



## **Report of the Executive Board**

to the Annual Meeting of  
Hapag-Lloyd Aktiengesellschaft on 29 May 2017  
regarding the Utilization of the Authorized Capital 2016  
excluding subscription rights of the shareholders

The Executive Board of Hapag-Lloyd Aktiengesellschaft with registered office in Hamburg (the *Company*) issues to the Company's general meeting convened on 29 May 2017 the following

**Written Report**  
**concerning**  
**the Utilization of the Authorized Capital 2016**  
**to create 45,932,023 new shares**  
**of the company excluding subscription rights of the shareholders**

**1.**

On 15 July 2016 the Company concluded a Merger Agreement (so-called Business Combination Agreement, hereinafter the *BCA*) with the United Arab Shipping Company Limited (at that time operating under the legal form of a "Société Anonyme Golfe", S.A.G., *UASC*) (the Company and UASC jointly the *Merging Parties*). According to the BCA, it is intended that the Company take over all company shares in UASC by the shareholders of UASC contributing their shares into the company by way of non-cash contribution (the *Transaction*).

The market for container transport services is characterized by a challenging industry environment, considerable overcapacity, a resulting sustained pressure on cargo rates, and a global trend towards consolidation by merging container shipping companies. This trend has further intensified since concluding the BCA. The company intends to address the many and sustained challenges by means of the Transaction.

It was originally intended by the Merging Parties to complete the Transaction at the latest in the first quarter of 2017. Accordingly, the BCA stipulated the right of the Merging Parties to withdraw from the BCA if all closing conditions were not satisfied by 31 March 2017 (so-called *Long Stop Date*) or if satisfying these conditions was effectively waived. Due to the current market situation, the financing banks and lessors were not, however, willing to grant all necessary consents and declarations of renunciation by 31 March 2017, so that the completion of the Transaction has been delayed beyond the Long Stop Date agreed in the BCA. Nevertheless, the two Merging Parties have carried on the Transaction and in the scope of a modification of the BCA agreed to postpone the Long Stop Date from 31 March 2017 to 31 May 2017.

Further information on the Transaction can be found in the "Management Report regarding agenda item 7" of the general meeting on 26 August 2016 published in the Federal Gazette dated 20 July 2016 pursuant to Sect. 203 (2) sent. 2 in conjunction with Sect. 186 (4) sent. 2 German Stock Corporation Act (*Aktiengesetz*) (the *Executive Board Report*) and the "Voluntary Additional Information Regarding the Planned Merger of the Company with the United Arab Shipping Company S.A.G." (the *Voluntary Additional Information*) published on the Company's homepage on 21 August 2016.

**2.**

With a resolution of the annual meeting of the company on 26 August 2016, authorization was granted to the Executive Board of the Company pursuant to Sect. 5.3 of the Articles of Association to increase the share capital of the Company until 30 June 2018 by up to EUR 50,000,000.00 against cash and/or non-cash contributions by issuing up to 50,000,000 new non-par-value registered shares with the consent of the Supervisory Board (the **Authorized Capital 2016**). The authorization can be used one or more times, also in partial amounts, in total, however, only up to the amount of EUR 50,000,000.00. The authorization was registered in the commercial register of the Company on 4 October 2016.

Generally, the shareholders are to be granted a right of subscription. The Executive Board was authorized, however, to exclude the shareholders' right of subscription with the consent of the Supervisory Board for one or more capital increases in the scope of the authorized capital, including in order to issue shares against non-cash contributions, in particular for the purpose of (also indirect) acquisition of companies, parts of companies, participations in companies and other contributable assets associated with an acquisition project (including receivables). The Executive Board was also authorized, with the consent of the Supervisory Board, to determine further details of the capital increase, including the further content of the share rights and the conditions of the share issuing.

### 3.

With the resolution dated 18 May 2017, the Executive Board increased the Company's share capital, making use of the authorization pursuant to Sect. 5.3 of the Articles of Association, from EUR 118,110,917.00 by EUR 45,932,023.00 to EUR 164,042,940.00 by issuing 45,932,023 new non-par-value registered shares corresponding to a proportional amount of the share capital of EUR 1.00 (the **New Shares**). The New Shares were issued against non-cash contribution in the form of 276,180,392 shares in United Arab Shipping Company Limited with a nominal amount of USD 7.00 each, corresponding to 100% of the issued capital stock of UASC. The UASC was founded on the basis of a state treaty dated 7 January 1976 in the legal form of a "Société Anonyme Golfe" (S.A.G.) and in January 2017, changed in legal form into a "Company Limited by Shares" according to the law of the Dubai International Financial Centre (the **DIFC**) pursuant to DIFC Companies Law No. 2 from 2009. The headquarters of UASC are in Liberty House, Unit 818, DIFC, Dubai, UAE. UASC is registered in the Registrar of Companies of the DIFC under No. 2370 (the operations described in this paragraph in total the **Capital Increase**).

Permitted to subscribe and acquire the New Shares were only

- for 23,663,648 New Shares Qatar Holding LLC with its main business address in Q-Tel Tower, P.O. Box 23224, Doha, Qatar,
- for 16,637,197 New Shares the Public Investment Fund of the Kingdom of Saudi Arabia with its main business address at P.O. Box 6847, Riyadh 11452, Kingdom of Saudi Arabia,
- for 2,270,532 New Shares the Kuwait Investment Authority with its main business address at P.O. Box 64, Safat zip code 13001, Kuwait City, Kuwait,

- for 2,271,067 New Shares the Iraqi Fund for External Development, Ministry of Finance, Scientific District P.O. Box 5111, Al Sanak, Baghdad, Iraq,
- for 911,388 New Shares the United Arab Emirates, Ministry of Finance, P.O. Box: 433 - Abu Dhabi, UAE and
- for 178,191 New Shares the Bahrain Mumtalakat Holding Company, B.S.C. , P.O. Box - 820, Manama, Kingdom of Bahrain

The subscription right of the shareholders was excluded.

For the New Shares the following non-cash contributions were provided, on the basis of the contribution agreement dated 9 May 2017 (Roll of Deeds no. 760/2017 of the public notary in Hamburg Dr. Axel Pfeifer):

- the Qatar Holding LLC contributed 142,284,952 shares (51.52%) in UASC into the Company, including all associated claims and other rights (including the profit participation rights for the business year beginning on 1 January 2017);
- the Public Investment Fund contributed 100,036,254 shares (36.22%) in UASC into the Company, including all associated claims and other rights (including the profit participation rights for the business year beginning on 1 January 2017);
- the Kuwait Investment Authority contributed 13,652,272 shares (4.94%) in UASC into the Company, including all associated claims and other rights (including the profit participation rights for the business year beginning on 1 January 2017);
- the Iraqi Fund for External Development contributed 13,655,486 shares (4.94%) in UASC into the Company, including all associated claims and other rights (including the profit participation rights for the business year beginning on 1 January 2017);
- the United Arab Emirates contributed 5,480,000 shares (1.98%) in UASC into the Company, including all associated claims and other rights (including the profit participation rights for the business year beginning on 1 January 2017);
- the Bahrain Mumtalakat Holding Company, B.S.C. contributed 1,071,428 shares (0.39%) in UASC into the Company, including all associated claims and other rights (including the profit participation rights for the business year beginning on 1 January 2017).

The New Shares are entitled to profit sharing as of 1 January 2016.

The Supervisory Board of Hapag-Lloyd AG agreed to the previously presented resolution of the Executive Board regarding the Capital Increase by utilizing the Authorized Capital 2016, excluding the right to subscription by a resolution dated 23 May 2017.

The execution of the capital increase together with the corresponding change in the Articles of Association was recorded on 24 May 2017 in the Commercial Register of the Company with the Regional Court of Hamburg under the register no. HRB 97937. The registered share capital of the Company increased upon registration of the execution of the Capital Increase in the Commercial Register by EUR 45,932,023.00 to in

total EUR 164,042,940.00. The Authorized Capital 2016 existing up until the execution of the Capital Increase pursuant to Sect. 5.3 of the Articles of Association still exists as a consequence of the partial exercise of this authorization in the amount of EUR 4,067,977.00.

It is intended that the New Shares be admitted for trading within three months after registration of the Capital Increase for trade on the regulated market (Prime Standard) of the Frankfurt Stock Exchange as well as on the regulated market of the Hanseatic Stock Exchange Hamburg.

#### 4.

The Transaction has been – as already mentioned in No. 1 – described in detail in the Executive Board Report and in the Voluntary Additional Information. It was henceforth implemented to a large extent as explained in the aforementioned reports. Thus a renewed depiction of the Transaction in detail can be refrained from. After the postponement of the Long Stop Date (see above No. 1), there have been a few additional deviations from the transaction structure planned at the time of publishing the Executive Board Report and the Voluntary Additional Information, which, in order to provide information to the shareholders, are explained in more detail below:

- a) The BCA stipulates contributing all shares of Qatar Holding LLC and the Public Investment Fund (together the **Controlling UASC Shareholders**) and the minority shareholders of UASC into the Company. The contribution can, pursuant to the BCA, also be implemented by making use of an obligation in UASC's Articles of Association to co-sell by the Controlling UASC Shareholders in order to oblige all minority shareholders in UASC who are not collaborating in the Transaction to completely contribute their UASC company shares, a so-called "*Drag Along Right*" (cf. Clause I.1.c) of the Voluntary Additional Information and Clause II.3.a) of the Report of the Executive Board).

This Drag Along Right has been exercised on the part of the Controlling UASC Shareholders towards the United Arab Emirates and – as a precautionary measure, in case the power of attorney presented cannot be proofed as adequate representation in a timely manner – towards the Iraqi Fund for External Development. An exercise of the Drag Along Right is not required in other cases. Different than originally planned, in particular the Kuwaiti private individuals and companies listed as shareholders of UASC did not need to be obligated to co-sell by exercising the Drag Along Right because the total 3,214 UASC shares held by them were already redeemed before concluding the Contribution Agreement in return for payment of a compensation for the amount of their nominal value of USD 7.00 per UASC share by the UASC, and as a consequence are defunct. In this way, the share capital of UASC was reduced in the corresponding amount. The closing condition of contributing all UASC shares into the Company, as provided for in the BCA, is thus satisfied.

- b) Furthermore, regarding the minority interest of UASC in United Arab Chemicals Carrier Limited (**UACC**), the BCA generally provides for a sale and/or certain mechanisms as surety for the book value of the UACC interest in UASC's favor

and thus indirectly in the Company's favor if a sale does not take place by the conclusion of the Transaction (cf. Clause I.1.f) of the Voluntary Additional Information).

Before conclusion of the Transaction a sale of the UACC interest on the market has not taken place. Nevertheless, UASC's interest in UACC – as already provided for in the BCA – is not part of the Transaction. That is because UASC's interest in UACC was transferred before completion of the Transaction to a special purpose vehicle held by the Controlling UASC Shareholders and set up for this purpose, the Gulf Chemical Carrier Holding Limited. The transfer of the UACC interest to the special purpose vehicle took place at the value of USD 152.35 mill. Additionally, the Controlling UASC Shareholders released UASC from the risks of transferring the interest and of a possible onward sale. The corresponding closing condition of the BCA occurred in this way.

For the rest, for the details of the Transaction reference is made to Clause II.3 of the Executive Board Report and to Clause I of the Voluntary Additional Information.

## 5.

The exclusion of the shareholders' right to subscription in the scope of the Capital Increase is appropriate and justified in the Company's corporate interest and that of its shareholders for the following reasons. For the Company, the Transaction is of a high strategic significance:

- In a competitive market environment and in an industry characterized by a global consolidation trend, a merger with UASC creates the basis for consolidating the Company's position in the top group of global container shipping companies. From a market share perspective, an increase from currently approx. 4.5% to more than 7.0% is achieved. Thus, after the merger, the Company will move up to 5th position worldwide in this regard and roll significantly past the group of followers.
- Furthermore, the merger will effect a better coverage of the most important shipping areas around the world, which will lead not only to a diversification of the respective market risks, but also provides the Company the opportunity for increasing transport activities in markets (here: the Middle East region) in which the Company until now was able to achieve only a lower market share.
- Finally, the Board believes that through the Transaction, considerable synergies totaling USD 435,000,000 per year can be generated.

Reference is made to the advantages of the Transaction in detail in Clauses II.2 and II.5.a) of the Executive Board Report.

The partial utilization of the Authorized Capital 2016 served to realize this interest on the part of the Company in the merger with UASC. The exclusion of the subscription right was necessary since the Transaction could only be carried out by increasing non-cash capital by solely permitting UASC's former shareholders to sign and take over the New Shares. The Board thoroughly assessed whether there would have been a viable alternative to this transaction structure. In doing so, the Board came to the conclusion that conceivable alternative transaction structures either would not be feasible or are

less suitable for achieving the entrepreneurial objective sought after, or else, as compared to the structure selected, are associated with considerable disadvantages and risks for the Company. Upholding its deliberations upon publishing the Executive Board Report, the Board thus considers the exclusion of the subscription right suitable and necessary (cf. for the individual deliberations Clause II.5.b) of the Executive Board Report).

The exclusion of the subscription right is also proportionate. This is because, on the one hand, the Company has a considerable interest in the merger with UASC and accordingly also in the exclusion of the subscription right necessary to achieve this, and on the other, the legitimate interests of the existing shareholders are not significantly negatively impacted by carrying out the Capital Increase. Though the exclusion of the subscription right in the scope of the Capital Increase against non-cash contribution does lead to a certain dilution of the membership rights of the Company's existing shareholders, this dilution is proportionate to the purpose pursued in the Company's interest, namely the acquisition of the UASC shares by way of the Capital Increase against non-cash contribution by utilizing the Authorized Capital. The Board believes that a dilution of the pro rata share of the shareholders excluded from the subscription right is confronted with significant increases in value due to the synergy effects and economies of scale associated with the merger. In particular, the economic issuing price of the New Shares, depending on the value of the UASC shares as the object of the contribution, is not inappropriately low and/or the number of shares of Hapag-Lloyd issued for the contribution of all UASC shares in the Company is not inappropriately high. (cf. also Clause II.5.c) of the Executive Board Report).

The value ratio between the Company and UASC of 72% to 28%, and the resulting number of New Shares of the Company to be issued for the contribution of all UASC shares were bindingly agreed in the BCA and continue to be appropriate.

The valuation of the non-cash contribution and the New Shares of the Company issued in return were conducted using the same method for both companies. On the basis of this valuation based on the book value of the equity capital pursuant to the audited consolidated financial statements of the Company and UASC, a value ratio of 72.0% (Hapag-Lloyd) to 28.0% (UASC) was contractually agreed in the BCA (cf. Clause II.4. of the Executive Board Report and Clause II of the Voluntary Additional Information).

The Executive Board of the Company, before defining the fixed value ratio in the BCA, satisfied itself following comprehensive checks of the relative value ratios of the Company and UASC. For the purpose of a plausibility check of the tests conducted by the Board, they commissioned the KPMG AG Wirtschaftsprüfungsgesellschaft (**KPMG**) and Citigroup Global Markets Limited (**Citi**) to check the financial appropriateness of the New Shares of the Company to be issued in return for contributing all UASC shares. The assessment of the financial appropriateness of the trade-off of the Board was supported by the results of the two expert opinions drafted (cf. Clause II.4.e) of the Executive Board Report and the expert opinions of KPMG and Citi attached to the Executive Board Report as Appendix I and Appendix II).

The value ratio contractually defined based on the result of the examination described above was not subjected to any more adjustments in the scope of executing the Transaction. The internal value of the Merging Parties and thus indirectly the value ratio

between the Merging Parties was, however, secured by financial commitments to minimum equity capital, highest financial liabilities and minimum cash of the Merging Parties on certain dates. Through these guarantees, a differing development in value of the Merging Parties was avoided through the corresponding funding liabilities of the individual controlling shareholders (cf. Clause I.1.e) of the Voluntary Additional Information).

On the date 30 June 2016, at UASC there was a shortfall of the minimum equity capital totaling USD 33.0 mill. This shortfall has been compensated by a capital increase of UASC for the amount of USD 63 mill. USD 33.0 mill. have been used from this USD 63 mill. for balancing out the minimum equity capital. The minimum equity capital on the date 31 December 2016 of the two companies was significantly above the minimum equity capital amounts agreed in the BCA. The assumptions of the Board on the value ratio between the Company and UASC and on the intrinsic value of the non-cash contributions are confirmed by this significant exceeding of the minimum equity capital amounts on the evaluation date of 31 December 2016. Since then, the business development of the Company as well as UASC have given no cause to deviate from the evaluation agreed in the BCA as well.

The New Shares were issued at the lowest issuing price of EUR 1.00 per non-par share by setting the excess value of the shares contributed to the Company into the capital reserve of the company pursuant to Sect. 272 (2) no. 4 German Commercial Code (*Handelsgesetzbuch*). This results from today's perspective<sup>1</sup> in an economic issuing price of EUR 28.00 per non-par share on the basis of the depiction of the UASC shares contributed to the Company in the Company's consolidated financial statements as per IFRS, or rather an issuing price of EUR 25.56 per non-par share on the basis of the depiction of the transferred assets in the individual financial statement of the Company prepared according to the German Commercial Code. The first value corresponds to the stock market price of the Hapag-Lloyd share on the day of the closing of the Transaction. The latter value is at only 8.7% and is thus marginally lower than the stock price of the Hapag-Lloyd share upon closing of the Transaction. Both values are considerably above the price of the Hapag-Lloyd share prior to the announcement of the transaction at the amount of EUR 18.63.

Accordingly, the issuing of the New Shares at the lowest issuing amount setting the excess value of the UASC shares contributed to the Company into the capital reserve of the Company, also does not lead to issuing the New Shares at an inappropriately low value for accounting purposes.

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<sup>1</sup> The final depiction of the Transaction in the Company's individual and consolidated financial statements for the business year 2017 will only be decided on in the scope of preparing, determining and approving and checking the statements. The preliminary figures referred to here are based on the information available when preparing this report. The probable depiction in the Company's individual financial statement has been taken from the Company's pro-forma consolidated interim financial statement as of 30 September 2016 ("notes to the pro-forma consolidated statement of financial position as of September 30, 2016"), which was published in the prospectus for the Euro Bond 2022 of 18 January 2017. Circumstances, which could make a change in this value appear necessary, are not known to the Company at the time of drafting this report.



The intrinsic value of the non-cash contribution in terms of the capital financing regulations under corporate law was confirmed by the non-cash contribution auditor appointed by the Regional Court of Hamburg, the auditing firm Deloitte GmbH (*Deloitte*). In the scope of the audit, Deloitte came to an independent estimation of the value of the UASC shares contributed and confirmed on this basis the intrinsic value of the non-cash contribution. According to this, the value of the non-cash contribution clearly exceeds the value of the lowest issuing amount that is decisive in the scope of the audit of the non-cash contribution increase, so that the contributed UASC shares are of intrinsic value.

Considering the deliberations mentioned, the exclusion of the subscription right in the scope of the Capital Increase to implement the Transaction was legally permissible, appropriate and in the Company's corporate interest.

Hamburg, 24. Mai 2017

Hapag-Lloyd Aktiengesellschaft



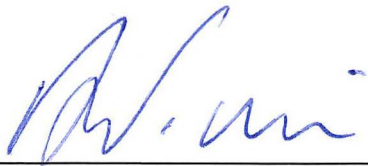
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Rolf Habben Jansen  
Vorstandsvorsitzender



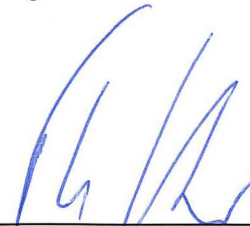
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Nicolás Burr  
Mitglied des Vorstands



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Anthony J. Firmin  
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Thorsten Haeser  
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