). Hapag-Lloyd AG's financial debt as at 31 December 2016 was EUR 3,272.0 million (previous year: EUR 2,810.0 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 authorised share capital of Hapag-Lloyd AG is EUR 50 million. It is expected that the authorised share capital will be used to complete the transaction with UASC by issuing 45.9 million new shares, thereby increasing 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.

On 28 July 2016, the international rating agency Standard & Poor's issued Hapag-Lloyd with an unchanged issuer rating of B+ and an adjusted outlook of credit watch negative for Hapag-Lloyd AG. On 21 July 2016, the rating agency Moody's confirmed Hapag-Lloyd's corporate rating of B2 and a downgraded outlook of stable.

Both rating agencies took a positive view of the planned acquisition of UASC's business activities with regard to Hapag-Lloyd's competitiveness and the opportunity to achieve additional cost savings. Both rating agencies refer to the possibility of a rating downgrade due to Hapag-Lloyd's high level of debt following the UASC takeover.

RISKS FROM THE PLANNED UASC MERGER

The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. The successful closing of the transaction depends on all financing matters being finalised. Extensive details about UASC were published in the listing prospectus for the corporate bond issued by Hapag-Lloyd in January 2017. The outlook provided in the Group management report relates only to the Hapag-Lloyd Group, excluding UASC.

Risks arising from the potential failure to achieve the planned synergies and/or from exceeding the expected one-off expenses

The planned merger with UASC is expected to deliver annual synergies of USD 435 million from 2019. Around a third of these synergies should be achieved in 2017. 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 150 million. Some of the expenses will be incurred regardless of whether the transaction is completed. If the planned synergies cannot be achieved in full and/or the one-off expenses are significantly higher than predicted, this would have considerable negative effects on Hapag-Lloyd's future earnings.

Risks arising from the delayed or incomplete integration of UASC

The realisation of the expected synergies and the future success of Hapag-Lloyd will depend largely on a speedy and complete integration of UASC's business activities. If the integration is delayed and/or incomplete, this would have a significant adverse effect on the future success of Hapag-Lloyd.

Risks arising from a substantially higher level of debt

The planned takeover of UASC's business activities would lead to a considerable rise in Hapag-Lloyd's level of debt. UASC's financial debt totalled approximately EUR 3.4 billion as at 30 September 2016. 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 stronger presence in the Far East trade, including the Middle East sub-trade

The planned takeover of UASC's business activities will enable Hapag-Lloyd to strengthen its presence in the Far East trade, including the Middle East sub-trade. This will increase the influence of these trades on Hapag-Lloyd's performance as a company. Its earnings position could be negatively affected by lower than expected economic growth in the Middle East and Far East regions as well as greater competition from rival companies which already have a strong presence in these trades.

Risks arising from a larger fleet

The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. As at 31 December 2016, UASC had a fleet of 59 of its own and chartered container ships with a total transport capacity of around 580,000 TEU. Following the merger with UASC, its fleet would be available to Hapag-Lloyd. If the actual cargo volume is not enough to fully utilise 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 merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. The integration of UASC's business activities could increase the intangible assets on Hapag-Lloyd's statement of financial position. 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.

Risks arising from the loss of key employees and customers

The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. After the planned merger with UASC, there could be an unwanted increase in the level of fluctuation among key employees and customers. This could delay the success of a speedy integration of UASC and have a negative impact on the earnings position.

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 and liquidity developments that were much poorer than expected. 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 and contrasted 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 2017 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 were recalibrated in the reporting year and are classified as follows:

Low:	In the event of occurrence, the negative impact on the Group's earnings before interest and taxes (EBIT) will be up to USD 100 million (previous year: up to USD 25 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 25 million and up to USD 100 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 100 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 2017 in comparison to the previous year
Decline in transport volume	Low	Low	Lower
Decline in average freight rate	Medium	High	Lower
Decline in USD vs. EUR	Low	Low	Lower
Rise in bunker consumption prices	Medium	Medium	Higher
Liquidity*	Low	High	Equal
Lower earnings contribution of efficiency projects	Low	High	Equal

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

OPPORTUNITIES

Opportunities management – strategic focus on opportunities
At Hapag-Lloyd, recognising and exploiting opportunities are core elements of strategic management. Fundamentally, opportunities are identified by systematically observing and analysing 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, above-average effect on this industry. 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 on routes and therefore on economic developments. According to IMF estimates, in 2017, the world trading volume may grow at a much faster pace of 3.8% than in 2016 (+1.9%). IHS Global Insight believes that the volume of global container shipments will rise by 3.7% in 2017 and therefore at a much faster rate than in 2016 (+2.5%). Furthermore, all trades can expect to see an increase in transport volumes in 2017. 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 2017, particularly if the emerging markets are able to overcome their current weak growth in the course of 2017. 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

Fluctuations in the supply of and demand for shipping services on the market can result in both opportunities and risks. For a description of the risks, see the subchapter "Risks". Opportunities result from the realisation of cost advantages and/or an increase in freight rates, both of which are described in the following examples:

- 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.

Opportunities arising from membership of the 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 THE Alliance, for example into hinterland transport, could provide additional growth opportunities.

Opportunities arising from local market leadership

The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. With its acquisition of CSAV's container shipping activities, Hapag-Lloyd has enhanced its market position in the North and South America trades in particular, and also its local market leadership in the Transatlantic trade. The integration of UASC's business activities will strengthen Hapag-Lloyd's market position in the Far East trade and provide 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.

Opportunities arising from synergies and improvements to operating efficiency

The efficiency improvement and cost-cutting programmes implemented in 2015 and intensified in 2016 are expected to deliver annual synergies of USD 600 million from 2017 on a comparable costs basis as in the financial year 2014 and assuming that external factors remain the same. These relate primarily to ship system costs, service procurement, the optimisation of services and to personnel. A substantial part of the planned synergies and efficiency improvements were achieved in 2016. If implemented successfully, these projects may result in further enhancements in the use of operating resources in 2017 and beyond, leading to improvements in efficiency and, potentially, to lower operating costs. If the efficiency improvements are greater than expected, this would have a substantial positive impact on the development of earnings. The integration of CSAV's container shipping activities was completed in 2015, which was earlier than planned and with lower than expected costs.

Opportunities arising from 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 (China COSCO).

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 (UASC) on 15 July 2016. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 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 seven ships with a transport capacity of 9,300 TEU each in 2015 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 2016. A further reduction in bunker consumption per shipped container by using more efficient ships may lead to a decline in consumption-related costs. Four of the 10,500-TEU ships have been deployed as at the date of issue of this report. An additional 10,500-TEU ship will be delivered to Hapag-Lloyd in April. In addition, UASC has a young and efficient fleet. The use of these ships could also have a positive effect on the efficiency of the Hapag-Lloyd fleet.

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 2016, 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

On 28 July 2016, the international rating agency Standard & Poor's issued Hapag-Lloyd with an unchanged issuer rating of B+ and an adjusted outlook of credit watch negative for Hapag-Lloyd AG. On 21 July 2016, the rating agency Moody's confirmed Hapag-Lloyd's corporate rating of B2 and an outlook of stable. 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 will be 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 FROM THE PLANNED UASC MERGER

The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017.

Opportunities arising from greater than planned synergies and / or lower than predicted one-off expenses

The planned merger should generate annual synergies of USD 435 million from 2019 onwards, thanks in particular to the optimisation of a joint network and administrative functions. By 2017, approximately one third of this amount should have already been generated. One-off expenses of approximately USD 150 million are likely to arise from the transaction and implementation of the merger. If the planned synergies are greater than predicted and / or the one-off expenses are significantly lower than planned, this would have considerable positive effects on Hapag-Lloyd's earnings.

Opportunities arising from a stronger presence in the Far East trade, including the Middle East sub-trade

The planned takeover of UASC's business activities would enable Hapag-Lloyd to strengthen its presence in the Far East trade and the Middle East sub-trade. 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 of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. As at 31 December 2016, UASC had a fleet of 59 of its own and chartered container ships with a total transport capacity of around 580,000 TEU. Following the merger with UASC, its fleet would be 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 further stringent implementation of the synergy and efficiency improvements as a result of the CUATRO, OCTAVE, OCTAVE II, Compete to Win and Close the Cost Gap projects, the speedy implementation of the integration of UASC's business activities into the Hapag-Lloyd Group (if the merger is successful) and the resulting synergies, a noticeably positive trend in average freight rates, a much sharper than expected increase in transport volume and a further 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

Opportunity	Probability of occurrence	Potential impact	Probability of occurrence in 2017 in comparison to the previous year
Increase in transport volume	High	Low	Higher
Increase in average freight rate	Medium	High	Higher
Increase in USD vs. EUR	High	Low	Higher
Decrease in bunker consumption prices	Medium	Medium	Lower
Higher earnings contribution of the efficiency projects	High	High	Equal

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 2016, there are currently no indications of any risks, either alone or in combination with other risks, that 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 2017, the assessment of overall risk remains unchanged from 2016.

The main risks facing Hapag-Lloyd in 2017 continue 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 growth in 2017 is expected to brighten somewhat, as should the outlook for global trade as the main driver behind any growth in demand for container shipping services.

DISCLOSURES AND NOTES RELEVANT TO THE TAKEOVER

REPORT PURSUANT TO SECTION 315 (4) AND SECTION 289 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

1. Composition of subscribed capital

The Company's subscribed capital totalled EUR 118,110,917 as at the balance sheet date. It is divided into 118,110,917 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 ("shareholders' agreement" in the version amended on 17 November 2014, with the addition of Compañía Sud Americana de Vapores S.A., Santiago, Chile ["CSAV"] and Tollo Shipping Co. S.A., Panamá, Panama), in which the parties agreed to pool voting rights through a consortium company, Hamburg Container Lines Holding GmbH & Co. KG, Hamburg. As part of this agreement, CG Hold Co, HGV and Kühne have each undertaken, among other things, to retain their respective shares for a period of ten years (although HGV can obtain the release of 50% of its shares covered by the shareholders' agreement after five years) and pool voting rights for all decisions that affect the business of the Company. 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 and planned capital increases.

3. Investments in capital which exceed 10% of the voting rights

Please refer to the disclosures in the Notes (Note 8: Subscribed capital) to the financial statements for information about the investments in capital which exceed 10% of the voting rights. Hapag-Lloyd did not receive any voting right notices in 2016. Therefore, all the published voting right notices are still valid.

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.

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 Authorised Share Capital 2016 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 50,000,000, fully or in partial amounts, on one or more occasion up to 30 June 2018 by issuing up to 50,000,000 new no-par registered shares in exchange for cash and / or contributions in kind (Authorised Share Capital 2016). 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. This is the case in particular when issuing shares in exchange for contributions in kind – especially for the purpose of acquiring companies, parts of companies, investments in companies and other assets which are eligible as contributions and are associated with an acquisition plan – or if the issue price of new shares is not significantly below the market price of the Hapag-Lloyd share at the time of the capital increase against contributions in cash and no more than 10% of new shares are issued as measured against the previous share portfolio.

Section 71 of the German Stock Corporation Act (AktG) includes rules regarding the acquisition of treasury shares. Furthermore, the Annual General Meeting cannot authorise the Executive Board to buy back treasury 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 three bonds issued by the Company with a value totalling EUR 768 million (USD 811 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") or TUI AG, directly or indirectly acquires more than 50% of the voting rights of the Company's shares.

b) As part of various ship, container and other bank financing arrangements with outstanding repayment amounts and fixed financing commitments with a value totalling EUR 3,198 million (USD 3,377 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 435 million (USD 460 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 another 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

There are no extra compensation agreements for the members of the Executive Board in place, in case of a change of control.

OUTLOOK

The outlook for the 2017 financial year is based on the Hapag-Lloyd Group's existing business activities as at 31 December 2016 and therefore does not include UASC's business activities or the acquisition of UASC in 2016. The business combination was not yet complete at the time of preparation of the 2016 consolidated financial statements. As a result, it was not possible to determine the economic and accounting effects with sufficient certainty in this report.

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 2017), the International Monetary Fund (IMF) expects global economic growth to reach 3.4% in the current year. This forecast means that the global economy is set to grow at a slightly faster rate in 2017 than in the previous year (+3.1%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 3.8% in the current year (2016: +1.9%). This means that the growth in global trade will outpace that of the global economy in 2017. IHS Global Insight (February 2017) is forecasting that the global container shipping volume will increase by 3.7% to approximately 137 million TEU in 2017 (2016: 2.5%). As such, the expected rise in worldwide transport volumes in container shipping for 2017 would be in line with the rate of growth for global trade.

Following a rise in transport capacities of approximately 0.4 million TEU to 20.1 million TEU in 2016, Drewry forecasts a nominal increase in transport capacities of up to approximately 1.6 million TEU for the current year. The further growth in supply capacity could make it difficult once again to push through freight rate increases in 2017.

Based on unchanged optimism about the general economic and sector-specific conditions, Hapag-Lloyd (excluding the integration of UASC's business activities) expects its transport volume to increase moderately. A significant rise in the average bunker consumption price and a moderate improvement in the average freight rate are anticipated in 2017. If final synergy effects from the original efficiency programmes are achieved, along with additional cost savings, the expected improvement in the quality of earnings, the anticipated growth in volumes and a return to a better peak season in 2017, Hapag-Lloyd is forecasting a substantial increase in its EBITDA and EBIT in 2017.

The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017. Although the current earnings forecasts do not include revenue and earnings effects or changes in value following the planned consolidation of UASC, the material factors arising from the planned merger with UASC will be discussed below. The following information is subject to a successful merger in the first few months of 2017.

Hapag-Lloyd released indicative pro-forma figures for UASC when the corporate bonds were issued at the start of 2017. They showed that UASC recorded a transport volume of around 2.3 million TEU in the first nine months of 2016. The average freight rate was USD 610/TEU. The transport volume and freight rate figures were taken from UASC's unaudited management report, and the following figures from the income statement were adjusted to Hapag-Lloyd's financial reporting methods. Revenue came to EUR 1,615.6 million. In the first nine months of 2016, UASC generated EBITDA of EUR 94.6 million, EBIT of EUR –102.8 million and earnings after tax of EUR –209.1 million. The planned merger with UASC would enable the Hapag-Lloyd Group to considerably expand its business activities in 2017. The integration of UASC's business activities into the Hapag-Lloyd Group would also significantly alter the balance sheet. This affects property, plant and equipment and the level of debt in particular. Assuming that the merger with UASC is completed within the first few months of 2017, Hapag-Lloyd will refine its outlook for 2017 when it publishes its next interim report. The planned merger should generate annual synergies of USD 435 million from 2019 onwards, thanks in particular to the optimisation of a joint network and administrative functions. By 2017, approximately one third of this amount should have already been generated. One-off expenses of approximately USD 150 million are likely to arise from the transaction and implementation of the merger.

The factors influencing Hapag-Lloyd AG's operating result and that of the Hapag-Lloyd 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 2016 financial year at Hapag-Lloyd AG was once again dominated by a challenging operating environment and subdued global economic growth. Sustained competitive pressure in the container shipping industry led to a further significant decline in freight rates in the 2016 financial year. As in the previous year, the appreciation of the US dollar against the euro again weighed heavily on earnings in the 2016 financial year, if not to the same extent. Assuming that the USD/EUR exchange rate is largely stable, the planned "clear increase" in the positive EBITDA at Group level should also lead to a corresponding rise in the operating result in the individual financial statements of Hapag-Lloyd AG, as Hapag-Lloyd AG is the largest operating unit in the Hapag-Lloyd Group and makes the biggest contribution to the Group's operating business.

Key benchmark figures for the 2017 outlook – Hapag-Lloyd Group excluding UASC

Global economic growth (IMF)	3.4%
Increase in global trade (IMF)	3.8%
Increase in global container transport volume (IHS)	3.7%
Transport volume, Hapag-Lloyd	Increasing moderately
Average bunker consumption price	Increasing clearly
Average freight rate, Hapag-Lloyd	Increasing moderately
EBITDA (earnings before interest, taxes, depreciation and amortisation)	Increasing clearly
EBIT (earnings before interest and taxes)	Increasing clearly

The revenue and earnings forecast is based on the assumption of unchanged exchange rates. The earnings forecasts do not include revenue and earnings effects or changes in value following the planned future consolidation of UASC. The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017.

The majority of revenue is anticipated 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. In addition, the achievement of further synergies and earnings effects from cost-cutting measures already initiated will have a positive impact on earnings as expected.

Hapag-Lloyd has entered into long-term loan agreements to secure financing for the three 10,500-TEU ship newbuilds which had not yet been delivered as at the balance sheet date of 31 December 2016. All of these ships will be launched by the end of April 2017.

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 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 2016, a sharp increase in the euro against the US dollar and a stagnation or even a renewed reduction in freight rates. Additional risks could result from the 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 2017 and, by extension, on the business development of Hapag-Lloyd in the current financial year.

Hamburg, 8 March 2017

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Thorsten Haeser

FINANCIAL STATEMENTS

BALANCE SHEET

as at 31 December 2016

ASSETS

million EUR	Notes	31.12.2016	31.12.2015
A. Fixed assets	(1)		
I. Intangible assets		468.7	493.8
II Property, plant and equipment		4,319.9	3,825.6
III. Financial assets	(2)	852.0	910.0
		5,640.6	**5,229.4**
B. Current assets			
I. Inventories	(3)		
1. Raw materials and supplies		113.7	77.7
2. Unfinished voyages		183.3	185.3
3. Prepayments received		2.5	1.9
4. Payments received on account of orders		–18.9	–19.2
		280.6	**245.7**
II. Accounts receivable and other assets	(4)		
1. Trade accounts receivable		219.2	170.6
2. Accounts receivable from affiliated companies		278.2	424.8
3. Accounts receivable from associated companies		11.1	4.1
4. Other assets		138.8	84.8
		647.3	**684.3**
III. Cash-in-hand, bank balances and cheques	(5)	472.4	426.4
		1,400.3	**1,356.4**
C. Prepaid expenses	(6)	**13.6**	**12.6**
D. Excess of plan assets over post-employment benefit liability	(7)	**3.9**	**3.6**
		7,058.4	**6,602.0**

Please note that for computational reasons, rounding differences to the exact mathematical figures (monetary units) may occur.

EQUITY AND LIABILITIES

million EUR	Notes	31.12.2016	31.12.2015
A. Equity			
I. Subscribed capital	(8)	118.1	118.1
II Capital reserves	(9)	917.4	1,118.8
III. Retained earnings	(9)	108.4	108.4
		1,143.9	**1,345.3**
B. Provisions	(11)		
1. Provisions for pensions and similar obligations		127.7	125.5
2. Tax provisions		3.7	2.9
3. Other provisions		667.3	691.9
		798.7	**820.3**
C. Liabilities	(12)		
1. Bonds		789.1	785.6
2. Liabilities to banks		2,482.9	2,024.4
3. Trade accounts payable		337.3	293.7
4. Liabilities to affiliated companies		1,110.6	956.9
5. Liabilities to associated companies		9.3	5.7
6. Other liabilities (thereof for taxes: EUR 2.1 million; previous year: EUR 2.6 million) (thereof for social security: EUR 1.1 million; previous year: EUR 1.3 million)		379.0	358.5
		5,108.2	**4,424.8**
D. Deferred income	(13)	**7.6**	**11.6**
		7,058.4	**6,602.0**

Please note that for computational reasons, rounding differences to the exact mathematical figures (monetary units) may occur.

INCOME STATEMENT

for the period from 1 January to 31 December 2016

million EUR	Notes	1.1.–31.12.2016	1.1.–31.12.2015
1. Revenue	(16)	7,590.8	7,900.5
2. Decrease / increase in capitalised expenses for unfinished voyages		–2.0	55.3
3. Other operating income	(17)	690.1	916.5
		8,278.9	**8,872.3**
4. Transport expenses	(18)	6,614.0	6,887.7
5. Personnel expenses	(19)	209.8	235.8
6a. Amortisation of intangible fixed assets and depreciation of property, plant and equipment	(20)	278.6	258.2
6b. Write-downs of current assets in excess of normal depreciation and amortisation		0.0	156.7
7. Other operating expenses	(21)	1,270.8	1,618.9
		8,373.2	**9,157.3**
8. Operating result		**–94.3**	**–285.0**
9. Income from profit transfer		56.1	1.7
10. Income from investments		42.9	52.0
11. Income from loans within financial assets		1.2	0.1
12. Other interest and similar income		16.9	15.2
13. Amortisation of financial assets		29.2	182.5
14. Expenses from transfer of losses		0.1	22.1
15. Interest and similar expenses		172.6	197.7
16. Financial result	(22)	**–84.8**	**–333.3**
17. Taxes on income	(23)	5.0	4.6
18. Result after taxes		**–184.1**	**–622.9**
19. Other taxes		17.3	12.8
20. Net loss for the year		**–201.4**	**–635.7**
21. Retained earnings brought forward		108.4	108.4
22. Withdrawals from capital reserves		201,4	635.7
23. Retained earnings brought forward	(9)	**108.4**	**108.4**

Please note that for computational reasons, rounding differences to the exact mathematical figures (monetary units) may occur.

NOTES

GENERAL NOTES

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

The annual financial statements of Hapag-Lloyd AG were prepared in accordance with the German Commercial Code (HGB) as amended by the German Accounting Directive Implementation Act (BilRUG) dated 17 July 2015 and in accordance with the supplementary provisions of the German Stock Corporation Act (AktG). Due to the first-time application of the provisions of BilRUG, revenue recorded in 2016 is only comparable with that of the previous year to a limited degree. The amount of revenue that would have been recorded in the previous year if Section 277 (1) of the German Commercial Code (HGB) as amended by BilRUG had been applied is presented for informational purposes in the section “Notes to the income statement”.

Furthermore, the integration of the operating business of the CSAV container shipping activities during the previous year allows only a limited comparability of the profit and loss account for the current financial year with the previous year.

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. The provisions of BilRUG require an adjustment to the structure of the income statement compared with the previous year. The adjustments which have resulted from the first-time application of BilRUG individually for the previous year are presented in the section “Notes to the income statement”.

Third CSAV Ships Germany GmbH (“Third CSAV Ships Germany”), Hamburg, Germany, merged with the sole shareholder Hapag-Lloyd AG as part of an upstream merger in the period under review. The merger was carried out at carrying amounts without a capital increase. The difference between the investment carrying amount and the net assets transferred was EUR 192.8 million. The merger was finalised on 1 September 2016. All business transactions from this date have thus been included in the annual financial statements of Hapag-Lloyd AG and all assets and liabilities of Third CSAV Ships assumed by the Company. The assets and liabilities can therefore only be compared to a limited extent.

ACCOUNTING AND MEASUREMENT PRINCIPLES

The previous year's accounting and measurement principles and balance sheet structure were maintained in the year under review. The provisions of BilRUG require an adjustment to the structure of the income statement compared with the previous year.

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 fixed assets

Intangible fixed assets acquired in return for payment are carried at cost, 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 carried as assets.

In view of the durability of the customer portfolio and the anticipated synergy potential as a key driver of the value of goodwill and of earnings potential, goodwill acquired in 2015 is written off on a straight-line basis over a useful life of 20 years.

Property, plant and equipment

Property, plant and equipment are carried at purchase and production 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 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 a purchase and production 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 purchased goods are carried at purchase and production 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 commercial law; 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. The general credit risk is taken into account by means of a general allowance on the existing accounts receivable.

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 commercial law 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. Klaus Heubeck. As a result of the revision of Section 253 (6) of the German Commercial Code (HGB), discounting is based for the first time on the average market interest rate over the past ten years as published by the Bundesbank, with the assumption of a remaining term of 15 years. In the previous year, the average market interest rate for the preceding seven years was used. The positive difference between the pension provision method based on the corresponding average market interest rate for the previous ten financial years and the pension provision method based on the corresponding average market interest rate for the previous seven 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 2016, the interest rate based on the interest rate information published on 31 October 2016 is used as the basis of a forecast for 31 December 2016. This is 4.00% p. a. (previous year: 3.88% 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 three 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 seven financial years. The discount rates for similar maturities published by the Deutsche Bundesbank for discounting other provisions range from 1.67% to 2.46% in 2016, 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 leasing rate 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 commercial law and tax law are determined using the balance sheet concept. Tax loss carry-forwards are taken into account in addition to the temporary differences. Generally no deferred taxes are calculated, because Hapag-Lloyd AG has opted to be taxed under the tonnage tax regime and therefore temporary differences have no influence on the taxes. For domestic income, which does not lie under the tonnage tax regime, the calculation of deferred taxes in 2016 and 2015 was performed on the basis of the combined income tax rate of 32.3%. A resulting tax burden is 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 2016 financial year, there was an (unrecognised) deferred tax asset resulting from corporate income tax loss carry-forwards and tax interest carried 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 2016 financial year can be found in the statement of fixed assets under *Annexe I* to the Notes.

In addition to investments of EUR 266.4 million in ships and containers (previous year: EUR 406.2 million), the increase in property, plant and equipment was primarily due to additions of container ships as a result of the retroactive merger of Third CSAV Ships Germany with Hapag-Lloyd AG as part of an upstream merger. The merger date was 1 September 2016, and all business transactions from 1 September 2016 onwards are thus included in the annual financial statements of Hapag-Lloyd AG.

The merger of Third CSAV Ships Germany was carried out at carrying amounts without a capital increase. The difference between the investment carrying amount and the net assets transferred is EUR 192.8 million. The addition of the container ships was presented as a gross amount in the statement of fixed assets as additions resulting from the merger.

The table below compares the transferred net assets of Third CSAV Ships Germany with the investment carrying amount:

million EUR	Transferred net assets of Third CSAV Ships Germany GmbH
Fixed assets	**479.5**
Property, plant and equipment	479.5
Currents assets	**28.8**
Inventories	0.5
Receivables and other assets	21.3
Cash and cash equivalents	7.0
Prepaid expenses	**0.3**
Total assets	**508.6**
Liabilities	315.8
Total liabilities	**315.8**
Transferred net assets	**192.8**
Carrying amount of the investment	**192.8**

2. Financial assets

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	31.12.2016	31.12.2015
Raw materials and supplies	113.7	77.7
Unfinished voyages	183.3	185.3
Prepayments received	2.5	1.9
Payments received on account of orders	–18.9	–19.2
Total	**280.6**	**245.7**

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"), Dublin, Ireland, in the amount of EUR 158.3 million (previous year: EUR 123.0 million) in connection with existing asset securitisation.

million EUR	31.12.2016	thereof remaining duration > 1 year	31.12.2015	thereof remaining duration > 1 year
Trade receivables	219.2	0.0	170.6	0.0
Accounts receivable from affiliated companies	278.2	0.0	424.8	0.0
thereof from trade receivables	21.2	0.0	0.0	0.0
Accounts receivable from associated companies	11.1	0.0	4.1	0.0
Other assets	138.8	22.9	84.8	10.7
Total	**647.3**	**22.9**	**684.3**	**10.7**

Among other things, other assets include cash and cash equivalents with restricted availability of 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 the embedded derivatives came to EUR 13.7 million as at 31 December 2016.

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

Derivatives

million EUR	Nominal value as per 31.12.2016	Fair value as per 31.12.2016	Carrying amount as per 31.12.2016
Commodity options	204.5	11.2	6.1
Embedded derivatives	0.0	26.3	13.7

Of the embedded derivatives totalling EUR 13.7 million (previous year: EUR 10.7 million), derivatives with a carrying amount of EUR 11.5 million have a term to maturity of 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

Prepaid expenses at the balance sheet date included EUR 0.1 million resulting from bond issue differences relating to the USD bond tranche issued in 2010 (previous year: EUR 0.1 million). This item also includes amounts recognised for charters, rental and lease expenses, and insurance premiums for subsequent years.

7. Excess of plan assets over post-employment benefit liability

An excess of plan assets is recognised from the offsetting of pension provisions against a special-purpose fund for the pension commitments of the branch in the Netherlands.

NOTES ON THE STATEMENT OF FINANCIAL POSITION – LIABILITIES

8. Subscribed capital

Hapag-Lloyd AG has subscribed capital of EUR 118.1 million (previous year: EUR 118.1 million). It is divided into 118.1 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).

Disclosures pursuant to Section 160 (1) (8) of the German Stock Corporation Act (AktG)

Between the start of the financial year and the time at which the financial statements were completed, we did not receive any disclosures pursuant to Section 21 (1) or (1a) of the German Securities Trading Act (WpHG). As a result, the following disclosures regarding holdings in Hapag-Lloyd AG are taken from the previous year and continue to be valid.

Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH, 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). 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.

TUI-Hapag Beteiligungs GmbH, Hanover, 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 12.33% (corresponding to 14,561,811 voting rights). 12.33% of the voting rights (corresponding to 14,561,811 voting rights) are held directly by the Company.

TUI AG in Hanover/Berlin, 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 12.33% (corresponding to 14,561,811 voting rights). 12.33% of the voting rights (corresponding to 14,561,811 voting rights) are attributable to the Company through TUI-Hapag Beteiligungs GmbH pursuant to Section 22 (1) (1) (1) WpHG, of which 3% or more are assigned.

The Luksburg Foundation, 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.

Quinenco 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.

Compania 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 the 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 in 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.

Authorised share capital
Under a resolution approved at the Annual General Meeting on 26 August 2016, 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 50 million in the period to 30 June 2018 by issuing up to 50 million new no-par registered shares in exchange for cash and/or contributions in kind (Authorised Share Capital 2016). The amendment to the articles of association was entered on 4 October 2016. As a general rule, subscription rights should be provided to the shareholders. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' subscription rights for one or more capital increases as part of authorised share capital.

The Executive Board's previous authorisation, which was subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 15.0 million on one or more occasions up to 17 September 2020 by issuing new no-par registered shares in exchange for a minimum subscription fee of EUR 1.00 per share, payable in cash (Authorised Share Capital III) was cancelled with effect from the date on which the Authorised Share Capital 2016 was entered.

9. Capital reserves and retained earnings

The net loss for the year of EUR 201.4 million was offset by a withdrawal from the capital reserves of EUR 201.4 million. As such, capital reserves amounted to EUR 644.0 million (previous year: EUR 644.0 million) in accordance with Section 272 (2) (1) of the German Commercial Code (HGB) and EUR 273.4 million (previous year: EUR 474.8 million) in accordance with Section 272 (2) (4) of the German Commercial Code (HGB)

The reconciliation of the net loss for the year by the withdrawal from the capital reserves can be found in the supplement to the income statement pursuant to Section 158 of the German Stock Corporation Act (AktG).

The Executive Board proposes that the retained earnings of EUR 108.4 million achieved in the 2016 financial year will be carried forward.

10. 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 1.6 million (previous year: EUR 3.8 million).

The difference between the provision method which uses the average market interest rate for the previous ten years (interest rate of 4.0%) for discounting purposes and the provision method which uses the average market interest rate for the previous seven years (interest rate of 3.23%) for discounting purposes is EUR 25.1 million.

These non-distributable amounts are offset by freely available reserves in the amount of EUR 273.4 million. Freely available reserves comprise the capital reserves pursuant to Section 272 (2) (4) of the German Commercial Code (HGB).

11. Provisions

Provisions for pensions and similar obligations include pension provisions in the amount of EUR 19.2 million (previous year: EUR 19.6 million) in relation to which the entitlements from reinsurance arrangements at fair value totalling EUR 10.7 million (previous year: EUR 10.8 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 0.7 million (previous year: EUR 0.8 million) compare with income from the fair value measurement of the plan assets in the amount of EUR 0.4 million (previous year: EUR 0.5 million).

The settlement amount for the additionally offset provisions totalled EUR 36.7 million on 31 December 2016 (previous year: EUR 35.6 million). The cost of all offset assets amounts to EUR 38.9 million (previous year: EUR 34.6 million), with their fair value amounting to EUR 40.5 million (previous year: EUR 39.1 million). Expenses relating to the discounting of provisions for pensions totalling EUR 1.4 million (previous year: EUR 1.3 million) compare with income from the fair value measurement of the plan assets in the amount of EUR 1.0 million (previous year: EUR 0.8 million).

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

Other provisions totalling EUR 667.3 million (previous year: EUR 691.9 million) include provisions for outstanding invoices in the amount of EUR 396.5 million (previous year: EUR 425.7 million), personnel expenses in the amount of EUR 33.9 million (previous year: EUR 38.1 million), maintenance of leased containers in the amount of EUR 60.9 million (previous year: EUR 69.8 million) and uninsured damage to third-party property and cargo totalling EUR 18.2 million (previous year: EUR 21.0 million). These also comprise provisions for other risks totalling EUR 157.8 million (previous year: EUR 131.7 million), which include country-specific risks (EUR 51.6 million; previous year: EUR 42.2 million) and obligations under a guarantee issued for the benefit of a subsidiary for existing pension obligations there (EUR 15.3 million; previous year: EUR 7.9 million).

Other provisions included the following contingent losses for derivative financial instruments at the balance sheet date:

Contingent liabilities from forward exchange contract

million EUR	Nominal value as per 31.12.2016	**Fair value as per 31.12.2016**	Carrying amount as per 31.12.2016
Forward exchange contract	665.2	41.1	41.1

The currency forward contracts generally have a term to maturity of less than one year. A currency forward contract with a nominal value of EUR 30.6 million and a negative market value of EUR 1.8 million as at 31 December 2016 has a term to maturity of more than one year.

12. Liabilities

million EUR	31.12.2016 Total	thereof with remaining duration less than 1 year	more than 1 year	more than 5 years	31.12.2015 Total	thereof with remaining duration less than 1 year	more than 1 year	more than 5 years
Financial liabilities								
Bonds	789.1	139.1	650.0	0.0	785.6	20.8	764.8	0.0
Liabilities to banks	2,482.9	631.9	1,851.0	611.0	2,024.4	495.4	1,529.0	509.8
thereof secured by liens and similar rights	2,272.0	481.4	1,790.6	611.0	1,918.1	389.1	1,529.0	509.8
	3,272.0	**771.0**	**2,501.0**	**611.0**	**2,810.0**	**516.2**	**2,293.8**	**509.8**
Other liabilities								
Liabilities to affiliated companies	1,110.6	1,079.8	30.8	30.8	956.9	956.9	0.0	0.0
thereof trade accounts payable	1,068.3	1,068.3	0.0	0.0	956.9	956.9	0.0	0.0
Liabilities to associated companies	9.3	9.3	0.0	0.0	5.7	5.7	0.0	0.0
Trade accounts payable	337.3	337.3	0.0	0.0	293.7	293.7	0.0	0.0
Other liabilities	379.0	89.2	289.8	49.0	358.5	63.4	295.1	84.8
thereof for taxes	2.1	2.1	0.0	0.0	2.6	2.6	0.0	0.0
thereof for social security	1.1	1.1	0.0	0.0	1.3	1.3	0.0	0.0
thereof secured by liens and similar rights	349.1	67.1	282.0	49.0	345.7	50.6	295.1	84.8
	1,836.2	**1,515.6**	**320.6**	**79.8**	**1,614.8**	**1,319.7**	**295.1**	**84.8**
Total	**5,108.2**	**2,286.6**	**2,821.6**	**690.8**	**4,424.8**	**1,835.9**	**2,588.9**	**594.6**

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

Liabilities to affiliated companies comprise liabilities to subsidiaries arising from ordinary operating activities and a liability to Hapag-Lloyd Special Finance in the amount of EUR 435.0 million (previous year: EUR 329.1 million) in connection with the receivables securitisation programme. The liabilities with terms of more than one year are the result of a loan to Hapag-Lloyd Grundstücksholding GmbH ("Hapag-Lloyd Grundstücksholding"), Hamburg, Germany.

13. Deferred income

On the liabilities side, deferred income includes a bond-related difference of EUR 6.5 million (previous year: EUR 9.9 million). This includes EUR 5.5 million attributable to the embedded buy-back options accounted for separately (previous year: EUR 8.4 million). These differences are spread over the entire term of the bonds on a linear basis.

14. Contingencies

million EUR	31.12.2016	31.12.2015
Liabilities from guarantees	263.4	607.1
thereof from affiliated companies	263.4	603.7
Liabilities from warranties	4.3	33.7
thereof from affiliated companies	4.3	33.7
Total	**267.7**	**640.8**

Guarantee liabilities are above all the result of bank loans taken out by subsidiaries of Hapag-Lloyd AG in order to finance ships, for which Hapag-Lloyd AG acts as the guarantor. As the loans are secured by ship mortgages and revenue is secured by means of long-term charter agreements with Hapag-Lloyd AG that cover interest and repayment, the guarantees are not expected to be utilised.

Liabilities relating to warranty agreements primarily comprise Hapag-Lloyd AG's suretyship for the Seaspan Corporation, Trust Company Complex ("Seaspan Corporation"), Ajeltake, Marshall Islands, in the form of a charter obligation for the benefit of Hapag-Lloyd USA LLC ("Hapag-Lloyd USA"), Piscataway, USA, in the amount of EUR 4.2 million (previous year: EUR 32.9 million). Utilisation of the suretyship can be ruled out, as a charter relationship exists in turn between Hapag-Lloyd USA and Hapag-Lloyd AG, and the payments to the Seaspan Corporation are made directly by Hapag-Lloyd AG.

Letters of comfort / guarantee

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.

To prevent insolvency pursuant to Section 17 of the German Insolvency Regulation (InsO) or excess debt pursuant to Section 19 InsO, Hapag-Lloyd AG has issued letters of comfort in favour of its domestic subsidiaries First CSAV Ships Germany GmbH ("First CSAV Ships Germany"), Hamburg, Germany, and Second CSAV Ships Germany GmbH ("Second CSAV Ships Germany"), Hamburg, Germany. The validity of the letters of comfort does not depend on the extent of the investment relationship with the domestic subsidiaries. The notice period for cancelling the letters of comfort is one year to the end of the financial year of the domestic subsidiaries.

Hapag-Lloyd AG has also issued letters of comfort for its foreign subsidiaries Hapag-Lloyd (Canada) Inc., Montreal, Canada, Hapag-Lloyd (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia and Hapag-Lloyd (China) Ltd., Hong Kong, China, to ensure that the subsidiaries are able at all times to fulfil their contractual obligations. The letters of comfort have a term of at least 12 months from the company's reporting date.

Hapag-Lloyd AG has also issued a guarantee relating to the pension obligations of Hapag-Lloyd UK Ltd., Barking, United Kingdom, in the amount of EUR 15.3 million (previous year: EUR 7.9 million).

No claims are expected from the letters of comfort and guarantee issued by Hapag-Lloyd AG, since it is assumed that the companies will meet the underlying liabilities.

15. Other financial obligations

million EUR	31.12.2016	31.12.2015
Obligations from long-term leases and license agreements (nominal value)		
Less than 1 year	502.1	792.8
thereof from affiliated companies	97.5	190.8
1–5 years	988.8	1,313.2
thereof from affiliated companies	373.2	650.0
More than 5 year	134.3	470.3
thereof from affiliated companies	88.3	386.5
Purchase order commitments	151.7	347.2
Total	**1,776.9**	**2,923.5**

Other financial obligations include charter and lease obligations for ships, and lease and rental obligations for containers and business premises. Purchase commitments relate to payment obligations to the shipyard for container ships ordered but not yet delivered. The various maturities of the charter and lease obligations and the purchase commitments constitute both advantages and risks for the Company. While there may be advantages in terms of orders placed for newbuilds due to the anticipated increase in container shipping volumes, there are risks relating above all to the tying up of capacities in long-term contracts. Short-term charter agreements offer potential flexibility regarding market fluctuations, but constitute a risk in the event that market charter rates increase.

Purchase commitments for investments in property, plant and equipment totalled EUR 151.7 million as at 31 December 2016 (previous year: EUR 347.2 million). The payment obligations relating to these are due in full in 2017.

NOTES TO THE INCOME STATEMENT

16. Revenue

Net freight revenue is broken down according to the trades. Other revenue includes slot charter revenue and income from demurrage and detention and other services. Revenue not assigned to trades includes slot charter revenue and income from demurrage and detention and other services. Slot charter revenue relating to other periods totalled EUR 12.9 million (previous year: EUR 5.5 million).

Due to the first-time application of the provisions of BilRUG, revenue recorded in 2016 is only comparable with that of the previous year to a limited degree. The increase in revenue due to Section 277 (1) of the German Commercial Code (HGB) as amended by BilRUG is EUR 32.9 million. This increase is primarily due to Group cost allocations insofar as these are based on an exchange of services.

Revenue per trade *

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Atlantic	1,782.8	1,976.9
Transpacific	1,647.8	1,982.9
Latin America	1,966.5	1,616.6
Far East	861.8	1,013.2
Intra-Asia	322.4	318.8
EMAO (Europe, Mediterranean, Africa, Oceania)	394.6	393.3
Revenue not assigned to trades	614.9	598.8
Total	**7,590.8**	**7,900.5**

* Due to BilRUG, positions had been reclassified under revenue. This led to an increase of EUR 32.9 million. In the previous year, a positive effect of EUR 31.2 million would have resulted in an increase in revenue to EUR 7,931.7 million.

17. Other operating income

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Exchange rate gains	461.3	714.2
Income from the release of provisions	147.9	112.7
Income from the reduction of value adjustments of receivables	29.0	0.0
Income from recharged costs	20.9	26.6
Income from the disposal of fixed assets	3.6	18.5
Other income	27.4	44.5
Total	**690.1**	**916.5**

Exchange rate gains include income from currency translation (EUR 448.2 million; previous year: EUR 677.5 million) and from realised exchange rate gains and the valuation of derivative financial instruments (EUR 13.1 million; previous year: EUR 36.7 million).

The provisions of BilRUG require an adjustment to the structure of the income statement compared with the previous year. The income from the release of a provision of EUR 56.1 million recognised in the previous year under the item “extraordinary income” has now been reclassified as other operating income.

Other operating income includes income relating to other periods from the release of provisions, from the disposal of fixed assets and from the reduction of impairment allowances on receivables.

18. Transport expenses

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Costs of raw materials and supplies	636.6	882.6
Cost of purchased services	5,977.4	6,005.1
Total	**6,614.0**	**6,887.7**

Rebates received for port, canal and terminal costs and for container transport costs are deducted from the corresponding transport costs. These rebates totalled EUR 13.8 million (previous year: EUR 4.9 million) and relate to previous years, which means they are classified as relating to other periods. Slot charter revenue from slot charter settlements relating to other periods totalled EUR 3.2 million (previous year: expenses of EUR 28.5 million).

19. Personnel expenses / employees

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Wages and salaries	177.6	180.0
Social security, post-employment and other employee benefit costs	32.2	55.8
thereof for pensions	1.0	24.9
Total	**209.8**	**235.8**

The average number of employees developed as follows:

Number of employees (annual average)	1.1.–31.12. 2016	1.1.–31.12. 2015
Marine personnel	1,176	1,246
Shore-based personnel	1,833	1,704
Apprentices	202	206
Total	**3,211**	**3,156**

20. Depreciation, amortisation and impairment of intangible assets and property, plant and equipment and of current assets insofar as they exceed the corporation's usual depreciation, amortisation and impairment

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Scheduled depreciation and amortisation		
Amortisation of intangible assets	27.8	19.5
Depreciation of property, plant and equipment	250.8	238.7
	278.6	**258.2**
Impairment losses		
Impairment losses pursuant to § 253 (4) German Commercial Code	0.0	156.7
	0.0	**156.7**
Total	**278.6**	**414.9**

21. Other operating expenses

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Exchange rate losses, incl. bank charges	644.7	1,003.1
Commissions / sales expenses	392.1	373.4
IT service expenses	83.6	81.1
Legal and consultancy expenses / costs	25.6	19.7
Factoring	17.4	18.3
Rent and lease expenses	12.6	12.7
Administrative expenses	9.6	11.3
Other socially related material and personnel costs	15.8	3.5
Other expenses	69.4	95.8
Total	**1,270.8**	**1,618.9**

Exchange rate losses include EUR 584.1 million from currency translation (previous year: EUR 943.7 million) and EUR 54.3 million from realised exchange rate losses and the valuation of derivative financial instruments (previous year: EUR 49.5 million).

The provisions of BilRUG require an adjustment to the structure of the income statement compared with the previous year. The expenses from a merger loss of EUR 0.7 million recognised in the previous year under the item “extraordinary expenses” have now been reclassified as other operating expenses.

22. Financial result

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Income from associated companies	42.9	52.0
thereof from affiliated companies	12.8	14.7
Income from loans from financial assets	1.2	0.1
thereof from affiliated companies	1.2	0.0
Income from a profit and loss transfer agreement	56.1	1.7
Other interest and similar income	16.9	15.2
thereof from affiliated companies	8.4	7.1
Expenses from the transfer of losses	0.1	22.1
Interest payable and similar expenses	172.6	197.7
thereof from affiliated companies	1.9	0.1
Impairment losses from long-term financial assets and current securities	29.2	182.5
Total	**–84.8**	**–333.3**

Income from investments primarily includes dividends received of EUR 21.6 million (previous year: EUR 30.3 million) from HHLA Container Terminal Altenwerder GmbH, Hamburg, Germany.

Interest and similar expenses includes costs of EUR 8.0 million from the discounting of provisions (previous year: EUR 6.7 million).

Income from profit transfer agreements comprises income from the ship chartering companies First, Second and Third CSAV Ships Germany of EUR 53.6 million and from Hapag-Lloyd Grundstücksholding of EUR 1.9 million (previous year: EUR 1.7 million).

As in the previous year, write-downs on financial assets were necessary as a result of the further restructuring in line with company law and winding-up of former companies of CSAV's container shipping activities.

23. 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 the solidarity surcharge of 5.5% on corporate income tax applied in the 2016 financial year. The trade earnings tax rate, which corresponds to the specific applicable municipal assessment rate, was 16.5% in 2015 and 2016. 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 income in the amount of EUR 1.2 million is included in the actual income taxes (previous year: EUR 0.4 million).

Tax expense/income does not include any deferred taxes. Overall in the 2016 financial year, there was an (unrecognised) deferred tax asset resulting from tax loss carry-forwards.

OTHER DISCLOSURES

24. 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 2,621.1 million (previous year: EUR 2,263.8 million).

Of the ships of which Hapag-Lloyd AG is the beneficial owner, twelve 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 233.9 million (previous year: EUR 233.9 million) and for some of the other liabilities with a carrying amount of EUR 299.7 million (previous year: EUR 268.1 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. From an economic perspective, this is equivalent to a secured economic interest in the containers.

25. 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.

26. 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 2016 are to be published in the online version of the German Federal Gazette.

27. Executive Board and Supervisory Board remuneration

The total remuneration granted to active Executive Board members in the financial year was EUR 5.6 million (previous year: EUR 6.5 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 125,216 virtual shares in the financial year (previous year: 112,586). The total remuneration for former members of the Executive Board and their surviving dependants amounted to EUR 0.9 million in the 2016 financial year (previous year: EUR 1.0 million). The emoluments of the active members of the Supervisory Board amounted to EUR 0.9 million (previous year: EUR 0.9 million).

Pension provisions for former members of the Executive Board amounted to EUR 17.7 million (previous year: EUR 18.2 million).

For details of the basic features of Executive Board and Supervisory Board remuneration and the individual members' emoluments, please refer to 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.

28. Declaration of conformity in accordance with Section 161 AktG

The declaration required under Section 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and Supervisory Board in November 2016 and has been made permanently available to shareholders on the Company's website www.hapag-lloyd.com in the "Corporate Governance" section under "IR" at http://ir.hapag-lloyd.com/websites/hapaglloyd/English/8000/corporate-governance.html.

29. Total external auditors' fees

The total fees charged by the Company's external auditors KPMG AG Wirtschaftsprüfungsgesellschaft are disclosed in the exempting consolidated financial statements of Hapag-Lloyd AG, broken down into auditing services, other attestation services, tax consultancy services and other services.

30. Events after the balance sheet date

Following delivery of the “Cartagena Express” on 19 January 2017 and the “Guayaquil Express” on 2 February 2017, Hapag-Lloyd has put another two ships in the Valparaíso class into operation, each with a transport capacity of 10,500 TEU. In connection with this, the last instalments for the construction work amounting to EUR 96.0 million were paid to the shipyard, while at the same time a credit facility amounting to EUR 138.8 million was also utilised. The last ship under construction in the Valparaíso class is scheduled to enter operation in April 2017.

In January 2017, a sale and leaseback transaction was entered into involving used containers and containers held by the Company. The lease contract has a term of four years, beginning on 20 January 2017, and comprises a volume of EUR 41.5 million. The Company will remain the beneficial owner of the containers, and the disposal of the containers will have no effect on earnings.

On 1 February 2017, Hapag-Lloyd issued a new corporate bond with a coupon of 6.75% and a maturity of five years at an issue price of 100.00%. Due to the high level of demand, the originally planned issue volume of EUR 150.0 million was increased to EUR 250.0 million. On 17 February 2017, 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. The original repayment date of the USD bond was 15 October 2017.

On 15 February 2017, EUR 200 million was added to the corporate bond issued in January, taking the total amount to EUR 450 million. The additional proceeds from the issue in the amount of EUR 204.8 million (issue price of 102.375%) are to be used for the early partial repayment of the EUR bond due on 1 October 2018.

Hamburg, 8 March 2017

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Thorsten Haeser

ANNEXE I

Statement of fixed assets of Hapag-Lloyd Aktiengesellschaft for the 2016 financial year

	Acquisition / production costs					
million EUR	1.1.2016	Additions	Additions from merger	Reclassifications	Disposals	31.12.2016
I. Intangible assets						
1. Purchased software	27.1	2.7	–	0.1	–	29.9
2. Purchased concessions, industrial property and similar rights and assets as well as licences in such rights and assets	3.5	–	–	–	–	3.5
3. Goodwill	503.1	–	–	–	–	503.1
4. Payments received on account of orders	0.1	–	–	–0.1	–	–
	533.8	**2.7**	**–**	**0.0**	**–**	**536.5**
II. Property, plant and equipment						
1. Land, similar rights and buildings including buildings on leasehold land	0.0	–	–	–	–	0.0
2. Vessels	3,569.4	151.0	505.2	59.8	–	4,285.4
3. Improvement on leased vessels	4.7	–	–	0.5	–	5.2
4. Major spare parts for vessels	3.5	–	–	–	0.1	3.4
5. Container, chassis, gensets	1,172.9	58.8	–	–	7.7	1,224.0
6. Machinery and equipment	9.0	–	–	–	–	9.0
7. Other equipment and office equipment	18.3	2.4	–	0.0	0.8	19.9
8. Payments received on account of orders	144.9	56.6	–	–60.3	–	141.2
	4,922.7	**268.8**	**505.2**	**0.0**	**8.6**	**5,688.1**
III. Financial assets						
1. Shares in affiliated companies	776.7	91.8	–	–	220.2	648.3
2. Holdings	319.6	–	–	–	–	319.6
3. Loans to associated companies	–	99.5	–	–	–	99.5
4. Loans to holdings	1.3	0.1	–	–	–	1.4
	1,097.6	**191.4**	**–**	**–**	**220.2**	**1,068.8**
Total	**6,554.1**	**462.9**	**505.2**	**–**	**228.8**	**7,293.4**

Please note that for computational reasons, rounding differences to the exact mathematical figures (monetary units) may occur.

Depreciation, amortisation and impairment						Carrying amounts	
1.1.2016	Additions	Additions from merger	Reclassifi-cations	Disposals	31.12.2016	31.12.2016	31.12.2015
23.3	2.6	–	–	–	25.9	4.0	3.8
–	–	–	–	–	–	3.5	3.5
16.7	25.2	–	–	–	41.9	461.2	486.4
–	–	–	–	–	–	–	0.1
40.0	**27.8**	**–**	**–**	**–**	**67.8**	**468.7**	**493.8**
0.0	–	–	–	–	0.0	0.0	0.0
773.7	153.4	25.7	–	–	952.8	3,332.6	2,795.7
4.4	0.7	–	–	–	5.1	0.1	0.3
2.0	0.2	–	–	–	2.2	1.2	1.5
300.4	93.7	–	0.0	4.5	389.6	834.4	872.5
1.8	0.9	–	–	–	2.7	6.3	7.2
14.8	1.9	–	–	0.9	15.8	4.1	3.5
–	–	–	–	–	–	141.2	144.9
1,097.1	**250.8**	**25.7**	**0.0**	**5.4**	**1,368.2**	**4,319.9**	**3,825.6**
182.5	28.6	–	–	–	211.1	437.2	594.2
4.3	–	–	–	–	4.3	315.3	315.3
–	–	–	–	–	–	99.5	–
0.8	0.6	–	–	–	1.4	0.0	0.5
187.6	**29.2**	**–**	**–**	**–**	**216.8**	**852.0**	**910.0**
1,324.7	**307.8**	**25.7**	**0.0**	**5.4**	**1,652.8**	**5,640.6**	**5,229.4**

ANNEXE II

List of holdings of Hapag-Lloyd Aktiengesellschaft as at 31 December 2016

Name of the company	Registered office	Currency unit (CU)	Share-holding in %	Equity in TCU [1]	Net profit/loss for the year in TCU [1]
Head office	Hamburg				
Hamburg-Amerika Linie GmbH	Hamburg	EUR	100.00	63	*
Hapag-Lloyd Grundstücksholding GmbH	Hamburg	EUR	94.90	30,045	* [8]
Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	EUR	100.00	26	*
First CSAV Ships Germany GmbH	Hamburg	EUR	100.00	205,404	* [3]
Second CSAV Ships Germany GmbH	Hamburg	EUR	100.00	32,746	* [3]
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 Africa PTY Ltd.	Durban	ZAR	100.00	12,678	614
Hapag-Lloyd (Austria) GmbH	Vienna	EUR	100.00	1,189	41
Oy Hapag-Lloyd Finland AB	Helsinki	EUR	100.00	191	49
Hapag-Lloyd (France) S.A.S.	Asnieres sur Seine	EUR	100.00	4,907	287
Hapag-Lloyd (Ireland) Ltd.	Dublin	EUR	100.00	154	27 [8]
Hapag-Lloyd (Italy) S.R.L.	Milan	EUR	100.00	2,235	269
Hapag-Lloyd Polska Sp.z.o.o.	Gdynia	PLN	100.00	719	–11
Hapag-Lloyd Portugal LDA	Lisbon	EUR	100.00	167	19
Hapag-Lloyd (Schweiz) AG	Basel	CHF	100.00	359	42
Hapag-Lloyd Special Finance DAC	Dublin	USD	100.00	73	25
Hapag-Lloyd (Sweden) AB	Gothenburg	SEK	100.00	3,529	405
Hapag-Lloyd Spain S.L.	Barcelona	EUR	90.00	864	53
Hapag-Lloyd (UK) Ltd.	Barking	GBP	100.00	3,635	–1,426
Norasia Container Lines Ltd.	Valetta	USD	100.00	3,286	–15,241 [4]
CSAV UK & Ireland Limited i.L.	Liverpool	GBP	100.00	702	124 [5]
Hapag-Lloyd Denizasiri Nakliyat A.S.	Izmir	USD	50.00	13,395	11,132
Hapag-Lloyd Container Ltd.	Barking	EUR	100.00	3	1
Hapag-Lloyd Container (No. 2) Ltd.	Barking	EUR	100.00	3	1
Hapag-Lloyd Container (No. 3) Ltd.	Barking	EUR	100.00	**	**
Hapag-Lloyd Ships Ltd.	Barking	EUR	100.00	109	3
Hapag-Lloyd Ships (No. 2) Ltd.	Barking	EUR	100.00	**	**
CSAV Denizcilik Acentasi A.S.	Istanbul	TRY	100.00	5,606	4,477
CSAV Group Agencies South Africa (Pty) Ltd.	Durban	ZAR	100.00	–251	686
Norddeutscher Lloyd GmbH	Bremen	EUR	100.00	31	*
Asia					
Hapag-Lloyd Middle East Shipping LLC	Dubai	AED	49.00 [2]	17,242	16,792
Hapag-Lloyd (Australia) Pty.Ltd.	Pyrmont	AUD	100.00	2,110	55 [8]
Hapag-Lloyd (China) Ltd.	Hong Kong	HKD	100.00	7,219	841
Hapag-Lloyd (China) Shipping Ltd.	Shanghai	CNY	100.00	85,281	5,814
Hapag-Lloyd Global Services Pvt.Ltd.	Thane	INR	100.00	584,922	54,101 [6]
Hapag-Lloyd India Private Ltd.	Mumbai	INR	100.00	223,854	20,826 [6]
Hapag-Lloyd (Japan) K.K.	Tokyo	JPY	100.00	235,282	4,056
Hapag-Lloyd (Korea) Ltd.	Seoul	KRW	100.00	2,397,480	83,531
Hapag-Lloyd (Malaysia) Sdn.Bhd.	Kuala Lumpur	MYR	100.00	15	21
Hapag-Lloyd (New Zealand) Ltd.	Auckland	NZD	100.00	915	36 [8]
Hapag-Lloyd Pte.Ltd.	Singapore	USD	100.00	7,383	543
Hapag-Lloyd (Taiwan) Ltd.	Taipei	TWD	100.00	87,469	593
Hapag-Lloyd (Thailand) Ltd.	Bangkok	THB	49.90	5,771	–364
Hapag-Lloyd (Vietnam) Ltd.	Ho Chi Minh City	VND	100.00	7,154,697	1,723,813
CSAV Group (China) Shipping Co. Ltd.	Shanghai	CNY	100.00	2,784	–52,803
CSAV Group (Hong Kong) Ltd. i.L.	Hong Kong	HKD	100.00	610	–131
CSAV Group Agencies (Hong Kong) Ltd. i.L.	Hong Kong	HKD	100.00	23,315	–4,427
Hapag-Lloyd Lanka (Pvt) Ltd.	Colombo	LKR	40.00	113,948	135,704 [6]
North America					
Hapag-Lloyd (America) LLC	Wilmington	USD	100.00	3,355	1,708 [8]
Hapag-Lloyd (Canada) Inc.	Montreal	CAD	100.00	619	199
Hapag-Lloyd Mexico S.A. de C.V.	Mexico City	MXN	100.00	246,892	23,922
Servicios Corporativos Portuarios S.A. de C.V.	Mexico City	MXN	100.00	–830	–3,255
Hapag-Lloyd USA LLC	Wilmington	USD	100.00	287,304	16,055 [8]
Florida Vessel Management LLC	Wilmington	USD	75.00	**	**
Agencias Grupo CSAV (Mexico) S.A. de C.V	Mexico City	MXN	100.00	–74,518	–70,311

Name of the company	Registered office	Currency unit (CU)	Share-holding in %	Equity in TCU [1]	Net profit/loss for the year in TCU [1]
South America					
Hapag-Lloyd Argentina S.R.L.	Buenos Aires	ARS	100.00	22,306	4,796
Hapag-Lloyd Colombia LTDA	Bogota	COP	100.00	1,768,488	1,659,383
Hapag-Lloyd Costa Rica S.A.	San Jose	CRC	100.00	740,377	–11,975
Hapag-Lloyd Guatemala S.A.	Guatemala City	GTQ	100.00	505	128
Hapag-Lloyd (Peru) S.A.C.	Lima	PEN	60.00	16,455	32,770
Hapag-Lloyd Venezuela C.A.	Caracas	VEF	100.00	**	**
CSAV Austral SpA	Valparaíso	USD	49.00	685	–2,538
Hapag-Lloyd Chile SpA	Valparaíso	USD	100.00	**	**
CSAV Group Agencies Uruguay S.A.	Montevideo	UYU	100.00	20,450	6,110
Servicios de Procesamiento Naviero S.R.L. i.L.	Montevideo	USD	100.00	19,897	15,505
Invermar Management S.A.	Panama City	USD	100.00	**	**
Companhia Libra de Navegacao S.A.	São Paulo	BRL	100.00	164,154	8,153
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	1,141	630
Southern Shipmanagement (Chile) Ltda.	Valparaíso	USD	100.00	150	18
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	9,806	1,246
Torksey S.A.	Montevideo	USD	100.00	**	**
Lanco Investments Internacional Co. S.A.	Panama City	USD	100.00	**	**
Rahue Investment Co. S.A.	Panama City	USD	100.00	**	**
CNP Holding S.A.	Panama City	USD	100.00	**	**
CSAV Group Agency Colombia Ltda. i.L.	Bogota	COP	100.00	623,717	2,074,371
Libra Agency (Argentina) S.A.	Buenos Aires	ARS	100.00	–62,290	–15
Norasia Alya S.A.	Panama City	USD	100.00	**	**
Others					
CSAV Ships S.A.	Panama City	USD	100.00	**	**
CSBC Hull 900 Ltd.	Douglas	USD	100.00	1,077	0 [7]
Hull 1796 Co. Ltd.	Majuro	USD	100.00	5,842	0 [7]
Hull 1798 Co. Ltd.	Majuro	USD	100.00	3,767	0 [7]
Hull 1906 Co. Ltd.	Majuro	USD	100.00	–998	0 [7]
Hull 1975 Co. Ltd.	Majuro	USD	100.00	3,353	–1 [7]
Hull 1976 Co. Ltd.	Majuro	USD	100.00	2,013	–1 [7]
Malleco Shipping Co. S.A.	Panama City	USD	100.00	**	**
Maule Shipping Co. S.A.	Panama City	USD	100.00	**	**
CSBC Hull 896 Ltd.	Douglas	USD	100.00	**	**
CSBC Hull 898 Ltd.	Douglas	USD	100.00	0	0 [7]
Hull 1794 Co. Ltd.	Majuro	USD	100.00	0	0 [7]
Hull 1800 Co. Ltd.	Majuro	USD	100.00	0	0 [7]
Hull 2082 Co. Ltd.	Majuro	USD	100.00	–86	0 [7]
Hull 2083 Co. Ltd.	Majuro	USD	100.00	58	0 [7]
Hull 2084 Co. Ltd.	Majuro	USD	100.00	–16	0 [7]
Hull 2085 Co. Ltd.	Majuro	USD	100.00	–86	0 [7]
Hull 2086 Co. Ltd.	Majuro	USD	100.00	–86	0 [7]
Hull 2087 Co. Ltd.	Majuro	USD	100.00	–86	0 [7]
Hull 2088 Co. Ltd.	Majuro	USD	100.00	–86	0 [7]
Chacabuco Shipping Ltd.	Majuro	USD	100.00	0	0 [7]
Palena Shipping Ltd.	Majuro	USD	100.00	0	0 [7]
Brunswick Investment Co. Inc.	Nassau	USD	100.00	**	**

[1] TCU = thousands of currency units; financial statements as at 31 December 2015 unless otherwise stated
[2] Another 51.00% held in trust for the Hapag-Lloyd Group
[3] Financial statements as at 31 August 2016
[4] Financial year consists of 15 months
[5] Financial statements as at 31 December 2014
[6] Financial statements as at 31 March 2016
[7] Financial statements as at 30 September 2016
[8] Financial statements as at 31 December 2016
* Profit-and-loss transfer agreement
** No financial statements were available for these companies.

ANNEXE III

Executive Board of Hapag-Lloyd Aktiengesellschaft in the 2016 financial year

Rolf Habben Jansen **Hamburg**
Chairman of the Executive Board
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

Members of the Supervisory Board of Hapag-Lloyd Aktiengesellschaft in the 2016 financial year

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

Karl Gernandt (2nd Deputy Chairman until 26 August 2016)
Chairman of the Board of Directors, Kühne Holding AG, Schindellegi

Jutta Diekamp
Commercial Clerk, Hapag-Lloyd AG, Hamburg

Oscar Eduardo Hasbún Martínez (2nd Deputy Chairman since 26 August 2016)
Chief Executive Officer, Compañía Sud Americana de Vapores S.A., Santiago de Chile

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

Arnold Lipinski
Commercial Clerk, Hapag-Lloyd AG, Hamburg

Francisco Pérez Mackenna
Managing Director, Quiñenco S.A., Santiago de Chile

until 26 August 2016

Karl-Heinz Biesold (1st Deputy Chairman)
Trade Union Secretary, ver.di Vereinte Dienstleistungsgewerkschaft, Berlin

Andreas Bahn
Trade Union Secretary, ver.di Vereinte Dienstleistungsgewerkschaft, Hamburg

Horst Baier
Member of the Executive Board, TUI AG, Hanover

Oliver Bringe
Commercial Clerk, Hapag-Lloyd AG, Hamburg

Renate Commerell
Commercial Clerk, Hapag-Lloyd AG, Hamburg

since 26 August 2016

Nicola Gehrt
Head of Investor Relations Continental Europe, Asia & Middle East TUI AG, Hanover

Christine Behle (1st Deputy Chairwoman)
Member of the Federal Board, ver.di – Vereinte Dienstleistungsgewerkschaft
Bundesverwaltung, Berlin

Sabine Nieswand
Chairman of the Works Committee, Hapag-Lloyd AG, Hamburg

Klaus Schroeter
Trade Union Secretary, ver.di – Vereinte Dienstleistungsgewerkschaft Bundesverwaltung, Berlin

Uwe Zimmermann
Commercial Clerk, Hapag-Lloyd AG, Hamburg

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

Anthony Firmin
HHLA Container Terminals GmbH – Supervisory Board Member
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. – Member of the Board of Directors
Through Transport Mutual Insurance Association Ltd. – Member of the Board of Directors

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

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

Andreas Bahn (until 26 August 2016)
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH – Supervisory Board Member
HHLA Container Terminals GmbH – Supervisory Board Member

Horst Baier (until 26 August 2016)
TUI Deutschland GmbH – Chairman of the Supervisory Board
TUIfly GmbH – Supervisory Board Member (until 24 February 2016)
RIUSA II S.A. – Member of the Board of Directors
TUI Canada Holdings Inc. – Member of the Board of Directors
Sunwing Travel Group Inc. – Member of the Board of Directors

Christine Behle (since 26 August 2016)
Deutsche Lufthansa AG – Supervisory Board Member
Bremer Lagerhaus-Gesellschaft – Aktiengesellschaft von 1877 – Supervisory Board Member
Bochum-Gelsenkirchener Straßenbahnen Aktiengesellschaften – Supervisory Board Member

Nicola Gehrt (since 26 August 2016)
TUI Deutschland GmbH – Supervisory Board Member

Karl Gernandt
Kühne + Nagel International AG – Vice Chairman of the Board of Directors
Kühne Holding AG – Chairman of the Board of Directors
HSV Fußball AG – Supervisory Board Member
Kühne Logistics University – Supervisory Board Member
VTG Aktiengesellschaft – Supervisory Board Member

Dr Rainer Klemmt-Nissen
Hamburger Hochbahn AG – Supervisory Board Member
HSH Nordbank AG – Supervisory Board Member
Vattenfall Wärme Hamburg GmbH – Supervisory Board Member
HMC Hamburg Messe und Congress GmbH – Supervisory Board Member
HSH Finanzfond AöR – Institutional Authorities Assembly Member

Francisco Pérez Mackenna
Compañia Sud Americana de Vapores S.A. – Member of the Board of Directors
Compañía Cervecerías Unidas S.A. – Member of the Board of Directors
Banco de Chile – Member of the Board of Directors
Nexans S.A. – Member of the Board of Directors
Invexans 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. – Member of the Board of Directors

Óscar Eduardo Hasbún Martínez
Sudamericana Agencias Aéreas y Marítimas S.A. – Supervisory Board Member

The Supervisory Board members not listed above do not hold any offices on other legally required supervisory boards or comparable regulatory committees 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 consolidated 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, 8 March 2017

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr Anthony J. Firmin Thorsten Haeser

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Hapag-Lloyd Aktiengesellschaft, Hamburg, for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hamburg, 8 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Heckert
Wirtschaftsprüfer
(German Public Auditor)

Lippmann
Wirtschaftsprüfer
(German Public Auditor)

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